

14 November 2008

Mr Graeme Faulkner
General Manager
Byron Shire Council
P O Box 219
Mullumbimby NSW 2482.

By email: council@byron.nsw.gov.au

Dear Mr Faulkner,

Re: Draft Byron Shire Affordable Housing Strategy

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 are pleased to provide the following comments for your consideration.

1. The Housing Affordability Problem

We are in the midst of a housing affordability crisis.

The housing affordability problem is a direct result of not building enough new homes. There is already a deficiency of housing stock and the shortages are getting worst every year. The answer to our problem is obvious. Build more homes.

The people suffering most are the renters. The construction of new dwellings is falling short of underlying demand. There is also a growing deficiency of rental accommodation and rents have been forced to astronomical levels.

We need to get more houses built and onto the market to make housing more affordable. Unfortunately, unless significant initiatives are put in place so that there are improvements on the cost and availability of land, housing prices will continue to escalate.

The affordability problem is addressed by making more residential sites available. This includes greenfield land (for the construction of single dwelling houses) and brownfield land (for the construction of medium and high density housing). The overwhelming body of evidence on this matter indicates that to make more sites available to improve affordability we must address those matters that restrict site availability. That is, we need to ensure that current and proposed planning policy is not overly restrictive and that infrastructure charges are not excessive. The introduction of local plans that unfairly limit development potential of land, coupled with excessive development fees and charges including "housing affordability" contributions will guarantee the continuation of limited housing supply and hence reduced affordability.

Planning policy has been very effective at limiting urban expansion at the edge of existing urban areas, but has been hopelessly ineffective at encouraging infill development. Restrictive and difficult local government planning policy has been the culprit.

It is this set of circumstances that is largely responsible for escalating house prices and diminishing access to home ownership. If we are serious about tackling the housing affordability crisis, we must change the planning paradigm from one which is concerned with limitation and control over development to one that is focused on increasing land supply (greenfield and brownfield). A good starting point for this would be to approach the comprehensive local planning process with a view of ensuring that land in suitable locations is assigned the appropriate zone, base density and height controls that will encourage the

efficient development of land. We must not lose sight of the fact that sustainable use of land demands an efficient development model.

2. The Solution

If we are serious about addressing housing affordability then we need significant supply-side reform. Declining housing affordability is simply a function of high demand in an artificially constrained market. Therefore, in order to address both underlying demand and place downward pressure on new house prices, the critical role of supply to housing affordability must be acknowledged.¹

The entire planning system and planning philosophy must be reconsidered if we are to make sustained improvements to housing affordability. Local government is free to offer incentives for affordable housing projects, enter into developer partnerships and even develop some of its underutilised land for affordable housing, but public authorities must look closely at local planning schemes that limit the supply of land. This is where the real gains can be made. This means, plans must demonstrate dramatic increases in potential housing supply. "Releasing" land for residential development or rezoning land is not enough. All levels of government must work closely with the development industry to ensure that residential lots come to market at an acceptable price.

It would be a mistake to believe that the planning system can encourage affordable housing by introducing new regulatory requirements. In fact, the presence of regulatory requirements does not solve housing affordability problems - it creates them. The lack of affordability is caused by a systemic mismatch between the demand for and supply of housing. Planning policies requiring the construction of affordable housing units to be sold at a below-market rate or to contribute to a dedicated fund in return for development "bonuses" will not address the affordability problem. In fact such policies have the potential to further discourage investment into housing.

A per unit affordable housing levy reduces development densities of market-rate housing. An affordable housing charge that reduces profits to lower-than-normal levels (i.e. the levels offered by alternative developments/investments elsewhere) means that developments will not proceed and new housing will not be built.

The hypocrisy of affordability policies such as these is this: developers (and ultimately home buyers) are forced to "pay" to have density restrictions relaxed, however developers would seek to develop more market-rate units if those rights could be had without cost. In the case of Byron Shire Affordable Housing Strategy the case is even worse as it seems that developers will be forced to pay to have existing density restrictions returned.

The solution to housing affordability is simple. Increased demand must be met by increased supply if prices are to remain stable, and must be met by an even greater increase in supply if prices are to be reduced.²

3. Where is the "bonus" and "windfall profit"?

The Byron Shire Affordable Housing Strategy comes at a time of looming population increase within a restricted housing supply context. In this context appropriate policy responses are those that seek to meet and ultimately exceed demand if housing is to be more "affordable". Unfortunately the Byron Shire Affordability Strategy focuses much on regulatory control and skimming profits and little on increasing land supply.

