

Appendices - Sydney's Liveability Crisis - Reforming Local Government

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Appendices

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1. The Plans Shaping Sydney
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Part 1: The Plans Shaping Sydney.

Key State Planning Documents

Sydney is Australia’s largest city and the state capital of New South Wales.

There are several State plans shaping Sydney’s future. The main ones are:

- **NSW 2021 – A Plan to make NSW Number One**, Sept 2011
- **Sydney over the Next 20 years** – A Discussion Paper which foreshadows a new plan to replace the Sydney 2036 Metropolitan Strategy, May 2012
- **A New Planning System for New South Wales** – a Green Paper that outlines a new framework for planning Sydney’s urban land use, July 2012
- **State Infrastructure Strategy** – which is expected to be released in late 2012
- **NSW Long Term Transport Master Plan**, June 2012
- **Destination 2036 – A New Vision for Local Government** was followed up with an **Action Plan**, June 2012

All but the last plan are depicted in the following chart.

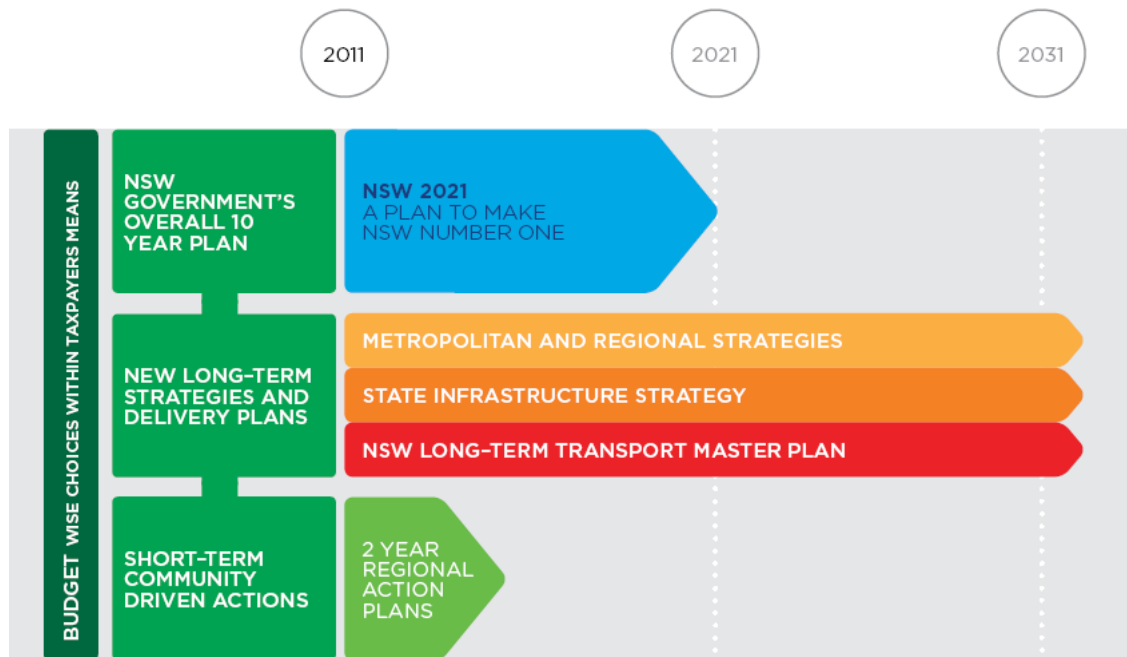


FIGURE 3 LINKING STRATEGIC NSW REFORMS

(Source: NSW Government, *A New Planning System for New South Wales*, July 2012, page 10 <http://www.planning.nsw.gov.au/LinkClick.aspx?fileticket=fUggrUzDe3A%3d&tabid=68&language=en-US>)

Key messages in these documents relevant to local government can be summarised as follows:

NSW 2021 – A Plan to make NSW Number One:

The Government's number one priority is to restore economic growth and establish NSW as the first 'place in Australia to do business'.

Towards this end the plan makes these commitments in regards to urban planning:

- *Build liveable centres.*
- *Restore confidence and integrity in the planning system.*
- *A 20 year State Infrastructure Strategy with funded five year plans (to) make sure infrastructure is planned and delivered according to strategic economic and community needs.*
- *An integrated transport system to ensure different transport modes work together and the interests of the travelling public are put first.*
- *Return as much decision making as possible to local communities, includingplanning issues and the quality of the built and natural environment.*
- *Increase opportunities for people to look after their own neighbourhoods and environment.*

Sydney over the next 20 Years:

Sydney Metropolitan Area comprises the 10 sub regions for which sub regional strategies have been prepared. The Sydney Metropolitan Strategy addresses the Sydney Region which includes the Central Coast.

The new metropolitan strategy will plan to 2021. Key messages from the discussion paper are:

- *Sydney is a region of many towns and cities – within transport corridors, the walking catchments of centres are key locations for urban renewal since they have good access to shops and services.*
- *Sydney needs to be both a strong 'global city' and a liveable 'local city' – it's already considered an Alpha+ city, on par with Singapore, Chicago, Tokyo and Paris.*
- *Sydney needs to provide its residents with the right types of houses in the places where people want to live – that means smaller, more affordable dwellings close to transport and infrastructure.*
- *Sydney, like any global city, must support the range of industries that deliver jobs and economic growth – Sydney is expected to have the highest economic growth of any NSW region, the implication being that for NSW to become Number One, Sydney must lead the charge.*
- *Sydney, like the best cities in the world, must be easy to get around – that means developing more efficient, more extensive and more usable transport networks to avoid time-wasting and economically debilitating traffic bottlenecks and congestion.*
- *Sydney, to be an economic powerhouse and great place to live, must plan its national, state and local infrastructure to take advantage of the way the city is expected to grow and change – this means taking a place based approach to coordinate housing, employment, and business opportunities.*
- *Sydney, to be socially inclusive, needs to provide equitable access to a great lifestyle - that requires quality affordable housing close to transport options, open space and community facilities and services.*

- *Sydney's natural environment shapes the city's foundation – continuing to protect and enhance the environment is critical to the long term health of the city.*
- *Sydney relies for much of its food and building materials on market gardens and quarries within its boundaries – many quarries are becoming and agricultural land is competing with housing needs.*
- *Sydney as the capital city and economic hub of NSW needs to have strong connections with different regions of the state – regions near Sydney need to become strong employers in their own right if they are not to be just commuter centres adding to Sydney's traffic congestion.*

The discussion paper concludes by saying the forthcoming Metropolitan Strategy will “create greater certainty for communities and investors (by setting) out a clear strategic vision to guide and inform local government in its local level planning. It will establish the shared responsibilities for delivering Sydney's growth and change over the next 20 years” (page 31).

A New Planning System for New South Wales

The Green Paper released in July 2012 outlines a new urban planning and development framework that seeks to:

- Reduce complexity and remove red tape
- Provide predictability and certainty about how decisions are made
- Base decisions on strong community participation and evidence
- Achieve time frames for completion of planning processes through increased accountability for efficient decision making
- Facilitate investment and manage change
- Promote greater cooperation and partnerships between all levels of government
- Provide flexibility to respond to change and ensure markets are competitive

The document goes into a lot of detail but the key changes appear to be the following:

1. Plans: Regional growth plans linked to funding for infrastructure will provide guidance on regional development 20 years ahead. Subregional plans that determine the character of an area will be decided by Regional Boards comprising State and Local representatives who must seek the input and consent of all interested stakeholders. Councils will control local spatial land use plans.
2. Zones: There will be three types of zoning – enterprise zones and future urban release greenfield zones (where in both cases once the subregional plan has been decided, developers will be free to develop as long as they adhere to simple form-codes) and suburban character zones (where preserving the local character of an area will be the priority).
3. Developments: Councils will be encouraged to establish independent panels to decide or advise on local development applications, but they won't be compelled to do so. Regional DAs will continue to be processed by Joint Regional Planning Panels and Projects of State Significance will continue to be decided by the NSW Planning Commission.

The Green Paper is path-breaking and has been well received. But it raises two key questions:

- How will Regional Boards secure community agreement up-front to sub-regional delivery plans and form codes before individual projects are known? Without such assurance

developers who conform to the standards and requirements set out in the plan could face the same uncertainty and delays they have under present arrangements; and

- How to ensure that most existing suburbs don't apply to be suburban character zones that lock out new multi-purpose and denser developments? While there are suburbs with a historical legacy to protect, the presence of long established detached houses should not of itself be a justification for stopping change to the character of an area.

State Infrastructure Strategy

Infrastructure NSW is developing NSW's first 20 year integrated strategy to identify and prioritise the delivery of critical and public infrastructure. It will also propose ways to fund it from both public and private sources.

INSW says that the strategy, which is expected to be submitted to the government in September, will go through a disciplined process that takes into account:

- *20 year forecasts of the NSW economy.*
- *Predicted population growth and demand for infrastructure and services.*
- *The current state of infrastructure in NSW.*
- *The State Government's long term objectives for sectors such as transport, water, electricity and telecommunications.*
- *Options for demand management and other policy, pricing and regulatory reforms.*
- *Investment policies and strategies to efficiently and effectively address infrastructure needs.*
- *Identify funding options and financing models for combined public and private sector investment.*

In addition to preparing a 20 year State Infrastructure Strategy, INSW promises to publish each year a five-year State Infrastructure Plan, which identifies priority infrastructure projects to be delivered short term and to guide the right investment choices at the right time to drive the continued economic growth of the economy.

NSW Long Term Transport Master Plan Discussion Paper

This too promises a 20 year plan later this year and is directed specifically at upgrading the NSW transport system to a world class standard. Its vision (page 4) is to:

- *Put the customer first by ensuring the transport system is designed around the needs and expectations of the customer.*
- *Ensure that the transport system in future is fully integrated by putting the planning, policy and regulation in a single agency.*
- *Grow the patronage on public transport by making it a more attractive choice.*
- *Maintain and improve a comprehensive network of smooth-flowing roads in metropolitan, regional and rural NSW.*
- *Enable the transport system to support the economic development of the state with a particular focus on improving the coordination of freight.*

- *Promote coordination of and integration across all transport modes and all stages of decision making.*
- *Provide clean, reliable, safe, efficient and integrated transport services.*
- *Ensure that the transport system of the future will be strategic and multi-modal, servicing the needs of all customers whatever the purpose of their journey.*

Of particular relevance to local government is its statement that *“to achieve an integrated customer-focused transport system, further thinking is also required about how we undertake land use planning so that transport can most effectively support the growth that is predicted for the future. A shared vision with the new Metropolitan Strategy for Sydney and the new strategic regional land use plans that are being developed by the Department of Planning and Infrastructure is very important.”* (page 5)

Destination 2036 – A Draft Action Plan (Nov 2011)

This document grew out of a meeting of the Minister for Local Government with all municipal and shire mayors in 2011. Its vision is for councils to plan local futures and deliver quality services and infrastructure by proving leadership, local knowledge and partnerships with community, government and other sectors. It should do that by:

- *Upholding the highest ethical standards.*
- *Sound financial management.*
- *Sensitive environmental stewardship.*
- *Meaningful community engagement, advocacy and leadership.*
- *Adaptability, innovation and learning.*
- *Developing the full potential of its people.*
- *Responding to our diverse cultures, environment and economies.*
- *Creating places that people value.*

The five strategic directions for achieving that are:

- *Efficient and effective service delivery by establishing frameworks that facilitate that.*
- *Quality governance that ensures community confidence in councils.*
- *Financial sustainability of councils.*
- *Appropriate local government structures to suit different environmental contexts.*
- *Strong relationships between state and local governments by working as partners and understanding respective roles and responsibilities.*

Local Government Review Panel

The NSW Minister for Local Government has appointed a Local Government Review Panel comprising Professor Graham Sansom (Chair), Jude Munro AO and Glenn Inglis to develop options to improve the strength and effectiveness of local government in NSW¹. Professor Sansom is head of the Australian Centre for Excellence in Local Government, Ms Munro is a former CEO of Brisbane City Council and Mr Inglis is a former General Manager of Tamworth Regional Council.

The review will drive key strategic directions identified in the Destination 2036 initiative and support the broader objectives of the State as outlined in NSW 2021: *A Plan to Make NSW Number One* (the State Plan).

The panel will investigate and identify options for governance models, structural arrangements and boundary changes for local government in NSW, taking into consideration councils' ability to support the needs of their communities, ability to deliver services and infrastructure efficiently, ability to provide local representation and decision making, the financial sustainability of each council area, and any barriers that inhibit, or incentives that could encourage, voluntary boundary changes.

The panel will report to the Minister before the end of July 2013.

Conclusion

It's clear that the state government wants NSW to regain its mantle as the leading state of Australia both in terms of economic growth and being an attractive place to live.

As far as Sydney is concerned the State's various planning documents recognises three fundamentals:

Firstly, that it's a global city whose population will continue to grow so to remain liveable needs to provide affordable quality housing with nearby employment, service and leisure opportunities so that intra-city travel and associated traffic congestion can be reduced. Otherwise it risks becoming a slum like many other large cities of the world.

Secondly, all tiers of government have a responsibility to provide adequate communication, transport, electricity, water and other infrastructure to the network of towns and cities that constitute greater Sydney. To facilitate social mobility and economic exchange Sydney's transport system needs to be on par with the best of other great cities of the world.

Thirdly, local government through its local planning and development powers on the one hand and its local service and infrastructure provision on the other is vital to ensuring that Sydney manages its future growth to enhance the city's attraction economically, socially and environmentally.

The Urban Taskforce report, *Sydney's Liveability Crisis – Reforming Local Government*, explores reforms to local government and the planning system that would further these ends. It is being submitted to the *Local Government Review Panel* and as input to the discussion on the Green Paper, *A New Planning System for New South Wales*.

¹ Don Page MP, Minister for Local Government, Media Release, *Panel to Set Direction for Councils of the Future*, 20th March 2012.

