



*Final Report*

# **Counting the costs: planning requirements, infrastructure contributions, and residential development in Australia**

authored by

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## ACRONYMS

ACTPLA	Australian Capital Territory Planning Authority
AHURI	Australian Housing and Urban Research Institute
APA	American Planning Association
ABCB	Australian Building Codes Board
BASIX	Building Sustainability Index (NSW)
BCA	Building Code of Australia
CMHC	Canada Mortgage and Housing Corporation
COAG	Council of Australian Governments
DCLG	Department of Communities and Local Government (United Kingdom)
DCP	Development Contribution Plan (Victoria)
DCP	Development Control Plan (NSW)
EPAA	Environmental Planning and Assessment Act
GST	Goods and Services Tax
HIA	Housing Industry Association Ltd, Australia
HUD	Housing and Urban Development (US Department of)
LEP	Local Environmental Plan (NSW)
LGA	Local Government Area
NHSC	National Housing Supply Council (Australia)
NSW	New South Wales
PC	Productivity Commission
PCA	Property Council of Australia
PIA	Planning Institute of Australia
PIP	Priority Infrastructure Plans (Queensland)
RDC	Residential Development Council
SEPP	State Environmental Planning Policy (NSW)
QLD	Queensland
UDIA	Urban Development Institute of Australia
UK	United Kingdom
US	United States
VIC	Victoria

## **EXECUTIVE SUMMARY**

The urban planning system plays an important role in new housing development. However, there are deep differences in how this role is perceived. Some see planning as supporting housing development, by coordinating infrastructure and ensuring a sufficient supply of land, in line with broader environmental and community well being (Bramley et al. 1995). Others regard planning as obstructive, responsible for creating artificial barriers to new housing supply (Quigley and Rosenthal 2005). Both views have currency in recent Australian debates about affordable housing, and particularly, the ways in which urban planning reduces or improves affordability. For instance, the residential development industry has called attention to the impact of government taxes and land use planning requirements – restrictive policies, red tape, and infrastructure levies – on housing development and affordability (HIA 2003, PCA 2007, UDIA 2007). While downplaying this impact, and defending the role of planning in promoting beneficial social and environmental outcomes, Australian governments and planning industry organisations have accepted the need to enhance and harmonise urban planning systems in support of broader housing, infrastructure and economic development policy (NHSC 2009, PC 2004, PIA 2007, Prime Minister et. al. 2009, Senate Select Committee on Housing Affordability 2008).

This report addresses these debates. It is the final output of a project for the Australian and Urban Housing Research Institute (AHURI) on the impacts of planning regulations and charges on the costs of housing development in Australia. It follows a positioning paper (Gurran et al. 2008) which reviewed existing research and established the conceptual and methodological frameworks for the empirical findings presented in this final report.

### **Research objectives, questions and approach**

A number of other nations with comparable systems of urban governance – such as the United States, Canada, the United Kingdom, and New Zealand – are all pursuing various processes of planning system reform to enhance housing supply and affordability outcomes (Barker 2004, 2006, CMHC 2009, DCLG 2007, 2008, DHUD 2008, Smith 2009). Similarly, a growing body of international research examines relationships between urban planning regulation – procedural requirements, development standards, and mandatory fees – and housing outcomes (eg. Been 2005, Dawkins and Nelson 2002, Glaeser and Wards 2009, Ihanfeldt 2007; Mayer and Somerville 2000; Monk and Whitehead 1999). However, despite express industry and government concern over the relationships between planning and housing affordability, there has been very limited research on these matters within the specific Australian context.

Therefore, the primary research objective of this project was to understand the relationships between urban planning regulation and housing outcomes in Australia, focusing particularly on the cost impact of planning regulations for housing development. The following questions guided the study:

1. What is the international evidence regarding the impacts of land use planning regulations and charges on the cost of housing development?
2. What is the existing evidence on the costs of land use planning requirements and charges associated with the residential development process in Australia?
3. How does the cost impact of specific planning requirements and charges differ across the Australian states and territories, and in a sample of selected case study developments? Specifically:

- What are the relative costs associated with specific planning requirements, processes and charges, as a proportion of total planning related costs and total residential production costs, across a sample of case study jurisdictions? What factors explain divergences across these case studies?
  - To what extent are applicable planning related costs and charges able to be estimated upfront at feasibility analysis stage across the case study jurisdictions? What factors explain the extent to which requirements and charges are able to be known up front (i.e. complexity/simplicity of planning processes and charges; stability/instability in planning requirements and charges over time; complexity of the site or project itself; or other factors)?
  - Have Australian developers adjusted their decisions regarding which housing types to produce (including target densities and market sectors) according to different planning requirements and charging regimes?
4. What are the policy implications of these findings? Specifically:
- How should policy-makers and planners evaluate these potential cost impacts against the specific objectives of the regulation?
  - To what extent could complementary measures (e.g., regulatory or alternative funding mechanisms) be introduced to offset any negative impacts on the costs of producing new and affordable housing in preferred locations?

Our approach to the study was qualitative. We used multiple case studies extending across the three most populated states of New South Wales (NSW), Queensland, and Victoria, which have been the main focus of industry concern regarding residential approval and development contribution requirements in Australia. Within these states, we focused on 26 developments across 15 local government areas, representing a diversity of inner, middle ring and outer metropolitan locations, as well as a regional growth area; different brownfield and infill development contexts, and different development firms ranging in size and operational scope. These are all factors hypothesised to affect relationships between planning regulations and housing outcomes.

The research strategy involved four broad stages:

- 1. Review of academic research and industry literature.** Firstly, existing international and national research on relationships between planning regulation and housing outcomes was reviewed, drawing on research published in academic journals and books as well as key international and national level government reviews and reports. The focus was on material published in the United States and the United Kingdom, which have comparable land use planning traditions, and where a deep literature has evolved to address relationships between planning and residential development outcomes. We also examined reports and submissions produced by the Australian housing development industry over the period 2003-2008. This review is contained in the positioning paper for this project (Gurran et al. 2008).
- 2. Defining the frameworks for planning, development assessment and infrastructure contributions in Australia.** Primary policy documents and legislation were used to construct a comparative overview of arrangements for plan making, amendment, and development assessment in Australia. We also examined the key elements of current Australian planning reform processes, focusing particularly on NSW, Queensland and Victoria. Our interviews with planners and development professionals supplemented this information.

- 3. Understanding the range and scale of planning related costs to residential development in NSW, Queensland and Victoria.** To examine the range, scale and impact of these costs, we focused on 26 individual case study developments within 15 local government areas across inner, middle ring, outer, and regional locations in NSW, Queensland and Victoria. A total of 34 developers, state and local government planners were interviewed as well as two representatives of peak organisations, to determine the range and relative scale of costs associated with the planning process in each jurisdiction, the impacts of these costs for development decisions and outcomes, perspectives on current reform processes, and potential strategies to improve the system.
- 4. Determining policy implications and options.** The final research phase sought to determine the policy implications arising from the case study research. In particular, we sought to identify approaches for identifying, reducing or offsetting the impact of planning requirements on the costs of housing production in Australia. The interview data and review of international literature provided the basis for constructing a policy framework for assessing potential cost impacts of planning requirements and for identifying options for reducing or offsetting any negative impacts on housing outcomes and affordability.

## **Key findings**

Key findings of the study are summarised below, in relation to each of the four overarching research questions.

### **International evidence on the impacts of land use planning regulations for housing development**

The bulk of international research on planning regulation and housing outcomes has been undertaken in the United States and the United Kingdom. There is a consensus in this literature that planning regulation affects housing development costs and outcomes, but debate about the weight of impact and its causes. For instance, it is difficult to determine whether and under which circumstances, price impacts are due to demand factors (due to greater amenity produced by positive planning) or supply factors (a shortage of housing due to restrictive planning).

Across the literature, costs are found to arise in four main areas of the planning process:

- Land acquisition (with land values being affected both positively and negatively by planning policy settings and system efficiency).
- Procedural obligations (time and resources associated with securing planning permission).
- Compliance with design requirements (costs associated with meeting mandatory design controls that exceed basic health and safety standards).
- Payment of fees or charges (for application processing and for infrastructure or community facilities).

More studies focus on price impacts than on development or construction costs, although the relationship between development costs and price is indirect. The few studies examining the impact of design requirements (above minimum health and safety standards) on construction costs suggest that additional physical controls for subdivision and dwelling construction add around 5–15 per cent to development costs (DHUD 2007). Impact fees in the United States are also estimated to account for between 5–15 per cent of final house prices (DHUD 2007).

The literature on planning regulation and price suggests, firstly, that more regulation means higher house prices and, secondly, that different types of planning requirements and implementation settings are associated with different outcomes (Ihlanfeldt 2007). In the United States, research suggests that planning standards designed to reduce density – e.g., large minimum residential lot sizes, dwelling sizes, or restrictions against multi-unit housing, have the greatest impact on house prices. Similarly, high impact fees may also coincide with higher home values (Mathur et al. 2004). However, these outcomes do not necessarily result from a direct cost/price relationship but may reflect a deliberate and exclusionary ‘pricing out’ of certain income groups (Gyourko et al. 2008).

In the United Kingdom, qualitative research with developers reveals that intangible features of the planning system – for instance, perceived likelihood of securing a favourable decision – can explain variations in housing output almost as much as defined geographical or planning system constraint (Monk and Whitehead 1999). From such studies it might be concluded that the quantifiable planning system impact – that is the dollar value of physical planning requirements that exceed minimum health and safety standards – is much less important than intangible costs associated with the design, implementation, and interpretation, of controls.

Planning system reforms are promoted or underway in both nations to relieve residential land supply bottlenecks and reduce barriers to affordable housing development (DCLG 2007, 2008, DHUD 2008). However, these reforms are regarded insufficient to address the overall shortfall of housing that is affordable to lower income groups. Specific planning mechanisms, in combination with dedicated funding and incentives, are used to secure affordable housing opportunities when new communities are planned.

These findings are potentially significant for Australia, but untested in this context, where very different planning systems and housing market conditions apply.

### **Existing evidence on land use planning costs and charges for residential development in Australia**

In contrast to the body of academic work conducted in the United Kingdom and the United States, there is a paucity of research evidence on the relationships between planning regulation and housing outcomes in Australia. The work that does exist has been commissioned by the housing and residential development industry, and has informed a series of national level inquiries on housing, infrastructure, and land use planning (NHS 1991, NHSC 2009, PC 2004, Senate Select Committee on Housing Affordability 2008).

In summary, our review of this work points to significant industry and government concern regarding a variety of costs associated with planning regulation in Australia. A consistent theme across the industry discourse is that restrictive land policies associated with an urban consolidation agenda are responsible for the high cost of residential land acquisition and thus house prices. The industry reports and submissions also claim that planning related costs and charges are added directly to the sales price of new homes, further undermining affordability.

Drawing on the international literature and our review of Australian industry reports, our study identifies three main categories of costs associated with the planning system: procedural requirements (preparing, submitting, and supporting plan amendment or development applications); complying with development standards (particularly environmental and heritage requirements); and, fees or charges (for infrastructure provision or administrative services). Overlaying these are systemic factors that exacerbate the impact of these requirements, including uncertain and

protracted timeframes; policy opacity; and, inter-jurisdictional variation in planning standards or procedures.

Against these costs, the planning system represents a number of important benefits for residential development. These benefits relate to land and housing supply (facilitating, coordinating, and consolidating the release and development of residential land, in response to existing and projected demand); infrastructure provision (coordinating, financing, constructing and maintaining local infrastructure needed for housing development, and promoting the efficient use of regional infrastructure); preserving and enhancing the environmental quality and amenity needed to stimulate and sustain housing demand (from landscape scale to neighbourhood and dwelling design); and providing the information base needed to support and coordinate future development by multiple actors.

### **Planning regulation costs and impacts across the Australian states and territories**

To determine the ways in which such costs arise in practice and their variability across the Australian states and territories, we focused on a sample of representative case studies in NSW, Queensland, and Victoria. We sought to understand the range of costs and their relative impact as a proportion of total planning related expenses; the extent to which these costs are able to be estimated upfront during feasibility analysis; and the implications for housing outcomes in terms of developer decisions regarding price, quantity, location and type of new housing provided.

Our overall analysis of planning costs was limited by a lack of financial data provided by our sample of case study developers. In itself, this inability or unwillingness to provide specific cost data on planning related expenses supports claims that this information is difficult to ascertain with certainty, but challenges claims that such costs are added directly to the price of a completed home.

Our case study interviews revealed that, when faced with uncertainty and system opacity, developers choose to avoid certain local government areas, reduce development activity, postpone land acquisition, or target higher market segments. While some developers reported trying to add specific charges directly to their market price, most admitted that a direct transfer of costs or charges was unworkable due to market dynamics. The variability in costs incurred for similar projects commenced in nearby locations or at different points in time means that some developers pay more in charges than others – but all need to compete within relatively similar market locations. Thus price impacts are medium and long term and relate to the quantity, location, and type of housing produced rather than the asking price for a particular house and land package.

Responses to planning related costs differed in relation to the size of the developer, with larger developers better able to absorb costs during market downturns, and more able to negotiate beneficial agreements for infrastructure provision. Therefore, one impact of variable and uncertain planning related costs and requirements may be to reduce the ability for smaller operators to remain competitive, affecting the structure of the development industry and leading to greater homogeneity in product.

Divergence between the states and territories was observed in relation to the overall range of development contributions collected and the scale of these charges. It proved impossible to generalise about the amount of contributions typically required in each state or development context – significant variation, even between two projects within the same local government area – was apparent. Our interview data suggested however that in growth areas of NSW and Victoria, contributions per lot are likely to reach around \$100,000 or more, while in Queensland, contribution amounts are

expected to reach around \$45,000 per lot pending the full implementation of changes to the infrastructure planning system in that state.

Although development contributions clearly represent the largest cost item as a monetary amount, our interviewees expressed qualified support for their imposition. Resistance focused not on the contributions themselves, but on the lack of certainty about what contribution obligations would actually be incurred for a particular project, and the timing, location, and quality of the infrastructure ultimately provided. These concerns were supported by local government respondents who emphasised a paralysing shortfall between planned infrastructure provision contributions actually collected.

Few respondents complained about the cost impact of physical planning controls. While some respondents identified costs associated with additional environmental requirements, these were seen to have clear market appeal, meaning that costs were easily offset by their value for purchasers. In these examples, developers were able to recoup expenditure on mandatory planning standards within final sales prices. Indeed, rather than calling for a relaxation of physical planning controls, some respondents expressed concern that premium developments might be undermined by the introduction of standard residential codes. However, there was concern about rigid subdivision and development requirements that effectively reduced development density and yield, adding unnecessary expense to projects.

The most significant costs perceived by respondents related not to quantifiable fees and charges, or development standards, but to more amorphous issues associated with procedural costs and land prices. Uncertainty about timeframes and likely planning requirements were rated as significant, unquantifiable and unpredictable problems, leading to a range of other negative outcomes – such as missed market opportunities.

## **Policy implications**

A number of policy implications arise from these findings. Firstly, the findings lend support to existing claims that planning systems in NSW, Queensland and Victoria are highly complex, lack certain and consistent decision frameworks, and are associated with significant and unpredictable fees or charges. Current reform processes already underway in these and the other Australian jurisdictions do purport to address such problems through greater standardisation, reduced administrative requirements, and new infrastructure charging regimes, so there is a close alignment with the stated objectives of current planning reform processes and the concerns raised by informants in this study. However, participants expressed limited confidence that reform processes currently underway would actually deliver promised benefits in terms of greater simplicity or faster processes. Further, continual change itself contributes to delays and uncertainty as new systems are bedded down.

Secondly, the findings of this study highlight a dearth of information about the cost impact of physical planning controls at the local level in Australia. Indeed there is an absolute lack of information about physical planning controls themselves, beyond the mandatory requirements contained in the nationally adopted Building Code of Australia (BCA). Therefore, anecdotal information about the extent to which local requirements add additional costs or obstruct innovative and affordable housing designs is difficult to substantiate or disprove on the current evidence. While developers appear to accept additional requirements that are easy to interpret and have demonstrable market appeal – such as certain environmental provisions – there is limited information about the costs, or benefits, of local idiosyncrasies in subdivision or engineering standards. Further, while costlier design requirements may be readily

recouped in price, there are potential implications of such requirements for affordable and diverse housing forms.

Thirdly, it appears that concern surrounding existing local government requirements for development contributions may be overstated, although there are demonstrated issues concerning the new, and selective imposition of charges for major items of regional infrastructure. Of greater concern is the capacity for local governments to deliver the infrastructure needed to support development – given the significant shortfalls in the amounts collected to fund planned infrastructure items.

Finally, specific provisions for affordable housing development (either supporting development or mandating inclusion) are generally absent from current reform agendas in Australia. This is somewhat surprising given that inclusionary housing policies are standard planning requirements across the United Kingdom and much of the United States. While important, planning system enhancements and administrative savings are unlikely on their own to resolve the supply shortage of housing affordable to low and moderate income Australians.

### **Reducing and offsetting costs**

Some of the local jurisdictions included in our study already undertake a structured process of appraisal to assess the potential cost or other impacts of new planning requirements, particularly with respect to housing affordability. Essentially such an appraisal should address the following broad principles of:

- Proportionality.
- Harmonisation with other jurisdictions.
- Efficiency.
- Simplicity.
- Equity.

When such analyses show that the proposal is sound and unable to be achieved with an alternative, lower impact approach, strategies for reducing or offsetting potential impacts for affordability in the short, medium, and long term, should be defined. These strategies include a combination of systemic enhancements to continue to standardise local planning requirements, charging regimes, and to reduce barriers to low cost housing provision; combined with specific mechanisms to enable and support affordable housing inclusion.

### **Conclusions**

This study represents a first step in establishing a qualitative understanding of the ways in which planning regulation has impacted on housing developments across 15 local jurisdictions in three Australian states. The findings confirm that planning system complexity and ambiguity is associated with significant costs for housing development in Australia. Planning system reform intended to reduce complexity, promote greater harmonisation of requirements, and clarify infrastructure obligations, would, if successful, improve the conditions for housing development in Australia. However, it seems unlikely that enhancing planning system efficiency alone will have a measurable impact on housing affordability and, in particular, the development of new housing that is affordable to those on low and moderate incomes. Rather, dedicated interventions – both within the planning system and beyond it, will also be needed to ensure that affordable housing is included within new and renewing communities in Australia.

# 1 INTRODUCTION: SETTING THE SCENE

Housing affordability has become an important theme in Australian urban policy discourse. Renewed interest at the Federal level in city planning, urban and regional infrastructure, and housing provision has presented new opportunities for strategic policy revision, in response to industry claims that planning regulation has stifled new housing supply and exacerbated unaffordability (e.g., HIA 2003, PCA 2007, UDIA 2007, UDIA NSW 2009). For instance, each of the Australian states have embarked on planning reform processes intended to simplify planning requirements with benefits for affordability (Milligan et al. 2009). Similarly, the metropolitan planning strategies for Australia's largest cities – Sydney, Melbourne, Brisbane, Perth, and Adelaide – all purport to achieve a diversity of well located and moderately priced housing within new and existing communities (Gurran 2008). Australian planning industry organisations have also accepted the need to examine their role in promoting diverse and modest housing forms in new development (PIA 2007). Despite this emerging policy interest, the research base to inform debates about planning regulation and housing affordability in Australia is limited.

This report addresses these themes. It is the final output of a project for the Australian and Urban Housing Research Institute (AHURI) on the impacts of planning regulations and charges on the costs of housing development in Australia. It follows a positioning paper (Gurran et al. 2008) which reviewed existing research and established the conceptual and methodological frameworks for the empirical findings presented in this final report. This introductory chapter of the report outlines the policy context and research methods for the study.

## 1.1 Policy context

Planning, and the potential costs it represents for housing development, is under the national spotlight. In its first report on the state of Australian housing supply, the National Housing Supply Council emphasised the critical role played by the planning system in the land and housing pipeline (NHSC 2009). In 2008, the Australian Senate Select Committee inquiry on Housing Affordability urged state and local governments to reduce planning system complexity and rationalise infrastructure funding arrangements, while the Commonwealth Government has announced measures to streamline planning and assessment processes for infrastructure and housing to contribute to “national economic recovery” (Prime Minister et. al. 2009).

A number of other nations with comparable systems of urban governance – such as the United States, Canada, the United Kingdom, and New Zealand – are all pursuing various processes of planning system reform to enhance housing supply and affordability outcomes. For instance, the United States Federal Department of Housing and Urban Development (HUD) has called on state and local jurisdictions throughout the United States to dismantle planning requirements that add unnecessarily to the costs of housing development (DHUD 2008). Similarly, the Canadian Government has introduced grants to sponsor planning reform for housing affordability (CMHC 2009). The affordability implications of planning processes are also under scrutiny in New Zealand (New Zealand House of Representatives 2008, Smith 2009). In the United Kingdom, the Barker reviews on housing supply (Barker 2004) and on the land use planning system (Barker 2006) have led to a series of reform commitments at national, regional and local levels (e.g., DCLG 2007, 2008).

A growing body of academic research in the United Kingdom and the United States has examined relationships between urban planning regulation – procedural requirements, development standards, and mandatory fees – on housing construction

rates and prices (e.g., Been 2005, Dawkins and Nelson 2002, Glaeser and Wards 2009, Ihlanfeldt 2007; Mayer and Somerville 2000; Monk and Whitehead 1999). This work suggests that planning regulation measurably affects the quantity, location, and price of new housing, although it is difficult to distinguish whether these impacts arise from positive demand effects ('good' planning creating more valuable communities) or negative supply shortages (punitive planning creating artificial shortages of development opportunity) (Ihlanfeldt 2007, 2009). Further, particular impacts vary according to differences in regulatory intensity (the type and concentration of planning requirements), and housing market context, factors that are highly contingent on place and time (Gyourko et al. 2008). Therefore, the extent to which the findings of international studies transfer to the specific urban planning and housing market settings characterising Australian cities and regions is unclear.

## **1.2 Research objectives, questions, and approach**

Within this context, this project sought to understand the relationships between urban planning regulation and housing outcomes in Australia, focusing particularly on the cost impact of planning regulations for housing development. We sought firstly to review international evidence on the impacts of land use planning regulations and charges for the cost of housing development, and to examine existing evidence on the costs of land use planning requirements and charges associated with the residential development process in Australia. We also sought to determine how the costs of planning requirements for residential development differ across the Australian states and territories; the factors explaining divergence; and the repercussions for residential developers and new housing provision. Finally, we sought to identify the policy implications of these findings, in terms of designing or evaluating planning provisions and contribution requirements affecting residential development outcomes in Australia.

The following questions guided the study:

1. What is the international evidence regarding the impacts of land use planning regulations and charges on the cost of housing development?
2. What is the existing evidence on the costs of land use planning requirements and charges associated with the residential development process in Australia?
3. How does the cost impact of specific planning requirements and charges differ across the Australian states and territories, and in a sample of selected case study developments? Specifically:
  - What are the relative costs associated with specific planning requirements, processes and charges, as a proportion of total planning related costs and total residential production costs, across a sample of case study jurisdictions? What factors explain divergences across these case studies?
  - To what extent are applicable planning related costs and charges able to be estimated upfront at feasibility analysis stage across the case study jurisdictions? What factors explain the extent to which requirements and charges are able to be known up front (i.e. complexity/simplicity of planning processes and charges; stability/instability in planning requirements and charges over time; complexity of the site or project itself; or other factors)?
  - Have Australian developers adjusted their decisions regarding which housing types to produce (including target densities and market sectors) according to different planning requirements and charging regimes?
4. What are the policy implications of these findings? Specifically:

- How should policy-makers and planners evaluate these potential cost impacts against the specific objectives of the regulation?
- To what extent could complementary measures (e.g., regulatory or alternative funding mechanisms) be introduced to offset any negative impacts on the costs of producing new and affordable housing in preferred locations?

In developing the research approach, we referred to the growing trajectory of international theoretical and empirical research on planning regulation (summarily defined as policy settings, procedural obligations, construction requirements, and compulsory fees or charges) and its relationship to the location, quantity, type, and price, of new housing.

A small but increasing number of studies, particularly in the United States, address these issues in a quantitative way, by assembling regulatory data across large samples of local jurisdictions, and analysing relationships between particular regulatory settings and construction rates and house prices (e.g., Glaeser and Wards 2009, Gyourko et al. 2008, Landis 2006, Nelson et al. 2002). However, such research uses deep data sets of local planning regulations, not currently available in Australia.<sup>1</sup> Our approach was therefore qualitative. Following similar work in the United Kingdom (e.g., Monk and Whitehead 1996, 1999), we were influenced by behavioural research methods to understand how specific planning settings affect the residential development process, focusing particularly on the perspectives of the main actors in this process – developers themselves.

This approach had two main advantages. Firstly, it allowed us to probe beneath the basic connection between regulation and house prices (which has been by and large empirically proved, as we discuss below). Instead of focusing on this specific regulation/price relationship, we were able to explore in greater depth the ways in which particular types of planning regulation affect housing outcomes. Secondly, a behavioural approach, which seeks to understand the perspectives and actions of major stakeholders in the planning and development process, recognises that planning processes are highly complex, affected by local diversity in formal regulatory controls and the different characteristics of decision-makers and sites (Monk and Whitehead 1999). Qualitative investigation through a series of local case studies has allowed us to manage this complexity while still helping to illustrate and explain how predicted relationships between planning requirements and developer responses actually occur.

We used multiple case studies extending across three Australian state jurisdictions and several local planning authority areas, providing a basis for examining how the impacts of planning regulation vary across different state and local jurisdictions and market settings. Cases were selected from the three most populated states of New South Wales (NSW), Queensland, and Victoria, which have been the main focus of industry concern regarding residential approval and development contribution requirements in Australia.

Table 1 sets out the data collection and analytic techniques in relation to our specific research questions.

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<sup>1</sup> The Australian Planning Policy Monitor may address this gap in future (Gurran and Phibbs, forthcoming).

**Table 1: Research questions, methods, data sources and analysis**

<i>Research questions</i>	<i>Research methods, data sources &amp; analysis</i>
What is the international evidence on the impacts of land use planning regulations and charges on the cost of housing development?	Review of international research on the relationship between planning regulations and charges and housing costs, with a focus on nations with comparable planning systems to Australia (the US and UK).
What is the existing evidence on the costs of land use planning requirements and charges associated with the residential development process in Australia?	Critical review and analysis of existing Australian research and data on the cost impacts of planning regulation and policy settings on housing development (limited to major studies undertaken in the past five years) to identify the main categories of cost impacts for housing development in Australia.
How does the cost impact of specific requirements and charges differ across the Australian states and territories, and in a sample of representative selected case study developments?	<p>Analysis of information and planning legislation documenting controls and charges associated with residential development in each state and territory; interviews with state and local government planners to confirm this analysis.</p> <p>Identification of generic classes of planning control, processes, and charges and their likely impacts on costs of housing production within the various development scenarios; expressed as an indicative cost schedule.</p> <p>Case study research on costs associated with planning controls in a representative selection of local government areas in three states; drawing on financial data provided by developers, and interviews with developers and planning authorities. Interviews and financial data to establish the relative proportion of each cost item to the total planning related and production costs; divergences across the jurisdictions; capacity to determine planning related costs in advance; and implications for decisions regarding development and pricing.</p> <p>Review of current planning reform processes in Australia.</p>
What are the policy implications of these findings?	Application and adaptation of work documented in the international literature, informed by the findings of this research, to develop a policy framework for evaluating and addressing the potential cost impacts of specific types of regulation against purpose in the Australian context.

Source: the authors

The method involved four broad stages.

### *1.2.1 Review of academic research and industry literature*

Our review of existing international and national research on relationships between planning regulation and the costs of housing development or house prices covered English language research published in academic journals and books. We also included key international and national level government reviews and reports of relevance to planning, residential development and affordability. The focus was on material published in the United States and the United Kingdom, because of their comparable land use planning traditions, and because a deep literature has evolved in these nations to address relationships between planning and residential development

outcomes, particularly outcomes relating to housing supply and affordability. We also examined research and submissions produced by the Australian housing development industry over the period 2003-2008. This review is presented in the positioning paper for this project (Gurran et al. 2008), however, the present report summarises this material. Following our first analysis of the empirical data collected in this study, we returned to the literature to assist with interpretation, and so this updated review of literature is also contained here.

