Infrastructure Contributions
Review of impact of infrastructure taxes and charges on the NSW economy

Prepared for the Urban Development Institute of Australia (NSW)

Review of increases to infrastructure contributions

June 2018
Executive summary

Introduction
The New South Wales (NSW) Government has announced a number of reforms as part of its housing affordability package, *A Fair Go for First Homebuyers*, these include reforms to infrastructure charges including:

1. The Local Infrastructure Grant Scheme will cease at the end of 2020. It was originally designed to fund the shortfall between capped developer contributions and local infrastructure requirements.

2. The cap on developer contributions will be lifted, likely to result in a greater cost of local infrastructure being passed on to new home owners.

3. There are also plans to expand the Special Infrastructure Contributions (SIC) scheme, covering state and regional infrastructure, to cover new growth areas across Greater Sydney.

4. The Greater Sydney Commission (GSC) recommending a broad inclusionary policy which mandates a portion of affordable housing for very low to low income earners in certain areas.

The Urban Development Institute of Australia in NSW (UDIA NSW) has engaged PricewaterhouseCoopers (Consulting) Australia Ltd (PwC) to assess these proposed reforms in the context of the current housing market in NSW, and provide commentary on the potential impacts on development costs, the forward supply and affordability of new housing.

In order to do this, in this report we explore:

- the state of the housing market and the issue of housing undersupply in NSW
- the cost of housing production and the impact that development cost increases are likely to have on housing delivery
- developer contributions and issues with the current charging approach.

The report also looks at the importance of the residential construction industry to the NSW economy, and assesses the potential impacts to the economy and jobs if forward supply was lower than expected.

The NSW housing market
Strong economic fundamentals (a rising population, employment and income growth), combined with the availability of low-cost credit, has seen a surge in demand for dwelling purchasing. However, the availability of housing stock in NSW has been insufficient to meet additional demand and, following what NSW Treasury describes as a ‘seven year slump’ in construction from 2006 to 2012, new supply is only just beginning to ‘catch up’.

There are a number of factors underlying the contraction in construction activity during this period. These primarily relate to limited land release, delayed planning approvals and other restrictions to infill development within the planning system. During this period, the NSW Government also introduced new development charges including Voluntary Planning Agreements and SICs (see Figure 5), at a time when average developer margins in NSW were lower than in any other state.¹

¹ See: RBA 2012, Supply-side Issues in the Housing Sector
Executive Summary

The mismatch in housing supply and demand caused rapid and significant increases in price growth, with median house prices in Sydney growing 92 per cent between 2008 and 2017. Housing affordability is now a significant issue for government, with NSW experiencing the highest level of net interstate migration in 2016-17, losing more than 14,900 residents. 0 to 14 and 25 to 44 year olds are the largest groups moving out of Sydney, suggesting that young families are seeking out more affordable locations.

Despite the inroads being made with annual dwelling completions rising from an average of under 30,000 from 2006 to 2012 to over 58,000 in 2017, the NSW Government estimates that Sydney still has an accumulated undersupply of around 100,000 dwellings. According to the annual US Demographia International Housing Affordability survey, Sydney was the world’s second least affordable city to buy a home for three consecutive years (2015-2017). And to accommodate further growth in the state-wide population of 2.2 million by 2036, an additional 725,000 new dwellings will be required in Sydney. The NSW Government is introducing a number of measures to induce new delivery, including rezoning land for residential purposes and speeding up planning approvals so that more new housing becomes available.

**Figure 1 - Ratio of dwelling completions to population change in NSW**

There are indications that the NSW housing market is now cooling, with auction clearance rates dropping and subdued price growth becoming clearer in recent months, as regulator controls on local and foreign investment take effect and greater stock of new housing finally comes online. While this may alleviate concerns that NSW was heading towards a housing bubble scenario, additional care now needs to be taken to in regards to policy action that may adversely impact the future pipeline by making investment decisions more challenging for

---


3 ABS 2016, 3412.0 – Migration, Australia, 2015-16

4 Demographia 2017, 14th Annual Demographia International Housing Affordability Survey: 2018

5 Latest figure quoted by Government Property NSW

6 Greater Sydney Commission 2018, Greater Sydney Region Plan

Prepared for the Urban Development Institute of Australia (NSW)
PwC
developers. The ‘seven year slump’ and the slow recovery since has shown the compounding effects of ‘getting it wrong’.

**Cost of housing production**

The main components of housing production costs include construction costs (labour and materials), the cost of land and regulatory costs including developer charges.

Overall, development costs in NSW are much higher than other states – in the order of $150,000 per dwelling (see Figure 11). The difference is driven not so much from construction costs, which have remained fairly similar across the states over the last decade, but by significant differences in land prices and regulatory costs.

Land prices and house prices are inextricably linked and rises in the two are reflective of the undersupply issues noted. Furthermore, factors such as agglomeration and urbanisation forces have driven people further towards metropolitan areas, pushing up prices even more significantly in Sydney. In its 2018 Housing Affordability report, the Grattan Institute notes:

‘Higher land prices mainly reflect restrictions on supplying more dwellings: much urban infill is limited by planning restrictions; and greenfield development at the urban fringe is often limited by slow release of land, planning approval delays, and uneconomic developer charges, particularly in Sydney.’

Cumulative regulatory charges in NSW are roughly double that of other states and are set to increase with the NSW Government’s expansion of local and state infrastructure contributions. Initial modelling undertaken by UDIA suggests that the uncapping of s94 contributions alone could add at least $50,000 per dwelling to the cost of development and reduce gross margins to as low as 3 per cent (see Appendix A). This could make some developments uneconomic, as passing on or absorbing cost increases will become more difficult as price growth slows.

**Funding infrastructure**

Using developer contributions to fund infrastructure provision has become a normative feature of government planning policy. It is based on the principle that it is more equitable to charge the direct beneficiaries (i.e. home owners) of infrastructure investment and also promotes economic efficiency by reflecting all private and public costs in development decision-making.

Charging new home owners for attributable infrastructure enhancements, via developer charges, is logical to the extent it enables necessary development. However this strategy is based on a flawed assumption that prices are solely (or at least primarily) determined by costs. The surge in NSW house prices above and beyond the rate of production cost increases is evidence that there are a range of complex market forces impacting prices. If we assume that the property cycle is peaking, we can also assume that developers are charging the maximum price that the market will accept at this point in time. Any further development cost increases will need to be absorbed by the developer which could dis incentivise development in areas that are already under-developed, or encourage lowest quality development.

In addition to geographical-driven inequities, there is also a risk of inter-temporal inequities in favour of existing homeowners who benefit from enhancements to local amenity without having to bear its cost. This concern exists because certain infrastructure that is cost-recovered via contributions (particularly at the state level) exhibit characteristics of public goods that enhance a local area for all home owners (but are paid for by new ones). Industry also questions whether they are being charged for ‘gold plated’ infrastructure that is in excess of what is necessary to provide a minimum reasonable and desired level of amenity.

