PROPERTY COUNCIL of Australia

Australia's property industry
Creating for Generations

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Mr Peter Achterstraat AM
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Dear Mr Achterstraat

Discussion Paper – 'Kickstarting the Productivity Conversation'

The Property Council welcomes the opportunity to provide feedback on the productivity conversation in response to the discussion paper released by the NSW Productivity Commission, Peter Achterstraat AM.

As Australia's peak representative of the property and construction industry, the Property Council's members include investors, owners, managers and developers of property across all asset classes. We are pleased to provide the following comments for your consideration.

Noting this is the first stage of the productivity reform process, we have examined the questions asked in the discussion paper and can provide the following comments. We would be happy to elaborate on these at a time convenient to you.

The Productivity Imperative

The introduction to the discussion paper warns that slowing productivity growth will lead to a shrinking economy and a more challenging budgetary position for the NSW Government. Increased productivity growth, delivered through an ambitious reform agenda led by the Productivity Commission, should help ensure NSW is best placed to grow and develop in years to come and continue to build a strong and resilient economy.

The focus on how the planning system holds back the delivery of the homes and jobs that NSW needs is supported. This process opens an opportunity to look at how pressure can be lifted from households by reducing house prices and associated cost of living pressures. For many people living in Sydney and the State's regional cities, the purchase of a new home remains out of reach and there is much work that needs to be done to change this. The accumulation of local and State levies on housing and NSW remains one of the worst planning systems in the nation and this must be one of the initial areas of focus for the Productivity Commission.

We welcome the realisation within parts of the State Government that the approach to land planning and development is intrinsically connected to the State's economic narrative and growth. Productivity reforms supporting the better delivery of homes and jobs, greater growth in freight, e-commerce and the goods economy are also needed to continue jobs growth in new emerging sectors.

DISCUSSION QUESTIONS

CHAPTER 6 – SMART WAYS TO GET MORE FROM OUR INFRASTRUCTURE

6.3 Maximising value from investments

Discussion question

- **How can we improve strategic land use planning and coordination with major infrastructure delivery?**

Great infrastructure is the backbone of strong communities. It helps build successful places, connects people better and makes our city work. Key components of the liveability of any successful city, access to jobs, education and community services, rely on infrastructure to get us there.

Record State infrastructure investment over the past eight years – topped up by Commonwealth Government commitment to city shaping transport projects – is starting to make a difference.

This focus needs to be sustained and long-term funding commitments realised. Overcoming the State infrastructure deficit is a generational task and will require strong political and financial commitment. It is important that the current rate of investment in infrastructure is maintained to better manage the challenges of growth.

The Western Sydney Airport and surrounding Aerotropolis provides a good example for the planning, funding and delivery of infrastructure. The Western Sydney City Deal was signed in March 2019 and the parties to the City Deal were the Commonwealth Government, NSW Government and eight Western Sydney local councils. A priority outcome from the City Deal process will be to set the investment foundation for the Western City Parkland City to become a global city.

Driving the delivery of planning outcomes for the Western City Deal was the creation of the Western Sydney Planning Partnership (WSPP). The WSPP brings together planning resources from all of the eight councils within the City Deal and Blacktown City Council. Based on the discussions with the WSPP, it could become a model for coordinating strategic land use planning and coordination aligned with the delivery of major infrastructure. If proven a success, the WSPP template could be transplanted to other areas experiencing significant land use change due to infrastructure delivery.

6.4 Getting the most out of our existing assets

Discussion questions

- **What further options should the NSW Government consider to alleviate congestion?**

- **What measures could we explore to reduce pressure on rail infrastructure during peak periods?**

The Property Council welcomed the finalisation of *Future Transport 2056* by the Government in 2018. This is because a transparent, long term transport planning is critical to efficient and equitable land planning. New transport investment, in particularly in high growth parts of the city, is critical for both the growing population in these areas and the achievement of a 30-minute city, but also for the efficient movement of goods and the productivity of employment land. The consumption of goods will only rise as our city's population increases and so does the efficient movement of freight is also critical to the future of our city.

Key themes relevant to these questions include corridor protection and prioritising bike and walking paths in denser, higher development areas.

Corridor Protection

Corridor protection is critical if Sydney's growth is to be sustainable. The benefits of protecting key corridors as early as possible now include reduced costs, a reduced risk of the corridors being "built out" and subsequently, a reduced need to tunnel or acquire property.

The Commonwealth Productivity Commission's 2014 report on Australia's infrastructure drew attention to weaknesses in corridor protection practices, recommending that "Australian governments should also consider ways in which land polices can be improved in this area, given the deficiencies in the current planning of land reservation in most jurisdictions in Australia".

Sydney is experiencing increasing land values. Previous analysis by Infrastructure Australia found that, in the 20 years to 2012, underlying land values in the three east-coast capital cities grew around 3% per year faster than the rate of inflation.

Vacant land in Sydney cost $808/sqm in 2016, considerably more than other states. On a rate per sqm basis, the changes in prices over the past year have been recorded at +3.7% in Sydney, +6.2% in Melbourne, -9.1% in Brisbane, -4.4% in Adelaide, +0.4% in Perth and -13.3% in Hobart.

Land lot size is also trending down with the ultimate effect being that more lots of land need to be purchased for a transport corridor at increasing greater prices. The economics of purchasing land for transport routes is increasingly making investment unfeasible.

If land is not protected, placing a project in a tunnel can multiply its cost per kilometre by 5-10 times. This increase in land cost subsequently increases the cost that must be paid by the Government, industry and the community.

Land that is protected now provides further opportunities to supplement the cost of infrastructure. As land for transport corridors is acquired and protected, the land can be leased on a limited term basis with rent contributing to the overall cost of the future infrastructure. Once the transport is being constructed, the zoning of the land can be reassessed.

Key passenger routes, such as a North-South rail link to the new Western Sydney Airport and to Parramatta or Leppington are already in danger of being infringed upon by development or have been developed. These routes will subsequently be more expensive to deliver.

Effective corridor protection in the future may necessitate more flexible or unique land zoning approaches. Prospective corridor zones may need time resilient zoning with development approved in these zones done so in the understanding that the land will be required to develop a transport corridor after a set period. Industrial land use could be more appropriate in these circumstances as development can be moved or changed more easily than other development.

Prioritising cycling in higher density areas

Areas that encourage cycling and walking as critical to a healthy, growing city. As Future Transport 2056 outlines, lack of access to safe cycling paths is currently a barrier for the 70% of citizens who would like to ride more for short trips and would do so if they felt safer and more confident.

In denser, high development areas the development of bike paths/lanes and walking routes should be prioritised to increase the use of multi-model transport options and reduce car use. Investment in bike paths in denser areas will ease the impact of new development on the community.

Bike paths/lanes in denser areas will also provide a viable option for travelling to and from train and Metro stations, reducing the reliance on cars and carparking.

