

INFRASTRUCTURE FINANCING

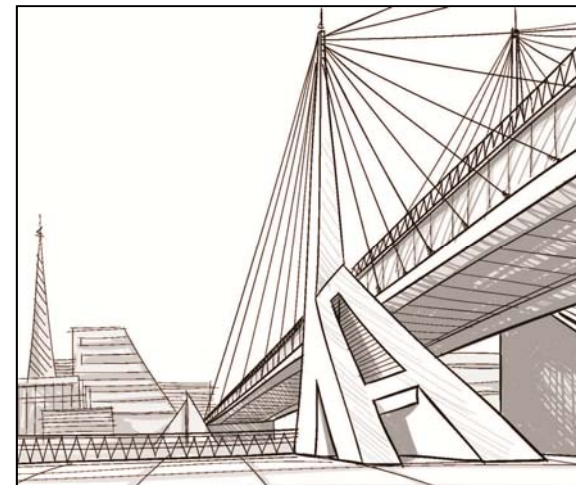
Who Pays Wins?

Stephen Albin

Chief Executive

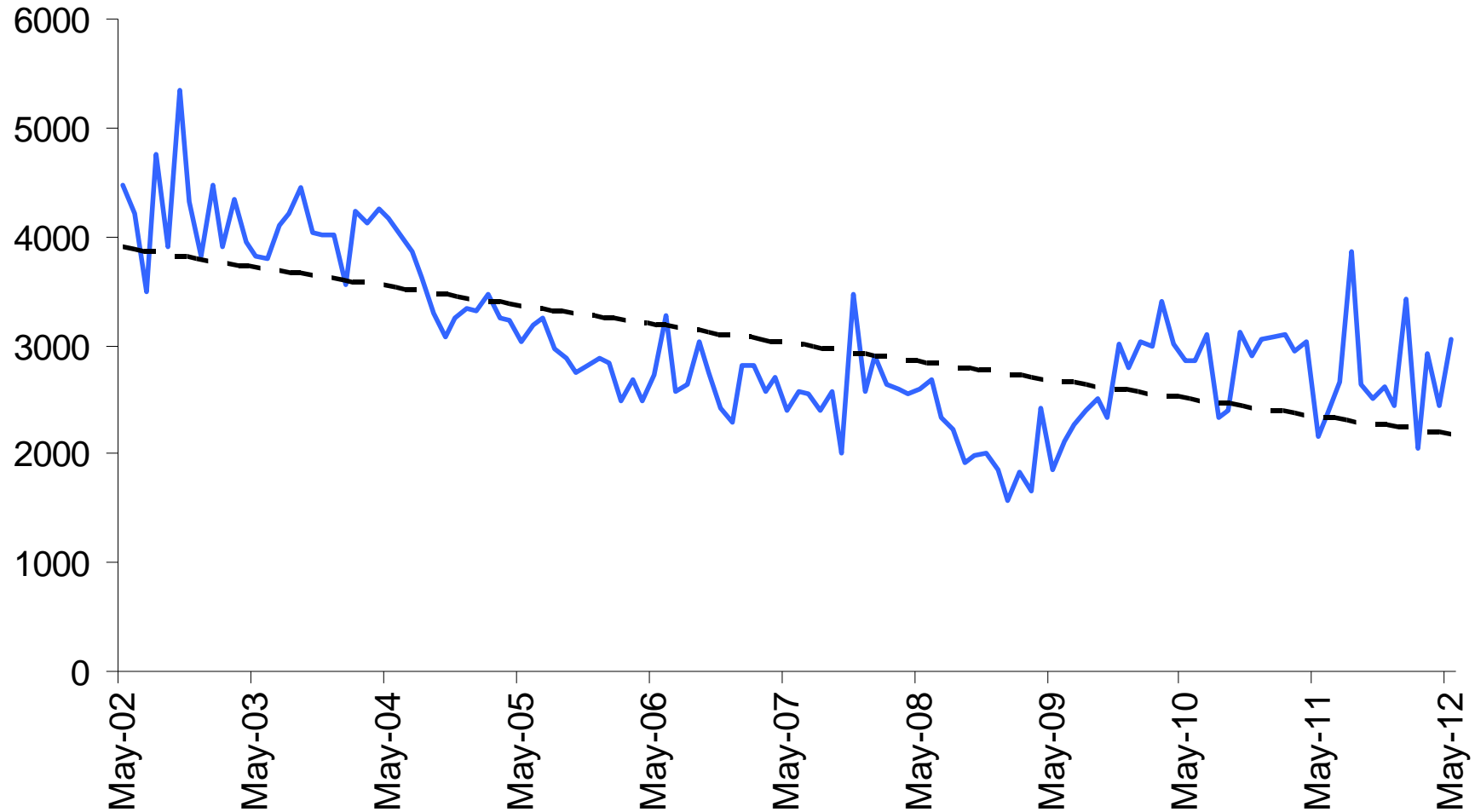
Urban Development Institute of
Australia NSW