### *1.2.2 Defining the frameworks for planning, development assessment and infrastructure contributions in Australia*

We drew on primary policy documents and legislation to explain existing arrangements for development contribution regimes in Australia, presented in the positioning paper for this project (Gurran et al. 2008). This final report updates this material and extends it to include a comparative overview of arrangements for plan making, amendment, and development assessment in Australia, as our case study interviews revealed that these stages are critical to the range of costs represented by the planning process. Given the major reform agendas currently underway across each of the Australian jurisdictions, we also expanded our review to define the key elements of planning reform, focusing particularly on NSW, Queensland and Victoria.

### *1.2.3 Understanding the range and scale of planning related costs to residential development in NSW, Queensland and Victoria*

The empirical component of the study sought to gain a more detailed understanding of planning arrangements and contribution requirements. A total of 36 developers, local and state planners, and industry representatives were interviewed across 15 local government areas (including 18 developers, 16 local and state government planners, and two peak industry representatives ()). Participation was anonymous, so developer participants and the particular case study sites referred to in this report are not identified by name. Developers were asked to focus their comments on specific projects within these local government areas, amounting to 26 individual case study developments (some developers referred to two or more specific projects). The interviews provided a basis for refining the initial schema of planning related costs presented in the positioning paper, for understanding the relative weight of particular types of costs in each jurisdiction, and for addressing research questions regarding the ways in which these costs affect development decisions for residential project planning and design.

The case study locations were chosen to reflect a range of spatial characteristics, including inner city, middle ring, outer ring 'Greenfield' and non-metropolitan urban centres (Table 2). The cases were also chosen to include a diversity of sites, to test for differences in relative direct costs to developers and builders of sites in Greenfield areas or infill/Brownfield sites. We also sought a diversity of developers with projects of different sizes, including large developments (more than 20 dwellings), medium (6-20 dwellings) and small projects (up to six dwellings).

**Table 2: Case study locations**

<i>State/area</i>	<i>New South Wales</i>	<i>Victoria</i>	<i>Queensland</i>
Inner	Randwick City Council	City of Melbourne	Brisbane City Council
Middle	Hurstville City Council	City of Moreland	Gold Coast City Council
Outer	Blacktown City Council Camden City Council Penrith City Council	City of Whittlesea Whyndam City Council City of Casey Hume City Council	Logan City Council Ipswich City Council
Regional			Sunshine Coast Regional Council Moreton Bay Regional Council

Source: the authors

In addition to background information about each project for context, our interviews with developers focused on the following issues, in line with the overall research questions for the study:

- The key components of the planning and development process, and the specific range and scale of costs that arose.
- How these costs were determined.
- How these costs have or are predicted to have impacted on the development and on other activities within the area (including the potential to recoup costs through sales; decisions regarding locations for housing development; and decisions regarding housing product mix).
- Strategies for improving the system (including perspectives on reform).

Interviews were undertaken face-to-face by members of the research team. They were tape recorded and then transcribed by a transcription service.

#### *1.2.4 Determining policy implications and options*

The case study interviews assisted in identifying approaches to evaluate, reduce, or offset the impact of planning requirements on the costs of housing production in Australia. This information provided the basis for constructing a policy framework for assessing the potential cost impact of proposed planning requirements and to identify options for reducing these impacts or offsetting any negative impacts on housing outcomes and affordability.

#### *1.2.5 Research limitations*

An overall limitation of this research is that the qualitative method means we are unable to offer any statistical evidence for the observed and claimed implications of planning regulations for residential development costs, rates of housing supply, and house prices. Such work would be a useful extension of the findings presented here. Nevertheless, we believe that the qualitative exploration of specific types of planning regulation and their impacts for a range of residential developers in Australia provides a useful evidence base to inform current and future processes of planning reform.

To some extent, our case study selection strategy was limited by our capacity to recruit development industry participants. This proved one of the most challenging aspects of this research, despite enlisting the support of peak development groups such as the Urban Development Institute of Australia (UDIA) for assistance in recruitment. A likely explanation for this is that our fieldwork coincided with the beginning of a housing market downturn – meaning that concerns associated with planning and development costs had less urgency for industry stakeholders.

Further, few participants opted to provide access to financial information regarding their projects, even on the basis of confidentiality, although this was an important component of our initial research methodology. This has limited our ability to quantify claimed impacts associated with specific planning regulations in each case, although we have included ‘ballpark’ data on forecast/generalisable cost break downs, where provided and able to be verified by interviews with local authorities (Appendix One).

Potential reasons for the inability or reluctance of respondents to provide specific financial data on planning expenses include limitations in the ways in which development costs are monitored and commercial sensitivity of financial records. Several developers advised that they do not specifically monitor actual data on costings associated with planning requirements, many informants advised that they are unable to quantify these costs themselves (although they were able to verify the classes of cost identified and propose others). While project accountants retain records of expenditure, detailed scrutiny of internal, commercially sensitive records would be required to assemble disparate data on the spectrum of expenses relating to planning requirements. Ultimately, respondents were not able or willing to expose their records in this way.

This failure to provide specific cost data was somewhat surprising given the level of overall industry concern regarding planning related costs for residential development, as reviewed in the positioning paper for this project. Again, the timing of our fieldwork, coinciding with the housing market downturn in late 2008, may explain lower levels of industry concern and thus motivation for documenting expenditure related to planning requirements for housing development. A second explanation may be that actual planning costs are not readily quantified because they are so complex and difficult to determine, incurred at multiple stages and scales of the planning process. This interpretation would support broader claims about the opacity of the planning system, but challenges assumptions that costs are able to be directly ‘passed on’ to first buyers. We return to these issues in our concluding chapter.

Despite our inability to secure information on the cost of planning requirements in each of our case study locations, we were able to ascertain the major concerns associated with each regulation type and the relative scale of impact in relation to other planning requirements.

Further, the weight of international literature suggests that the impact of planning related costs may be much greater than their simple monetary value, and that this impact will vary from location to location and at different points in the market cycle. Therefore, while understanding such costs is certainly significant for policy-makers, of more overall importance is the relative impact of particular types of regulation and the ways in which its design and implementation affects this impact. Our qualitative methodology does provide a way of exploring these relationships.

More detail about the research methodology and specific data collection techniques is contained in the following chapters.

## 1.3 Key terms and concepts used in this report

The next two sub-sections define the key terms and concepts used in this report, viz planning regulation, housing production costs and affordability.

### 1.3.1 Planning regulation

The urban planning system regulates housing development. It does this by:

- Identifying and allocating land for new housing, consistent with community and environmental objectives (expressed in spatial policies).
- Specifying physical controls to govern the amount (or ‘density’) of new housing to be permitted, its configuration, design, and construction.
- Assessing specific proposals against these controls.
- Establishing fees or charges towards the cost of providing shared local infrastructure required as a result of the new housing, and for planning assessment itself.

We use the term ‘planning regulation’ to refer to this package of strategic spatial policies, procedural requirements, physical controls, and fees or charges, each of which in isolation or combination, may represent a particular cost implication for housing development. Our study focuses on ‘cost’ as a perceptible impact of planning regulation, although not all costs can be precisely quantified in dollar terms. For instance, the ‘cost’ of a particular fee or charge may far exceed its simple dollar amount, if its impact is to discourage housing development within a particular location. Further, as we discuss later, perceived costs, or uncertainty about total costs, may have as significant an impact on the quantity, type, and location of new housing, as actual charges.

Terminology used to describe planning regulation differs from jurisdiction to jurisdiction. The key terms used in Australia to refer to elements of the planning system are summarised in Table 3.

**Table 3: Planning regulation and terminology in Australia**

<i>Planning stage</i>	<i>Regulatory process / requirement</i>	<i>Australian terminology</i>
Strategic planning/plan making/plan amendment	Allocating land for new housing/redevelopment	‘Rezoning’, ‘Strategic Planning’, ‘Land release’
	Setting physical ‘development controls’ or ‘standards’ for housing density, design, and construction	‘Strategic Planning’, ‘master planning’
Development assessment/approval/refusal	Assessing specific proposals or ‘development applications’ against these physical controls	‘Development assessment’, ‘Planning permission’, ‘Permit approval’, ‘Consent’
	Administrative charges, contributions for infrastructure, conditions of planning approval	‘Application fees’, ‘Development contributions’, ‘Conditions of consent’

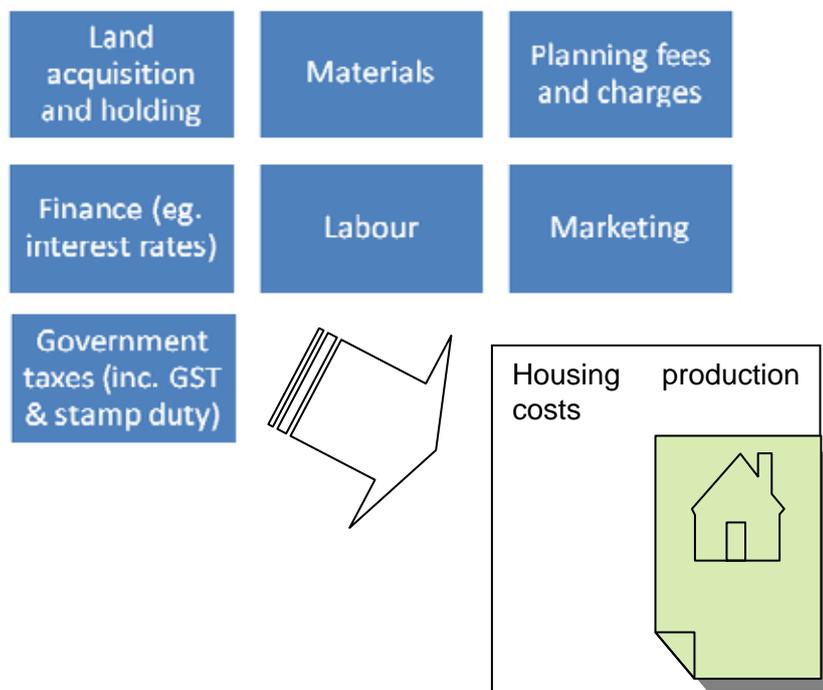
Source: the authors

As shown in Table 3, the planning process is defined by two key stages. The first stage, generally known as 'strategic planning' is when planning instruments (which allocate permissible land uses and define physical development controls) are made or amended. The second, which may occur simultaneously or many years later, depending on the proposal, is the process of development assessment, where specific applications are assessed against these physical rules. Approved developments are generally subject to 'conditions of consent', which often include the payment of contributions towards the infrastructure needed to serve the development. These payments are called 'development contributions'. All Australian planning jurisdictions have introduced some arrangements to enable collection of financial or in kind payments to meet all or part of the site-based, neighbourhood or local level infrastructure that is required for development to proceed, but the level of contribution, and approaches to collection, vary greatly. In many, but not all Australian planning jurisdictions, development contributions represent the major direct cost associated with the planning process, so they are discussed at some length in Chapter 3.

### 1.3.2 Housing production costs and affordability

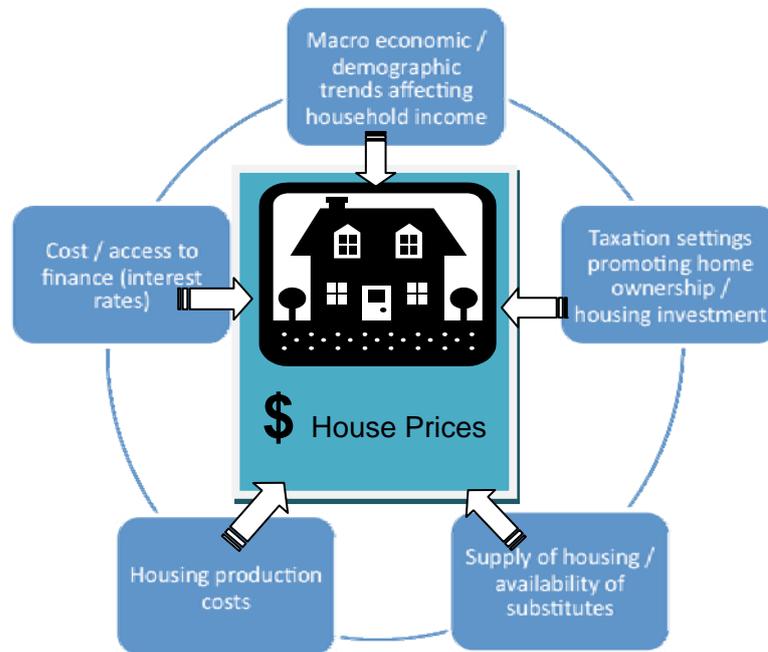
Housing production costs are influenced by a range of factors, including planning regulation, but also expenditure on construction materials and labour, marketing and selling costs, and other government taxes and charges (Figure 1).

**Figure 1: Factors influencing housing production costs**



Source: Gurrán et al. 2008, p.8.

**Figure 2: Factors influencing house prices**



Source: Gurrán et al. 2008, p.8.

In turn, housing production costs are only one of a range of factors affecting the price of new houses and thus their affordability, particularly for those on low and moderate incomes (Figure 2). As shown in Figure two, house prices reflect much more than the direct costs of land acquisition and housing construction. The price of established housing, the costs and availability of finance, income and economic trends, and the overall availability of new or existing housing, combine to affect the complex balance of demand, supply, and the price of housing, including its affordability for those on low and moderate incomes.

This broader concept of housing ‘affordability’ refers to the relationship between income and housing costs. In Australia, the benchmark measure of affordability for those on low or moderate income groups (i.e., groups up to 120 per cent of median household income for a particular location or region) is generally 25-30 per cent of gross household income (HLGPM 2005, Yates and Milligan et al. 2007). Government housing assistance policies focus on low and moderate income groups because those on higher incomes have more residual resources after housing costs, even when these housing costs exceed the 30 per cent benchmark. Higher income groups are also more able to control their housing expenditure by modifying their choices and aspirations. Nevertheless, the 30 per cent benchmark ratio of income to housing costs remains an influential indicator of broad housing affordability in Australia, for instance, in relation to accessing mortgage finance. This is an important measure for housing developers, whose potential market is determined by its capacity to ‘afford’ to pay for, or finance, their product

While the cost of housing production does not determine the final price of new homes on the market, when production costs and reasonable profit exceed potential sale prices (that is, the price the market is able, and willing, to pay), the rate of new housing development will be affected. Therefore, excessive costs affecting housing production, including any unnecessary costs arising through planning regulation, are likely to exacerbate affordability problems in the long term (DHUD 2005).

### *1.3.3 Other government charges and costs associated with the residential development process*

Residential development processes are affected by a range of other direct and indirect government charges and costs beyond the scope of the planning system itself. These include taxes associated with property acquisition and investment, such as stamp duty, land taxes and local government rates, as well as the Goods and Services Tax (GST). In some jurisdictions, contributions for specific utilities such as electricity, telecommunications, or water connections may also be levied separately from the planning process itself. We document these taxes and charges where they are referred to by participants in the case study research and in industry publications as a cost to residential development, but they are beyond the direct scope of this project. However, it should be recognised that these costs are included in many of the studies initiated by the development industry – potentially leading to over-estimates of the impact of planning on house cost.

## **1.4 Report structure**

Following this introductory chapter, the conceptual framework for understanding planning regulation and housing outcomes is established. The chapter introduces planning and the reasons for its role in the residential development process; outlines development industry discourse on land use planning and affordability; and reviews the international research and literature.

Chapter three introduces and compares the legal frameworks for planning control in Australia, with particular emphasis on frameworks for development contribution arrangements in NSW, Queensland and Victoria, and on current agendas for planning reform. It extends and updates the material presented in the positioning paper, drawing on interviews and documents provided by state and local government planners.

Chapter four outlines industry perspectives on the costs associated with planning regulation for residential development in Australia. This chapter draws on our case study research, and interviews with developers and industry representatives from NSW, Queensland and Victoria.

Chapter five examines developer perspectives on the impacts of these costs for decisions about the location, quantity, and type of housing produced. It also draws on our interviews to identify options for reducing, or offsetting these costs, including strategies underway through current processes of reform.

The concluding chapter brings this information together in relation to the overriding research questions, and identifies key policy implications and priorities arising from the research.

## **2 PLANNING REGULATION AND HOUSING OUTCOMES: THE LITERATURE**

The first part of this chapter provides the conceptual framework for understanding planning regulation and the reasons for its role in the residential development process. This role is controversial, and the second section of the chapter summarises Australian industry discourse on land use planning and its perceived negative impacts for housing affordability. Australian industry views reflect deeper arguments about the impact of regulation on housing outcomes and the third section of the chapter reviews existing theoretical and empirical work on these themes, most of which has been undertaken in the United Kingdom and the United States. As well as the overall relationships between planning and housing outcomes, we review research on how the design and implementation of planning policies and requirements, may affect decisions regarding the rate, scale, location, and design of new housing supply.

### **2.1 Planning and the residential development process**

The reasons for intervening in the land and housing development process through city or regional planning relate to a variety of social and environmental goals – from the need for healthy, safe, fair, prosperous and attractive communities through to protecting natural resources and heritage. We explained each of these objectives at some length in the positioning paper for this project (Gurran et al. 2008). They can be summarised in relation to five broad objectives: (1) minimising the spillover of negative impacts or ‘externalities’ arising from private development, and maximising positive benefits; (2) promoting social fairness and participation in the process of urban and regional change; (3) overcoming monopolies that could restrict the supply of land (through powers of land categorisation and compulsory acquisition); (4) providing the information needed for coordinated development and investment; and (5) promoting healthy, safe, and aesthetically pleasing built environments, by securing important social goods that the market might otherwise under provide or over consume (Barker 2006).

#### *2.1.1 Changing planning policy agendas: from slum alleviation to environmental protection*

At the turn of the last century, the modern urban planning movement promoted these objectives through a combination of visionary processes intended to alleviate slums, and deliver affordable housing to the working class on the one hand; and more pragmatic efforts to encode basic health and safety standards through building standards and requirements on the other. From Ebenezer Howard’s altruistic garden cities movement in the United Kingdom, with its agenda of lower rents, and better homes and gardens for socially mixed communities; to the American social reformers intent on slum clearance in the major cities, the evolution of urban planning has coincided with the introduction of major public housing programs in many parts of the world (von Hoffman 2009).

Today, in the face of mounting scientific evidence and community concern over increasing biodiversity loss, natural resource degradation, and climatic change, environmental protection has emerged as a major justification for planning. Indeed, Bramley (1993) points to a distinct shift from social research (demographic projection) to environmental capacity as the guiding rationale underpinning growth proposals within local planning strategies in the United Kingdom. By the late 1980s, most spatial planning policy in the United Kingdom, as in Australia, sought to achieve urban containment – meaning more intense growth within existing urban areas, often on

former industrial or 'Brownfield' sites, and limited release of new 'Greenfield' land on the urban fringe. Similarly, in the United States, attempts to limit the extension of suburban 'sprawl' have been introduced by many cities under the banner of 'growth management' (Landis 2006). Essentially the goals are the same: to minimise the impacts of urban settlements on biodiversity by limiting the outward expansion of cities, reducing traffic congestion, and promoting greater energy and water efficiency.

### *2.1.2 Characteristics of planning systems*

A system of procedural requirements, physical controls, and funding arrangements, has emerged to achieve these objectives through the planning system. Procedural controls include the need for permission to undertake development, and the supporting administrative requirements to secure such permission. Physical controls relate to the allocation of land for particular uses, as well as standards or criteria for subdivision, design, and construction. Funding arrangements include payment for administrative processes associated with securing planning permission, and contributions towards the shared infrastructure on which new development will depend.

Planning systems differ from jurisdiction to jurisdiction, in terms of the procedural requirements imposed, in the specific controls used to manage development, and in the mechanisms for securing funds. The national planning system of the United Kingdom emanates from a strong policy framework for implementation through detailed spatial plans which specify preferred activities at the local level, justified by detailed demographic analyses (for instance of housing demand and need), and research on environmental capacity. Most land use changes require formal development assessment, and approval is by no means certain until conferred. Final development proposals represent the outcome of a negotiated process, incorporating developer contributions (known as 'section 106 agreements', under the United Kingdom Town and Country Planning Act 1990) for local infrastructure or other services, including affordable housing.

Land use planning is the responsibility of state governments in the United States, and the majority of jurisdictions use land use zoning as the prevailing form of control (White and Allmendinger 2003). Land use zoning specifies which uses will be permitted within a designated area, so provides some certainty as to the likely outcome of a planning proposal. Zoning controls are typically used in combination with detailed municipal ordinances or codes, specifying standards for subdivision, housing design and construction. In contrast to the negotiated system for infrastructure contributions used in the United Kingdom, most jurisdictions in the United States use 'impact fees' levied according to codified formulas relating to the potential impact of each development type (Mathur et al. 2004). However, the details of land use zones, development standards, and impact fee requirements, differ markedly from state to state and across local jurisdictions, according to state legislation and the discretion of local authorities (White and Allmendinger 2003).

Australian planning combines elements of both the discretionary British model and the land use zoning approach used in the United States, with differences across each state and territory (Gurran et al, 2008). In common with the United States, there is a strong bias towards the process of land use categorisation – zoning or an equivalent system of designation according to uses, with presumed permissibility of proposals that meet requirements specified in the local plan. This means that the strategic planning process is a significant, time consuming, and legally complex part of the development process. However, in common with the United Kingdom, permissibility for most developments is not assumed or granted as of right, even when projects appear to conform to all applicable criteria. This means that most proposals are also

subject to a further discretionary ('merit based') assessment process and period of negotiations, further extending timeframes, particularly for projects that do not conform precisely to criteria specified in the applicable land use plans. Current planning reform processes underway in Australia seek to reduce the number of project proposals requiring merit based assessment as well as streamlining processes for plan making or land use categorisation, as discussed further below. Nevertheless, aside from a new trend towards 'master planning' of major new development and urban renewal sites (whereby land use regulations and specific proposals are defined and assessed simultaneously) the dual process of US style land categorisation or zoning and further UK style discretionary project assessment is likely to remain a defining feature of Australian planning.

### *2.1.3 Spatial regulation versus taxation: implications for housing*

Spatial planning regulation differs from other potential mechanisms for managing the potential impacts of development, such as a tax system, because land is an irreplaceable resource. While a tax system would allow the market to determine the potential benefits of an activity against its costs, the costs of externalities such as environmental degradation are difficult to predict and allocate (Evans 2004, p.168).

Planning permission (and restriction) represents a potential premium for developers, firstly, because it provides certainty in relation to future developments within a particular area, and, secondly, because it is rationed. Without it, developers may be unwilling to risk an investment that might be devalued suddenly by a flood of competing products (or developments) that might well exceed demand (Bramley 1996). Scattered development patterns, project abandonment, and the destabilisation of existing markets might also result from this situation (Bramley and Leishman 2005, Evans 2004).

### *2.1.4 Potential costs of planning regulation for housing outcomes*

Having established the social benefits that planning is intended to create or preserve, and the negative outcomes it is intended to avoid, it is important to also consider its costs. In relation to housing outcomes, the main costs relate to the overall impact associated with land use constraint (thought to impact land availability and thus prices); as well as the specific costs associated with securing permission to operate within this system of constraints. We divide these latter costs into three main categories: procedural costs associated with securing planning approval; compliance costs of meeting specified development controls, and fees or charges towards administration and infrastructure.

Procedural costs include time delays (largely measurable in staff resources and interest payments) and professional resources (for instance, the cost of preparing studies or commissioning consultant reports). More obliquely, there are costs associated with courting favourable relationships with planning authorities, or pursuing a preferred outcome through the court. Economists describe such costs as 'premium seeking expenditure' (Evans 2004). Such expenses are committed to increase the likelihood of project success, and are higher when approval is less certain (Evans 2004, p.108). It is likely that procedural costs associated with seeking planning approval for residential development will be greater within jurisdictions characterised by ambiguous planning controls, inconsistent decision making, or long delays.

We define compliance costs in relation to the particular planning controls governing residential subdivision (e.g., minimum lot sizes, street setbacks, footpath, road width and lot configuration requirements); and housing construction (e.g., controls on bulk, scale, site coverage and streetscape relationship, building materials, and environmental requirements). These may be regarded as an additional, or specific

planning cost when the controls exceed standard building safety and environmental performance requirements (as expressed in mandatory building codes, such as Australia's Building Code of Australia (BCA)).

The third group of costs includes any payments or levies required through the planning process, such as application or other administration fees, and fees paid as a condition or outcome of planning approval. These payments include development contributions for infrastructure and services.

## **2.2 Industry perspectives on planning regulation and housing affordability**

Both sectors of the Australian housing industry – land developers and house builders – have expressed considerable concern about the impact of planning regulation on the cost of residential development. To analyse these concerns, we reviewed the major reports and submissions produced by the peak industry bodies between 2003-2008 (chiefly the Housing Industry of Australia (HIA), the Property Council of Australia (PCA) and its residential development division, the Residential Development Council (RDC), and the Urban Development Industry of Australia (UDIA)) (Gurran et al. 2008). This review highlighted four main industry concerns:

- Perceived restrictions on the release of new greenfield land, particularly in metropolitan areas, and consequent inflationary pressures on land prices.
- The related issue of delays and uncertainty in processing applications for rezoning or subdivision, even if these applications are ultimately approved.
- The increasing complexity of planning controls, the costs associated with demonstrating compliance (e.g., consultant reports), and increased costs associated with meeting new environmental requirements governing site preparation and remediation, building design and materials.
- High infrastructure contribution requirements in certain jurisdictions (particularly NSW and Queensland), and the rapid escalation of these charges.

Many of the reports we reviewed claim to quantify the cost impact of each of these areas of concern in relation to the final price of homes. Overall, the RDC has asserted that about a third of the cost of new house and land packages relates to taxes and levies and 'compliance costs', which are the costs of meeting planning regulations and holding costs associated with the approval process (RDC 2007). The RDC believes that such costs have increased overall by around 300 per cent over five years (RDC 2007, p.1). Industry estimates of increased costs within particular jurisdictions include 600 per cent in Redlands (Queensland), over 300 per cent for Perth, Adelaide and the Gold Coast, 200 per cent in North West Sydney and Canberra, and 150 per cent in Melbourne over five years (RDC 2006).

In relation to land supply constraints, the UDIA has claimed that rezoning processes to release residential land typically take between two to five years and add an additional \$7,000 to the cost of individual lots (UDIA 2007, p.17). These additional costs are claimed to arise as a result of increased complexity in planning schemes and state legislation. Similarly, the RDC asserts that restrictive land release policies add around \$30,000 to the price of a block of land (RDC 2007, p.8).

Planning 'delays' and 'inefficiencies' add around 10 per cent of the cost of a new home, according to the HIA (2003, p.18). Of particular concern for house builders are the different planning control regimes applying at the local level, with varying compliance and infrastructure contribution requirements. This means that developments within two neighbouring jurisdictions may proceed along very different

timeframes and according to very different cost structures, affecting house prices and frustrating opportunities for builders to 'benefit from economies of scale' (HIA 2003, pp.17-18).

When timeframes are protracted, infrastructure payment obligations can escalate sharply. The UDIA has estimated that infrastructure charges have increased in the order of between \$5,000 and \$40,000 per lot within some jurisdictions, in the time taken to receive development approval, which, when compounded with the holding costs associated with delays, mean that charges and holding costs might amount to around \$100,000 per lot (UDIA 2007, p.18). Despite the theoretical potential to pass charges back to the land seller in a lower sale price, the industry has argued that this is unworkable when requirements are not known in advance (UDIA 2007, p.18). Rather, the industry reports and submissions reviewed emphasise that planning related costs and charges are passed forward in sales prices paid by the first purchaser.

Relying on industry sources, the National Housing Supply Council (NHSC) presents a picture of considerable change in government charges and development contributions over the past three decades, focusing on Sydney, Melbourne and Brisbane.