CHAPTER 7 - MODERNISING OUR TAX SYSTEM TO HELP OUR ECONOMY GROW

7.3 Reducing inefficiency in property taxes

Discussion question

- **What steps could the NSW Government take to reduce its reliance on transfer duty?**

Transfer duty is one of several highly volatile revenue sources that the NSW Government currently relies upon to fund government services. Transfer duty (stamp duty) can distort business decisions, lock families out of housing choices, worsen housing affordability, suppress economic activity and leave governments with highly volatile revenue streams.

High transfer duty costs for a median home across NSW leaves people living in homes that are too big or too small for their needs, job seekers not taking jobs where they are available, and first home buyers being shut out of the housing market.

The cyclical and volatile nature of transfer duty revenues – which can very as much as 60% in one year – makes transfer duty highly unsuitable as a reliable source of state revenue.

Community attitudes are hardening against the imposition of transfer duty, with it largely being seen as an opportunistic tax grab raising on average $20,000 to $40,000 per housing transaction in our major capital cities and much more than that on a home in Sydney. The tax offers no services, lacks accountability and the community is increasingly questioning where the funds are being spent.

The whole economy would benefit if we were to replace transfer duty with a more efficient tax. That is why abolition of commercial conveyancing stamp duty was part of the original GST agreement in 1999 (a reform obligation that was never fulfilled).

While there has been broad agreement from economists and various stakeholders that transfer duty is a highly inefficient tax, holding back investment and slowing down the economy by inhibiting transactions and movement of people, the path to its abolition has remained elusive due to the quantum of transfer duty revenues collected and the limited replacement revenue sources available. The most common transition pathway put forward is a transfer duty/land tax swap. Any such proposal would need to be carefully canvassed as transfer duty revenues for NSW are in the order of $26 billion and land tax revenues are currently around $9 billion – this means land tax revenues would have to triple to fully replace transfer duty revenues which would simply not be sustainable. It may be that other broad-based efficient revenue sources would need to be considered as part of any reform process.

Limitations of a stamp duty land tax switch

The Productivity Commission has previously recommended transitioning from stamp duty to a broad-based land tax on unimproved land values – this reform was residential focused, with the aim of increasing labour mobility and improving housing choice over the longer term. The Productivity Commission report die not put forward any details on the household budget impact of an annual land tax on the family home or canvass the impact for the business sector.

Based on our research and industry's experience in the ACT, a simple switch from stamp duty to land tax presents several critical problems that are likely to be terminal to this reform proposal.

It is anticipated that the land tax burden would fall disproportionately on commercial property owners – this has been the experience in the ACT and with other forms of property taxes across states and territories. Higher property taxes and charges will ultimately be borne by:

- Business tenants, to the extent the taxes can be recouped through higher rents;
- Property owners, which will mean there is less money for capital improvements and future investment opportunities; and
- Ordinary Australians, due to lower returns in their superannuation and other investments in this real estate.

Imposing a material land tax burden on the family home is also unlikely to be politically palatable at the rates required. According to research we commissioned in 2016:[1]

- Replacing stamp duty revenues with a broad based land tax would require land tax of approximately 0.58% or $2,400 on the median Australian family home (which would be significantly higher in NSW given our land values) – this is in the same ballpark per household as an increase to a 15% GST (estimated to cost about $3,000) and could therefore be expected to have a similar negative political impact.
- Our polling from 2015 showed low community support for land tax on the family home[2]. When asked whether they would support a $500 land tax on the family home if it were to replace stamp duty, 28% were in support, while 39% opposed the reform. This is a net negative of 11%. The Deloitte modelling shows that land tax rates would need to be five times higher than this to fully replace stamp duty.

Given the experience with the Fire and Emergency Services Levy here in NSW the challenge should not be underestimated, even if the impost is seemingly modest.

Current land tax regimes are not as efficient as the theoretical models suggest

Economic modelling produced on land taxes is based on a theoretical broad-based land tax which is far from the reality of our current land tax systems. Our current land tax regimes are not as efficient as they could be due to exemptions, aggregation, progressive or differential rate structures, and inconsistent valuation practices.

Land taxes are a tax on business and capital and will reduce the incentive to invest in the commercial buildings our economy needs. Australia competes in a global market for capital and higher land taxes encourage potential investors to shift their investments to other asset classes or geographical locations.

The ACT experience

The ACT is often held up as a jurisdiction that has successfully embarked on the transition from stamp duty to a broad-based land tax. While we support the ambition of the ACT in undertaking tax reform, the implementation has been flawed and has resulted in increasingly significant financial burdens on local businesses and residents.

The ACT is almost half-way through a 20-year plan to abolish stamp duty and move to a single property tax that combines the old land tax and local rates (called general rates). Stamp duty receipts remain a significant part of the ACT budget, while general rates/land tax revenue has more than doubled during the same period. The table below compares the revenues collected in the year prior to the reforms commencing and the latest budget figures.

	2011-12 Actual	2019-20 Budget
Stamp duty	$268m	$265m
Broad based land tax		
General rates	$209m	$599m
Land tax[3]	$115m	$151m
	$324m	$750m

Commercial properties above $1.5 million remain subject to a 5% flat stamp duty rate[4]. There will be no review of the $1.5 million stamp duty threshold until 2021.

Residential properties also remain subject to stamp duty on a sliding scale which is not dissimilar to other jurisdictions. As a guide, a $750,000 residential property purchase would attract $22,200 stamp duty in ACT, and $29,182 stamp duty in NSW.

Commercial properties with land values above $600,000 are subject to general rates of up to 5.3216%[5]. ACT property owners are effectively paying a stamp duty like charge every year. Commercial rates are approximately nine times higher than residential rates (comparing the highest marginal tax rates of 5.3216% for commercial to 0.5817% for residential).

For many commercial property owners, general rates have doubled since 2012, however, rents have remained stagnant with increases of less than CPI, resulting in real loss of income for business owners and mum and dad investors.

Critically, there is no visibility on what rates will be payable at the end of the 20-year reform plan. The lack of transparency is preventing commercial property owners from making long-term investment decisions, which reduces competitiveness and confidence in the ACT.

The current level of year on year increases in rates on commercial property is unsustainable and the pressure on property owners cannot continue without resulting in significant costs being passed onto business tenants or reductions in reinvestment of capital in existing buildings, stifling growth in the ACT.

The ACT example demonstrates how a transition from stamp duty to land tax can give rise to damaging cost increases for commercial and residential property owners which impact cost of living, increase business costs and reduce interest in further investment.

<u>7.8 Enabling councils to deliver better services</u>

Discussion questions

- **Should performance monitoring and benchmarking be adopted for local governments in New South Wales?**

- **Would regular community satisfaction surveys make councils more responsive to their residents?**

- **How could councils improve their funding arrangements to provide greater flexibility in meeting their residents' service demands?**

In the absence of any further council amalgamations, there needs to be continued reforms implemented in the area of local council governance and performance. The Government made amendments to the *Local Government Act 1993* during 2016 that introduced strategic business planning principles across a broad range of council functions and practices and supported a culture of continuous improvement in councils. A key reform was the development of new principles of integrated planning and reporting which is a first step towards modernising and introducing a business-culture within NSW local government.