Part 2: Sydney's Future Population

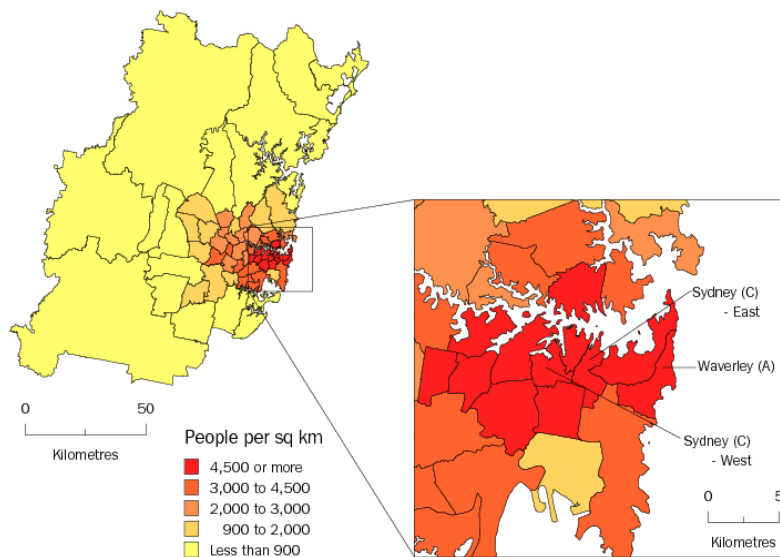
Sydney's Population Profile

The population of Sydney is almost 4.4 million according to the latest (2011) census. It accounts for almost two of three residents in New South Wales and one in five in Australia though its share of the nation's population is gradually slipping.

As a statistical division, Sydney's boundaries extend over 100km to the west, southwest and north of the city's CBD. They encompass far flung places such as Blackheath, Picton and Bargo. To the north and south of Sydney are Newcastle and Wollongong, which are part of the state's total metropolitan area. Sydney's centre of population is the suburb of Ermington, just east of Parramatta on the north side of the river.

Six of the ten most densely populated local statistical areas in Australia are located in Sydney, with the highest population density being in inner-city Sydney East (8,800 people per sq km) and West (7,900) and Waverley (7,500) which contains the eastern beach-side suburbs of Bondi and Bronte.

POPULATION DENSITY BY SLA, Sydney SD - June 2010



Source:

<http://www.planning.nsw.gov.au/LinkClick.aspx?fileticket=yvzXybG72TA%3D&tabid=124&language=en>

In 2009-10, Sydney after Adelaide and Hobart had the third slowest growth rate of all capital cities. Yet, the ten local government areas with the largest absolute increases in population in NSW were all within Sydney. They were Blacktown and Parramatta in Sydney's west followed by the City of Sydney City Council, The Hills Shire and Liverpool.

In the same year, the five fastest-growing LGAs within NSW were also within Sydney. They were Canada Bay (3.7%), Parramatta (3.0%) and Auburn (2.8%) situated by the Parramatta River in inner western and central western Sydney. Camden (2.9%) in the outer south-west and Blacktown (2.8%) in western Sydney also had fast population growth.

LGAs WITH LARGEST AND FASTEST POPULATION GROWTH, New South Wales

LGA	ERP at 30 June	Population Change	%
	2010p No.	2009r-2010p No.	
LARGEST GROWTH			
Blacktown (C)	307 800	8 300	2.8
Parramatta (C)	172 300	5 100	3.0
Sydney (C)	182 200	4 500	2.5
The Hills Shire (A)	179 700	3 400	1.9
Liverpool (C)	185 500	3 400	1.9
FASTEST GROWTH			
Canada Bay (A)	78 700	2 800	3.7
Parramatta (C)	172 300	5 100	3.0
Camden (A)	56 800	1 600	2.9
Auburn (C)	78 600	2 200	2.8
Blacktown (C)	307 800	8 300	2.8

(Source: ABS 3218.0 - Regional Population Growth, Australia, NSW State Summary, 2009-10, 31st March 2011, <http://www.abs.gov.au/ausstats/abs@.nsf/Products/3218.0~2009-10~Main+Features~New+South+Wales?OpenDocument#PARALINK22>)

In terms of Metropolitan Strategy subregions, the highest growth rates were in Sydney City, West Central and the Inner West. The Inner North subregion showed the slowest growth of all of the Sydney subregions.

Since its foundation as Australia's first colonial settlement in 1788, the city's population has had the following trajectory. Note however that the 2011 census found that its population reached only 4,391,674 in 2011, not 4,627,341 as was estimated in the table.

Sydney population by year		
1800	3,000	[citation needed]
1820	12,000	[citation needed]
1851	39,000	[citation needed]
1871	200,000	(Gold Rush) [citation needed]
1901	500,000	[citation needed]
1925	1,000,000	[citation needed]
1962	2,000,000	[citation needed]
2001	3,948,015	(Census) ^[66]
2006	4,119,190	(Census) ^[67]
2011	4,627,345	(Estimate) ^[1]
2026	5,426,300	(Projected) ^[68]
2056	6,976,800	(Projected) ^[68]

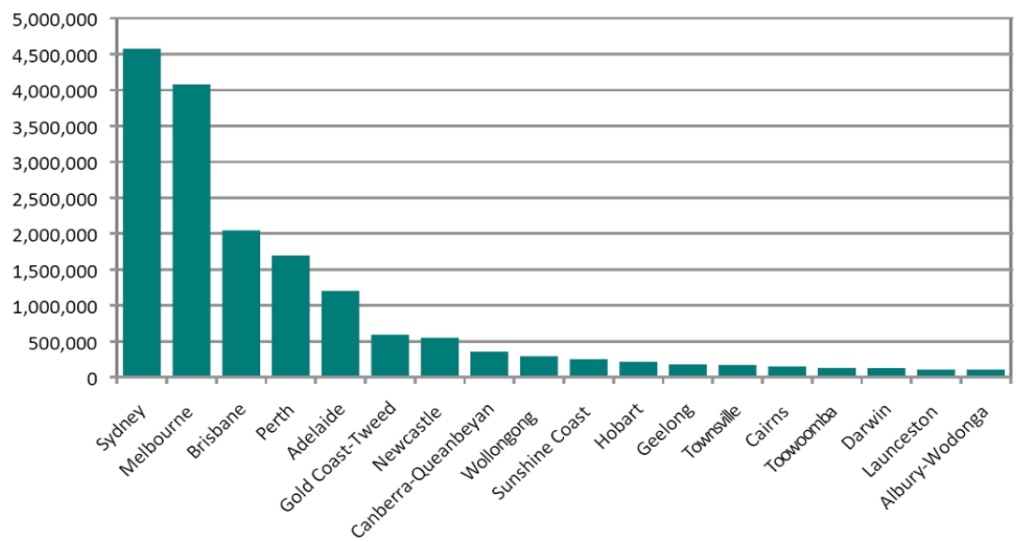
(Source: <http://en.wikipedia.org/wiki/Sydney>)

The largest jumps in population followed the discovery of gold in Bathurst in 1851 and the arrival of European immigrants after the end of the Second World War in 1945.

The Population Growth Challenge

Over three-quarters of all Australians live in 17 major cities with populations over 100,000 at the 2006 Census. The majority of urban Australians live in the five largest cities of Sydney, Melbourne, Brisbane, Perth and Adelaide. The following chart is based on ABS data, 2010.

Figure 6. Population of Australia's Major Cities

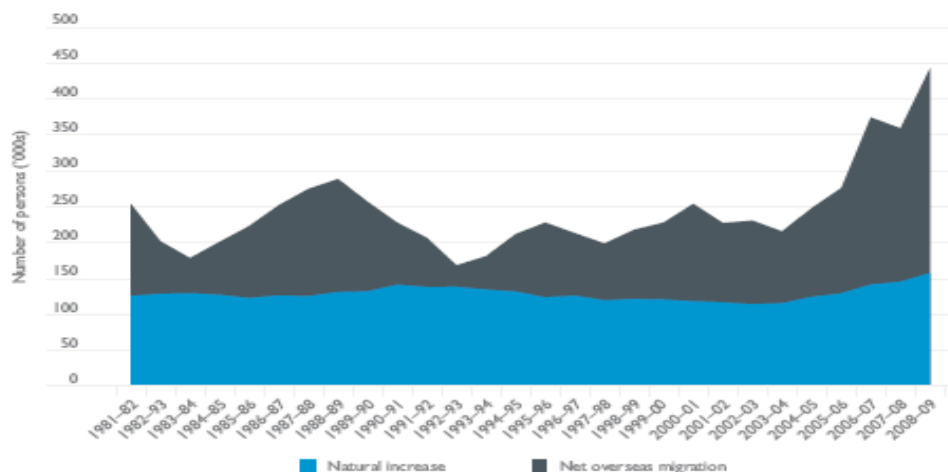


(Source: Australian Department of Infrastructure and Transport, *Discussion Paper – Our Cities, building a productive, sustainable and livable future*, 2010, page 4)

Australia’s population is projected to reach more than 35 million people by around mid-century according to both ABS and Treasury projections. Most of this growth (72 per cent) will be in the capital cities.

In the last twenty years Australian births have exceeded new immigrants.

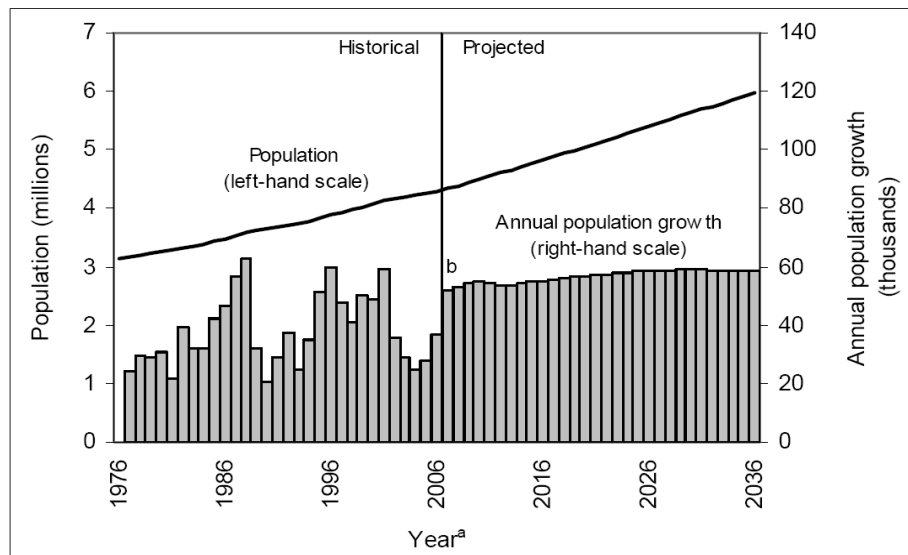
Figure 3.6 Components of population growth to Australia, 1981–2009



Source: ABS 2009a.

The population of Australia’s capital cities is set to grow faster than that of the rest of Australia. By 2036, Sydney’s population is projected to reach 6 million people compared with 4.6 million today. By 2056, the city’s population is likely to expand by a further 1 million to 7 million. About 70% of the population growth will be driven by natural increases and only 30% by immigration.

Sydney’s Population Projection



a For population numbers (left-hand scale) 'Year' refers to the 30th June of each year; for annual population growth (right-hand scale), it denotes the 12 month period ending 30th June of the year shown.
 b The projections take into account preliminary ABS population growth estimates for 2006-07.
 Source: Historical data – Australian Bureau of Statistics; projections – Department of Planning.

(Source: NSW Department of Planning, *NSW State and Regional Population Projections, 2006-2036*, 2008 Release)

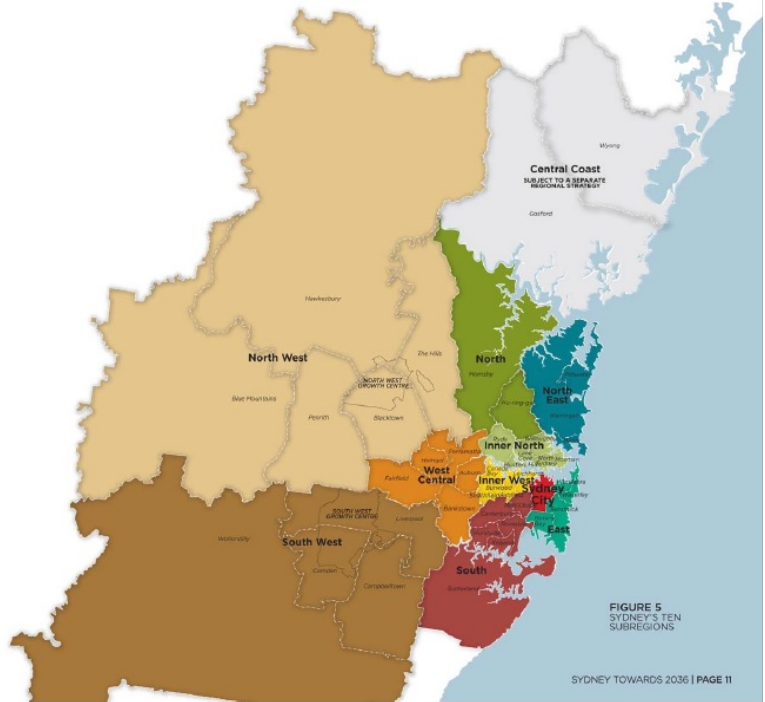
Like every other region of the State, Sydney will experience continued population ageing so by 2036 one in six will over 65 compared with only one in eight in 2006.

