

8 April 2009

Ms Tamara Bruckshaw
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Sydney 2001

By e-mail: tbruckshaw@cityofsydney.nsw.gov.au

Dear Ms Bruckshaw

Re: City of Sydney draft Affordable Rental Housing Strategy 2009-2014

The Urban Taskforce is a non-profit organisation representing Australia's most prominent property developers and equity financiers. We provide a forum for people involved in the development and planning of the urban environment to engage in constructive dialogue with both government and the community.

The Urban Taskforce has reviewed the *City of Sydney Draft Affordable Rental Housing Strategy 2009-2014* and we appreciate the opportunity to provide some general comment on the "Housing Affordability" challenges and comments specific to Council's draft policy.

1. Abandon plans for increased levies and reduce existing levies

The City of Sydney should abandon any plans to impose new or increased levies on development. The City of Sydney's plan for a levy on newly-built homes will unfairly burden owner-occupiers. The City's draft "affordable housing" strategy argues for an extra 8,000 new properties to be built over the next 20 years. Rents will be capped and regulated by the government. Of these, 2,000 properties are to be paid for by a levy on newly-built homes.

Home buyers will end up paying a massive amount in levies to subsidise the Council's rent control scheme. As much as \$900 million may need to be raised by this new tax. The plan taxes young families struggling to buy a home of their own to subsidise those who are renting.

The City is mistaken if it believes that either the developer ultimately bears the costs of new or increased developer charges. Modern capital is very mobile. It flows to wherever it gets the best return. A local developer will not be able to secure capital for a local development if he/she cannot offer the rate of return that is available for investments of a similar risk profile in other localities, states or countries. In order to ensure that a market rate of return is still achieved, a developer will either reduce the amount of money he or she pays for a development site, or increase the price paid by the home buyer.

In this debate, the council's economic analysis has overlooked the disproportionate market power given to the owners of developable sites/land by planning laws. Landholders are often able to resist developers' efforts to pass the cost of additional development charges onto them through a lower site acquisition cost. Land owners enjoy disproportionate market power because appropriately zoned land tends to be drip fed by the planning system into the market.

This generally means there is only one party left who must pay for an increased developer charge – the home buyer (or commercial/retail/industrial end user). However, often a home buyer cannot afford a new or increased levy. That's because there is a ceiling on the price that home buyers are able to pay, i.e. their borrowing capacity. The maximum amount that home buyers are able to borrow is, in turn, based on their income. Without increases in income, home buyers are unable to pay more for new homes. As a result, any project which cannot be delivered at a price home buyers currently can afford simply doesn't get built. An increase in

costs from a new developer charge, such as an affordable housing levy, can't be passed onto a home buyer until home buyers' borrowing capacity increases enough to pay for the levy.

Therefore, slugging developments with an "affordable housing levy" will not solve the affordability problem. If anything, what such a levy will do is adversely impact on development feasibility. In the current financial climate where raising finance is at best difficult, any further reduction in profit margins will simply result in no development, hence zero increase in housing.

2. The housing affordability problem has come about because we don't build enough houses

The Urban Taskforce agrees that we are in a housing affordability crisis. This crisis 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; that is to build more homes.

The problem of housing affordability in Sydney is a function of strong demand and limited supply. Notwithstanding the assertions made in Council's draft Affordable Rental Housing Strategy, the affordability problem can be addressed, in the inner suburbs, by making more residential sites available for the construction of medium and high density housing.

The overwhelming body of evidence on this matter indicates that to make more sites available and hence 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 will in fact encourage development. 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.

Unfortunately, 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 are largely responsible for escalating house prices and diminishing access to home ownership. If we are serious about tackling the housing affordability crisis, we must challenge conventional town planning approaches. There should be a reduced focus on limitation and control over development and a greater focus on increasing the supply of development sites.

A good starting point for this would be to approach your 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. This should be Council's priority, not the introduction of additional regulation that is focused on seeking to redress past planning shortcomings.

3. The supply-side solution

If we are serious about addressing housing affordability then we need significant supply-side reform. We certainly don't need additional red-tape or further taxes on development. Declining housing affordability is 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. This issue is sadly lacking in Council's draft strategy.

The first thing the councils should do is allow more affordable housing to be built on a commercial basis. For example, the City of Sydney's draft affordable housing strategy expressly excludes studio apartments from its definition of affordable housing. The City of Sydney also restricts the ability of developers to build apartments with three or more bedrooms – denying families the opportunity of more affordable living close to the central business district.¹

¹ See for example the provisions of the *South Sydney Development Control Plan*.

There are many home buyers eager to establish themselves in secure homes close to work and services. There are developers willing to build these homes for them at an affordable price.

The Council's planning philosophy must be reconsidered if we are to make sustained improvements to housing affordability. Local government is free to develop some of its underutilised land for affordable housing, but council must look closely at local planning schemes that limit the supply of land. This is where the most substantial gains can be made. This means, plans must demonstrate increases in supply.

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.

Planning policies requiring the construction of affordable housing units to be sold at a below-market rate or requiring a contribution to a dedicated fund in return for development "bonuses" will not solve the affordability problem.

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. 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.

4. Its time to embrace new compact, pedestrian-friendly, mixed-use neighbourhoods

The Urban Taskforce argues that the biggest impact can be made if councils, including the Council of the City of Sydney, amended their local planning laws to more readily permit the development of new compact, pedestrian-friendly, mixed-use neighbourhoods in inner and middle ring suburbs. Not only would such an initiative increase the potential to provide more housing, it would also bring together new apartments, workplaces, shopping, and recreation areas within walking distance of public transport infrastructure and in the vicinity of major transport corridors.

