4 Byfield Street
Macquarie Park NSW 2113
T (02) 9978 3333
hia.com.au

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Sydney Water Prices 2025-2030
Independent Pricing and Regulatory Tribunal
PO Box K35
Haymarket Post Shop
SYDNEY NSW 1240

email: ipart@ipart.nsw.gov.au

Dear IPART

IPART Review of Sydney Water Prices 2025-2030

Introduction

Thank you for the opportunity to comment on the IPART Draft Report on Sydney Water Prices 2025-2030 (IPART report). The Housing Industry Association (HIA) is pleased to make this submission on the IPART report.

HIA supports the comment made within the IPART report summary (page 7) that:

> *"Water and wastewater services are essential, and it is vital that Sydney Water's services and infrastructure keep pace with Sydney's growth, meet community expectations on social and environmental performance, and deliver value to customers."*

In line with this, HIA notes that the Sydney Water Price Proposal 2025-30 (SW proposal), highlights the critical relationship between the provision of water related infrastructure and housing delivery, and has set its capital expenditure proposal accordingly.

The SW proposal (page 8) states the following:

> "*Coordinated planning between all levels of government, developers and other stakeholders is essential to align housing growth with delivery of water infrastructure. This ensures effective allocation of resources and integration with our existing network – where possible – or timely provision of new services in areas with no existing infrastructure.*"

There is clear messaging coming from both IPART and Sydney Water on the critical role of investment in water related infrastructure to meet the demands from projected residential growth. Therefore, it greatly concerns HIA that the IPART report is recommending significant cuts to the capital expenditure budget provided within the SW proposal.

The SW proposal requested IPART to approve $16.6 billion in capital expenditure over five years, however, the IPART report recommendation is for this amount to be reduced to $10.7 billion, which is a reduction in capital investment of $5.9 billion or 35%.

HIA's concern is that the proposed 35% cut in capital expenditure will impact the necessary supply of development-ready housing land, which will limit housing stock, worsen housing affordability and push-up rents.

In summary, the proposed 35% cut in capital expenditure will:

- reduce the pipeline of serviced land for new homes in Sydney over the next five years and beyond
- impact housing affordability with new homes becoming increasingly out of reach for buyers
- put an expectation on the development industry to fill the funding void through more infrastructure contributions

More detail on these matters is provided below.

Impact on housing affordability

The NSW Premier wrote to IPART in August 2024, requesting the Tribunal consider cost-of-living impacts of its water price determinations for Sydney Water's customers. The letter said that NSW households are currently experiencing increasing cost of living pressures, including rising housing and utility prices.

Whilst the IPART response to cut the capital expenditure budget, as well as other costs[1], is intended to protect consumers from price hikes in water related supply charges, it fails to consider the impact on housing and rental affordability. It appears that IPART has responded to the Premier's cost-of-living concerns by cutting capital expenditure on water related infrastructure, as well as other costs, without looking at the wider impacts on the availability of development-ready residential land and subsequently housing affordability.

HIA Economics monitors housing affordability across all Australian markets on a quarterly basis. We found that at the end of 2024 housing remained unaffordable across all of Australia's capital cities, including Greater Sydney, as measured by the HIA Affordability Index. The graph (Figure 1) over page demonstrates that the HIA Affordability Index for home ownership in Sydney has deteriorated since late-2020 and that homes in Sydney are now less affordable than at any point within the last decade.

Affordability issues will only be accentuated if there is not enough serviced land in the pipeline to meet housing demand from a growing population. The SW proposal is based on the *National Housing Accord* targets, which the NSW Government has signed up to. The targets are to create 377,000 new homes across NSW by mid-2029, with approximately 250,000 of those homes to be in Sydney within a mix of infill and greenfield development.

The SW proposal recognises that "...*although the NSW response to the National Housing Accord includes a heightened focus on development in infill areas, growth in greenfield areas, which generally lack existing infrastructure, will continue to be an important part of the mix."* [2]

HIA submits that a failure to provide an adequate amount of serviced land for housing will lead to increased shortages in housing stock, which will further push-up prices for new homes, and further dent housing affordability.

