



URBAN
DEVELOPMENT
INSTITUTE OF
AUSTRALIA (NSW)

APARTMENT SUPPLY PIPELINE REPORT

NOVEMBER 2021

"Apartments play an important role in the housing markets of the world's most productive cities. They allow small amounts of land to accommodate large numbers of people. They let these people be close both to each other and to jobs."

- NSW Productivity Commission White Paper 2021

1. EXECUTIVE SUMMARY

The apartment market has represented the majority of housing supply across the Sydney Megaregion over the last decade, making up approximately two thirds of the new housing market. Apartments play a critical role in the housing market, particularly for those who are trying to get on the housing ladder, as apartments often provide that important first step. Meanwhile for those who will be renting in the long term, especially those on lower incomes, apartments play a critical role in providing affordable places for rent and preventing people from suffering poverty due to high housing costs.

Quite simply, without a healthy apartment market in NSW, the home ownership rate will continue to fall, and we will see more people living in poverty.

The aim of UDIA's research was to look at what could be done to improve apartment affordability and investigate the extent to which the expected increase in demand for apartments can be met by the current pipeline of apartment construction projects. We also sought to identify the risks and constraints facing potential apartment developments and how they can be mitigated to boost the future supply of apartment housing.

The boom in construction of apartments in 2018 and 2019 was effective in putting downward pressure on apartment rents, improving affordability and getting it back to the same level as in 2012, albeit rents are still at a very high level compared to other locations and this puts significant pressure on people on low incomes.

The boom finished in late 2019 due to the imposition of foreign investor surcharges and the highly publicised poor construction practices taking place in some parts of the apartment sector. Prior to the pandemic, the new apartment market was facing a significant reduction in apartment completions, falling from 32,000 in 2018 to 27,000 in 2019, and continuing to fall to 23,300 new units in 2020.

If immigration had continued at the same rates, a reduction in supply would likely have led to a significant increase in rents, exacerbating the housing affordability crisis. This was avoided due to immigration stopping during the pandemic. Indeed, apartment rental affordability slightly improved as students went home and young people moved back in with their families.

During the first 18 months of the pandemic, the new apartment market continued its rapid downward trend with apartment completions estimated by UDIA NSW to be down to 6,800 completed dwellings in FY22.

Several factors will heavily shape apartment market demand over the next few years:

- How quickly immigration returns and at what rate;
- The return of people migrating from the regions to the cities;
- The desirability of apartments relative to houses; and
- The return of young people into the market from their family homes.

UDIA expects these all to occur and to increase in the next year. **Given the lack of new apartments coming online, we expect this to put upward pressure on rents and prices, exacerbating housing affordability issues.** After that, if delivery risks from accessing financing, feasibility challenges and VPA negotiations do not have a material impact, we expect the apartment market to broadly provide enough new apartments in FY24 to meet the underlying increase in demand as estimated by the NSW Government's Intergenerational Report. This will be enough to stabilise rents at a higher price but it will be insufficient to put downward pressure on rents and to improve affordability.

The NSW Productivity Commission White Paper 2021 identified a backlog of 40,000 dwellings at the start of 2021. **Assuming all currently forecasted apartments are completed without delays, supply will still fall short of the estimated increases in demand between now and mid-2026, with cumulative unmet demand estimated to reach at least 60,000.**

With 75% of the apartment pipeline to 2026 still to commence construction and facing constraints due to pre-sale requirements, financing difficulties, controls impacting feasibilities and lengthy and unpredictable VPA negotiations, there are significant risks that completions will be lower than expected.

If this backlog of unmet demand is to be reduced we need to see supply completions in excess of new demand, meaning new starts of 25,000 to 35,000 apartments per annum over the next few years.

In short, if we continue along the current trajectory and do not increase apartment commencements now, Sydneysiders will be paying permanently higher rents and prices. To improve affordability, we need to increase apartment supply well above the current anticipated rates.

Our survey highlighted three key issues that need to be tackled if we are to provide that apartment supply:

Issue 1 – Reducing barriers to construction finance.

Issue 2 – Removing barriers to feasibility.

Issue 3 – Improving the VPA process.

By fixing these issues, the NSW Government can ensure that the gateway to home ownership continues to be open and that rental affordability improves. **If the NSW Government followed our recommendations and rents fell closer to the rates seen in Melbourne, the average renter in Sydney would save between \$4,000 and \$5,000 per annum, a huge amount for those on the lowest incomes.**

RECOMMENDATIONS

Reducing barriers to construction finance

Recommendation 1 - Provide loan guarantees to support feasible apartment projects as the market struggles with lower project pre-sales thresholds.

Recommendation 2 – Undertake a communications campaign explaining the extra protections the NSW Government has put in place for purchasers of new build apartments.

Recommendation 3 - Reduce foreign investor surcharges on new build apartments.

Remove barriers to feasibility

Recommendation 4 – Create a bigger pipeline of feasible apartment development opportunities, especially in planned precincts.

Recommendation 5 - Adopt a policy of no net impact on development feasibility from government policy reforms.

Improve the Voluntary Planning Agreement process

Recommendation 6 - Undertake a comprehensive review of the VPA process, looking at ways of speeding it up, reducing costs and providing more certainty.

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METHODOLOGY NOTE

Our forecast of future apartment completions in the Greater Sydney Megaregion is derived from CoreLogic's Cordell Connect construction database. The forecast assumes all identified projects reach completion when expected despite facing risks and constraints.

The analysis of constraints on apartment projects is derived from a UDIA NSW survey of apartment developers. Responses were received from members covering 44,000 potential new units and this is estimated to cover 63% of the large apartment projects in the Megaregion.

2. INTRODUCTION

According to the NSW Intergenerational Report, an average of 42,000 new dwellings per annum are needed in NSW over the next 40 years. 39,500 (94%) of these are expected to be in the Greater Sydney Megaregion, made up of Greater Sydney, the Illawarra-Shoalhaven, Central Coast, and the Hunter. Based on the historical dwelling type development ratio, 20,500 (65%) new apartments are needed each year, supported by 14,000 greenfield houses and 5,000 attached row houses and terraces.

The aim of UDIA's research was to look at what could be done to improve apartment affordability and investigate the extent to which the expected increase in demand for apartments can be met by the current pipeline of apartment construction projects. We also sought to identify the risks and constraints facing potential apartment developments and how they can be mitigated to boost the future supply of apartment housing.

The report follows the UDIA Greenfield Land Supply Pipeline Report (GLSPR) delivered earlier in 2021, which showed a shortfall to the balance of the decade of 25,600 new greenfield homes in the Sydney megaregion, compared with the 14,000 new homes of forecasted demand in the NSW Intergenerational Report. The GLSPR also showed that two thirds of the developers forecasted supply pipeline had a missing piece of enabling infrastructure which could delay delivery and increase the shortfall to demand. Apartments can provide an important alternative for new housing supply.