We recently commissioned a research paper, *Liveable Centres*, that considers the benefits of mixed-use urban neighbourhoods (a copy of the report is attached to this submission). The highly respected urban design and planning firm, Roberts Day, provides a compelling argument on the benefits of mixed use centres and particularly highlight the ability for local planning to facilitate and/or frustrate the provision on these highly desirable urban environments. The *Liveable Centres* report highlights how recent zoning plans prevent new homes being built in the areas that need it most. The report concluded that:

- There is an endemic bias against residential development in the heart of centres.
- NSW was being denied the benefit of many genuine mixed-use centres.
- Mixing uses around public transport is the most effective way to reduce unnecessary traffic congestion.
- Reducing car dependence also boosts household disposable income. The average yearly cost of car ownership is the equivalent of servicing a \$90,000 mortgage debt.
- Physical form is a place's most intrinsic and enduring characteristic. Regulation should be concerned with physical form of buildings, rather than the use of a building.
- The focus should be given to the adaptability of buildings rather than their immediate use.

It's clear that there will be no recovery in the Australian economy unless there is a recovery in new home development. Any prohibition on high density residential development near train stations and other high quality transport infrastructure will only delay the economic recovery in NSW. It's worth noting that the City of Sydney is blessed with the most comprehensive network of public transport in the metropolitan area. Nowhere in Sydney is the argument for more compact pedestrian friendly living stronger.

The Urban Taskforce urges the Council to properly consider the creation of liveable and functional living centres. By adopting such a policy position, Council will be demonstrating best practice in planning, a commitment to the formation of sustainable communities and also providing the incentive needed to encourage the private sector to develop more inner city dwellings.

5. All types and sizes of dwellings should be permitted

If Council wants to frustrate development and further reduce dwelling numbers, it will continue with the implementation of controls that regulate apartment mix within residential apartment development. The proportion of dwellings with one, two and three bedrooms within a development must be determined by the market, not Council regulation that demonstrates little or no understanding of market forces. Seeking to control apartment mix will ensure that development does not proceed. This approach does not recognise the necessity for a development to meet market demand. It does not recognise that if there is a genuine demand for a particular size of dwelling then the development community will deliver the product.

Local councils should cease unsophisticated attempts to influence the market and focus on ways that it may increase supply of dwellings. All types of dwellings, from the single room studio, to one, two and three bedroom dwellings need to be considered as a means of improving housing supply and the developer must be able to provide the appropriate product at a time and location where there is demand from home buyers.

We live in a market driven economy and unless there is a genuine demand for a product it will not be produced. The development industry is no different.

6. Council must not low-ball FSR and then offer a "bonus"

What the Urban Taskforce finds most objectionable with so called bonus schemes is the notion that a "bonus" will be offered in return for an affordability contribution (monetary or dwelling). The calculation of the contribution aside, the "bonus" when added to the base floor space ratio (FSR) is often found to be nothing more than the application of an appropriate density for the site or zone.

The only way that Council is to encourage redevelopment of infill sites is to set attractive FSR controls in the first instance. Our experience with councils who include a density bonus as part of their affordable housing strategy is little more than a dubious means of "holding back" FSR with the express purpose of extracting additional contributions 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 not opposed to development incentives including the ability to take up a bonus or enter into an agreement with the Council. The Urban Taskforce is however strongly opposed to "under-zoning" and "holding back" development opportunity in the guise of affordability policies.

7. Reduce construction costs

The City can reduce the cost of building new homes.

Last year an Australian Building Codes Board study revealed that council planning regulations increase the cost of building homes by up to 14 per cent, adding tens of thousands of dollars to the price of new houses and apartments.

The board, a federal-state government agency, examined the additional requirements imposed by local councils, such as increased ceiling heights, room sizes and noise controls.

The consultants found the local government regulations led to construction cost rises from 1.5 to 14 per cent. Most local council requirements examined increased costs by between 4 and 6 per cent compared with the cost of complying with the national code.

8. Council should invest its own resources in “affordable housing” schemes

It is essential that the City of Sydney Affordable Rental Strategy vigorously pursue other avenues of providing affordable housing, including rental accommodation, before considering the imposition of an additional tax on development.

The City of Sydney Affordable Rental Strategies 3.2 - *Strategic Partnerships* are supported by the Urban Taskforce. The council should make available council-owned land for the development of subsidised housing. Councils are large land-owners. They have the power to help make a difference by putting their money – and their land - where their mouth is. These avenues, if coupled with supply-side measures, may go some way to addressing the affordability crisis.

We firmly believe that supply-side measures are the key to boosting affordability for both renters and home buyers. Tackling these issues will improve affordability for everyone. The City of Sydney's Affordable Rental Strategy must focus on boosting overall home supply and help both those looking for rental housing as well as those aspiring to own their own home.

These comments are offered to encourage constructive dialogue between the Council of the City of Sydney and the development industry and we ask that you accept these comments as our contribution to the planning process. We ask that you carefully consider the contents of this correspondence and make amendments to the draft policy as appropriate.

We are always able to provide a development industry perspective on planning policy and we would welcome the opportunity to meet and discuss these issues in more detail.

Yours sincerely

Urban Taskforce Australia



Aaron Gadiel
Chief Executive Officer