Of the Sydney Metropolitan Strategy sub regions the fastest population growth over these three decades is expected for the South West (113%), followed by Sydney City (60%) and the North West (52%). The slowest growth is projected for the South (15%) and the North East (18%).²

² NSW Department of Planning, *NSW Statistical Local Area Population Projections, 2006-2036*, March 2010

Population growth

SUBREGION	2008-2036 POPULATION INCREASE	CHANGE
	'000	%
SOUTH WEST	464.3	113.1
SYDNEY CITY	99.2	59.9
NORTH WEST	394.5	51.8
INNER WEST	79.6	35.0
WEST CENTRAL	217.0	31.9
INNER NORTH	76.0	25.1
NORTH	59.3	22.6
NORTH EAST	42.0	17.9
EAST	52.2	18.5
SOUTH	96.2	14.8
CENTRAL COAST	120.0	39.4
SYDNEY	1,700.1	40%



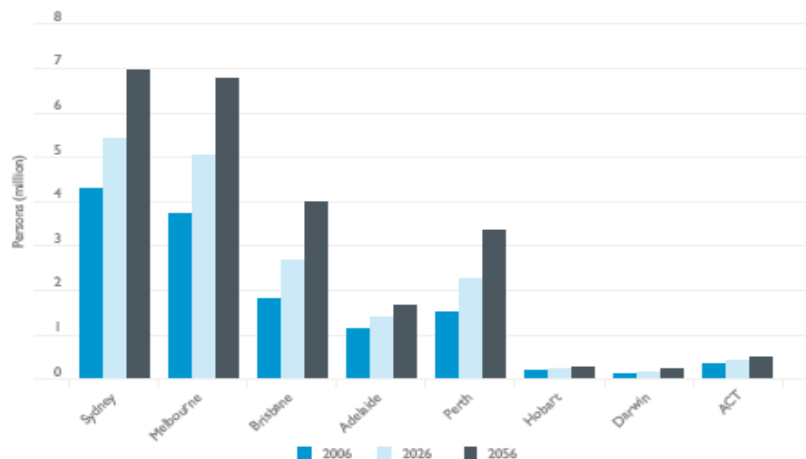
Forecast growth by subregion to 2036

(Source: Ku-ring-gai Council, *NSROC Submission to Sydney Metro Strategic Review – Sydney towards 2036*, slide 7, undated
http://www.kmc.nsw.gov.au/resources/documents/Pres3_on_NSROC_Sydney.pdf)

Will Melbourne Overtake Sydney?

Other capital cities are also set to expand, most at a faster pace than Sydney.

Figure 3.5 ABS Population projections for capital cities to 2056



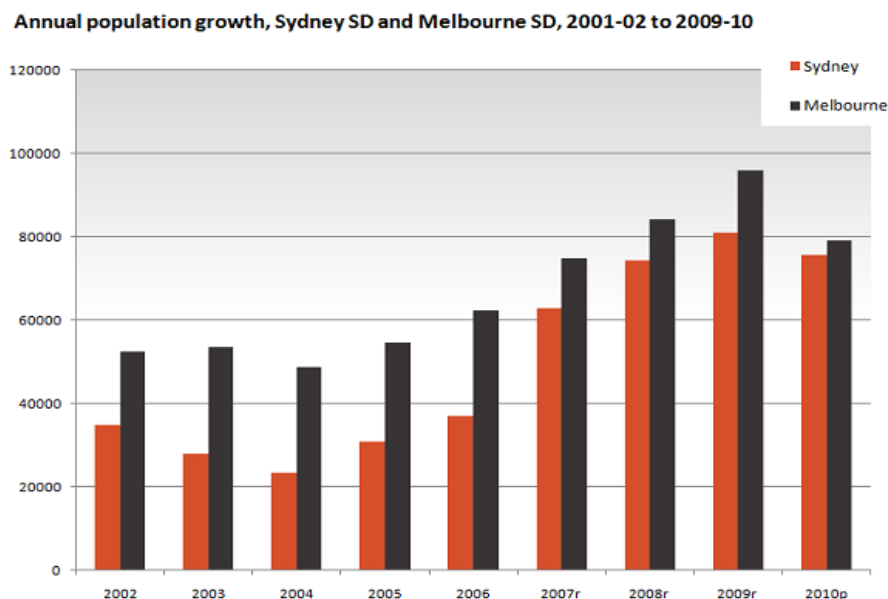
Source: ABS 2008b. Medium growth assumptions (series B).

Indeed Melbourne may overtake Sydney as Australia's largest city in the next sixteen years.

According to a report in the Age newspaper³:

- For the first time in almost 30 years, Melbourne's population is within 500,000 of Sydney's, and gaining. If the growth rates of 2001-10 continued, Melbourne would overtake Sydney in 2028, when each city would have roughly 5.6 million people. At June 30 last year Sydney had 4.575 million people to Melbourne's 4.077 million.
- Since 2001, Melbourne has gained 605,000 new residents, up 17 per cent, rapidly pushing out the urban boundary in every growth corridor. That is far ahead of growth of 447,000 in Sydney, 380,000 in Brisbane, and 303,000 in Perth. Melbourne's growth in the past 9 years equals roughly six Ballarats, three Hobarts and one Gold Coast.
- The four fastest-growing municipalities in Australia in 2009-10 were all on Melbourne's fringe. Wyndham (which includes Werribee), Melton, Whittlesea (South Morang) and Cardinia (Cranbourne) left behind all the boom areas of other states, with their combined populations growing by 33,216 or 7 per cent.

According to the Australian Bureau of Statistics⁴, Melbourne grew by 17.4% between 2001 and 2010, or 605,000 people, while Sydney grew by 447,000 people, 10.8%. These figures relate to the Melbourne and Sydney Statistical Divisions, which represent the greater metropolitan areas of each city.



(Source: ABS 3218.0, *Regional Population Growth, Australia, 2009-10*. Note that the “r” next to a year means it’s revised but still subject to review after next Census, and “p” means it is preliminary. <http://blog.id.com.au/2011/demographics/is-melbournes-population-going-to-overtake-sydneys/>)

Sydney’s first city status within Australia should not be taken for granted. Melbourne’s population overtook Sydney in 1854. By the 1870s, Victoria had around 200,000 people, a third more than NSW.

³ Tim Colebatch, *City's Population Explosion*, The Age, April 1st 2011

⁴ ABS, *Regional Population Growth, Australia* (3218.0), July 2011.

Sydney didn't become the largest city again until 1891 when an economic slump hit Victoria harder than NSW⁵.

Conclusion

Sydney dominates NSW with two in three people living within its greater metropolitan area. Its population of 4.4 million is expected to grow close to 7 million by the middle of this century.

Though Sydney's overall population growth has slowed its outer- and inner-western suburbs are amongst the fastest growing regions of NSW. The older inner suburbs of Sydney are some of the most densely populated parts of Australia.

Melbourne's population is growing almost twice as fast as Sydney's and could overtake it within 16 years. Melbourne was a bigger city than Sydney's between 1854 and 1891, when Victoria was the most important state economically⁶. Given Sydney's contribution to NSW being the largest economy in Australia, its relative demise to Melbourne could have far reaching implications for the Premier State.

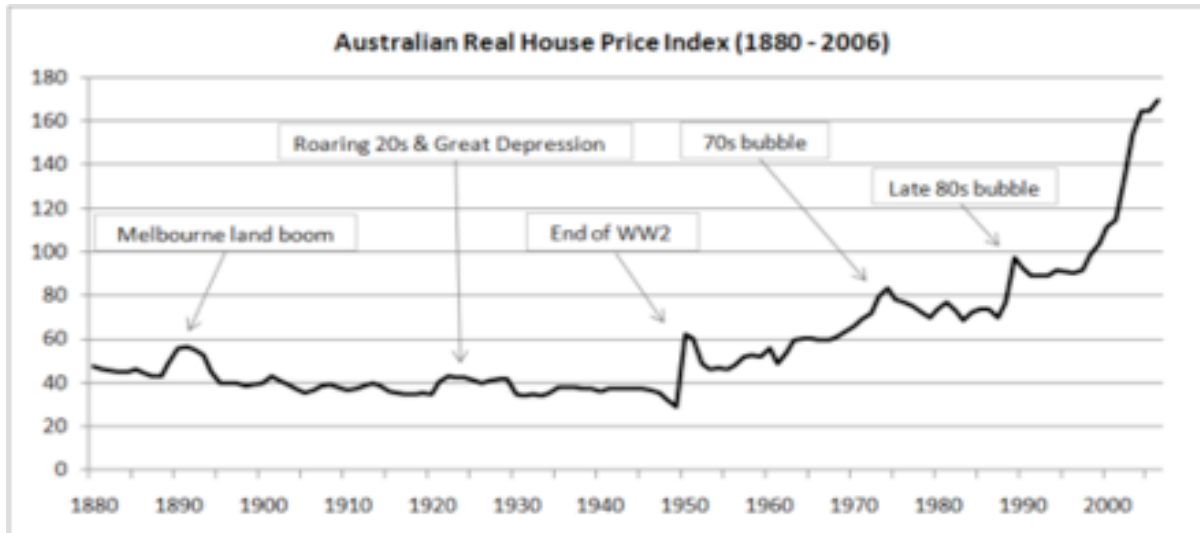
⁵ ABS, *Historical Population Statistics*, (3105.0), 2008

⁶ Ibid.

Part 4: Sydney's Worsening Housing Crisis

Home Price History

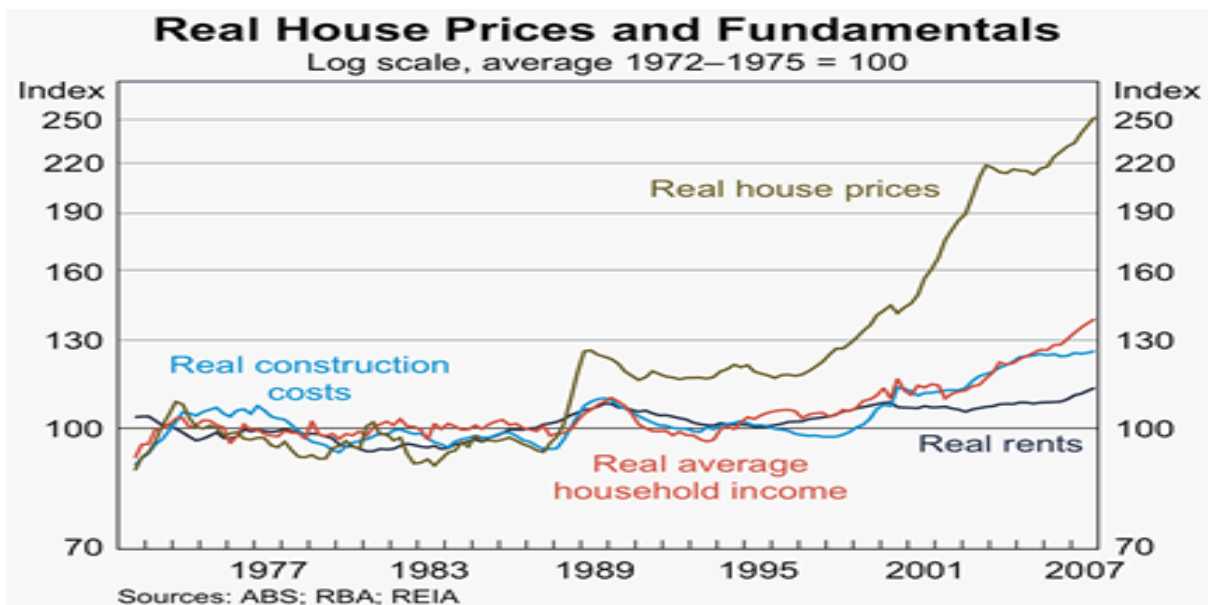
In the seventy years to 1950 Australian home prices fell in terms of real purchasing power. They then escalated, especially after 1997.



(Source: The Conversation, *Should we be bracing for an inevitable housing bubble bust?* 3 August 2011

<http://theconversation.edu.au/should-we-be-bracing-for-an-inevitable-housing-bubble-bust-2588>)

Since 1987, Australian home prices have outpaced both building construction costs and average household incomes in real terms. Households borrowed more to bridge the gap.



(Source: Australian Property Forum, *Charts*, undated

<http://australianpropertyforum.com/pages/gallery>)

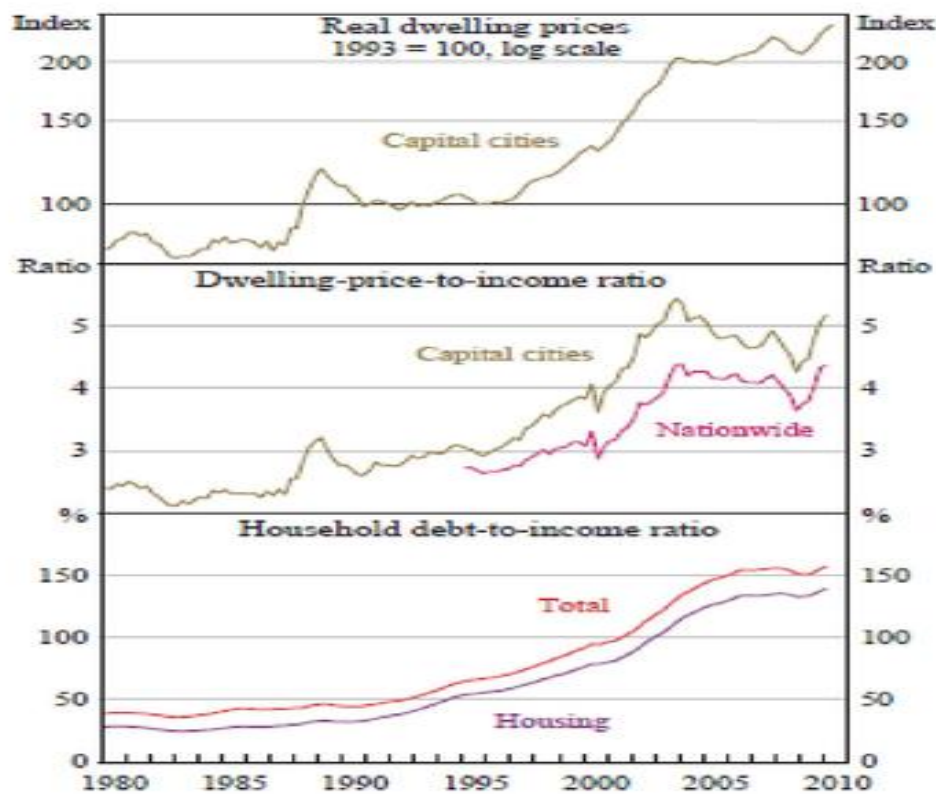
Home Price Drivers

Analysis by the ANZ Bank’s economic department⁷ found that “all the growth in Australian house prices can be explained by gains in average household incomes and a structural decline in the cost of borrowing”.