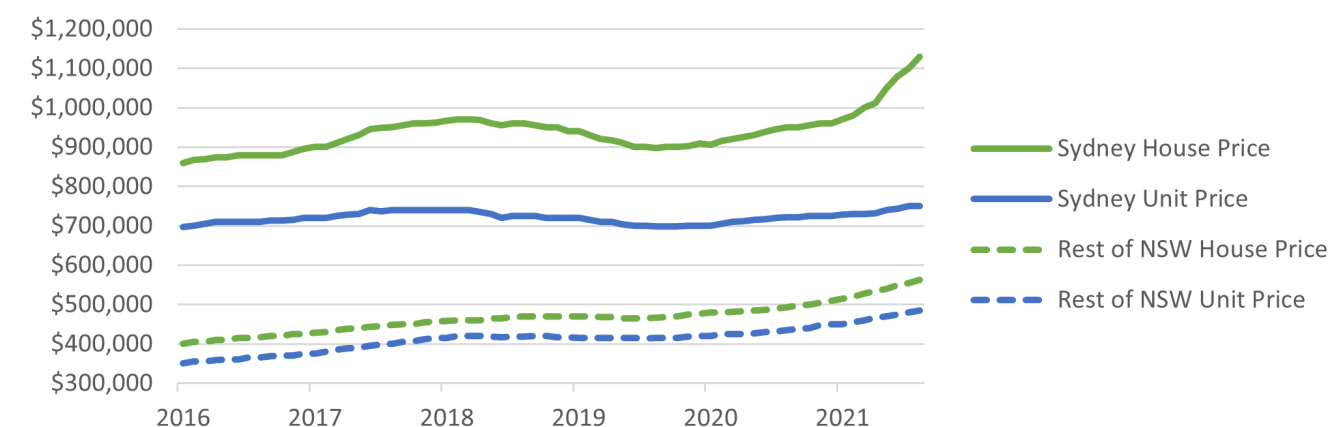
This report begins with a detailed examination of the current and historical context around apartment supply in NSW, including trends in supply, rent, affordability, pricing, and the backlog of existing unmet demand. The examination of the forward outlook of apartment supply as it relates to expected demand is then discussed, followed by the key risks and constraints impacting the future apartment supply pipeline. Next, the report covers the regional breakdown of the forward outlook of new apartment supply and the key factors impacting future demand. Finally, we discuss the overall findings and recommendations.

3. PRICING TRENDS

Between 2016 and 2020, unit prices in Greater Sydney remained broadly flat (see figure 1). Even over the past year to August 2021, with significant increases in house prices more broadly, unit prices are up only 4% and in contrast, house prices in Greater Sydney are up 19%.

In the rest of NSW, from 2016 until 2020, both unit and house prices steadily increased. This accelerated in the year to August 2021, with units up 11% and houses up 14%. It is not difficult to see why housing affordability has risen up the political agenda, with the instigation of the NSW Regional Housing Taskforce this year to identify solutions to the crisis.

FIGURE 1 - HOUSE AND UNIT PRICES

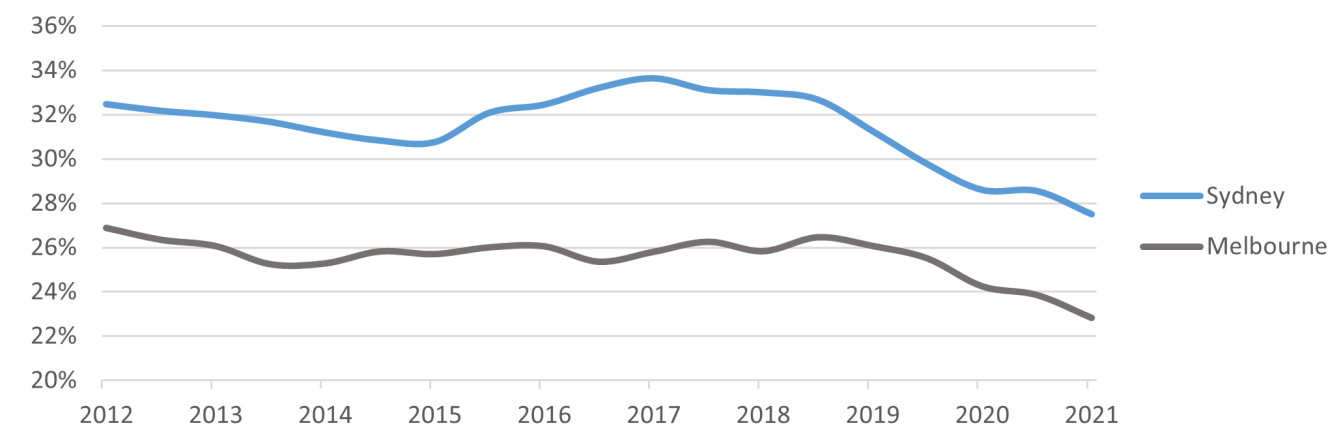


SOURCE: UDIA NSW; CORELOGIC

4. RENTAL TRENDS

Although there is a lot of disagreement about the key factors (interest rates, development taxes and charges, supply and demand factors and construction costs) and their different impacts on the cost of buying property, there is far less disagreement around rents, with most economists believing that they provide a better guide to supply and demand in the housing sector.

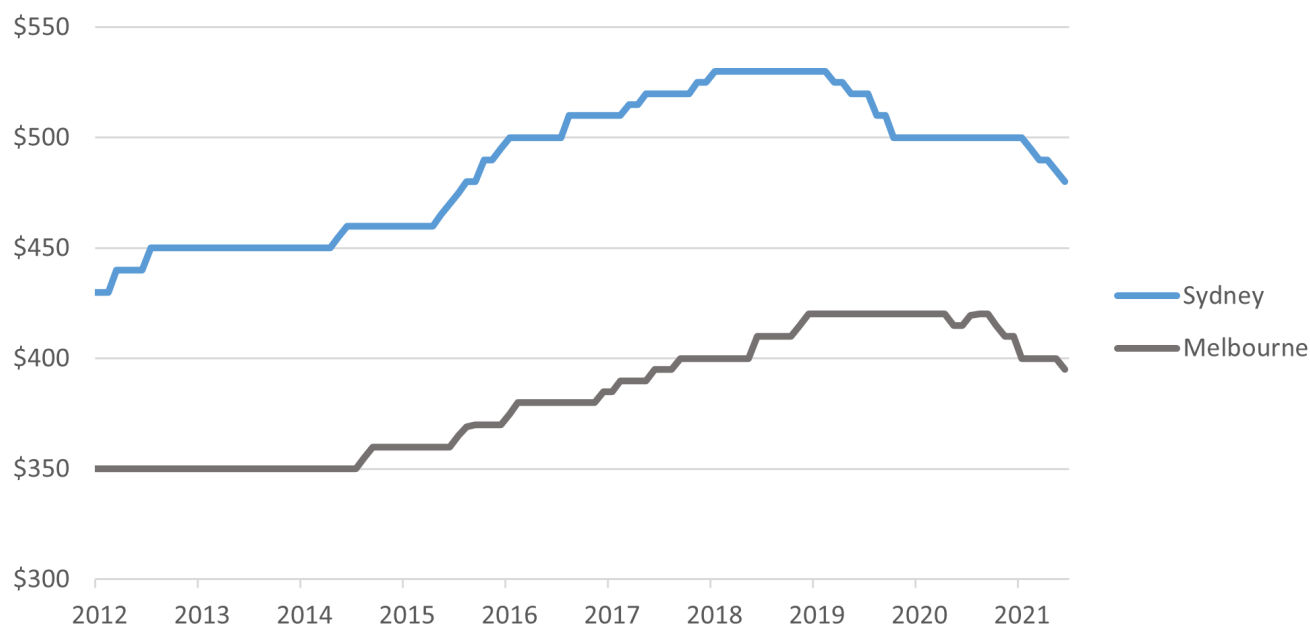
FIGURE 2 - MEDIAN WEEKLY ASKING UNIT RENTS AS A PERCENTAGE OF MEDIAN WEEKLY INCOME, GREATER SYDNEY AND GREATER MELBOURNE



SOURCE: UDIA NSW; ABS; CORELOGIC

In terms of affordability, unit rents are slightly lower than in 2012 (see figure 2). There were reductions in affordability between 2015 and 2017 but affordability then improved from mid-2018 up until the pandemic. However, although current affordability is at its best since 2012, renting in Greater Sydney is far less affordable than in Greater Melbourne. This suggests that there is something about Sydney that is keeping rents higher than they need to be (see figure 3).

