

ECONOMIC REVIEW OF **LAND AND HOUSING MARKETS** IN WESTERN AUSTRALIA

For Department of the Premier and Cabinet

Submitted by:

THE URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (WA)



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Executive Summary

The Urban Development Institute of Australia (WA Division) is the key representative body of the land development industry in Western Australia. This document states the views of the Institute members and UDIA's policy position in relation to the Terms of Reference for the *Economic Review of Land and Housing Markets in Western Australia*, being carried out by the Department for Premier and Cabinet.

UDIA has had serious concerns about the increasingly complex planning system in Western Australia for some years and it is our belief that the land supply crisis that culminated in severe shortages of residential land in mid-2006 was the manifestation of a planning system that has lost its way. It is our belief however that the centralised system, based on the Western Australian Planning Commission (WAPC), has the capacity to work if the structures supporting it are reworked.

Planning must regain the initiative in the provision of land and housing to the market. Planning should drive development policy, balancing urban growth, land release and urban renewals with the need for adequate infrastructure provision.

Strategic planning must become a priority for government. The complex competing issues of environmental preservation, water management, the provision of major infrastructure, the location of transport corridors and land uses must be resolved collectively ahead of the development industry moving into an area.

The land development industry in Western Australia operates in a complex and at times conflicting policy environment. The statements in this document reflect industry's concerns and it is UDIA's hope that the Economic Review will give developers' position due consideration and recognition in its reporting.

The key summary points follow.

Term of Reference 1

- The principles and recommendations for accountable, timely and integrated approvals outlined in the Keating Report should be applied to major urban land development projects.
- Duplication should be removed in all assessment procedures and timelines applied where they are currently absent, particularly for structure plans and environmental assessments and conditions.

- Develop a formal procedure for the referral of major development projects to DEC and the EPA at outline development plan/structure planning phase of the planning and development process. This would enable consideration and resolution of major/strategic issues early in the development process with detailed design issues considered at subdivision phase.
- Triple bottom line assessment must be standard practice and the tendency for environmental factors to have precedence over other considerations must be reassessed.
- DEC put a mechanism in place to enable the developer to Bond incomplete works, similar to the process that Water Corporation and some local authorities use.

Term of Reference 2

- Agency roles and responsibilities must be clarified and adhered to in the approvals process.
- Advice from clearing agencies must be clear, consistent and valid and provide the industry with certainty as to what it needs to do to obtain clearances.
- Strategic planning for future urban growth must move away from the silo approach that is the current paradigm and government must achieve improved interagency planning early in the planning process.
- Sites for strategic infrastructure must be identified and secured with all environmental clearances obtained to facilitate land release in growth corridors.
- Joint ventures between the private sector, DHW and the four Redevelopment Authorities should continue to facilitate the delivery of affordable and innovative product to the market.
- LandCorp should redefine its role with a focus on:
 - land release that ensures an adequate supply of affordable land for housing to meet demand in peak periods
 - land release that ensures an adequate supply of affordable land for housing to meet demand in peak periods
 - joint ventures with the private sector
 - a prohibition on purchasing en-globo land in the open market, other than in certain circumstances (for example, to facilitate development in regional areas where no private sector competition exists)

Term of Reference 3

- The Housing Industry Forecasting Group should be reinstated and provide demand side data forecasting to underpin industry's output for land and housing development.
- Improved reporting mechanisms are needed between Landgate and Department for Planning and Infrastructure in order that land and housing data is comprehensive, current and conclusive.
- There is an imperative for government departments to ensure the validity, currency and accuracy of their spatial data sets in order that potential of Landgate's Shared Land Information Platform (SLIP) can be realised.
- That all errors or omissions in WALIS be corrected to ensure WALIS is the depository of the most accurate and up to date spatial data for the state.

Term of Reference 4

- Strategic planning must be given priority with fit for purpose corridor plans and arterial drainage planning.
- A review right for developers should be introduced when a local Town Planning Scheme is out of date.
- The dual processing role of Local Government and State Government in structure planning and environmental processes should be discontinued.
- A single WAPC/EPA Assessment or a combined EPA/WAPC with a mandate for sustainability assessment (triple bottom line) should be introduced.
- For referral agencies where timelines are not met a "deemed to comply" approach should be introduced.
- Ensure a clear pathway for major developments by:
 - Strengthening WAPC Clause 32 call in to override Local Government approvals
 - Considering opportunities for new Regional Development Authorities or other structures which enable decisions to be made in the best interests of the broader community.
- An industry accreditation scheme which underpins a fast track approvals process should be introduced in cooperation with industry.
- The R-Codes should be reviewed.

Term of Reference 5

- Market penetration in Perth’s growth corridors must be preceded by sound strategic planning with all environmental issues resolved prior to the development industry developing land and housing for the market.
- The depth of the market in metropolitan and regional areas is impacted by infrastructure provision and the cost of that infrastructure. The government must recognise that the magnitude of the Headworks Distribution Charges imposed by Western Power in the SWIS catchment will have a strong negative impact on residential development in the SWIS catchment and effectively bring regional development to a standstill.
- The imperative of the development industry is to maintain a steady supply of serviced lots to the market to satisfy demand.
- The development industry recommends the immediate introduction of a Land Supply Concession to ensure smooth supply of land to the market throughout the year and that this be applied only to en-globo land held by the developer at 30 June.
- UDIA does not support the application of stamp duty to GST-inclusive instruments. It reduced affordability and is discriminatory in the tax acquisitions of new and existing properties.
- UDIA supports community infrastructure contributions where there is a demonstrated need for particular infrastructure and where a connection between the new development and the demand created for infrastructure can be demonstrated.

Term of Reference 6

- Materials and skills shortages have a major negative impact on the development industry. The shortage of sand affects the land and housing market and infrastructure such as roadworks. Sand shortage has been compounded by the WorkSafe requirement for a mine manager to be appointed all sand excavation sites.
- The minerals boom has attracted professionals and labour from the land development and housing industries to the mining industry creating skill shortages in the land and housing industries.
- The shortage of planners in Local and State government and the inexperience of many planning and environmental officers are key contributors to the lengthy delays experienced by industry in obtaining clearances.

Term of Reference 1

1. Assess the impact of relevant legislation, regulations, ordinances, guidelines and bylaws on the supply of new housing and land (eg its rate, quantity, cost), assessing whether the regulations are in the public interest when account is taken of the costs and benefits of regulations. This is to include:
 - the impact of legislative and regulatory instruments governing land-use planning, environmental approvals, urban development, (including infrastructure and dwelling construction) in WA;
 - land-use zoning regulations and development standards and their application;
 - the presence and impact of enforceable statutory time frames for land use planning and development, and whether this impacts on investor risk or costs;
 - the cost to business of maintaining regulatory and other licensing conditions for land development and construction of residential dwellings.

UDIA response to:

- the impact of legislative and regulatory instruments governing land-use planning, environmental approvals, urban development, (including infrastructure and dwelling construction) in WA;
- land-use zoning regulations and development standards and their application;

Key words: complexity, delays, escalating costs, multiple clearance agencies

The Western Australian planning system has become increasingly complex in recent times. Prior to the 1990's planning and environmental processes were separate, but the bringing together of the two systems as a response to uncertainty over whether zoned land could be subdivided and/or developed has resulted in a complex and unworkable system. Figure 1 illustrates the relative simplicity of the planning and environmental approvals processes prior to intervention by the Court Government in the early 1990's.

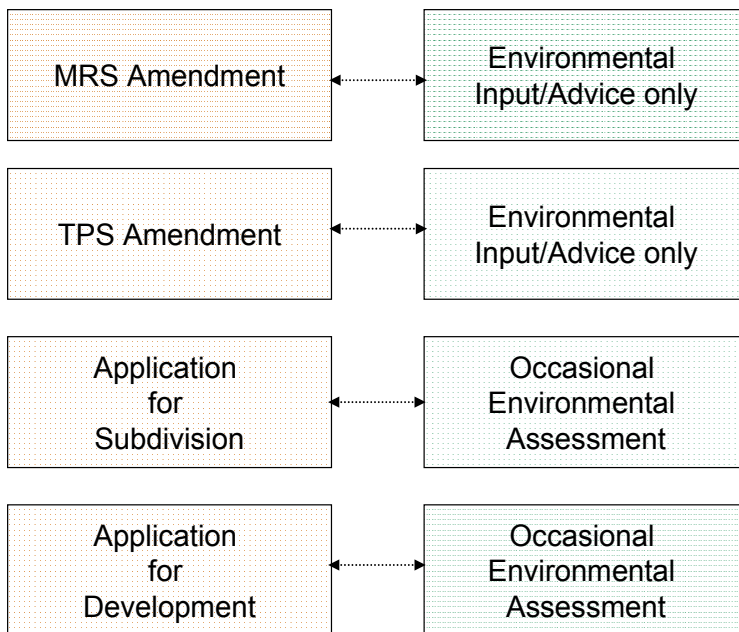


Figure 1: Planning and environmental approvals process in the early 1990's

Figures 2 and 3 illustrate the complexity of planning and environmental approvals processes today. The system has become unworkable and gravely impacts on the capacity of developers to provide a steady supply of land to the market and at affordable rates.

