

How do planning requirements impact housing costs and the development process?

ALTHOUGH DEVELOPER INFRASTRUCTURE CONTRIBUTIONS REPRESENT THE LARGEST QUANTIFIABLE PLANNING RELATED COST IN AUSTRALIA AVERAGING BETWEEN \$45,000 AND \$100,000 PER LOT, RESIDENTIAL DEVELOPERS ARE MORE CONCERNED BY NON-FINANCIAL BARRIERS SUCH AS PLANNING SYSTEM COMPLEXITY, UNCERTAIN TIME FRAMES AND UNPREDICTABLE COSTS.

KEY POINTS

- Planning requirements and costs for residential development vary greatly across the Australian states and territories and at the local level. Development contributions towards infrastructure represent the largest planning related cost – up to and exceeding \$100,000 per lot in designated metropolitan growth areas of NSW and around \$45,000 per lot in parts of Queensland.
- While development contributions and other planning related costs are high, developers are more concerned about non-financial barriers such as planning system complexity, uncertain time frames and changing requirements.
- Smaller developers experience greater difficulties in absorbing unforeseen costs, which reduces the viability of these enterprises.
- A lack of approval process transparency, inconsistent planning requirements across local government areas and a lack of trust between developers and local councils also emerged as significant non-financial barriers to negotiating the planning system and had the potential to significantly impact development costs.
- The Australian Government's Housing Affordability Fund and planning reforms already taking place in various

This bulletin is based on research by Associate Professor Nicole Gurran, Dr Kristian Ruming and Professor Bill Randolph of the AHURI UNSW-UWS and AHURI Sydney Research Centres. The research explored the relationships between urban planning regulation and housing outcomes in Australia, focusing particularly on the cost impact of planning regulations for housing development.

Australian jurisdictions are targeting systematic enhancement through greater standardisation, reduced administrative requirements and new infrastructure charging regimes in order to address cost barriers, system complexity and timeliness.

CONTEXT

There has been a growing concern about the financial impact of planning regulations on the cost and affordability of housing in Australia. This discussion is taking place in government, the housing industry and the planning profession. The direct planning costs (fees and charges) as well as indirect costs resultant from particular policies such as those relating to land supply, have the potential to influence decisions about the location, quantity and type of housing that is developed as well as the purchase price.

METHODOLOGY

A total of 26 case studies and over 30 interviews with developers and other industry stakeholders were conducted across 15 local areas in NSW, Queensland and Victoria. The researchers examined a variety of inner, middle ring and outer metropolitan locations as well as one regional growth area. A variety of brownfield, greenfield and infill developments were represented as were development firms that varied in size and operational scope.

KEY FINDINGS

The impact of planning related costs

Developers understood that planning costs were

inevitable to some degree and factor these parameters into their feasibility analysis and overall cost structures. If costs were deemed too high, many developers reported that they would shift developments elsewhere or would not build. Some reported that dwelling quality would decline in order to maintain profitability margins. Smaller development companies had more difficulties in absorbing additional or unforeseen costs or competing in areas with high planning costs.

Developer infrastructure costs

Developer infrastructure contributions represent the largest planning cost and in some cases may result in developers not building in particular areas, a reduction in dwelling quality or a lack of product mix. Small developers have often less capacity than larger companies to absorb or recoup these costs.

Planning requirements and costs for residential development vary greatly across the Australian states and territories and at the local level. Development contributions towards infrastructure represent the largest planning related cost – up to and exceeding \$100,000 per lot in growth areas of NSW and Victoria, and around \$45,000 per lot in parts of Queensland.

The table below, which draws on data from the National Housing Supply Council, charts the changes in planning related costs from the mid-1980s to 2007 and demonstrates that planning charges have increased disproportionately to median house prices.