The Property Council would support performance monitoring and benchmarking. Also critical, across a range of areas, is greater transparency and accountability – especially in relation to time and cost. The E-Planning project being led by the Department of Customer Service is showing promising results in this regard and the Premier's announcement of it being mandated from 2020 is strongly welcomed. Other initiatives which "shine sunlight" on revenue, expenditure, timelines and the like – especially any which are available to industry and the community via digital sources – would be strongly endorsed.

Local councils perform an important role in the planning and development of their communities. The councils set the local planning direction policy for their local area including responsibility for their local environmental plan, development control plan and development contributions plans as well as policies for the assessment of development applications. Many of the decisions they take are heavily influenced by existing residents either individually or collectively through resident action groups. Unfortunately, in some cases, the needs of future residents are often not considered at all by some councils, with some taking a quite hostile view of population growth and housing for new residents.

The NSW Government needs to encourage more local councils to take a more forwarding looking approach to their operations and the requirement for councils to prepare Local Strategic Planning Statements (LSPS) is a good start. Getting these right, however, is critical and the 'first drafts' released during 2019 are variable in quality, at best. The assurance process currently underway, being led by the Greater Sydney Commission, is critical to ensuring sub standard instruments are not endorsed.

Every five years the NSW Government releases an Intergenerational Report with its Budget papers which provides insight into what the State might look like in the next 40 years. There may be an opportunity for local councils to develop a similar forecasting tool to plan for the long-term future of their communities.

Monetary contributions made by the development industry towards local infrastructure are a significant revenue source for local councils in NSW. The basis for the collection of these funds is set out in Section 7 of the *Environmental Planning and Assessment Act* and through Development

Contribution Plans. Apart from rates and grants, developer contributions collected in accordance with Section 7.11 or 7.12 contribution plans are a significant revenue source for many local councils.

In high growth areas, local councils collect and hold many hundreds of thousands of dollars in contributions. The Property Council is concerned that some councils hold the funds from development contributions for many years before they are spent on new infrastructure projects. Communities should not have to wait years for facilities and vital projects to be delivered. Councils should be encouraged to use contributions to repay debt incurred to provide community infrastructure rather than waiting for the full cost to be collected from contributions.

It is important to recognise that these contributions can only be used towards the capital cost of providing infrastructure. Operational and ongoing maintenance costs for council infrastructure must be met from council budgets. Local councils should be directed to explore other mechanisms to service their resident's needs such as the use of Public Private Partnerships, entering into arrangements with adjoining councils to deliver regional projects such as sporting and cultural facilities and accessing Commonwealth and State funds through grants where they are available.

CHAPTER 8 - PLANNING FOR THE HOUSING WE WANT AND THE JOBS WE NEED

8.3 Unlocking the potential of employment zones

Discussion questions

- **How could the NSW zoning system be simplified and improved to encourage business innovation and competition?**

- **What other policies should the NSW Government consider to ensure the planning system supports job creation and responds to consumer preference?**

"...By creating barriers to entry and diversification, zoning classes and the prescriptiveness of permitted land uses can also limit investment, new employment, and productivity improvements in, and competition between, businesses." – Shifting the Dial – 5-year Productivity Review – Productivity Commission 2017.

Creating diverse, innovative environments are integral to improving productivity across Sydney. Both the Federal and State Productivity Commissions have acknowledged this fact and have outlined the need to encourage diverse, mixed environments.

As Sydney grows and precincts and sites across Sydney are reimagined for new uses and the changing demographics of the population, it's important that we explore best practice examples of new land uses and the benefit that they bring to the community, the economy and the environment.

Our aim in Sydney must be to create productive, flexible, liveable, and interesting environments
It's important that as we explore new land use for our growing city, we explore best case examples and their benefits to ensure our local and strategic planning approaches are allowing for best practice examples to be produced.

This should be done initially through exploring how we create productive precincts; exploring best practice global productive, mixed-use precinct examples, the benefits and advantages of agglomeration of diverse land uses and businesses across the one precinct and how we could produce more great examples here in Sydney. Most global cities would have examples from which Sydney could learn but to name just one, examination of Canary Wharf, Kings Cross and Old Oak in

London would provide important information and lessons for Sydney. More information can be provided about these if desired.

It is generally agreed that the planning system in New South Wales is not up to par and recent research commissioned by the Property Council confirms it is the worst planning system in the country. It is frequently characterised by delay, cost and a lack of transparency and certainty of outcome. Often it lets down the communities is intended to serve as well as the industries that need a fair and predictable process.

The Standard Instrument LEP, introduced in March 2006, delivered significant benefits to users of the planning system by introducing conformity to land use zonings and definitions across all local councils in NSW. They saw the consolidation of many business and industrial zones unique to individual councils into a smaller number of zones that are consistent throughout NSW. Although there has been a recent review by the Department of Planning, Industry and Environment of business zones under the Standard Instrument LEP, it is important that these zones are constantly being reviewed to ensure that the planning system does not become an obstacle to business innovation in NSW.

There is limited evidence about 'urban services' of what might happen to such servicess over the next few years, of how demand for them will change and how they might be provided differently in a digital and shared economy era.

Drivable single use business parks in the suburbs or exurbs of the city have been losing their attraction as demand and employee tastes have shifted towards the assets of a more urban and dense environment where jobs and amenities have been agglomerating close to public transport nodes and the walkable precincts around them. Good place-making and job density in cities are seen internationally as two sides of the same coin. This, we believe is a key context for the discussion as to how jobs and cities 'work' now and into the future.

The consequence of not being flexible is sterilisation and places which get trapped in time and function – then fail to deliver that function in practice while acting to block different futures and suppress new value.

Land can and must change its uses over time, as the city and community needs change over time - a logic that the NSW planning system has always been flexible enough in the past to embrace and is the approach of most best-practice planning systems. The consequence of not being flexible is sterilisation and places which get trapped in time and function - then fail to deliver that function in practice while acting to block different futures and suppress new value.

Global Trends

Many cities are planning for AI, drones, AVs, EVs, mobility as a service and shared access to vehicles, with the retail sector planning for a reduction in physical floor space and a shift to home delivery from offsite locations – and all such sectors seeing plummeting job numbers. It is backward looking to be planning for the re-creation of a single use industrial environment that in the Western world, jobs are fleeing from and that physical centres for retailers and 'urban service providers' be maintained, unchangingly, whatever the real-world needs of actual businesses and consumers in this era.

In this world, business is required to plan in a fast-changing environment where traditional certainties are breaking down. The very notion and utility of 'employment lands' is under pressure when humans want to work in environments where cafes, bars, shops and public services are in close proximity with their jobs – which also might be undertaken in their homes or another space they can find to host a laptop and a coffee – and when automation means a significant logistics or distribution hub can serve much of Sydney employing fewer people.