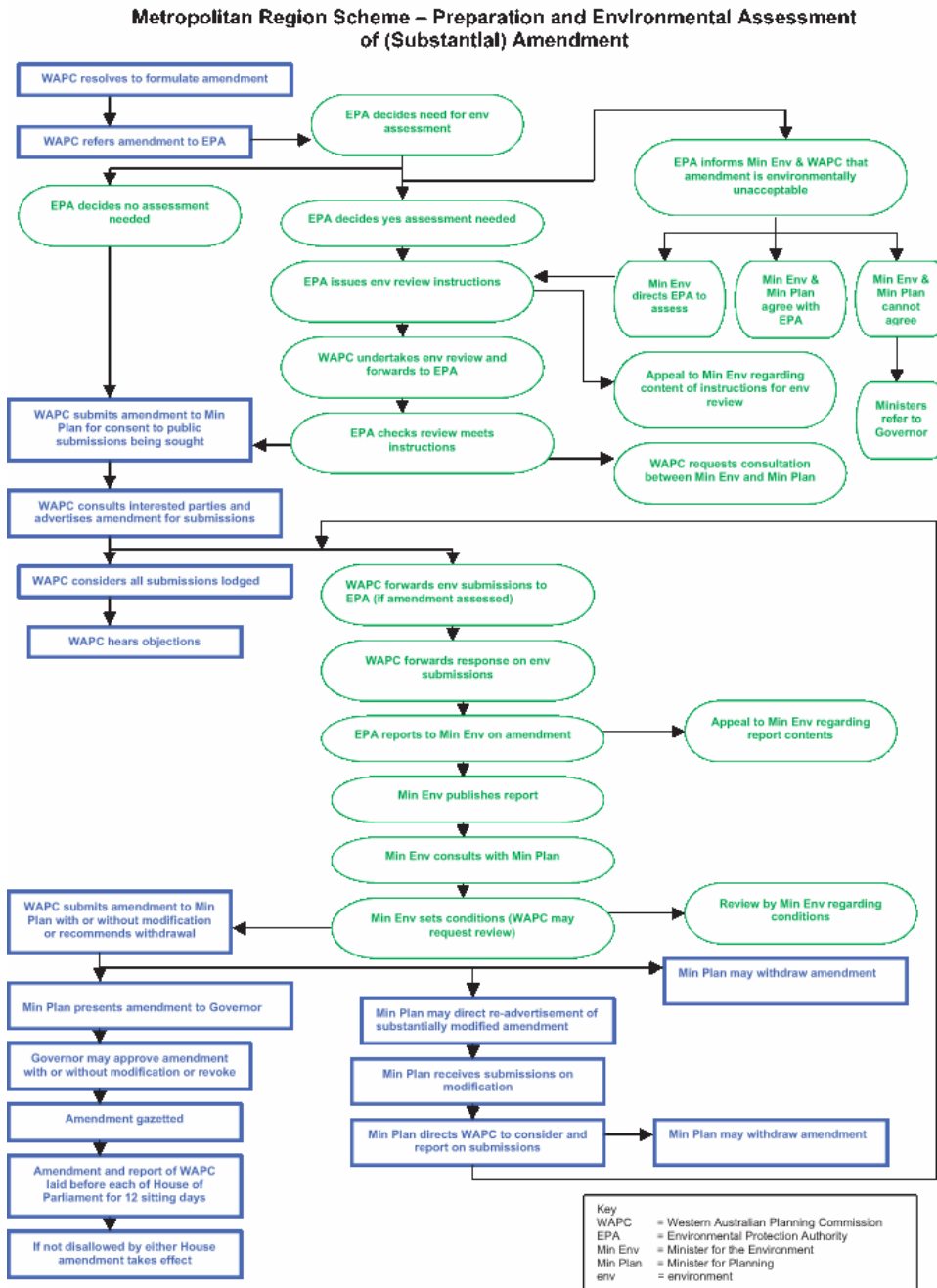


Figure 2: Process for amendment of the Metropolitan Region Scheme

Local Town Planning Schemes – Preparation and Amendment – and Environmental Assessment

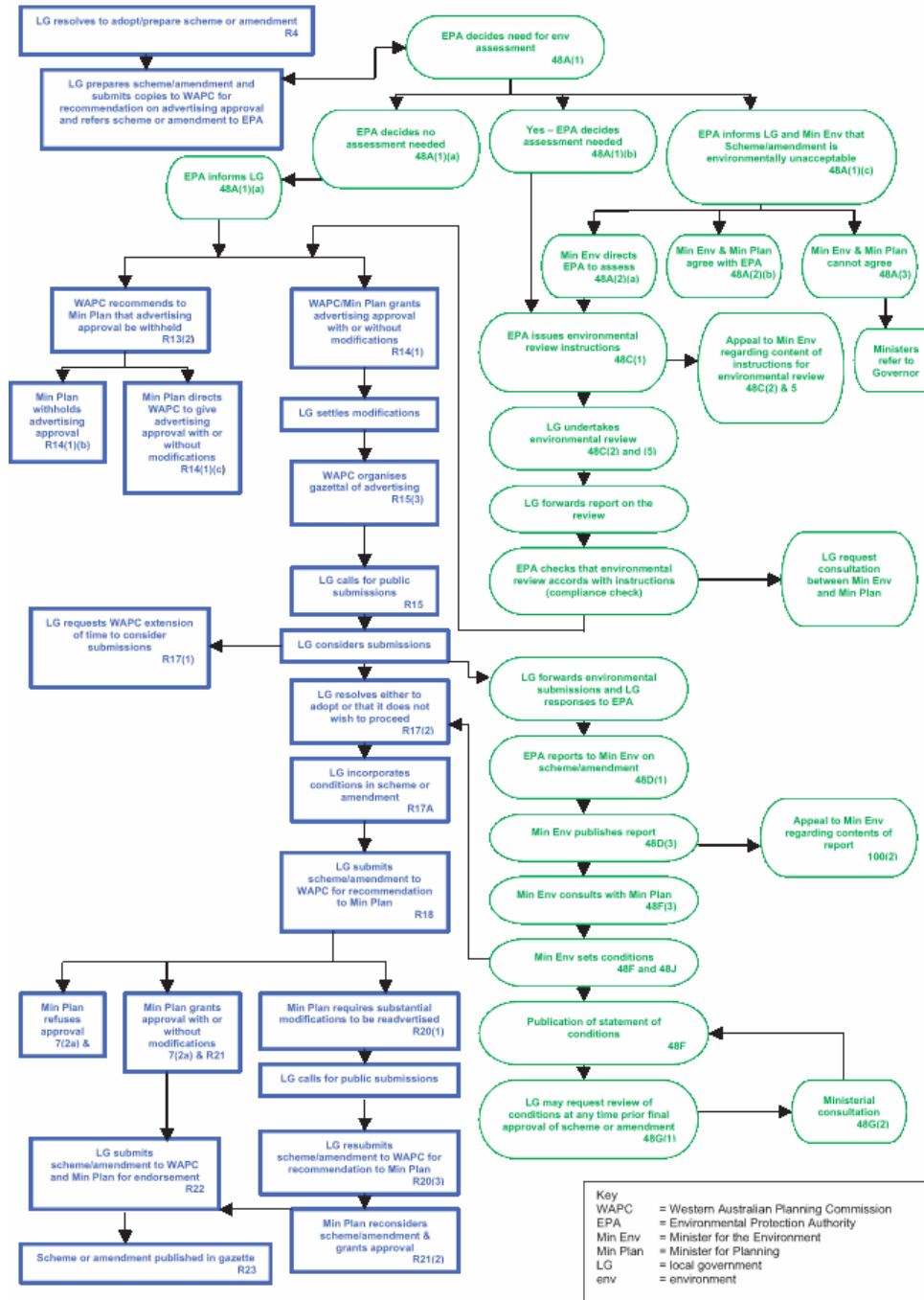
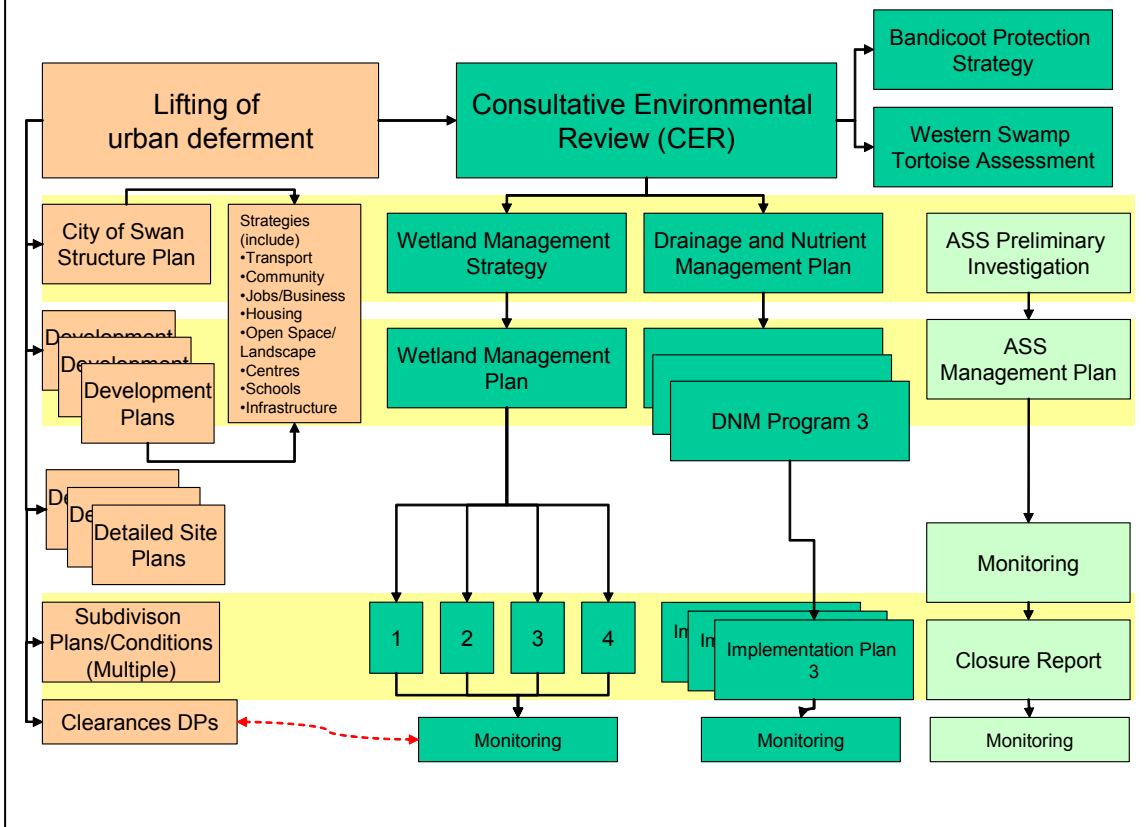