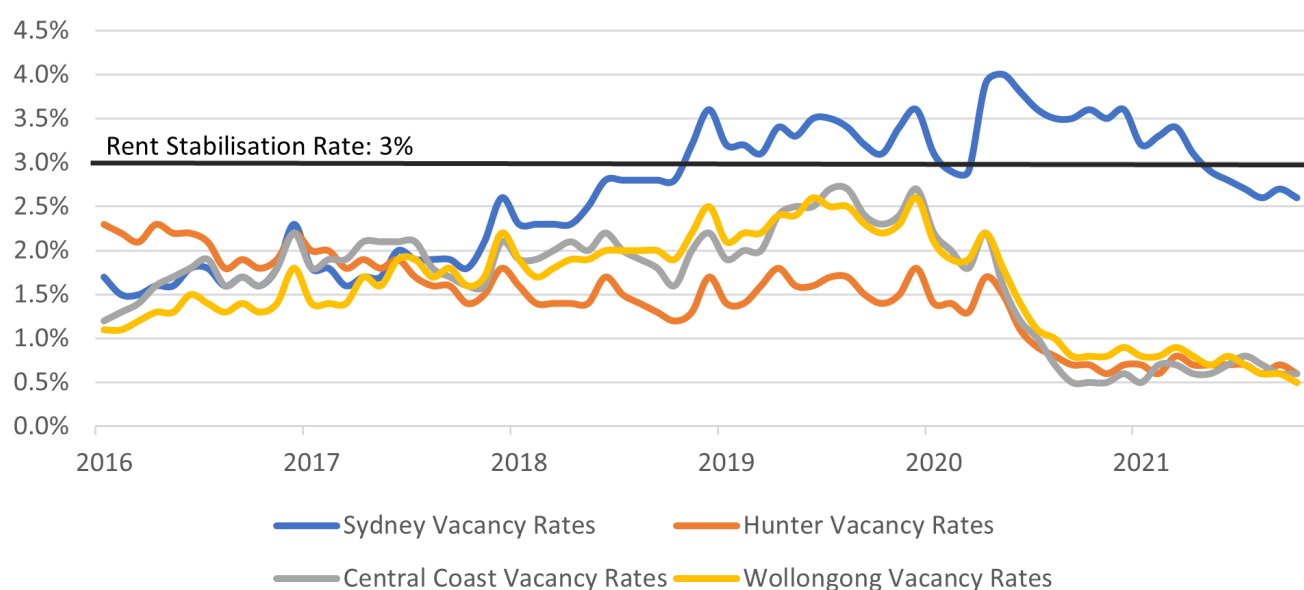
FIGURE 3 - MEDIAN WEEKLY ASKING UNIT RENTS, GREATER SYDNEY AND GREATER MELBOURNE



SOURCE: UDIA NSW; CORELOGIC

After a jump in vacancies at the beginning of the COVID-19 pandemic, the vacancy rate for housing in Sydney has been falling and is now below 3% (see figure 4), despite virtually zero levels of immigration. Vacancy rates in the regions are at historic lows, showing demand is outpacing supply and putting upward pressure on rents and prices in those markets.

FIGURE 4 - RENTAL VACANCY RATES SHOW DEMAND STARTING TO OUTPACE SUPPLY IN SYDNEY, WITH A SIGNIFICANT UNDERSUPPLY IN THE MAJOR REGIONAL MARKETS



SOURCE: UDIA NSW; SQM

5. APARTMENT SUPPLY TRENDS

Apartment completions increased by 164% between 2013 and 2019 (see figure 5) before dropping back by 44% prior to the pandemic. It is unsurprising that those large increases in apartment supply helped to stabilise rents and slightly approve affordability prior to the pandemic, despite high levels of immigration, which in 2017 was 50% higher than the decade average.

The drop off in completions prior to the pandemic was mainly caused by two factors:

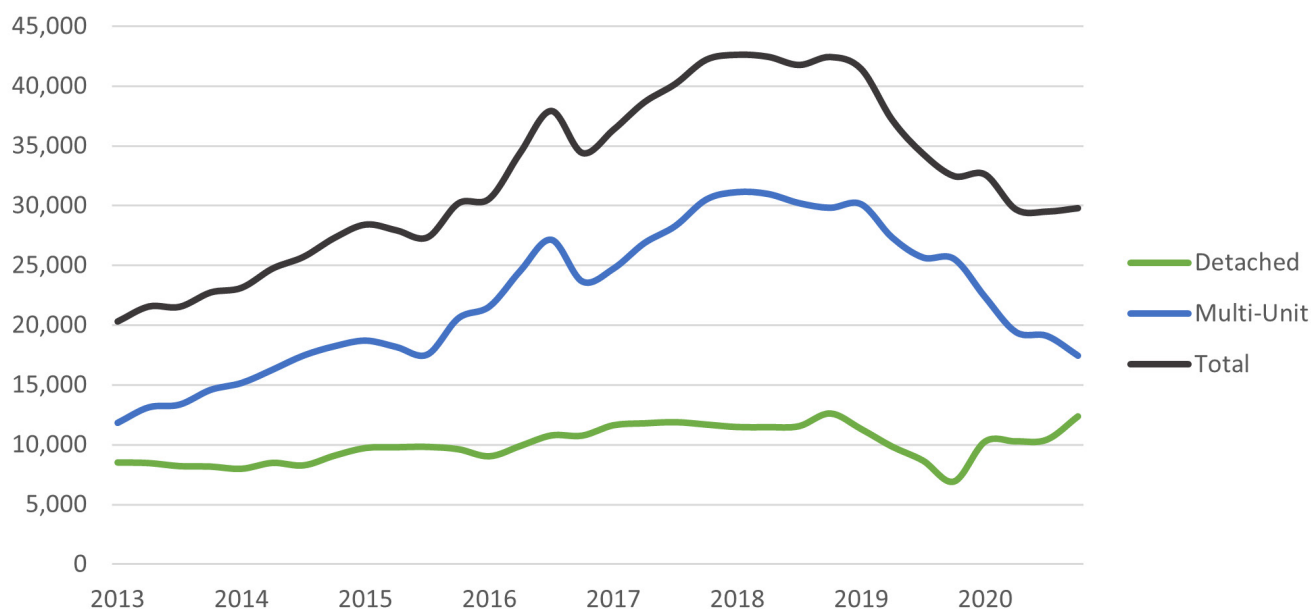
1. The imposition of the foreign investor surcharge. In 2016, the NSW Government imposed a foreign investor surcharge on property. This significantly reduced foreign investor activity in the new property market, which fell from a peak of 21% of demand in 2015 to 8% in late 2016 according to NAB. Foreign investor activity has continued to weaken, reaching 2% in March 2021.
2. The highly publicised problems in the construction of new build apartments, leading to reduced consumer confidence in purchasing new apartments.

Both of these factors made it much harder for developers to achieve pre-sales and therefore obtain finance for their projects, resulting in the major drop off in apartment completions.

APARTMENT FINANCE AND PRE-SALES

Most apartment builders do not have access to the capital or the balance sheets to build apartments without external finance. They usually go to banks for their finance who require a level of pre-sold apartments, typically between 40-60% of the total dwellings in the development before they will provide the loan for construction to reduce their risk exposure. Therefore, if pre-sales are difficult to achieve, finance is hard to obtain and less apartments get built.