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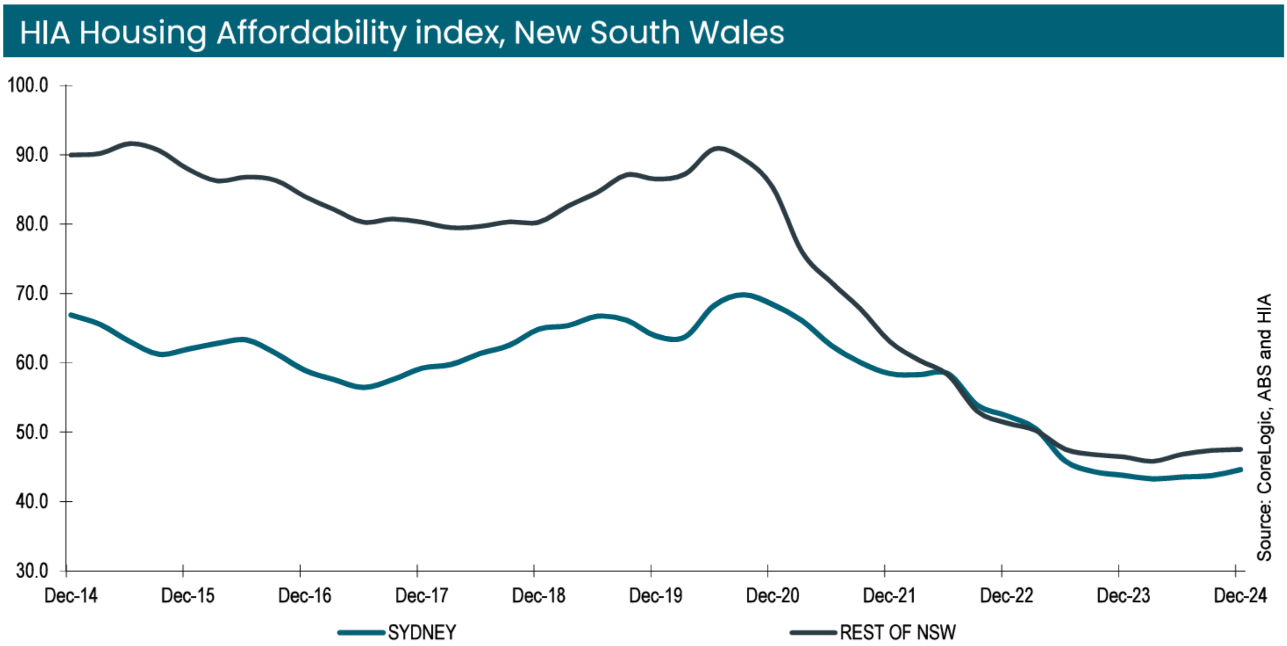
[1] Core operating expenditure and bulk water purchase cost from WaterNSW
[2] Sydney Water Price Proposal, Page 73

The cost-of-living benefits given to the community through lower increases in water supply prices, will be outweighed by the likely escalating costs of buying or renting a home in Sydney.

We do note that those most in need due to cost of living pressures must continue to be assisted by SW rebates, as recommended in the IPART report (page 16).

Figure 1 - HIA Housing Affordability Index[3], NSW



Impact on Development charges

The IPART report recommendation to reduce the SW proposal's capital expenditure amount will impact the opportunity for Sydney Water to deliver and upgrade essential water related infrastructure to both new and existing customers within its service area. This potentially will lead to a deficit in the supply and upgrading of essential water related infrastructure, needed for new and existing development. As a consequence, it may then follow that there will be an expectation for the development industry to step in to pay for the essential water related infrastructure through higher development contributions.

HIA can confirm however, that there is very limited scope for the residential developers to step in and increase contributions, as development charges have already hit their ceiling for the industry.

HIA recently commissioned the Centre for International Economics (CIE) to update its Taxation of the Housing Sector[4] report, which identifies the volume of taxes, government charges and regulatory imposts on new homes. CIE found that as much as $576,000 or 49% of the cost of a new house and land package in Sydney is made up of taxes, fees and charges, and $346,000 or 38% of the final cost of a new apartment build. These charges are significantly higher than for other capital cities across Australia, as demonstrated on the graphs (Figure 2) overpage. Every dollar charged in development (infrastructure) contributions adds multiple dollars to the end price of a new home.

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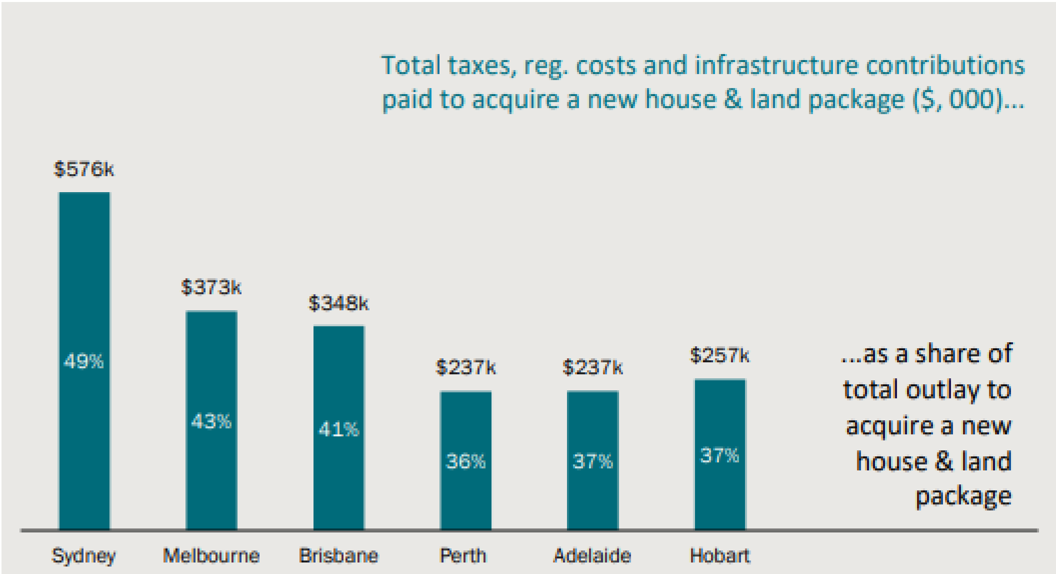
[3] HIA Affordability Report – A quarterly update on the affordability of housing, December Qtr 2024
[4] The Centre for International Economics Report (prepared for HIA) Taxation of the Housing Sector, March 2025