Figure 3: Preparation and amendment of Town Planning Schemes

Case Study – Vale Planning and Environmental Approvals

The complexity of obtaining approvals for the Vale development in the City of Swan is illustrated below. The diagram highlights the multiple development plans, site plans and management plans that require approvals from multiple agencies. The responsible agencies are often confused about their own jurisdiction which compounds the time taken to gain approvals.



The complexity of the current regulatory environment is patently not in the public interest, particularly in a context of high and sustained population growth. The financial impact on households of an increasingly complex regulatory environment has resulted in escalating land prices as land release is delayed by infrastructure provision and environmental approvals. This is confirmed by the findings of the Land Release Coordinator (Final Report, July 2007) who determined that while there was an adequate pipeline of 40,000 conditionally approved lots in Perth and Peel (at the time of her research), the time required to convert broad-acre land to serviced residential lots and then to completed housing is too lengthy and resulted in a land supply crisis which peaked in 2006.

There is a strong correlation between the recent land supply crisis and the increasing complexity of the land development approvals process which results in lengthy delays in obtaining approvals. This is clearly illustrated in Figure 4 which shows the inverse relationship between land availability and cost to the market. While there was a surplus of stock to meet demand in the 1990's prices remained steady and increased only slowly each year. Once surplus stock disappeared around 2002-03, prices started to increase dramatically.



Source: Urban Development Index June 2007 (UDIA (WA))

Figure 4: Relationship between price of lots sold and lots available to the market

UDIA members advise that the more significant land release delays occur in the steps prior to clearance particularly in achieving rezoning, structure plan and subdivision approvals within reasonable timeframes. Time periods of five years from application for rezoning to final approval of subdivisions have been reported.

There is a need for more strategic planning where issues that are the subject of conditions of subdivision should have been considered and resolved prior to the subdivision stage of the process. This particularly refers to major issues or 'show stoppers' such as contamination, wetland and water source protection and rare and endangered flora and fauna.

When assessing a potential new development project for acquisition, the vast majority of developers undertakes a Discounted Cash Flow (DCF) analysis and measure the project's likely returns using Internal Rate of Return (IRR) and / or Net Present Value (NPV). The DCF methodology and the IRR & NPV measures of return are both widely used in general financial practice, and are by no means exclusive to property development.

IRR and NPV are both time-based measures of return – for a given fixed dollar return, both measures will be higher if the project is completed sooner, or lower if the project experiences delays.

When assessing development projects for purchase, developers undertake this DCF / IRR / NPV analysis and, using their overall cost of capital (including their desired profit margin) as an input, arrive at a derived value of the opportunity to them. Typically, potential projects are offered for sale to the open market and the developer prepared to pay the highest price is generally the successful purchaser. It follows that the developer prepared to pay the highest price is generally also the developer prepared to accept the lowest return.

Target returns for typical large-scale development projects generally depend on perceived risk and estimated timeframe through the approvals process to first income, however they generally range from 16% p.a. (low perceived risk / relatively quick estimated approvals timeframe) up to 25% p.a. or more (for projects with high perceived risk and/or long estimated approvals timeframes).

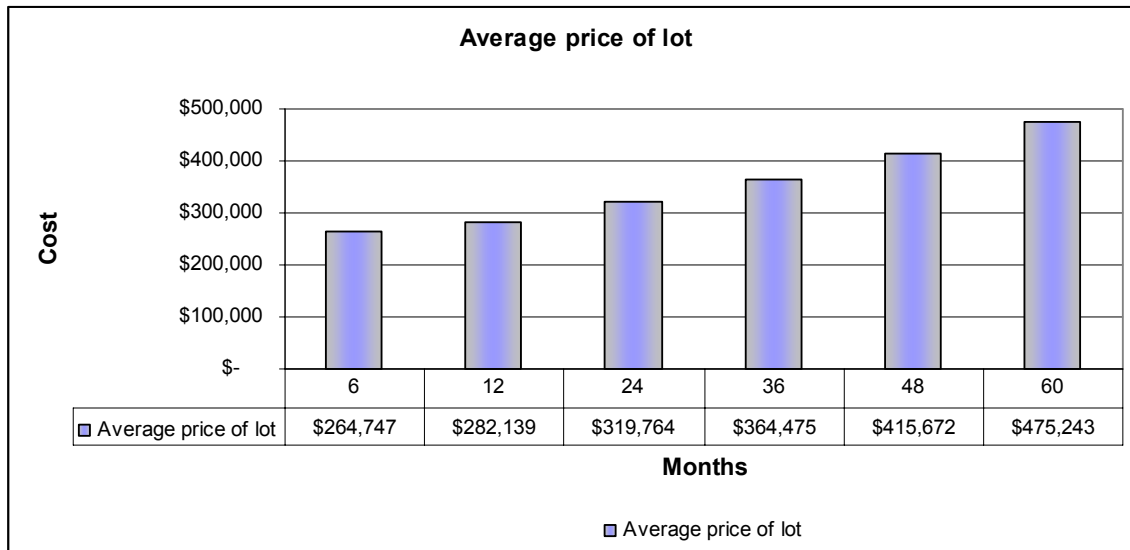
The developer's feasibility analysis on purchase will necessarily contain assumptions about (among many other things) the length of approval timeframes and estimated lot selling prices. If the project experiences delays beyond those projected in the purchase feasibility, then in order to still achieve its target rate of return it follows that the developer must increase selling prices.

In order to measure how time delays impact on end lot prices for the consumer, UDIA has undertaken quantitative financial modeling of the above scenario on a hypothetical large scale development project (albeit based on a real-life example).

The financial modeling includes a basic assumption by the developer that the project will require a 12 month period to achieve all required approvals and commence construction. Sensitivity analysis was then undertaken in which, holding all other assumptions constant, additional delays in the up-front planning process were assumed of 6 months, 1, 2, 3, 4 and 5 years. End lot prices in each scenario were then increased as required to restore the IRR / NPV back to the initial target rate (i.e. to provide the same time-based return to the developer). These figures show a delay of:

- 1 year would mean an increase of **13.3%** on the price of a lot;
- 4 year would mean an increase of **68.4%** on the price of a lot.

Complete details and workings have been provided separately to Treasury as part of their contribution to this review. The results of the modeling work are illustrated graphically below.



Source: UDIA 2007

Figure 5: Changes in the average price of a lot over time

Delays routinely occur throughout the approvals process are largely attributable to:

- The need to obtain approvals from multiple agencies;
- The need to obtain approvals from non-planning agencies where approvals assume low priority which results in long timeframes;
- Inefficiencies in internal processes of some agencies, particularly DEC;
- Lack of resources (staff);
- Lack of experienced staff.

UDIA members report that it is not uncommon for developments to have 25 – 30 conditions placed on them by both state and Local Government agencies. Following are examples of conditions of subdivision with the relevant agency that set the condition identified in brackets. The significant feature of these examples is that they are all strategic issues that should have been resolved in the structure planning stage of a development which occurs much earlier in the planning process than subdivision.

Examples of conditions set on application and reported by developers include:

- The preparation and implementation of a storm water drainage management plan prior to the commencement of site works to the satisfaction of the Western Australian Planning Commission (DOE (now DEC), LG);
- Preparation and implementation of a Wetland Management Plan to the satisfaction of the Western Australian Planning Commission (LG, DOE (now DEC));

- Certification by the Water Corporation/Bush Fire Services that subdivision reticulation plans meet specifications and that hydrant fire fighting services will be installed to the satisfaction of the Western Australian Planning Commission (Water Corporation/Bush Fire Services);
- A visual vegetative buffer being provided along the boundary of the subject land to the satisfaction of the Western Australian Planning Commission (LG);
- Canal walls being designed and constructed to the satisfaction of the Western Australian Planning Commission (Department for Planning and Infrastructure – Coastal Asset Management) (LG);
- Arrangements being made to the satisfaction of the Western Australian Planning Commission for the management and maintenance of canals, including the nomination of a waterways manager and maintenance of the canal entrance (Department for Planning and Infrastructure).