A detailed review of cost sharing arrangements and the appropriateness of the amounts levied on developers was beyond the scope of this report. However, this topic should be further examined by NSW’s own Productivity Commission, the creation of which has just been announced.

**Housing construction and the NSW economy**

Any impacts on forward housing supply will be felt through both the housing market and the broader residential construction industry, with a direct impact on government revenue.
Executive summary

The NSW economy has outperformed all other states over the last few years, a large part owing to growth in the housing construction sector. The strength of the sector has contributed to employment growth, with NSW’s unemployment rate the lowest in Australia at 4.6 per cent. It has also contributed to NSW’s strong fiscal position, given the contribution of the sector to government revenues via land tax, stamp duty, payroll tax and goods and services tax (GST). The contribution of the residential construction industry has been critical to rebalancing the Australian and NSW economy, particularly as investment in mining winds down.

The Government is relying on the continued strength of the sector. In order to meet additional demand and close the accumulated undersupply gap overtime, NSW Treasury is targeting house supply growth averaging 45,000 a year to 2030-31, slightly higher than the long-run average of 42,000 per year in the 20 years to the mid-2000s. Depending on how supply-side issues are managed and how property cycle plays out, there is a risk that construction output may not be as high as is expected. NSW Treasury also acknowledges there are challenges with meeting this rate of supply.

This report models the flow on effects of a reduction in forecast investment levels in a Computable General Equilibrium (CGE) model, which captures the range of direct and indirect impacts to the construction industry and the NSW economy more broadly. Given the importance of the residential construction industry to the NSW economy, even a small dip in future activity can have large flow on effects in terms of a foregoing of benefits that would have otherwise occurred. Figure 2 summarises the cumulative impact of just a 10 per cent decrease in new housing construction in NSW, over a five year period.

**Figure 2 - Economic cost of a 10 per cent reduction in new housing investment in NSW, over five years**

10% Reduction in new housing stock

-190,000 Jobs

-$25bn GSP

-$22bn Household consumption

-$2bn Industry Value Added

-$2bn Tax

Source: PwC CGE Modelling

**Conclusion**

This report has found that there are a number of issues with Government’s proposed infrastructure funding reforms, including the proposed uncapping of developer contributions, which will increase costs and uncertainty for developers; and cause undesirable outcomes as we move into the next phase of the property cycle. Supply levels need to be maintained over the long term and any measures which could dampen current activity levels will only prolong or exacerbate the current state of housing unaffordability. The NSW economy is also relying on sustained housing supply to ensure ongoing growth in overall output, as well as through jobs and government revenues.

This report aligns with the Grattan Institute’s view that, supply issues needs to be addressed by increasing availability of greenfield land, addressing other issues which delay development or limit further infill development, and ensuring that ‘excessive developer charges do not make development uneconomic’. High charges may not only jeopardise forward supply but may cause geographic and inter-temporal inequities.

---

7 NSW Government 2017, Budget 2016-17 Intergenerational Report
8 NSW Treasury, Intergenerational Report 2016, p61
9 Jobs are measured in job years, being the sum of the number of jobs that exist each year, over the period of measurement. Also see Section 4.2 for the full results.
10 Grattan Institute 2018, Housing Affordability Re-imagining the Australian Dream

Prepared for the Urban Development Institute of Australia (NSW)
PwC
The former RBA Governor, Glenn Stevens also cautions against increasing charges at this point in time. Addressing industry’s concern that infrastructure is ‘gold plated’, he states that there is an argument ‘for leaving the [s94] caps in place for the moment, and pressing developers and councils on the issue of what the minimum cost for infrastructure really is.’

---

11 Glen Stevens AC 2017, Report to the Premier – Housing Affordability
Contents

Executive summary ii
1 The New South Wales residential housing market 2
   1.1 Issues of a growing economy 2
   1.2 Housing supply 3
   1.3 The next phase of the cycle and risks to forward supply 6
2 The cost of housing production 9
   2.1 Cost of production 9
   2.2 Relationship between costs, prices and supply 9
3 Developer contributions 13
   3.1 History of developer contributions 13
4 The residential construction industry in NSW 18
   4.1 The residential construction industry 18
   4.2 Potential impact on the economy 20

Disclaimer
This report has been prepared by PricewaterhouseCoopers Consulting (Australia) Pty Limited (PwC) at the request of the NSW division of the Urban Development Institute of Australia (UDIA NSW) in our capacity as advisors in accordance with the Terms and Conditions contained in the Consultant Agreement between UDIA NSW and PwC.

The information, statements, statistics and commentary (together the ‘Information’) contained in this report have been prepared by PwC from publicly available material and from discussions held with UDIA NSW. PwC may in its absolute discretion, but without being under any obligation to do so, update, amend or supplement this document.

PwC has based this report on information received or obtained, on the basis that such information is accurate and, where it is represented by the client and other stakeholders as such, complete. The Information contained in this report has not been subject to an Audit. The Information must not be relied on by third parties, copied, reproduced, distributed, or used, in whole or in part, for any purpose other than detailed in our Consultant Agreement without the written permission of UDIA NSW and PwC. Liability limited by a scheme under professional standards legislation.
1 The New South Wales residential housing market

The housing market in NSW has been the subject of much public and political debate over the recent years as housing prices have surged and have brought significant attention to the issue of housing undersupply and affordability.

1.1 Issues of a growing economy

A combination of economic factors, including solid population growth, higher aggregate employment, rising per capita incomes and lower interest rates have created more intense demand for house purchasing over the last decade. However, the availability of housing stock in NSW has not been sufficient to meet additional demand causing house prices to roughly double between 2003 and 2017 (see Figure 3). Higher demand has been exacerbated by a greater proportion of investors taking advantage of tax concessions (capital gains discount and negative gearing), putting further upward pressure on prices and prompting the government to enact controls to restrict domestic and foreign residential dwelling investment.

Figure 3 - Housing completions and prices (2003-2017)

![Housing completions and prices graph]

Source: ABS 2017, 6416.0, ABS 2017, 8752.0

Housing affordability is now a key issue for the NSW and Australian Governments. NSW has experienced the steepest rise in housing prices across Australia with median house price growth far outstripping growth in
median incomes (see Figure 4). Median house prices in Sydney jumped from four times median incomes in the early 1990s to more than eight times today.\(^{12}\)

Affordability issues in Sydney in particular have reached a point where residents are leaving. In 2016-17 it experienced the highest level of net out-migration, losing almost 14,900 residents to other states.\(^{13}\) Zero to 14 and 25 to 44 year olds are the largest groups moving out of Sydney, suggesting that some young families are seeking out more affordable locations. In the ten years to 2016, key areas in Sydney also lost between 10 and 20 per cent of essential workers to non-metropolitan areas. Parramatta and Sydney’s Inner South West experienced a net loss of key workers of -21.4 per cent and -14.6 per cent respectively over the decade.\(^{14}\)

**Figure 4 - Median house prices and income**

![Median house prices and income graph](image)

Source: ABS 2017, 6416.0, ABS 2017, 6523.0

### 1.2 Housing supply

One of the key issues underpinning the current situation is that housing supply in Sydney has not kept pace with population growth. According to the NSW Treasury’s 2016 Intergenerational Report, NSW is recovering from a seven year slump in housing construction where completions of new houses averaged under 30,000 each year between 2006 and 2012 – 12,000 completions lower than the average of the previous 25 years.\(^{15}\)

As shown in Figure 5, the ratio of dwelling completions to population change in NSW plummeted between 2004 and 2012 as a result of lower construction activity against ongoing population growth. The ratio is only just starting crawl back to its long-run average, reflecting what has been a slow response to pent up demand. Figure 3 also shows the number of additional developer contributions that were introduced during this period of declining housing supply. This and other factors contributing to trends in housing supply over the last two decades are further explained in this section.