Presentation to IPART 20th Anniversary Conference



We Are Not Producing Enough Homes to Meet Demand

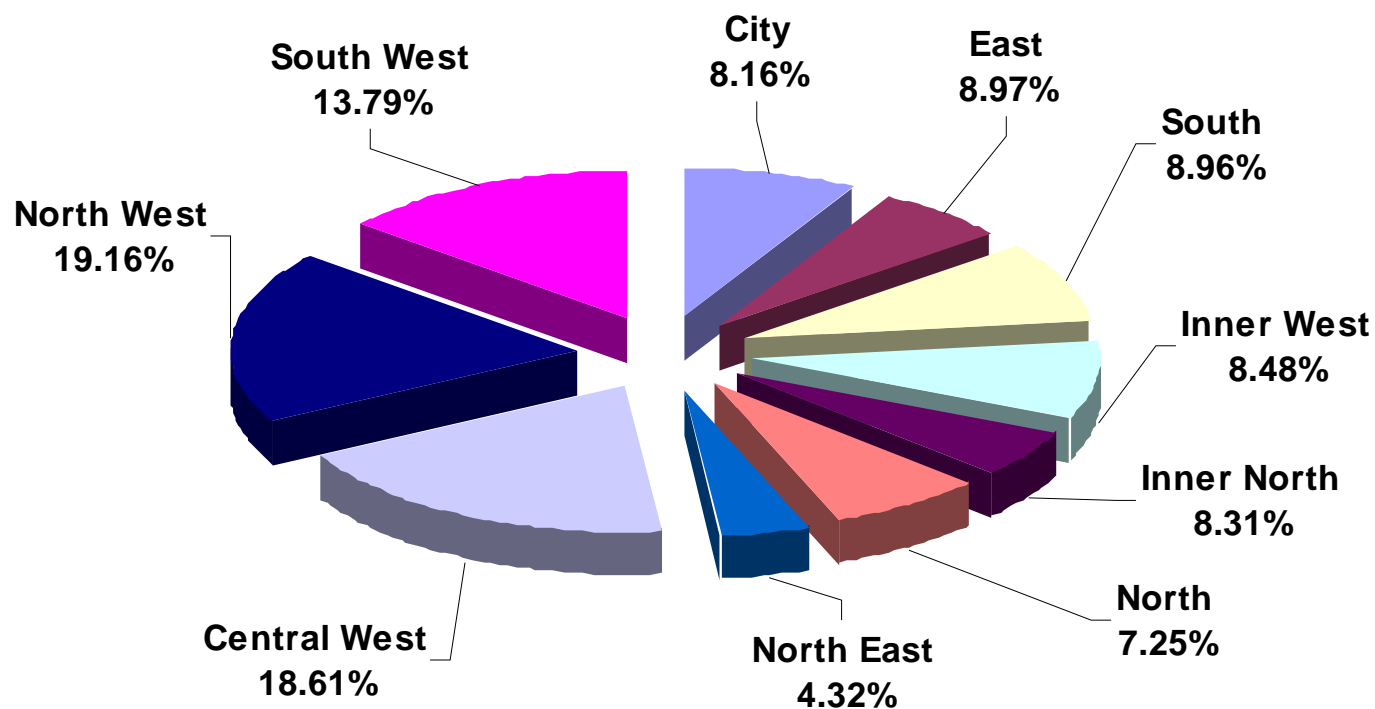
Building approvals have steadily fallen over the past decade



(Source: Australian Bureau of Statistics)

We Are Not Producing Houses in the Right Places

Sydney yielded **42,053** new homes in 2009-2011. It needed **75,000**.