FIGURE 5 - ROLLING ANNUAL DWELLING COMPLETIONS BY TYPE, GREATER SYDNEY

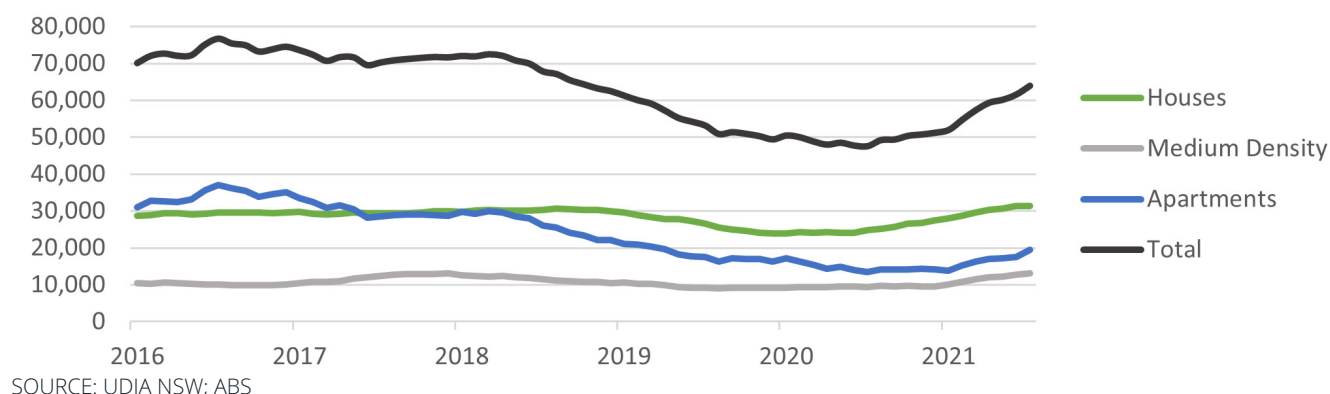


SOURCE: UDIA NSW; DPIE

Townhouse and apartment completions decreased by 32% over the year to June 2021 to number just 17,400, 44% below the peak in 2019. Apartments are critical to the overall amount of new housing supply and despite the number of new house completions being at a decade high, the overall number of dwelling completions is still 30% below June 2019.

Before completions can take place, the pipeline for development requires project approvals to occur. Approvals were running at high levels from 2016 through to early 2018 (see figure 6). However, they then began to drop off substantially. This was largely due to approvals becoming more difficult to obtain, particularly due to the failure to deliver precinct plans that enable feasible development and the political narrative about over-development in the 2018 NSW State election. Apartment approvals in New South Wales have started to improve since March 2021 but still remain 47% below the 2016 peak.

FIGURE 6 - DWELLING APPROVALS BY TYPOLOGY, ROLLING ANNUAL, NEW SOUTH WALES



6. NSW HAS A BACKLOG OF UNMET DEMAND FOR APARTMENTS

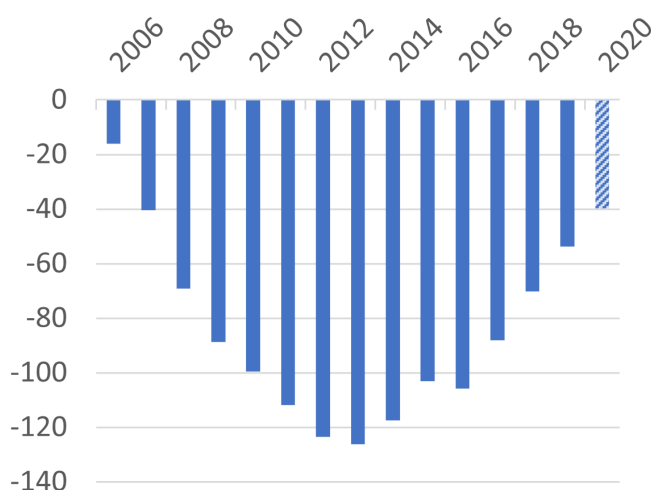
Although apartment rents are no less affordable than they were in 2012, the relatively high level of rents in Sydney compared to Melbourne (see figure 3) suggests that more could be done to lower rents and improve affordability.

The NSW Productivity Commission White Paper 2021 identified a backlog of 40,000 dwellings at the start of 2021 (see figure 7).

To understand the difference between Sydney and Melbourne, UDIA NSW undertook a comparative analysis of the number of bedrooms per person in Greater Sydney and Greater Melbourne, using CoreLogic and ABS data.

Sydney has a ratio of 0.94 people per bedroom, while Melbourne has a ratio of 0.92 people per bedroom. While this difference seems small, for Sydney to reduce its ratio to match Melbourne's it would need an additional supply of over 160,000 bedrooms. Assuming 3 bedrooms per dwelling (the current average number of bedrooms per dwelling is 2.9), that equals an additional 53,300 dwellings for Sydney to match the bedroom to population ratio of Melbourne.

FIGURE 7 - DWELLING BACKLOG AS IDENTIFIED IN THE PRODUCTIVITY COMMISSION WHITE PAPER



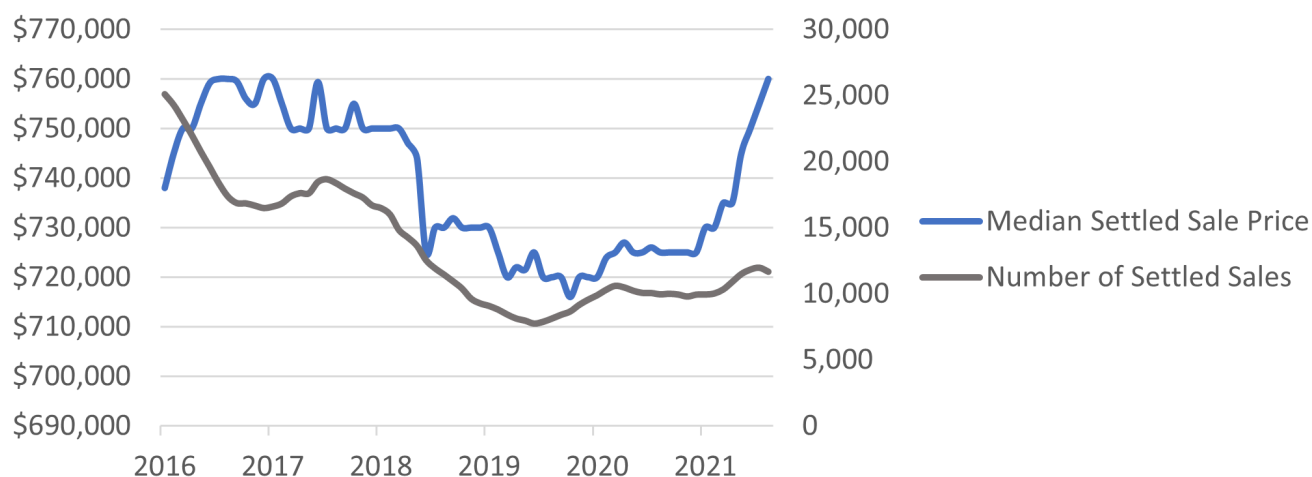
SOURCE: UDIA; NSW PRODUCTIVITY COMMISSION WHITE PAPER

If NSW was able to significantly reduce the apartment backlog and achieve a similar ratio to Melbourne, it is likely that rents would be much closer to those in Melbourne, saving the average Sydney renter between \$4,000 and \$5,000 dollars per year. For renters on low incomes this would have a dramatic effect on their financial wellbeing and cost of living pressures, lifting many children out of poverty.

7. THE CURRENT STATE OF THE NEW APARTMENT MARKET

The new apartment market has bottomed out from its slump in recent months and there are some tentative signs of recovery. New unit prices in Sydney are trending upwards partly because of the detached market becoming increasingly unaffordable (see figure 8).

FIGURE 8 - MEDIAN SETTLED SALE PRICE AND NUMBER OF SALES FOR NEW UNITS IN GREATER SYDNEY

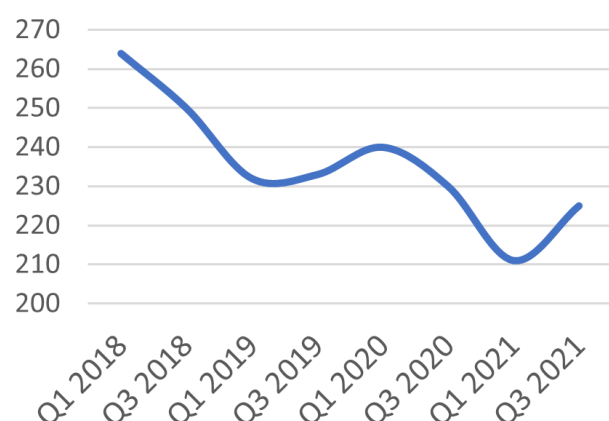


SOURCE: UDIA NSW; CORELOGIC

Similarly, the number of active residential and mixed-use cranes in Sydney picked up between Q1 2021 and Q3 2021. This is a positive sign, with a significant number of apartment projects needing to begin construction soon to reach completion and meet anticipated increases in demand (see figure 9). More improvement is still needed, we estimate that at least 240 active cranes are needed to deliver the supply required to manage growth and reduce the backlog.