Figure 2 – Extract CIE Report Taxation of the Housing Sector

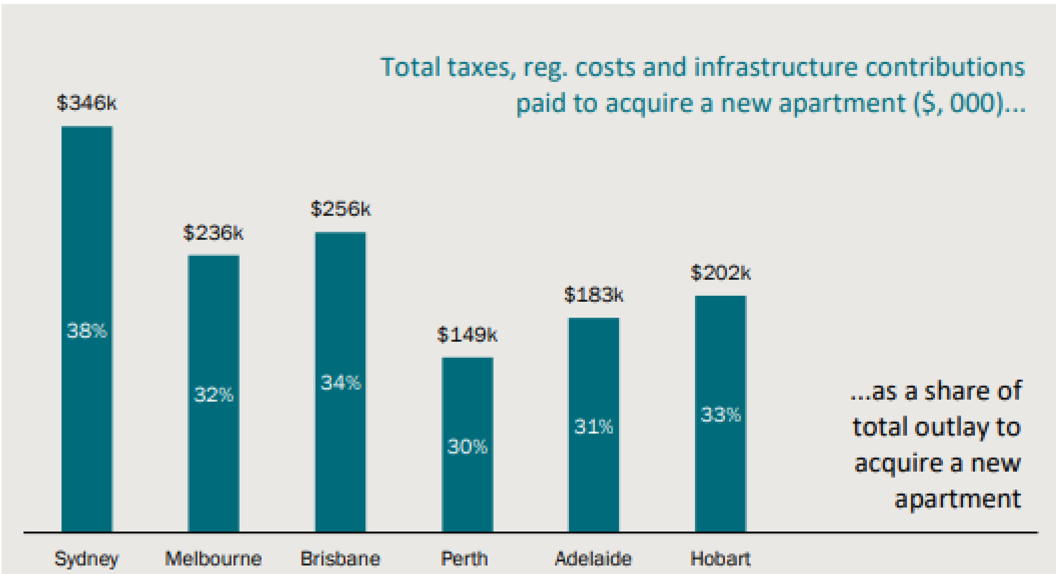
1 Statutory taxes, regulatory costs and infrastructure charges: greenfield



Note: Estimates are for 2023/24.

Data source: The CIE

2 Statutory taxes, regulatory costs and infrastructure charges: infill apartments



Note: Estimates are for 2023/24.

Data source: The CIE

Concluding statement

Sydney's housing affordability crisis stems from a lack of shovel ready land, rising costs of materials and trade shortages. Government policies are increasingly shifting extra costs onto land developers and builders which flow through to new home buyers. The cost of providing infrastructure and more importantly who pays for this infrastructure is critical to the price of a new home. Lowering the cost of delivering new homes is essential to increasing supply and making new homes more affordable.

For those reasons, HIA cannot support the IPART report recommendation to reduce Sydney Water's capital works budget, specifically by $5.9 billion or 35%. This will serve to accentuate the shortfall in its capital works budget needed to deliver essential shovel-ready land for new homes. It will result in a shortfall in the supply of serviced land needed to meet the *National Housing Accord* requirements for Sydney, and lead to an increase in residential land prices further impacting the affordability of new homes in an already tight housing market.

HIA supports a plan to better share responsibility for funding the provision of water infrastructure across existing and new customers, as this will potentially lead over time to the delivery of more serviced, development ready residential land, and improve housing affordability.

Protecting Sydney Water's existing users/customers from a minor increase in water charges over the next 5 years will potentially halt the capital works needed to deliver newly serviced residential land. Furthermore, imposing additional development (infrastructure) contributions at this time to bridge the gap will have a significant impact on any recovery of the housing market.

Please contact Brad Armitage, HIA NSW Executive Director, by email at [redacted] if you have any questions on the matters raised in this letter.

Yours sincerely

HOUSING INDUSTRY ASSOCIATION LIMITED

[redacted]

Brad Armitage
Regional Executive Director

HIA is Australia's only national industry association representing the residential building industry. HIA represents some 60,000 member businesses nationally. HIA members construct over 85 percent of the nation's new housing stock annually. In NSW alone we represent over 20,000 members.