---

\(^{12}\) Grattan Institute 2018, Housing Affordability Re-imagining the Australian Dream

\(^{13}\) ABS 2017, 3101.0 – Australian Demographic Statistics, 2016-17

\(^{14}\) The University of Sydney 2018, Key worker housing affordability in Sydney

\(^{15}\) NSW treasury 2016, 2016 Intergenerational Report
Housing supply growth

The RBA attributes housing market growth in the 1990s and early 2000s to positive changes to the debt-to-income ratio, inducing house price growth and encouraging new investment. The announced introduction of the Goods and Services Tax (GST) on 1 July 2000 resulted in a substantial bring-forward in housing investment. In the last decade, the underlying demand gap has played a more prominent role, and changes in the debt-to-income ratio played a less prominent role over the period following this the uplift in construction.

Planning system issues

It is widely acknowledged that planning restrictions, fragmented land ownership and limited land release throughout the 2000s have contributed to Sydney’s housing shortage. Land ownership patterns is a key determining factor in the time it takes for a precinct to transition from the rezoning phase to development. When land is owned by multiple parties, it is difficult and expensive to consolidate large parcels of land and commission detailed designs for development.

Issues in the planning system itself, such as planning controls, delays in approvals and the possibility of third party appeals, also create risk and uncertainty for developers and have the potential to deter development. The planning system plays an important role in ensuring the right mix and level of development occurs, however lengthy procedures (see Figure 6) which stretch out the project start and completion date, have the potential to

---

16 RBA 2011, Discussion on Australia’s Prosperous 2000s: Housing and the Mining Boom
17 RBA 2015, Long-run Trends in Housing Price Growth
18 RBA 2012, Supply-side Issues in the Housing Sector

Source: ABS 2017, 8752.0, ABS 2017, 3101.0

Figure 5 - Ratio of dwelling completions to population change
delay projects, increasing holding costs and the overall risks (including price and settlement risk) borne by the developers.

In Sydney, it takes around seven to ten years for land and house packages to reach the market. Any delays in the process of development is a large cost as developers incur holding costs on land by way of financing its acquisition and land tax. The Department of Planning and Environment’s Housing Monitor reported that only 59 per cent of approvals during a five year period up to February 2017 were completed in the same time frame. The NSW Parliamentary Research Service has raised this point:

‘Developable land in fringe areas, particularly close to Melbourne and Sydney, consist primarily of small, rural residential lots that must be acquired and consolidated prior to development. The time and costs associated with acquiring land (owners ‘hold out’ for the price they want) and seeking approval to consolidate (usually through re-zonings) are significant. These costs, as well as state and local infrastructure levies have implications for the financial feasibility of developing in these areas.’

![Figure 6 - Greenfield housing project process](image)

Source: RBA 2012, Supply-side Issues in the Housing Sector

### Introduction of additional developer contributions

The seven year slump in housing supply (see Figure 5) coincided with the introduction of additional developer contributions (discussed further in chapter 2 and 3):

- in 2005 the NSW Government introduced voluntary planning contribution for the first time
- in 2006 Special Infrastructure Contributions were introduced.

Caps on SIC charges were then introduced in 2010 to stimulate construction and increase housing supply by lowering development charges for infrastructure.19

Many of the issues described here are still at play and continue to impact the ability of the housing market to respond efficiently to rising demand in spite of significant price increases. According to the Grattan Institute’s recent report on housing and the elasticity of supply, it is estimated that a 10 per cent increase in house prices leads to an increase in supply of between 3 and 5 per cent.

Completion levels in NSW increased significantly in 2014 and since then, has been averaging approximately 49,000 dwellings per year. Most of the rise in construction was accounted for by the jump in approvals for apartments and as a large amount of work remains in the pipeline, completions are expected to remain at a high level over the next 12 months.20

---

19 RBA 2012, Supply-side Issues in the Housing Sector

20 RBA 2017, Statement on Monetary Policy
Although there has been a surge in completion levels, it hasn’t yet made up for the shortfall in housing. The NSW Government estimates that Sydney still has an accumulated undersupply of around 100,000 dwellings. And to accommodate further growth in the population of 1.7 million by 2036, it will need to supply an additional 725,000 new dwellings. Delivering 41,250 homes annually to meet these demand expectations is a considerable task for government; this level has never been sustained in Sydney. Although the current level of completions are not at the required amount for Sydney, the market is at the top of the cycle and is starting to cool. The situation needs to be managed carefully and delicately to ensure that supply levels are maintained to achieve the target and to ensure that prolonged slumps in housing construction are avoided.

Meeting this target depends critically on how the primary obstacles of planning regulations and delays which prevent development are addressed. The NSW Government has introduced commitments to address the supply side constraints of the housing market including:

- determining 90 per cent of housing approvals within 40 days by 2019. The process of housing approval and development will be fast tracked and streamlined for efficient delivery.

- rezoning for 10,000 new dwellings per year, on average, in appropriate areas by 2021. Urban Renewable Priority Precincts are being expanded to speed up the rezoning of land and the delivery of new homes.

### 1.3 The next phase of the cycle and risks to forward supply

There is ongoing speculation regarding the state of the housing market in NSW and whether it is peaking. There are indications that the intense growth in prices experienced over the last few years is moderating; Figure 7 and Figure 8 show that sales volumes are reducing, and price growth has subdued.

**Figure 7 - Sydney sales volume changes (February 2017 - 2018)**

![Figure 7 - Sydney sales volume changes](source)

Source: CoreLogic 2018, Greater Sydney Residential Market Performance

---

21 Greater Sydney Commission 2018, Greater Sydney Region Plan
There are some concerns regarding the extent that price growth will continue to slow or whether prices will eventually fall. Industry is expecting the latter, as revealed in the latest ANZ survey of more than 1,700 property professionals. The survey results show that prices are expected to rise in all states and territories aside from NSW, where a net 8.2 per cent of respondents suggested prices will fall over the next 12 months.