Universities are moving from single use exurban compounds to mixed use locations with good public transport access and walkable destinations because they cannot attract the best teaching staff or students otherwise. Business parks are struggling for new investment or losing employment and responding by retrofitting themselves with mixed uses including residential development. The concept of innovation districts has emerged to describe the locations where tech start-ups are agglomerating in cities internationally: and they aren't in separately zoned 'land for employment and urban services'.

An example of how industrial uses have responded to these global trends and the move away from highly segregated land uses, is a development by Travis Perkins and UNITE Group plc. Situated on St Pancras Road in Kings Cross in London, the building combines a new state of the art builders' merchants and rooms for 563 students. Located in a mixed-use area, it helped to alleviate the urgent need for increased student housing in the local area, as well as the significant demand for building supplies in an area undergrowing significant regeneration.

Flexibility

As the market transitions and demand for new employment spaces emerge, there may be scope for certain industrial and urban services to be able to successfully co-locate with a wide range of uses such as to what is sometimes referred to as a 'bed and shed' model. This approach involves light and /or clean service based industrial units located in the basement or ground floor, a gym on the ground or first floor serving as a noise buffer, residential development on top floors and the use of electric cars / vans to minimise traffic and delivery noise.

This approach could be made possible with the provision of sufficient floor space to meet expected demand and uses managed so they do not impact on one another. This is especially true where uses such as light industry, mixed light industry, new economy or creatives uses are co-located with commercial, retail and residential uses.

Other international cities actively promote co-location and intensification of their industrial lands. For example, the London Plan (Policy E7) supports the intensification of industrial uses within Strategic Industrial Locations (SIL) and Locally Significant Industrial Sites (LSIS) to make better use of land and to strengthen their role in supporting growth in London's economy and population and goes further with a Practice Note with good practice principles. The City of London has also developed an Intensification Primer (2017) considering how industrial areas can be used more intensively, and how industry can be integrated in residential areas.

In doing so, other cities manage to balance a strategic understanding of transitioning from industry to a place. Accessibility to public transport and a coordinated and strategic approach to what is typically heavily parcellated with multiple owners through a masterplan led approach.

Hackney Wick and Fish Island in London provide examples of successful co-location as guided by a clear policy approach which provides certainty. After a period of post-industrial decline, Hackney Wick and Fish Island have transitioned to include a high density of creative industries alongside the industrial uses together with live-work units.

An Area Action Plan (AAP) – providing specific planning policy and guidance for a location or an area of significant change – for Hackney Wick and Fish Island, promotes a managed approach to the regeneration of the area. Importantly, the AAP is informed by a qualitative assessment carried out by the Greater London Authority (GLA) using criteria identified for Strategic Industrial Locations and further analysis in an Employment Land Study. This process has provided the evidence base to

release some parcels of Strategic Industrial Land to create a new neighbourhood centre, bring together homes and workshops and significantly increase in employment density in these areas.
It is necessary the Government continue a process of continuous improvements with respect to business zones to keep pace with developments in industry. Planning regulations should not become an obstacle to the economy's growth and the development of emerging land uses.

Complying Development

The NSW Government introduced complying development as a simpler and faster development approval pathway in 1998. Currently, development that is compliant with pre-requisite conditions and standards prescribed in a code contained within *State Environment Planning Policy (Exempt and Complying Development Codes) 2005* (Codes SEPP) can be considered as complying development. In comparison to a development application, complying development offers a faster and cheaper approval pathway.

At present two codes under the Codes SEPP, being the *Commercial and Industrial Alterations Code* and *Commercial and Industrial (New Buildings and Additions) Code,* allow many business owners and operators to avoid the lengthy development application process and obtain shorter approvals saving them both time and money preparing detailed development applications. Many businesses rely on complying development for low impact types of development such as the fit out of office and shops, minor additions, signage and proposals for change of use.

There is no doubt that NSW should have more complying development pathways as is the case in other jurisdictions. This was included in a research paper issued by the Property Council titled *"The Planning Upside"* dated March 2019. A copy of this paper is attached to the submission.

8.4 Building dwellings that better match our preferences.

Discussion questions

- **What steps could the NSW Government take to improve residential development regulations to support an adequate supply of affordable housing?**

- **How could the NSW Government ensure regulations around zoning, building codes and design guidelines are flexible and aligned with demand and preferences?**

It is imperative that the Greater Sydney Commission's (GSC) District Plans continue to be implemented. This includes local councils setting 6-10 year housing targets and making adjustments to their local environmental plans to accommodate capacity for future growth.

Planned Precincts

Since the establishment of the Growth Centres Commission in 2005 and the Redfern-Waterloo Authority in 2004, the NSW Government has taken an interventionalist approach to the detailed planning of a number of key growth precincts around Sydney. Recently the number of State Significant precincts, planned precincts, master-planned centres and priority growth areas increased to almost 50, although some of them were/are in actuality dormant.

The recent announcement of a new approach for precincts has created considerable uncertainty about the supply of housing. It is appropriate that the State Government through the Department of Planning, Industry and Environment (DPIE), focus its efforts on the major precincts with complex and challenging issues to be resolved and capable of delivering a large supply of housing.

There will always be a need for the State Government to intervene in the planning of certain greenfield growth and urban renewal precincts, and the recent announcement confirms State-led strategic planning and rezoning in specific areas will be maintained, which the Property Council supports. The decision to retain State Government involvement in areas such as Westmead, Glenfield, Ingleside, Frenchs Forest, Greater Parramatta and Olympic Peninsula and the Bays Precinct is welcomed. Moving forward with the identification of new precincts, it is recommended the State Government undertake better consultation with stakeholders around expectations about timeframes and outcomes. Attached to our submission is a recent letter to the Minister for Planning and Public Space concerning this issue.

Housing Targets

In order to continue the supply of housing to meet Sydney's growing population, it is estimated that about 725,000 new homes are needed over the next 20 years. At the time of releasing final district plans for Sydney's five districts, the GSC released 20-year housing targets for each district.
In addition, the GSC also released 1 to 5 year housing targets for individual councils.

Currently, each local council is identifying their 6-10 year housing targets (2023-2027) through the preparation of their local housing strategies and through consultation with the GSC. To date there has only been a small number of councils that have released new or updated housing strategies prior to or in conjunction with the release of their LSPS. The majority of councils have not commenced the development of an evidence base to identify future targets or if they have, there is no public information available about what stage of development the targets are at.

At the local level some councils have identified that their current planning controls are capable of accommodating all their future housing demand without the need for any further land to be zoned for growth. This 'status quo' approach will simply not deliver the housing supply Sydney needs given the greater metropolitan area continues to grow at a high rate in comparison with the rest of the state and other international examples. It is imperative that the GSC show strong leadership around the next phase of housing targets and that low balled targets are not endorsed.

The GSC also needs to be more transparent and seek greater input from industry groups into this process to ensure that the housing targets identified by local councils reflect the housing needs for the community.