**Table 4: Government charges and infrastructure costs for broadacre developments, Sydney, Melbourne and Brisbane, mid-1980s, mid-1990s and 2007**

<i><b>Sydney</b></i>	<i><b>Mid-1980s</b></i>	<i><b>Mid-1990s</b></i>	<i><b>2007</b></i>
Section 94 contributions (a)	\$3,000	\$15,000	\$45,000
State infrastructure charges	\$0	\$0	\$33,000
Local government regulations	\$2,000	\$4,000	\$8,000
Compliance costs	\$0	\$0	\$7,500
Stamp duty	\$500	\$2500	\$6,320
<b>Total charges</b>	<b>\$5,500</b>	<b>\$21,500</b>	<b>\$99,820</b>
<i>Median house price</i>	<i>\$157,275</i>	<i>\$196,750</i>	<i>\$591,244</i>
<i>Proportion of charges to house price</i>	<i>3.5%</i>	<i>10.9%</i>	<i>16.9%</i>
<i><b>Melbourne</b></i>	<i><b>Mid-1980s</b></i>	<i><b>Mid-1990s</b></i>	<i><b>2007</b></i>
State infrastructure charges	\$0	\$1,668	\$5,400
Local government regulations	\$2,000	\$5,412	\$15,000
Compliance costs	\$0	\$0	\$6,600
Stamp duty	\$500	\$900	\$2,750
<b>Total charges</b>	<b>\$2,400</b>	<b>\$7,980</b>	<b>\$29,750</b>
<i>Median house price</i>	<i>\$124,435</i>	<i>\$149,494</i>	<i>\$440,688</i>
<i>Proportion of charges to house price</i>	<i>1.9%</i>	<i>5.3%</i>	<i>6.8%</i>
<i><b>Brisbane</b></i>	<i><b>Mid-1980s</b></i>	<i><b>Mid-1990s</b></i>	<i><b>2007</b></i>
State infrastructure charges	\$0	\$1,942	\$30,000
Local government regulations	\$1,500	\$2,580	\$4,950
Compliance costs	\$0	\$0	\$6,600
Stamp duty	\$300	\$750	\$1,688
<b>Total charges</b>	<b>\$1,800</b>	<b>\$5,272</b>	<b>\$43,238</b>
<i>Median house price</i>	<i>\$93,063</i>	<i>\$144,475</i>	<i>\$516,288</i>
<i>Proportion of charges to house price</i>	<i>1.9%</i>	<i>3.6%</i>	<i>8.4%</i>

(a) Section 94 contributions are charges paid by developers to fund public amenities and services required as a result of the development.

Source: NHSC 2009, p.125 (derived from unpublished HIA supplied data)

The figures shown in the table do not refer to specific jurisdictions or particular projects within the three cities, and so must be interpreted as approximations. Indeed, as emphasised above, the inability for developers to ascertain the range of applicable local and state charges applying to a particular site and development is the major source of complaint across the industry position papers reviewed. Nevertheless, the NHSC data demonstrates a steady increase in charges as a proportion of total house prices over the past two decades (notwithstanding significant house price inflation); and shows the introduction of new state charges as a major factor contributing to the total amount paid. We investigate these issues further through our empirical research.

## **2.3 Planning and land supply, housing construction and house prices**

There is an established and growing academic literature on the relationships between planning, residential land supply, housing construction, and house prices. Much of this work has originated in the United States (e.g., Black and Hoben 1985, Dowall 1981, Dawkins and Nelson 2002, Glaeser and Wards 2009, Ihlanfeldt 2007, Pendall et al. 2006); and the United Kingdom (e.g., Bramley 1993, 1996, Monk and Whitehead 1996, 1999). There have also been some recent contributions from developing regions (see Egbu et al. 2007). These address the same fundamental questions regarding planning regulation and housing outcomes, but emphasise that the nature and impact of regulation differs from context to context, implying the need for caution in transferring findings from one cultural and legal setting to another.

Overall, this work seeks to test the theoretical potential for regulation to act as a constraint on land availability, thus creating an artificial supply shortage that is reflected in higher land or housing prices (Dawkins and Nelson 2002). The impact should be greatest where there are no ready substitute locations with lower restrictions. Empirical research carried out over the past two decades supports this expectation, although the scale of impact remains unsettled. The main debates are methodological – planning regulations themselves are so heterogeneous as to largely defy measurement and categorisation, further, the implementation of a particular requirement might depend entirely on other factors, such as the attitude or training of local officials. Similarly, local housing markets are affected by a range of endogenous factors that are very difficult to control for when undertaking quantitative studies over diverse geographical areas. These factors include the impact of natural constraints on the supply of developable land, locational attributes such as distance to the city centre, employment lands, or amenities, and patterns of population growth. Such factors could actually stimulate a more restrictive planning response as a form of management, making causality difficult to determine (Dawkins and Nelson 2002). For example, when geographic and regulatory constraints were considered in combination in a study of 45 cities in the United States, they were found to affect 40 per cent of price difference, with a quarter of this difference relating to regulation (Rose 1989a & b; cited in Dawkins and Nelson 2002).

Early research on the relationships between planning regulation and house prices used broad scale, impressionistic, characterisations of regulatory settings, finding statistical correlations between price and level of regulatory restriction (Black and Hoben 1985). Since this time, new sources of data have been constructed to enable more definitive analysis of the relationship between planning controls, housing construction, and prices in the United States. These include the Massachusetts Local Housing Regulation Database, which holds information on local zones and other land use regulations used by 187 authorities as at 2004 (Schuetz 2009), and the Wharton Survey of Land Use Regulation, which includes over 2000 municipalities (Gyourko et

al. 2008). There have also been specific surveys of local planning policy applying to particular cities and regions (e.g., Lewis and Neiman 2000, Pendall et al. 2006).

Combining data on planning regulations, price and house start information applying to 44 metropolitan areas in the United States between 1985-1996, Mayer and Somerville (2000) found that more regulation was associated with up to 45 per cent lower housing starts and 20 per cent lower price elasticity. The particular regulations examined included growth management techniques (which were counted to achieve an index of restriction); approval timeframes; and the use of development contributions (usually known as 'impact fees' in the United States). A more recent study, using a planning control database applying to 45 cities in Florida found that an increase in regulation raised house prices by up to 9.5 per cent (per unit of regulation increase measured), but reduced land prices by about 14 per cent (Ihlanfeldt 2007). More regulation was also associated with larger homes. The author concluded that the variance between house price increase and land value decrease meant developers absorbed increased development costs associated with planning:

“... an increase in land use regulation restrictiveness strongly affects development costs ...The only explanation that can be given for the inverse relationship between restrictiveness and land values is that regulation tends to increase costs by more than the increase in housing price” (Ihlanfeldt 2007, p.434).

Illustrating the difficulties of isolating the regulatory impact on prices from other potential influences, Glaeser and Wards (2009) identified price variations of around 12 per cent per acre lot, within the more regulated areas of Greater Boston, but found that this variation disappeared when demographic variables and historical density was taken into account. They concluded that “the major way in which land use restrictions impact price is by changing the density and demographic composition of a town” (Glaeser and Wards 2009, p.267).

A more positive view of the ways in which planning affects house prices emerged from a study of 100 communities in 24 counties of Florida, using per capita annual expenditure on comprehensive planning activities as a measure (Ihlanfeldt 2009). The author hypothesised that if comprehensive planning was beneficial, this should be capitalised in house prices, at least in the short term (in the long run price impacts are able to be overcome by using the planning framework to release more residential development opportunities, and by introducing similar planning controls to other existing and new areas (Ihlanfeldt 2009, Dawkins and Nelson 2002). The study found a substantial increase in house value attributable to local government commitment to comprehensive planning, with up to an \$891 increase in house prices for every per capita dollar spent on comprehensive planning activities (Ihlanfeldt 2009, p.84).

Qualitative research exploring the interactions and negotiations of developers within different planning frameworks in the United Kingdom supports the overall view that more intense or onerous regulatory regimes are associated with fewer construction starts, displaced housing development, and higher house prices (Monk et al. 1996, Monk and Whitehead 1996, 1999). Importantly, this research suggests that developer perceptions about planning policies and their interpretation by local authorities are as significant in mediating housing outcomes as the content of the policies themselves.

### *2.3.1 Which planning regulations have the greatest impact on housing outcomes?*

The above, largely quantitative studies point to relationships between planning regulation, housing construction and price outcomes, but shed less light on the particular types of planning regulation most associated with impact. Further, very

limited research exists on the housing impacts associated with specific classes of control – for instance, subdivision or building codes, environmental conservation measures, or heritage and design requirements (Schill 2005). However, a few observations emerge.

### *2.3.2 Overall characteristics of planning control*

Overall, heavier planning regulation, including high contribution regimes, may influence the type of new housing constructed (Ihlanfeldt 2007). A proliferation of regulation and fees and heterogeneity in local controls appears to coincide with lower construction rates and higher house prices in many parts of the United States, in comparison to cities and regions with looser regulatory regimes (Gyourko et al. 2008). Similarly, when requirements are ambiguous, timeframes lengthy, and approval uncertain, rates of construction are lower (Glaeser and Wards 2009, Mayer and Somerville 2000). In the United Kingdom, unpredictability and planning system delay have been found to greatly reduce the capacity of house builders to respond to shifts in demand, once their inventory of ready land is exhausted (Monk and Whitehead 1999).

The highly negotiated and discretionary character of the English planning system has a significant impact on the degree of certainty associated with housing investment (Evans 2004). Further, the British system is associated with a high degree of control – most land use changes require formal development assessment, and approval is by no means certain (White and Allmendinger 2003). While this should optimise environmental outcomes, costs in assessment and negotiation time, overshadowed by the risks of refusal, are likely to deter some development that might otherwise be proposed (Monk and Whitehead 1999). Additionally, smaller developers appear disadvantaged by this uncertain and expensive process, resulting in fewer, larger development firms, homogeneity in development outcomes, and perhaps less choice for purchasers (Evans 2004). By comparison, in the United States, zoning systems specify in advance which particular activities will be permitted, offering greater certainty and lower assessment costs at the expense of nuanced treatment of individual development (Evans 2004, White and Allmendinger 2003).

### *2.3.3 Land supply policy settings and growth management*

A number of scholars have examined the impact of growth management controls on housing outcomes, due to their presumed impact as a constraint on residential land supply. This work suggests that growth management controls affect land prices and construction rates if they reduce overall development opportunities, but their impact is much less if they are offset by planning controls that permit increased densities within the urban area (Gyourko et al. 2008, Landis 2006, Nelson et al. 2002). In one study of the impact of growth management programs in California, certain controls – population caps (restricting annual building permits) and ‘super-majority approval requirements’ (where approvals are decided by vote) – were associated with lower construction rates and higher house prices (Landis 2006). However, other approaches to growth management, such as the imposition of an urban growth boundary, were found to redistribute growth towards the centre, but do not innately produce higher house prices or lower rates of supply (Landis 2006).

### *2.3.4 Exclusionary controls and barriers to low cost housing*

At the local level, several particular controls are consistently associated with higher development costs, lower rates of housing construction, and higher overall house prices. In the United States it has been claimed that many types of planning control – particularly those that restrict density, prohibit multi-family units, mandate expensive building materials, and impose high developer contributions or ‘impact fees’ – are

designed implicitly to maintain social exclusivity within suburban neighbourhoods (Schuetz 2009). As noted, the empirical data on relationships between particular regulatory settings and house price outcomes points to a connection between socio-economic status, planning regime intensity, and higher house prices in the United States (Glaeser and Wards 2009). Similarly, in their survey of over 2000 jurisdictions in the United States, Gyourko et al. found that:

“...community wealth is strongly correlated with the degree of local land use regulation ...the strong correlation with community wealth proxies suggests that researchers and policy makers should seriously consider exclusionary desires as a motivation in many instances” (Gyourko et al, 2008, p.695).

Schill (2005) explains that planning controls have been manipulated in the United States to inhibit housing development or increase its price, as a wealth creation strategy for existing residents (who benefit from scarcity in a desirable area), or a financial strategy for municipalities:

“local governments will seek to limit housing development for fiscal reasons. Because local governments must raise taxes to fund schools and other needed public services, they typically are under pressure to promote certain types of development over others. Commercial uses and large homes that generate substantial tax collections (known as ‘fiscal zoning’) are favoured; dense housing developments and low-cost housing that increase demand for schools and social services beyond the tax revenues they generate are disfavoured. Large lot zoning, expensive subdivision regulations, excessive building codes, and prohibitions on multifamily housing can effectively ensure that the price of housing is so expensive as to prevent cross-subsidisation.” (Schill 2005 p.7).

Schill goes on to note that such controls can be used to achieve social homogeneity:

“While sometimes difficult to distinguish from fiscal zoning, many of these same regulations can be used by municipalities to promote social or racial homogeneity. In some instances, residents of a town will be concerned with the disamenities that could arguably arise from close proximity with people who are different from themselves. In other instances, residents may be motivated by racist or classist impulses.” (Schill 2005,p.7).

Given the lack of similar research on the Australian context, it is difficult to estimate the extent to which planning regulations may be acting to disguise such social biases in this country. However, the propensity for local planning authorities to exceed the national environmental, health and safety standards established by the Building Code of Australia introduces the potential for planning codes to inadvertently or otherwise raise the cost of housing construction, representing a barrier to lower priced and innovative housing forms. Even minor variations in local requirements for construction or subdivision can reduce the potential for developers to take advantage of industry or manufacturing standards, with significant cost implications (ABCB 2008).

Sometimes local building codes contain expensive requirements because they have not kept pace with current technology (ABCB 2008, Schill 2005). However, in the United States at least, local codes have been found to represent regulatory barriers to low cost housing development due to “lobbying by building materials manufacturers” or as a “covert way to exclude housing that is affordable to low and moderate income families” (Schill 2005, p. 8).

### 2.3.5 *Developer contributions*

Funding for the infrastructure needed to support new housing development has become a particular problem in Australia, where governments have shifted away from the traditional approach to funding urban infrastructure through a revenue stream that is generated by taxation or borrowing, towards a 'user pays' model. While local governments still use rate revenue to support their infrastructure provision and maintenance, local rates are increasingly required to fund a number of other services and activities as well. In this context, development contributions, long collected for basic utilities and roads within new subdivisions (Neutze 1995), have assumed greater importance.

Contributions towards local infrastructure are usually justified in two main ways. Firstly, because planning approval grants an increase in land value, it is argued that this increase should be shared for community benefit in the form of a contribution or tax. Secondly, contributions are justified as a way of recouping costs of providing new services or augmenting existing facilities as a result of new development (Been 2005, Gibbins 1990). They are now used by at least 60 percent of US cities (Been 2005; Mathur et al. 2004). There can be policy advantages of development contributions. In theory, they encourage greater efficiency by requiring developers or first purchasers to absorb the marginal cost of their development, rather than forcing existing residents to pay through local rates (Schill 2005).

The effect of developer contributions as a particular method of funding local infrastructure (generally known as 'impact fees' in the United States and 'planning gain' in the United Kingdom) has been a particular focus for research (for instance, see Burge et al. 2007). It is argued that the infrastructure and services represent a benefit to the house purchaser without imposing significant costs, because if the impact fee obligation is known in advance, it should reduce the purchase price of the land (Been 2005). Indeed, a major study of the effect of impact fees on the price of new single family homes in the United States found that fees are not added directly to the price of homes (Mathur et al. 2004). However, they could actually have a higher overall price effect, particularly in certain high value markets (Been 2005). The authors explain this multiplier effect by suggesting that the value of the services and infrastructure for home buyers likely exceeds the monetary cost of the fee. By contrast, it has also been demonstrated that impact fees have increased the rate of single family and modest home construction across the state of Florida, perhaps by relieving local authorities of the full costs associated with the new infrastructure needed to service them (Burge and Ihlanfeldt 2006). Thus, these two studies provide empirical evidence that, rather than undermining affordability, impact fees can lower land values, supporting the provision of infrastructure needed for new housing. They may also encourage more housing development when existing residents are not financially disadvantaged by having to pay for the service augmentation associated with a growing population.

The way in which development contributions are determined and levied can affect their impact on housing outcomes (Been 2005). There are a number of different formulae. Generally, they proceed from an attempt to determine, and cost, the range of infrastructure and services that will be needed to service a new community, or the facilities that will need to be augmented, as a result of a new development. Then a share of these costs will be 'apportioned' to each development – either on the basis of full cost recovery or recoupment – or as a share of the total cost. Apportionment of contributions associated with residential development can include a formula based on projected demand or impact (determined by the forecast number of people or households, or by the number of residential allotments or dwellings); a flat fee per

developable land area; or a flat percentage of construction value. Many jurisdictions allow a negotiated approach with developers instead (PC 2009).

When contributions are tied to the number of households, residential lots, or dwellings, there is a bias towards larger, low density housing in residential developments, because the developer will be liable for a smaller overall charge (Evans 2004). By targeting these individual houses to the premium market, profits can be maximised while expenditure is minimised. By contrast, multi-unit developments will seem less economical under these circumstances. A levy that represents a percentage of construction costs, or a flat fee per developable area will avoid this distortion, and may even encourage more modest housing forms (Evans 2004).

### *2.3.6 Quantifying the cost impacts of specific existing and proposed planning regulations*

Very few studies have attempted to quantify the actual cost to development associated with specific planning requirements – particularly costs associated with additional administrative processes; physical construction or subdivision codes; and environmental regulations (Schill 2005). While such regulations may increase the cost of housing or reduce potential housing supply within a particular location, when they are justified for important health, safety, cultural or environmental criteria, they cannot be characterised as regulatory barriers to affordability. The few studies that have investigated specific costs arising from local planning provisions suggest that detailed, local level research is needed to identify unnecessarily expensive requirements that could be removed. One such study, sponsored by the United States Department of Housing and Urban Development, found that, on average, subdivision requirements that exceed national standards amount to around five per cent of the total cost of a new home, although there are sharp local variations (DHUD 2007).

Subjecting proposed regulations to an analysis of their potential impact for housing costs provides a methodology for ensuring that new requirements do not unnecessarily affect housing outcomes. For instance, some jurisdictions of the United States have introduced legislation to prevent or overturn regulations that will increase housing development costs, such as the State of Illinois which mandates an affordable housing impact analysis of any Bill that may increase the cost of constructing a single family residence (DHUD 2005). The Australian Building Codes Board (ABCB) has developed a manual for the economic analysis of proposed amendments to the Building Code of Australia (BCA), which provides a useful methodology for understanding the cost impacts of regulations relating to the built environment (ABCB 2008).

## **2.4 Minimising and offsetting costs associated with planning**

Accepting that planning secures important social welfare benefits, to what extent can any negative costs be reduced or offset? Both the academic literature and a series of recent government inquiries and reviews – within Australia and internationally – have sought to address this question. Approaches can be divided according to the three-fold division of planning related costs defined above – ie. procedural costs (time and professional resources associated with securing planning approval); compliance costs (meeting development controls or standards); and fees or charges (administrative fees and development contributions). Overlaying these direct costs are fuzzier issues of land and house prices, which are affected by particular planning policy settings (among other market cycle factors), but which clearly impinge on the cost of land acquisition and potential profit from housing development.

### *2.4.1 Addressing the impacts of growth management*

As noted above, it has been claimed that land use planning artificially constrains land supply, particularly when used as part of an explicit urban containment strategy. While the research cited above provides some support for this claim, by demonstrating positive price impacts in areas where planning regimes are stronger, to what extent would prices drop if land release constraints were abandoned? Some scholars have attempted to answer this question by modeling the potential impact of significant policy change, for instance, by a dramatic liberalisation in land release. Modeling the hypothetical price impact of supply increases in downtown Manhattan, Aura and Davidoff (2006) show that in order to offset the price impact of planning supply constraint to any significant degree, it would be necessary to permit a fifteen-fold increase in density. The authors concluded that, even if physically viable, the environmental and amenity impacts of such an increase would be likely to be unacceptable. Similarly, simulations of radical increases in land release programs in the United Kingdom (Bramley 1993, Bramley and Leishman 2005) suggest that resulting rates of new construction at the national level would change very little:

“... the output gain from adopting a draconian version of the land-release policy, by allowing unconstrained land to be exhausted in ten years, is really rather marginal. The maximum increase in output is about 5.5%, and the average difference is 2.7%. It is questionable whether such a gain would be worth the environmental and political costs” (Bramley 1993, p.1039).

The minimal affordability benefits associated with a radical change in land release strategies may explain the emphasis on direct funding for affordable housing development in the United Kingdom (Bramley 1993). However, different outcomes may arise if the supply intervention is designed to create specific opportunities for new social housing development, for instance, combining an expanded land release program with specific quotas for social housing development (Bramley 1993, p.1046).

Therefore, while planning systems must ensure sufficient housing development opportunities to accommodate future demand (including the over-allocation of land, as not all available opportunities will be taken up), it appears that further liberalisation of land release strategies would have limited benefits for affordability and significant costs. On the other hand, targeted land release programs supported by direct government involvement in development would have a direct and potentially significant impact on new housing construction and affordability.

### *2.4.2 Reducing other planning related costs*

The need to reduce the other range of costs associated with the planning process can be inferred from the limited literature on their impacts for housing development, as outlined above. Firstly, local diversity in planning requirements can add uncertainty and costs for housing developers, so establishing regional consistency in development standards, contribution fees, and procedural requirements makes sense. Secondly, clear timeframes and unambiguous local policy frameworks support developer confidence (Monk and Whitehead 1999), and are likely to significantly reduce procedural costs associated with seeking planning approval, without sacrificing good decision making.

Thirdly, design controls that improve the environmental performance of dwellings also reduce ongoing household costs, so affordability impacts are offset over time. However, subdivision and building controls that add unnecessarily to construction costs, or reduce housing densities, should be closely examined because of their potential exclusionary impact. In the United States, there is a growing body of applied research to identify and dismantle unnecessary development controls that add to the

cost of housing development, or represent a barrier to lower cost housing forms (APA 1999, DHUD 2005).

Fourthly, while development contributions can provide important resources for local infrastructure, clarity and stability in contribution requirements is needed to ensure that they can be factored into feasibility analyses and land acquisition. Further, consistency in housing market implementation of development contributions, preferably at the regional level, is important to avoid displacing housing market pressures from one local area to another.

#### *2.4.3 Dedicated affordable housing*

Even when a planning process is functioning optimally, there will likely be some people who are unable to afford to access housing on the open market without assistance. Social housing – direct provision of housing for low and moderate income earners, has been found to be the most efficient means of addressing this housing need. The planning system can and does play an important role in supporting this dedicated affordable housing sector – for instance, by securing land or dwellings for new social housing in new developments (Monk et al. 2005). Often this role is justified explicitly as a way of offsetting the negative impacts for housing affordability generated by particular planning decisions – for instance, the impact of upzoning on property values; or the approval of a development likely to displace existing low income residents from a particular area. Rather than representing additional development burdens, appropriate affordable housing policies can provide a way of overcoming local environmental or market impediments to low cost housing development, or for maintaining housing development during market downturns by supporting a viable non profit affordable housing sector as demonstrated by long established models in the United States and the United Kingdom (Gurran et al. 2008, Milligan et al. 2009).

#### *2.4.4 Government inquiries and reviews*

Many of the issues raised in this chapter have been considered by a series of major government inquiries and reviews, both within Australia and internationally. In the United Kingdom, the Barker reviews of housing supply (2004) and land use planning (2006) highlighted serious shortfalls in national levels of housing production, signifying a need for changes to the land use planning framework and its role in supporting new and affordable housing delivery. As a result of these reviews, local authorities are now required to undertake a Strategic Housing Land Availability Assessment (SHLAA) (focusing on residential land supply), and a Strategic Housing Market Assessment (focusing on housing need, including the need for affordable housing). A Housing and Planning Delivery Grant rewards councils achieving new housing supply targets above a threshold, and also supports local planning reforms, with specific grants tied to affordable housing delivery now forthcoming (DCLG 2009b).

The latest research commissioned by the United Kingdom's Department of Communities and Local Government calls for a series of interventions to reduce costs to developers and planning authorities (Killian and Pretty 2008, DCLG 2009a). These interventions address several concerns described as problems of:

- *Proportionality* – where planning requirements and processes are out of proportion to the scale of the proposed development.
- *Complexity* – where expanding policy agendas and a proliferation of objectives have created unwieldy assessment processes.

- *Culture* – where a focus on timeframe performance targets has compromised overall quality and satisfaction with outcomes, particularly within a context of staff and skills shortages within local councils.

The Killian Pretty review and subsequent government response link the planning reform agenda to overall economic recovery, emphasising the need for planning authorities to be ready for the next surge in housing demand (DCLG 2009b). Recommendations include reducing the need for minor proposals to be assessed; reducing information requirements; introducing incentive payments to authorities for overall client satisfaction with planning services including, but not limited to timeliness; and addressing council resource shortages. The review also proposes consolidating and simplifying legislative requirements, to reduce “unnecessary prescription and detail” (Killian and Pretty 2008, p.12).

The United States Department of Housing and Urban Development (HUD) has long promoted reform to planning system barriers found to increase housing development costs (US HUD 2005, 2009, Kean and Ashly 1991). In 2007, it commissioned a benchmark study of the costs associated with regulatory barriers to affordable housing contained within subdivision requirements (defined as standards beyond basic health and safety requirements) (DHUD 2007). In identifying excessive lots sizes and floor space requirements as barriers to affordable housing development, the HUD encourages local planning authorities to undertake their own detailed impact assessment of the cost of existing and proposed regulations. The HUD maintains a clearing house of interventions to addressing regulatory barriers to affordable housing associated with administrative processes, housing and subdivision codes, growth management and zoning, historical and environmental requirements, and fees (HUDUSER 2009). In chapter six of this report, we return to some of these approaches in proposing strategies for cost reduction and offsetting within the Australian context.

Recent Australian Government inquiries on housing affordability and the cost of planning and infrastructure provision include the National Housing Strategy development process (NHS 1991), the Productivity Commission’s inquiry into first home ownership (2004), and the Senate Select Committee on Housing Affordability in Australia (2008). Building on the earlier findings of the Productivity Commission, the Senate Select Committee made a number of recommendations for strengthening the ways in which the planning system supports housing delivery, infrastructure provision, and promotes innovation in low cost construction (Senate Select Committee 2008). In particular, the Committee recommends that all state and territory governments “introduce enabling legislation for inclusionary zoning to require affordable housing in all new developments, including a proportion of affordable housing” (Senate Select Committee 2008, p.104). It also emphasises the need for housing diversity through planning controls that permit a greater variety of housing forms, housing adaptation, and innovative design.

The National Housing Supply Council State of Supply Report 2008 also emphasises the potential role that innovation in housing design and construction may play in achieving more diverse and affordable housing (NHSC 2009). The report examines the role of the planning system in delivering new housing supply, including issues associated with timing, complexity in approval requirements, and infrastructure provision and charging. However, it accepts the need for “cost effective regulation” to:

“...achieve an efficient and accessible urban structure that promotes productivity and social inclusion; protect environmental quality, cultural heritage and amenity; and facilitate equitable access to services, work, education and recreational opportunities” (NHSC 2009, p.49).

While the NHSC stops short of recommendations, it recognises scope for:

“... reducing compliance costs and improving efficiency and effectiveness by, among other things, modern lodgement and processing systems, making outcomes more consistent and predictable across State and local government jurisdictions, and reducing opportunities for third party appeals when proposed developments are demonstrably consistent with jurisdictions’ precinct development plans” (NHSC 2009, p.51).

These proposals are consistent with the range of measures being pursued under the COAG reform agenda for Development Assessment, which include reduced procedural requirements for lower impact proposals, and greater ‘harmonisation’ of state and territorial planning systems and requirements (COAG 2009). These measures are being pursued under the broader agenda for regulatory reform coordinated by the Business Regulation and Competition Working Group within COAG. Several states have also established their own processes of regulatory reform designed to reduce unnecessary ‘red tape’ and improve efficiency. In turn, these broader regulatory reform processes have influenced more specific agendas for planning reform at state and local level.

We return to the issue of Australian planning reform in the following chapter.

## **2.5 Conclusion: summary of research on costs and benefits associated with planning regulation of housing development**

In this chapter we have conceptualised planning as an important intervention to achieve environmental sustainability, economic efficiency, and social equity objectives in housing and urban development. Nevertheless, planning is also associated with a range of potential costs associated with its overall impact on land availability and values, and a range of other impositions associated with securing planning approval. They arise from land allocation processes, development controls and design requirements, administrative costs associated with securing planning approval, contributions towards infrastructure and services, and certification costs during construction and on completion (Table 5).

There are important benefits associated with each of these regulatory requirements and phases of housing construction, ranging from environmental protection to the efficient provision of infrastructure and services, securing amenity and heritage, and public participation. However, if the actual or perceived costs of planning are not understood they may have unintended or unanticipated impacts on the quantity, location, and type of new housing, with negative consequences for affordability.