(Source: UDIA NSW analysis of Metropolitan Development Program net dwelling completions)

Taxes and Charges are Distorting Market Performance

Greenfield

	Syd	Mel	Bris	Perth	Adel
Dev costs + int	9.2%	9.2%	8.7%	9%	9.3%
Construction	34%	51%	49%	57%	52%
Land	24%	12%	13%	13%	12%
Taxes and Charges	21%	17%	19%	16%	16%
Prof. Fees	2%	<1%	1%	2%	1%
Profit	10.4%	10.6%	9.3%	-0.1%	9.6%

(Source: Urbis for the NHSC 2009 National Dwelling Costs Study)

Taxes and Charges are Distorting Market Performance

Infill

	Syd	Mel	Bris	Perth	Adel
Dev costs + int	12.8%	9.6%	11.6%	11.2%	11%
Construction	15%	16%	14%	11%	10%
Land	51%	52%	55%	58%	62%
Taxes and Charges	17%	14%	16%	14%	15%
Prof. Fees	4%	3%	3%	3%	2%
Profit	-0.2%	5.3%	-4.7%	2.4%	-1.2%

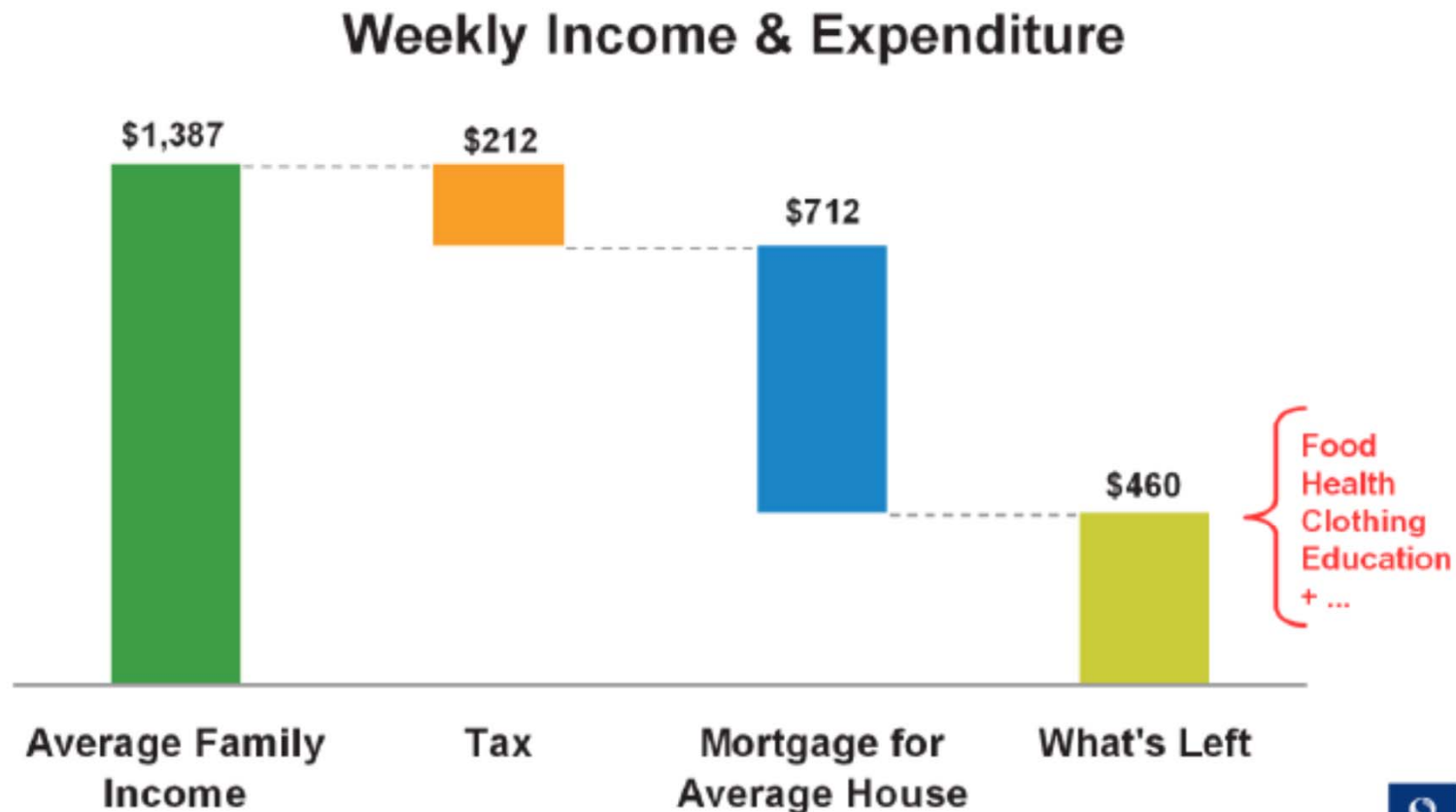
(Source: Urbis for the NHSC 2009 National Dwelling Costs Study)

Cannot Produce at an Affordable Price

Demand and Supply

Q: Can the average family afford the average house?