Apartment Design Guide

The discussion paper identifies the Apartment Design Guide (ADG) as a form of building regulation that impacts housing supply. State Environmental Planning Policy No. 65 requires the ADG to be considered in the assessment of development proposals by consent authorities for certain development types, including multi-storey apartment buildings, mixed use developments 3 storeys or more and containing 4 or more dwellings.

The ADG was not originally intended to be strictly enforced but rather applied as a guideline to be taken into consideration in the development assessment stage of a project. In many if not most cases, council planners and planning panel members are enforcing strict compliance with disregard to its discretionary status – using the ADG as a minimum which must be met 'in order to pass go'. Further some Councils are imposing their own interpretation of how compliance should be measured under the ADG to make the design guidance even more onerous than strict reading of the ADG might suggest.

Examples of parts of the ADG that are being strictly include solar access, orientation, natural ventilation and deep soil planting. The way these ADG matters are being applied either reduce the quality of apartment amenity, and/or hinders affordability through increased construction costs and reduced dwelling numbers (with developments achieving less than the LEP controls for height and floor space ratio).

After the ADG was introduced in mid-2015 the Department of Planning and Environment became aware of industry concerns about how it was being applied. Its response was to issue a Planning Circular (PS 17-001) in June 2017 to reinforce the ADG's status as a guideline that should not be applied as strict set of development standards. Despite the issuing of this circular, council planners continue to adopt a strict approach to compliance with the ADG.

The NSW Government must take action to clarify the role of the ADG in the assessment process and ensure that when it is being applied by planners and planning panel members it is only considered as a guideline rather than strictly enforced. Given the entrenched nature now – after almost five years of practice – of the culture of 'ticking the ADG boxes' the Property Council is pessimistic about whether, in its current form, this could occur. If that assessment is shared by the Department, it is our recommendation that the ADG be replaced by a more flexible, principles based guideline.

8.5 Providing greater housing choice to balance labour mobility with tenure security.

Discussion questions

- **Should the NSW Government level the playing field in the housing sector to support a more stable source of housing supply? If so, how?**

- **What is the most efficient mix of planning, regulatory and tax settings to deliver outcomes that get the balance right between tenure security and housing mobility?**

According to the Greater Sydney Commission (GSC), Sydney needs 725,000 more homes by 2036 to meet the population growth we are likely to experience. To meet this challenge more than 40,000 new homes need to be built each and every year. The Property Council believes this target is more likely to be on the low rather than the high side and, if Sydney's growth continues at current rate a far greater number of new dwellings will need to be produced than even the GSC has outlined. We are not well prepared for this outcome.

But, meeting Sydney's housing challenge is not just about meeting the overall target. It is about putting the right type and number of homes in the right locations in the timeliest manner possible. It is also about ensuring government fees, levies, charges don't further worsen Sydney's affordability challenge.

To deliver much needed homes, we need to ensure there is serviced land available for greenfield development around the existing Sydney fringe. We also need to urbanise existing communities and build more medium density, high amenity housing around new and existing transport nodes.

Delivering more homes also means ensuring policy settings for a diversity of housing types, this includes seniors housing, accessible housing for people with disabilities and affordable housing. Support for the establishment of a build-to-rent sector in NSW to give renters a better more secure housing option is also needed.

8.6 Making the most of public and green space

Discussion questions

- **Are there other innovative ways of providing new public space, particularly on underutilised land?**

- **What other opportunities are there to improve the use of transport corridors in high density areas?**

Open Space

Sydney has many iconic public spaces including the harbour, Centennial Parklands, Parramatta Park, Western Sydney Parklands, Darling Harbour, multiple national parks and The Domain/Botanical Gardens. These facilities are available for wide use by everyone across Sydney and NSW as well as national and international visitors.

The Government has identified new Special Infrastructure Contributions (SIC) proposals as a revenue stream for providing regional open space within certain high growth areas in Sydney. These include linear open space such as biodiversity bikeways and cycle paths. It is important that any land required to provide these facilities is identified and reserved as early as possible. Unless the land for these areas is reserved early, acquisition costs will make provision of open space areas difficult.

Local councils in Sydney contribute funds annually into the Sydney Region Development Fund (SRDF) towards the provision of new regional open space. The Department of Planning, Industry and Environment manages the SRDF and manages a funding program of grants. We are not aware of any issues with SRDF not being capable of funding land acquisition for open space projects.

Transport Corridors

The NSW Government is currently undertaking a large investment in transport projects across Sydney, including the Sydney Metro and rapid bus services. Where this investment results in a greater uptake of transport services, there is an opportunity to better plan those areas to function as both an origin for trips as well as a destination. This includes planning for mixed uses that include substantial employment uses within them as well as a residential land use, avoiding the development of new dormitory suburbs.

New transport services such as the Sydney Metro West project should provide for both incoming and outcoming commuter trips. Planning controls in precincts around high frequency transport should encourage well designed mixed-use developments that provide both housing and employment opportunities. The GSC's 30-minute city is a good example of developing a strategy that looks at reducing the commuting times for Sydney's population. There needs to be more coordination between all levels of Government and the development industry to develop better guidelines for the planning and design of mixed-use development.

8.7 Moving toward more efficient and equitable developer contributions

Discussion questions

- **What principles could be applied to the development contributions system to ensure transparent, consistent and efficient outcomes?**

- **How might developer contributions be improved to support growth in new areas and service growing community needs?**

Our State's tax environment heavily influences our attractiveness as an investment destination. Not only does NSW compete for capital with other states and cities, the State increasingly competes with international jurisdictions as part of the global economy.

The current calculation and application of state and local development contributions is inconsistent and unsustainable and undermines our State's competitiveness as an investment destination. There is widespread agreement that the State's infrastructure contributions system is too complex and lead to poor understanding of its operation by industry, local government and the community. Currently the contributions regime is spread across legislation, regulations, orders, determinations, directions, practice notes, circulars and local contributions plans. A clearer and more easily understood method of planning, funding and delivery of infrastructure by State and local government is needed.

Taxes paid on new development and cumulative effect

There is a wide variety of taxes and charges that are applied to residential development. These are levied at all three levels of government as well as by agencies of government and government owned businesses providing utility and other services.

Investment in NSW and Sydney faces some of the highest costs on development, and this cumulative cost, added to uncertainty in the level of cost for the proponent and time spent in the planning system, reduces the competitiveness of NSW for investment.

Figure 1 - Government Taxes and Charges – Capital Cities.

Note: Figures have been rounded. Government taxes and charges include council rates, councils fees (Building Application/Development Application/Strata Application fees), Section 94 contributions/developer contributions, utilities levies (including water & sewerage, electricity & gas and telecommunications/NBN), state infrastructure charges (NSW and Victoria), Metropolitan Planning Levy (Victoria only), Building Construction Industry Training Fund Levy (WA and ACT), Long Service Levy (NSW only), Building Services Levy (WA only), Building Levy (ACT only), land tax, stamp duty (for land and house purchase), GST and company tax. Biodiversity Levy for NSW and Victoria not included. Other costs include: legals, holding costs and developer margins.

