Urban Taskforce
AUSTRALIA

13 October 2008

Mr Michael Deegan
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Dear Mr Deegan

Re: National Infrastructure Priority List

The Urban Taskforce is an industry organisation representing Australia's most prominent property developers and equity financiers. Our membership also includes key infrastructure providers, economists, planners, architects and lawyers involved in responsible and sustainable property development.

We appreciate the opportunity to comment on the Federal Government's planned national infrastructure priority list.

The housing market has been supply constrained for an extended period of time. There is a need for at least an additional 40,000 dwellings a year to come close to meeting underlying housing demand.[1] Nationally, we need to be building approximately 170,000 new homes each year just to keep up with increases in demand and we are not getting even close to this figure.[2] New dwelling starts are forecast to be down by 6 per cent in 2008/09, marking an unprecedented fifth year in a row when new home building has failed to recover.[3]

The supply of new housing is falling short of underlying demand, because the household sector cannot afford to pay for a greater volume of new housing. Securing a greater volume of new housing development will require a higher price for the end product. This price would go beyond the financing capacity of the household sector and that's why the additional required housing has not been built.

This in turn means that high costs of development are preventing Australians from accessing the same level of housing they enjoyed in the past. For example, new families are being formed, but they are still sharing with other family members instead of getting their own home. Older people, who previously may have had an expectation of living independently, are finding that they must now share their accommodation with the broader family. Professionals in the 30-40 age group are finding that they must now live in a share house, rather than live alone.

The most recent Australian Bureau of Statistics figures (for August) show that on a seasonally adjusted basis, home approvals fell in NSW by 8.5 per cent, along with a 7.9 per cent fall in Victoria. No improvement in the housing crisis is in sight.

In the last six months NSW home approvals have fallen by 15.7 per cent and in Queensland they fell by 18.6 per cent.

Without a strong supply of new housing, rents will continue to sky rocket and first home buyers will struggle even more to save a deposit for a home of their own.

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1 HIA (2008) *Monetary Policy Overcooked*. 9 July.
2 HIA (2008) *National Outlook, March quarter*. March 2008.
3 HIA (2008) *Housing Report Card*. 19 August 2008.

The cumulative impact of state and local government development charges is adding to the cost of development of land, especially in the outer metropolitan areas. New home owners are being forced to fund the cost of infrastructure, through these charges, up-front. It is hardly equitable when compared to infrastructure funding methods paid by previous generations. This is severely restricting the supply of new housing land to the market. The cost of new land and housing is now unaffordable for a large segment of potential first home owners. The impact of development charges is also preventing the development of well-located business parks, industrial facilities and other job-creating projects.

It is clear to us, and increasingly clear to the wider community, that the housing affordability crisis requires a national solution. First and foremost, that requires a much greater role for the Federal Government in infrastructure provision. We congratulate the Federal Government for taking action on this front and establishing Infrastructure Australia.

It's crucial that the cornerstone of the Federal Government's infrastructure spending is the provision of infrastructure related to the production of residential land. This will have the effect of boosting the supply of homes and dampening upward pressure on home prices and rents.

Our specific policy suggestions for Infrastructure Australia are as follows:

1. <u>Infrastructure helps solve the housing crisis should be prioritised</u>

Investment in urban transport infrastructure should be prioritised if it will either:

- encourage private sector investment in urban renewal projects along new or upgraded transport corridors; or
- encourage the development of new detached housing/employment in outer suburban locations.

The success of transport projects is not solely dependent on the quality of the infrastructure. They are also essential to attract and retain viable levels of patronage.

For example, for public transport infrastructure, patronage will be strongly influenced by the type of urban development that is encouraged in the vicinity of transit stations. Compact, mixed-use development will be critical to the success of such projects. Research consistently shows that density has a significant impact on the use of public transport. For instance, it was found that every 10-percent increase in population density was associated with about a 6-percent increase in boardings at train stations. [4]

For new motorways, roads that open up in new development areas will be white elephants if those areas are not able to be developed in parallel with the construction of the new road.

New flexible State policies and zoning plans are essential if new infrastructure is to be utilised by the public at optimal levels. State governments proposing new infrastructure should be required to demonstrate:

- how projects will boost the supply of housing and well-located employment; and
- commit the state governments to swift regulatory action to permit the necessary urban development in parallel with the planning process for new infrastructure.

This means, for example, as locations for say, new metro stations are identified, the existing local planning regulations need to be reviewed and amended to ensure that future local development:

- will provide the necessary population necessities to make the metro line viable; and
- achieves broader metropolitan objectives for active, compact and mixed -use centres.

When the government exhibits plans proposing new motorways or public transport infrastructure, it should also simultaneously exhibit revised statutory zoning plans, providing for new neighbourhoods (featuring homes, retail opportunities, restaurants/cafes and workplaces) and employment lands (featuring business parks and a variety of industrial uses).

[4] Parsons, Brinckerhoff, Quade and Douglas et al. 1995 in Cervero, R., Ferrell, C., and Murphy, S. 2002, Transit-Oriented development and Joint Development in the United States: A Literature Review. Transit Cooperative Research Program. Research results digest. October 2002—Number 52 [http://onlinepubs.trb.org/Onlinepubs/tcrp/tcrp_rrd_52.pdf, accessed 7 April, 2008].

While it will be tempting to defer planning changes until after infrastructure has been completed, such a deferral would (if past experience is a guide) mean that the changes may never happen. This will weaken the patronage of the metro line when it eventually opens.

The low patronage levels of the Liverpool-to-Parramatta Transit Way in Sydney are a clear sign of what can occur when the urban planning is not adjusted in parallel with the transport planning.