Notwithstanding the huge increase in home prices relative to construction costs, the operating profit before tax of builders in Australia fell by 5.2% between 2006/07 and 2009/10. Over the same period building costs escalated 26.3% whereas building incomes went up 21.5%.⁸

Indeed several building companies have gone broke as a result of bidding for work at unrealistic prices. They include St Hilliers, Perle Constructions, Kell and Rigby and Reed Constructions. Yet unlike America, the scarcity of construction work which is causing cut-throat competition can’t be put down to a housing glut. On the contrary there is a housing shortage, but as we shall see later regulatory and infrastructure constraints are making it unprofitable to undertake new developments.

Higher dwelling prices funded with higher mortgages saw both dwelling prices and household debt as a proportion of income rise dramatically between 1987 and 2003.



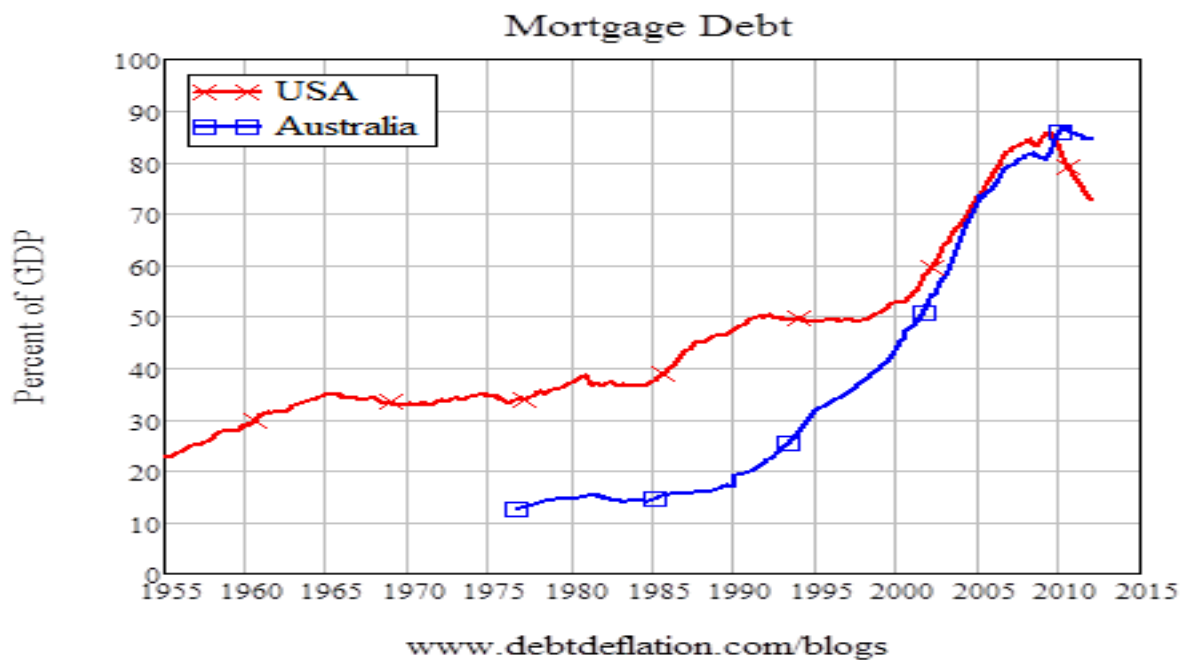
NOTE: Income is disposable income after tax and before interest payments. Household sector excludes any unincorporated enterprises.

SOURCES: ABS, APM, RBA, REIA

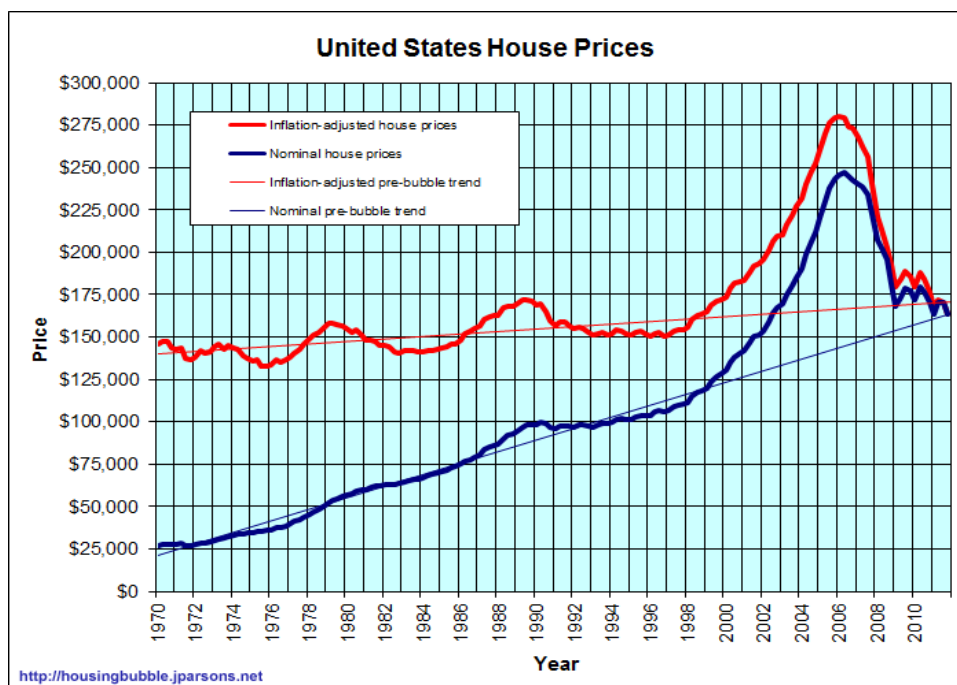
⁷ ANZ Research, *Australian Housing Chartbook*, January 2012, page 3, <http://www.anz.com/resources/4/f/4f8395804a46c7e08341cbac93b0266b/Australian+Housing+Chartbook.pdf?CACHEID=4f8395804a46c7e08341cbac93b0266b>

⁸ ABS, *Australian Industry 2009/10*, (8155.0) 27th May 2011

Indeed by chasing higher home prices with bigger and bigger mortgages Australians became even more indebted than Americans in terms of household debt to GDP.

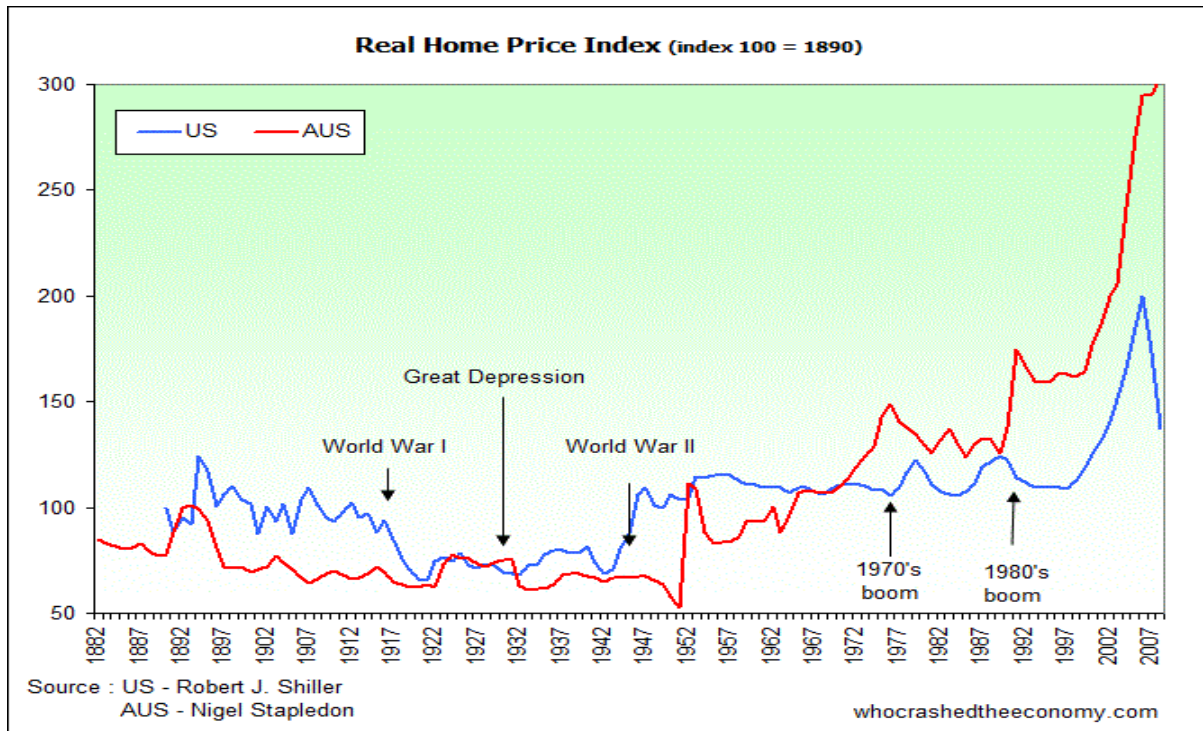


However, the scarcity of housing stock in Australia plus a strong economy (thanks largely to the mining boom) meant that prices held up during the global financial crisis whereas in America a large housing stock glut after a decade of overbuilding saw prices plunge by 42% in real terms from their peak in 2006.



International Yardsticks

A yawning gap between Australian and American real home prices first appeared after 1970 but didn't become pronounced until after 1990 when Australian financial deregulation made it easier for families and investors to access housing finance.



Australian home prices remain high not only by American standards, but also by world standards.

The Economist magazine in late 2010⁹ found that Australian house prices were overvalued by 63.2%, stating that "Our analysis of 'fair value' in housing, which is based on comparing the current ratio of house prices to rents with its long-run average, suggests that China has less to worry about than the likes of Australia, which is again the most overvalued of the markets we track."

An earlier study by The Economist¹⁰ had found that Australian property was "the most overvalued of any of the 20 countries we track."

The latest data from The Economist suggests that Australia's home prices relative to average rent and income are 48% and 28% respectively above their long term averages. See next chart.

⁹ The Economist, *Global House Prices*, 21st Oct 2010

¹⁰ The Economist, *Global house prices - Froth and stagnation*, 8th July 2010

The house of horrors: bursting of the bubble is only halfway through'

The Economist 24-26 Nov'11, updated 31 March'12

House prices	%Δ 1996- 2006 (real)	% Δ 2006-11 (real)	% under(-)/over(+) valued against	
			Rent	Income
Australia	85	8	48	28
Canada	50	17	76	32
NZ	77	-10	68	20
UK	165	-18	26	17
Netherlands	83	-12	21	43
US	77* (56)	-40* (-27)	-12	-25
China	na	7	7	-32

* Case-Shiller series; figures in brackets are FHFA price series which has broader coverage

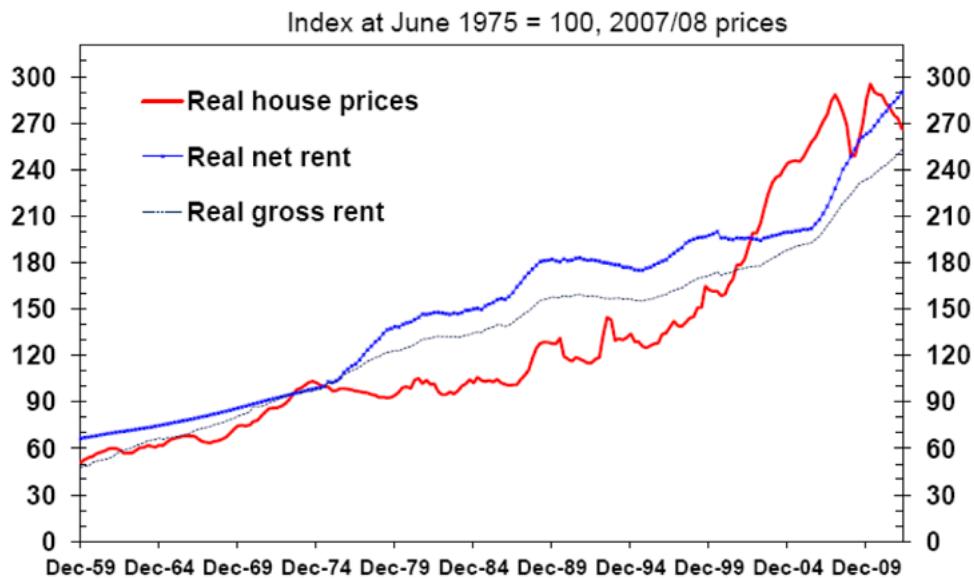


(Source: N. Stapleton, *Australia's 'soft landing' for housing. A question of luck?*, Presentation to Economic Society of Australia, NSW, 4th July 2012)

But Professor Nigel Stapleton, a renowned academic economist at the Australian School of Business, UNSW, disputes The Economist's assertion that Australian home prices will fall. He says an explosion in real rents in the last five years has restored the rental return on homes making them attractive again to investors. Unless Australia's economy collapses causing unemployment to soar, house prices should hold up. Note how in the following chart the Australian real home price index is now below its real net rent index.