SOURCE: ESTIMATES BY ACIL ALLEN CONSULTING BASED ON INFORMATION PROVIDED BY PROPERTY DEVELOPERS.

At a more granular level, one infill development in Chatswood in Sydney, the levies and charges added to the cost of development include:

Taxes:

- Stamp Duty (State Government)
- GST (Federal Government)
- Land Tax (State Government)

Government Charges

- Council Rates (Local Government)
- Development Application (Local Government)
- S4.55 modification (Local Government)
- Compliance levy (Local Government)
- Long service levy (Local Government)
- Defects bond regime

Contributions

- S7.11 contributions (Local Government)
- SIC Levy (State Government)
- Affordable Housing contribution (Local Government)

Service Authority Contributions

- NBN Connection Fees
- Authorities Fees
- Associated Bonds/Bgs

Other

- Design Competition costs (Local Government)
- Public art (Local Government)

This cumulative impact and the uncertainty in some of this cost structure means NSW is facing key challenges in attracting and retaining investment and building new homes.

In recent history, levies and taxes have been added to the cost of development without consideration for the quantum effect and this is worsening.

Local infrastructure Growth Scheme (LIGS)

The Government's housing affordability statement announced in 2017 proposed reforms to the State's infrastructure contribution system for the purpose of "ensuring that developers make a fair and appropriate financial contribution towards the cost of infrastructure". This involved the abolition of the caps on contributions and the ending of the LIGS.

Since then, IPART has completed the assessment of three contribution plans for the Blacktown City Council. These are for the Schofields (CP24), Rouse Hill (CP22) and Marsden park (CP21) precincts'. For the two latter plans, Council initially sought approval for contributions exceeding S100,000 that were subsequently reduced by IPART in its recommendations to the Minister.

For Schofields, the Council in its draft contributions plan has proposed a rate between \$131,464 and \$117,058 for low density dwelling houses. IPART having fully reviewed this plan has recommended the contribution rates be reduced to between \$90,672 and \$102,525.

From 1 July 2020, when LIGS is closed, the full cost of local infrastructure will be charged to the developer (and, in most cases, passed through to home buyers through house and land prices). Without reform of the arrangements governing local infrastructure contributions and how Local Government fund infrastructure, the Government's housing affordability initiatives will be drastically undermined, future housing supply and economic growth will be put at risk due to the impact of these contributions on feasibility and the much needed infrastructure will not be delivered to communities that need it.

An increasing number of key property companies and investors are looking to invest in Queensland and Victoria before considering NSW.

Competition from both Queensland and Victoria in attracting investment, barriers to investing in NSW, the difficulty in building business cases for boards without key information and the increased cost of living and doing business in Sydney are all constraining our State's performance.

The residential sector in NSW

The residential sector is also facing severe challenges. Since 2016, NSW has been in a housing slide. Barriers to investment, including a complex planning and contributions system have made this worse.

ABS job figures also show unemployment is on the rise and this is worsened by the residential sector building less and employing fewer people.

This slide also means that reaching the Greater Sydney Commission's housing targets will be much harder to reach beyond the current 0 to 5-year outlook, government revenue is put at risk and housing will not meet the demands of a growing population.

- The monthly number of approvals across NSW has almost halved (down 45.4 per cent) from its peak in July 2016 to September 2019;

- The number of dwellings approved per 1,000 greater Sydney residents has dropped from 11.2 in FY2016-17 to 5.9 in FY2019-20 to date (compared with 8.0 in Melbourne and 9.1 in Brisbane in FY2019-20 to date);
- NSW stamp duty revenue has fallen by $2.8 billion (from $9.7b in FY2016-17 to $6.9b in FY2019-20); and
- On an index (having an equal baseline at FY2016-17), NSW stamp duty revenue has reduced by 29 per cent, compared with Queensland at 7 and Victoria at 2 per cent to FY 2019-20.6