Sydney	Mid-1980s	Mid-1990s	2007
Planning charges	\$5,500	\$21,500	\$99,820
Proportion of charges to house price	3.5%	10.9%	16.9%
Melbourne			
Planning charges	\$2,400	\$7,980	\$29,750
Proportion of charges to house price	1.9%	5.3%	6.8%
Brisbane			
Planning charges	\$1,800	\$5,272	\$43,238
Proportion of charges to house price	1.9%	3.6%	8.4%

Consultation studies

Developers also reported that consultant studies are a significant planning cost and can amount to between 4 and 12 per cent of the total project cost. The need for additional studies can arise unexpectedly during the planning process. Studies on bushfires, wildlife and Indigenous heritage were identified as additional requirements, even when land had been zoned for housing. One Queensland developer remarked:

We get asked for bushfire reports all the time here and they could have done a bushfire analysis [on] the whole of [the development] - every stage we do does not need a new bushfire analysis...

Sustainability requirements

The cost of complying with new sustainability requirements can also be significant, between 3 and 5 per cent - however this is unlikely to impact developments greatly. Developers report that these requirements are becoming accepted by the market and the market is therefore willing to pay for them.

Non-financial barriers to development

1. Uncertainty, timeliness and inconsistency

A number of non-financial barriers emerged from the interviews that have the potential to significantly affect development costs and house prices. Unexpected time frames, changing planning requirements and system complexity were consistent themes when developers spoke of rezoning and development approvals processes.

As one developer remarked:

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... 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 we're turning it all out pretty much to a code and there's nothing particularly innovative about it.

2. A lack of trust and goodwill

Trust and a lack of goodwill also emerged as a significant barrier for both developers and local government agents whilst negotiating the planning system. A developer from NSW remarked:

The problem with rezoning is the council officers know very well there's no appeals process so they just do what they want... They've got you over a barrel.

Whilst a local government agent was concerned that developers would "gold plate" infrastructure or create exclusive enclaves if they were granted permission to design and develop council infrastructure without having to submit plans for approval.

The only catch [with allowing developers to build the infrastructure] is some of them like doing a whole lot of embellishments that we're not usually funded to maintain... It's better to get infrastructure designed to Council's standards... this ensures enclaves are not created.

3. Local government resourcing

A lack of government resources were also cited by both developers and government agents as a significant barrier, particularly in regards to timeliness as was transparency and the standardisation of planning processes and requirements across and within local government areas. A Victorian developer commented:

There is no standardisation, so you get these costs which vary considerably from one growth area council to another.

Approaches that have worked well to achieve development goals

Despite these barriers, a number of 'good practice' approaches emerged from the research.

1. Negotiation with developers

A negotiated approach to setting infrastructure contribution agreements reportedly worked well on a number of larger developments examined by the researchers. The major benefit developers identified was their ability to control the timing and standard of the infrastructure provided. The advantage of securing all required infrastructure to support the development from the outset was identified by a local government agent.

2. Upfront government investment in infrastructure

Major upfront investment in regional infrastructure at the state government level *before* the release

of greenfield land was also identified by developers as good practice. A developer from NSW commented:

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 ... 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.

3. Shared definitions and understandings

In NSW developers identified the introduction of standard local environmental plan definitions to be a positive step towards streamlining and simplifying processes. Both local government agents and developers were disappointed that the independent Growth Centres Commission had been disbanded because they saw the potential and first steps of an agency coordinating planning and infrastructure.

POLICY IMPLICATIONS

- Planning reforms already underway in NSW, Queensland and Victoria target systematic enhancement through greater standardisation of procedures, reduced administrative requirements and new infrastructure charging regimes in order to address cost barriers, system complexity and timeliness. However, further reform should address other barriers such as the lack of goodwill between local government and developers, system transparency and the lack of local

government resources.

- The Australian Government's Housing Affordability Fund may go some way to address the barriers of timeliness and infrastructure costs faced by developers. However, a lack of system transparency, goodwill and resources at the local government level will persist and may continue to significantly delay and add costs to developments.
- The findings of this study also highlight a lack of data and information relating to the cost impact of planning controls at the local level. Apart from the mandatory requirements stipulated in the national Building Code of Australia, there is little known about the costs or benefits of local idiosyncrasies in subdivision or engineering standards.

FURTHER INFORMATION

This bulletin is based on AHURI project 70393, *Planning, government charges, and the costs of land and housing*.

Reports from this project can be found on the AHURI website: www.ahuri.edu.au

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