**Table 5: Planning regulation, housing development and potential direct and indirect costs**

<i>Regulatory phase</i>	<i>Housing development sequence</i>	<i>Rationale / benefits</i>	<i>Potential indirect costs</i>	<i>Potential direct costs</i>
Strategic Planning – plan making/ amendment Land use categorisation/ zoning	Where new housing can be located, when new housing can be developed	Efficient provision of infrastructure & services. Environmental protection. Avoiding social isolation. Information about future development prospects.	Zoning/categorisation establishes development potential so influences value Amount of land available may influence land prices	May be charge if developer has to initiate rezoning Studies to defend planning proposal/ application
Development controls – density and design requirements	The amount and configuration of new housing, elements of building design	Efficient provision of infrastructure & services. Environmental protection and sustainability. Amenity and heritage. Information / certainty about future change.		
Development assessment & approval Assessment and approval/refusal of proposal to carry out change in the use of land (i.e., 'development')	Planning approval for housing development	Managing change in urban land use. Protecting community amenity and avoiding negative externalities Opportunity for community input to decisions that might affect them.	Time taken to secure approval. Costs of preparing application.	Application fee. May be fee for other required licenses.
Services and infrastructure coordination and provision	Contribution towards infrastructure or services (Condition of consent of planning approval)	Facilitating urban development by coordinating and providing basic services. Ensuring quality shared services that would otherwise be underprovided by market (e.g., open space). Increased value to home owner/ resident.	May discourage/ displace development if contribution charges are too high/uncertain May distort type of housing produced (eg. to capture higher value market)	Costs of contribution requirement. May be combination of fees, including contribution set by planning authority & utility/transport charges set by other agencies
Regulation of construction process and completion to standards	Construction and completion	Health, safety, environmental protection standards.		May be costs for certification of completion.

Source: the authors (based on Gurran et al. 2008)

In this chapter we have also reviewed the existing theoretical and empirical evidence regarding these potential costs and how they impact on housing outcomes. In short, a growing body of work has confirmed that planning is associated with higher house prices, although the magnitude of the impact, and the reasons for this impact are uncertain. Further, potential transferability to Australia is unclear, given significant planning system and housing market differences. Indeed, differences at the local level – from historical patterns of development to contemporary demographic trends and the attitudes of local authorities – form a complex overlay that is difficult to incorporate within quantitative studies. Qualitative research suggests that more detailed studies, incorporating developer perspectives, are needed to understand particular planning settings, the costs they represent for housing development, and the ways in which they influence housing outcomes at the local level.

The next chapter grounds this discussion in relation to specific features of urban planning systems in Australia and current reform agendas. This provides context for understanding the ways in which this system is perceived to impact on housing development in Australia, from the perspectives of the developers and planners working within it.

### **3 PLANNING FOR RESIDENTIAL DEVELOPMENT IN AUSTRALIA: LEGISLATIVE FRAMEWORKS AND REFORM**

In this chapter we outline the framework for planning control in Australia, as a basis for understanding the points at which particular regulatory costs may arise. As well as legislation and policy documents, the information sources for the material presented here are interviews with state and local government planners in each of our case study jurisdictions.

The first section of the chapter gives an overview of Australian planning systems, with a particular focus on the states of NSW, Queensland, and Victoria, as the context for our case studies. In the second section, we compare approaches to development contributions that have been a major area of contention in Australia. Many of the planning systems across Australia are undergoing a process of reform, with purported benefits for the residential development industry and housing affordability. We review these reforms in the third section of the chapter.

#### **3.1 Overview of planning processes for residential development in Australia**

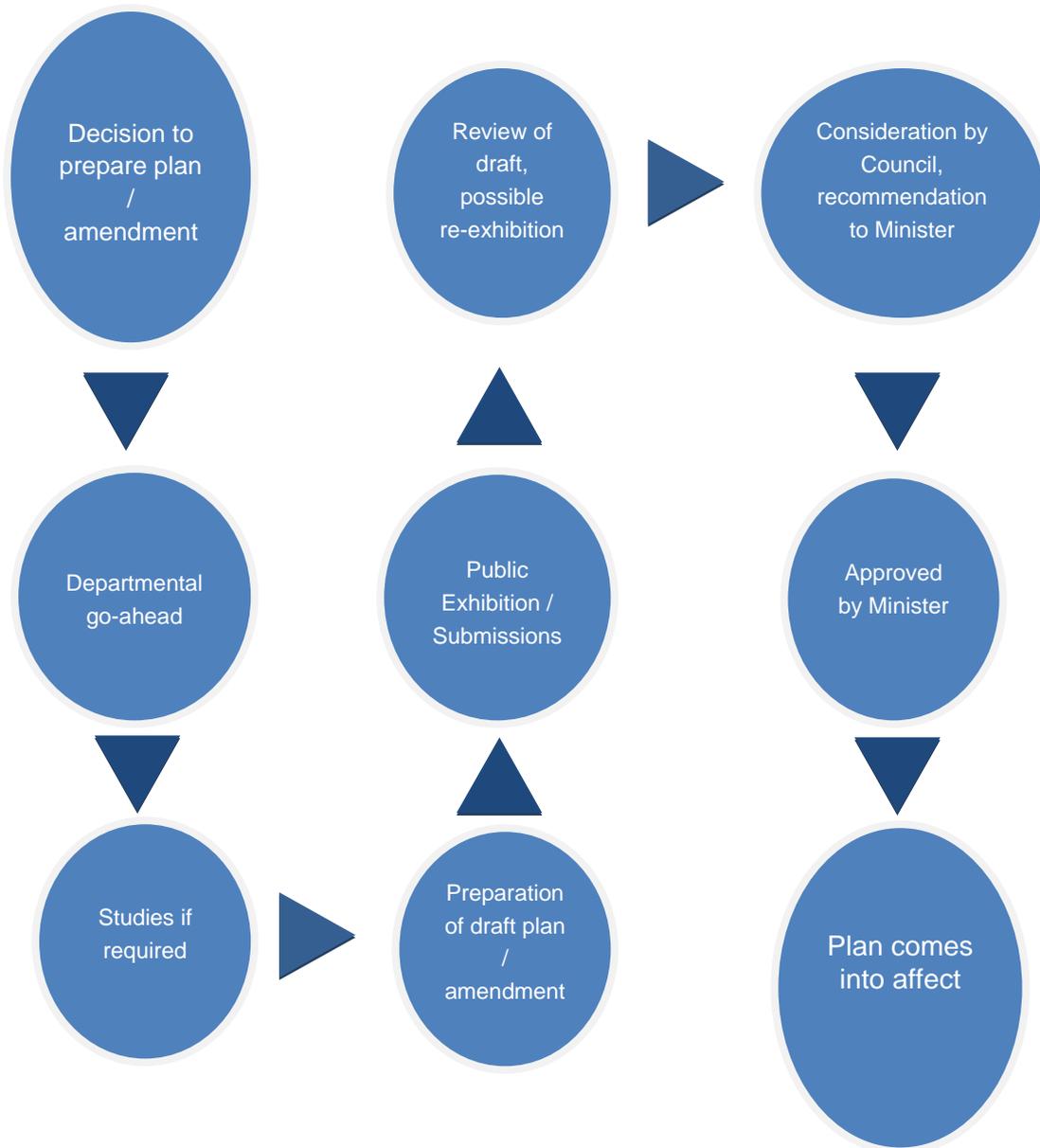
The states and territories have the main responsibility for planning regulation in Australia. Each jurisdiction has developed its own legal and administrative arrangements for planning, but there are structural similarities in the processes for plan making and development assessment, both of which have implications for residential development. We outline the basic stages here.

##### *3.1.1 Strategic planning*

The strategic planning process governs the way in which land is designated for residential development within legally enforceable land use plans, often known as 'planning instruments' or 'planning schemes' in Australia. These instruments specify broad objectives for development within the designated locality; categorise land according to permissible or desired uses (often through formal land use zones); articulate certain development standards (ranging in detail from basic density controls through to specific aesthetic considerations, depending on jurisdiction); and outline other considerations relating to issues such as transport, environmental protection or cultural heritage. The strategic planning process must be initiated by a planning authority, usually a local government (known as a 'council' in Australia), although the states and territories have their own planning authority status and may initiate or require the preparation of a land use plan directly. Each jurisdiction has provisions to enable individual developers to request that a plan be made or amended to allow a particular project to proceed.

The process of plan making and plan amendment is usually similar in that the same types of steps are usually followed, although timeframes are intended to be faster for simpler amendments. As shown in Figure 3, these steps typically include the decision to prepare a plan or amendment, Ministerial approval to prepare and or exhibit the draft instrument, a period of exhibition, during which time public submissions may be lodged, consideration by the planning authority and, finally, approval by the relevant planning Minister. In some Australian jurisdictions, further administrative steps following Ministerial approval are needed before the instrument is 'gazetted' and becomes law.

**Figure 3: The plan making/amendment process**



Source: the authors

At any point in this process delays may occur due, for instance, to competing submissions from the public or from other government agencies, or disagreements between elected representatives of local councils. Further, during times of overarching system reform, site specific plan amendments may be prevented altogether.

Local planning instruments or schemes must be consistent with the relevant state or territorial legislation, as well as with any other relevant plans or policies. The range of applicable instruments varies from state to state, as shown in Table 6 below in relation to the case study jurisdictions.

**Table 6: Planning system stages/elements & nomenclature, NSW, Queensland and Victoria**

<i>Planning phase</i>	<i>NSW</i>	<i>QLD</i>	<i>Victoria</i>
Strategic planning	State Environmental Planning Policies (including regional environmental plans) Local Environmental Plans, Development Control Plans	State planning instruments (state planning policies, regulatory provisions, regional plans) (Local) Planning Schemes	Victorian Planning Provisions (state) (Local) Planning Schemes
Development assessment	Development application (DA)/ approval	Integrated Development Assessment System (IDAS)	Planning Permits
Contribution requirements	Local contribution plans (levy or formula) Planning agreements for contributions State infrastructure contributions	Local contribution requirements – set by Council or standard charging schedule	Development contributions/ agreements
Private certification (assessment of basic planning matters by accredited private sector ‘certifier’)	Yes Private certifiers can approve complying developments & issue construction certificates	Limited Private certifiers certify compliance with BCA & can issue some development permits for building	Limited Private building surveyors certify compliance with BCA & some Victorian Rescode requirements. Some Pre-lodgement certification by private sector.
Appeals/ disputes	Land & Environment Court Planning arbitrators	Planning and Environment Court Building and Development Tribunal	Victorian Civil and Administrative Tribunal (VCAT)

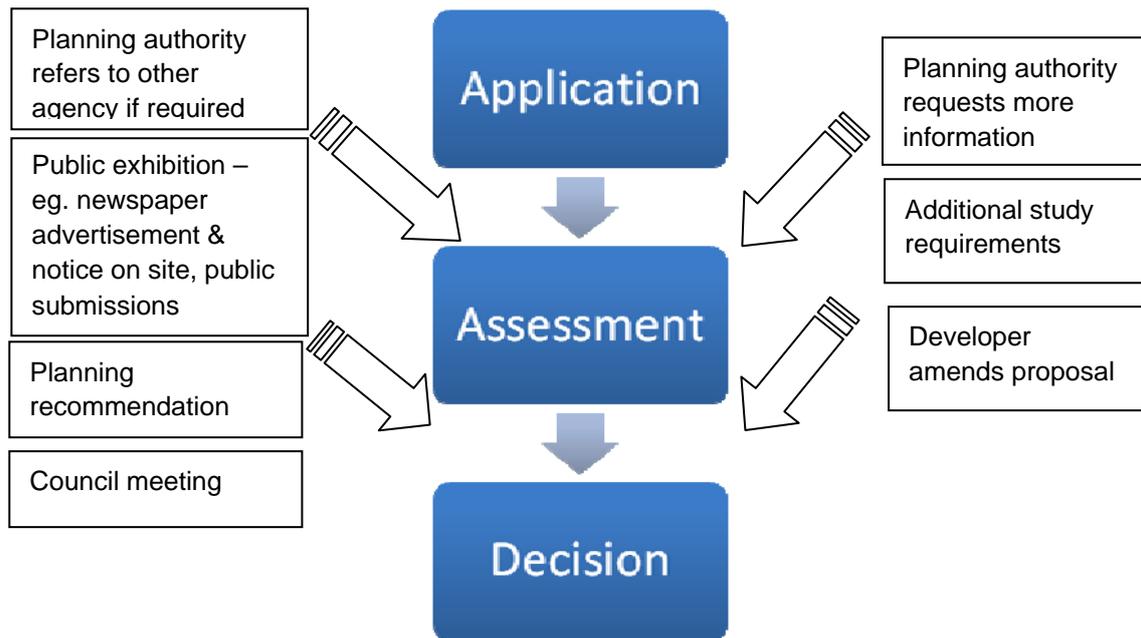
Source: the authors

As noted, in addition to the development criteria contained in local planning instruments and policies, the nationally adopted Building Code of Australia (BCA) establishes minimum health, safety, and environmental protection standards for all building construction.

### 3.1.2 *Development assessment*

The development assessment phase regulates specific development proposals against the rules established during the strategic planning process. This stage may occur many years after a strategic planning process has been completed, however, if a particular proposal requires a variation to the planning scheme to proceed, the two stages may occur in parallel or sequence. Once again, there are structural similarities in the ways that Australian planning jurisdictions manage their development proposals (Figure 4).

**Figure 4: Development assessment process**



Source: the authors

Despite the apparent structural simplicity of the basic development assessment process, there are also significant differences relating to the level of assessment and discretionary consideration afforded to particular development categories. In theory, jurisdictions seek to match assessment requirements with the scale and potential impact of the development, but approaches differ in practice. Larger residential development projects generally require development assessment, whereby the merits of the proposal are assessed by the local planning authority in relation to its potential impacts; having regard to rules and assessment considerations specified in the relevant planning scheme and legislation. Some jurisdictions also permit assessment against a specified code for proposals meeting set criteria.

Such code assessment or equivalent removes the discretionary element from the planning process, providing certainty for applicants able to meet set provisions. NSW, Queensland and Victoria have introduced systems for code based assessment, although these processes are still in transition, as discussed below. In Victoria, for instance, most detached dwelling houses are permissible without a specific planning permit, although an application for building permission is still required.

In NSW, private certifiers (accredited to certify projects but not affiliated with a planning authority) may be contracted to certify non discretionary decisions. Private certification is intended to offer a faster decision process, because small developers with projects that meet the specified codes, are able to pay for immediate certification, rather than waiting for a local authority decision.

In addition to the standard documents required to support a development proposal (usually a detailed form, plans, a site analysis, and a written statement of the potential impacts), many types of development will require additional supporting documents and studies. Depending on the jurisdiction and the details of the local plan or requirements contained in other regional or state plans or policies, some categories of development will need to be referred to other agencies for their views or concurrence.

In some instances, the Commonwealth *Environmental Protection and Biodiversity Conservation Act* 1999 (EPBC Act) will apply, to proposals deemed to affect a matter

of “national environmental significance” as defined by the Act. When the EPBC Act is triggered, additional assessment and referral requirements are imposed.

Most development proposals are ‘advertised’ or exhibited publically, with a period of time for submissions to be made and considered by the planning authority. These submissions are weighted differently according to jurisdiction and depending on the nature of the proposal. The extent to which objectors are entitled to appeal against a decision varies from jurisdiction to jurisdiction too, with wide standing granted in Victoria and very limited capacity for third party appeals in NSW.

When developments are approved, conditions of approval are usually imposed. These conditions usually relate to technical requirements and standards (for instance, compliance with the Building Code of Australia), but might also include additional matters relating to the management of the building site; the design or appearance of the development; or landscaping. When levied, development contributions are usually required as a condition of planning consent, as well as other considerations.

In many jurisdictions, different planning procedures apply for very large (in scale or value) projects on new Greenfield or urban renewal sites. Often described as a ‘master planning’ process, these approaches differ to the standard plan making/development assessment approach by combining the strategic land allocation and control phases with specific project proposals and approvals. Most jurisdictions permit some relaxation of prevailing planning regulation or procedures to facilitate such proposals. For instance, in NSW special purpose (and highly controversial) legislation was introduced in 2005 to suspend all applicable planning requirements for ‘major’ projects meeting defined criteria (Gurran 2007).

Typically, the planning and assessment of such large scale projects will be managed by a state government agency rather than a local authority. In some cases, special purpose authorities have been established to facilitate planning processes in designated metropolitan growth areas. These special purpose vehicles are intended to reduce planning timeframes and costs, as discussed further in relation to our case studies below.

### **3.2 Framework for development contributions in Australia**

As noted, all Australian planning jurisdictions have introduced some arrangements to enable collection of financial or in kind payments to meet all or part of the site-based, neighbourhood or local level infrastructure that is required for development to proceed, but the level of contribution, and approaches to collection, vary greatly. We reviewed these approaches in the positioning paper for this project, so simply summarise and update this information here.

Most jurisdictions rely on several principles to support their contribution requirements. The principle of ‘nexus’ establishes a link between the development, the need for the service being charged for, the location of the service and the time in which the service is being provided. The principle of ‘fair apportionment’ means that only the share attributable to the development should be charged. The principle of ‘reasonableness’ applies to the amount of contribution required relative to the overall development. Such principles are less relevant in relation to voluntary agreements between authorities and developers, or when a system of flat levies is used. Most jurisdictions have also established systems to ensure that the calculation and application of development contributions are transparent, although again processes differ at the local level.

Developers are usually able to appeal the amount of contribution required as a condition of consent.

**Table 7: Australian legislation for development contributions/infrastructure funding through the development planning process**

<i>State</i>	<i>Legislation</i>	<i>Description</i>
Australian Capital Territory	<i>Land (Planning and Environment) Act 1991</i>	No statutory means to charge for infrastructure or to levy a development infrastructure charge, but s.184A of the Act allows a 'change of use charge' (CUC) for variations of a Crown Lease that increase the value of the lease. Infrastructure provision can also be required as a condition of land release, with the cost offset against the amount paid for the lease.
New South Wales	Environmental Planning & Assessment Act 1979 (EPAA) (Under review)	<p>May require development contributions (cash or in kind) for services and infrastructure, subject to approved contributions plan (S94 EPAA). Must be allocated within LGA itself. May apply flat levy as percentage of proposed cost of development (1-3%). Capped to \$20,000 per residential lot unless Ministerial approval for higher rate.</p> <p>Provisions for planning agreements between developers and consent authorities for developer contributions instead of or in addition to S94 contributions (s93F EPAA). Can be applied to a wider range of matters, including affordable housing or environmental conservation, and may be applied across local government areas.</p> <p>Additional infrastructure charges for regional infrastructure may be levied in designated 'contributions areas' (s94ED EPAA) declared by Minister.</p>
Northern Territory	Planning Act 1999	Service authorities may make contributions plans for infrastructure or public car parking. Infrastructure is defined as prescribed capital works, or works required as a condition of the development permit to be carried out (s67). ('Service authorities' are a territorial, local government, Power or Water Corporation, or a statutory authority).
Queensland	Integrated Planning Act 1997 Integrating Planning and other Legislation Amendment Acts 2003 & 2004	<p>Contributions for 'development infrastructure' may be levied by local councils (a) under a Priority Infrastructure Plan (PIP); (b) through an Infrastructure Agreement (an agreement between council and a developer for infrastructure provision or contributions); (c) conditions on the planning permit requiring the supply of non shared infrastructure (e.g., internal networks and connecting site to shared networks).</p> <p>PIP forms part of local planning scheme. Generally includes an Infrastructure Charges Schedule for levies. Low growth councils may use standard or 'Regulated' infrastructure charges. 'Development infrastructure' includes land or works for water, transport, local services (e.g., parks, community halls, libraries).</p>
South Australia	Development Act 1993 Local Government Act 1999	<p>At time of land subdivision, provisions for dedicating up to 12% for open space (or cash contribution) as well as ceding access roads and contributions for hydraulic connections. Councils can also establish funds for developers to contribute to car parking at a fixed cash rate if this is preferable to on site parking.</p> <p>Under the LG Act 1999, 'service rates' and 'service charges' might be used as indirect developer charges.</p>
Tasmania <sup>2</sup>	Land Use Planning and Approvals	'Agreements', which may include provision for payment or other contribution for infrastructure, may be made between councils and developers, during development assessment (as a condition of

<sup>2</sup> Tasmania's Water and Sewerage Industry Act 2008 will provide an additional framework for infrastructure charging, once operational.

	Act 1993	consent); planning scheme provision amendment, or a special planning order. Agreements may be broad in scope, 'services, facilities, works and other uses and developments which provide the basis for meeting economic, social and environmental needs' (s70).
Victoria	Planning and Environment Act 1987	<p>Developer contributions for either 'development infrastructure' or 'community infrastructure' levied through: (a) approved Development Contributions Plan (DCP), enforced through conditions attached to planning and building permits; (b) conditions on planning permits (but unless relating to a DCP these contributions must be works or infrastructure on site); (c) Voluntary agreements (registered on title to land). Voluntary agreements may be used when a developer requests an amendment to a planning scheme, or a planning permit.</p> <p>Set levies restrict funds able to be collected through DCPs ( e.g., \$450 per residential dwelling for community infrastructure)</p> <p>State agencies may collect additional funds for specific works directly.</p>
Western Australia	Town Planning and Development Act 1928	<p>Developer contributions usually levied through conditions imposed by WA Planning Commission (WAPC) on subdivision approvals.</p> <p>May also be levied through conditions imposed by WAPC or local government on the development of land under a regional or local government scheme.</p> <p>Three types of contributions: (a) ceding or dedication of land for roads, primary schools, public open space (10% of development), foreshores, drainage, and other reserves needed for subdivision; (b) construction of infrastructure and transfer to public authorities; (c) contributions to acquire land or undertake works by public authorities). Process predominantly regulated through WAPC operational policies.</p> <p>Social infrastructure generally not funded through this process.</p>

Source: the authors (adapted from Gurran 2007, p.139, Productivity Commission 2007, pp.183-184.)

Until recently, developer contributions in Australia have focused on local needs and facilities. While these may have included shared local level infrastructure and services, there has been a clear distinction between the provision of community centres and libraries by local governments and the provision of significant regional level infrastructure like train lines and hospitals. As shown in Table 7, the focus of development contribution frameworks in Australia remains firmly on collection for site-based or local level facilities. However, NSW and Victoria have moved towards contributions for regional infrastructure in designated metropolitan growth sectors.

As shown in Table 7, NSW, Queensland, and Victoria have the most extensive provisions for collecting contributions and permit the widest range of community applications for their use. By contrast, contributions in South Australia are limited to open space, access roads, hydraulic connections, and car parking although 'service rates' and 'service charges' are also required under local government legislation, and could be interpreted as development contributions (PC 2007). Tasmania has a framework for negotiated infrastructure agreements, although these are not yet widely used. The Australian Capital Territory Planning Authority (ACTPLA) can include infrastructure provision requirements in land sales, or may levy a change of use charge when permission to change existing land use is granted (ACT 2007). This change of use charge effectively captures part of the value uplift associated with the change of use.

### 3.2.1 *Development contributions in NSW*

Several reforms to the development contribution provisions of the NSW Environmental Planning and Assessment Act 1979 have occurred since 2005, including the formalisation of planning agreements for infrastructure, the introduction of provisions for the state government to collect contributions for infrastructure within designated areas, the ways in which local contributions may be levied, and the range of purposes for which contributions may be applied (Department of Planning 2005, 2008). The latest intervention has been the introduction of an 'affordability threshold' for local contribution plans, currently held at \$20,000 per lot. Affordability also forms a criterion for consideration when planning agreements for infrastructure contributions are negotiated with developers. Proposed development contribution requirements must also address whether the infrastructure proposed to be funded can be provided in a reasonable time.

Two types of infrastructure may be charged for in NSW. 'Community infrastructure' relates to the specific development itself, while 'public infrastructure', may serve a wider area and could extend to affordable housing and transport infrastructure. The EPAA also distinguishes between types of contribution. 'Direct contributions', are for the actual cost of the infrastructure to service the area, and need to be determined according to principles of nexus and fair apportionment. These are usually levied through local 'Section 94' development contribution plans. Changes announced in 2008 mean that riparian corridors are no longer included in Section 94 plans (unless specifically used for open space) but must still be quarantined from development due to their environmental values. 'Indirect contributions' are calculated as a percentage of the cost of the development (usually to a maximum of one per cent development value) (Figure 5). Planning authorities may require direct or indirect contributions, but not both.

In June 2009, a panel appointed to review local contribution plans in NSW found that of the 152 councils in NSW, 128 have Section 94 plans in place (DOP 2009). Of these, 34 councils had plans with contribution requirements that exceeded the \$20,000 per lot residential threshold, and 28 councils sought approval to continue to levy above this threshold (using provisions contained in 92 separate plans). Conditional approval was granted to nine councils on the basis that their contribution plans were well justified, substantially progressed, or under appropriate review processes already. In concluding their report, the panel emphasised the considerable complexity and heterogeneity in contribution plans, and the difficulty in determining contribution amounts:

"The review vindicates the concerns held by the development industry in terms of complexity of contributions plans and the transparency of contributions plans, in particular the difficult in determining the actual contributions required in many cases. For example, some contributions plans contain highly localised catchment areas that vary for infrastructure types, making it difficult to accurately identify contribution rates across the area to which the plan applies." (DOP 2009, p.3)

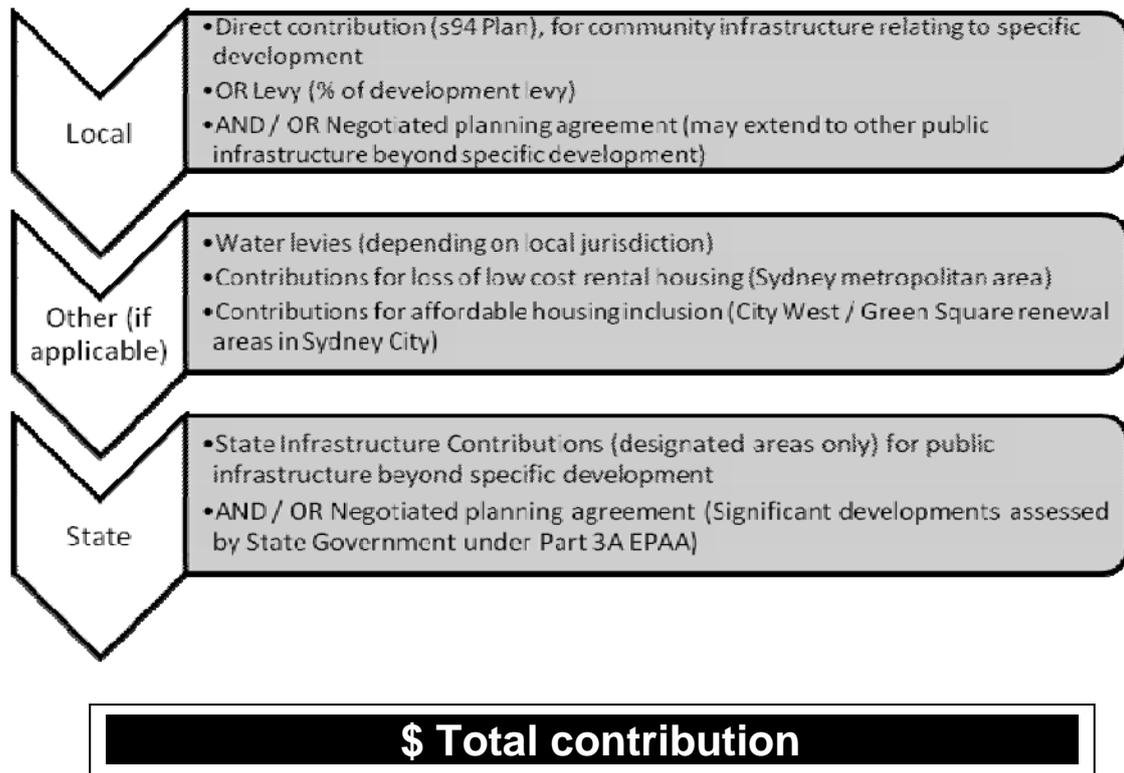
The panel also found that many plans were out of date, with contribution amounts that had not, in some cases, changed since the plans were made.

'State infrastructure contributions' provide for public infrastructure, within defined 'State contributions areas' (currently Sydney's north west and south west growth centres, the Warnervale Town Centre on the central coast, and the so-called 'Interim Transport Levy' areas). State contributions are in addition to requirements for community infrastructure contributions. When initially introduced, state or 'special' infrastructure contributions as they were then known could reach around \$65,000 per

block (based on a full regional infrastructure cost recovery model). However, they have subsequently been reduced by removing some of the regional items to be funded and by applying a 75 per cent funding formula for the remaining funded facilities (such as land for transport infrastructure, education, police and health services) (DOP 2008). In late 2008, further cuts, including the abolition of Sydney and Hunter water levies (around \$12-15,000) were announced by the NSW Premier, Nathan Rees (Minister for Planning 2008). The premier also announced that state charges in the North and South West growth centres would drop from around \$23,000 to around \$11,000 per lot until June 2011, “to boost the NSW housing industry and improve housing affordability for families” (DOP 2008).

