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Affordable housing should come from a carrot not a stick

Hot property Chris Johnson

With Sydney's housing now among the most expensive in the world, governments are under pressure to do something to help those at the affordable end.

The first reaction has been to boost supply. The Department of Planning says that Sydney needs an average of 37,000 new homes every year for the next 20 years.

In boom times, like now, we should be closer to 40,000 new homes a year but last financial year only 30,000 were built. So step one must be to add 10,000 to current production.

But more than increased supply is needed. The Greater Sydney Commission (GSC) has floated the concept that new housing developments, particularly in suburbs needing more affordable housing, should provide 10 per cent of the housing as affordable.

In essence the developer should donate the housing to a Community Housing Provider who will let it out to people below certain income thresholds. This is another tax on development that will only pass on the cost of the 10 per cent affordable housing to the other 90 per cent.

The GSC approach takes a stick to the development industry by requiring the affordable housing to be donated by the developer. There is a much better way to provide massive numbers of affordable homes across Sydney by using a carrot approach rather than using a stick.

The better way is to use the government's Affordable Rental Housing State Environmental Planning Policy (SEPP) that encourages developers to provide at least 20 per cent affordable housing by giving a floor space uplift. Unfortunately the current formula in the SEPP does not allocate a big enough uplift to make projects viable so very few affordable homes have been built. What is needed is a tweaking of the formula in the SEPP to give a 20 per cent floor space uplift.

The SEPP goes on to explain that the affordable housing should provide rental accommodation at 20 per cent below market rates for 10 years. The Urban Taskforce estimates that with an incentive approach up to 4000 new affordable homes a year could be delivered leading to 40,000 over 10 years.

Chris Johnson is the chief executive of the Urban Taskforce.