Australia – Indices of real prices and rent per dwelling 1959-2012

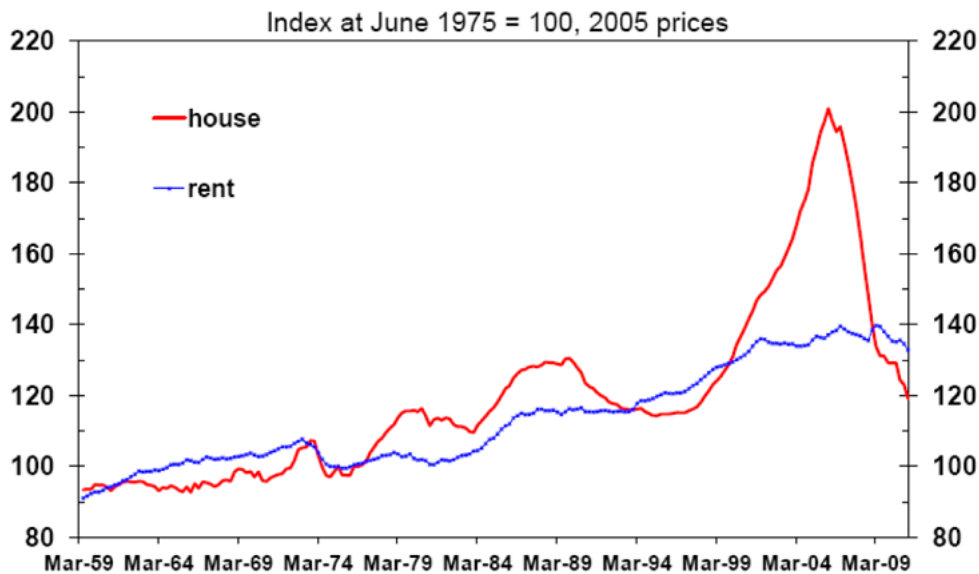
Australian
School of
Business



(Source: N. Stapleton, *Australia's 'soft landing' for housing. A question of luck?* Presentation to Economic Society of Australia, NSW, 4th July 2012)

By contrast in America the widening gap between real house prices and real net rents was closed by real prices collapsing by over 40%. According to Professor Stapleton Australia avoided that fate by having a strong economy (thanks to the resources boom) that held up housing demand during the global financial crisis and an inelastic housing supply (due to state and local government planning and development constraints).

US – Indices of real prices and rent per dwelling 1959-2012



(Source: N. Stapleton, *Australia's 'soft landing' for housing. A question of luck?* Presentation to Economic Society of Australia, NSW, 4th July 2012)

The effect of planning and development constraints on artificially boosting home prices was analysed in a recent Reserve Bank of Australia research paper¹¹. It found that restricting higher density living in inner city areas and growth of their urban fringes lifted home prices.

The paper concludes:

In particular, as population grows and land prices increase, the expected response would be for cities to become denser and for land to be used more intensively. However, any fixed set of zoning restrictions will slow this adjustment. While the model predicts city-wide benefits – in terms of more affordable and better-located housing (and larger average dwelling sizes) – from less restrictive zoning, it is noteworthy that existing residents often oppose the easing of zoning restrictions in their own neighbourhoods. This highlights an important point: there is a trade-off between density and housing prices.²⁶

The model shows that policies associated with the development process that act as a friction on the supply of new housing result in higher housing prices for consumers and a reduction in the supply of housing.

..... Finally, we note that the effects on the cost of housing of any given set of development, land use and transport policies will tend to be more pronounced as the population

¹¹ Mariano Kulish, Anthony Richards and Christian Gillitzer, *Urban Structure and Housing Prices: Some Evidence from Australian Cities*, RBA Research Discussion Paper, Sept 2011, pages 32-34
<http://www.rba.gov.au/publications/rdp/2011/pdf/rdp2011-03.pdf>

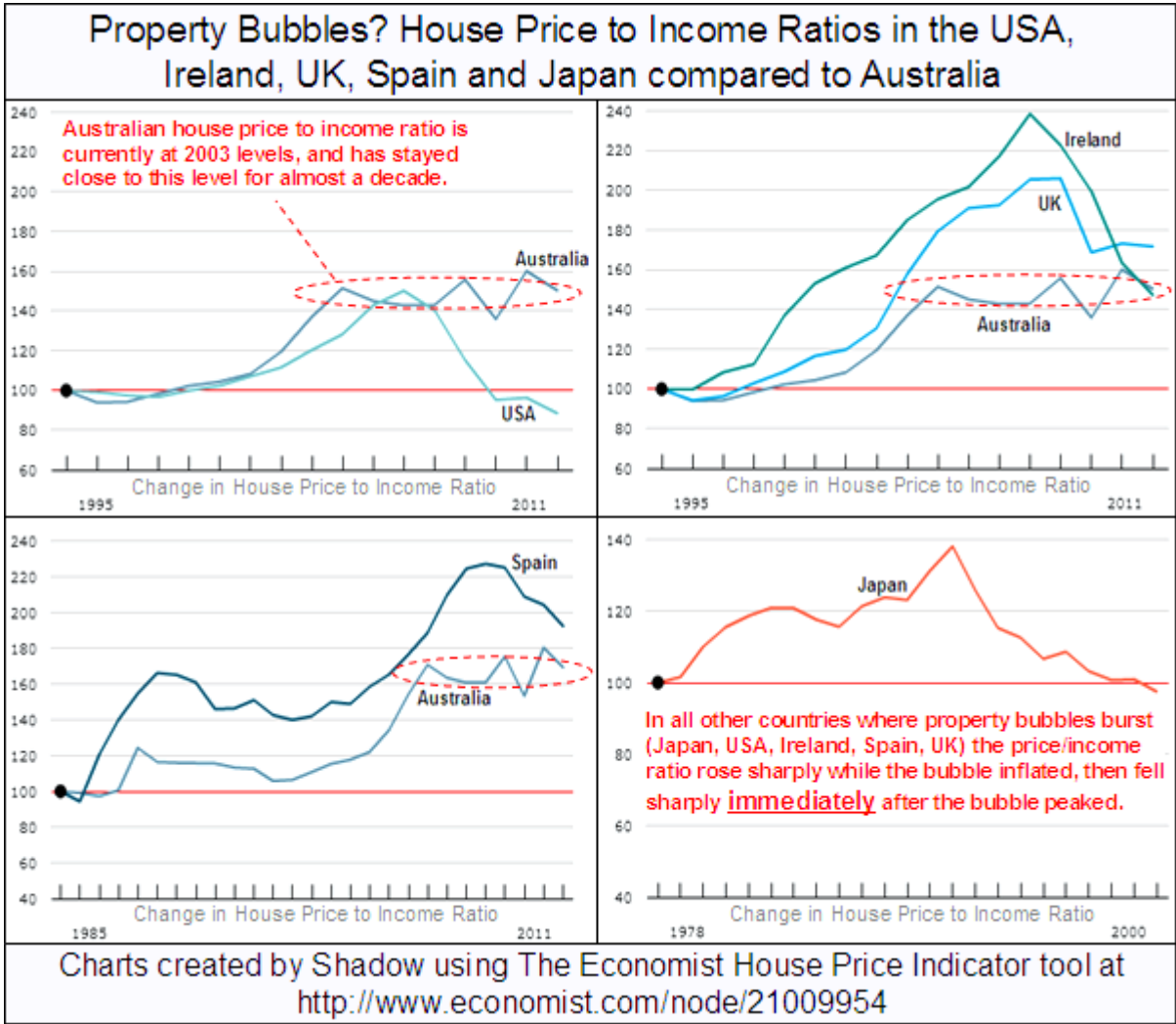
grows. Arrangements which might have been considered broadly appropriate at some point in the past are likely to have more pronounced effects as the population expands. This suggests that any set of policies that were thought optimal at one time, in terms of the trade-offs, might no longer be so as the population grows.

The Economist's quarterly house price indicators for twenty countries show that over the last ten years Australia had the strongest home price increase not only in real terms, but relative to incomes and rent. This does not contradict Professor Stapleton's conclusions since The Economist compares house price to rent indices over only ten years whereas Stapleton does so over 53 years.

Australia has had the strongest real home price increase in the last ten years



A contributor to the Australian Property Forum who writes under the pseudonym 'Shadow' has used The Economist magazine's data to compare Australia's house price to income ratios with that of other developed countries. The results are shown below.



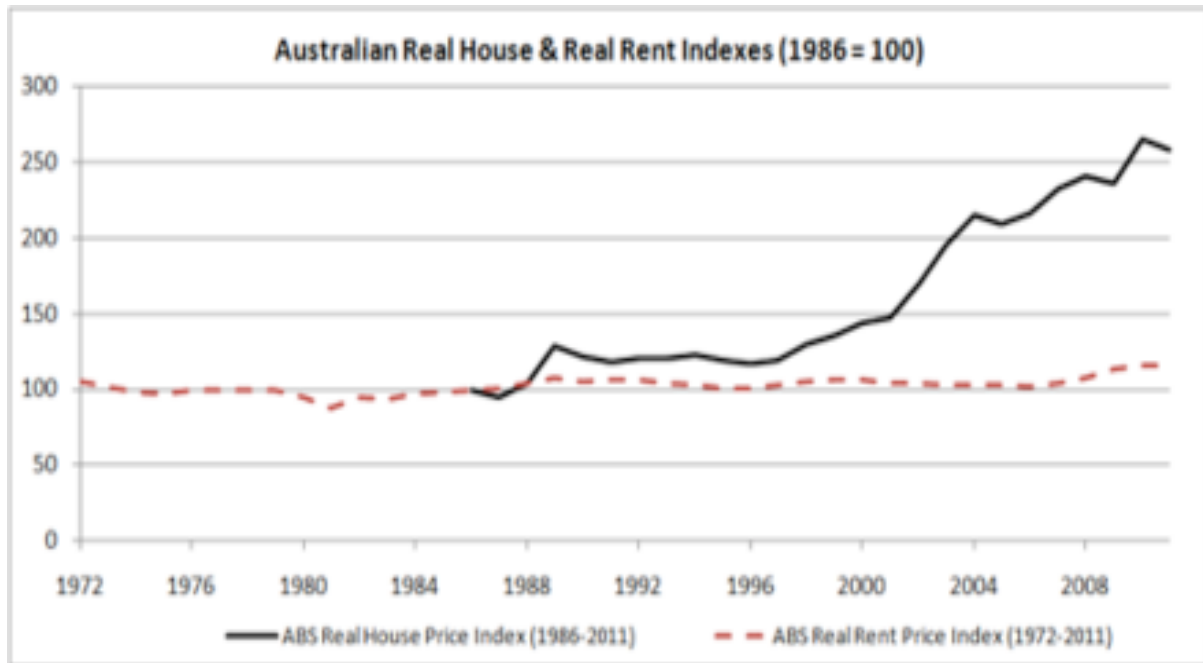
The contributor makes the following observations about his charts¹²:

In Australia, the house price to income ratio did rise sharply until it reached a peak in 2003. At this point one would normally expect the ratio to collapse, if this was indeed a bubble. Instead, the house price to income ratio has remained close to that 2003 level for almost a decade. Now in December 2011, the ratio is still where it was in 2003. This is not normal bubble behaviour. Bubbles (not just housing bubbles, but all asset bubbles) are normally characterised by a sharp rise followed almost immediately by a sharp fall after prices peak. A house price to income ratio that doesn't fall shortly after a peak might be a good indicator for the absence of a property bubble.

Recent Price Movements

Australian Bureau of Statistics data shows that since 1988 real home prices have increased 250% while real rents have remained largely flat until recently.

¹² <http://australianpropertyforum.com/blog/entry/3174279/37687>

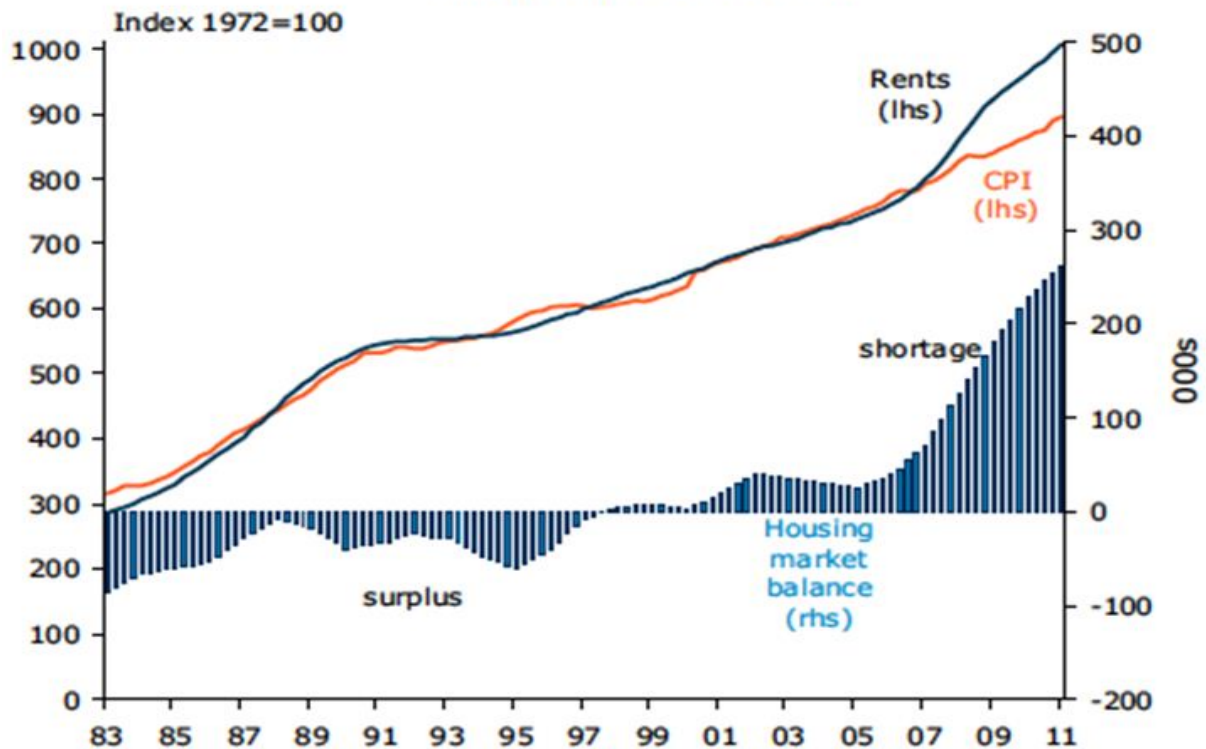


(Source: The Conversation, *Should we be bracing for an inevitable housing bubble bust?* 3rd Aug 2011, <http://theconversation.edu.au/should-we-be-bracing-for-an-inevitable-housing-bubble-bust-2588>)

Yet other ABS data suggests there has been a rent explosion; median household weekly rents rose by almost 50% between the 2006 and 2011 censuses.¹³ It would appear the housing crisis is extending from homebuyers to renters as the dwelling stock deficiency intensifies. The following chart shows how rents after moving in line with the consumer price index between 1983 and 2007 shot above of it thereafter.