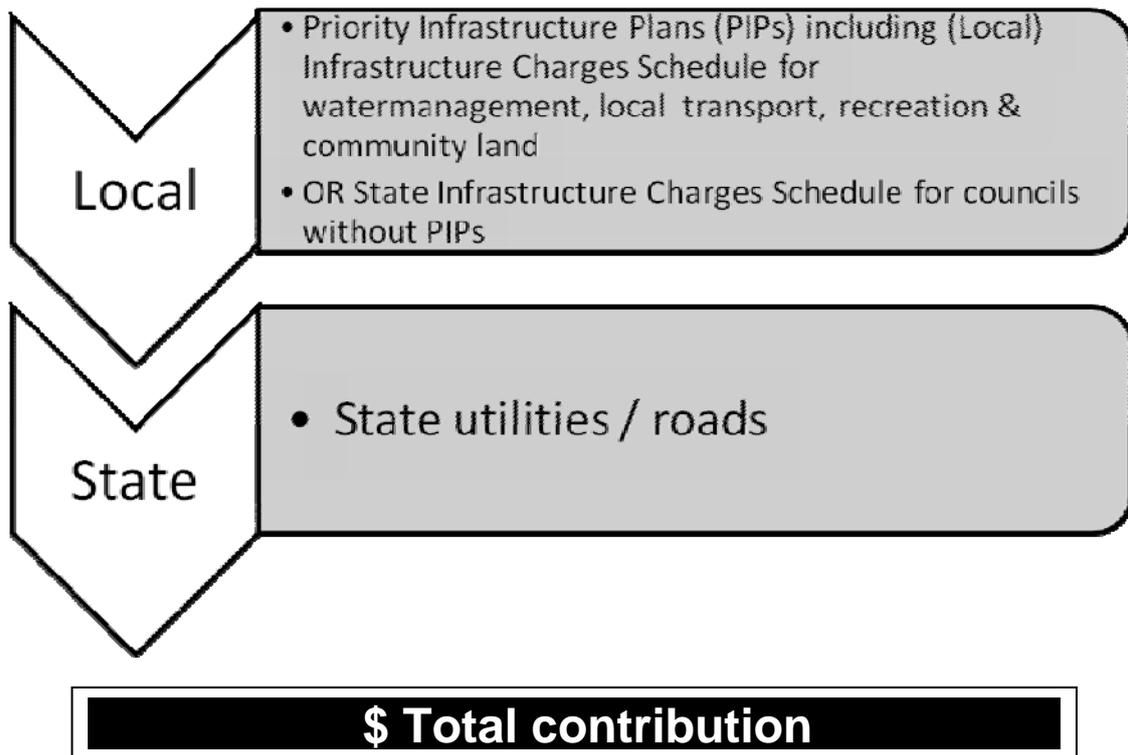
Three other compulsory contributions are levied through the planning process in designated areas of NSW. To offset the loss of low cost rental accommodation, applications to redevelop a boarding house or other designated low cost rental accommodation in metropolitan areas may be required to make a financial payment or other contribution, State Environmental Planning Policy 10 – Retention of Low Cost Rental Housing. State Environmental Planning Policy (SEPP) 70 – Affordable Housing Schemes permits modest contributions for affordable housing as a condition of planning approval in defined parts of Sydney. Finally, the state government’s ‘Precinct Acceleration Protocol’, allows developers of out of sequence areas to pay additional costs associated with bringing forward infrastructure for their development.

**Figure 5: Development contribution framework in NSW, 2009**



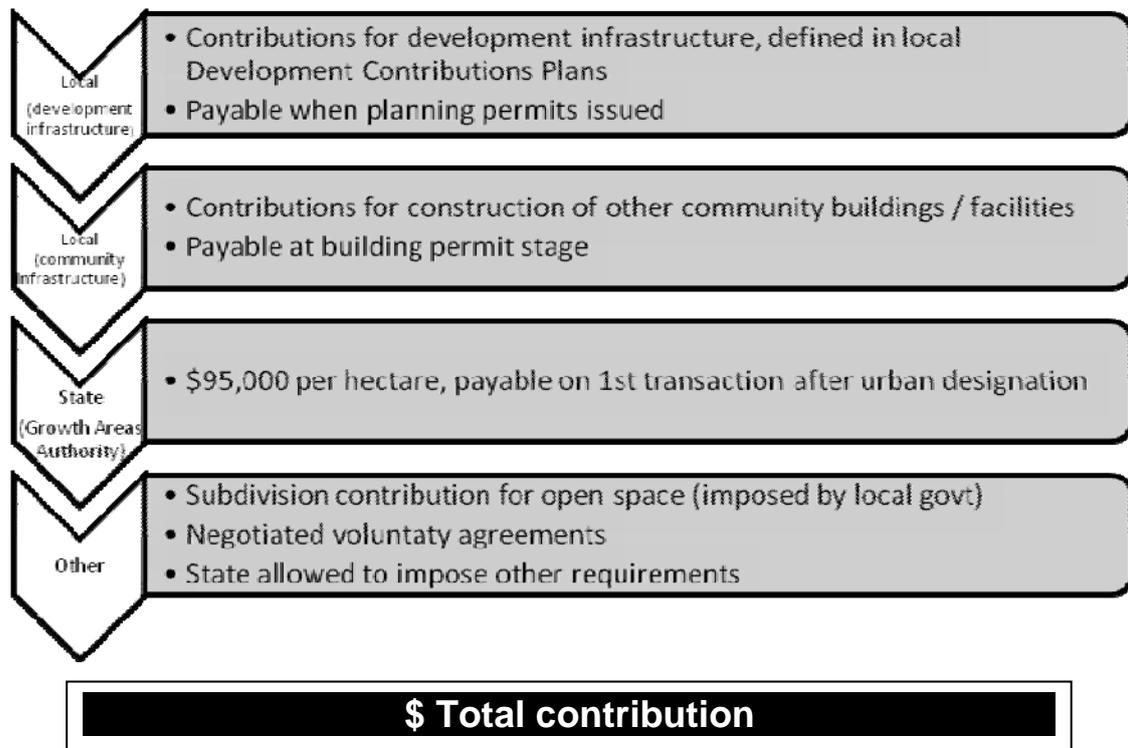
Source: the authors (derived from Gurran et al. 2008)

**Figure 6: Development contributions in Queensland**



Source: The authors (derived from Gurran et al. 2008)

**Figure 7: Development contributions in Victoria**



Source: the authors (derived from Gurran et al. 2008)

### *3.2.2 Development contributions in Queensland*

Queensland's local contribution planning process is also undergoing transition. The Queensland Integrated Planning Act 1997 distinguishes between contributions for 'development infrastructure', including urban water supply, drainage, water quality, transport infrastructure; and infrastructure for local community purposes, such as public recreation predominantly serving a local area (DOI 2008). Priority Infrastructure Plans (PIPs) must be prepared by councils to support their approach to infrastructure charging and allocation, with contribution requirements specified within an Infrastructure Charges Schedule. PIPs should identify where growth is expected to occur; the nature and scale of this growth; and the plans and desired service standards for the trunk (bulk) infrastructure necessary to service the growth.

Councils facing lower rates of growth may adopt the state's regulated infrastructure charges schedule, rather than prepare their own, and some councils may choose not to levy development charges at all. A draft guideline for preparing infrastructure plans was released in 2008 (DOI 2008). The Queensland Competition Authority is to review local government infrastructure charges when new PIPs are prepared (DOI 2009).

### *3.2.3 Development contributions in Victoria*

Victoria's system for development contribution was overhauled in 2004 (under the Planning and Environment (Development Contributions) Act (2004)). It permits contributions to be collected via a Development Contributions Plan, as a condition of a planning permit, or as voluntary agreements. If made, contribution plans form part of the local council planning scheme, so require ministerial endorsement as an amendment to the planning scheme. They are implemented through an overlay zone shown in the planning maps, and do not have to apply to the whole of a municipality. Development Contribution Plans may provide for new infrastructure, or an upgrade, extension, or total replacement of existing infrastructure.

The Act distinguishes between 'development infrastructure' (for instance, local roads, parks, maternal and child health centres, kindergartens, and public transport infrastructure), and 'community infrastructure' – all other community facilities. The latter is capped to a maximum of \$450 per dwelling. There is no maximum threshold for development infrastructure. In addition, state agencies may also collect payments for specific infrastructure works. Voluntary agreements that run with the title of the land may be used when a developer requests an amendment to a planning scheme, or a planning permit.

Developers in Victoria may also be levied under section 18 of the Subdivision Act 1988, for public open space.

### *3.2.4 Summary of development contribution approaches in Australia*

In summary, there are four main differences in approach to developer contributions across the Australian planning jurisdictions. These relate firstly to the types of infrastructure or services that contributions may be levied for, which vary from open space and car parking (South Australia) to community facilities, regional transportation infrastructure and, in some cases, affordable housing (NSW). Secondly, the spatial application of contributions varies – with some states permitting only contributions for costs associated with the individual development itself (for instance, the site based infrastructure needed to connect a dwelling to water or power utilities, or to a road). Most states allow contributions to extend to certain local facilities or services, but only NSW and Victoria currently enable contributions to be collected by state government for regional services.

There are also differences in terms of the magnitude of contributions and the formula for their determination. As noted in Chapter Two there are significant distinctions between formulas that impose a flat fee per dwelling, site, or area, and formulas that require a percentage levy based on construction costs. When fees are imposed per dwelling, more expensive development is favoured because the fee is the same irrespective of the overall value, so the fee becomes a smaller proportion of the whole. This raises both sustainability and equity concerns. Similarly, if the fee is set per residential lot rather than per hectare, it disadvantages smaller lots and favours larger ones. This is particularly problematic in medium density housing where a unit faces a similar contribution to a house yet may have less impact on the need for infrastructure or services within the locality. Considerable differences in approaches to contribution setting exist, not only between the states and territories, but also at local government level. It is also important to note that not all financial obligations associated with the planning and development process are levied under planning legislation, with a number of other agencies responsible for roads or utilities potentially levying their special purpose charges in relation to their own formula for determination.

Finally, as discussed in Chapter Two, the timing of the contribution requirement is important in terms of who is likely to bear the cost – the landholder, the developer, or the final home purchaser. If the fee is required at the time of rezoning or land sale, it is easier to pass it back to the land owner. If imposed during the construction phase or prior to occupation, the fees are more likely to be passed on. Arrangements for the timing of contribution payments differ between and within jurisdictions, and in relation to particular projects.

### **3.3 Australian planning reform**

While there are many basic commonalities in the Australian planning systems outlined above, detailed procedural requirements and standards can be very different. As established in the previous chapter, planning system heterogeneity may increase development costs and uncertainty for developers operating across jurisdictions. Therefore, at the national level, the Council of Australian Governments (COAG) has agreed to pursue reform of development assessment processes within jurisdictions (COAG 2009). Local Government and Planning Ministers are reporting to the Business Regulation and Competition Working Group of COAG on their progress in relation to the streamlining of planning and approval processes. Proposals include accelerating the use of 'code assessment' (whereby more development classes are granted automatic planning approval provided that they comply with specified codes); and the introduction of a national template for development assessment.

The Development Assessment Forum (DAF), which includes representatives of the Planning Institute of Australia, the Urban Development Institute of Australia, and all of the state and territorial planning authorities, has also played a major role in promoting the 'harmonisation' of planning requirements and assessment processes (COAG 2009). The Commonwealth Government is supporting this process through its Housing Affordability Fund (HAF), which funds local councils or developers able to demonstrate how micro planning reform or new infrastructure projects could result in quantifiable savings for new housing developments. As part of this program, \$30 million has been set aside to fund the states and territories to support electronic development assessment initiatives.

Each of the Australian states and territories has also commenced or completed their own processes of planning reform. Key reform documents are listed in Table 8. Despite marked differences in planning frameworks across the Australian states and territories, there is a high degree of consistency in the stated objectives underpinning

this reform. Overall, these objectives respond to the range of Australian development industry concerns outlined in Chapter Two: particularly, perceived complexity, unnecessary bureaucracy, and time delays in planning processes. They also connect to broader state and national agendas for regulatory reform to promote greater competition and to reduce ‘red tape’ associated with cumbersome, complex, or unnecessary planning and assessment requirements. In this context, issues surrounding ‘competition’ policy relate to the potential barriers to development activity associated with an unresponsive or cumbersome planning system. However, unlike other types of government regulation, planning requirements often represent important and legitimate barriers to development activity in situations where the environmental or social costs are too high. Therefore, it is important to ensure that planning reform processes do not privilege the “competition” agenda above the other underlying objectives of planning regulation, as outlined in Section 2.1 and in the positioning paper for this project (Gurran et al. 2008).

Reforms in the ACT, NSW, South Australia and Western Australia foreshadow a shift away from routine merit assessment of development proposals and towards greater codification. New institutions for decision making are thought to reduce the potential for political interference, and provide faster responses to major development proposals in NSW and South Australia. Tighter timeframes for development assessment have been introduced or are pending in all jurisdictions with the exception of Victoria. Changes to the systems for development contributions are also underway, or foreshadowed, in several jurisdictions.

**Table 8: Planning reform in Australia, 2005-2009**

<i>Jurisdiction</i>	<i>Key reform documents</i>	<i>Date</i>
ACT	Introduction to Planning System Reform	2008
	Planning and Development Act	2007
NSW	Environmental Planning and Assessment Amendment Bill 2008	2008
	Improving the NSW Planning System	2007
NT	Planning Act	2007
QLD	Sustainable Planning Bill 2009	2009
	Planning for a Prosperous Queensland	2007
SA	Better Planning, Better Future	2008
TAS	Review of the Planning System of Tasmania Final Steering Committee Report	2009
Vic	Planning & Environment Act 1987 Review Discussion Paper	2009
	Making Local Policy Stronger	2007
	Cutting red tape in planning	2006
WA	Building a Better Planning System	2009
	Planning and Development Act	2005

Source: the authors

The key elements of reform processes in NSW, Queensland, and Victoria, are summarised in Table 9. As shown in the table, simplifying planning requirements is a major theme across each jurisdiction. In NSW, the obligation to refer to state agencies for many classes of planning decision has been removed, with a register of guidelines for considering agency requirements established as an alternative. Initiatives to speed plan making and amendment timeframes in NSW include a streamlined process with an early indication of the likely outcome (known as the ‘Gateway determination’). In

Queensland, development assessment timeframes will be shortened by introducing fast track streams for compliant development, and a 'deemed approval' category for certain applications if timeframes are exceeded.

**Table 9: Key elements of planning reform, NSW, Queensland and Victoria, 2005-June 2009**

<i>Objective</i>	<i>NSW</i>	<i>QLD</i>	<i>Victoria</i>
Simplification/ 'red tape removal'	Removed referral requirements; replaced by register of guidelines	Standardisation of plans	New residential zones under consideration
Faster plan making/ amendment	Gateway ministerial determination for up front certainty  Less technical approach to plan making  Automatic amendment of standard provisions		Under consideration (introducing timeframes for acting on amendments, reducing approval requirements)
Faster assessments	10-day approvals under Housing Code	Simplifying assessment/ referral triggers  Fast track for simpler complying developments  Deemed approval of certain applications if timeframes exceeded	Under consideration (fast tracking for simpler matters)
Codification	NSW Housing Code 'Exempt/Complying development'	'Compliance Assessment'	
Changed contribution requirements	New affordability criteria for all contribution requirements  \$20,000 cap per lot for local contribution plans	Standardise infrastructure plans and charging schedules, incorporate in planning scheme  Permit negotiations about infrastructure charge requirements (to avoid need for appeal)	New state government charge for Growth Areas (\$95,000 per hectare)
Panels/ Committees	Joint Regional Planning Panels (JRPPs) – consent authority & advisory body for developments of regional significance		'Development Assessment Committees' for Principal Activity Centres (to be established)
Plan templates	Standard Instrument for Local Environmental Plans being adopted by local councils	Standard local planning scheme provisions proposed	In existence

Source: the authors

There have been extensive changes to the development contribution frameworks of both NSW and Queensland. As noted above, in NSW, local contribution requirements have been capped to \$20,000 per lot, and new criteria introduced to examine contributions against an 'affordability' threshold and tests of timely provision. In Queensland, major changes to charging for infrastructure and planning for its provision are being introduced, while in Melbourne, new state charges for growth areas are pending. New bodies have been established, such as the NSW Planning Assessment Commission (PAC) (responsible for advising the planning Minister on plans and developments of state significance), and Joint Regional Planning Panels, who have consent authority for developments of regional significance. In Victoria, 'Development Assessment Committees' are to be established to manage proposals for development within Melbourne's Principal Activity Centres. Finally, following Victoria's example, both NSW and Queensland are pursuing greater standardisation of local planning instruments.

### **3.4 Summary and conclusions**

In this chapter we have reviewed key features of the land use planning framework in Australia. While there are similarities in the broad features of planning systems across the states and territories, significant variability exists across the detailed administrative processes, physical controls, and fees or charges imposed by each jurisdiction and at the local level. The resulting complexity is well illustrated by our brief review of arrangements for development contributions in Australia. We have also highlighted a set of planning systems under reform. These reform processes seek to promote simplicity and consistency within their respective jurisdictions, seemingly well aligned with industry concerns. In the following chapters, we examine how these planning frameworks and reform agendas are perceived by developers to influence housing outcomes on the ground.

## **4 PLANNING REGULATIONS AND HOUSING OUTCOMES: REVIEW OF CASES IN NSW, QUEENSLAND AND VICTORIA**

In this chapter we draw on case study information from 15 local government areas across NSW, Queensland and Victoria, to examine the major categories of cost for residential development associated with planning regulation. Our main source of information is in depth interviews with developers, focusing specifically on the planning process affecting 26 particular developments across these local government locations. We also seek the perspectives of state and local government planners in each jurisdiction, as well as representatives from industry. Consistent with the themes to emerge from the industry reports and our review of the literature, our interviews highlighted concerns about four distinct areas of cost, relating to land supply; procedural obligations and timeframes; development standards and requirements; and fees or charges, including infrastructure contributions. Following an overview of the case studies and our interview approach, we discuss each major category of cost in turn.

### **4.1 Case study research**

As outlined in chapter one, we used a case study methodology to gain a deeper understanding of the specific ways in which the planning system affects the cost of residential development in Australia and, in particular, the cost implications of planning requirements and effects on decisions about new housing supply.

We focused on 26 project case studies within 15 local government areas and three states – NSW, Queensland and Victoria. These jurisdictions were selected as they have been a particular focus of industry concern regarding the impacts of the planning system on the costs of residential development. Our purpose in focusing on specific cases within these larger state jurisdictions was to appreciate the ways in which planning regulations affect residential development costs across a range of different geographic and market contexts, and for different categories of developer. We sought to identify the range of actual costs affecting our case study projects, in relation to our fourfold taxonomy – land supply issues (understood in terms of land availability and prices); procedural costs; costs associated with planning requirements; and costs associated with developer contributions or other fees. In most cases, information regarding these costs was provided by respondents in a qualitative way, although in some instances we were able to quantify costs associated with development contributions by referring to council documents.

Once the main categories of costs were established, our second objective was to explore a number of questions about the impact of such costs on housing outcomes in each case study location, in line with our overall research questions for this study. Firstly, to what extent are particular costs absorbed by developers or able to be passed on in sales prices? How do different regulatory settings affect decisions about where to develop new homes and what types of product to produce? What is the overall impact of different regulatory requirements on levels of development activity? What strategies would reduce or offset cost impacts and assist in the delivery of modest and diverse housing forms? In addition to the views of developers within each case study location, we also drew on the perspectives of local government planners and industry representatives to address these questions.

#### 4.1.1 Overview of case study locations and projects

The case studies, and corresponding local government areas, are indicated in Table 10. While we do not identify these developments by name, as shown, they represent a range of market and development contexts. Our developers ranged from large firms operating on a national and international basis (with some sites of up to 1500 dwellings), through to local developer/builders undertaking small scale projects. They included a mix of private and government developers. Small developments were classed as projects of up to six dwellings; medium between 6-20 dwellings, and large as over 20 dwellings (Table 10).

In NSW, we focused on ten developments, within five metropolitan local government areas. These ranged from the established, high value inner local government area of Randwick, characterised by limited brownfield and infill development opportunities, through to the outer fringe areas of Camden, Blacktown and Penrith. Development in these outer areas is typically on Greenfield sites, and our projects included some major release areas located within Sydney's designated South West Growth Centre. Hurstville is an established middle ring suburb, with development opportunities limited to infill and brownfield sites.

**Table 10: Case study locations and development contexts**

<i>No.</i>	<i>State</i>	<i>LGA</i>	<i>Location</i>	<i>Context</i>	<i>Development</i>
1	NSW	Blacktown	Outer	Greenfield	Large
2		Camden	Outer	Greenfield	Large
3		Camden	Outer	Greenfield	Large
4		Randwick	Inner	Brownfield	Large
5		Blacktown	Outer	Greenfield	Large
6		Camden	Outer	Greenfield	Large
7		Penrith	Outer	Greenfield	Medium
8		Blacktown	Outer	Brownfield	Medium
9		Hurstville	Middle	Brownfield	Small
10		Hurstville	Middle	Brownfield	Small
11	Queensland	Ipswich	Outer	Greenfield	Large
12		Logan	Outer	Greenfield	Large
13		Ipswich	Outer	Greenfield	Large
14		Brisbane	Outer	Greenfield	Large
15		Logan	Outer	Greenfield	Large
16		Sunshine Coast	Outer	Greenfield	Large
17		Gold Coast	Middle	Greenfield	Large
18		Brisbane	Inner	Brownfield	Medium
19		Moreton Bay	Outer	Brownfield	Small
20		Gold Coast	Middle	Brownfield	Small
21	Victoria	Whittlesea	Outer	Greenfield	Large
22		Whittlesea	Outer	Greenfield	Large
23		Wyndham	Outer	Greenfield	Medium
24		Casey	Outer	Greenfield	Medium
25		Hume	Outer	Greenfield	Medium
26		Casey	Outer	Greenfield	Medium

Source: the authors

In Queensland, we focused on ten projects within six local government areas: Brisbane City Council (which includes a range of inner, middle ring and outer fringe development contexts); Logan, Ipswich and the Gold Coast (outer ring cities within South East Queensland earmarked for significant population growth); the Sunshine Coast, and Moreton Bay (regional cities). The projects were mainly located on Greenfield development sites, with one inner ring brownfield site included. Developers were predominantly large firms with lengthy experience operating both within Queensland and interstate.

In Victoria, our six projects were situated within four local government areas. All council areas were the outer ring. We enlisted a range of medium and large development firms in Victoria.

#### *4.1.2 Interview approach*

As noted, a particular focus in the interviews was on specific costs to developers arising through the planning process. While we have emphasised that there is no direct relationship between development costs, land and house prices, and affordability; clearly the major factor influencing the decisions of housing developers to undertake development within a particular area, aside from potential market return, is the actual or perceived costs (including risk) of such activity. Further, the overriding emphasis in the industry studies cited above is that the planning system, along with other specific government taxes and charges, adds considerably to the costs of residential development in Australia.

Our initial goal was to use the interviews and supporting material supplied by developer participants to quantify these costs. However, we were unable to do this. Firstly, very few participants were forthcoming with actual cost data for their projects, so we were unable to construct a full or consistent schema of expenditure. Secondly, the majority of informants advised that they were actually unable to quantify the range of additional expenses they incurred – while individual costs might be calculated – such as the interest rates, or additional staff wages associated with waiting longer than expected for an approval – less tangible issues such as the opportunity costs of missing a particular spike in the market cycle, or incurring price fluctuations for materials – are unable to be quantified. Several respondents advised that the actual cost impact of specific fees and charges – such as development contributions differs from project to project as well:

“Every project will be different and every developer is in a different position. The impact of levies varies from project to project.” (Developer, NSW)

Therefore we adapted our methodology to focus more strongly on two elements: 1) the range of planning requirements associated with a full residential development cycle (from rezoning through to completion); and their relative cost in relation to other types of requirements; 2) the likely impact of these costs for overall project viability, and decisions about future development activity and housing product mix. We also sought as far as possible to analyse the ways in which development contributions, as large single expense items, are levied across the jurisdictions and in relation to our specific case studies.

## **4.2 Land supply**

The costs of obtaining land were seen to be among the highest, if not the highest, expense associated with the residential development process. Most interviewees, including government representatives, believed that the planning process had a role to play in managing the supply of land, which could directly, or indirectly, affect the cost of land acquisition. In addition to the cost of obtaining undeveloped land (thought

to be affected by particular planning policies, such as the designation of a growth boundary), other factors, such as the time taken to achieve a rezoning, and the existing patterns of land ownership, were also seen to impact on land supply and the cost of land acquisition.

#### *4.2.1 Land price*

Developers across all jurisdictions advised that land owners are opportunistic in their sales strategy and will play developers off against each other to get the highest sales price, using monopolistic tactics to assemble large parcels of developable land:

“Twenty-seven landowners came to us and said, we can get top dollar ‘cause we’re banded together...they could get top dollar because they had a parcel of land that was a developable size.” (Developer, QLD)

Landowners were perceived to exploit a lack of existing zoned and serviced supply:

“In the northwest at the moment the biggest issues for the industry is the lack of supply of zoned available land. That will be overcome by the release of land by the growth centres. There will, however, be a lag because Sydney Water will need to service that land. There is every chance in the northwest sector that the market will return and developers being unable to service that demand through a lack of serviced, zoned land. That means that the existing landowners are in a box seat.” (Developer, NSW)

Many interviewees emphasised the difficulty of acquiring suitable sites. This is an issue both in inner urban areas, where land holding patterns are complex, and remediation costs for brownfield development may be high, and on fringe areas where existing patterns of rural residential development make higher density subdivision prohibitively expensive.

Views differed on urban growth boundaries, which have been formally imposed in Victoria and Queensland, and occur in practice through the demarcation of land within zoned urban or designated growth areas in Sydney. Some respondents advised that Victoria’s urban growth boundary had an inflationary impact on prices. But in Queensland, the growth boundary was seen to reduce speculation in areas beyond the boundary that would be too expensive to service:

“Putting an urban growth boundary in has been a fantastic thing, because it’s allowed us to concentrate on the areas where we want development, and it’s stopped the speculation across the boundary.” (Local government interviewee, QLD)

#### *4.2.2 Rezoning*

The rezoning process was identified as a major issue constraining residential land supply. The actual costs to secure a rezoning initiated by a developer are significant:

“For big sites, for big master planned sites, the pre-rezoning costs run in the order of millions of dollars.” (Developer, NSW)

Most land developers interviewed indicated that this process could take at least twice as long as they anticipated – suggesting that land became more expensive because of this:

“At the end of the day if you can’t maintain a supply of land through structure plan process and approvals in a timely way, you can’t control price. That’s exactly what’s happened in the south east where they just haven’t been able to get the approvals through in a way which maintains the level of supply required to keep prices under control.” (Developer, Vic)

Local government participants in Queensland accepted that the rezoning process was lengthy, attributing delays to statutory requirements, as well as the need for appropriate consultation:

“Everybody wants our planning schemes to be more transparent, and everybody wants us to be more consultative in the way that we put plans together, and that brings a penalty in itself, because to consult, to be transparent, we actually need to spend more time doing it.” (Local government interview QLD)

“From, you know, the time we say we’re going to do the plan, to have it actually gazetted as law in our planning scheme, you’ve got a minimum of 12 months statutory process, and that, a lot of the time, adds little – there’s a lot of wasted time in there.” (Local government interview QLD)

In NSW, there was a perception expressed by some developers that the rezoning process was beholden to local government whim:

“The problem with the rezoning is the council officers know very well there’s no appeals process so they just do whatever they want.” (Developer, NSW)

“They’ve got you over a barrel. You do whatever they want ... you just want to get it approved. So the lobby side of it just becomes a nightmare.” (Developer, NSW)

Local government respondents in NSW themselves talked of spending “an inordinate amount of time” in rezoning matters. The sequential plan amendment process includes mandatory consultation with state agencies, often resulting in the return of conflicting requirements that need to be resolved, resulting in a long lag time between the decision to prepare the plan, and gazettal. State government involvement in rezoning was also raised as an issue in Victoria.