Table 1 Capital value expectations, NSW

<table>
<thead>
<tr>
<th>Year</th>
<th>Residential</th>
<th>Office</th>
<th>Retail</th>
<th>Industrial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec 16</td>
<td>26.2</td>
<td>44.8</td>
<td>29.0</td>
<td>25.2</td>
</tr>
<tr>
<td>Mar 17</td>
<td>42.0</td>
<td>45.7</td>
<td>34.3</td>
<td>32.2</td>
</tr>
<tr>
<td>Jun 17</td>
<td>41.6</td>
<td>50.8</td>
<td>24.9</td>
<td>33.5</td>
</tr>
<tr>
<td>Sep 17</td>
<td>2.6</td>
<td>41.2</td>
<td>8.3</td>
<td>31.0</td>
</tr>
<tr>
<td>Dec 17</td>
<td>-8.2</td>
<td>52.7</td>
<td>13.0</td>
<td>46.5</td>
</tr>
<tr>
<td>Mar 18</td>
<td></td>
<td>47.4</td>
<td>3.9</td>
<td>40.6</td>
</tr>
</tbody>
</table>

Source: ANZ/Property Council of Australia 2018

In a recent address, the RBA’s Governor expressed relief that recent changes to regulations (including APRA controls on investor lending) were de-risking the market:

“In the housing market, there has also been a change. National measures of housing prices are up by only around 3 per cent over the past year, a marked change from the situation a couple of years ago. This change is most pronounced in Sydney, where prices are no longer rising and conditions have also cooled in Melbourne. These changes in the housing market have reduced the incentive to borrow at low interest rates to invest in an asset whose price is increasing quickly.”

---

22 RBA February 2018, Philip Lowe - Remarks to A5O Dinner
Given the ongoing strength of NSW’s economic fundamentals – good business conditions, population growth and high employment – combined with the possibility of the RBA maintaining a low cash rate, housing demand and prices are likely to be supported in the short term at least.

However, the longer term issue of supply and housing construction still needs to be solved. Although NSW Treasury is expecting a strong short-term outlook for housing construction, they also recognise the risk that NSW doesn’t deliver additional housing stock at the rate required to both meet additional demand but also address the existing accumulation of undersupply.23

The challenges noted by Treasury include that there are fewer greenfield sites available that are a reasonable commuting distance to key job growth centres, as well as Sydney’s geographic constraints, being bound by the sea, National Parks and the Great Dividing Range. The undersupply issues of the last decade and unprecedented housing price growth that has ensued, illustrates the significant and compounding effects of policy missteps and market changes, that combined, have the potential to deter construction activity over a long period of time.

As such, the Government needs to take care when it comes to supply-side measures which could disincentivise further construction activity needed beyond the current development pipeline. The fundamental nature of the development sector makes it hard for developers to precisely assess investment decisions and understand where prices will be when they go to market. If it becomes clearer that the current cycle has peaked (which is industry’s expectation), we can expect developers will be exercising an even greater degree of caution over future investment decisions.

23 NSW Treasury 2016, Intergenerational Report, p61
2 The cost of housing production

2.1 Cost of production
In this chapter we explore the major cost categories that comprise housing production costs:

- construction costs, including material and labour
- land acquisition
- taxes and regulatory costs, including cumulative infrastructure contributions.

Although real material and labour costs have increased gradually over the last decade, the cost of land in NSW (particularly in Sydney) has surged. This is a result of the supply and demand mismatch caused by a mixture of issues including planning restrictions, fragmented land ownership inhibiting development options and urbanisation trends which have driven up demand for housing in metropolitan areas. Regulatory costs including taxes, developer contributions and other government charges also make up a large proportion of overall development costs – and are also much higher in Sydney compared to other cities (refer to Figure 11).

In an industry that is notoriously cyclical, one of the greatest challenges that developers need to manage is sales and cost uncertainty, particularly given the long term time frame required to secure land, get the requisite development and building approvals and execute a project. The significant upfront costs that must be borne (e.g. in purchasing land and materials), increases the imperative to deliver a development at minimum cost.

This chapter explores the relationship between changes in development costs and housing supply delivery and prices. When developers are a ‘price taker’, any increases in costs (particularly regulatory costs) reduces project feasibility and can jeopardise projects from going ahead, particularly towards the bottom end of a cycle. This has the potential to stymie housing supply and ultimately housing affordability.

2.2 Relationship between costs, prices and supply

Materials and labour
Materials and labour account for around half the cost of construction for both apartments and houses. Figure 9 shows the gradual rise in the Producer Price Index (PPI) for construction material inputs (such as cement, timber and metal products) and the Wage Price Index (WPI) for Sydney. Although the price of material inputs have been rising, in real terms the building materials component of costs has changed little over the past two decades, only having risen slightly over the average six-fold increase in CPI. Figure 9 shows that between 2003 and around 2012, the increase in construction costs broadly tracked with the property price index. From 2012 onwards, the property price index and new completions rose sharply, reflecting the surge in demand for residential property.

---

24 RBA 2017, Houses and Apartments in Australia
25 Moran 2007, Land Regulations, Housing Prices and Productivity
**Land**

A key component of development costs is the price of available land, making up roughly 20 to 30 percent of total costs. From 1973 to 2006, while housing construction costs increased six-fold in Sydney, land prices increased by almost 50 times over the same period.

Land prices and house prices are inextricably linked and rises in the two are a symptom of the undersupply issues noted (see Figure 10). Furthermore, factors such as agglomeration and urbanisation forces have driven people further towards metropolitan areas, pushing up prices even more significantly in Sydney. In its 2018 Housing Affordability report, the Grattan Institute notes:

‘Higher land prices mainly reflect restrictions on supplying more dwellings: much urban infill is limited by planning restrictions; and greenfield development at the urban fringe is often limited by slow release of land, planning approval delays, and uneconomic developer charges, particularly in Sydney.’

The closeness of the relationship between land and final house prices suggests that changes in land prices will not significantly impact final margins, albeit developers face a time lag (and associated settlement uncertainties) between land acquisition and final sale. During this time they may need to manage greater holding costs associated with higher land values (i.e. in the form of higher land tax and funding costs).

However, if we assume that construction costs are steady and that there is a general correlation between land and house prices, this places greater emphasis on the impact to margins of changes to the remaining cost category, being regulatory charges.
Regulatory costs

Regulatory costs such as taxes (stamp duty on land acquisition and land tax) as well as infrastructure contributions are the other key component of development costs. For greenfield development in Sydney, cumulative regulatory costs can account for around 30 per cent of the development cost and around 25 per cent of the gross sales price. However, this percentage is set to rise with the NSW Government’s expansion of local and state infrastructure contributions.

Initial modelling undertaken by UDIA NSW suggests that the uncapping of s94 contributions alone could push total cumulative regulatory costs to around 38 per cent of total development costs and 36 per cent of the gross sales price, resulting in gross margins as low as 3 per cent (see Appendix A). This could make some developments unfeasible, as passing on or absorbing cost increases will become more difficult as price growth slows.

