The trap of affordability

More taxes and demands that developers set aside space for 'affordable' housing will just make matters worse

CHRIS JOHNSON

Everyone seems to believe that the best way to make housing more affordable in Sydney is to add a tax to new housing. Everyone that is except the developers of the new housing who will inevitably pass the new taxes onto the purchasers of new homes.

There seems to be a feeding frenzy under way with council after council bidding up the inclusionary zoning tax from 10 per cent to 15 per cent or even up to 30 per cent of new housing to be donated back to the council to provide homes for key workers. We are told it works in America but a quick Google search finds headlines that say just the opposite.

"The problem with inclusionary zoning" comes from the Marron Institute in New York, quickly followed by "Failure of Inclusionary zoning" from New York, and "Failure — mandatory inclusionary zoning" from Seattle and "How inclusionary zoning backfired on Madison" and "Failed affordable housing program in Washington DC".

The fundamental problem with these no doubt well-meaning programs to help with housing affordability was a misunderstanding about economics. For a business to give away 15 per cent of its goods will only lead to bankruptcy or to a big jump in pricing of the other 85 per cent of the goods.

Imagine if every supermarket was instructed to give away 15 per cent of its groceries to people in need and what the impact would be on the pricing of the rest of their stock.

Of course housing is a bit different as it must take into account the cost of land.

Some theorists in economics believe a 15 per cent levy will simply flow through to reducing the price of land across Sydney and presumably the value of existing homes.

The more likely result will be that land owners will hold out for higher prices in the future.

The state government does not seem to be doing much to quell the feeding frenzy that is forcing new housing to subsidise affordable homes. Housing Minister Anthony Roberts recently said he hoped the 5 or 10 per cent affordable housing levy proposed for the Parramatta precinct could be improved upon.

Admittedly the Greater Sydney Commission has said a 5 to 10 per cent target would apply only to zoning uplift when it was financially viable but the rush by councils and politicians to demonstrate a commitment to housing affordability has simply resulted in higher and higher percentages being championed across all new housing.

I am sure that the proponents will feel they are helping out but in reality they are only meddling with the economic system that underpins housing supply to such an extent that new housing will slow down dramatically. A fundamental problem is that the housing industry is the recipient of multiple taxes and levies from councils and various silos in the state government.

A new housing project in Parramatta, for instance, must contribute massively to new infrastructure that the council believes is needed.

After that, the project must contribute about 10 per cent of its new homes to the council, then the NSW Transport Minister requires $20,000 from each new apartment to help fund the light rail. All up well over $100,000 is added to the cost of each new home.

On top of this the government has announced, ironically as part of its housing affordability package, that it will lift the cap on infrastructure contributions over the next three years.

This will add another $15,000 to each home but after three years the industry expects this to lift to about $50,000 a home.

The rule of thumb used in the industry is that a third of the cost of a new dwelling comes directly from the taxes and levies and the cost of an inefficient planning system.

This is the area that the government should be reducing but it seems hell bent on pushing housing prices higher by adding more levies.

The government should appoint a Housing Ombudsman to protect the interests of consumers of new homes from the multiple levies and taxes being added to the construction costs.

Sydney's homes are already the second most expensive in the world and the main reason for this is that state and local governments love to add multiple costs to every home.

Each levy might sound like a good idea. But when they are all added up they increase housing costs away from the affordable end of the market. The tax stack needs controlling. It is not the answer to housing affordability but the root cause of the problem.

Chris Johnson is CEO of the Urban Taskforce

Asia is beating us on road to cheap power

STEPHEN GALILEE

The writing's on the wall. Despite our abundant natural resources, we are on our way to becoming the energy-poor cousin of Asia. While politicians and climate warriors stumble through an energy policy debate that some believe should exclude coal, many Asian nations are relying on coal-fired power to secure their energy future.

Meanwhile, rising energy prices in Australia are now such a problem that the Prime Minister this week called energy company bosses to Canberra to seek an explanation.

Earlier this year, an AI Group survey of chief executives of 285 businesses found among some manufacturers, energy costs had doubled or tripled over the year, "highlighting that energy prices are again emerging as a threat to Australian manufacturers' competitiveness". And in June, three of our largest energy retailers, representing more than 90 per cent of electricity supply in NSW, announced their prices would rise by up to 20 per cent, or about $900 extra a year for small businesses, and more than $300 for families. Without action to tackle these rising prices, in the future we'll see local companies relocating their operations elsewhere, taking investment and jobs with them. We're also likely to see a greater impact on the most vulnerable.

Recently The Daily Telegraph revealed that there are about 68,000 homes across NSW at risk of having their power cut off, as people find it harder to pay for electricity.

Meanwhile, our Asian neighbours have stopped dithering and made the tough decisions to ensure affordable energy into the future. Nations across Asia are locking in their energy supply with new High Efficiency, Low Emissions (HELE) coal-fired power plants.

These advanced technology power plants provide reliable electricity more efficiently, with emissions about 25 per cent lower compared with the older plants we are currently using in NSW. Around the world there are more than 1200 of these low-emission technology coal-fired power units planned or under construction.

The Philippines, a nation with a GDP one-fifth the size of Australia, is building its first 500 megawatt HELE power plant that is scheduled to start operations in 2019. In Japan there are 44 HELE units in operation with 45 more planned or under construction.

These nations are also investing in renewable technology solutions for the future. The baseload power from coal can provide grid stability to enable more renewables into the energy mix.

It's a sensible approach that meets energy needs and reduces emissions. The irony is that many of these nations are using our own high-quality coal to fuel their new power plants and secure their energy future.

In 2016 coal exports from NSW to the Philippines rose by 71 per cent, to Taiwan by 34 per cent, and to Thailand by 12 per cent.

It begs the question, if HELE coal technology is good enough for our regional trade partners, using our own coal to deliver their power needs, why are we not using it here? In NSW we have the infrastructure, the high-quality coal, the world-class mining workforce, and the growing demand needed to make low-emissions coal-fired power a success.

Policies that exclude coal for ideological reasons are a risk to everyone. We can't base our energy future on the hope that massive investment in renewables and battery technology alone will be able to replace the coal-fired power that delivers more than 80 per cent of our existing electricity. Both coal and renewables are needed, and government policies need to reflect this. The combination of low-emission coal and renewable energy technology has the capacity to provide NSW homes and businesses with affordable and reliable power for decades to come.

Stephen Galilee is CEO of the NSW Minerals Council