Local government respondents felt a need for state government to broker simple solutions to these conflicts. In NSW, participants observed that the Growth Centre Commission model had attempted to do this for Greenfield sites, but following re-absorption within the Department of Planning, no longer have the authority to undertake the coordination between competing agencies. While reform to plan making processes may address some of the delays identified by developers, the reform process itself has effectively arrested rezoning since the introduction of the standard instrument in 2006, while new standard instruments are prepared.

### **4.3 Procedural costs**

Procedural costs are the expenses associated with applying for planning approval – from the rezoning process (if applicable) through to project completion. The main procedural cost consistently identified by respondents was unexpected timeframes resulting in additional holding costs as well as staff resources. However, a variety of other administrative requirements raised potentially expensive problems for developers, including differences in council regulations at the local level, changing requirements, complexity, and the need for additional studies. Ultimately, uncertainty was a defining theme – the difficulty of predicting in advance the likely timeframe of the planning process, and the particular requirements, such as consultant studies, that would be required by local or state authorities, to support an application for rezoning or development.

### 4.3.1 Timeframes

Developers consistently advised that the time taken for planning approval – both rezoning and development consent – was longer than anticipated during feasibility planning. This equates to holding cost blowouts (particularly interest payments) as well as staff costs (either salaries or consultants, who must be employed for a longer period of time). Developers advised that the standard timeframe allowed for development approval on appropriately zoned land was around 12 months (despite nominal statutory approval times of around 30-60 days, with ‘stop clock’ provisions for additional information requirements). Developers believed that councils request additional information as a way of extending the statutory timeframes for assessment, or simply ignore the timeframes altogether:

“We’re talking a year for a planning permit. We’re not sending rockets to the moon, it’s how to break up a piece of dirt and putting some lines on it in the simplest form. We factored into the cash flow and feasibility [sic] and we’ve modelled it on three and half years, four and a half years and five years, and it’s pretty sad to think that you’re only at the starting gate in five years.” (Developer, Victoria)

Developers believed that little was gained for the delays:

“If we were constantly improving the standard of subdivision and coming up with brilliant urban designs as a result of that interaction between the developer and the council, you’d say, perhaps it’s worth it, but at the end of the day, we’re turning it all out pretty much to a code and there’s nothing particularly innovative about it. Yet we’re tied up for months and months and months, every step along the way, in these planning processes which is just processing reams and reams of paper and correspondences backwards and forwards to achieve what, predominantly, is a pretty stock-standard outcome.” (Developer, Victoria)

Several factors were thought to explain these timeframes, including the increased complexity of the planning system itself, with additional policy requirements to address insufficient council and or state government staff and resources for assessment; persistent referrals to state agencies; and local government or planning system reform. In particular, the local government amalgamations in Queensland were identified as a key obstacle in that state<sup>3</sup>.

### 4.3.2 Complexity

Attributing the multilayered planning system in Victoria as a cause of complexity and delays, a developer explains:

“There’s so many different levels of plans. There’s the precinct structure plan, then there’s the development plan, then there’s the permit plan, then there’s the plan of subdivision, then there’s the engineering plan and the landscaping plan and there’s procedures attached to all of them.” (Developer, Victoria)

Similarly, in Queensland, developers are scornful of a system that seeks to address every possible contingency:

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<sup>3</sup> In 2007, the Queensland Government initiated a series of local government reforms, resulting in a significant process of local council amalgamations, and the establishment of several larger, regional council entities.

“[A] growing problem I think with planning schemes, which is that they’re trying to tick off every single problem they’ve ever seen in development ever.” (Developer, Queensland)

“The details of development that are required to be seen by the planners or by the authorities has increased. Anything from changes to windows on heritage buildings to the largest developments and the detail that’s required to be submitted with any application is far greater than it ever was, and you need reports on each element. So there’s a lot more going into the system, a lot more being looked at and a lot more detail required to be considered which inevitably adds time and cost to the system.” (Industry representative, Queensland)

The fact that new policy agendas mean longer planning timeframes was accepted by local government respondents.

“There are certainly more agendas being loaded into things. Air quality, energy efficiency. It’s now going to looking at product lifecycle. What is the house built of? Is it sustainable? And unfortunately, the more agendas you load into a process, the longer the process takes, and yes, the goalposts will move.” (Local government interviewee, Queensland)

#### 4.3.3 Council staff and resources

Developers identified a lack of council staff as a major cause for delay. A problem throughout the industry, a shortage of planners has meant that council staff are often junior, perceived as less willing to make decisions, or to proactively negotiate a workable outcome, resulting in slower decisions. Local government respondents also identified a lack of staff, and constant staff turnover, as a reason for slower decisions:

“It’s difficult for Council to plan ahead for staffing for new releases as there is no logic to when announcements [regarding land release] are made [by state government] and Council is not informed beforehand. Council still has a small rate base despite major new development and therefore its resources to support these substantial new planning needs are limited.” (Local government interviewee, NSW)

Developers pointed to an obstructive council culture, comprised of planners with no real understanding of the development process or development finance who were much more obstructive than others:

“They look at it and – the initial thing that every council officer does and, even when I was working at council, is your mind goes, what’s wrong with this. It’s not what’s right with this and how it can be approved. It’s, there’s got to be something wrong here.” (Developer, Queensland)

“It doesn’t matter what state you’re in. The mindset is, a council has got to make the difference. The developer is surely screwing them over.” (Developer, Queensland)

Similarly, some developers pointed to the role of local councillors in assessing development applications, which was perceived as delaying the process without achieving better decisions:

“The planning side of it can be sabotaged by politicians who have an ego problem.” (Developer, Queensland)

“Even with street names we have a problem. We submitted for a set of four streets, seven sets of four names which all got continuously rejected because

they were too hard to spell, they were too long, they were stupid. Like, Kakadu was apparently too hard to spell for the average resident.” (Developer, Queensland)

Planning reform, and reform to the local government sector, has slowed the land supply pipeline in both NSW and Queensland. Council amalgamations in Queensland have meant that staff members have changed, as have procedural requirements and planning frameworks, resulting in bottlenecks:

“No one’s getting any more approvals, no one’s getting any plans survey sealed. This has started since July last year. So we lodged applications with Gold Coast in November 2007. Gold Coast basically said, you’re going to Logan in March, we won’t do much with them, we’ll put [the applications] in boxes. So they sent them to Logan. Logan got them in March, along with 30,000 other files, and we, like everyone else went knocking on the door saying, ‘hi we’re here to develop the site. You’ve got our applications. When are you going to get to them?’ By the time – end of March, through till June happened, they were trying to start doing some, but I think they’d realised that there was a quantity of applications they had, they couldn’t just do business as usual and just keep assessing things, because they were handed 30 vacant staffing positions, not 30 staff. In the meantime Logan Water started to assess the assets of water and sewerage and they found that they thought it was all under capacity because the standards between Logan and Gold Coast are very different.” (Developer, Queensland)

These changes have specific costs for developers operating in these areas:

“It’ll increase the cost and reduce the margin, because there’s some redesign of the subdivision that’s already occurred. Those applications lodged in November 2007 have not got planning approval in the 12 to 14 months since, then they’ve changed a few of the standards and we’re adopting Logan’s standards. Things like easements in the back of lots have to go from three to four metres. So suddenly we’re having to look at our lot subdivision and having to say, we can’t actually get a house on there now ‘cause we’ve lost another metre and you can’t – in some of our subdivisions, when you’re down as low as 240 square metres, you can’t afford to lose a metre off the back of the block. So the cost of the a) spending time to look at it and redesign it b) relodging it and redesigning the engineering side of it, which are all consultant costs which will probably run into the tens of thousands.” (Developer, Queensland).

#### *4.3.4 Referrals and studies*

Referrals to state government agencies, during both the rezoning and development assessment stage, were nominated by all participants as a constant source of delay. There was a strong perception that the referral agencies are not able to look at the development ‘holistically’, but focus specifically on their area of jurisdiction, making it difficult for their issues to be resolved:

“How do you program in a statutory authority ... who are answerable to no-one, it appears, who will basically just sit on a plan and take their own sweet time and then put in ridiculous ill-considered comments.” (Developer, Victoria)

Certain departments were perceived by respondents as being particularly slow or difficult, although many accepted that state agencies also suffered from staff shortages. Many expressed the view that referral to other agencies should not occur following rezoning.

“There is a view within industry that once you paint it pink you should be able to get on and do development, the community has made a decision that they wanted to paint it pink, wanted to have housing on it, so let’s go. Whereas the reality is that you still have to go through the terrible grind of all those agencies and investigations which take time and money and really does not seem to add much to anyone.” (Developer, NSW)

Consultant studies are used to support rezoning applications and development proposals. Some of these can be identified in advance. However, developers advised that the need for additional studies frequently arises during the planning process, or that different councils will have different submission requirements, making it difficult to predict what will be needed. Studies for bushfire, wildlife habitat, and Indigenous heritage were frequently identified as additional requirements to support residential development applications, despite the applications relating to land already zoned for housing:

“We get asked for bushfire reports all the time here, and they could have done a bushfire analysis, the whole of [the development], realising it’s going urban, and that every stage we do does not need a new bushfire analysis as this blanket requirement that if you’re on the edge of the bush you need this. But they sort of ask it in reports all the time.” (Developer, Queensland)

“It is more difficult to develop because of the approvals process. It is not just the EP&A Act, but all the studies on every damn thing, from ecology to archaeology.” (Developer, NSW)

Consultant studies are likely to account for between four and 12 per cent of the total project cost, according to the developers interviewed for this project (although we were unable to verify these estimates based on the figures supplied). Planners have some awareness of this cost, but believe the studies are required to support plan amendments and rezoning:

“(The) expert reports that we ask for ... I’m sure that they can be quite pricy.... I’m not quite sure how much they cost. But in the scheme of things, considering the area that they cover, that information is essential for developing a plan that is accurate.” (Local government interviewee, Victoria)

On the other hand, some local government respondents believed that studies to support specific development proposals add little value to the decision-making process, because they are commissioned to support a particular proposal:

“Statement of Environmental Effects and other expert reports that are prepared on behalf of applicants are rarely justified as they are often a propaganda statement and do not represent an objective and impartial assessment.” (Local government interviewee, NSW)

#### **4.4 Development standards and requirements**

Our review of industry reports highlighted concerns about increasing costs associated with changing development standards and requirements, particularly environmental requirements. While basic construction standards apply across Australia (under the Building Code of Australia), the planning system is often associated with the imposition of additional state or local requirements. We sought information from respondents about their views on the costs of meeting specific development standards applying to their projects.

Although we expected to hear about unnecessary development standards, requirements for building materials, landscaping or environmental measures, for the

most part, respondents expressed little concern about these issues. Indeed, a number of developers of master planned estates reported that they had imposed their own development standards, which were supported by council, and if anything, were likely to exceed prevailing local requirements. Of far greater concern to respondents were minor inconsistencies between neighbouring local areas, or the introduction of ad hoc requirements, particularly as an unforeseen condition of consent. Also of concern were requirements that reduced the development yield of a project.

#### *4.4.1 Building and design standards*

Local government respondents were aware that their design requirements might impose additional costs to residential development, but believed such costs were justified by superior outcomes.

“Council’s development controls allow generous dwelling sizes. Yes, this means additional construction costs as we require good quality materials and finishes, modulation of the built form to provide visual relief, and car parking at basement level for multi-unit housing.” (Local government interviewee, NSW)

“So, for example ... we said that all connector roads need to have a three metre central median in them just because we want to develop that urban character. They did their assessments about what putting a three metre median in is compared to the cost of just doing your standard 16 metre local road. Of course we acknowledged that that bumps up the development cost, but it also has benefits down the track for those residents and we see it as an equity issue. Why do people out in the suburbs have to put up with boring streets that all look the same whereas the people in the city get the nice variation in cross sections and things like that?” (Local government interviewee, Victoria)

Several larger developers advised that they apply their own building criteria within their master planned estates. They believed that this approach offers certainty and speed for builders, who know that if they meet the requirements their applications will be processed quickly by council:

“All designs for building need to go through our design coordinator here. To make sure that it complies. That happens before any DAs are actually lodged with the council. I think builders find that that assists them with their timings with council because council has a certain level of comfort with the requirements which we have in place which are contractual.” (Developer, NSW)

Some developers also expressed concern that changes to the NSW planning system would not result in a reduction of current development standards:

“So you would hate to have a situation where you’ve got a really nice streetscape and everybody’s complied with the design guidelines and the streetscape is all nice and done and then you get one or two particular people who want to follow the rules in the State Planning Code and build a purple house and not landscape it.” (Developer, NSW)

#### *4.4.2 Cost of complying with environmental standards*

There was a general belief that the market is beginning to accept sustainability requirements and is willing to pay for it. There is also a view that the cost to meet sustainability criteria is falling as technology improves. Most respondents advised that environmental criteria are simply factored into projects, with cost differentials of complying with new sustainability requirements in the order of between 3-5 per cent.

Typical requirements relate to water systems (site and neighbourhood) and water and energy efficiency fittings. The NSW state planning policy requirement of minimum water and energy savings under the Building Sustainability Index 'BASIX' has been well accepted, despite representing additional costs of approximately \$3-4,000 per apartment; \$5,000 per house, and \$770-\$1,000 for the BASIX compliance report:

"BASIX is not an issue for developers. It's a requirement now, and that's it."  
(Developer, NSW)

Large developers are using sustainability features as a marketing advantage, and often exceed minimum planning requirements, particularly in products designed for second and third home buyer markets:

"Those 40 lots will also have a grey water system on their lots and the idea being that that water can be reused in toilets, but can also be reused to keep spaces useable, you know, presented well and houses watered with class A type water. I mean really, you could drink it, but I don't think that's going to be accepted currently. Hopefully it will in the future, but we kind of look at that more from an investment protection type perspective as well." (Developer, Queensland)

However, environmental requirements that result in smaller overall development yields, through 'quarantining' areas of a development site, do raise concerns:

"You can certainly end up losing through – you know, in zoned residential land you can certainly lose a lot of developed land through something that's quite opportune or which you would have never provisioned for." (Developer, Queensland)

"Given that it's got residential zoning, et cetera, we probably wouldn't have said, you know, we're going to retain this many trees." (Developer, Queensland)

Some regard environmental concerns as the latest in a list of planning requirements that have dramatically shaped suburban development:

"The biggest thing that probably comes into play at the moment, and it will be around for a number of years, is environmental-ecological concerns. I quite often liken those concerns to how the transport engineers of the 70s went a bit haywire, and everything had to [have a] wider road and wider verge and a median and all that. You go through some of the old suburbs and they've got these big wide avenues or boulevards which were projected for large volumes of traffic, but actually it was more of the transport engineers overdesigning and overcompensating for what might happen in the future.

I see that ecologists and environmentalists are doing that now. They're saying, we need more park and we need more open space and the wildlife needs one kilometre wide corridors. When, in actual fact, when you do the maths or the science on it, there's probably not as much wildlife, or we've already got decent pockets, or they don't need a kilometre wide, they need 100 metre wide. So that's probably the biggest thing, the understanding of where ecology sits in the mix, and for those ecologists to stop trying to grab more."  
(Developer, Queensland)

Some local government respondents advised that it was important to consider the cost impact of requirements when defining them.

“Development controls need to be based on financial testing of possible scenarios in order to measure the point at which financial viability is reached and removes economic disincentives.” (Local Government interviewee, NSW)

Few of the local government respondents in our study reported undertaking such analyses. However, there are some exceptions:

“The test that we always run is what is the impact of this going to be? And look at short term and long term changes. For instance, when we bought in the requirements on energy efficiency, the housing councillor said okay, what does this cost? And we looked at it, we said, well, putting this stuff in means a difference between having marble bench-tops in your kitchen and not having marble bench-tops.” (Local government interviewee, Queensland)

## **4.5 Fees and charges**

The review of industry reports presented in our position paper identified three types of fees and charges associated with the residential development process: administrative fees; government taxes (GST, stamp duty, land tax); and development contributions towards infrastructure. Our respondents referred to each of these, with government taxes, particularly land tax, raised as a major cost impact. In keeping with our research questions, in this section we focus on administrative fees, and contributions towards infrastructure.

### *4.5.1 Administrative fees*

Administrative fees arise when applications are lodged with planning authorities, and to cover a range of other administrative functions. Developer respondents did not regard application fees to be a significant concern, however, some believed that the fees did not represent value for money. Indeed, some volunteered to pay more to have their matters expedited:

“You would be happy to pay the fees if they reflected the level of service which you received... You would be happy to pay more if the applications could be dealt with quicker.” (Developer, NSW)

On the other hand, local government respondents indicated that the administrative fees were insufficient to cover basic assessment costs:

“Fees charged are well below the true costs of assessment.” (Local government interviewee, NSW)

“It’s crazy low in terms of how much time we spend on them.” (Local government interviewee, Victoria)

### *4.5.2 Developer contributions*

We have noted already the considerable differences in approaches to contribution approaches in Australia. These differences make it difficult, if not impossible, to generalise across a metropolitan region about the amount of fees and charges applying to standard residential lots or house and land packages. However, an indicative schedule of Greenfield fees and charges in each state is provided in Table 11, based on information supplied by respondents in relation to their specific projects. As shown in Table 11, considerable differences in the level and type of charge is apparent across each of the jurisdictions examined.

**Table 11: Indicative fees and charges Greenfield developments, Brisbane, Melbourne, Sydney, 2008 (per lot)**

	<i>Brisbane</i>		<i>Melbourne</i>		<i>Sydney (NW)</i>
Charges	\$	%	\$	%	\$
Planning application fees	460	4%	250	0.2%	16,800
Local development contributions	9,900	86%	7,000	10%	45,000
State/regional contributions	n/a		20,000	29%	45,000
Other	n/a		32,000	47%	n/a
Subdivision/construction certificates	1,050	9%	450	1%	400
Referral fees	n/a		5,000	7%	n/a
Licenses (eg., utilities, special permits)	n/a		3,500	5%	n/a
Other compulsory charges	n/a		n/a	n/a	n/a
Fees for review/appeal	n/a		n/a	n/a	n/a
<b>Total</b>	<b>11,560</b>	<b>100%</b>	<b>68,200</b>	<b>100%</b>	<b>107,200</b>

Source: the authors, based on data supplied by developer respondents

Somewhat surprisingly, development contributions were not regarded to be a major issue per se for the developers interviewed in this project. Rather, the developers in our study accepted the need to contribute towards local infrastructure, but expressed concerns about the calculation of requirements, where their funds were spent, and the scale of recent charges, particularly in NSW and Queensland:

“Look, I don’t think any developer would have any problem paying contributions if they could see that it was actually directly benefiting the area they’re developing rather than going to pay for some pothole at the other end of town.” (Developer, NSW)

Despite perceptions that contribution requirements are determined in a way that is unaccountable – one respondent described the contribution planning process as a “black art” – local government respondents described detailed methodologies for determining needs and “apportioning” this need to specific developments:

“We get down to demographic analysis to look at how that impacts on what infrastructure is required. We also do ... a needs analysis for the more social and community infrastructure items. So we have in-house a social planning package that was developed which works via – you know, we put in that demographic information and the population information and it, in a way, spits out at us how much we need in terms of open space, what community facilities we need and the breakdown of what those open space facilities need to contain. So you have got a certain ethnicity [sic] where you might have a higher proportion of soccer fields versus football ovals or something like that. So it goes down to that level of detail and then we get an estimate of how much that would cost for each of them, put it all together and then we apportion it out.” (Local government interviewee, Victoria)

Local government respondents indicated an awareness of the cost impact of development contributions. Some local government respondents believed that contributions could send an effective price signal, consistent with urban consolidation policies:

“I believe that putting all the charges home on that property sends a good signal to the marketplace. You know, if you’re getting disparity, if it’s getting far more expensive to develop out there, let’s develop in here, where it’s cheaper. You’ve got to make those costs transparent. And if you put it on the person that’s going to be using that infrastructure, user-pays, that sends far better signals.” (Local government interviewee, Queensland)

Nevertheless, an overwhelming message from our interviews with local government was that current levels of local contributions are insufficient to meet the cost to council of providing required new infrastructure and services:

“S94<sup>4</sup> liabilities are significant in new release areas – but there is always a shortfall from collected levies – up to 30 per cent in some instances, which have to be met from council general rate fund contributions. This is in part due to fluctuations in land costs (which rise once the levy amounts have been set and then land purchase costs are above the initial estimates). This has been a significant difficulty since the 1980s.” (Local government interviewee, NSW)

In part, this is due to the time lag between initial infrastructure planning and the subsequent collection of contributions.

“I mean we have got local structure plans with DCPs<sup>5</sup> in it from ’97 or something where we have estimated \$80,000 for an intersection and it ends up costing half a million. For those older DCPs that is not unusual.” (Local government interviewee, Victoria)

Revenue shortfall can delay or prevent collected funds being spent at all.

“The problem with PIPs,<sup>6</sup> it’s probably a problem for councils as much as anything else, is that when you’ve committed to collect that first dollar, you’ve got to commit to spend the rest of it. So if you’re going to collect – if you’re going to put your hand up for a \$500 million program, knowing you’re only going to collect half of it, you’ve got to find the other 250 and that’s a bit of a challenge to the council.” (Local government interviewee, QLD)

#### 4.5.3 *Uncertainty and change*

While the principle of developer contributions has been accepted, perceived uncertainty and change in their application affected residential development costs significantly:

“The worst thing in the whole gamut is shifting goalposts. You bought it with an assumption of headworks at X and that turns to X plus 50 or X plus 100.” (Developer, Queensland)

“Well, it’s the shift in goal post thing. I know when I came back to Brisbane in 2000 that two developers were out there buying up all the paddocks in that Rochdale area. They were all farmers and different things. So they’ve gone out and bought them. They’ve looked at the current charges, knew that they’d have to put a lot more in there, tried to do their own estimates, then bought them on that basis. So they pay really good money to all the farmers. Then they found out the charges go up and it just eats into their margin. So one of

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<sup>4</sup> ‘S94’ refers to the section of the NSW *Environmental Planning and Assessment Act* authorising the collection of development contributions.

<sup>5</sup> In the Victorian context, DCP refers to ‘Development Contribution Plan’.

<sup>6</sup> ‘PIP’ refers to ‘Priority Infrastructure Plan’ in the Queensland context.

the things I've heard is, and it's been this industry, why have we made farmers incredibly wealthy? They take the money, gone. They've bought a boat, a holiday house, blah, blah, blah. Now the council and the developers are arguing about how to fund everything that needs to go in. Whereas, if it was set up at front, you knew what your charges would be, you'd pay less to the farmer. So it's that forward planning stuff." (Developer, Queensland)

In NSW, local government respondents indicated that contribution requirements had not increased within their own areas over the past five years, aside from CPI. However, the introduction in 2005 of state contribution requirements in the North West and South West Growth Centres resulted in a major increase in costs for housing development in these locations. In Queensland, it was estimated that the introduction of mandatory Priority Infrastructure Plans and associated charging schedules, will result in around a 10 per cent increase in developer contributions (to between \$30,000-\$40,000 per lot). However, requirements from other agencies, for instance water, have increased dramatically over the past decade.

One of the issues is whether charges are paid up front or deferred to the end point of sale, to assist developers with feasibility and cash flow. However, this creates a cash flow issue for councils, given the need to install infrastructure ahead of development:

"Developers ... want to push the payments back towards the sale point, not up front. But Council has to wait until the charges have been paid before they can spend out on the infrastructure – it's a basic contradiction of the system – front loaded costs but back loaded payments – this needs fixing." (Local government interviewee, NSW)

#### *4.5.4 Infrastructure agreements versus fixed charges*

Many of the larger projects we reviewed were subject to negotiated contribution agreements, often with infrastructure directly provided by developers. There was much support for this negotiated approach, from both developers and local government respondents. The major benefit for developers was the capacity to control the timing and the standard of the infrastructure provided, which was used as a marketing advantage:

"So we can certainly control when we want things to happen .... I would also say we spend considerably more on the things than maybe the dollar amounts put in the schedules. But saying that we also gain marketing advantage and so it's hard to quantify whether that actually – and we could also say then that we can sell land for a bit higher than other areas, if we make it more appealing and give it more amenity. I prefer that model of us doing the work because I just think it gives you that level of control. Yeah, I suppose one of my concerns would be just handing over a cheque, for instance, to council or whatever so that it can be invested or held in trust or something." (Developer, Queensland)

"We prefer to go down the path of the planning agreement. We prefer that way because it means that we are in control of timing and typically we deliver at a higher quality than council would ... that is about us creating what we see as a marketing benefit. All the big developers tend to do that." (Developer, NSW)

For local government, there is advantage in securing the entire infrastructure needed to support the development, rather than having to obtain additional funds, often reliant on a contribution pool that is limited to CPI increases and so inadequate to meet construction or land acquisition costs over time:

"You can achieve quite a lot. If you've got a developer who sort of has enough size and (a) development (of sufficient scale) ... you can often get a good

result by saying, well, if you want to bring that forward, that's fine and (then you can) get that (infrastructure) delivered. ...To be honest, the name of the game is getting the things delivered before (the development is completed) – if there's contribution money in the bank, having it in the bank is a bloody disaster 'cause we don't get anything on the interest or very little. But at the same time your costs are going through the roof. So the longer it sits in the bank, the less it has any value. So if you can get someone to come in and build a component of the facilities in lieu of cash contribution, nine times out of ten you'll come out in front 'cause if you get the thing delivered, it's done.” (Local government interviewee, Queensland)

There is a potential, however, for developers to 'gold plate' their own infrastructure, and leave council with expensive items that are difficult to maintain:

“They'll tend to spend a bit more than what we would, but we'll limit their contribution discount to what their contributions for that item would be. So quite often we'll do reasonably well out of it. The only catch is some of them like doing a whole lot of embellishments that we're not usually funded to maintain.” (Local government interviewee, Queensland)

Concerned about the potential for developer-provided infrastructure to create exclusive enclaves, some council representatives insist that infrastructure is designed to their own standards:

“It is better to get the infrastructure designed to Council's standards and take ownership. This ensures that enclaves are not created, even though easements and restrictions may be placed on title.” (Local government interviewee NSW).

#### *4.5.5 Inconsistency from place to place*

Developers expressed concern at differing contribution requirements across neighbouring locations (see Table 12):

“There's no standardisation, so you get these costs which vary considerably from one growth area council to another.” (Developer, Vic)

However, councils defended the need to have site specific charging regimes, according to existing land ownership patterns and whether council will need to finance upfront provision:

“Different land ownership patterns can significantly affect the level of S94 charges. For example, in [one development], where there are many smaller land owners, charges are at \$60k per lot, as Council has to provide more facilities up front and incurs higher opportunity costs compared to [another development], which has two large owners and S94 charges of \$30k per lot because the developers will be providing much of the infrastructure within their masterplans and there is higher certainty of development roll out. ... This means that it's difficult to compare the charges for different contribution plans – you need to put the plans in context.” Local government interviewee, NSW)

**Table 12: Variable contribution requirements, Broadhectare development, South East QLD**

<i>Direct Fees / charges</i>	<i>Project A</i>		<i>Project B</i>	
Planning application fees	250,000	0.89%	46,000	4%
Development contributions				
Local	7,500,000	26.75%	990,000	86%
Regional	20,000,000	71.35%	n/a	
Other	250,000	0.89%	n/a	
Subdivision/construction certificates				
	7,000	0.02%	105,000	9%
Referral fees	10,000	0.04%	n/a	
Licenses (e.g., utilities, special permits)				
	10,000	0.04%	n/a	
Other compulsory charges				
	5,000	0.02%	9,000	1%
Fees for review/appeal	500	0.00%	6,000	1%
<b>Total</b>	<b>28,032,500</b>	<b>100.00%</b>	<b>1,156,000</b>	<b>100%</b>

Source: the authors, data supplied by developer respondents

#### 4.5.6 Regional contributions

Although not required uniformly across our cases, most developers were concerned about the scale of contributions for regional or offsite infrastructure, and the methodology for determining their share. Most respondents felt that developments should not be charged both for local and regional items. Nevertheless, they recognised that some infrastructure is beyond the capacity of local council to provide.

The risks associated with making major infrastructure contingent on development contributions were raised:

“You can’t force developers to develop. Relying on a tax that relies on developers is just stupid because the rest of the city is falling down and the council is sitting there going, well, we can’t fix it because we’ve got no contributions coming in at all.” (Developer, NSW)

Conversely, respondents emphasised that infrastructure needs to be provided if development is to happen on the fringe.