Similarly, state governments will need to assure the Federal Government that urban development opportunities around new transport infrastructure will not be sterilised by rapacious levies. In the growth centres of Western Sydney, for example, State Government levies are $23,000 per home, state-owned utility levies are $20,000, local council levies are to be $30,000 to $50,000 a home. Development of new homes on any scale is simply not possible under these circumstances.

2. <u>The relative priority of each city should be determined by the avoidable costs of congestion.</u>

The Bureau of Transport and Resource Economics (BTRE) has found that: [5]

- Private road vehicles now account for about 90 per cent of the total urban passenger task (up from around 40 per cent in the late 1940s). The current trend of near linear increases in aggregate urban traffic is forecast to continue over the projection period, with total kilometres travelled growing by 37 per cent between 2005 and 2020. Commercial vehicle traffic is forecast to grow substantially more strongly (averaging around 3.5 per cent per annum) than private car traffic (at about 1.7 per cent per annum).
- BTRE estimates the 'avoidable' cost of congestion (i.e. where the benefits to road users of some travel in congested conditions are less than the costs imposed on other road users and the wider community) for the Australian capitals (using an aggregate modelling approach) totals approximately $9.4 billion for 2005. This total is comprised of $3.5 billion in private time costs, $3.6 billion in business time costs, $1.2 billion in extra vehicle operating costs, and $1.1 billion in extra air pollution costs. These costs show how much the private benefits that individuals get from driving in their cars are outweighed by broader costs to the community.
- BTRE base case projections have these social costs of congestion rising strongly, to an estimated $20.4 billion by 2020. The city specific levels rise from $3.5 billion (2005) to $7.8 billion (2020) for Sydney, $3.0 billion to $6.1 billion for Melbourne, $1.2 billion to $3.0 billion for Brisbane, $0.9 billion to $2.1 billion for Perth, $0.6 billion to $1.1 billion for Adelaide, $0.11 billion to $0.2 billion for Canberra, about $50 million to $70 million for Hobart, and $18 million to $35 million for Darwin.
- In the absence of improved congestion management, it will be challenging to avoid escalating urban congestion impacts, given the rising traffic volumes expected within the Australian capital cities.

We believe that "nation-building" infrastructure projects should be accorded priority in accordance with their ability to reduce the avoidable cost of congestion. Unsurprisingly these costs are greatest in Sydney where they are 17 per cent higher than in Melbourne, three times higher than Brisbane and four times as high as Perth.

This necessarily means that major urban transport infrastructure in Sydney, Melbourne and (to a lessor extent) Brisbane should get priority before other projects in Adelaide, Hobart, Darwin, Canberra or regional cities.

3. <u>Carbon money should be used to fund infrastructure</u>

While state governments struggle to balance the books by axing infrastructure projects, the Federal Government must decide how to return the $8-$13 billion cash bonanza it will receive each year by selling permits to carbon polluters.

The government is planning to give all of this money back to households and businesses as compensation. Compensating the community for introducing the scheme is a good idea. After all - a $20 permit price is likely to raise inflation by 1 per cent and increase electricity prices by 16 per cent. After 2013 it could lift fuel prices by 6 cents per litre.

[5] Bureau of Transport and Regional Economics (2007) *Estimating urban traffic and congestion cost trends for Australian cities Working Paper No 71* p. Xv.

However, if we're to make the transition to a low-carbon economy, politicians must avoid the temptation to quickly dispose of the multi-billion revenue stream with populist tax cuts, family tax rebates and generous subsidies to "green" businesses.

Instead, the government should use money raised by the carbon scheme to compensate the community in a way that eases our transition to a low-carbon economy. Improving access to public transport can save families from expensive petrol bills and reduce long work commutes to more tolerable levels. Best of all, increased public transport choice will reduce the amount of carbon released into the atmosphere. Every time a person switches from a car to light rail, they are halving the amount of carbon emitted as a result of their trip. If they're catching a bus fuelled with natural gas, they can the carbon released as a result of their journey by more than six times. Motorways should remain important priority for federal infrastructure spending, although these should not be funded by the carbon scheme, but instead through general government revenue.

While the Federal Government has already accepted the idea of funding public transport, the source of funding will come from the $46 billion in Auslink II and the new Building Australia Fund.[6] This seems like a lot, but a single metro rail line in Sydney costs $12 billion – and the NSW government believes that four are necessary. That's even before smaller, but important light rail and bus priority projects, or the needs of other cities, are considered.

Federally funded transport infrastructure could offer low cost fares to commuters because, like railway projects of old, the fares would only need to pay for the running costs of the train service, not the enormous capital costs of building them. For example, the proposed North West Metro in NSW will run from Rouse Hill to the Sydney CBD. The cost of making that return journey by car is $60 a day – a massive $300 a week. Even more local trips – say from Kellyville to Castle Hill the daily cost by car is $8 – that's $40 a week.

Federal support for new public transport initiatives will put money in the pockets of the low to middle income households most likely to use public transport and, at the same time, further reduce the carbon footprint of our urban transport network.

Thank you for the opportunity to comment on these important issues. We would welcome an opportunity to discuss this further.

Yours sincerely
Urban Taskforce Australia

Aaron Gadiel

Aaron Gadiel
Chief Executive Officer

[6] We note the government's references to a $76 billion infrastructure investment program, however this includes $5 billion for a National Broadband Network and $15 billion in education infrastructure, as well as $11 billion health and hospitals infrastructure. These are important initiatives, but they will clearly not assist with public and road transport programs.