A: Not even close



Problems In Greenfield and Infill Developments



- Taxes and Levies – Section 94 and SIC
- Expansions of local plans to fund open space
- Gold plated infrastructure requirements
- Affordability is impacted by extra costs from taxes and levies being passed on to first initial home buyer
- Not commercially viable for developers to develop

(Source: UDIA NSW submission to the Planning System Review, 2012)

A Realignment of the Taxation Burden



- At present the incidence of taxation falls on the new homebuyer despite there being other beneficiaries of new infrastructure
- Needs to be a realignment of the existing system to a beneficiary pays basis
- Not as simple as it sounds!

Some Possible Solutions



1. **Broad-based levy – like that used by Sydney Water**
2. **Changing infrastructure specifications as outlined in Planning Green Paper**
3. **Tax Increment Financing**

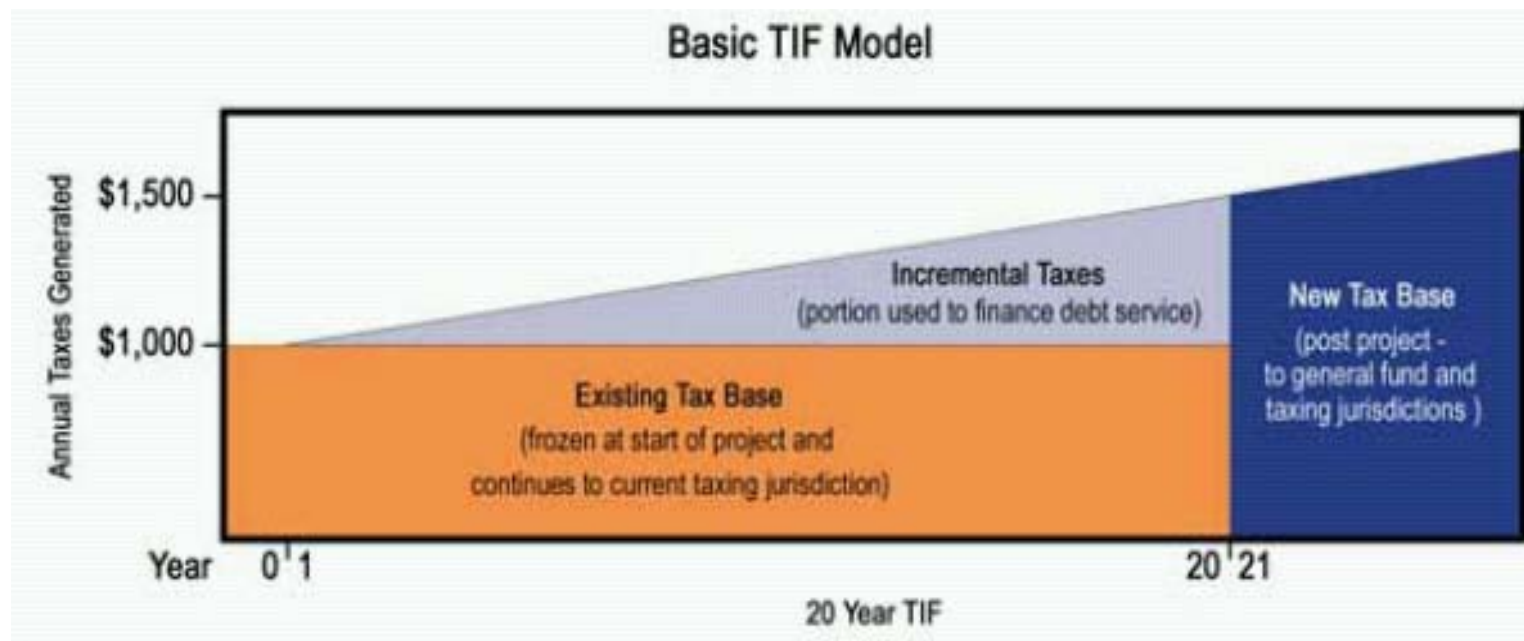
Solutions For Financing Local Infrastructure



- Low-level, broad-based charge to be applied to all NSW ratepayers
- Funds to be collected by local councils, with monies to be paid into a State Government administered fund
- Fund to be used to finance infrastructure costs in growth area LGAs and regions
- Removal of rate pegging
- Percentage payment based on Capital Investment Value (CIV) required from every planning application

An Alternative Funding For State Significant Infrastructure

Tax Increment Financing (TIF)



Conclusion

- The present local infrastructure financing system is distorting housing market performance
- Changes are required
- Models such as those employed by Sydney Water need to be seriously considered as an alternative

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