Figure 2 - NSW – unemployment rate trending upwards

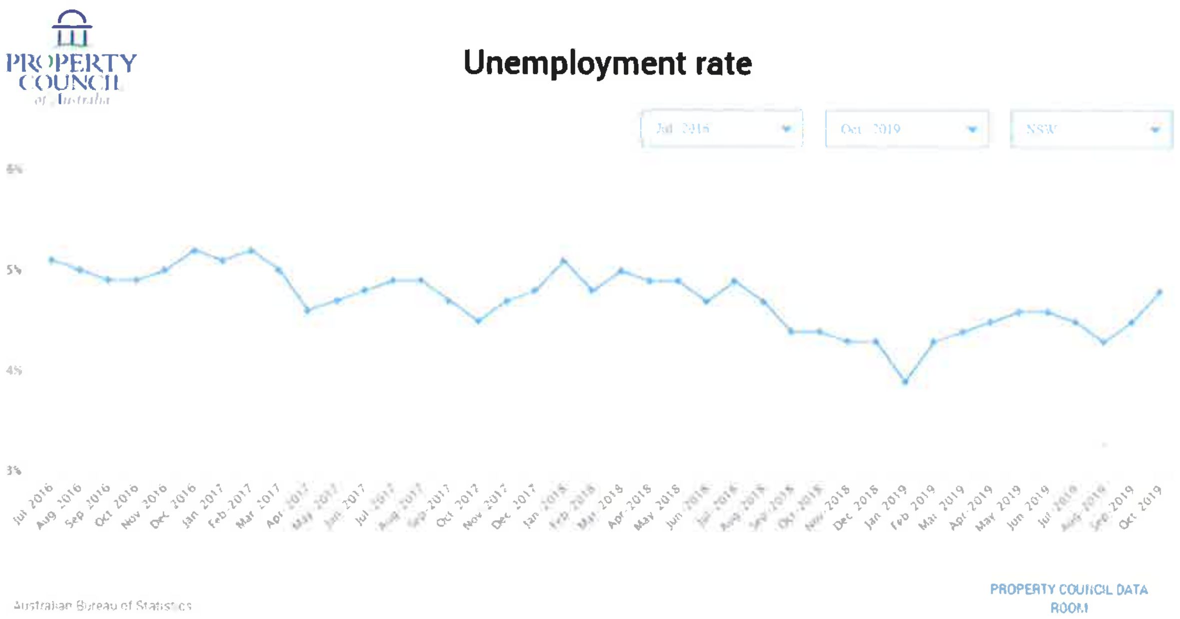


Figure 3 - Monthly Approvals – a steady decline

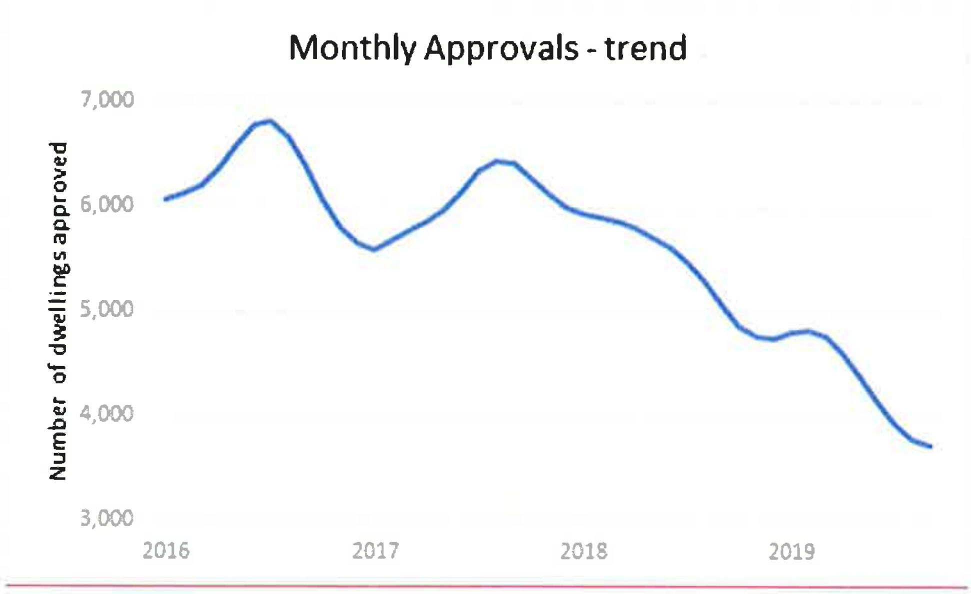


Figure 4 - Dwelling approved per 1,000 residents – Sydney V Melbourne V Brisbane

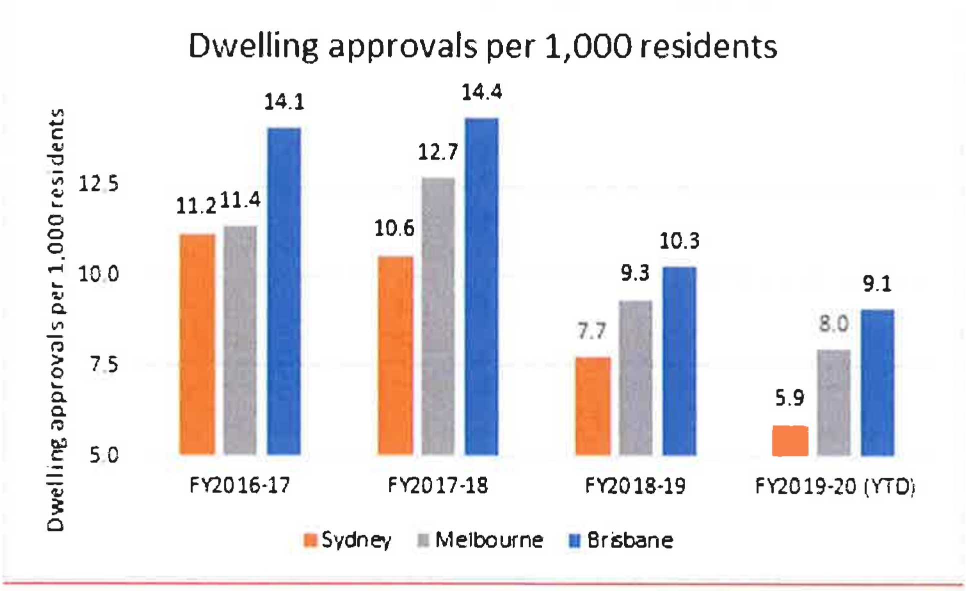
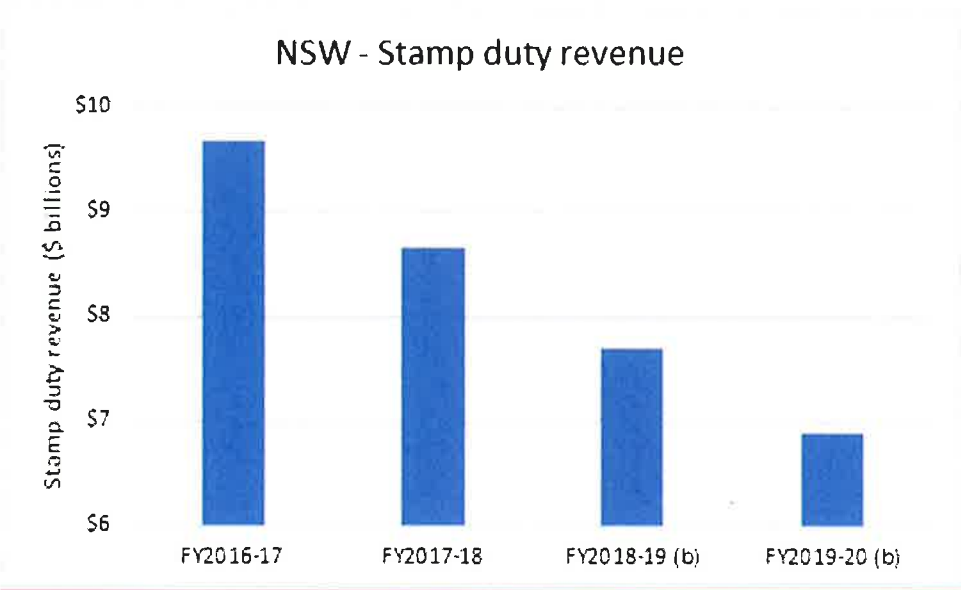


Figure 5 - Stamp Duty Revenue – a drop off



Implications

In the short term, jobs in residential construction have shrunk significantly, as the ABS data shows. This will have an economic ripple effect for consumer sentiment and retail sales and undermine economic growth in other areas of the market.

The drop off in stamp duty revenue is another immediate term impact and without action this revenue shortfall will worsen. In the medium to longer term, the drop off in supply, and the decline in construction of new dwellings, will create the conditions for the next spike in house prices. It is likely this spike will occur over the next two to three years with some banks predicting an increase in prices of eight to 12 per cent in Sydney in 2020 alone.

There are five key areas in NSW will be adversely affected without a focus on reforms that can provide certainty in investment, reduce the cumulative impact of costs and levies and create a more transparent and consistent contributions system:

- **A drop-in investment** in new housing stock and commercial investment and jobs to build them. For example, a national residential housing provider for the first time in 20 years does not have a project in the pipeline in Sydney, but has four in Melbourne;
- **Employment** - Key housing developers and constructors have shed jobs during 2019 and there will be more job cuts to come as current projects are completed;
- **Affordability** - The focus on housing supply in the 2016 to 2018 period which saw an improvement in affordability has been undermined during 2019 as approvals and construction have dramatically weakened. Given the ongoing population growth in NSW (and Sydney in particular) without a renewed focus the next unaffordability cycle will start;
- **Revenue** - Stamp duty receipts will continue to suffer with the obvious flow on effects for the State budget and government expenditure.
- **Poor growth outcomes –** infrastructure not matching growth, uncertainty in local government funding, community frustration.