Recommendations

UDIA the following recommendations in response to the impact of regulations on supply of land and the application of development standards:

- The broad principles and recommendations for accountable, timely and integrated approvals outlined in the Keating Report which have been applied to the mining and resources sector should be applied to major urban land development projects so that major land development approvals are prioritised, assessment and policy responses coordinated across government and timelines monitored. Communication with the proponent and a solutions based approach to problems should underlie the assessment process for these projects;
- Duplication should be removed in all assessment procedures and timelines applied where they are currently absent, particularly for structure plans and environmental assessments and conditions;
- Develop a formal procedure for the referral of major development projects to DEC and the EPA at outline development plan/structure planning phase of the planning and development process. This would enable consideration and resolution of major/strategic issues early in the development process with detailed design issues considered at subdivision phase;
- The Western Australian Planning Commission must play a more visible and accountable role in supporting a whole of government, timely and integrated approvals process for urban land development. In particular, the Commission needs to be more rigorous in vetting the appropriateness, practicality and cost benefit of conditions recommended by state referral such as the Department of Environment and Conservation and Local Government.

- That triple bottom line assessment be standard practice and all contributing factors are given equal consideration and weighting. The tendency for environmental factors to have precedence over other considerations should be reassessed.

UDIA response to:

- the presence and impact of enforceable statutory time frames for land use planning and development, and whether this impacts on investor risk or costs;

The lack of statutory timeframe for the structure planning stage of development results in there being no appeals mechanism to refer to. The timeframes for approvals for structure planning are subject to lengthy delays and do not appear to be a priority for government.

Application to the WAPC for subdivision approval is initiated by the landowner/developer. The *Planning and Development Act* requires subdivision applications to be determined within 90 days, and the WAPC measures performance against this 90 day timeframe. DPI performance statistics for 2006/07 to date indicate they achieve under the statutory timeframe for determination of preliminary subdivision, strata and development applications 60% - 70% of the time. The determination rate needs to be improved given the sustained demand for land that is anticipated for the next decade or so.

All applications are referred to the Local Government, Western Power and Water Corporation. Other possible referral agencies include the Department of Environment and Conservation, Department of Water, Main Roads WA, Swan River Trust, Fire and Emergency Services, Department of Health, Department of Agriculture and Department of Education.

The decision as to which of the other possible referral agencies an application is referred to is determined primarily by an established set of business rules. Referral agencies have 42 days to respond. If conditional approval is recommended, conditions are normally derived from a set of conditions developed and adopted by the WAPC; however, nongeneric conditions may be imposed. The *Planning and Development Act* now provides that if referral advice is not received within 42 days, there is deemed to be no objection to approval and no requirement for conditions from that agency. UDIA fully supports this position.

The report of the Land Release Coordinator identified a number of government agencies where processes and lack of interagency coordination was causing delays in land supply. The principal problem is the lack of certainty and consistency in the approvals process in requirements developers have to meet and the lack of assessment timeframes at critical points of the process, especially in obtaining clearance from DEC.

Since the release of the Land Release Coordinator's report, DEC has been charged with approving urban zoned land faster however, UDIA considers the total of 50 days (see *Case Study 2* over) DEC requires to grant condition clearance is still too long and will do little to reduce the pressure on

land supply. A further anomaly reported by developers is the clearance approvals timeframe of 45 days recommences if clarification any item of the application is required. In addition, DEC makes no commitment to deem an application approved if they do not meet the 45 days timeframe.

It is proposed that DEC put a mechanism in place to enable the developer to Bond incomplete works, similar to the process that Water Corporation and some local authorities use. This will enable more timely clearances in situations highlighted in Case Study 2.

Recommendations

UDIA makes the following recommendations in relation to the use of statutory timeframes:

- More rigorous business procedures should be adopted by the Department of Environment and Conservation in their assessment of land development proposals, maintaining comprehensive records of all periods taken for assessment and sign off of proposals, accountability enforced to meet agreed timelines, policy responses consistently applied and duplication of assessment removed;
- Timelines and consistent procedures should be put in place for the assessment of structure plans by government agencies and Local Government and assurance that policy responses from each are consistent for subsequent and more detailed proposals for the same development project or area;
- UDIA supports the position of the Land Release Coordinator who recommends reducing the clearance process to six months maximum which could be achieved by government agencies giving priority to approvals/clearances for developments of over 30 lots.

Other recommendations of the Land Release Coordinator supported by UDIA include:

- Timelines should be introduced to the clearance process for Local Government and other referral agencies. Procedures are required to accelerate clearances if timelines are not being met;
- Programs should be established by land developers in liaison with the Western Australian Planning Commission and relevant agencies, particularly the Department of Environment and Conservation, for major land release areas, and timeframes introduced to ensure that the necessary approvals and subdivision works are complied with in time to meet lot supply targets;
- The Department for Planning and Infrastructure should continue to improve and reform its statutory approval processes and planning practices, particularly introducing joint rather than sequential assessment of subdivision and structure planning proposals with Local Government and Memoranda of Understanding with other government agencies, with the objective of expediting land supply;
- Water Corporation, the Department of Water and the Department of Environment and Conservation should clarify responsibilities within and between their agencies

in relation to drainage planning and water management, and issue a joint bulletin clarifying responsibilities;

- The Department of Environment and Conservation and the Department of Water in consultation with Water Corporation should prepare and publish operational guidelines/business rules providing clear, consistent and valid advice as to the requirements necessary to meet subdivision conditions;
- The Department for Planning and Infrastructure and the Western Australian Planning Commission should provide regular training to state and Local Government staff on the policies, procedures and practices related to subdivision condition setting and clearance processes.

Case Study 2 - The Tuarts, Capel

This case study illustrates inefficient process in DEC that leads to time delays and results in cost blowouts.

The surveyor of this project has been advised by DEC that she cannot submit a clearance request until all planting works are complete. Often, planting of revegetation cannot occur until all civil works are complete as civil works damage the revegetation work. If this occurs, the revegetation needs to be redone, at additional cost.

Once the revegetation is planted DEC has 45 days to consider a clearance application. If the clearance is passed, DEC takes another five days to issue the clearance letter and other documentation.

If the clearance application deposited by the developer is lacking an item of detail, the 45 days for consideration starts again. Subdivision clearance may take 50 days, 100 days or multiples thereof which has a major negative impact on a developer's ability to deliver market-ready land efficiently and economically.



Response to:

- the cost to business of maintaining regulatory and other licensing conditions for land development and construction of residential dwellings.

The activities of members of UDIA are not generally subject to licensing conditions in the same manner as the building industry, however the need for ongoing monitoring plans (for example, acid sulfate soils, flora or fauna monitoring plans) or maintenance plans imposed by Local Government have significant implications for the industry. Specialist consultants are required at various stages during the process to provide the necessary documentation with professional fees being a major factor in project feasibility.

Term of Reference 2

2. Consider the role, interaction and planning of the agencies of the WA government and Local Governments in the supply and development of land and construction of houses (both owner occupied and for rent) in WA. This is to include consideration of the role of Public Private Partnerships (Such as Joint Ventures) in the provision of public rental housing and residential land for sale.

Key words: duplication, inconsistent advice, planning in silos, joint ventures, DHW, Redevelopment Authorities, LandCorp

Interaction of government agencies

The increasingly complex planning and approvals system is frequently complicated where duplication of conditions for subdivision approval is set by both State and Local Government. For example environmental assessments may be required by DEC and Local Government. Indications are duplication of requirements is about to worsen as identified in the EPA's *Draft Guidance Assessment No. 19: Guidance for Environmental Offsets*, which advises that agencies other than EPA may also apply their own offsets using a different set of criteria and that it is up to the proponent to find out what these criteria are. It is our view that there should only be one set of rules for the application of (voluntary) environmental offsets in Western Australia and the EPA should be the guiding agency in this regard.

The current proposal from the Department of Health for Health Impact Assessment (HIA) to be a requirement of subdivision is an example of a non-planning agency without statutory timelines seeking to add another layer of policy in an area that UDIA considers is adequately addressed by existing planning regulation, guidelines and policies including Liveable Neighbourhoods, the Residential Design Codes, Environmental Impact Assessment, as well as numerous Local Government policies. There are very real concerns that the imposition of HIA could cause further delays within an already complex planning and environmental approvals process for urban development.

The development industry reports uncertainty and inconsistency in advice between government agencies with DEC identified as the most problematic agency to deal with. Particular issues arise from drainage planning and water management issues and the overlap in responsibilities between DEC and DOW. Across the industry, DOW is considered the slowest agency to deal with and approvals are routinely the last to be received. There is clearly a need for DEC and DOW to work more closely together issuing clearances in order to expedite the approvals timeframe and for officers, particularly within DEC, to have a better understanding of the planning process.

Infrastructure

Another key contributor to inefficiencies and delays in the delivery land to the market is the ongoing lack of coordination between government agencies in planning for future provision of serviced residential lots. The orderly supply of urban land relies on an integrated approach to infrastructure and land use planning to achieve the best possible outcomes for urban development. Unfortunately the silo approach to planning, where key agencies do not engage with each other to plan future urban growth, is prevalent. Some of the results of silo planning are:

- Water Corporation not receiving approval from DEC for the development of a planned wastewater treatment plant at East Rockingham which is jeopardising the release of 3000 lots in one of Perth's designated major growth corridors;
- Lack of integration between urban planning (DPI) and water planning (DOW) in the NE corridor. This is a major designated growth corridor in the Perth Metropolitan Area which cannot be developed without water plans in place and where no water planning has been done;
- The lack of an infrastructure strategy for the South West region, one of the highest growth regions in the State;
- Developers providing primary schools or financing the bussing of children to the nearest schools because of a lack of planning for school facilities on the part of the Education Department;
- Lack of consistency between Local Government jurisdictions where the same feature of development is approved in one local authority but not another. For example, constructed lakes are allowed in some LGAs but not others;
- Officer culture in some Local Government authorities and within DEC is often anti-development, where there is no consideration of their role as facilitating development and at the same time ensuring protection of the environment;
- Within DEC and Local Government authorities, decision making can be based on personal opinion or ideology rather than on policy;
- Approval required from non-planning agencies such as the Department of Health who do not adhere to timeframes.

