

UDIA NSW Regional Policy

An Infrastructure Loan Scheme for use in NSW Regional Areas

A proposal to help fund enabling infrastructure projects for regional land developments

There is a current critical shortage of finance available to regional developers, in an era where foreign banks have exited the Australia finance market, lenders have a reduced appetite for risk and developers have a greater reliance on equity funding.

One alternative that is being considered is a Regional Infrastructure Investment Loan Scheme, to provide finance for infrastructure to regional developments.

Funding for enabling infrastructure is a major blockage to the supply of residential land in the Hunter

- Delivery of infrastructure is a housing supply blockage, as stated in the *Lower Hunter Regional Strategy Discussion Paper* (NSW DPI, 2013).
- Regional funding is more difficult than metropolitan due to lower sale rate and reduced sales revenue.
- Traditional bank finance is not available for land banking.
- Financing is difficult to access for construction due to strict lender requirements, such as 100% debt covered by pre-sales, and personal guarantees.
- Current funding models clearly don't work. Section 94, the Special Infrastructure Contribution and the Hunter Water Regional Infrastructure Policy create peak debt challenges for Hunter developments.
- Hunter developers have been increasingly required to self-fund growth infrastructure.
- As a result the Hunter has experienced difficulty in delivering affordable residential land to the market.
- The cost to fund growth infrastructure is ultimately passed on to home buyers.

An alternative regional approach is required to fund infrastructure to act as a catalyst to development in the Hunter and other regional areas of NSW.

Regional Infrastructure Investment Loan Scheme

A Regional Infrastructure Fund should be established and financed through the Waratah Bond Scheme. This would help remove the single biggest impediment to housing delivery. The fund would provide loans to build lead-in infrastructure that is fully repaid via a bond style (plus provision for uncertainty) interest rate.

A Regional Infrastructure Investment Loan Scheme would allow developers to apply for funding of critical infrastructure where it can be demonstrated that the investment will be a catalyst for the delivery of affordable land. The fund would be repaid on a pro-rata basis.

Potential key terms for the fund include:

- Loans are secured by land with lender covenants over each lot
- As each lot is settled the loan relating to that lot would be fully repaid
- Interest is calculated monthly on the outstanding balance and included in lot payment
- Maximum loan term is 10 years
- Rates are set at the 10-year State Government bond yield.
- The Government could raise monies for the fund from the bond market as part of the Waratah Bond scheme.

This system would overcome many of the issues of frontloading infrastructure payments and increase the economic feasibility of developments, particularly in greenfield estates.