Cumulative increases in development contributions have contributed to supply issues in the past. As noted in Chapter 1, the introduction of voluntary planning and SICs was followed by a slowdown in housing construction which lasted seven years. In 2010 when annual dwelling completions were at a low point of below 30,000, the NSW government capped s94 contributions and discounted the SIC in order to further induce supply. At the time margins were as low as 3 per cent for greenfield development, compared to other states which were around 9 to 14 per cent (see Figure 11).
Figure 11 - Composition of greenfield development costs across major cities, 2010 (‘000)

Source: RBA 2012, Supply-side Issues in the Housing Sector
3 Developer contributions

A range of compulsory developer contributions and planning requirements exist in NSW, which must be factored in to the cost of delivery. Broadly, these relate to funding local and state infrastructure and other charges aimed at safeguarding home owners and the environment. Most recently, the government has introduced:

- contributions to government development of affordable housing.
- inclusionary zoning requirements, which mandate that a portion of a development is allocated to affordable housing.

This section further outlines the various charges that are paid by the industry and discusses the different perspectives on the appropriateness and outcomes of the current charging system.

3.1 History of developer contributions

3.1.1 Current developer contributions

The list of current developer contributions (excluding taxes and transfer duties) are outlined in Table 2. Against the backdrop of housing affordability and supply pressures, recent Government policy initiatives will result in increases to contributions payable by developers going forward. Existing charges have either been increased or expanded in scope, and new charges have also been introduced.

Table 2 Current developer charges

<table>
<thead>
<tr>
<th>Contribution</th>
<th>Description</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local infrastructure funding</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Section 94 contributions</td>
<td>s94 contributions - often referred to as a local infrastructure contribution, these are paid to the local council.</td>
<td>To be uncapped – See amounts in Table 3.</td>
</tr>
<tr>
<td></td>
<td>s94A levies - a levy paid to the local council which is a percentage of the proposed cost of carrying out development.</td>
<td></td>
</tr>
<tr>
<td>Voluntary planning agreements</td>
<td>Negotiated between the developer and the planning authority (can be State) outlining the agreed developer contribution. These are used as an alternative or adjunct to s94 contributions and s94A levies.</td>
<td>Unchanged.</td>
</tr>
<tr>
<td><strong>State infrastructure funding</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Special Infrastructure Contributions (SIC)</td>
<td>Paid into an infrastructure fund established by the NSW Government for designated growth centres.</td>
<td>Expanded - 23 new SIC areas have been created.</td>
</tr>
<tr>
<td><strong>Affordable housing requirements</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affordable housing contributions in designated areas of Sydney (SEPP70)</td>
<td>A levy collected by the council in designated areas for affordable housing. An on-site contribution amount is calculated as a percentage of the total floor areas of the development. Monetary contributions are indexed yearly according to the relevant program.</td>
<td>Expanded to five new councils in Sydney.</td>
</tr>
<tr>
<td></td>
<td>Currently, the City of Sydney has mandated an affordable housing component of approx. 2% in specified zones, where developers either include affordable housing in developments or pay an affordable housing levy.</td>
<td></td>
</tr>
<tr>
<td>Proposed inclusionary zoning requirements, mandating a proportion of affordable housing for very low to low income earners (5-15% affordable housing component proposed in the GSC’s District Plans)</td>
<td>There are two main approaches to building affordable housing through the planning process:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1. Mandatory model: number of affordable homes to be included in developments as a condition of planning approval (the number is determined through negotiation agreements between developer and planning authority or is specified)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2. Voluntary incentive model: affordable housing encouraged by reducing costs for developers e.g. faster track approvals and refund of infrastructure charges</td>
<td></td>
</tr>
<tr>
<td><strong>Other charges</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2% building bond</td>
<td>The new strata building bond and defect inspection scheme commenced</td>
<td>New.</td>
</tr>
</tbody>
</table>
Contribution | Description | Status
---|---|---
defect | operation in NSW on 1 January 2018, a key component of which is the building bond—developers are now required to lodge a building bond equivalent of 2% of the building contract price with NSW Fair Trading. The scheme also includes mandatory defect inspections. If no defects are identified, the building bond may be released to the developer after two years after date of completion. If defects are identified, they must be rectified by the developer. The scheme applies to residential or partially-residential strata properties that are four or more storeys. | Recently changed, with the potential to add to the cost of development.

Biodiversity reforms | The Biodiversity Conservation Act 2016 and the Local Land Services Act 2013 is intended to establish a framework to avoid, minimise and offset impacts on biodiversity. Key reforms include:
- the establishment of a new biodiversity offset scheme including the establishment of a Biodiversity Conservation Fund through which a proponent may satisfy biodiversity credit requirements,
- the creation of a uniform mechanism to assess the impacts of development and activities on threatened species and threatened ecological communities and habitats,
- the deregulation of the clearing of native vegetation across the State based upon state wide maps,
- the concept of ‘serious and irreversible’ biodiversity impacts.
There are concerns that the reforms will significantly increase the price of new homes (could add $20,000 to the price of each and every home being developed in new developments around Sydney, the Hunter and the Illawarra), due to additional costs and red tape. |

Source: PwC analysis

### 3.1.2 Government policy over time

Charging developers to fund infrastructure reflects a ‘user pays’ approach to government cost recovery, which attempts to pass costs on to the ultimate beneficiaries (i.e. local residents who enjoy the use of that infrastructure). The approach assumes that charges are built into the price of the final product and are therefore borne by the home purchaser. This generally occurs in practice, except where market conditions or taxes move from when the purchase in made.

Developer charges fund local infrastructure provision across all local government areas. They also contribute to funding of state infrastructure, mainly in greenfield or new growth areas, where the new infrastructure is critical to supporting new housing development. Charges may contribute towards the recoupment of costs or they may be prospective, i.e. they are required to extend or augment public amenities – the demand for which will be increase due to the development.

Charging developers as a mechanism for funding of infrastructure has been the subject of ongoing public discussion and debate, occurring against the backdrop of multiple changes to regulations over the last several years. Key events include the introduction of voluntary planning agreements and s94 fixed levies in 2005 which gave councils flexibility in negotiating contributions. After a series of reforms and debates on the efficacy of contributions, caps on infrastructure charges were put in place in 2010 to increase housing supply and to stimulate construction. Appendix B outlines in detail the history of develop charges in NSW.

The staged lifting of the s94 contribution caps is detailed in Table 3. UDIA expect that the uncapping of charges could add $50,000 to $80,000 to the production cost of a dwelling.²⁶

| Table 3 Uncapping of s94 contributions |
| --- | --- | --- |
| Application date | Greenfield | Infill |
| 1 January 2018 | $35,000 | $20,000 |
| 1 July 2018 | $40,000 | $30,000 |
| 1 July 2019 | $45,000 | $35,000 |

²⁶ UDIA 2017, Land release and housing supply in NSW
3.1.3 Who benefits?