Interaction of agencies is critical to the strategic planning of sites for essential infrastructure which must be identified and environmental assessments of these sites prepared well in advance of rezoning applications. In this way, the sites are secured and support the strategic urban planning process by being fully integrated with the provision of other essential infrastructure that underpins sustainable urban development. Successful outcomes rely on ongoing interagency coordination and communication.

Demonstrated need for a State Infrastructure Strategy

While the intention of the *Metropolitan Development Program* (WAPC) is to provide a whole-of-government coordination of urban infrastructure in Perth and the Peel Region, UDIA members report a disturbing lack of coordination between essential service providers that has resulted in inefficiencies and delays in getting lots onto the market. An effective State Infrastructure Strategy would ensure that this situation would not happen in the future and that a coordinated, synchronised approach between infrastructure and service providers, supported by adequate funding, would allow providers to meet market demand in a timely manner particularly in periods of high demand.

The need for a State Infrastructure Strategy could not be more apparent than it is in the current climate of strong economic growth with a concomitant demand for land and housing. In the South West Region, there is an immediate need for an Infrastructure Strategy that allows the region to fully respond to an increasing demand from industry and the community for services and housing. Bunbury, Busselton and Mandurah are in the top 20 growth areas nationally yet growth is occurring without an overarching strategy to guide development.

The South West will continue to be under immense pressure to accommodate growth in the next 10 to 20 years and there is an obvious need for an Infrastructure Strategy that allows for orderly and proper planning so that the right outcomes are achieved for the region. Some of the projects planned for the SW that are fuelling, and will continue to fuel growth, include:

- Boddington Gold Mine, \$2 billion expenditure;
- Worsley Refinery Expansion, \$257M expenditure;
- Collie – Bluewaters Coal Fired Power Station, \$400M expenditure;
- Worsley Alumina Bunbury Port Facilities, \$50M expenditure;
- Wagerup/Willowdale Alumina Refinery Expansion, \$1.5 billion expenditure;
- Worsley/Boddington Alumina Refinery Expansion, \$900M expenditure.

The magnitude of these projects demands a strategic approach to infrastructure provision to underpin their economic potential and to provide adequate housing, educational, health and community services to support the regional workforce.

The role of joint ventures

The development industry generally supports the use of joint venture partnerships with government agencies. Our members have produced award winning developments in conjunction with Department of Housing and Works, most recently with Urban Pacific Limited in the 2007 UDIA Awards for Excellence for developments of 250 lots or more and the masterplanning award that went to Satterley's Brighton Estate. Other award winning joint venture projects are the New North

Urban Renewal Award in 2006, a joint venture between DHW and Satterley Property Group and Somerly Estate which won the award for Affordable Housing in 2006.

Joint venture partnerships with the private sector are useful to government as they offer marketing and land development expertise that extends beyond government's own. Partnerships with the major development companies also offer economies of scale which are crucial to the delivery of affordable housing to the market.

Public private partnerships also promote the development of new, innovative funding structures and initiatives to increase the supply of both affordable housing and public housing in Western Australia. The DHW joint venture model routinely provides a ratio of 1 in 12 homes for public rental housing in each project, with the vision of integrating public housing with private ownership. Public private partnerships allow for better integration of planning for public and private housing resulting in an integrated community.

UDIA members are also supportive of the development model Redevelopment Authorities have successfully implemented, particularly their approach to achieving integrated planning outcomes, and the facilitation of land development. The Redevelopment Authorities take an innovative and strategic approach to development that is frequently lacking at the Local Government level. Redevelopment Authorities achieve faster approval timeframes and applications do not require consideration by elected members which makes innovation easier to achieve and built form outcomes to be more cutting edge.

However, LandCorp appears to have become a boutique developer rather than a government agency that develops affordable product to service first home buyers and lower income families. The industry's position is that LandCorp has a larger role to play in relieving pressure on the housing market by also focusing on affordable land release.

LandCorp's role as a developer of surplus government land holdings is also supported where this results in joint ventures with the private sector. However, the industry strongly objects to LandCorp competing in the open market to purchase broadacre land for development, thereby driving up the cost of the basic input (that is, en-globo land) for the entire industry.

Recommendations

- That agency roles and responsibilities be clarified and adhered to in the approvals process;
- That advice from clearing agencies be clear, consistent and valid and provide the industry with certainty as to what it needs to do to obtain clearances;
- That strategic planning for future urban growth move away from the silo approach that is the current paradigm and improved interagency planning be carried out early in the planning process;

- That a State Infrastructure Strategy be finalised to provide a strategic approach to metropolitan and regional development based on cross-agency planning and coordination;
- That sites for strategic infrastructure be identified and secured with all environmental clearances obtained prior to rezoning applications being undertaken;
- That joint ventures between the private sector and DHW and the four Redevelopment Authorities continue to facilitate the delivery of affordable and innovative product to the market and continue to achieve sustainable planning outcomes;
- That LandCorp redefines its role in the provision of land and housing to the market with a focus on:
 - land release that ensures an adequate supply of affordable land for housing to meet demand in peak periods
 - Joint ventures with the private sector
 - A prohibition on purchasing en-globo land in the open market, other than in certain circumstances (for example, to facilitate development in regional areas where no private sector competition exists)

Term of Reference 3

3. Examine the adequacy of data management within the Government sector.

Key words: HIFG, need for reliable data, discrepancies, inconsistent data, SLIP

Until mid 2006, forecasts of the residential housing sector were published by the Western Australian Housing Industry Forecasting Group (HIFG), under the auspices of the Department of Housing and Works. The HIFG was disbanded at this time and to date has not been reinstated. The HIFG examined the demography of the state, the existing housing stock and forecast future needs for two financial years based on existing trends. UDIA strongly supports the reinstatement of the HIFG.

There is a lack of current, consistent data that allows valid conclusions to be drawn about the future demand for land and housing in Western Australia. It is our view that government should address its underperformance in data provision. Industry requires reliable forecasts of building activity based on demand side statistics such as population and household growth, household occupancy figures, economic growth and employment. This is not currently the case as forecasts of the HIFG were based on supply side data from the Australian Bureau of Statistics (ABS) of annualised building approvals, commencements and completions measured against industry capacity. Demand side forecasting underpins industry's ability to provide land and housing to the market to meet demand. Without reliable demand side data, it is impossible for industry to gauge whether it is meeting, exceeding or falling short of market demand.

A recent exercise carried out by UDIA to assess future demand for housing in Perth and Peel revealed not only a lack of relevant data, it also highlighted significant discrepancies between DPI targets for residential lots on the market and Landgate data on titles issued for new subdivision lots and strata lots. The scale of the variations in recorded data indicates a glaring need for improved data management between key government agencies. The inconsistencies in data are illustrated below:

- In August 2006, Cabinet set a target of 20,000 finally approved lots for Perth and Peel for 2006/07. Water Corporation's clearance applications indicate that around **17,000** lots are likely to achieve final approval in 2006/07.
- Landgate data show a total lot creation of **35,639** lots from July 06 – June 07, consisting of:
 - 25,563 new titled subdivision lots

– 10,076 new strata title lots

While Landgate data apply to the whole of the State, there is clearly significant under-reporting of subdivision lots to WAPC which has serious implications for assessing whether the land and housing market is meeting demand or not. The discrepancy of the strata title lots relates to the fact that applications of less than 5 lots are made to Local Government, and hence are not reported by WAPC and sit outside the 20,000 lot target.

These findings clearly demonstrate the need for a change in reporting of titled lot production if the government is to reliably understand the status of lot production in relation to demand. This is particularly relevant to Network City where the majority of residential growth over the next 25 years is planned to occur within existing urban areas, a large proportion of which will likely be strata or small lot developments. Without reliable targets for land and housing production industry will not be able to respond adequately to market demand.

Metropolitan Development Program

The Metropolitan Development Program 2005/06 to 2009/10 (WAPC, January 2006), reports WAPC intends to prepare household and dwelling forecasts after the 2006 Census, however it is UDIA's understanding that no budget has been set aside for this task and the DPI demographer is hamstrung by lack of financial capacity to undertake research. This clearly suggests that there will continue to be a lack of reliable data from the government for the foreseeable future.

Shared Land Information Platform (SLIP)

SLIP, operated by Landgate, provides a framework to allow access to the most up to date and relevant land information data for Western Australia between government agencies. SLIP is charged with delivering three key outcomes:

- To simplify access to land information;
- To improve efficiency in accessing and using land information;
- To realise the goals of e-government by providing a platform to nurture the growth of integration between government agencies.

The Enabling Framework uses current internet based technologies and standards so that data can be accessed transparently as a single, integrated land information system whilst data remains within the control of custodial agencies.