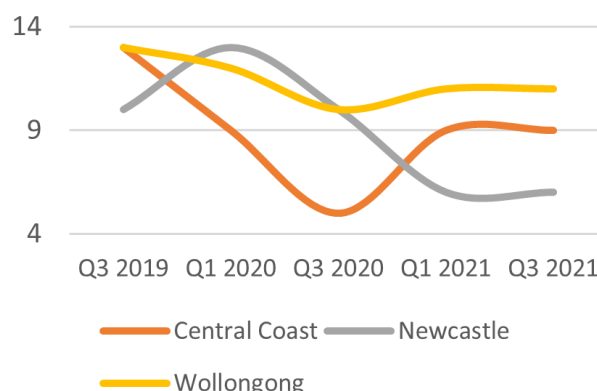
Outside of Greater Sydney, the number of active residential and mixed-use cranes has been down in Newcastle across 2021, while Wollongong and particularly the Central Coast saw some positive movement in early 2021 but have now stabilised (see figure 10).

FIGURE 9 - NUMBER OF ACTIVE RESIDENTIAL AND MIXED-USE CRANES IN SYDNEY



SOURCE: UDIA NSW; RLB

FIGURE 10 - NUMBER OF ACTIVE RESIDENTIAL AND MIXED-USE CRANES IN CENTRAL COAST, NEWCASTLE, AND WOLLONGONG



SOURCE: UDIA NSW; RLB

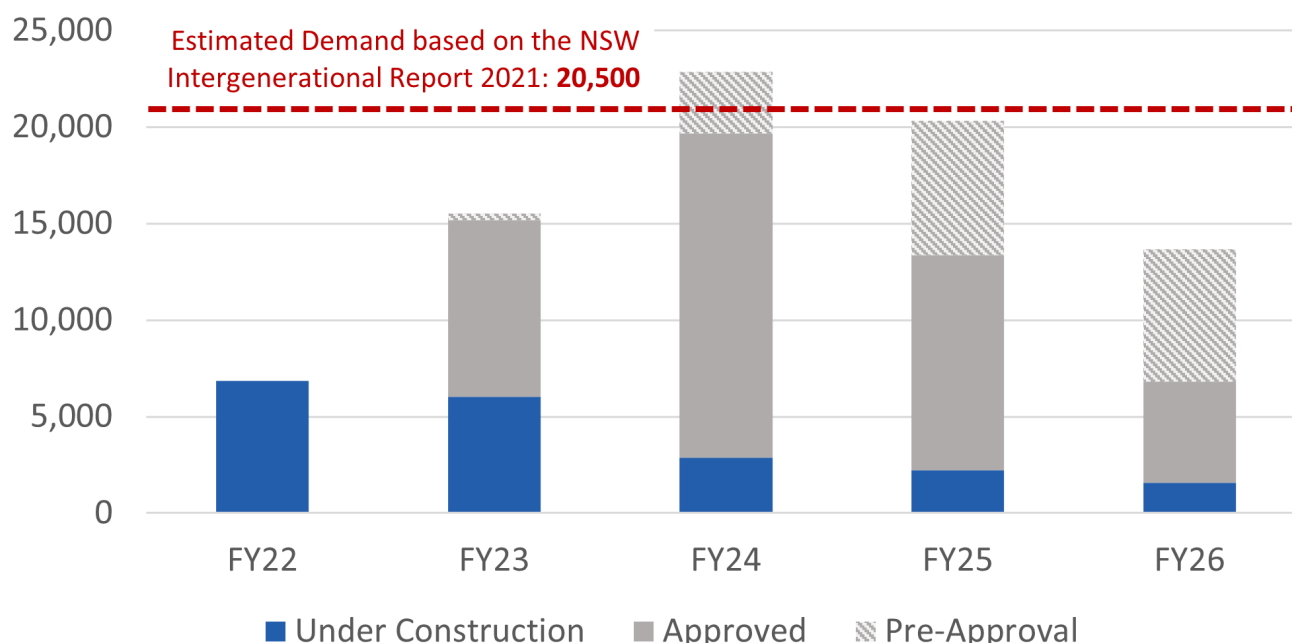
Overall, the apartment market across the Sydney Megaregion has slightly picked up from its recent lows. However, the recovery is in its early stages and will need to gather significantly more momentum in the months and years ahead.

8. SUPPLY PIPELINE ANALYSIS

UDIA forecasts show that apartment completions in FY22 and FY23 are expected to fall significantly short of long-term demand of 20,500 apartments derived from the NSW Intergenerational Report 2021 (see figure 11). We expect that supply will match the increase in demand in FY24, provided that the 20,000 units that are expected to complete that year, but are yet to start construction, are able to quickly proceed.

It is also important to remember that large apartment projects take 2 to 3 years following DA to deliver pre-sales, financing, and construction. This lead time means supply needs to be stimulated several years before demand materialises.

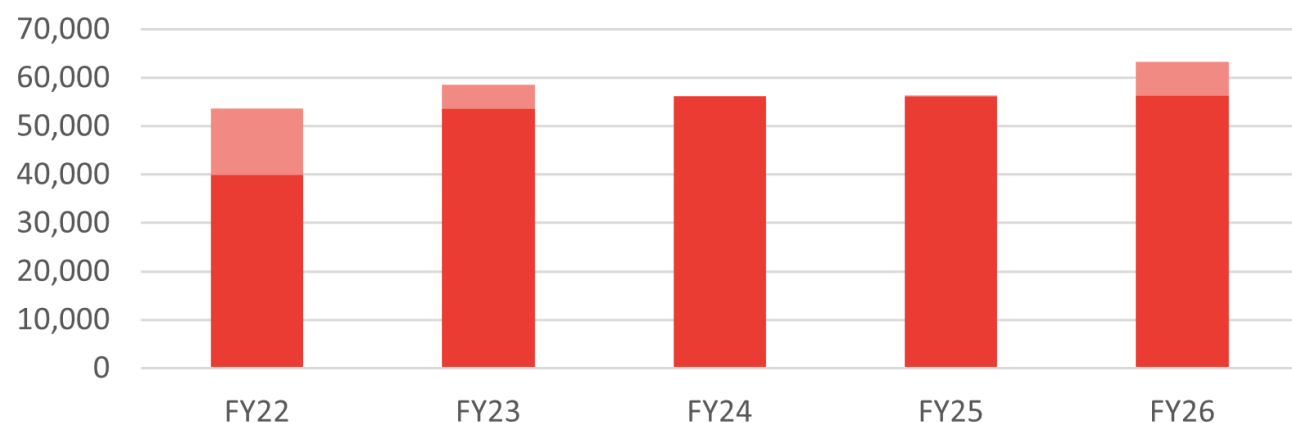
**FIGURE 11 - FORECASTED APARTMENT COMPLETIONS BY CURRENT PROJECT STAGE
GREATER SYDNEY MEGAREGION**



SOURCE: UDIA NSW; CORELOGIC; NSW INTERGENERATIONAL REPORT 2021

Assuming all apartments are completed as currently forecast without delays, supply will still fall short of the estimated increases in demand, with cumulative unmet demand estimated to reach at least 60,000 by mid-2026 (see figure 12).

FIGURE 12 - UNMET DEMAND BASED ON ALL FORECASTED APARTMENTS REACHING COMPLETION AND NO UNMET DEMAND FROM THE GREENFIELD MARKET



SOURCE: UDIA; CORELOGIC; NSW INTERGENERATIONAL REPORT 2021

If this backlog of unmet demand is to be reduced we need to see supply completions in excess of new demand, meaning new starts of 25,000 to 35,000 apartments per annum over the next few years to deal with the backlog.