Using developer contributions to charge users for infrastructure provision has become a normative feature of government planning policy. The general rationale for contributions is that they are equitable – costs are borne by identifiable beneficiaries (local home owners who bear the cost in higher house prices) – and they are efficient, in that the overall cost of housing development is reflected in the cost of production.

However, the history of changes to developer contributions outlined in Section 3.1 (e.g. such as capping and uncapping of charges, and other changes to cost allocation methods) reflects that user charging is not a straight forward mechanism and the scope of what should be recovered through developer contributions is still subject to major debate.

In 2014 the Australian Productivity Commission conducted an Inquiry into the provision and funding of public infrastructure, in which it looked at the role of developer contributions.\(^{27}\) The report of the Inquiry said that:

‘Ideally, the incremental cost attributable to each property would be reflected in developer charges. For social infrastructure that provides broad-based benefits to the community, such as a library, government funding from a broad-based revenue source can be more appropriate than developer contributions.’ \(^{28}\)

In the case of S94 contributions for local infrastructure, the need for a nexus to be demonstrated between the proposed amenities and services, and the demand created, is embodied in legislative requirements. Charges must also be limited to funding ‘essential works’ (see Box 1), although we note that a number of the items on the list appears to meet the Productivity Commission’s view of infrastructure that provides broad-based benefits.

**Box 1 – Essential works list**

The following public amenities or public services are considered essential works:

- land for open space (for example, parks and sporting facilities) including base level embellishment
- land for community services (for example, childcare centres and libraries)
- land and facilities for transport (for example, road works, traffic management and pedestrian and cyclist facilities), but not including carparking
- land and facilities for stormwater management, and
- the costs of plan preparation and administration

Source: NSW Government 2014, Revised Local Development Contributions Practice Note

The Productivity Commission went on to explain:

‘Social infrastructure — such as hospitals, libraries, parks, community centres, sports grounds, prisons and museums — is another area where government funding can be appropriate due to public good characteristics, positive externalities and equity goals.’

An alternative user charging mechanism is council rates paid by home owners. There is an argument to say that community-wide amenity and service enhancements could be further funded through increases to council rates (assuming councils have the flexibility to raise rates).

---

\(^{27}\) Australian Productivity Commission 2014, Inquiry Report – Public Infrastructure

\(^{28}\) Ibid.
To mitigate the risk of ‘gold-plating’ infrastructure provision, the Independent Pricing and Regulatory Tribunal (IPART) has the role of reviewing a council’s contribution plan and determining whether additional demand for amenities and service is triggered by the development being proposed. The importance of IPART’s function was called out by Glenn Stevens in his 2017 report to the NSW Premier on Housing Affordability:

‘What is clear is that it is very important to ensure that the right infrastructure is built, and that stakeholders see value for money, when either developers or government are required to stump up for infrastructure. Hence the proposal to ensure that IPART, or some other body, has a clear mandate to ensure value for money is very important. I think it is imperative that this, or something like it, accompany any decision to lift caps.’

In the case of SICs, contributions go towards infrastructure that clearly has public good characteristics, including new roads, schools and hospitals. As they are charged in areas the Government is targeting to grow, there appears to be a reasonable justification for cost sharing as the additional infrastructure will ensure the area is an attractive place to live and adds value to the development. However, this charge doesn’t require a clear nexus to be demonstrated between the development and the additional infrastructure requirement induced by that development. Voluntary Planning Agreements, which are negotiated between council and a developer, also do not have a requirement for a demonstrable nexus to exist (although there is an expectation that it should). These charges are closer to an additional levy or tax on the industry, rather than a user charge.

A detailed review of the cost sharing arrangements and the appropriateness of the amounts levied on developers is beyond the scope of this report. However, this topic should be further examined by NSW’s own Productivity Commission, the creation of which has just been announced.

3.1.4 Who pays?

Discussions about the appropriateness of infrastructure types to be passed on through user charges assume that the cost of this infrastructure is ultimately borne by home owners through higher house prices. This assumption is based on ‘an incorrect notion that prices are determined by costs’ as noted by Cameron Murray, an economist for the University of Queensland. The surge in NSW house prices above and beyond the rate of production cost increases – and the current glut in apartment values in inner Melbourne brought on by oversupply – reflect the range of supply and demand forces impacting prices. Ultimately, developers will charge the maximum price that the market will take.

In his article, Murray references a study published in Real Estate Economics in 2013. The study compared house prices for single-family detached homes build within development districts to similar properties located outside development districts and concluded that not all developer contributions are passed on through the final house price.

Whether developers face market pressure to absorb higher costs, which could suppress forward supply, or whether costs are passed on to home owners through higher house prices, both outcomes are undesirable given the current state of undersupply and affordability issues in the NSW housing market.

As noted, an alternative and more direct way of spreading costs across all beneficiaries in a local government area would be to increase council rates. This would limit the risk of creating inter-generational or inter-temporal inequity issues caused by existing homeowners benefiting from future enhancements to local amenity without having to bear its cost.

A related concern is the impact on development in more disadvantaged local government areas. The ‘efficiency’ of allocating costs through developer charges could result in industry not meeting development needs - or pushing industry towards lowest quality development - in areas where market values are not sufficient to absorb greater regulatory costs.

---

29 Glen Stevens AC 2017, Housing Affordability: report to the Premier
30 Murray 2015, The Conversation, Property developers pay developer charges, that’s why they argue against them
Addressing ease of doing business, and housing affordability, are two of the key mandates of the newly created NSW Productivity Commission. Given that the subject of developer contributions touch both these issues, we suggest that the Commission undertake a comprehensive review of the current system to understand the full impacts on infrastructure provision, housing supply and affordability.
4 The residential construction industry in NSW

4.1 The residential construction industry

The state economy grew 2.9 per cent in 2016-17, contributing to almost half of the nation’s overall economic growth and maintaining its position as the nation’s centre of economic activity. Residential construction is a significant part of the NSW economy and a key driver of current and future economic growth.

In his message on the NSW Budget half-yearly review for 2017-18, Treasurer Perrottet acknowledged the essential role that the residential construction industry plays in supporting the health of the economy:

‘Record construction activity in NSW has been a key driver of the economy’s strength, fuelled by residential activity, business investment and the Government’s massive infrastructure program.’

The construction industry’s revenue in Australia is estimated to be $356.4 billion in 2017-18, 31.5 per cent of which was accounted for by NSW. Residential building construction plays a pivotal role in adding to the industry’s economic contribution, and is expected to contribute one third of the broader industry’s revenue in 2017-18. Figure 12 highlights the upward trend of residential building work undertaken in NSW over the past ten years. The value of total construction work undertaken increased by 4.8 per cent over the past ten years, including residential building work which grew at a comparatively faster rate of 8.3 per cent.