The SLIP program potentially has many benefits for the land development industry, particularly in the ease of access to spatial data from all government agencies that collect it. UDIA fully supports the SLIP program and is working with Landgate to educate our members on how to use it to its full potential. However, users report some significant deficiencies in the currency and reliability of data that is accessed through SLIP, for example:

- Lack of valid data on WALIS, particularly that related to DEC's wetlands database;

- Conflicting data sets, for example contour data accessed from Water Corporation is inconsistent with Landgate's contour data;
- Poor data collection and reporting by some government agencies (DPI) which impacts on the level of confidence users have in using SLIP;
- Collection of the same data by more than one agency which do not correlate. This results in duplication, additional costs and the risk of conflicting or inconsistent data sets.

SLIP is potentially a valuable tool to manage data distribution to customers from a range of government agencies, however the custodians of the data need to ensure the robustness and currency of the data if users are to have confidence in its reliability and utility. In addition, duplication of data collection by different agencies, such as the example of Water Corporation contour data described above, results in inefficiencies, loss of time, additional costs and runs the risk of inconsistencies between data sets. Should there not be just one set of contour data for the state that all government agencies access? Time efficiency and data accuracy are the key requirements of the development industry and it is incumbent on government agencies to respond to these requirements if SLIP is to have traction with industry.

Recommendations

- That the Housing Industry Forecasting Group be reinstated;
- That the government adequately resource the capacity of Department for Planning and Infrastructure to prepare household and dwelling forecasts based on the 2006 Census;
- That the forecasts include demand side data so that the forecasts are a clear indicator of the future demand for land housing in Western Australia;
- That improved reporting mechanisms be implemented between Landgate and Department for Planning and Infrastructure in order that land and housing data is comprehensive, current and conclusive;
- That the imperative for government departments is to ensure the validity, currency and accuracy of their spatial data sets;
- That all errors or omissions in WALIS be corrected to ensure WALIS is the depository of the accurate and up to date spatial data for the state;
- That interdepartmental communication and data sharing be facilitated in order to maximise the potential of Landgate to provide a one-stop-shop for all spatial data in Western Australia.

Term of Reference 4

4. Evaluate how co-ordination, consistency and articulation of the Government's housing policy objectives between agencies could be improved. This is to include strategic policy goals, which are in the public interest, for housing and land supply.

Key words: planning dominance, need for strategic planning, 'deemed to comply', accreditation, major project pathways

Planning drives development policy, balancing urban growth, land release and urban renewals with the need for adequate infrastructure provision. Planning must regain the initiative in the provision of land and housing to the market.

Whilst significant focus has been given to process improvements for the current systems and processes, the gains in those areas will not bring about the step-change that is required to achieve both an orderly flow of land and the appropriate range of product onto the market, including releases that are attractive to first home buyers. Whilst calls to "throw out" the current processes demonstrate the depth of the frustration of some stakeholders, the reality is the centralised system can regain its effectiveness if the structures supporting it are reworked.

The role of strategic planning

Sprawling development with no amenities or transport is no answer for consumers, developers, communities or Perth. The professional development industry is committed to quality outcomes but it is essential that a streamlining of processes between agencies is achieved. Underpinning the streamlining of processes must be appropriate strategic planning with cross government agreed outcomes. Effective strategic planning has been neglected in recent years. It is essential that key stakeholders are brought together ahead of applications for rezoning by the development industry, to work through the complex and often competing priorities of environmental preservation, water management, the provision of major infrastructure such as transport corridors and waste water treatment plants, as well as land allocation for recreation, residential, commercial, industrial and buffer zones amongst other needs.

If strategic planning is not undertaken ahead of the development industry, developers are having to "second guess" the activities of large areas of land, much of which may not be within their control. This leads to expense through extensive reporting and time delays. It is interesting to note the

nature of the subdivision conditions listed in this submission under Terms of Reference 1 which are of a strategic nature and should have been resolved prior to subdivision application.

Importantly at the structure planning level, where the impact of the lack of corridor planning is being felt the most, there are no timelines for agencies and no imperatives for them to participate in the process if it is instigated by a developer. Corridor studies are a priority and sufficient resources and priorities need to be allocated so that the WAPC can provide an up-to-date framework under which development occurs. Given the passage of time and the work now done by the private sector, corridor plans should initially be “fit for purpose,” particularly where development has now commenced or where structure planning is advanced.

Developers also require a rezoning review right if a Town Planning Scheme is out of date as Councils rarely keep to the statutory timeframe of 5 years, and this avenue is the only vehicle currently available whereby a landowner can make submissions with a right of review by State Government.

Water management is another strategic planning issue creating problems for developers who are trying to anticipate the outcomes of government studies that are only just commencing. One of the emerging issues was the treatment of rural drainage interface with urban areas and how to upgrade infrastructure and declare new drainage areas. It is well known that since the corporatisation of the Water Corp in 1996 the arterial drainage planning, which was then devolved to the Water and Rivers Commission, has never been done. This has left a huge void in the fronts for both the SE and SW corridors where urban expansion would logically occur.

This planning work was a key priority of the newly formed Department of Water and over the past twelve months the development industry has been highlighting the urgent need to accelerate strategic drainage planning in the Forrestdale to Armadale sector, Wandi south to Thomas Rd and Byford. Planning also needs to accommodate an updated perspective on key issues such as the Gnangara and Jandakot Mounds.

The role of Referral Agencies

Currently the WAPC has carriage of the planning system with a number of referral agencies providing approvals, often with conditions attached. The level of duplication between State Government agencies, combined with replicated systems in Local Government, is making the system unbearably complex and the uncertainty will increasingly raise the perception of risk and therefore the rate of financial return required by a developer in any investment. The complexity of the approvals system is highlighted in Term of Reference 1. Whilst it is recognised that referral agencies have a role, their commitment to meeting timelines would increase significantly if projects were “deemed to comply” if a decision has not been provided by the agencies within clear deadlines.

Councils moving from rural to urban are challenged at both an officer and elected official level and are often unable to meet the challenges, resulting in enormous delays and escalating costs. Local Governments in this position have reported that one of the most critical tools which would have assisted them in the transition would be a suite of policies, procedures and documentation that

they could customise for their purposes. This not only provides a fast tracking of systems for those authorities, it brings an underpinning consistency of approach that is extremely beneficial to developers. Within the context of removing duplication of approvals processes that has arisen through the wide-spread use of structure plans, Local Government should maintain a role in the approvals process but the long-standing authority residing with WAPC, a Redevelopment Authority or the Minister should be restored.

Further, the principles of the South Australian system of DA panel approval should be considered and made mandatory where Local Government authorities are clearly unable to meet deadlines. The addition of “experts” in the approval process will overcome some of the problems currently being experienced. The strengthening of WAPC Clause 32 to override Local Government approval is supported however the resourcing limitations of WAPC are recognised

It is also essential to have either a single WAPC/EPA Assessment or combined EPA/WAPC with mandate for sustainability assessments (triple bottom line) so that economic and social issues can be equally considered with environmental issues. This may or may not involve consequential agency restructuring. It is also essential that the dual processing role of Local Government and State Government in environmental processes is clarified and removed from Local Government where duplication currently occurs. The current issue of possum management is an excellent example where there are different requirements at the Local, State and Federal Government levels with minimal communication between the agencies and enormous cost imposed to the developers in attempting to satisfy all three bodies.

The Role of Accreditation

For major developers delivering high quality, environmentally sensitive developments to the market is core business and their reputation in the community is an important part of their business planning. They both employ highly experienced staff and utilise high quality consultants to achieve their outcomes. These quality developers are battling their way through a system that is clogged with inexperienced developers and those that may not have a commitment to quality which leads to agencies “project managing” developers through the system or needing to continuously scrutinise their activities.

UDIA strongly supports an industry accreditation system that separates the high performers from the generalist developer and allows them to be fast tracked, with appropriate monitoring, through the system. It is essential that Government works with industry to implement a system that will be recognised by Government agencies and managed by industry in conjunction with Government.

Need for a Major Project Pathway

For major developments where the proponent meets the high standards required by Government there must be a fast track approvals system. Options include:

1. Ministerial Approval
2. New Regional Development Authority (RDA) path

3. Strengthen WAPC Clause 32 call in to override Local Government approvals

Each of the options above has different uses with the Ministerial Approval being by exception, the Regional Development Authority pathway for key new or redevelopment areas and the strengthening of Clause 32 having effect in major growth corridors where there is a change from rural to urban zoning. At this time Clause 32 acts as a double negative as there is no explicit power to override the Local Government. This should be addressed as a matter of urgency.

Regional Development Authorities have an essential role to play in urban development as they lead to the suspension of all Local Government planning. This enables development, which is in the best interests of the broader community, to be progressed expeditiously.

The Regional Development Authorities are seen as a vehicle for overriding the enormously problematic issues of urban redevelopment where the lack of certainty precludes all but the most exclusive developments where a rate of return, relevant to the risk involved, can be achieved. Affordable infill development under the current arrangements of Local Government approval is regarded by industry as virtually impossible. Redevelopment Authorities can also play a role for greenfields development where coordination of state agencies is required.

R-Codes

The current R-Codes constrict development in such a way as to provide poorer quality outcomes. UDIA strongly supports an urgent review of the R-Codes, particularly in relation to urban infill, multi storey developments. There is a strong case for the R-Codes to be in 2 parts – one from urban infill and the other for greenfields.