“You want people to go live out on the fringes, but you don’t want to give them an alternative to get to wherever they need to get to. But, by the way, you should only have one motor car, well what do people do? ... And they charge those extra special levies on the infrastructure and stuff. ... Yeah, and then they’ll put a toll road through, charge some more.” (Developer, NSW)

Respondents also discussed the way in which charges are calculated, to reinforce, rather than undermine, other strategic goals:

“I understand that the per hectare basis ... is a much more fair way of doing it. We had council saying we want you to get to Melbourne 20, 30 densities and we’ll hit you up for a per lot basis. Now the more they push on density the more money they get in for a development contribution on a per lot basis.” (Developer, Victoria)

## 4.6 Summary and conclusions

This chapter set out to establish the range of costs for housing development associated with planning regulation in Australia. Focusing on 26 developments in 15 local government areas across NSW, Queensland and Victoria, we analysed perspectives on costs associated with land supply, procedural requirements, development standards, fees and charges (summarised in Table 13).

**Table 13: Planning regulation and costs in NSW, Queensland and Victoria**

<i>Type of cost</i>	<i>Issue</i>	<i>Developers / industry reps</i>	<i>Local / State govt.</i>
Land supply	Land price	✓	
	Landholder expectations	✓	✓
	Inflationary impact of growth boundary	✓	
	Length of rezoning process	✓	✓
	Difficulty of site acquisition	✓	
	Complexity of existing land holding pattern	✓	
	Expense of remediation for Brownfield sites		✓
Process costs	Delays in planning/approval	✓	✓
	Differences in council regulations	✓	
	Changed planning requirements	✓	
	Complexity of requirements	✓	
	Need for expensive studies	✓	✓
	Lack of council staff	✓	✓
	Poor quality applications		✓
Requirement costs	Expensive requirements for subdivision	✓	
	Expensive requirements for building materials		✓
	Environmental requirements	✓	
Fees/ charges	Application fees	✓	
	GST/Stamp duty/Land tax	✓	
	Developer contributions (quantum increase)	✓	✓
	Developer contributions(uncertainty)	✓	
	Insufficiency of fees & contributions to meet council costs of services and infrastructure provision		✓
	Timing of development contributions	✓	
	Charges for regional infrastructure	✓	✓

Source: the authors

Most of our respondents were unable or unwilling to provide solid accounting data on planning related costs, with five exceptions. Using this supplied data we compared Greenfield developments in Melbourne and Brisbane, and one small infill development in Sydney's middle ring (Appendix 1). While not representative, these cases show that development contributions are clearly the dominant cost item of planning related expenditure, with process related costs substantial but diminishing as a proportion of total costs for larger developments. Of greater concern to our respondents was their inability to accurately estimate planning related costs, including development contribution requirements, during feasibility analyses. Indeed, the system appears so opaque that costs appear difficult for developers to quantify even post expenditure. What impact does this uncertainty have on decisions about the location, quantity and type of housing produced? We turn to these questions in the following chapter.

## **5 IMPLICATIONS OF PLANNING COSTS FOR RESIDENTIAL DEVELOPMENT IN NSW, QUEENSLAND AND VICTORIA**

In this chapter we shift our analysis of interview and case study data to explore how respondents believe planning costs have impacted on the residential development process. We also explore views on how such costs could be reduced or offset, to better support the development of modest and diverse housing supply. Finally, we discuss respondent perspectives on current and prospective planning reform in each of the case study jurisdictions.

### **5.1 Impacts of planning costs for residential development in Australia**

Our literature review and analysis of Australian industry reports highlighted a number of potential implications arising from high planning costs to residential development. In particular, as outlined in Chapter 2, the international literature identifies potential relationships between planning regulation, house and land values; rates of housing construction; and, rates of affordable housing development. However, the strength of impacts is not uniform; it depends on the way in which particular planning jurisdictions operate and the particular types of requirements they impose.

As outlined in the previous chapter, the case study research has confirmed general concerns about the impact of planning on land values and construction costs, although the weight of concern differed somewhat to our expectations based on the literature and review of industry discourse. With some exceptions, much greater concern was expressed about intangible, unpredictable, and unquantifiable costs – including policy changes and missed sale opportunities – than about specific, quantifiable expenses associated with meeting development standards and contributing towards local infrastructure. To understand this counter intuitive finding, we now explore more closely how particular impacts associated with planning regulation influence housing development decisions.

#### *5.1.1 Responses to land supply shortages and high land acquisition costs*

As noted in the previous chapter, most developers raised high land prices as a major, if not the most significant, issue affecting the costs of their development. Reactions to the issue of high land values varied according to the type of development firm and patterns of land acquisition and operation. For instance, larger firms may have access to sizeable banks of land and therefore be better able to ride the market cycle or shift operations to alternative locations. Smaller and medium firms are certainly more vulnerable to overbidding at the peak of the market cycle and then facing unexpected hurdles in the subsequent planning process.

Some developers reported that they actively targeted land in locations that are likely to appeal to higher market segments, associated with lower risk and higher profit margins, thereby avoiding risks of overbidding on land:

“See, we’ll only really target parcels of land that are attractive to second, third home buyers. Not first and second home buyers. Because then we’re dealing with a higher price point and a more educated, discerning buyer which means that they are willing to pay a little bit more ‘cause they can see the benefits.”  
(Developer, Victoria)

A common and predictable response is simply to avoid areas that are viewed as overpriced:

“You take ... release areas where they’ve released all this [land] and nothing’s happening. Why? It’s just not realistic. A developer’s not going to go in there and try and make it work when at the end the customer can’t afford to pay for it.” (Developer, NSW)

High land values were thought to affect supply well down the track, as developers exhaust current available land reserves, but deter new acquisitions, or shift operations elsewhere.

### *5.1.2 Responses to delays, uncertainties, and unexpected costs*

Developers reported that they try to cost potential timeframes and planning requirements into their feasibility analyses, but that when these costings are consistently moving in particular locations, once again, such locations will be avoided altogether:

“So, currently, there is one shire on the north side of the town ... we just aren’t doing acquisitioning. It’s one of the growth areas that has potential, but we won’t buy there because the council headworks have been so volatile and gone so high that we’ve just taken the decision we’re not going to waste time doing work in that area. We believe we’ll be so off on the headworks’ charges, we could end up with a big problem. We’ll go back and work with other shires where we think we’ve got a better chance of getting closer to the mark.” (Developer, Queensland)

There is an attempt to pass on unexpected costs due to delays or the imposition of new procedural requirements such as studies. However, in many cases, unexpected costs will be absorbed in order to achieve sales and avoid further expenses in interest payments.

Others may seek to achieve savings by reducing the standard of building appearance or design:

“Big developers are now focused on the first time buyers market and are looking to develop cheaper house and land packages ... with lower street amenity and poorer community services. This is having a longer term impact on development outcomes.” (Local government interviewee, NSW)

### *5.1.3 Responses to increased costs associated with meeting development standards*

As discussed in Chapter 4, the developers interviewed in this study did not express major concern about the imposition of specific costs associated with meeting additional environmental requirements, provided these were clearly defined. Such standards may be absorbed as costs when first introduced, but may subsequently be passed on if the market will bear it:

“They become development costs, but they don’t necessarily get added to the purchase price of the dwelling. The purchase price of the residential product is a product of the market and over time it does eventually get included in the price. Now, water tanks were introduced on the 1st January last year, now you can bet that the cost of dwellings did not jump by \$5,000 straight away. A lot of developers would have absorbed that cost and later on, when the market picks up, the price will increase.” (Developer, Queensland)

Many developers interviewed actively exceed local government planning requirements.

“It’s important ‘cause you actually have to create, every project, depending on the size, every project needs to be able to diversify across a number of different markets, just from a risk point of view. But the last thing you’d want is to have those people with less discretionary income bringing down the tone of neighbourhoods because they lack the ability or time, because of other stresses, they lack the ability to maintain presentation.” (Developer, Victoria)

“Don’t get me wrong. I’ve got quite a reasonably strong socialist leaning ironically. I’m a socialist, capitalist. But you don’t want a whole lot of renters, for example, in the same street as all your high quality houses.” (Developer, Victoria)

#### *5.1.4 Responses to fees and charges*

Although the principle of development contributions appears to be well accepted, when the scale of charges within a particular location makes overall development costs too high, developers advised that they will shift elsewhere, accept a short term loss, or wait until conditions improve. The size of the development firm influences these decisions.

“If the government puts those charges on, we simply do our homework and go, right, at the end of the day, we know that compared to what’s going on, we could sell this 600 square metre lot for \$300,000, maybe \$320,000, but let’s call it \$300,000 today to be safe. It’s going to cost us \$300,000 to bring it on. We’re not going to do it. Forget it. We’re not developing that area. Go away over there.” (Developer, Queensland)

“If the market conditions are such that we can’t develop a block to bring it on to sell it to make a profit, we’re more likely to just shut down and sit on it. But that, again, it comes down to the individual circumstances as to how long will developers sit on it. So we know there’s some smaller guys who’ve been sitting on stuff and can’t handle it much longer. But there’s some bigger guys ... they’ll sit on it til the cows come home.”(Developer Queensland)

Where possible, developers advised that they seek to pass new charges on through sales prices, but that these should ultimately be passed back to landholders over time:

“A developer looks at a piece of land, asks what the price he will get for it is, deducts the margin that he requires and then looks at the cost, and sees whether the development is feasible or not ... what you have is a transitional friction when a new fee comes in. So developers have already made their investment decisions, you impose a new cost, and those developers who are holding a parcel of land are actually lumbered with that and need to work out a way to pass some of that up, as well as absorb some of that by reducing their margin. But once you get past that transitional friction, all the new investment is simply factored in that new cost and that gets passed back to the land holder.” (Developer, NSW)

Under poor market conditions, smaller developers advised that they would use any sudden relief in contribution requirements to discount their products:

“If I had no development contributions, yeah, I’d discount it by whatever I needed to move them quickly because if it was 30-grand less or 40-grand less per lot, I’d take that off the purchase price to clear the bloody things.” (Developer, NSW)

The potential problems arising from inconsistency in contribution requirements at the local and regional level were noted by a local government respondent:

“If we’ve got two identical products of a house out there, and in one area, we’ve added on a 35,000 dollar infrastructure charge, and the one down the road, or across the road in another local government authority, hasn’t had that added on – will this developer over here sell his house for 35,000 dollars less than this guy? In a buoyant market, absolutely no way. But in a falling market, they can afford to discount more to get their product of their hands.” (Local government interviewee, Queensland)

A number of respondents advised that they actively targeted the lower end of the market, where they perceived more buyers.

“So, if you’re not spending that dollar there’s no doubt that the price would come down. Because developers want to try and keep their product as affordable as possible ... There are far more buyers in the market place at low price points than there are at high price points. So, again, if you keep your product fairly affordable you’ve got a much greater chance of selling it, which in our business that’s what it’s all about.” (Developer, Queensland)

Development contributions, while not directly passed on in sales prices, are therefore seen to contribute to a pricing out of lower income first purchasers in some instances.

#### *5.1.5 Implications for decisions about housing product mix and market segment*

A complex picture emerged in relation to the influence of planning regulation and the types of housing products delivered. Large developers advised that they actively sought to create a diverse product mix catering to various household types and stages of life:

“We just have different products to cater for a really wide range, so everything from first home buyers to retirees. ... The ... model is to try and get the full socioeconomic profile from zero through to 90, and to do that you need to offer 240 square metre lots rather than 1000 square metre lots, and you need to offer three bedroom single garage, through to three garage five bedroom, and units and terrace homes and all that. So you can basically live on a ... project from zero through ... 90, and the only time they ever take you away is to bury you in the cemetery.” (Developer, Queensland)

Development standards that prevent diverse lot configurations and housing types represent a significant barrier to achieving this product mix. While large developers are able to achieve such diversity through master planning processes, a number of respondents advised that seemingly arbitrary codes or unexpected environmental restrictions had prevented flexibility in lot configuration and subdivision design, resulting in an overall lower yield.

#### *5.1.6 Summary of implications of planning regulation for housing outcomes*

The range of impacts, and responses, associated with planning regulation for residential developers is summarised in Table 14.

**Table 14: Implications of planning regulation for residential developers**

<i>Issue / cost</i>	<i>Response</i>	<i>Industry</i>	<i>Govt.</i>
Land supply – high land values	Exhaust existing land reserves, deter new acquisitions	✓	
	Avoid locations where land prices are too high	✓	
	Identify land in premium locations to target second or third home buyers	✓	
Procedural costs – lengthy timeframes; uncertainty; shifting requirements	Add premium to feasibility analyses to account for additional holding costs	✓	
	Try to pass on in final price	✓	✓
	Absorb loss to shift product if can't pass on	✓	✓
	Avoid councils that are known to be difficult	✓	
	Sit on land until market shifts and can recoup costs	✓	
	Target higher end of market where profit margin more certain	✓	
	Reduce development standards to achieve cost savings	✓	✓
Requirement costs – design standards, environmental standards	Incorporate in feasibility analysis	✓	✓
	Use as marketing advantage	✓	✓
	May exceed local standards and requirements	✓	
Fees/charges – uncertainty, scale	Seek to pass on charges in price	✓	
	Absorb charges in a low market	✓	
	Avoid locations where contribution charges are volatile	✓	
	Avoid development altogether	✓	
	Hold back product until market improves and can recoup costs	✓	
	Developer installs own infrastructure under planning agreement	✓	✓

Source: the authors

As shown in the table, and discussed above, our interviews provide evidence that many of the predicted or observed outcomes documented in the international literature are occurring in Australia. In particular, developers in our sample actively avoid locations where land acquisition and planning compliance costs are perceived as too high or unpredictable; reduce levels of development activity until market conditions are sufficiently buoyant to deliver a sufficient return for projects that are costly to complete; and target higher second and third home buyer markets to avoid the risks associated with lower cost housing development. Clearly, these outcomes

are not overtly intended when planning regulations are defined and enforced. Therefore in the following section we examine perspectives on how such unintended impacts of planning regulation may be avoided or offset.

## 5.2 Relieving costs to support modest and diverse housing supply

In addition to exploring industry responses to existing conditions, we sought views from developers, state and local government, and industry representatives, on how to reduce the costs associated with planning regulation, or to offset any negative impacts on the provision of housing for low or moderate income households. Respondents gave a range of suggestions, referring to a combination of strategies already underway in some jurisdictions and others that might be implemented in future (Table 15).

**Table 15: Relieving and offsetting planning related costs**

<i>Issue / cost</i>	<i>Response</i>	<i>Industry</i>	<i>Govt.</i>
Land supply/ high land values	Increase availability of land	✓	
	Avoid creating land inflation/speculation in designating growth boundaries	✓	
	Ensure available land is in diverse locations and ownership		✓
	Streamline process to avoid supply bottlenecks	✓	✓
	Unlock underutilised, lower value middle ring suburbs		✓
	Assist with land contamination issues to release brownfield /infill sites		✓
	Disincentives for speculative land banking	✓	
Procedural costs	Upfront major infrastructure investment to release new areas	✓	
	Detailed planning up front to support initial land designation	✓	✓
	Clearer timeframes to ensure accurate feasibility planning and avoid uncertainty	✓	
	Developers to share cost of upfront studies, but managed/ commissioned by planning authority	✓	
	Studies on local/regional basis, to set standards, rather than project by project	✓	
Design requirements	Consistency in standards/specifications at regional level	✓	
	Permit increased yield to offset costs associated with additional design/environmental requirements	✓	
	Detailed local government design work to identify potential savings for subdivisions and construction	✓	

	Ensure that new design requirements are subject to economic analysis for financial impact		✓
Charges and fees	Fee for expedited assessment	✓	
	Capture betterment post rezoning/land reclassification	✓	✓
	Contribution requirements due upon first sale post rezoning /land reclassification	✓	✓
	Formula determined on per hectare basis rather than per lot /dwelling/household	✓	✓
	Developers install infrastructure for own development	✓	✓
	Use contribution planning to signal true cost of development		✓
	Provide contribution discounts to eligible home purchasers		✓

Source: the authors

### 5.2.1 Addressing the issue of land supply and high acquisition costs

As shown in Table 15, respondents proposed a range of solutions to the difficulties associated with securing land for residential development. While the wholesale release of residential land on the fringe was not proposed, many industry respondents did express the belief that greater land availability would increase competition between landholders, and reduce prices in Greenfield areas. Government representatives also felt that the inflationary impact of a designated urban growth boundary on land values could be addressed by ensuring that a mix of locations and ownership patterns are included within areas to be released. Others suggested disincentives to discourage land holders from speculatively holding out for higher prices, once their land had already been included within a designated urban area.

Systemic bottlenecks associated with very lengthy rezoning processes were thought to explain some of the constraints on new land supply, also increasing the value of land already zoned for residential development.

However, overall, respondents believed that government intervention in the land development process needed to extend far beyond the act of rezoning or reclassification to release land. Within existing urban areas, government respondents and developers indicated that the complex patterns of land ownership, and expenses associated with assembling viable sites, including remediation costs, are a major constraint. Interventions to facilitate land availability within these high demand areas were called for. In middle ring suburbs, with additional latent potential, respondents also believed that government intervention could assist in unlocking new residential development opportunities.

Similarly, in Greenfield locations, respondents advised that simple land release was not enough – that major upfront investment in regional infrastructure was needed to ensure that new release areas would genuinely attract potential purchasers. Without such intervention, developers were unlikely to risk their own resources in bringing such areas forward:

“I believe that the State Government in the other states are doing it. ...They seed and they kick off a release area. I mean in Perth they even put rail in.

Yeah, they put the lot rail in even before a single person has bought a house. Then developers queue up to buy land to develop so you can sell the reality of, you know, what the area's going to be like with some sort of infrastructure. There it is. So it takes out some of the risk and it adds value and that's where things then start to kick as a developer invests and develops." (Developer, NSW)

### *5.2.2 Reducing procedural costs*

There were a number of suggestions, particularly from developers, to reduce the procedural costs associated with securing a rezoning and development approval. Most developers expressed the view that discretionary merit assessment of proposals should be limited, once land has been rezoned or reclassified for residential development. Many also suggested that the need for further consultants' reports to support development proposals should be limited, with detailed planning done upfront for a whole area:

"We get asked for bushfire reports all the time here, and they could have done a bushfire analysis, [for] the whole of [the area]

... realising it's going urban, and that every stage we do does not need a new bushfire analysis as this blanket requirement that if you're on the edge of the bush you need this. But they sort of ask it in reports all the time." (Developer, Queensland).

"[Studies are] done at the rezoning stage, and then when every other application is done. These are the costs where I shake my head and say – you can do the original initial thing, and then you can say, well it's going to be residential, and if you keep doing residential, anything that buffers onto a bushfire should have this standard, and if you want to reduce the standard then you apply and you submit a new bushfire report. If you don't want to reduce the standard and you accept it, you accept the conditions and you never have to produce another report, we'd be happy with that, because it would be a few thousand dollars and time, we wouldn't have to worry about it." (Developer, Queensland)

Given that such upfront planning is the intended rationale for lengthy strategic planning and rezoning processes, such complaints suggest that these processes are not yet fully bedded down or effective:

"One way of dealing with it, or the industry could share the cost, is do more detailed planning up front instead of just colouring in things with texta ... go and find the waterways, go and find the koalas. Now they are starting to do that, but it all gets, once you get to the site and you get down to that boundary ... it turns out the mapping's a little bit off." (Developer, Queensland)

Similarly, a local government respondent suggested that consultant reports to support particular development proposals were unnecessary expenses, given their vested interest. These resources could be better spent on up front studies covering a wider area than a specific site or proposal.

### *5.2.3 Reducing the cost impact of design standards and requirements*

Respondents were highly critical of the differences in technical standards in building and subdivision specifications applying at the local level. Greater consistency in the standards and planning requirements imposed by adjoining local government areas was identified as a potential cost saving. One developer expressed the view that additional research with local councils on the detail of their design requirements was

likely to identify significant potential cost savings. Local government respondents emphasised the need to subject proposed planning and design requirements to economic impact analysis, but this was seldom undertaken in practice.

Where development costs increase due to important environmental or other planning requirements, some developers suggested offsetting this impact by permitting increased yield:

“I suppose the other thing that would actually change the world a bit, but it requires a massive rethink in terms of this Australian ideal of the home and land type of thing, is actually increasing density and getting economies of scale through increased yields.” (Developer, Victoria)

#### *5.2.4 Relieving and offsetting the costs of fees and charges*

While overall administration fees were not regarded by industry to be a major cost imposition, many respondents resented the fact that planning services were slow, despite these charges. Some proposed paying more for faster services. However, the main suggestions for relieving costs associated with fees and charges focused on developer contributions. Overall, the need for local infrastructure and services to support development was recognised, and no respondents suggested abandoning contribution requirements altogether. Indeed, some expressed concern that a sudden drop in charges would create further market distortions, because some developments would have already paid while others could discount to reflect the lower requirements. A local government respondent suggested that such issues could be overcome if any such contribution discounts targeted eligible first home purchasers, rather than flowing back to developers.

Pushing the financial imposition of contributions back towards landholders was a preferred approach, but many respondents recognised that this could only be achieved over time, once a clear and stable contribution regime was bedded down. As we discuss further below, there was support for the new Victorian model being applied within growth areas, whereby charges are due upon the first land sale post rezoning or inclusion within the urban growth boundary.

As noted, the way in which contribution requirements are determined can affect their impact on development, including the type of houses produced. Developers in Victoria emphasised the importance of an approach to contribution formula that was based on developable hectares, rather than lots, dwellings or projected households, in order to avoid discouraging higher density yields.

Most of the larger developers included in the study overcame issues associated with the uncertainty and expense of infrastructure provision by seeking to install their own, thereby controlling the timing of services and achieving a marketing advantage. However, there are disadvantages associated with the potential for creating socially exclusive residential communities, and ultimately leaving local governments with expensive assets they are unable to maintain in the long term.

### **5.3 Stakeholder perspectives on reform**

As discussed in Chapter Three, each of the states included in this study have been undergoing a period of planning reform, in common with other Australian jurisdictions. The case study interviews provided an opportunity to examine current stakeholder responses to elements of planning reform that have already been introduced. Overall, reactions to reform processes were mixed. There was a sense of particular optimism about the potential of new institutions, such as Melbourne’s Growth Areas Authority, to improve processes of land supply and infrastructure coordination. But across the

three jurisdictions we reviewed there was also a sense that expected planning reform gains – in terms of reducing planning system complexity and achieving faster decisions – had not yet been achieved.

### 5.3.1 Perspectives on planning reforms in NSW

Many of the respondents spoke about the impact of changes to the system of development contributions in NSW. Of particular concern, to both developers and local government respondents, were the implications of the new ‘affordability’ threshold of \$20,000 for local contribution plans. Local government respondents expressed the view that this cap could exacerbate existing difficulties associated with meeting shortfalls in committed local infrastructure expenditure. On the other hand, developers pointed to the removal of riparian corridors from contribution plan (‘Section 94 plan’) calculations, and the new requirement that these be dedicated without cost to councils:

“Up until October (2008), preparing corridors were part of Section 94. The government, in its wisdom, decided that Section 94 was too high. They had to reduce it. Well, that’s good: it might have disappeared as a line item from Section 94, but it didn’t disappear completely; they’re still there.” (Developer, NSW)

Many of the reforms introduced in NSW over the past few years were perceived to offer alternative or faster routes for major developments, such as the opportunity, under Part 3A of the *Environmental Planning and Assessment Act 1979*, for development above a threshold to be assessed by the state government. The introduction of standard local environmental plan definitions and terms was also perceived to be a positive step, although three years after the introduction of the standard instrument template in 2006, only one plan had achieved gazettal.

As noted, NSW already has a system whereby developers may seek private certification of proposals complying with specified criteria, as an alternative to seeking development approval through the local council. This option was seen by developers as a positive intervention in NSW, which could be potentially strengthened by the introduction of the NSW Housing Code in August 2009. The NSW Housing Code applies to detached housing development on lots greater than 450m<sup>2</sup> and to home alterations. However, local government interviewees advised that, within established localities, the majority of residential development applications would not comply with the requirements of the Code and therefore its impact would be limited beyond new Greenfield development contexts.

Both developers and local government respondents expressed dismay that the independent Growth Centres Commission had been disbanded and reabsorbed within the Department of Planning:

“We’re really disappointed about the move to disband the growth centres. Growth centres had two things: planning, and infrastructure coordination. This proves that [the Growth Centres Commission] were very good on the planning side of it; not perfect, but far better than anything that had gone before it.” (Developer, NSW)

Overall, both developers and local government respondents were cautious in their evaluation of the NSW planning reform agenda:

“It remains to be seen if the current reforms will have an impact on quality – and in any case, the whole process could bog down again once the market picks up.” (Local government interviewee, NSW)

### *5.3.2 Perspectives on planning reform in Queensland*

In Queensland the view was expressed that, rather than removing complexity, planning reform was associated with additional requirements:

“We’ve just gone through reform. I’ve been a big part of the workshops, and one of our requirements as part of this reform was to simplify the application process, and that’s what it was entitled: simplification of the application process. We’ve gone and added another assessment level, and we’ve gone and added things like another week to the process. At the summary of all these things they said: What have you got out of it? I said I don’t think we’ve achieved simplification. You’re supposed to strip stuff out of it, not add it in.” (Developer, Queensland)

Indeed, the system upheaval associated with change itself might cause more delays and uncertainty. This was illustrated in relation to the recent local government amalgamations in Queensland:

“You have the amalgamation and we’ve got the one letterhead and that’s great. But the reality is, to amalgamate council’s planning approach. I mean, I had a conversation this morning about a new planning scheme and that’s something that the council wants to get done in its first term. We’ll see how we go there. But what’s done the planning in is – you know, the priority infrastructure planning schemes would need to be revisited and I think there’s going to be – in reality it’s probably going to be ten years, this amalgamation process, to get everything aligned, and it’s going to be a long process ‘cause I think we’ll probably get it right by the second integration of plans.” (Local government interviewee, QLD)

Reform to the process for local infrastructure planning and charging was strongly supported, by both developers and planners, although respondents noted that it had not yet been bedded down. In particular, local government respondents believed that the reform offered a chance to address the problem of incurring infrastructure commitments they were unable to meet, due to inadequate prior planning. However, the system reform would not result in lower charging regimes:

“The infrastructure guys here tell us the [new] Priority Infrastructure Plan’s charges are about 10 per cent higher than the current regime which is called a contributions policy ... so there’s about a 10 per cent increase in the regime there as a result of the PIP’s process as opposed to the former process.” (Local government interviewee, Queensland)

### *5.3.3 Perspectives on planning reform in Victoria*

The main focus of comments on change to the planning system in Victoria was in relation to the new Growth Areas Authority, and the associated new state infrastructure charge. Respondents reported caution about the state charge, which had been announced in 2005, but not implemented. As noted above, the final model for implementation in 2009/2010, seeks to capture betterment associated with land conversion, and is incurred at the first subsequent sale. State government interviewees believed this change has been received positively by industry:

“Overall the development industry is very favourable, very supportive. They’ve come out and supported the growth areas infrastructure contribution.” (State government interviewee, Victoria)

Unlike the ill-fated introduction of state infrastructure contributions in the NSW Growth Centres, the Victorian charge has never been intended to recoup the full amount of regional infrastructure needed to support the growth areas:

“It’s quite deliberate in terms of the choice of the word ‘contribution’. It’s a growth area infrastructure contribution and it’s estimated that it will be somewhere between 10 per cent to 20 per cent of the total cost of infrastructure, with clearly the balance coming from the state budget, because this is state infrastructure not local.” (State government interviewee, Victoria).

However, further change is needed to develop a complementary local level charge to replace the existing system of Development Contribution Plans, which are still viewed as complex and unwieldy:

“We’re in the process of working with the growth area councils to develop up an alternative model that will replace DCPs and there will be the local area infrastructure contribution or local area infrastructure charge or whatever it is. The intent is that for growth areas there will be a different system to the very, very complex DCP’s. They are very, very complex to prepare and expensive to prepare because of that tie between how much of it exactly is coming out of that bit of dirt, that needs that bit of infrastructure, you know? The costs of DCPs have been getting higher and higher, accelerating at a very, very rapid rate as councils include more and more things in them all.” (State government interviewee, Victoria).