For every 200 apartments which commence in NSW the total economic impact is \$255 million and each project of this size delivers 127 direct jobs and, with the multiplier into the broader economy, 318 total jobs.

FIGURE 13 - FORECASTED APARTMENT COMPLETIONS IN GREATER SYDNEY IN 2022, 2023, AND 2024 FROM DIFFERENT SOURCES

	UDIA / CoreLogic (Financial Year)	Charter Keck Cramer – State of the Market (Financial Year)	Urbis Apartment Essentials (Calendar Year*)
2022	6,850	11,100	*7,400
2023	15,500	9,300	*7,500
2024	22,850	4,800	*4,550

SOURCE: UDIA NSW; CORELOGIC; CHARTER KECK CRAMER; URBIS

Market analysts are currently forecasting a continued slide in apartment completions. Forecasts by Charter Keck Cramer and Urbis show completions in 2022 down by at least 60% from the peak, with the decline continuing into 2023 and 2024. These forecasts are primarily based on marketed projects, while the UDIA forecast based on CoreLogic data takes into account projects that haven't started marketing yet. Regardless, the negative trajectory predicted by Charter Keck Cramer and Urbis shows that there are significant risks and uncertainty facing the apartment supply pipeline.

9. CONSTRAINTS AND RISKS

Although our current projections for supply suggest that in a few years time we will be able to match the expected increases in demand, there are significant risks and constraints that could delay projects and/or lead to projects being abandoned.

UDIA NSW surveyed apartment developers in the Greater Sydney Megaregion on their forward pipeline of apartment projects and the constraints impacting them, with responses covering 44,000 potential dwellings. This is estimated to cover 63% of the large apartment projects in the Megaregion.

LARGE PROJECTS (MORE THAN 300 UNITS)

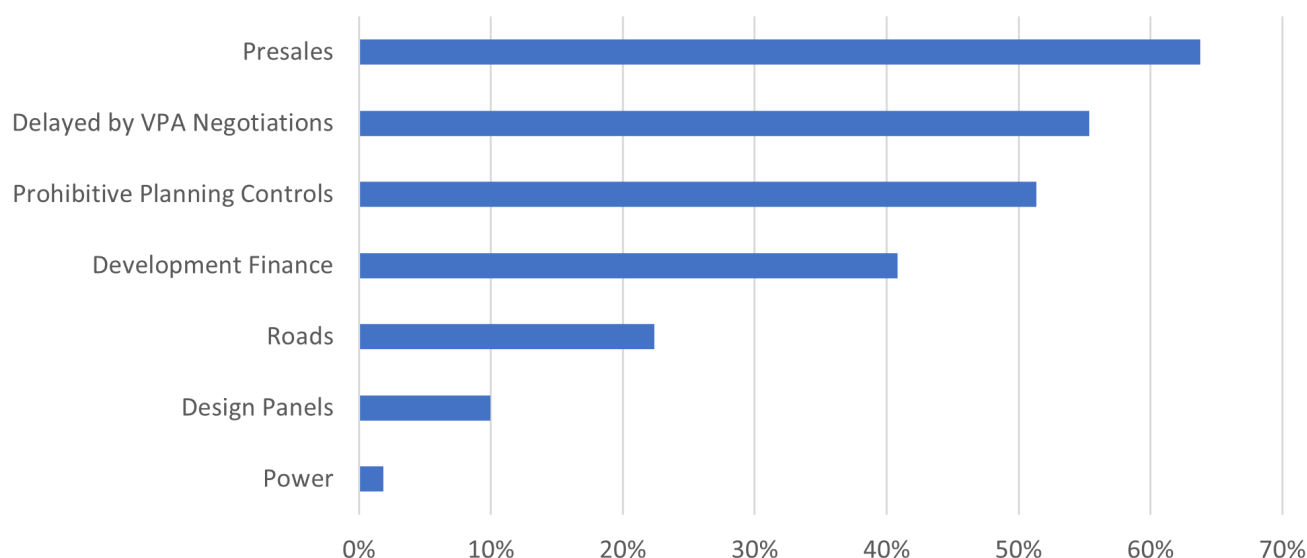
72% of apartments that are expected to be completed as part of large projects in NSW by the end of FY26 are facing constraints impacting whether developers will proceed with these projects. UDIA estimates that without intervention, up to 13,000 units in these projects risk being deferred or abandoned.

Presales and development finance, lengthy VPA negotiations, and feasibility concerns because of regulations, were the primary constraints identified for large apartment projects (see figure 14).

VOLUNTARY PLANNING AGREEMENTS (VPAs)

A voluntary planning agreement (VPA) is an agreement usually between a Council and a developer in which the developer agrees to make contributions (usually financial, social infrastructure or land) to the authority as part of a development application.

FIGURE 14 - ESTIMATED PROPORTION OF UNITS IN LARGE PROJECTS IMPACTED BY CONSTRAINTS



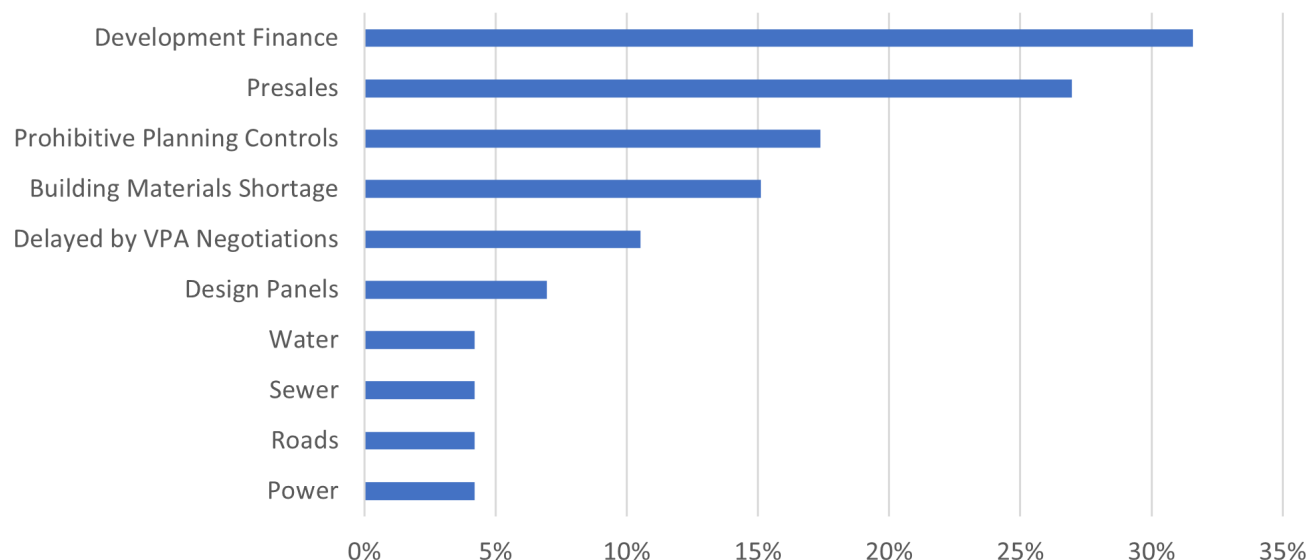
SOURCE: UDIA NSW

NOTE: CATEGORIES ARE NOT CUMULATIVE AS A SINGLE PROJECT CAN FACE MULTIPLE CONSTRAINTS. INCLUDES PROJECTS EXPECTED TO COMPLETE LATER THAN FY26

SMALL PROJECTS (LESS THAN 300 UNITS)

Responses were also captured for smaller apartment projects. Development finance and presales are again identified as major barriers to development and for smaller apartment projects, building materials and enabling infrastructure were of greater concern than with large projects (see figure 15).