Recommendations

- Give priority to strategic planning with fit for purpose corridor plans and arterial drainage planning.
- Introduce a review right for developers when a local Town Planning Scheme is out of date.
- Removal of the dual processing role of Local Government and State Government in structure planning and environmental processes.
- Introduce a single WAPC/EPA Assessment or a combined EPA/WAPC with a mandate for sustainability assessment (triple bottom line).
- Introduce a “deemed to comply” approach for referral agencies where timelines are not met.
- Ensure that a clear pathway for major developments
 - Strengthen WAPC Clause 32 call in to override Local Government approvals

- Consider opportunities for new Regional Development Authorities or other structures which enable decisions to be made in the best interests of the broader community.
- Work with industry to introduce an industry accreditation scheme which underpins a fast track approvals process.
- Review the R-Codes.

Term of Reference 5

5. Examine whether there are market failures in the private market for residential land, land development and housing (including rental housing). This is to include:
- The depth of the market for housing and land in key growth corridors of the Perth metropolitan area and regional centres;
 - The extent to which market power is exerted by developers by controlling the supply of land during periods of strong demand;
 - The impact of State Government land taxes, stamp duties and other related taxes on competitive incentives in the housing and land market; and
 - The market impact of Federal Government funding of, and policies on, rental accommodation

UDIA response to:

- The depth of the market for housing and land in key growth corridors of the Perth metropolitan area and regional centres;

Key words: strong growth north of the River, slow growth south of the River, headworks charges

Developers report variations in land sales activity north and south of the River. Reports suggest high levels of activity and a strong market north of the River whereas there has been a slowing of the market south of the River in recent months particularly in the Baldivis, Kwinana, Rockingham and Mandurah areas.

Anecdotal evidence is supported by data from UDIA's *Urban Development Index* (June 2007 quarter) which indicate the greatest land development activity occurs in the North West Corridor, specifically in the City of Wanneroo which attracted almost 25% of all sales of new lots in the metropolitan area in the latest quarter. Wanneroo consistently has the highest sales activity and it also has the largest proportion of lots on the market and coming onto the market in the following six to twelve months.

The North East Corridor also maintains a strong market with the City of Swan recording 15% of sales in the metropolitan area; however future land development is severely constrained in the North East Corridor because of environmental issues that have yet to be resolved.

The market has significant penetration south of the River, however the reported slowing of sales suggests production is exceeding market demand. The *Urban Development Index* (June 2007)

indicates greatest sales activity in the Cities of Cockburn (11% of metro sales), Rockingham (15% of metro sales) and Kwinana (16% of metro sales) in the South West Corridor. Lot releases over the next twelve months are also focused on these areas. In the South East Corridor, current and future activity is centred on the City of Armadale and to a lesser extent the Shire of Serpentine-Jarrahdale.

In regional areas, the City of Mandurah continues to dominate land sales however anecdotal reports also suggest a significant slowing of both the land and established home market in the Mandurah area.

The depth of the market in the south west of the state will be severely impacted by the imminent introduction of Headworks Distribution Charges by Western Power. The charges will have a devastating effect on land development in the South West Interconnected System catchment which extends from Kalbarri in the north, to Albany in the south and to Kalgoorlie in the east. The headworks charges will be \$9,000 per residential lot in Walpole to \$15,000 per lot in Bremer Bay which totally puts at risk the viability of land development in these areas. With housing affordability in a parlous state in Western Australia, charges of this magnitude further erode people's capacity to afford to purchase land and housing in regional areas.

The headworks charges applied to commercial and light industrial uses are prohibitive and will stymie economic development in the regions, particularly in the Ravensthorpe, Hopetown areas. Here, light industrial and commercial activities are required to support expansion of the mining industry and economic growth will attract new residents to these areas for employment opportunities. However, the flow-on effect of the headworks charges will be the inability of the mining companies to draw on a local workforce as the costs of residential land development are rendered unviable.

Western Power assumes no responsibility for the impact of the charges on residential, commercial or industrial land development in the regions because of its 'user pays' principle which requires Western Power's investments in the network to be commercial. The threat to regional development is real and requires a cross-government approach to investigate policy solutions to facilitating growth in the SWIS.

UDIA response to:

- The extent to which market power is exerted by developers by controlling the supply of land during periods of strong demand;

Key words: staged development, steady supply, buffer stock, measures to preclude speculation, affordability

Residential developments are completed in stages based on financial efficiencies, construction capacity and a production schedule based on maintaining a steady supply of serviced lots to the market. Major developers commonly release market ready land in 30 – 50 lots with civil construction timeframes that are currently 25 - 30 weeks.

During the land supply crisis that peaked in 2006, developers were accused of holding onto land to artificially achieve increasingly higher prices. Major developers refute this suggestion. They do not hold onto market ready land as there is a financial imperative to dispose of developed lots to maintain cash flow and a steady supply of land to the market. Further, most major developers in Western Australia are now highly corporatised companies who report regularly to shareholders, syndicate investors and other financial stakeholders. As far as possible, they seek to maintain reasonable smooth, steady cash flows and profits form quarter to quarter.

The shortage of land during the land supply crisis was attributable to the lack of buffer stock in a period of sustained, high demand. Developers pre-sold lots (that is, before the issue of titles) to meet demand, if the goal of developer was to squeeze the market this could have been achieved by not preselling when land supply was at its tightest. The lack of titled land would have driven prices up even higher. As developers did deplete their stocks it will take some time to build up a sufficient buffer stock again that would moderate the impact of demand for land in periods of strong population and economic growth. Releases of land are generally no more than 6 months ahead of title and UDIA recommends pre-selling should only occur where subdivision approval has been granted to provide an appropriate level of certainty to the consumer.

At the time of the land supply crisis developers undertook measures to preclude speculators and to favour those intending to build to provide equity of access to lots and also to ensure that the impacts on affordability were minimised. Examples of measures taken were:

- Seeking pre-registration and ballot systems for the sale of land;
- Restricting the number of lots sold to 1 per purchaser;
- Seeking statutory declarations that the purchaser intended to build;
- Landscaping and fencing rebate systems lapse after a specific building timeframe, general between 18-24 months.

Further initiatives involved developers restricting the sale of house and land packages to lower income groups by requiring evidence of income. For example, single person buyers could not earn more than \$60,000 p.a. and couples could not earn more than \$85,000. Some developers offered stamp duty rebates to entice first home buyers back into the market after it stalled in early 2007 in response to a statement by the Treasurer that suggested stamp duty relief would be forthcoming in the state budget some months later.

The recent slowing of the market south of the River suggests there is more than adequate stock to meet demand, however affordability remains a key issue for new residential development in fringe areas.

UDIA response to:

- The impact of State Government land taxes, stamp duties and other related taxes on competitive incentives in the housing and land market; and

Key words: land tax, impact on affordability, en globo value of land, land supply concession

Government taxes, charges and levies are 'direct' charges imposed by Local Government and other Government bodies, including GST, stamp duty on the purchase of land, levies, public open space (POS) contributions and land tax.

UDIA believes that the urban development and housing industries in Australia are considered soft targets by state governments looking to increase revenue through taxation and this has had direct, negative impacts on housing affordability in the state. In Western Australia alone these costs currently contribute to approximately 20% of land development cost in Perth and have contributed to exponential increases in house prices in recent years.

Table 1 indicates taxes paid by the land development and residential construction industry in WA in 2005/06.

TOTAL TAXES - Land Development and Residential Construction Industry in WA	
	\$M
GST	600
PAYE	190
Stamp Duty	119
Payroll Tax	40
Land Tax	*
MRIT	*
TOTAL	948

Source: *Economic Impact Study, UDIA(WA), July 2007*

Table 1: Total taxes land development and residential construction industry in WA 2005/06

* A total estimated \$319.9M in Land Tax and \$54M in Metropolitan Region Improvement Tax was collected by the State Government in 2005/06. UDIA is unable to quantify the exact proportion attributable to the Land Development and Residential Construction Industry in WA. UDIA is

currently making further investigations into the exact amount of Land Tax and MRIT that is collected by the State Government directly from the Land Development and Residential Construction industry.

Land Tax

UDIA has serious concerns about the impact of land tax on new home buyers. In Western Australia, land taxes have increased by \$51 million each year since 2001 while the top rate of land tax has been increased by 25%. This has had a substantial impact on the cost of land and housing in the State.

Developers manage their subdivision program around 30 June in order to minimise their land tax liability which in turn has an impact on the 'smooth' supply of land to market. Land tax is calculated on the aggregate unimproved value of land owned at midnight on 30 June. The developer is charged land tax based on the en globo value of the land if titles have not been issued or the value of the developed lots if titles have been issued.

To minimise the land tax bill, developers will accelerate their development programs to ensure titles are issued in April so that sales to purchasers can be completed and settled in May/June, or alternatively they will delay completing the subdivision and applying for titles until July/August.

This behaviour has a number of flow on effects to the wider market which UDIA argues could be rectified if a concession on Land Tax was reintroduced. In May 1996 a developers concession was introduced to ensure that titled lots were treated as en globo land when calculating the aggregate value of land owned. This Concession was later abolished in 2003 as part of the Business Tax Review. UDIA supports the reintroduction of a concession on Land Tax that will ensure developed land is treated as en globo land when determining its value.

Land tax discourages developers from undertaking optimally efficient subdivisions of land due to the impact on timing. The current situation penalises developers who carry stocks of land to meet future / anticipated market needs.

Case Study

To give an indication of the contribution that land development has on land tax and MRIT, the additional tax on sub-divided land is approximately 388% greater than for en-globo land prior to sub-division approval.