Figure 12 - Value of construction work, by sub industry, NSW

Source: ABS 2017, 8755.0

---

31 NSW Government 2017, NSW Budget 2017-18 Half-Yearly Review Treasurer’s Message
32 ABS 2017, 8752.0 – Building Activity, Australia
Gross State Product

Given the strong performance of the property market in metropolitan NSW over the past decade and the continuation of a record investment pipeline, residential construction is expected to continue as a strong driver of economic growth and a large contributor to Gross State Product (GSP).

In 2017, the industry was the fourth largest in NSW, producing 6.9 per cent ($40 billion) of the NSW GSP in value added terms. The contribution of the sector to NSW GSP is largely attributable to the increase in approval rates and the growth in the supply of new residential dwellings across the state.

Figure 13 below highlights the upward trend of new residential constructions, in line with the increased rate of new dwelling approvals.

Figure 13 - Contribution of the construction industry to GSP, NSW

Source: ABS 2017, 8752.0

Employment

The development industry is one of the largest employers in NSW and has supported strong labour market conditions, with unemployment in NSW being the lowest among the states at 4.6 per cent. The recent full-time employment growth has been driven by the state’s construction boom, a large part of it being residential construction, which has led to jobs growth in skilled, professional and technical services.

Of the total employment levels, residential building construction was the third largest employing sector in 2015, accounting for 9.9 per cent of total employment. Residential building construction also recorded the highest growth rate in employment over the five years to February 2015, growing by 12.2 per cent, followed by building completion services and building installation services.

---

33 ABS 2017, 5220.0 – Australian National Accounts: State Accounts
34 NSW Government 2017, NSW Budget 2017-28 Half-Yearly Review Treasurer’s Message
Figure 14 - Construction industry employment, NSW

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of people employed, NSW</th>
<th>Completions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2006</td>
<td>0</td>
<td>-500</td>
</tr>
<tr>
<td>2007</td>
<td>50</td>
<td>0</td>
</tr>
<tr>
<td>2008</td>
<td>100</td>
<td>500</td>
</tr>
<tr>
<td>2009</td>
<td>150</td>
<td>1,000</td>
</tr>
<tr>
<td>2010</td>
<td>200</td>
<td>1,500</td>
</tr>
<tr>
<td>2011</td>
<td>250</td>
<td>2,000</td>
</tr>
<tr>
<td>2012</td>
<td>300</td>
<td>2,500</td>
</tr>
<tr>
<td>2013</td>
<td>350</td>
<td>3,000</td>
</tr>
<tr>
<td>2014</td>
<td>400</td>
<td>3,500</td>
</tr>
<tr>
<td>2015</td>
<td>450</td>
<td>4,000</td>
</tr>
<tr>
<td>2016</td>
<td>500</td>
<td>4,500</td>
</tr>
<tr>
<td>2017</td>
<td>550</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Source: ABS 2017, 6291.0.55.03

Tax
The residential construction industry is a large contributor to state taxation revenue and its share of contribution continues to grow with the growth of the industry. The broad base of state taxes and charges that are association with residential construction include payroll tax, stamp duty and land tax.

The Half-Yearly Review of the 2017-18 Budget forecasts revenue to be $2.0 billion higher than budgeted. A large portion of this ($1.2 billion) is from higher taxation revenue. This is reflective of the strong property market, including residential construction activity, and the strength of employment generated by the industry which flows into land tax and payroll tax revenue.\(^{35}\)

4.2 Potential impact on the economy
The NSW Government is relying on the continued strength of the sector. In order to meet additional demand and close the accumulated undersupply gap overtime, NSW Treasury is targeting house supply growth averaging 45,000 a year to 2030-31, slightly higher than the long-run average of 42,000 per year in the 20 years to the mid-2000s.\(^{36}\) Depending on how supply-side issues are managed and how property cycle plays out, there is a risk that construction output may not be as high as is expected. NSW Treasury also acknowledges there are challenges with meeting this rate of supply.

We have modelled the flow on effects of a reduction in forecast investment levels in a computable general equilibrium (CGE) model, which captures the range of direct and indirect impacts to the construction industry and the NSW economy more broadly.\(^{37}\) In Table 4 we summarise the cumulative impact of just a 10 per cent decrease in new housing construction.

\(^{35}\) Ibid.
\(^{36}\) NSW Treasury, Intergeneration Report, p57
\(^{37}\) Our CGE model is based on the Victoria University Regional Model (VURM), which was initially developed by the Centre of Policy Studies (CoPs) at the Monash University as a simulation of the Australian economy. The VURM is preferred as it has been peer reviewed and the inputs and assumptions are fully and publically documented, providing greater modelling credibility. It has wide use in Australia by both government and the private sector. At the time of the analysis, PwC used the latest version of VURM available from the Centre of Policy Studies, which included an aggregation of economic data from the year 2015-16. Results are presented in 2017-18 dollars.
Table 4 - Impact of 10 per cent decline in forecast new housing investment

<table>
<thead>
<tr>
<th></th>
<th>5 year cumulative impact (2016, NPV 7%)</th>
<th>10 year cumulative impact (2016, NPV 7%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>GSP ($million)</td>
<td>-24,840</td>
<td>-485,700</td>
</tr>
<tr>
<td>Household consumption ($million)</td>
<td>-21,960</td>
<td>-43,060</td>
</tr>
<tr>
<td>Industry Value Added ($million)</td>
<td>-2,090</td>
<td>-4,090</td>
</tr>
<tr>
<td>Employment (measured in job years) (‘000)</td>
<td>-190</td>
<td>-260</td>
</tr>
<tr>
<td>Government revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Federal (GST)</td>
<td>-500</td>
<td>-860</td>
</tr>
<tr>
<td>State (Payroll, property)</td>
<td>-1,610</td>
<td>-2,410</td>
</tr>
</tbody>
</table>

Source: PwC CGE analysis

While the scale of any reduction in forecast investment levels due to the effects of higher development costs is unclear, even a small dip in future activity can have large flow on effects in terms of a foregoing of benefits that would have otherwise occurred. A 10 per cent reduction results in a foregoing of GSP of almost $25 billion over five years, and of $49 billion over 10 years. The jobs impact across all industries is 190,000 job years over five years, and 370,000 job years over 10 years.

---

38 Job years refers to the sum of the number of jobs that exist each year, over the period of measurement.
Appendix A

Illustrative example of the financial impact of higher S94 contributions, provided by UDIA.