FIGURE 15 - ESTIMATED PROPORTION OF UNITS IN SMALL PROJECTS IMPACTED BY CONSTRAINTS



SOURCE: UDIA NSW

NOTE: CATEGORIES ARE NOT CUMULATIVE AS A SINGLE PROJECT CAN FACE MULTIPLE CONSTRAINTS. INCLUDES PROJECTS EXPECTED TO COMPLETE LATER THAN FY26. DUE TO LOWER SAMPLE SIZE OF SMALL PROJECTS, THESE SHOULD BE TAKEN AS INDICATIVE OF PROBLEMS THAT CAN FACE DEVELOPERS RATHER THAN A REPRESENTATION OF THE WHOLE MARKET.

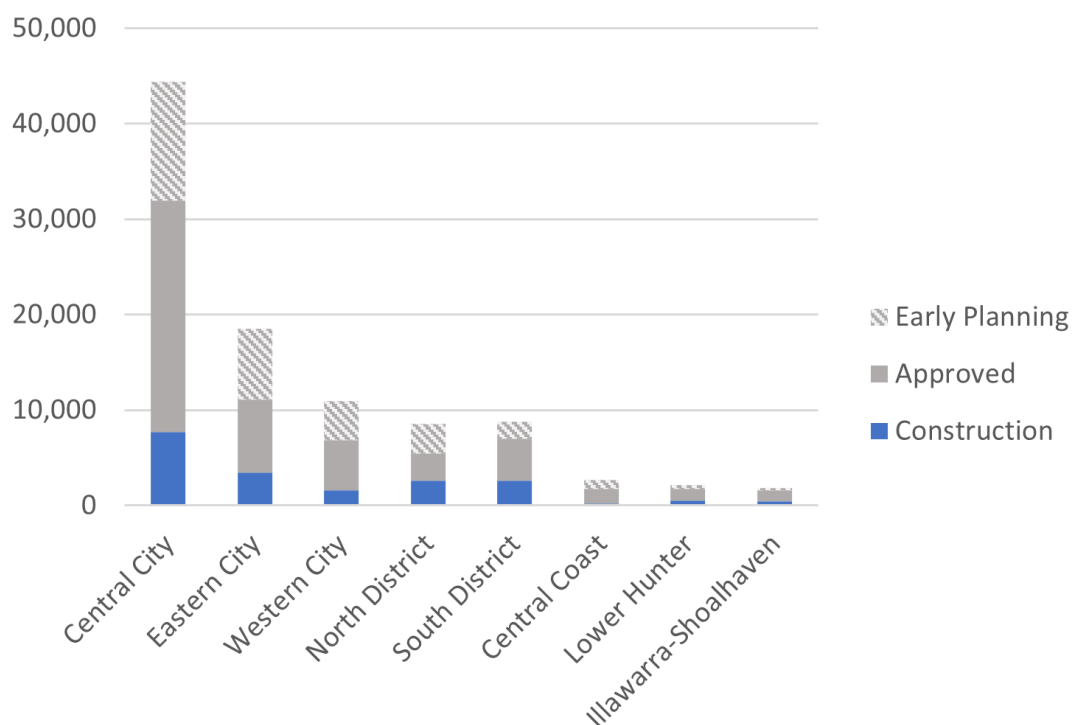
With 75% of the pipeline to 2026 yet to begin construction, and facing constraints due to pre-sales requirements, financing difficulties, feasibility-impacting controls, and lengthy and unpredictable VPA negotiations, there are significant risks that completions will be lower than expected.

10. REGIONAL BREAKDOWN

The apartment supply pipeline in Sydney shows significant emphasis on the Central City, with approximately 25,000 more units in the pipeline there than in the Eastern City, which has historically been dominant (see figure 16). This is reflective of the increasing emphasis placed on the Central City for growth by planning authorities in the last 5 years, as well as the greater opportunities for high density development provided in the Central City by the State Government and Local Councils.

The apartment supply pipeline is weakest in the Illawarra-Shoalhaven, Lower Hunter, and Central Coast. While these markets have traditionally had greater emphasis on detached housing, the current undersupply in those regions, highlighted by historically low vacancy rates, means higher density dwellings are needed to meet demand and provide housing choice.

FIGURE 16 – GEOGRAPHICAL DISTRIBUTION OF THE APARTMENT SUPPLY PIPELINE IN THE GREATER SYDNEY MEGAREGION



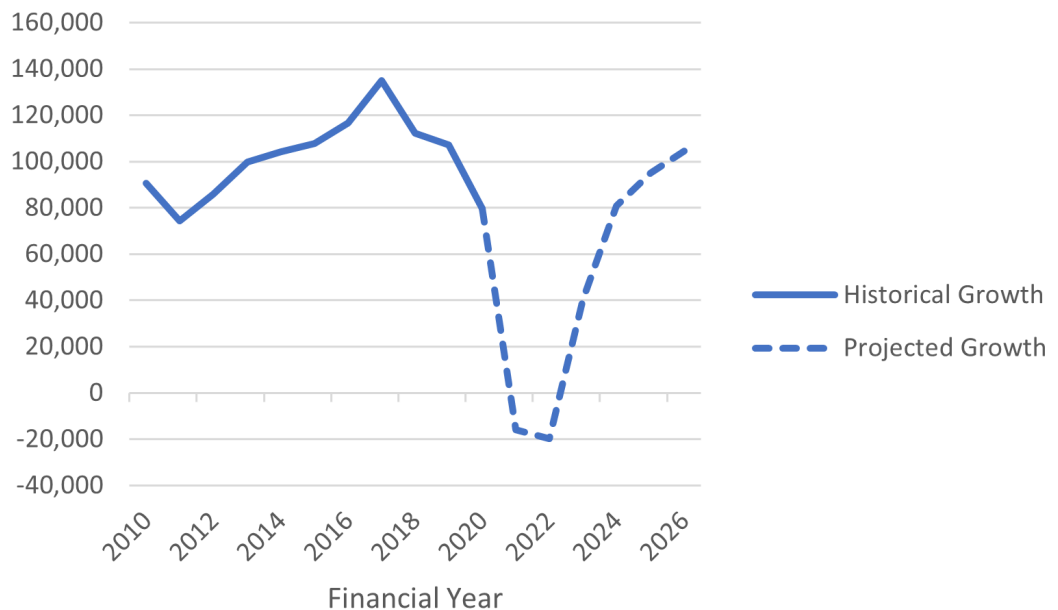
SOURCE: UDIA NSW; CORELOGIC;

11. DEMAND FACTORS

Several factors will impact on demand in the apartment market in the years ahead. The most important of these will be population growth.

The Centre for Population's population growth projections show a rapid recovery of the rate of population growth from FY23 (see figure 17).

FIGURE 17 - NSW POPULATION GROWTH AND PROJECTIONS



SOURCE: UDIA NSW; CENTRE FOR POPULATION

Recent indicators such as sales prices and vacancy rates show demand for apartments in the Greater Sydney Megaregion is increasing, despite the lack of population growth in FY21 and FY22. UDIA believes that this is most likely caused by three factors:

1. The increasing cost of houses is pushing people towards apartments;
2. The return of younger people from family homes back to apartments as the pandemic recedes; and
3. An increase in the number of people leaving the regions to come to the cities which reduced significantly during the height of the pandemic.

