Planning and Other Legislation (Make Developers Pay) Amendment Bill 2023

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Planning and Other Legislation (Make Developers Pay) Amendment Bill 2023

The Housing Industry Association (HIA) welcomes the opportunity to provide feedback in relation to the Planning and Other Legislation (Make Developers Pay) Amendment Bill 2023 (the "Bill"). HIA **does not support** this Bill which is fundamentally flawed and displays a disturbing and concerning lack of understanding of property economics and the operation of the current developer contributions framework in Queensland.

Title

While the title of the Bill has no doubt been designed to appeal to populist uninformed views and attract media attention, this style of dog-whistle politics contributes nothing meaningful to the discussion about how to resolve current housing supply issues. Any reasonably-minded person would understand that if you increase the costs of undertaking development, you simply increase the price to purchase the end product. If the recommendations of the Bill were to be adopted, a more appropriate title might be the *Planning and Other Legislation (Keep Queenslanders Homeless) Amendment Bill 2023*.

Overview

Infrastructure charges are a significant contributor to the compilation of inequitable government taxes already imposed on new homebuyers in Queensland, which are estimated to total 34% of the cost of a new house and land package.

In a competitive market the theoretical literature is consistent in its conclusions that, despite market conditions, "developer charges are passed onto home buyers in the long run and will thus lead to increased housing prices". *(1, 2, 3, 4)*

A 2015 study undertaken by the School of Built Environment and Civil Engineering at QUT found that developer charges are *"a significant contributor to increasing house prices and reduced housing*

(1) Been (2005) *Impact Fees and Housing Affordability.*
(2) Evans Cow ey and Lawhon (2003) *The Effects of Impact Fees on the Price of Housing and Land.*
(3) h anfe dt and Shaughnessy (2004) *An Empirical Investigation of the Effects of Impact Fees on Housing and Land Markets.*
(4) Burge and h anfe dt (2006) *Impact Fees and Single Family Home Construction.*

affordability". The research also provided evidence in support of the proposition that *"not only are developer charges over passed to new home buyers but also to buyers of existing homes. Thus, the price inflationary effects of these developer charges are being felt by all home buyers across the community."* (5)

Significantly, international studies also reveal it is a danger to assume that passing, or shifting of costs is at parity (ie. $1 extra for developer charges = $1 passed on). The literature indicates that it is common for "over shifting" to occur, with home buyers paying a greater incremental increase in the cost of the new home (as compared to the cost of the developer charge) as developers seek compensation for the additional risk taken and return on costs. (6, 7, 3)

To anyone with a basic understanding of property economics this would come as no surprise. Infrastructure contributions have to be paid at a point where the developer has already incurred the bulk of costs associated with the delivery of the project, and at a point prior to the developer receiving any revenue from the project. Inevitably the funds required to pay the charges have to be borrowed and carried by the business at a point where the developer is experiencing the highest financial risk. Higher perceived risk leads to higher borrowing costs for individuals or businesses seeking credit. Lenders charge higher interest rates or impose stricter terms to compensate for the perceived risk, ultimately increasing the cost of borrowing.

As stated above, how any reasonably minded person would imagine that you could increase the cost to developers without impacting the cost of the end product beggars belief.

Contrary to the measures proposed in the Bill, it is noteworthy that in recognition of the significant influence Infrastructure Charges play in the commercial viability of projects and in order to encourage the delivery of specific housing typologies, a number of Local Authorities across the State have introduced discounted infrastructure charges for certain housing types that are in short supply, for example:

- Brisbane City Council – 75% reduction on 1 and 2 bedroom units in selected inner city areas;
- Toowoomba Regional Council - 70% reduction on all multiple dwellings and 30% on duplexes;
- Mackay Regional Council – Up to 100% for most residential land uses and 25% for small lots;

Misconceptions about infrastructure charges

The explanatory notes for the Bill detail that a key objective of the proposed legislation is to ensure that local government has the flexibility to charge developers for trunk infrastructure according to the cost of delivering that infrastructure. HIA notes that the current legislation and infrastructure planning process through a Local Government Infrastructure Plan (LGIP) already facilitates this outcome.

Local governments have the ability to determine the establishment cost of any trunk infrastructure within a LGIP and, should a developer provide this trunk infrastructure, the standard infrastructure charges levied on that development are reduced.
HIA notes a failure by Local Governments to undertake appropriate strategic planning including the coordination of new infrastructure planning at a rate which matches the demand for new housing over

(5) Bryant (2015) *Developer charges and housing affordability in Brisbane, Australia.*
(6) Mathur et a . (2004) *The Effect of Impact Fees on the Price of New Single family Housing.*
(7) Burge and h anfe dt (2006) *Impact Fees and Single Family Home Construction.*
(3) h anfe dt and Shaughnessy (2004) *An Empirical Investigation of the Effects of Impact Fees on Housing and Land Markets.*

the last 15 years has resulted in most greenfield communities being located outside of a LGIP. Infrastructure charges are not capped outside of a LGIP and councils are currently charging well in excess of the maximum capped amount through infrastructure agreements. HIA has been advised that the infrastructure contribution per new allotment at Caboolture West will exceed $90,000, which will simply be reflected in the cost of new land for aspiring homeowners, ironically in a precinct intended to supply affordable housing.

The cost attached to the delivery of infrastructure is clearly a significant factor in determining the commercial viability of any project. Suggesting that Developers should pay more denies commercial realities. If the cost to deliver infrastructure means there is no profit margin in the project, the project simply stalls. This is demonstrated by on-going Queensland Government announcements stating that new homes have been unlocked by the Government contributing to or supporting the delivery of new trunk infrastructure.

Despite this there are many examples that demonstrate that if not for developers contributing to the delivery of trunk infrastructure less housing would have been supplied.

- Bells Creek Arterial Road Extension (Sunshine Coast – Aura) - $35m developer investment;
- Sewer Treatment Plant (Redland – Shoreline) - $15m developer investment;
- Water Infrastructure (Cairns – Mt Peter) - $18.6m developer investment;
- Barrams Road Extension (Ipswich – South Ripley) - $15m developer investment.

HIA notes that without the above investment from developers, even more Queenslanders would be struggling to find safe and secure accommodation and importantly a place to call home.

Conclusions

HIA **does not support** the Planning and Other Legislation (Make Developers Pay) Amendment Bill. If legislated, this Bill would result in severe consequences for Queensland's housing market which remains in a volatile state. Ultimately, the Bill will reduce investment in new housing, limit housing supply by crashing financial feasibility of projects, and increase the overall cost of housing for all homebuyers.

The Bill's authors are clearly ignorant of the way infrastructure to support residential projects is currently being funded and delivered, and the potential impact on both housing supply and affordability.

HIA would suggest that the authors of the Bill should read the "Final Report of the Infrastructure Charges Taskforce (March 2011)" and its recommendations for reform of local government development infrastructure charging arrangements.

If any assistance or further information is required in relation to this response, please do not hesitate to contact me on [redacted]

Yours sincerely

[redacted]

Michael Roberts
Executive Director
HOUSING INDUSTRY ASSOCIATION LIMITED