- *Developer purchases 10 ha en globo land for \$7.5 million*
- *Receives approvals for subdivision into 100 lots*
- *Once development complete: each lot worth \$250,000*
- *Developer now holds land worth \$25 million*
- *Land tax on en globo land: **\$152,267***
- *Land tax on aggregated value of completed lots: **\$589,767***

The case study illustrates how land tax is a disincentive to the developer to hold on to titled land prior to June 30th. Land tax on the aggregated value of completed lots results in 'lumpy' supply and increased costs to the purchaser.

If the same sub-division approval were given on the 1st of July, the developer would have 12 months to sub-divide and sell a significant proportion of lots and reduce the tax burden calculated at June 30th the following year. This approval timing difference creates a significant incentive to achieve sub-division approval in July or shortly after.

Stamp Duty

Stamp duty is an inequitable tax that directly hinders the ability of home buyers to enter the property market and acts as a disincentive to economic growth in the state. Stamp duty eats into people's hard-earned deposit, and particularly for first home owners, is often an unbudgeted cost. It can extinguish the dreams of first homebuyers and totally negate the benefits of the First Home Owners Grant.

In recent years growth in the value of property has resulted in state governments receiving windfall annual revenue of over \$450 million from stamp duty at the cost of home buyers. Stamp duty from land sales is estimated at \$102M (2005/06), adjusted for first home buyers. Median house prices have increased by 490% since 1982 and the stamp duty payable on a median priced house has increased by 1,270% in the same period of time.

Goods and Services Tax (GST) and State Taxes

The Goods and Services Tax (GST) is a broad based consumption tax imposed by federal government and collected by the Australian Taxation Office. GST is charged on the sale of property, including vacant land. Sales of developed lots for 2005/2006 are estimated to have generated approximately \$203M net in GST revenue.

One of the major objectives of the GST was to replace a number of other taxes such as State payroll tax and stamp duty. Stamp duty and payroll tax currently account for approximately 20% of all tax flowing to the State Government from activities in land development and residential construction industries.

The policy of applying stamp duty to GST-inclusive instruments is unfair and inequitable and is a matter of concern for UDIA. It encourages homebuyers to acquire established properties as they are cheaper by the GST amount (generally 10%) as GST does not apply to existing houses.

UDIA believes that this policy of imposing a tax on a tax does not provide any real benefit to the State. It reduces housing affordability, is discriminatory in the tax treatment of acquisitions of new and existing properties and is seen as a cynical opportunity to double-tax.

In addition, GST has contributed to increased ongoing fees and charges for home owners, with GST being included in the calculation of gross rental values of properties in some local authority areas, increasing local authority rates. UDIA does not support this practice.

Developer Levies, Contributions and Servicing Costs

Developers are increasingly required to pay for the provision of public infrastructure as part of development projects. Direct servicing costs (earthworks and retaining walls, landscaping (estate), storm water drainage, sewerage, water, underground power installation, roadworks and associated professional fees etc) already contribute approximately 40% of the total cost of land development and the requirement for developers to fund public infrastructure, recreation and community facilities and community services is increasing. This type of cost has been the largest contributor to the increase in the cost of developing urban land over the last ten years. This also results in inequities with the overall fiscal system: New home buyers pay for services which, for the majority of consumers, are financed out of federal, state and Local Government revenue and are forced to pay taxes and municipal rates according to normal schedules. New home buyers are therefore disadvantaged.

In 2006, UDIA partnered with WALGA and DPI to formulate an approach to levies for community infrastructure which were applied more equitably, that were consistent across all Local Governments and gave developers certainty as to the scope of their contributions. A report, *Contributions to Community Infrastructure* was released late last year.

The process outlined in the report ensures that developers know exactly where their money is being spent and exactly how the costs have been calculated based on the demonstrated need for the infrastructure and the connection between the new development and the demand created.

Councils will be required to develop infrastructure plans which identify funding sources from Federal, State and their own existing rate payer base. Community Infrastructure Contributions from developers will only be charged where there is a clear link to the new development. This will ensure that there is a transparent and accountable way of calculating community infrastructure contributions in WA to avoid the kinds of exorbitant developer levies that are charged in states such as New South Wales.

UDIA strongly believes that the government should use the already high level of revenue directly obtained from the development industry to pay for the provision of essential services rather than penalising new homebuyers at the expense of housing affordability.

UDIA also believes that the government should encourage and recognise initiatives to develop more sustainable urban developments and the benefits they provide for the broader community. These benefits have a direct impact for the community in the form of infrastructure and service cost reduction. We believe that these benefits should be formally recognised through tax concessions, reduced infrastructure contribution and payment for certain services (for example, provision of land).

UDIA response to:

- The market impact of Federal Government funding of, and policies on, rental accommodation

Key words: mutual benefits, affordability, better management,

Federal government funding of Key Housing Providers will enable effective partnering with the public and private sectors. The two Key Housing Providers in Perth, Access Housing and Foundation Housing have a key role to play in facilitating the delivery of affordable housing for the government and the private sector. The tax exemptions afforded to these organisations based on their Not for Profit and charitable status should be an incentive for effective partnering with the private sector. For government, their ability to manage Key Worker, Inclusionary Social Housing and Shared Equity Schemes together with managing the affordable component of their projects, results in the government dollar going further.

UDIA is supportive of Federal government funding for rental accommodation. It has become evident that the lower end of the rental market has suffered from the recent rental crisis and moved from private sector rental to a need for social housing. The provision of Federal funds to state

based Key Housing Providers is an effective instrument to provide low cost rental in a sustainable manner.

Recommendations:

- Utility providers take into account the impact on regional development of headworks or other charges that affect the viability of land development and reduce housing affordability in regional areas.
- Immediate introduction of Land Supply Concession to ensure smooth supply of land to the market throughout the year. This should be as at 30 June 2007 to demonstrate the Government's commitment to solving land supply problem
- That the responsibility to pay GST should only fall to the consumer/purchaser of the product at the final stage of development. The imposition of GST at earlier phases in the process results in the inequitable and unfair practice of 'double taxing'.
- That the government support development of a state planning policy to underpin the *Contributions to Community Infrastructure* model proposed by UDIA and WALGA.
- That the Federal government continue to fund Key Housing Providers for sustainable rental accommodation solutions and these bodies work with the private sector in the delivery of affordable housing.

Term of Reference 6

6. Examine the causes, extent and impact of capacity constraints and other bottlenecks being experienced in the relevant agencies of the Western Australian Government, Local Governments and in the private construction sector. This is to include:
 - Shortages of materials and skilled labour posing major impediments to constructing new housing in a timely fashion.

Key words: materials, skill shortage, risk averse, delays in approvals

Shortages of materials, contractors and professional staff both within government and the private sector are well reported. Collectively, shortages of materials or staff pose a barrier to the development industry's capacity to deliver land to the market efficiently by delaying lot completion, by inexperienced planning and environmental officer being risk averse and applying unnecessary conditions of subdivision and clearances taking too long.

Materials and equipment shortage

Developers report shortages of sand and limestone in the metropolitan region and in the southwest of WA attributable to competition from large infrastructure projects, roads and housing construction. In addition DEC has identified areas of acid sulphate soils which have reduced extraction opportunities. In addition, a recent WorkSafe requirement for all sand extraction sites to have a mine manager will further exacerbate sand shortages. The likelihood of sand extraction sites being able to source mine managers in the current mining boom is negligible. It is reported that sand extraction must cease until a site has a mine manager.

Earth moving equipment required for land development may be difficult for small developers to access as it is tied up by large developers on greenfield subdivisions or is being used by the mining industry in remote areas. There are a significant proportion of small or 'mum and dad' developers who individually produce only a small number of lots at a time but collectively are responsible for up to 30% of lot production. The shortage of equipment results in delayed lot completion as small developers are unable to access earth moving equipment to complete their subdivisions.

Skilled staff shortages

Skilled staff shortages are reported in State and Local Government and the private sector. The impact of the mining boom is felt particularly for engineers, construction personnel and technical staff and the lack of skilled personnel in these fields exacerbates the capacity of the land/building sector to significantly increase the rate of residential lot creation and housing completions. .

The splitting of the Department for Conservation and Land Management into the Department for Environment and Conservation (DEC) and the Department of Water (DOW) has had a significant impact on the capacities of both these departments to have sufficient skilled staff to assess and process applications. The division of CALM has also resulted in a lack of capacity for either DEC or DOW to undertake strategic planning that is a necessary undertaking prior to the development front moving into designated growth areas. This has compounded the delays being experienced in the development industry and results in developers undertaking strategic planning for areas which are not necessarily under their control.

There are also widespread skill shortages in the private sector with some WA projects being outsourced to interstate offices. The lack of accredited auditors used by DEC to assess contaminated sites is reflective of the lack of time or personnel available in consultancies to respond to government briefs.

Local Government appears to suffer most from a lack of skilled professional staff. Local Government argues that they are asked to take on an increased responsibility for implementing state government environmental, water and planning policy and long term monitoring and maintenance responsibilities, while it has a diminished capacity to do so.

Recommendations

- That the regular supply of materials to the land development industry not be impeded by over cautious government regulation.
- That state and Local Government be given the capacity to recruit and train skilled professional staff to alleviate lengthy delays in obtaining approvals for land development.
- That streamlining the approvals process and removing duplication of conditions of subdivision will reduce the need for Local Government to devote staff to the approvals process and free them up to focus on structure planning.