The example is based on the assumptions:

- 18 dwellings per net developable hectare
- Average Lot Size of 375 m²
- Sale Price of approximately $490,000

- Note: Raw Englobo Land Value = 18 x $200K = $3.78 m per hectare or $1.5 m per acre for zoned R2 land
- Note: Assume 36 lot project on 2 hectare site in fragmented land in Marsden Park - Growth Centre

Table 1 – Development profitability with S94 contributions of $35,000

<table>
<thead>
<tr>
<th>ITEM</th>
<th>$</th>
<th>% of cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Land Price (land only) GST incl.</td>
<td>$ 210,000</td>
<td>54.9%</td>
</tr>
<tr>
<td>Stamp Duty (5.5% on land acquisition) State</td>
<td>$ 12,000</td>
<td>3.1%</td>
</tr>
<tr>
<td>Land Tax (ave. 2 years due to delays) State</td>
<td>$ 6,500</td>
<td>1.7%</td>
</tr>
<tr>
<td>Consultants &amp; Reports</td>
<td>$ 4,500</td>
<td>2.2%</td>
</tr>
<tr>
<td>Approvals &amp; Fees (Council LPI Services)</td>
<td>$ 2,900</td>
<td>0.8%</td>
</tr>
<tr>
<td>Civil Engineering Works &amp; Services Retic.</td>
<td>$ 55,000</td>
<td>14.4%</td>
</tr>
<tr>
<td>Temporary Drainage Basin Works</td>
<td>$ 7,800</td>
<td>2.0%</td>
</tr>
<tr>
<td>Sales and Marketing (2.7% on GRs)</td>
<td>$ 13,000</td>
<td>3.4%</td>
</tr>
<tr>
<td>Finance Costs (interest + estab. fees)</td>
<td>$ 20,000</td>
<td>5.2%</td>
</tr>
<tr>
<td>Section 94 Local</td>
<td>$ 35,000</td>
<td>9.2%</td>
</tr>
<tr>
<td>SIC ($210K per ha) State</td>
<td>$ 11,600</td>
<td>3.0%</td>
</tr>
<tr>
<td>Total Cost</td>
<td>$ 382,300</td>
<td>100.0%</td>
</tr>
<tr>
<td>Gross Margin</td>
<td>$ 66,903</td>
<td>17.5%</td>
</tr>
<tr>
<td>GST</td>
<td>$ 45,000</td>
<td>10.0%</td>
</tr>
<tr>
<td>Gross Sale Price</td>
<td>$ 494,203</td>
<td>129.3%</td>
</tr>
</tbody>
</table>

Comprised of:
- Section 94 local infrastructure charges $ 35,000
- State taxes: stamp duty, land tax & SIC $ 30,100
- Federal taxes: GST $ 45,000
- Stamp duty from purchaser $ 17,500

Table 1 – Development profitability with S94 contributions of $90,000 (uncapped)

<table>
<thead>
<tr>
<th>ITEM</th>
<th>$</th>
<th>% of cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Land Price (land only) GST incl.</td>
<td>$ 210,000</td>
<td>48.0%</td>
</tr>
<tr>
<td>Stamp Duty (5.5% on land acquisition) State</td>
<td>$ 12,000</td>
<td>2.7%</td>
</tr>
<tr>
<td>Land Tax (ave. 2 years due to delays) State</td>
<td>$ 6,500</td>
<td>1.5%</td>
</tr>
<tr>
<td>Item</td>
<td>Cost</td>
<td>Percentage</td>
</tr>
<tr>
<td>-------------------------------------------</td>
<td>-------</td>
<td>------------</td>
</tr>
<tr>
<td>Consultants &amp; Reports</td>
<td>$ 8,500</td>
<td>1.9%</td>
</tr>
<tr>
<td>Approvals &amp; Fees (Council LPI Services)</td>
<td>$ 2,900</td>
<td>0.7%</td>
</tr>
<tr>
<td>Civil Engineering Works &amp; Services Retic.</td>
<td>$ 55,000</td>
<td>12.6%</td>
</tr>
<tr>
<td>Temporary Drainage Basin Works</td>
<td>$ 7,800</td>
<td>1.8%</td>
</tr>
<tr>
<td>Sales and Marketing (2.7% on GRs)</td>
<td>$ 13,000</td>
<td>3.0%</td>
</tr>
<tr>
<td>Finance Costs (interest + estab. fees)</td>
<td>$ 20,000</td>
<td>4.6%</td>
</tr>
<tr>
<td>Section 94 Local</td>
<td>$ 90,000</td>
<td>20.6%</td>
</tr>
<tr>
<td>SIC ($210K per ha) State</td>
<td>$ 11,600</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>Total Cost</strong></td>
<td>$ 437,300</td>
<td>100.0%</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>$ 12,000</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>GST</strong></td>
<td>$ 45,000</td>
<td>10.0%</td>
</tr>
<tr>
<td><strong>Gross Sale Price</strong></td>
<td>$ 494,300</td>
<td>113.0%</td>
</tr>
<tr>
<td><strong>Total taxes &amp; charges on price</strong></td>
<td>$ 182,600</td>
<td>35.7%</td>
</tr>
<tr>
<td>Section 94 local infrastructure charges</td>
<td>$ 90,000</td>
<td></td>
</tr>
<tr>
<td>State taxes: stamp duty, land tax &amp; SIC</td>
<td>$ 30,100</td>
<td></td>
</tr>
<tr>
<td>Federal taxes: GST</td>
<td>$ 45,000</td>
<td></td>
</tr>
<tr>
<td>Stamp duty from purchaser</td>
<td>$ 17,500</td>
<td></td>
</tr>
</tbody>
</table>
Appendix B

History of developer charges

Introduction of the EP&A Amendment (Affordable Housing) Act 2000
The amendment provided that, in certain circumstances, an affordable housing levy could be imposed in designated areas to require a developer to dedicate land for or make a financial contribution towards affordable housing in the area.

Contribution reforms
Introduction of voluntary planning agreements and Section 94A fixed levies (calculated as a percentage of the cost of development), enabling councils to choose the method, or combination of methods to suits their different development needs.

State planning reforms
Reforms included the introduction of SICs to strengthen the government’s ability to deliver infrastructure in new land release areas. They also included restrictions to the application of s94 contributions, establishing a price ceiling and prohibiting charges for low cost developments.

Enquiry into local government financial sustainability
Meanwhile, the general case for development contributions was again made in the 2006, final report of the independent inquiry into the financial sustainability of NSW Local Government, which stated: ‘The principle of developer contributions is a sound one. Developer contributions are efficient and equitable.

Reforms to limit contributions
Reduction of maximum developer contribution to state infrastructure costs and clarification on the types of ‘attributable’ local infrastructure types allowed to be funded.

Capping of local infrastructure charges
Caps on developer s94 charges introduced: ‘to increase housing supply by lowering development charges for infrastructure to stimulate housing construction’. Reforms also stipulated ‘essential infrastructure’ that could be levied, and required IPART to review contribution plans with a rate above the cap and for which the council seeks additional funding.

White paper signals future uncapping
In its paper A New Planning System for NSW, the Government said that caps on levies were ‘artificial and inefficient’. It also said that ‘development contributions in some areas are too high while other areas do not sufficiently contribute to recovering infrastructure costs’. 

Uncapping of charges announced
The Department of Planning and Environment released a circular announcing the uncapping of s94 contributions, and the closure of the Local Infrastructure Growth Scheme over the same period.

Source: NSW Government 2017, IPART 2017