Other proposed elements of the Victorian planning reform agenda, such as faster timeframes for plan amendments and permit approvals, were not raised by respondents. However, local government respondents referred to the potential for a new system of residential zoning, expressing the view that the proposed threefold classification might speed up the approval process for residential development.

## **5.4 Summary and conclusions**

The perspectives expressed in this chapter highlight a number of costs associated with the planning system, with potentially significant implications for housing outcomes. While it appears that current planning reform agendas in our three focus states have been designed to address many of these issues, stakeholder views on their potential impact are equivocal.

However, none of the participants in our study expressed outright antipathy for the planning system or proposed simplistic approaches to relieving associated planning requirements or fee obligations. Rather, all of the participants in our study recognised the importance of new policy agendas, such as environmental concerns, and support new requirements for more sustainable building design, neighbourhood amenity, and local infrastructure provision:

“It’s harder, it takes longer and I think there’s a simple reality that that is going to be the case into the future. Because we don’t want to go back to where we were of saying: ‘Here’s a bloody huge tract of land, barrel the lot down, shove a couple of roads in and a few water pipes and shove septic tanks in the bloody backyard’. We’ve gone past that. I mean we’ve got to work in with the environment, we’ve got to be conscious of the agricultural land, we’ve got to make sure that transport, and the social dimension I think is really being fully appreciated and it is much more difficult to deliver than it has been.” (Industry representative interviewee, Queensland).

In this chapter we have also explored stakeholder views regarding the ways that negative impacts for affordability arising from planning requirements are reduced or offset, including, but not limited to, current processes of planning reform. In the following, concluding chapter, we draw on these perspectives and our review of international literature and policy to propose a framework for ensuring that cost implications and affordable housing goals are considered alongside other important planning agendas.

## **6 STRIKING THE RIGHT BALANCE: PLANNING POLICY FRAMEWORKS FOR SUSTAINABLE AND INCLUSIVE RESIDENTIAL COMMUNITIES**

In a context of growing concern about the supply of new housing, and the implications of falling residential development rates for overall housing affordability, this project has sought to understand the relationships between urban planning regulation and housing outcomes in Australia. Planning is intended to support residential development, by facilitating new land release, coordinating infrastructure provision, and ensuring that essential environmental, health, and safety standards are met in the construction and design of new dwellings. Planning also has an important positive function in preserving and enhancing the natural environment, cultural heritage, and amenity of new and renewing communities. Aside from the broader social welfare benefits of these outcomes, they also ensure that new and renewing communities remain desirable for investors and home purchasers, therefore sustaining the demand needed to sustain new development.

However, many, particularly within the development industry itself, perceive planning as constraining, rather than supporting, new housing supply, generating range of unnecessary costs to housing production. This chapter reviews the evidence established by this study in relation to these themes. We summarise our main findings against each of the research questions.

### **6.1 International evidence on the impacts of land use planning regulations for housing development**

The bulk of international research on planning regulation and housing outcomes has been undertaken in the United States and the United Kingdom. There is a consensus in this literature that planning regulation affects housing development costs and outcomes, but also a debate about the weight of its impact and its causes. For instance, it is difficult to determine whether, and under which circumstances, price impacts are due to demand factors (due to greater amenity produced by positive planning) or supply factors (a shortage of housing due to restrictive planning).

More studies focus on price impacts than on development or construction costs, although the relationship between development costs and price is indirect. The few studies examining the impact of design requirements (above minimum health and safety standards) on construction costs suggest that additional physical controls for subdivision and dwelling construction add around 5-15 per cent to development costs (DHUD 2007). Impact fees in the United States are estimated to account for between 5-15 per cent of final house prices (DHUD 2007).

The literature on planning regulation and price suggests, firstly, that more regulation means higher house prices and, secondly, that different types of planning requirements and implementation settings are associated with different outcomes (Ihlanfeldt 2007). In the United States, research suggests that planning standards designed to reduce density – e.g., large minimum residential lot sizes, dwelling sizes, or restrictions against multi unit housing – have the greatest impact on house prices. Similarly, high impact fees may also coincide with higher home values (Mathur et al. 2004). In this way, positive planning can improve affordability without compromising local environmental or amenity outcomes.

In one sense, these findings are expected. If planning regulation did not impact positively on house values, the intervention would be difficult to justify. In other words,

the evidence confirms that planning regulation creates or preserves benefits associated with community amenity, environmental quality, and efficient infrastructure provision, and that these benefits are capitalised in house prices. Further, some of the obligations or constraints associated with securing these benefits are predictable and therefore able to be passed back to the sellers of land in lower land values. Additionally, while house prices in planned areas might increase in the short term, reflecting higher demand, in the long run, these conditions can be replicated in other locations, by releasing more land subject to appropriate planning control, or by introducing similar planning processes in existing locations (Mathur et al. 2004).

This crude compression of a complex body of research provides an overall validation of planning, but is insufficient to explain or address the unintended housing outcomes that have arisen over the past two decades – chiefly, falling rates of residential construction despite sustained housing demand. To understand the contribution that planning regulation may have had to these outcomes it is necessary to examine a number of factors in greater depth.

In the United Kingdom, qualitative research with developers reveals that intangible features of the planning system – for instance, perceived likelihood of securing a favourable decision – can explain variations in housing output almost as much as defined geographical or planning system constraint (Monk and Whitehead 1996). From such studies, it might be concluded that quantifiable planning system impact – that is, the dollar value of physical planning requirements that exceed minimum health and safety standards – is much less important than intangible costs associated with the design, implementation, and interpretation, of controls.

The potential lessons for Australia arising from this international literature and research are as follows. Firstly, growth control or containment policies must be offset by specific mechanisms to maintain and support suitable alternative development opportunities. Secondly, planning system complexity and ambiguity appears to discourage housing development. Thirdly, design controls that reduce density (such as large lot subdivision requirements and setbacks, and restrictions on attached housing), have been found to have the greatest impacts on development costs, potentially influencing decisions regarding market segment, and resulting in lower quantities of affordable housing supply. Fourthly, infrastructure fees will be accepted when the requirements are clear and predictable, when they fund local amenities seen to benefit home buyers, and when they are in proportion to the value of the development. Finally, drawing on recent government policy and reform, from both the United Kingdom and the United States, it appears that planning system efficiencies alone are not expected to reverse the affordability crisis and that dedicated interventions – both within the planning system (concessions and requirements for affordable housing) and beyond it (incentives and funding) combine to ensure that affordable housing is included within new and renewing communities. Indeed, in the United Kingdom these strategies have been linked explicitly to economic recovery (DCLG 2009b).

## **6.2 Existing evidence on land use planning costs and charges for residential development in Australia**

In contrast to the body of academic work conducted in the United Kingdom and the United States, there is a paucity of research evidence on the relationships between planning regulation and housing outcomes in Australia. The work that does exist has been commissioned by the housing and residential development industry, and informed a series of national level inquiries on housing, infrastructure, and land use

planning (NHS 1991, NHSC 2009, PC 2004, Senate Select Committee on Housing Affordability 2008).

In summary, our review of this work points to significant industry and government concern about a variety of costs associated with planning regulation in Australia. This concern focuses on three main categories of planning related cost: a) those arising in relation to procedural requirements (preparing, submitting, and supporting plan amendment or development applications), b) those arising in relation to the need to comply with specified development standards (particularly environmental and heritage requirements), and c) costs associated with specific fees or charges (for instance, fees for administrative services or development contributions for local infrastructure). It is claimed that planning related fees and charges, particularly development contributions, amount to higher overall costs that are added directly to the sales price of new homes, further undermining affordability.

Overlaying these categories of cost are systemic factors that may exacerbate their impact, such as protracted timeframes, opaque policy requirements and system variations between local jurisdictions. Further, a consistent theme across the industry discourse is that restrictive land policies associated with an urban consolidation agenda are responsible for the high cost of residential land acquisition and thus house prices, particularly in the Australian metropolitan regions of Sydney, Melbourne, and Perth.

However, as detailed in the positioning paper for this study, empirical evidence to support development industry claims regarding the actual cost impacts of these factors is limited and largely anecdotal, with methods used to provide financial data unclear. In part, this may be due to the considerable variability in planning system requirements at state and local levels in Australia, as well as the lack of ready and comparable official data about planning charges and costs by jurisdiction.

### **6.3 Cost impacts and divergences across the Australian states and territories**

Therefore, to determine the ways in which such costs arise in practice and their variability across the Australian states and territories, we focused on a sample of representative case studies in NSW, Queensland, and Victoria. We sought to understand the range of costs and their relative impact as a proportion of total planning related expenses; the extent to which these costs are able to be estimated upfront during feasibility analysis; and the implications for housing outcomes in terms of developer decisions regarding price, quantity, location and type of new housing provided.

Our overall analysis of planning costs was limited by the paucity of financial data provided by our sample of case study developers. This unexpected reluctance or inability to provide substantiating data on the cost impact of planning requirements, including fees and charges, is a key research finding in itself. Firstly, the inability to provide actual data on planning related expenditure might be interpreted as supporting industry claims that planning requirements are complex, variable, and difficult to determine in advance. Our other empirical findings lend further weight to this interpretation, as discussed further below. However, the lack of a ready reference to actual planning related expenses, means that such expenses are rarely directly 'added on' to the price of a completed home, as is often claimed in the industry reports reviewed. Indeed, our interviews with developers also discredited this assertion. Rather, the market cycle was regarded as the major determinant in house prices. Therefore, it appears that intangible regulatory requirements, including uncertainty about the scale and incidence of fee obligations relating to a specific

project, may be more problematic than specific costs that are easily quantifiable. If so, regulatory reforms designed to remove or reduce existing planning fees or development contribution requirements may have less impact on affordability than reforms designed to clarify such requirements and establish a simple and consistent approach to their implementation.

Despite our inability to secure information on the cost of planning requirements in each of our case study locations, we were able to ascertain the major concerns associated with each regulation type and the relative scale of impact in relation to other planning requirements. Further, the weight of international literature suggests that the impact of planning related costs may be much greater than their simple monetary value, and that this impact will vary from location to location and at different points in the market cycle. Therefore, while understanding such costs is certainly significant for policy-makers, of more overall importance is the relative impact of particular types of regulation and the ways in which their design and implementation affects this impact.

Our case study interviews revealed that, in response to uncertainty and system opacity, developers choose to avoid certain local government areas, reduce development activity, postpone land acquisition, or target higher market segments to overcome issues associated with uncertain and lengthy assessment and approval processes. Responses differed in relation to the size of developer, with larger developers better able to absorb costs during market downturns, and more able to negotiate beneficial agreements for infrastructure provision. Therefore, one impact of variable and uncertain planning related costs and requirements may be to reduce the ability for smaller operators to remain competitive, affecting the structure of the development industry and leading to greater homogeneity in product.

Divergence between the states and territories was observed in relation to the overall range of development contributions collected and the scale of these charges. It proved impossible to generalise about the amount of contributions typically required in each state or development context – significant variation, even between two projects within the same local government area – was apparent. Our interview data suggested, however, that in growth areas of NSW and Victoria, contributions per lot are likely to reach around \$100,000 or more, while in Queensland, contribution amounts are expected to reach around \$45,000 per lot pending the full implementation of changes to the infrastructure planning system in that state.

As expected, our study showed that development contributions represent the largest planning related cost item as a monetary amount. Less expected, however, was that interviewees expressed qualified support for their imposition. Resistance focused not on the development contributions themselves, but on the lack of certainty about what contribution obligations would actually be incurred for a particular project, and the timing, location, and quality of the infrastructure ultimately provided. These concerns were supported by local government respondents who emphasised a paralysing shortfall between planned infrastructure provision and contributions actually collected.

Also unexpected was that few respondents complained about the cost impact of physical planning controls. While some respondents identified costs associated with additional environmental requirements, these were seen to have clear market appeal, meaning that costs were easily offset by their value for purchasers. In these specific examples, developers were able to recoup expenditure on mandatory planning standards within final sales prices. Indeed, rather than calling for a relaxation of physical planning controls, some respondents expressed concern that premium developments might be undermined by the introduction of standard residential codes. However, there was concern about rigid subdivision requirements and development

requirements that effectively reduced development density and yield, adding unnecessary expense to projects.

The most significant costs perceived by respondents related not to quantifiable fees and charges, or development standards, but to more nebulous issues associated with procedural costs and land prices. Uncertainty about timeframes and likely planning requirements were rated as significant, unquantifiable and unpredictable problems, leading to a range of other negative outcomes – such as missed market opportunities.

## **6.4 What are the policy implications?**

A number of policy implications arise from these findings. Firstly, the findings lend support to existing claims that planning systems in NSW, Queensland and Victoria are highly complex, lack certain and consistent decision frameworks, and are associated with significant and unpredictable fees or charges. Current reform processes already underway in these and the other Australian jurisdictions do purport to address these problems through greater standardisation, reduced administrative requirements, and new infrastructure charging regimes, so there is a close alignment with the stated objectives of current planning reform processes and the concerns raised by informants in this study. However, participants expressed limited confidence that reform processes currently underway would actually deliver promised benefits in terms of greater simplicity or faster processes. Further, continual change itself contributes to delays and uncertainty, while new systems are bedded down.

Secondly, the findings of this study highlight a paucity of information about the cost impact of physical planning controls at the local level in Australia. Indeed, there is an absolute lack of information about physical planning controls themselves, beyond the mandatory requirements contained in the nationally adopted Building Code of Australia (BCA). Therefore, anecdotal information about the extent to which local requirements add additional costs or obstruct innovative and affordable housing designs is difficult to substantiate or disprove on the current evidence. While developers appear to accept additional requirements that are easy to interpret and have demonstrable market appeal – such as certain environmental provisions – there is limited information about the costs, and benefits, of local idiosyncrasies in subdivision or engineering standards. Further, while costlier design requirements may be readily recouped in price, there are potential implications for affordable and diverse housing forms.

Thirdly, it appears that concern surrounding existing local government requirements for development contributions may be overstated, although there are demonstrated issues concerning the new, and selective imposition of charges for major items of regional infrastructure. Further, complex methodologies are used by many local authorities to determine development contribution requirements. This methodological complexity makes it difficult to predict requirements prior to detailed project planning and approval, and also results in considerable variability between and even within local government areas.

Accepting the established principles for levying development contributions in Australia – nexus, fair apportionment and reasonableness – our findings would suggest that contribution amounts for residential development should relate to local facilities and services, rather than regional infrastructure items (satisfying nexus); and be in proportion to the scale and impact of the proposal (satisfying principles of fair apportionment and reasonableness). Set fees per hectare appear to be the simplest formula for recognising impact without discouraging density or modest housing, while providing the easiest mechanism for predicting obligation at the time of land acquisition.

Ideally, all charges for utilities and services could be bundled into a single upfront fee to be paid or provided as land or works in kind. Alternatively, new technological tools for calculating contribution requirements – such as the NSW Government’s online calculator for contributions relating to the loss of low cost rental housing in metropolitan Sydney – might assist to incorporate such charges in feasibility analyses and project planning.

Rather than the obligation to pay development contributions, of greater concern for both industry and local government respondents alike is the capacity for local governments to actually deliver the infrastructure needed to support development – given the significant shortfalls in the amounts collected to fund planned infrastructure items. This suggests that rather than reform to wind back current levels of infrastructure contribution requirements, greater attention is needed to ensure that infrastructure funding deficits are identified and addressed at local government scale. More fundamentally, the findings of this study show that the planning system alone is unable to address wider infrastructure funding deficits at both local and regional scales.

Finally, as anticipated, our study found that specific provisions for affordable housing development (either supporting development or mandating inclusion) are largely absent from current planning reform agendas at both state and Commonwealth levels. Rather, the overwhelming emphasis of Australian planning reform is on the achievement of administrative change associated with the removal of ‘red tape’. Such reforms do appear to address the range of housing development industry concerns articulated here – chiefly the need to address supply blockages associated with a costly and uncertain planning system. However, they do not extend to the broader planning system reforms needed to secure dedicated affordable housing supply during development processes.

#### *6.4.1 Reducing and offsetting costs*

Regulatory impact analysis provides an important tool for assessing the potential costs and benefits of proposed requirements. Several Australian states, including Victoria, NSW, and South Australia, now require regulatory impact statements or equivalent to accompany proposed new legislation and regulations. However, the methodologies employed are not specifically designed to assessing the impact of regulations relating to planning and the built environment. By contrast, the Australian Building Code Board’s methodology for assessing the impact of proposed amendments to the Building Code of Australia provides a potential model for extension to other built environment proposals (ABCB 2008). While focused on physical planning controls, the approach could be extended to proposed procedural requirements that add time and represent additional resource implications; and proposed new fees or charges for services or infrastructure. A number of local jurisdictions included in our study already undertake a structured process of appraisal to assess the potential cost or other impacts of new planning requirements, particularly with respect to housing affordability.

However, in evaluating the potential implication of new planning requirements, and in auditing the impacts of existing ones, it is important to avoid a new layer of complexity and assessment. Rather, borrowing from the elements of planning system reform proposed in the United Kingdom, some simple guiding principles to evaluate potential and existing procedural requirements and physical controls should suffice. These principles would seek to prevent duplication and additional complexity; to ensure that requirements are in proportion to the matter under consideration; to express existing requirements more clearly and to wind back unnecessarily time and resource intensive procedures.

Essentially such an appraisal should address the following broad principles of:

- Proportionality.
- Harmonisation with other jurisdictions.
- Efficiency.
- Simplicity.
- Equity.

When such analyses show that the proposal is sound and unable to be achieved with an alternative, lower impact approach, strategies for reducing or offsetting potential impacts for affordability in the short, medium, and long term, should be defined. These strategies include a combination of systemic enhancements to continue to standardise local planning requirements, charging regimes, and reduce barriers to low cost housing provision; combined with specific mechanisms to enable and support affordable housing inclusion.

Table 16 below illustrates how such an appraisal might be applied to the range of existing or proposed planning requirements likely to impact upon the costs of housing development, broadly defined. As shown, we do not suggest a quantitative cost benefit analysis to defend each proposed requirement. However, such analyses should be undertaken prior to the introduction of specific physical planning controls likely to represent a quantifiable cost – in terms of land, materials or design – for residential development. Similarly, a formal market impact analysis should accompany changes to infrastructure contribution requirements.

**Table 16: Reducing and offsetting negative impacts of planning regulation**

<i><b>Planning stage policy/ requirement</b></i>	<i><b>Assessing impacts/benefits</b></i>	<i><b>Reducing impacts</b></i>	<i><b>Offsetting impacts (for housing)</b></i>
Land supply policies – urban containment/ growth boundary	<p>Does designation:</p> <ul style="list-style-type: none"> <li>→ Provide sufficient development opportunities, including surplus opportunities, for five year take up and 10-15 year pipeline?</li> <li>→ Facilitate/support efficient and economical infrastructure provision</li> <li>→ Discourage land speculation?</li> </ul>	<p>Increased density within designated areas</p> <p>Sufficient and diverse land parcels included within boundary</p> <p>Fast assessment for proposals within dedicated area</p> <p>No approvals beyond boundary (to avoid speculation)</p> <p>Infrastructure contributions incurred at first sale post rezoning/ boundary designation</p>	Dedicated inclusionary housing opportunities
Procedural requirements	<p>Is the requirement:</p> <ul style="list-style-type: none"> <li>→ Necessary to determine social, economic, or environmental impact?</li> <li>→ Clear and unambiguous?</li> </ul>	<p>Rationalisation of existing processes</p> <p>Reduction of need for referral to other agencies (introduction of agency advice and</p>	Template pre-approved designs for typical sites (eg. infill developments)

	<ul style="list-style-type: none"> <li>→ Consistent with the scale of the proposal?</li> <li>→ Simple to administer?</li> <li>→ Consistent with requirements applied in neighbouring jurisdictions?</li> </ul>	<p>policy bank)</p> <p>Reduced requirements for simple proposals</p> <p>Undertake standard studies and requirements for localities (e.g., bushfire studies and locally specific standards)</p>	
Design controls and standards	<p>Does the control:</p> <ul style="list-style-type: none"> <li>→ Reduce achievable density beyond potential allocated yield?</li> <li>→ Protect or support key elements of environmental or cultural heritage, or local character?</li> </ul> <p>Does the requirement:</p> <ul style="list-style-type: none"> <li>→ Represent additional costs beyond those of meeting mandatory building, health or safety standards?</li> <li>→ Offer potentially cost saving benefits, for instance, better environmental performance?</li> <li>→ Allow for market and technological change?</li> </ul>	<p>Remove duplication and inconsistency in planning instruments applying to same region/adjoining local government areas</p> <p>Allow innovative solutions as technology changes</p>	<p>Enable additional development potential in alternative locations not affected by the environmental/cultural heritage constraint</p>
Fees and charges	<p>Is the charge:</p> <ul style="list-style-type: none"> <li>→ Clear and easy to determine and administer?</li> <li>→ In proportion to the scale of development and demand for facilities or services charged for?</li> </ul> <p>Does the charge:</p> <ul style="list-style-type: none"> <li>→ Have the effect of discouraging lower cost or higher density developments?</li> </ul>	<p>Stabilise and standardise charging as much as possible across a local area, and between local government areas at the regional level</p> <p>Consider sequencing of charging obligations, to pass back to land seller</p> <p>Bundle charges and charging formulae to avoid complexity</p>	<p>Offer reductions for dedicated affordable housing</p> <p>Offer alternative planning concessions/ discounts for additional infrastructure provision</p>

Source: the authors

When such analyses show that the proposal is sound and unable to be achieved with an alternative, lower impact approach, strategies for reducing or offsetting impacts in

the short, medium, and long term, should be defined. Table 16 also illustrates a range of approaches for reducing and offsetting impacts likely to reduce the availability of low cost and diverse housing forms. These approaches are derived from our interviews and case study research (representing a combination of existing and proposed practice) as well as the international literature.

As shown in the table, these approaches include a combination of systemic enhancements to continue to standardise local planning requirements, charging regimes, and to reduce barriers to low cost housing provision, combined with specific mechanisms to enable and support affordable housing inclusion. Inclusionary housing mechanisms can represent an additional regulatory obligation. When introduced in line with the criteria established above, inclusionary housing policies can support new residential development, particularly during market downturns when affordable housing developers are able to act counter cyclically. Nevertheless, despite an ongoing process of Australian planning reform, the emphasis of this reform is on enhancing system efficiency rather than also enabling positive forms of intervention for affordable housing inclusion. This means that standard inclusionary housing approaches for mitigating important but unavoidable affordability impacts of certain planning requirements – for instance, the potential impacts of urban containment on land values – are not able to be employed in some Australian jurisdictions.

## **6.5 Planning for an inclusionary reform agenda**

This study represents a first step in establishing a qualitative understanding of the ways in which planning regulation has impacted on housing developments across 15 local jurisdictions in three Australian states. However, our review of international research highlights the lack of broader data on the relationships between planning regulation and housing outcomes in Australia. Drawing on the international research, the next step in understanding the ways in which planning regulation impacts on the quantity, location, type, and price of housing in Australia, is to undertake larger quantitative analyses, provided that reliable and comparative data on Australian planning regulation can be accessed<sup>7</sup>. It is also important to undertake more detailed local scale research on the types of planning regimes and controls that are most associated with barriers to affordable, low cost, and innovative housing development, as well as approaches to dismantling such barriers in the Australian context.

Some additional research priorities and opportunities emerging from this study, and from recent Australian housing and planning policy developments, include:

- The implications of greater planning system standardisation for affordability and dedicated affordable housing inclusion within new development, as well as the impact of an increasingly homogenous development industry favouring larger operators over smaller, local firms.
- The planning related costs and charges faced by public or affordable housing providers, comparing standard projects complying with regular planning requirements with ‘fast track’ developments able to bypass local planning controls (special purpose planning concessions for affordable housing developers, including special state or territorial arrangements designed to implement Commonwealth funds for economic stimulus).
- The differential development costs (including labour and site issues), fees and charges associated with different development contexts – such as regeneration,

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<sup>7</sup> The Australian Land Use Planning Policy Monitor database (<http://ppm.arch.edu.au>) may provide such a resource.

infill, Greenfield sites – and configurations (high/medium/low density) – and implications for housing diversity and affordability.

Australia's planning reform agendas have been heavily influenced by international trends in planning system reform. What is unique to the Australian context, is the schism between planning reforms intended to promote overall system efficiency, with indirect benefits to residential development and affordability; and interventions designed explicitly to ensure that affordable housing is included in the new supply agenda. In reforming Australian planning to promote system efficiency and reduce development costs, it is important to activate such specific provisions for affordable housing inclusion. This means extending Australia's existing planning reform program beyond its current focus on 'red tape' and land release towards a far more explicit agenda for affordable housing inclusion within new and existing communities.

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## APPENDIX 1: INDICATIVE COST SCHEDULES, BRISBANE, SYDNEY AND MELBOURNE

Table A1: Cost schedule south-east Queensland growth area (2860 ha)

<i>Cost</i>	<i>\$</i>	<i>%</i>	<i>% total</i>
<b>Process costs</b>			
Documentation	345,000	93.24%	
Referrals	25,000	6.76%	
<b>Total process costs</b>	<b>370,000</b>	<b>100%</b>	<b>1.23%</b>
<b>Compliance costs (Development standards)</b>			
Standard requirements	1,000,000	57.97%	
Environmental standards	500,000	28.99%	
Heritage requirements	n/a		
Design standards	200,000	11.59%	
Safety/natural hazards	25,000	1.45%	
Special needs/disability	n/a		
<b>Total</b>	<b>1,725,000</b>	<b>100%</b>	<b>5.73%</b>
<b>Direct fees/charges</b>			
Planning application fees	250,000	0.89%	
Development contributions			
Local	7,500,000	26.75%	
Regional	20,000,000	71.35%	
Other	250,000	0.89%	
Subdivision / construction certificates	7,000	0.02%	
Referral fees	10,000	0.04%	
Licenses (eg. utilities, special permits)	10,000	0.04%	
Other compulsory charges	5,000	0.02%	
Fees for review/appeal	500	0.00%	
<b>Total</b>	<b>28,032,500</b>	<b>100.00%</b>	<b>93.05%</b>
<b>Total planning related costs</b>	<b>30,127,500</b>		<b>100%</b>

Source: the authors (based on developer supplied data)

**Table A2: Cost schedule Sydney infill development (10 residential units)**

<i>Cost</i>	<i>\$</i>	<i>%</i>
<b>Process costs</b>		
Documentation	28,500	
Referrals	n/a	
<b>Total process costs</b>	28,500	10%
<b>Compliance costs (Development standards)</b>		
Standard requirements	n/a	
Environmental standards	40,000	
Heritage requirements	n/a	
Design standards	n/a	
Safety/natural hazards	n/a	
Special needs/disability	n/a	
<b>Total compliance costs</b>	40,000	14%
<b>Direct fees/charges</b>		
Planning application fees	4,900	
Local development contributions	111,400	
Regional development contributions	n/a	
Other	n/a	
Subdivision/construction certificates	13,600	
Referral fees	n/a	
Licenses (eg. utilities, special permits)	n/a	
Other compulsory charges	88,400	
Fees for review / appeal	n/a	
<b>Total fees/charges</b>	218,300	76%
<b>Total planning related costs</b>	<b>286,800</b>	100%

Source: the authors (based on developer supplied data)

**Table A3: Indicative planning costs schedule, Melbourne (outer ring)**

<i>Melbourne (outer)</i>	\$	%
Documentation	60,000	33%
Referrals	120,000	67%
<b>Total process costs</b>	<b>180,000</b>	<b>100%</b>
<b>Compliance costs (Development standards)</b>		
Standard requirements	n/a	n/a
Environmental standards	60,000	20%
Heritage requirements	120,000	40%
Design standards	120,000	40%
Safety/natural hazards	n/a	n/a
Special needs/disability	n/a	n/a
<b>Total compliance costs</b>	<b>300,000</b>	<b>100%</b>
<b>Direct fees/charges (x 1900 lots)</b>		
Planning application fees	475,000	0%
Local development contributions	13,300,000	6%
Regional development contributions	38,000,000	18%
Other	60,800,000	28%
Subdivision/construction certificates	85,500,000	40%
Referral fees	9,500,000	4%
Licenses (eg. utilities, special permits)	6,650,000	3%
Other compulsory charges		0%
Fees for review/appeal		0%
<b>Total fees/charges</b>	<b>214,225,000</b>	<b>100%</b>
<b>Total planning related costs</b>	<b>214,705,000</b>	

Source: the authors (based on developer supplied data)

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