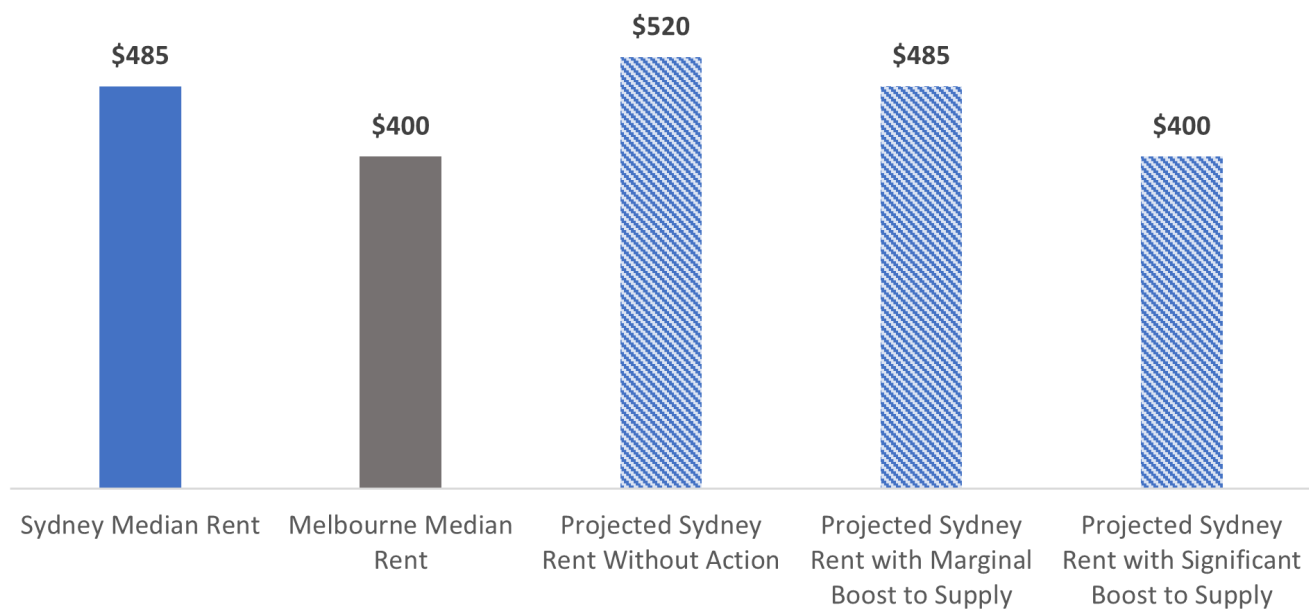
UDIA expects these factors to continue to play a role in demand but for the impact to be small relative to the impact of population growth.

12. DISCUSSION

In the short term, the return of immigration is likely to lead to increases in the demand for apartments that will not be matched by increases in apartment supply, given the relatively low levels expected to be delivered in FY22 and FY23. All other things being equal, we would expect that these conditions will lead to an increase in rents based on past analysis. Apartment prices are much more difficult to predict given the uncertainty over interest rates and changes to the regulations around lending standards.

Beyond FY23, if risks to the apartment supply pipeline can be reduced and managed, then we would expect increases in demand to be met with increases in supply. This is likely to lead to a stabilisation of apartment rents relative to incomes. However, due to the unmet demand from FY22 and FY23, this will be at a higher level than today. In other words, if we do nothing now, apartment rental affordability will be worse over the next 5 years than it is today. If the risks to the current pipeline are realised, then we are likely to see rental affordability decline even further. Given the importance of the apartment rental market to families on low incomes, this will likely increase inequality and poverty (see figure 18).

FIGURE 18 - MEDIAN WEEKLY UNIT RENTS AND PROJECTED SCENARIOS



SOURCE: UDIA NSW; CORELOGIC

UDIA believes that the existing high levels of rents in Sydney are not acceptable nor is allowing rents to go even higher permanently. We would like to see a concerted effort to reduce apartment rents and the best way to do this is to take action to increase apartment supply above the levels of demand and to build a robust supply pipeline. Three main issues that we have identified need to be tackled to achieve this:

Issue 1 – Reducing barriers to construction finance.

Issue 2 – Removing barriers to feasibility.

Issue 3 – Improving the VPA process.

13. RECOMMENDATIONS

Reducing barriers to construction finance.

Our surveyed members quite clearly highlighted that the biggest risks to apartment projects proceeding was the difficulty in achieving pre-sales and then obtaining finance. We think that the NSW Government should take action to make it easier to achieve pre-sales and reduce the barriers to finance:

Recommendation 1 - Provide loan guarantees to support feasible apartment projects as the market struggles with lower project pre-sales.

Governments around the world, including NSW regularly provide loan guarantee schemes. Indeed, as part of the response to the pandemic, the NSW Government provided up to \$750m via a loan guarantee scheme to help universities through the COVID-19 pandemic. We believe that an equivalent scheme for apartments could play a significant role in reducing risks to the apartment pipeline.

This guarantee could be provided to certified developers approved by the NSW Building Commissioner for feasible projects which have achieved a base level of sales. This supply side solution would support the work of the Commissioner and help bridge the time delay, whilst maintaining significant jobs in the construction sector as we look to deliver economic recovery in NSW.

Recommendation 2 - Undertake a communications campaign explaining the extra protections the NSW Government has put in place for purchasers of new build apartments.

We believe the work of the NSW Building Commissioner and the NSW Government's legislation changes has positioned NSW as the leading State for new build apartments. Restoring consumer confidence to the pre-sales apartment market, would make it easier to achieve financing and reduce risks on projects.

Recommendation 3 - Reduce foreign investor surcharges on new build apartments.

Foreign investor surcharges on new build apartments are making it much harder to achieve pre-sales and this is increasing risks on projects. Lowering or removing the charges would reverse this problem and facilitate increases in supply.

Remove barriers to feasibility

Our members are concerned about several issues that are impacting feasibility and are leading to delayed or cancelled projects. These include planning controls in Planned Precincts that make development infeasible and planning reforms that are increasing development costs. Reforms that are increasing development costs, include the Design and Place SEPP, Infrastructure Contributions Reforms and the Housing SEPP.

To secure the apartment supply pipeline, the NSW Government should adopt an approach that any changes that make feasibility worse need to be fully offset by other measures that improve feasibility. For example, if the NSW Government increases

the environmental standards for development to help meet Net Zero by 2050 (a very important goal given the need to reduce climate change), then the impact on feasibility should be mitigated elsewhere, such as reducing the infrastructure charges that are imposed on developers.

Recommendation 4 – Create a bigger pipeline of feasible apartment development opportunities, especially in Planned Precincts.

Recommendation 5 - Adopt a policy of no net impact on development feasibility from government policy changes.

Improve the Voluntary Planning Agreement process

VPAs are an important part of the planning system. Without, VPAs it is likely that even less development would take place and less housing supply delivered. However, the VPA process has many flaws including the time it takes, the costs incurred and the uncertainty and risks it causes. Unfortunately, there is not one simple change that can be made to the VPA process that will solve most of the issues. Improving the VPA process is likely to require many small changes, that when added up result in a significantly improved system. UDIA would like to work with the NSW Government and other key stakeholders such as Councils to develop an improved VPA system in NSW.

Recommendation 6 - Undertake a comprehensive review of the VPA process looking at ways of speeding it up, reducing costs and providing more certainty.

14. CONCLUSION

The apartment market in NSW has tentatively turned the corner and we will see increased apartment supply in the years after 2022. However, in the short term we are likely to see increases to apartment rents, upward pressure on prices and reduced affordability. Given current policy settings and the projected pipeline, it is likely that rents will settle at this new higher rate. If we want to keep affordability where it is today, let alone improve affordability, we will need to significantly boost new project commencements and momentum in the apartment supply pipeline.

For every 200 apartments which commence in NSW the total economic impact is \$255 million and each project of this size delivers 127 direct jobs and, with the multiplier into the broader economy, 318 total jobs.

If UDIA's recommended measures are undertaken and the undersupply of apartments in Sydney and across NSW reaches the same levels as those seen in Melbourne, the average renter will save between \$4000 and \$5000 per annum, making a significant impact on the cost of living and reducing poverty.

Given the backlog of unsatisfied demand, the likelihood of immigration returning soon and the lead time of 2 to 3 years to deliver completions, government should deliver policies to drive commencements now, based on UDIA's recommendations, at the same time supporting jobs and the economic recovery we all want to see in NSW post the COVID pandemic.



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