¹³ ABS tables prepared by George Magalogenus, *Housing goal fades for young families*, the Weekend Australian, June 23-24th 2012 pages1-2

CPI: Rents vs. total



(Source: Matthew Quinn, Managing Director, Stockland, *2012 Property Market Outlook – Presentation to CEDA*, 3rd April 2012)

Real Estate Institute of Australia (REIA) data shows Sydney's unchanged vacancy rate of 1.6% in the March quarter 2012 was the lowest of all capital cities, with Brisbane at 1.7%, Perth at 1.9% and Melbourne and 2.3%.

According to Sam Reilly¹⁴, associate director of global research consulting at CBRE, which undertakes regular reviews of the NSW residential market:

This [low vacancy rate] has somewhat insulated Sydney from the significant declines in capital values that have been witnessed recently in other states.

As previously noted, the huge increase in home prices relative to construction costs in recent decades has not benefited Australian builders whose income growth has trailed construction costs resulting in operating profit before tax falling by 5.2% between 2006/07 and 2009/10.¹⁵

Housing Shortage Causes

There is much speculation as to why Australia has a housing shortage with excessive home prices. Reasons given can be divided into demand pressures and supply constraints.

On the demand side the following factors are often cited¹⁶:

¹⁴ <http://www.propertyobserver.com.au/residential/low-rental-vacancy-rate-insulating-sydney-residential-property-market-against-economic-woes-cbre/2012061455114>

¹⁵ ABS, *Australian Industry 2009/10*, (8155.0) 27th May 2011

- High population growth (double world average)
- Australians want large homes (compared with Europeans)
- Easy credit conditions (e.g. high LVRs)
- Falling interest rates
- Favourable investor tax concessions (e.g. negative gearing)
- Favourable homeowner tax concessions (e.g. no capital gains tax)
- Generous home buyer grants and tax exemptions (e.g. first home owner stamp duty exemption)
- Relaxed foreign investment rules for residential property
- Unregulated investment property seminars

On the supply side the reasons advanced include:

- Concentrated land settlement of Australia
- Limited government release of new land
- Inadequate public infrastructure
- Planning restrictions on denser land use
- Tortuous building approval processes
- High government charges on developers
- High stamp duty on home purchases
- High land tax on investment properties
- High builders warranty costs

Two factors specific to Sydney are identified by Saul Eslake (Australian Economist, Bank of America Merrill Lynch)¹⁷ as being:

The decision by the Wran government in 1978 to peg council rates (which) forced local governments to charge land developers significant upfront fees to pay for infrastructure such as sewerage and roads. This made the underlying cost of building a new home in NSW higher than in other states.

The former premier Bob Carr, who famously declared that Sydney was "full". Increasingly people got the message and did go somewhere else ... and the NSW economy has been significantly affected by that.

The latest MacroBusiness Australian Housing Valuation Report¹⁸ says the home shortage crisis is worse in Sydney than elsewhere in Australia.

In fact, New South Wales (read Sydney's) annual dwelling completions recently plumbed 30-year lows while the other states (particularly Victoria) experienced a mini construction boom.

¹⁶ Partial source: http://en.wikipedia.org/wiki/Australian_property_bubble

¹⁷ Matt Wade and Matthew Moore, *New homes, new rules Now for new buyers*, SMH News Review, June 16th -17th, page 4, <http://m.smh.com.au/domain/first-home-buyers/new-homes-new-rules-now-for-the-new-buyers-20120615-20fdr.html?page=1>)

¹⁸ <http://www.smh.com.au/business/time-for-sydney-to-shed-its-housing-funk-20111004-1l7dd.html#ixzz1wR9L6uOD>

Although Sydney's dwelling construction rate - defined as the number of dwelling completions per 1,000 head of population - has for 30 years lagged the national average, it has slumped over the past decade. Sydney is now constructing homes at around half the rate of the other states.

While Sydney's supply-side squeeze in no way guarantees that homes prices will not fall - San Francisco and the United Kingdom prove that home prices can fall abruptly even when new home construction is anemic - it does ensure that Sydney will not be hit by a flood of new homes if or when prices start to fall, thereby accentuating the downturn.

The report says that planning restrictions are a major contributor the Sydney's slow rate of home construction compared with other capital cities¹⁹.

Another key factor differentiating Sydney's housing market from the other capitals is Sydney's anaemic rate of new home construction.

Sydney's housing market is the most supply-restricted in Australia, owing to a combination of natural barriers (e.g. the sea, state parks and mountains) and the tightest regulatory regime in Australia. Reflecting these supply constraints, Sydney's new home construction actually declined over the 2000s as house prices rose sharply:

An example of how planning restrictions inhibit denser development in Sydney is a strata law that makes it impossible to demolish and replace an old apartment block if one owner refuses to sell.²⁰

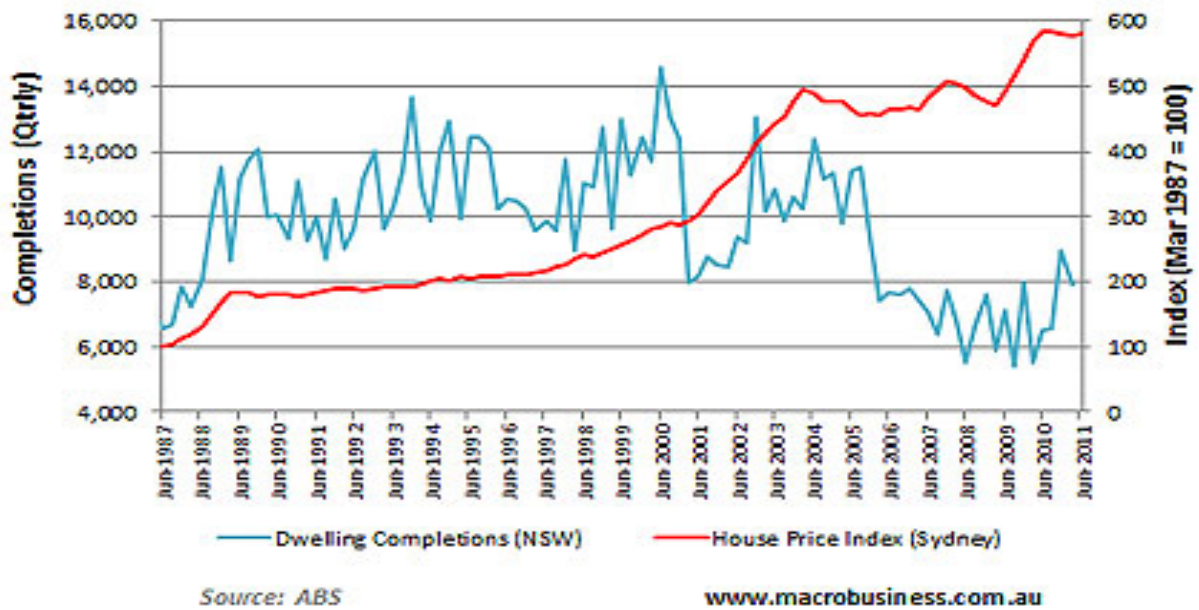
Sydney's Affordability Crisis

The following chart shows how Sydney home prices escalated following a sharp pullback in home construction after the turn of the century.

¹⁹ <http://www.smh.com.au/business/time-for-sydney-to-shed-its-housing-funk-20111004-117dd.html#ixzz1wR9Ab5Ak>

²⁰ <http://m.smh.com.au/domain/first-home-buyers/new-homes-new-rules-now-for-the-new-buyers-20120615-20fdr.html>, page 4

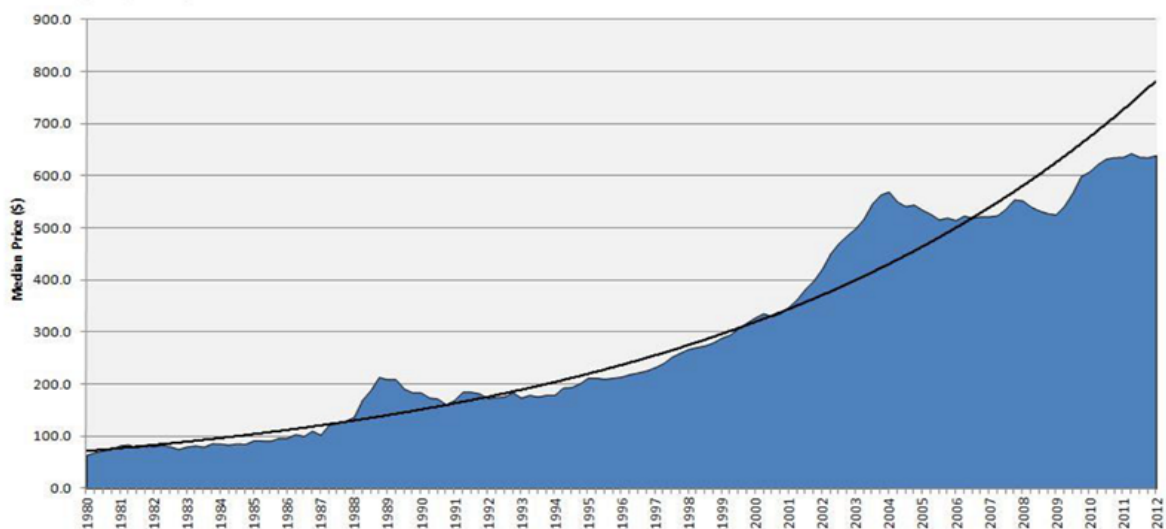
Dwelling Completions vs House Prices



Since 1980 the underlying growth trend for home prices in Sydney has been 7.6% per annum, whereas average earnings over the same period have gone up only 4.7% per annum. Sydney is becoming unaffordable to average wage earners.

Sydney Median House Price

Source: REIA March 2012



The slowdown in the rise of Sydney home prices since 2004 is unlikely to last given the growing shortage of dwelling stock. As one analyst observed²¹:

Whereas Sydney's houses commanded a price premium relative to the other capitals of around 90% in the early 2000s, this premium fell to just under 30% at the end of 2010 – a

²¹ <http://www.smh.com.au/business/time-for-sydney-to-shed-its-housing-funk-20111004-1l7dd.html#ixzz1wR6XZfGa>

level not reached since 1977.

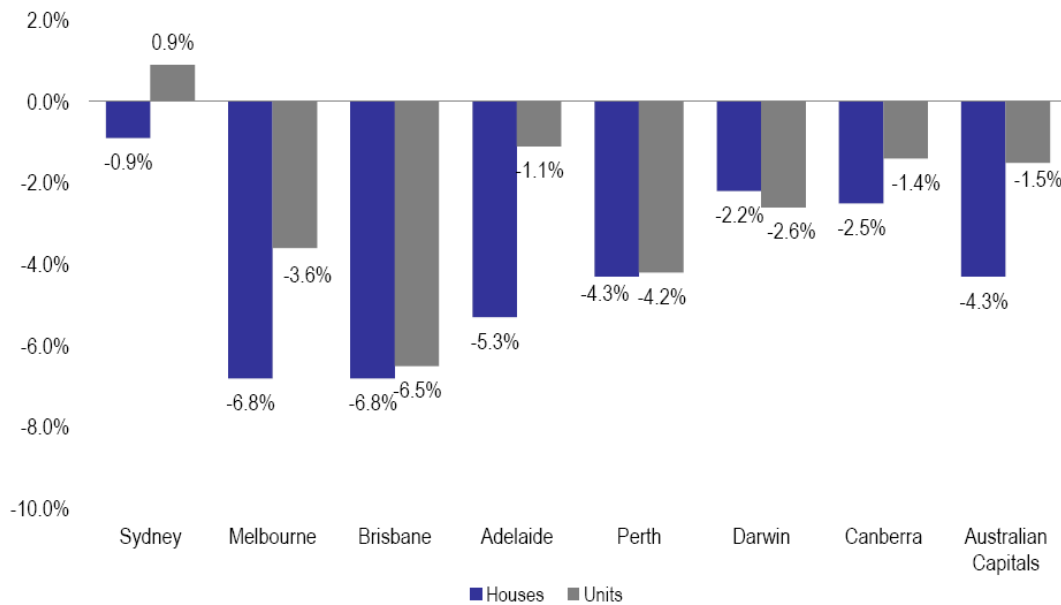
Assuming Sydney's housing values in relation to the other capital cities are likely to revert to some mean level, the current low valuation gap suggests that Sydney's housing market is likely to outperform the capital city average.

Indeed the drop in Australian capital city house prices in 2011 largely escaped Sydney because of its tight housing supply.