However, what the Urban Taskforce finds most objectionable with the Byron Shire Affordable Housing Strategy is the notion that a "bonus" will be offered in return for an affordability contribution. The calculation of the contribution aside, the "bonus" and permissible floor space

¹ Holmes, S. London, K. & Sheehan, L. (2008) Housing Affordability in Australia: A Supply-Side Analysis. Discussion Paper. Australian Competition Policy Research Alliance, The University of Newcastle. August 2008.

² Holmes, S. London, K. & Sheehan, L. (2008) Housing Affordability in Australia: A Supply-Side Analysis. Discussion Paper. Australian Competition Policy Research Alliance, The University of Newcastle. August 2008.

ratio (FSR) are nothing more than the application of an appropriate density for the zone. There is no real bonus because the Council is setting its base density lower than accepted for these zones (0.4:1) and then offering a "bonus" of 0.1. This gives a total density of 0.5:1, which is a very modest density for medium density development. In fact, the existing residential dwelling FSR in Byron Shire is currently 0.5:1. By Council's own admission the proposed total FSR is equivalent to that existing under the current LEP.³ Where is the bonus?

In any case, the Urban Taskforce is mystified as to why Council would seek to impose a lower base FSR for medium density development than for single dwelling development. There is no logic to this approach. Furthermore, medium density, as the term suggests deserves a higher density than lower density single dwelling development. As a starting point, for medium density development, an FSR of 0.75:1 should be established across all zones. For higher density development within town centres or directly contiguous to town centres the base FSR must be at least 3.0:1 to create opportunities for significant additional housing supply.

The best way for the council to encourage redevelopment of infill sites is to set attractive FSR controls. Even with the "bonus", those suggested are not even close to reflecting market reality or existing FSR in some localities. There are many examples of existing and recent developments that exceed the suggested FSR including the bonus without giving rise to unacceptable impact on local amenity. This surely indicates that development sites, particularly in areas subject to the proposed density bonus are deserving of considerably higher base FSR.

As it stands, Council's affordable housing strategy is little more than a dubious means of "holding back" FSR with the express purpose of extracting additional fees from the development industry. Furthermore, not only is this a reprehensible approach to development, it is also a very effective means of discouraging development and hence guaranteeing the continuation of the housing affordability crisis.

The Urban Taskforce is however fervently opposed to "under-zoning" and "holding back" development opportunity under a false cloak of sustainability and affordability policies.

Furthermore, it is beyond belief that Council would seek to further gouge the development industry when land is rezoned to permit residential development. Whether the contribution is one or two lots per twenty lots produced is not the issue. When Council rezones land it does so in response to increased demand. The simple fact that the Council has seen fit to rezone land is testament to this. Rezoning land in these circumstances is an example of good and appropriate planning responding to demand by increasing land supply, not profiteering. Councils already take more than their fair share in developer fees and charges without the need to impose a further tax when land is rezoned. There are no "windfall profits" from rezoning. The revised land value that follows a rezoning becomes collateral for the project's borrowings. Rezoning is only the first step in a process which involves several years of expenditure, without immediate return, by a developer. Ultimately, the net pay back to the developer, is a relatively modest yield on a significant investment with significant risks. In fact, development in NSW has been increasing unprofitably in recent years, which is why the value of building activity has declined here for four years straight, but has grown in Queensland and Victoria.

Council should not forget that increasing the cost of getting land to market will simply result in an increase in the final sale price of that land. However, there will come a point when the required sale price of land will exceeds what the market is able to pay and the end result of this, is that land will not come to market. This means that demand for land and housing will continue to outstrip supply, hence a continuation of the affordability crisis.

If Council really wants to make a difference to housing affordability it must review its policies and look at ways of getting more land onto the market. If Council wants to do more, it may wish to offer some of its underutilised or surplus land for affordable housing purposes or enter into partnerships for the provision of affordable housing.

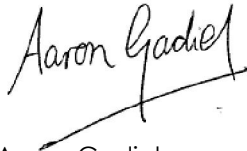
The Urban Taskforce asks that you carefully review the contents of this correspondence before proceeding with its Affordable Housing Strategy.

³ Judith Stubs and Associates (2008) *draft Byron Shire Council Affordable Housing Strategy Part B*, pp.6.

Thank you for providing us with the opportunity to offer our comments and should you require any further clarification of the content of this correspondence, please feel free to contact me.

Yours sincerely

Urban Taskforce Australia

A handwritten signature in black ink that reads "Aaron Gadiel". The signature is written in a cursive style with a long, sweeping horizontal line extending from the end of the name.

Aaron Gadiel
Chief Executive Officer