<u>Solutions</u>

While there are inherent problems in the current system and the best outcomes for the state, community and industry are not being achieved – there are key changes that can be made to improve the system. These solutions cover the short, medium and long term and cover the efficiency of the system, feasibility of investment and certainty for all.

The industry is ready to work collaboratively with all stakeholders on a reform agenda.

<u>First Steps</u>

Three key initial actions must drive reforms:

1. Place a moratorium on any new levies pending a Regulatory Impact Statement
2. Coordinate a whole of government approach
3. Set short term reforms for local government buy-in
4. We believe a central government taskforce should be formed with the involvement and advice of the private sector and local government.

Central Government members should include:
- Department of Premier and Cabinet
- Treasury
- Department of Planning, Industry and the Environment
- Greater Sydney Commission
- Infrastructure NSW

The Property Council recommends the State Government extend the cap on local government contributions for another three years to enable a long-term reform plan to be developed to address the twin problems of uncertainty and cumulative impact that are undermining investment in NSW.

Prior to its removal, the $30,000 cap provided the development industry with certainty regarding development costs and those costs could be anticipated in advance. With the cap's removal, the final rate of contribution is not known until much later in the project pipeline, sometimes well after planning applications have been made. It is imperative that that Government implement a return to some form of sustainable capping of contributions that benefits both local communities and the housing industry.

With a significant escalation of contribution rates in the North West Priority Growth Area, there also needs to be a review of sequencing of land rezoning and the identification of land for acquisition. The costs incurred by local councils to acquire land for infrastructure are contributing to excessive and unsustainable contribution charges. The State Government may have a role to play in coordinating the acquisition of land needed for local infrastructure to assist local councils provide much needed land for parks, roads and other facilities.

During 2019, the Property Council established a contributions taskforce, comprising members of our Residential, Planning and Tax Committees, to coordinate our advocacy around development contributions. The taskforce is development a number of policy proposals to submit to the State Government during 2020 and once finalised these ideas will be provided to the NSW Productivity Commissioner.

8.8 Minimising red tape and complexity

Discussion questions

- **What steps could the NSW Government take to improve efficiency in planning system administration and ensure economic and community benefits?**

Improve Rezoning Processes

By 2050 Sydney's population will be about 8 million and growing. To ensure that it is a great global city we need to focus on managing that success by dealing with unaffordability and congestion, deliver the Greater Sydney Commission's 30-minute, polycentric vision and improve amenity and liveability by focusing on creating great places. This can sometimes mean changing the way land is strategic locations is zoned.

Long timeframes, a convoluted process and a lack of strategic foresight at local level all make the rezoning process unwieldy and ineffective. This means a lack of transparency for the community and a lack of certainty for industry.

The Government must implement a more streamlined rezoning process that will be implemented consistently across councils, mirroring the efficiently state led rezoning processes. Clear and consistent guidelines for rezoning land must be set as a part of this process including timeframes for approval that planning authorities are held to.

Currently developer-led site-specific rezoning proposals can take over a year to be finalised and cost several thousand dollars in council fees and consultant reports and plans. DPIE does not publish any data regarding the performance of local council's rezoning assessment timeframes. This data should be regularly published to place a spotlight on those councils that fail to plan the future housing and jobs needed for their communities.

Key Reform Recommendations

The Property Council recommends the following fifteen (15) reforms to be considered for implementation:

Planning

1. Ensure assurance measures are put in place to address the sub-standard Local Strategic Planning Statements (LSPS's) that are currently being finalised by the Greater Sydney Commission, the Department and local councils across the State. We must ensure LSPS's are robust, considered and realistic and together roll up to State targets that can deliver for a future Sydney of 8 million people;

2. Immediately release the overdue six to 10-year housing targets to ensure the community, industry and government (state and local) have accurate information about what housing is needed where;

3. Complement the E-Planning initiative (to be mandated from I January) by appointing a senior official to exercise the Secretary's powers under delegation to address delays created by state government agencies and embed a culture which acknowledges that decision making must be timely and consistent. Clearly communicate both the powers and the expectation they will be used;

4. Following the reclassification of the former priority precincts, create a joint state/local 'flying squad' to implement the new planned precincts model in a timely and collaborative manner and set clear deadlines for finalising the strategic plans in these 51 locations.

5. Subject to successful evaluation, extend the Western Sydney Planning Partnership concept to the Central City and Eastern City to promote collaboration across local government areas, create efficiencies and speed up development outcomes.

6. Increase the effect and coverage of complying development pathways as an alternative to development applications, including investigation of buildings up to six storeys in height.

7. Incentivise the delivery of a greater diversity of housing products suited to small families, couples, single person households and seniors, including the Build to Rent model;

Contributions

8. Extend the cap on local government contributions for another three years to enable a long-term reform plan to be developed to address the twin problems of uncertainty and cumulative impact that are undermining investment in NSW.

9. Halt the cumulative impact – all new costs must be justified and supported through modelling or a regulatory impact statement. Otherwise, must fit under existing regime - Public Art levies or cultural infrastructure levies must be triaged.

10. Resource IPART or INSW to oversee the efficient spending of State and local contributions and delivery of infrastructure by government, councils and developer works in kind with regular audits and oversight as to how the money is being spent. This could involve testing variations from the original scope and timelines, comparison of cost estimates with final costs, and effectiveness and efficiency of particular delivery mechanisms. Some areas that such an agency might focus on:

    - Prioritization and phasing;
    - Understand who delivers (what is the extent of WIK?)
    - Are works programs being delivered on time and on budget? If not, why not?
    - Barriers to efficient delivery

11. Councils should be required to publish all charges on their website, where they apply and what the money is going towards. This could be done on the Your council website or through E-planning (Queensland model).

12. Development Contribution Plans must be in place at time of rezoning to ensure there is a plan for required infrastructure and how to fund it. An approved infrastructure funding and delivery plan must be in place at time of rezoning, which includes contributions plans covering both state and local infrastructure. It must include the role of State revenue and local council SRVs and any other funding sources.

13. Create a Local Government Modernisation Fund – incentive payments for infrastructure (or relief from rate pegging) are provided for implementing more efficient systems - 'investments' that may require policy and regulatory reform as a condition of funding.

    - Faster approvals
    - Digitisation
    - Greening/public spaces
    - Transparency steps

14. IPART to review benchmark charges for Infrastructure, not updated since 2014. This must be done by engaging with the development industry who are skilled at efficiently delivering infrastructure.

Productive and flexible Land use

15. Support councils to encourage and plan for best practice mixed use outcomes and create productive precincts. This is critical to ensure a sufficient stock of land and premises to meet the future needs of different types of housing, light industrial, social infrastructure, freight and related uses in different parts of Sydney and contribute to strategic and local planning objectives.

The Property Council looks forward to working with the Productivity Commission on this pathway to economic reform. Should you have any questions in relation to this submission do not hesitate to contact [redacted]

Yours sincerely

[redacted]

Attachments:

1. *The Planning Upside (Urbis) 2019*
2. *Letter to Minister for Planning re: Planned Precinct dated X 2019.*