Guess what? No housing crash

Change in home values - year on year, December 2011

Source: RP Data, Rismark International



(Source: Harley Dale, HIA Chief Economist, *The Outlook for the Housing Industry in NSW*, Housing Industry Association, March 2011, slide 21

<http://economics.hia.com.au/media/NSW%20IOB%20March%202012.pdf>)

The BIS Shrapnel *Residential Property Prospects 2012-15* report²² forecasts Sydney prices will jump 17% by June 2015 whereas Melbourne, Canberra and Hobart prices will grow by less than 5% over that period. Prices in Brisbane would rise by 15% and those in Perth by 22% as population growth outstripped supply, a problem that already exists in Sydney. Lower interest rates would also stoke demand.

Forecast median house price by capital city:

	Median House Price as at June 2012 Estimate	Forecast Median House Price as at June 2015	Forecast Gain in Median House Price Over Three Years

²² Jake Mitchell, *Home price lift expected*, AFR, 25th June 2012, page 41

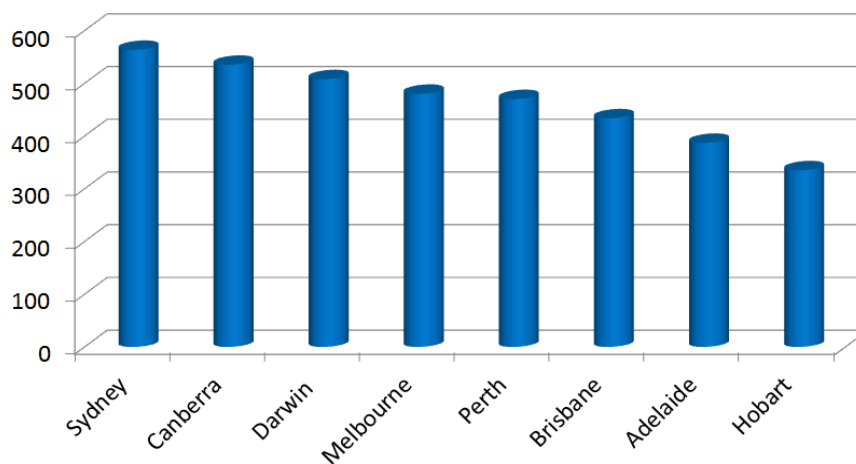
	(\$'000)	(\$'000)	to June 2015 (%)
Sydney	640	750	17
Melbourne	540	557	3
Brisbane	430	515	20
Adelaide	390	425	9
Perth	475	580	22
Hobart	357	375	5
Darwin	540	620	15
Canberra	525	530	1

Source: BIS Shrapnel

(Source: <http://www.propertyoz.com.au/Article/NewsDetail.aspx?p=16&id=6005>)

Even though the gap in home prices between Sydney and other capital cities has narrowed since 2004, Sydney remains the most expensive housing market in Australia. If BIS Shrapnel is correct that gap relative to most other capital cities is set to widen again.

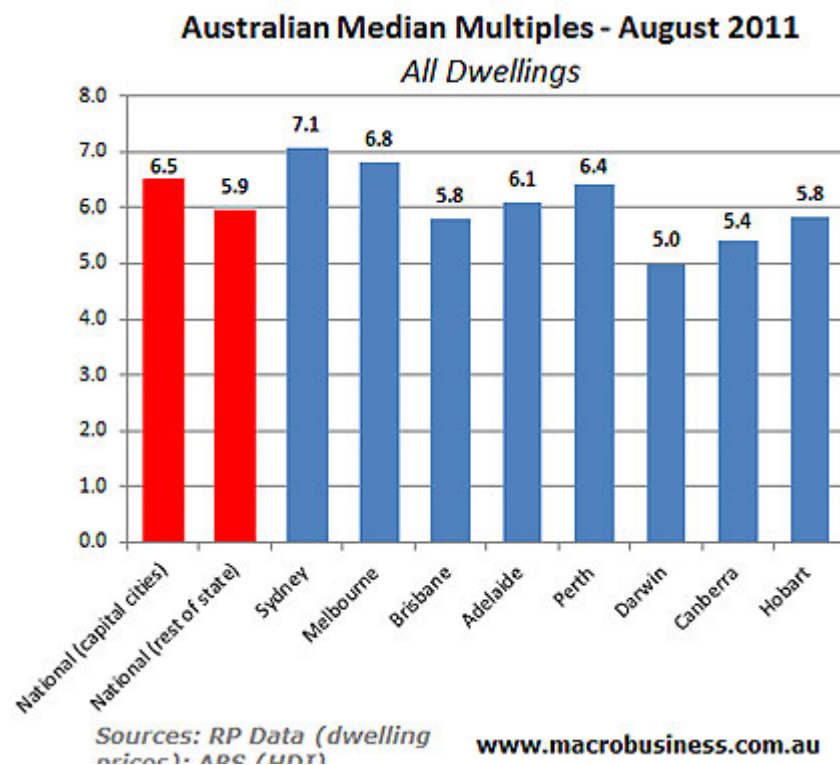
Sydney has the highest average house price of any city in Australia



Source: ABS 6416.0, House Price Indexes – Eight Capital Cities, March 2012

MacroBusiness Australian Housing Valuation Report²³ contains the next chart showing the Median Multiples (median dwelling prices divided by median household disposable income) for Australia's capital cities, with Sydney identified as the most expensive housing market based on this measure.

Dividing median dwelling prices by median household disposable income confirms that Sydney is also the least affordable housing market of all capital cities in Australia.



(Source: <http://www.smh.com.au/business/time-for-sydney-to-shed-its-housing-funk-20111004-117dd.html#ixzz1xYnVXcOn>)

Because Sydney's housing affordability crisis stems from a housing shortage, its attractiveness to investor's remains²⁴.

Overall, Sydney's housing market provides a safer-than-average (Australian) proposition from an investment housing viewpoint, due in no small part to its more subdued price growth, the higher rental yields on offer, and the genuine housing shortage following a decade of lagging new home construction

The windfall profit from Sydney's house price escalation has not flowed to developers since they don't accrete property, but to existing home owners and investors. Attempts to make homes more affordable by replacing large unattached houses near commercial centres and transport hubs with apartments, terraces and town-houses are often condemned as the work of greedy developers. Yet resisting adequate accommodation for Sydney's growing population aids and abets the real profiteers who are Sydney's detached home owners who are growing rich on the back home-seekers

²³ <http://www.smh.com.au/business/time-for-sydney-to-shed-its-housing-funk-20111004-117dd.html#ixzz1xYnVXcOn>

²⁴ <http://www.smh.com.au/business/time-for-sydney-to-shed-its-housing-funk-20111004-117dd.html#ixzz1xYm86a6h>

bidding up scarce stock by taking on unsustainable mortgages. Meanwhile builders have been losing money and going broke.

Developers attribute their growing disinterest in Sydney to a lack of land zoned for medium to high density housing such as terraces, townhouses, apartments and units; a tortuous building approval process that makes land holding costs excessive; inordinately high regulatory costs from various taxes and charges on new homes; and high legal contingency costs imposed by statutory warranty provisions under the NSW Home Building Act.

Local Government's Role

Local government contributes to growing developer disengagement in three ways:

- Restricting the amount of land available for attached houses and apartment buildings
- Increasing the holding cost of land by creating uncertainty on development applications
- Expecting developers to make up for the shortfall in Council spending on infrastructure

Property developers are frustrated by the political obstacles to overcoming Sydney's housing crisis. As one leading builder recently told a property outlook forum conducted by CEDA²⁵:

Another review – can we please have some reform? The issues are obvious....So are the solutions. All it takes is political will and courage.

We shall deal with each of the three barriers to developers solving Sydney's housing shortage – zoning restrictions, holding costs and infrastructure charges throughout the remainder of this report.

Development Approvals Logjam

NSW's development approval logjam results in higher planning, design and land holding costs. NSW takes more than twice as long as Queensland to process development applications. Also its application rejection rate is almost twice that of Queensland. On the statistics NSW is a fraction better than Victoria, but neither state is exemplary. Furthermore, according to developers Victoria's regulatory regime while being slow adheres better to its rules and so offers greater certainty of outcome.

²⁵ Matthew Quinn, Managing Director, Stockland, *Address to CEDA on Property Outlook*, April 2012

All Local Councils	Queensland	NSW	Victoria
Average time to process development applications*	31 days	67 days	76 days
Proportion of development applications refused or rejected	2.1%	3.5%	4.0%
*includes stop-the-clock and referrals to state agencies			

(Sources: Qld. Dept. of Local Government and Planning, *Growth Management Queensland – Development Assessment Monitoring and Performance Program Annual Report 2010/11*, Feb 2012, pages 1-2; NSW Dept. of Planning and Infrastructure, *Local Development Performance Monitoring*, Feb 2012, page 1; Vic. Dept. of Planning and Community Development, *Planning Permit Activity in Victoria 2010/11*, Feb 2012, pages 14-15)

According to the Productivity Commission, jurisdiction wide development times fell dramatically in Queensland in 2009/10 for high growth councils. NSW on the more complete 2008/09 data was substantially faster in processing development applications than Victoria and the Northern Territory, but significantly slower than South Australia, Tasmania and the Australian Capital Territory.

Table 7.9 Jurisdiction-wide development application approval times in days, 2008-09 and 2009-10

	NSW	Vic	Qld ^a	WA ^b	SA	Tas	ACT	NT
2008-09								
Average	71	123	165	101	na	28	36	77
Median	41	78	104	79	15	29	33	81
Total DAs	87 056	54 162	23 809	4 921	70 852	8 997	1 319	921
DAs per 1000 population	12	10	5	2	44	18	4	4
2009-10								
Average	67	117	98	na	na	na	34	56
Median	41	73	38	na	na	na	27	67
Total DAs	86 553	55 874	17 766	3 911	na	na	1 469	770
DAs per 1000 population	12	10	4	2	na	na	4	3

na not available. ^a Figures for Queensland related to the 19 high growth councils for which data is collected by the Department of Planning Infrastructure. ^b Figures for Western Australia mainly relate to subdivision approvals by the Western Australian Planning Commission and do not include applications processed by local councils as that information was not collected.

Source: LGPMC 2011, New South Wales Local Development Performance Monitoring 2009-10, Planning Permit Activity in Victoria 2009-10, Queensland Department of Infrastructure and Planning (personal communication), WAPC and Department of Planning Annual Report 2009-2010, PC State and Territory Planning Agency Survey 2010 (unpublished).

(Source: Productivity Commission: *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, Research Report, Volume 1, April 2011, page 255, http://www.pc.gov.au/__data/assets/pdf_file/0003/108840/planning-volume1.pdf)

NSW cannot afford a prolonged and uncertain development application process given the urgency of fixing its severe housing construction shortfall. As one construction group has observed²⁶:

Scarcity stands Sydney apart from other cities... *Over the past five years, construction in the Sydney residential market has been running at historic lows, falling short of population growth by an estimated 45,000 dwellings. In contrast, construction in Melbourne is at record highs oversupplying an estimated 25,000 dwellings over the same period. Australia's two largest cities are currently at completely different ends of the spectrum with scarcity factors clearly evident in Sydney while Melbourne struggles with excess construction.*

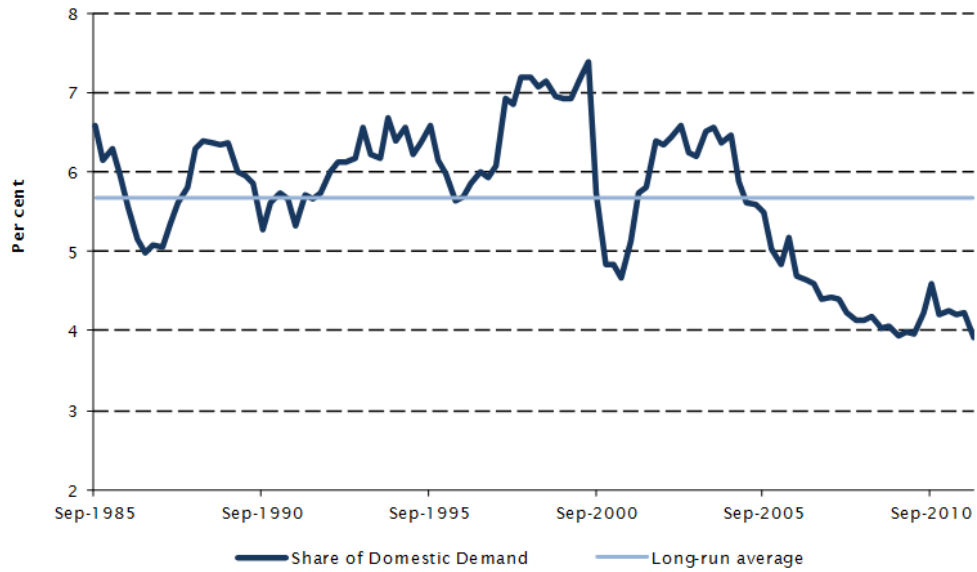
Sydney rental surge to lead prices... *Since March 2004, the record low level of construction in Sydney has driven rents up dramatically with a total increase during that period of 68%. During the same period house prices have lagged significantly with a total gain of 11.5%. In Sydney's affordable locations rental returns are the highest they have been in a very long time with considerable pressure building for price growth as sentiment improves over the period ahead.*

The bleak state of the NSW dwelling construction was acknowledged by the state government in its 2012/13 budget. To quote Budget Statement No2 (page 2-12):

As shown in Chart 2.2 (below), dwelling investment is currently at a historical low as a share of state final demand. The long period of decline in dwelling investment to 2008-09 has led to a low building approvals-to-population ratio (despite the recent moderation in population growth) and a low rental vacancy rate. Tightness in the rental market has seen rental prices increase strongly over the last year – well above their decade average. This suggests a considerable undersupply of housing, which combined with growth in population and household incomes, lower interest rates and the Government's housing strategy will support the resumption of the dwelling investment recovery.

²⁶ Quartile info@quartile.com.au, 16th May 2012

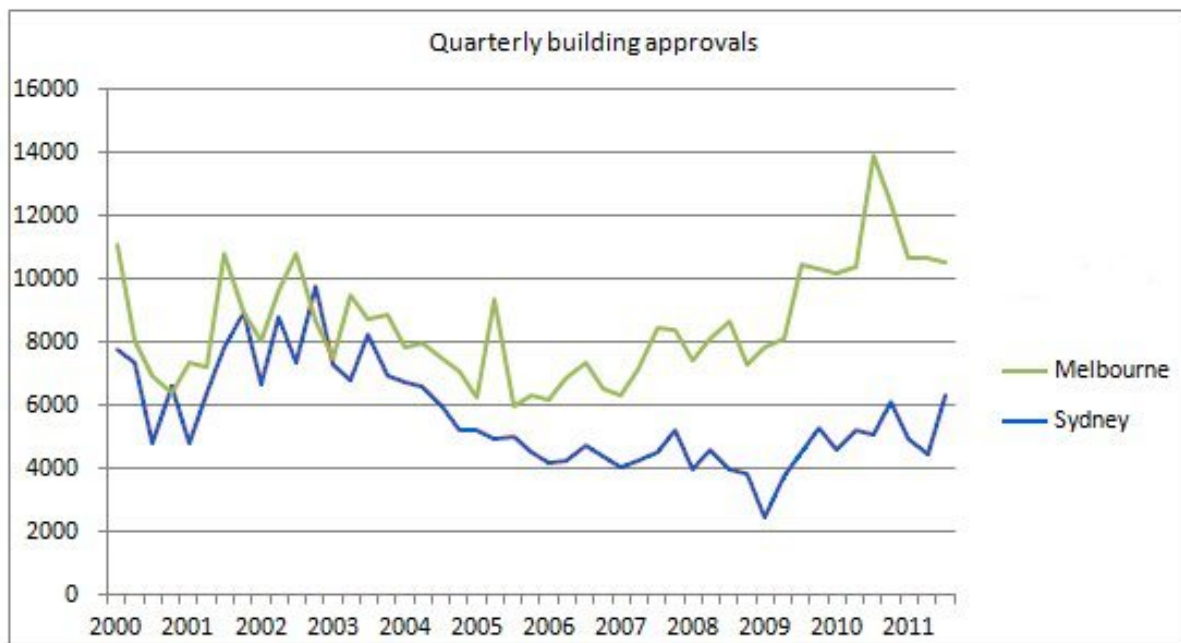
Chart 2.2: NSW Dwelling Investment share of Domestic Demand



Note: Chain Volume
Source: ABS 5206.0

(Source: NSW Treasury, Budget Statement No 2, page 2-12)

After 2003 Sydney’s building approvals fell below Melbourne’s. For every 5 homes now built in Melbourne, only three are built in Sydney notwithstanding Sydney being the larger city.



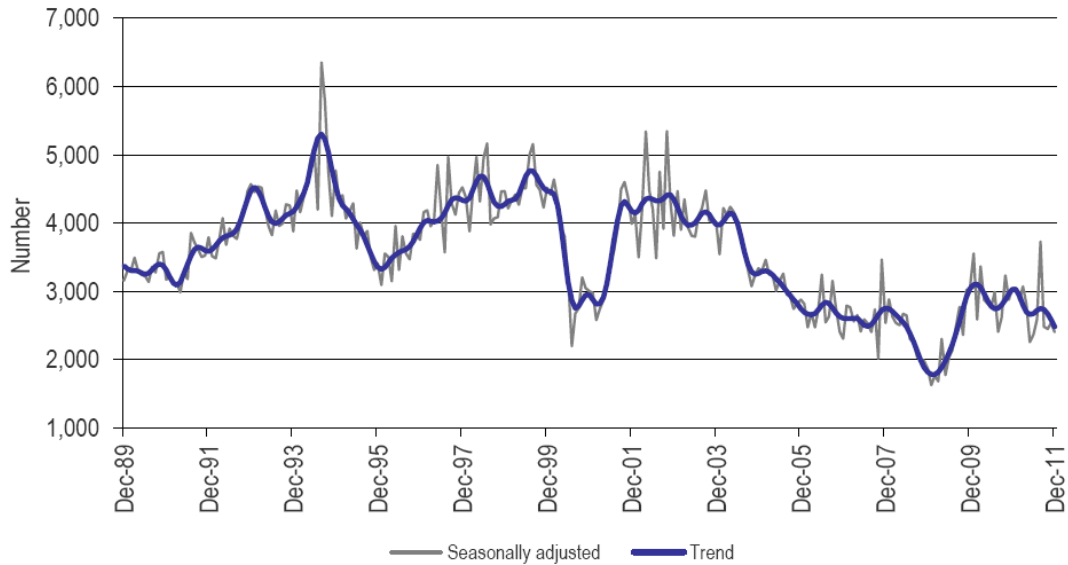
(Source: Brett Johnson, Managing Director, Quartile Property Network Email, 16th May 2012)

The problem is not confined to Sydney but applies to the whole of NSW where the trend for building approvals has been declining for a decade.

NSW Approvals are heading in the wrong direction

Building Approvals - NSW

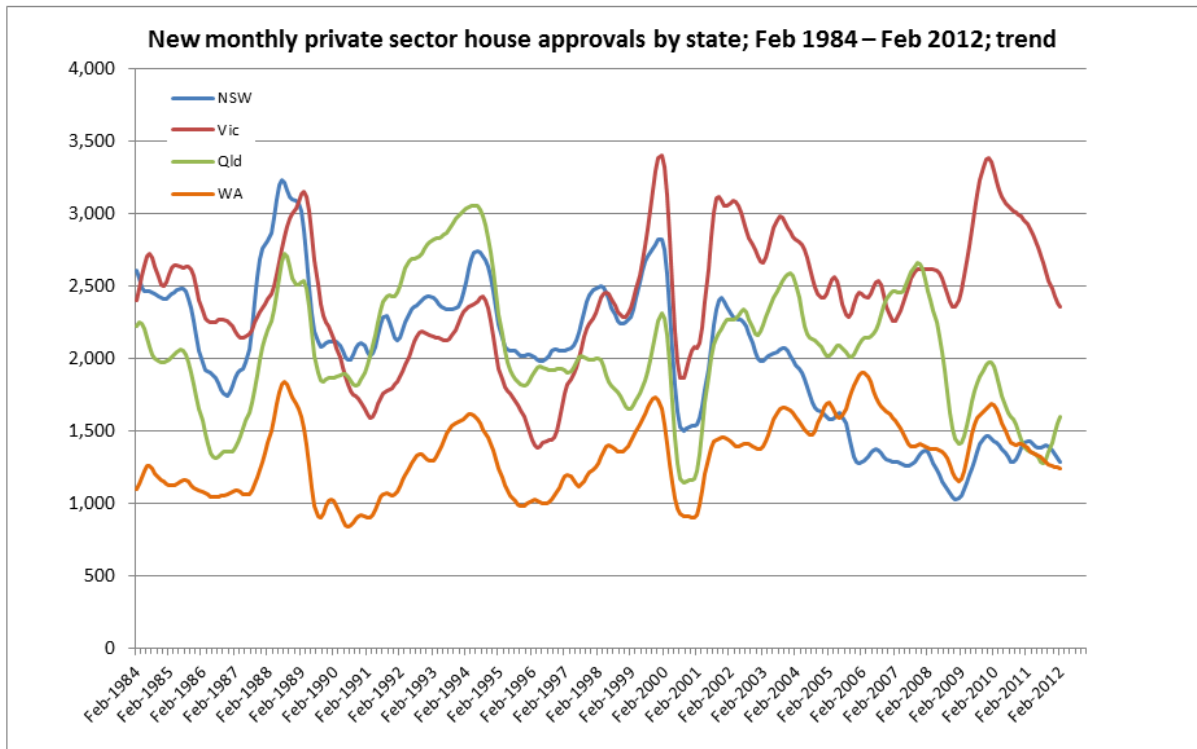
Source: ABS Building Approvals



(Source: Harley Dale, HIA Chief Economist, *The Outlook for the Housing Industry in NSW*, Housing Industry Association, March 2011, slide 15

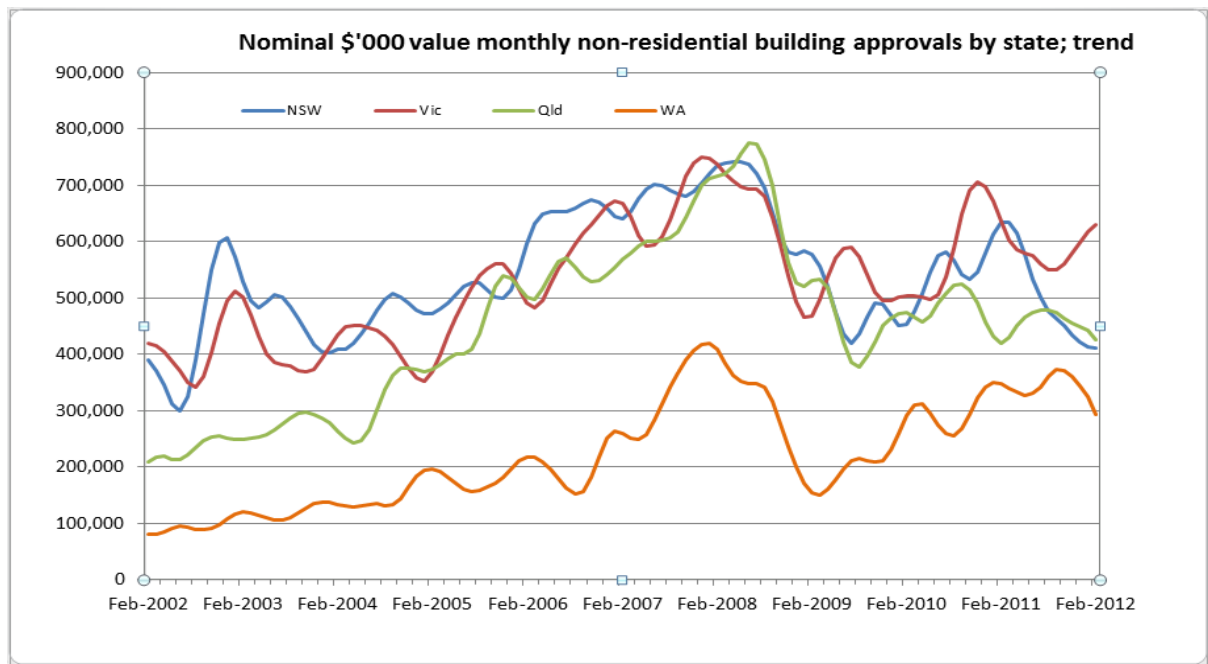
<http://economics.hia.com.au/media/NSW%20IOB%20March%202012.pdf>)

Worse still private sector housing activity in NSW has fallen from being amongst the strongest of the four largest states in 1984 to now being amongst the weakest.



(Source: Chris Johnson, Urban Taskforce, April 2012)

Non-residential building work collapsed during the global financial crisis. More recently it's fallen sharply again in NSW notwithstanding a change of government.



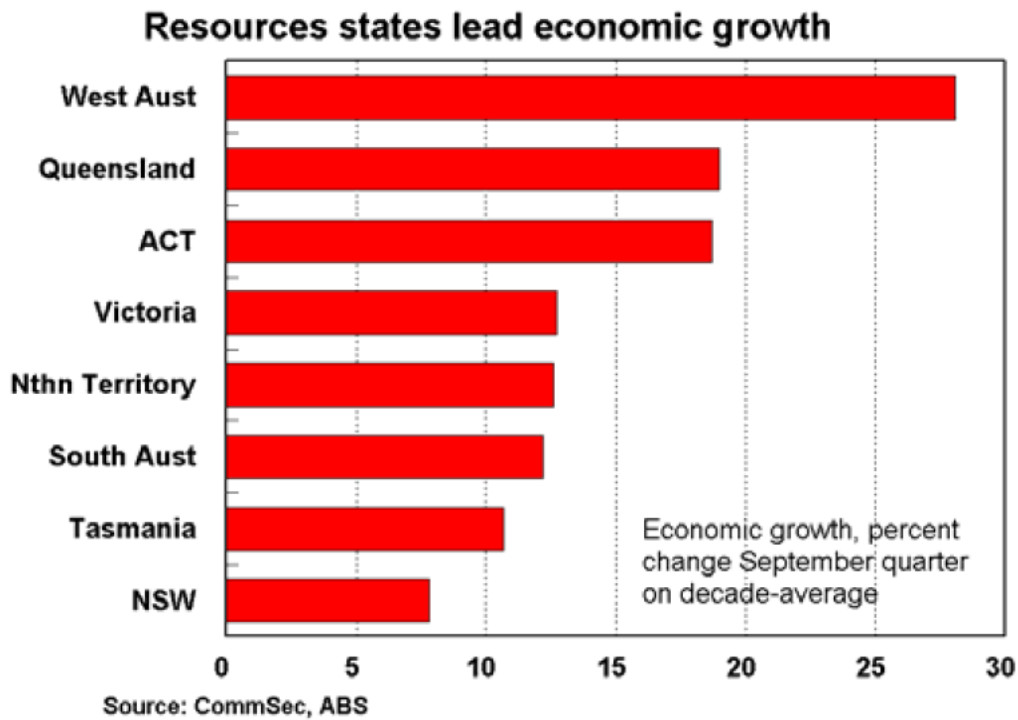
(Source: Chris Johnson, Urban Taskforce, April 2012)

Economic Fallout

The collapse of the NSW construction industry over the last decade helps explain why a survey by CommSec²⁷ downgraded Australia's economic growth between the September quarters of 2010 and

²⁷ : Commsec, *Economic Insights - State of the States*, Jan 23rd 2012, <http://www.smh.com.au/nsw/nsw-in-slow-lane-of-new-economy-20111023-1mel1.html#ixzz1wJ21HY00> 24.10.2011).

2011 to three-speed, with Western Australia ranked the fastest, and NSW in the slowest lane.

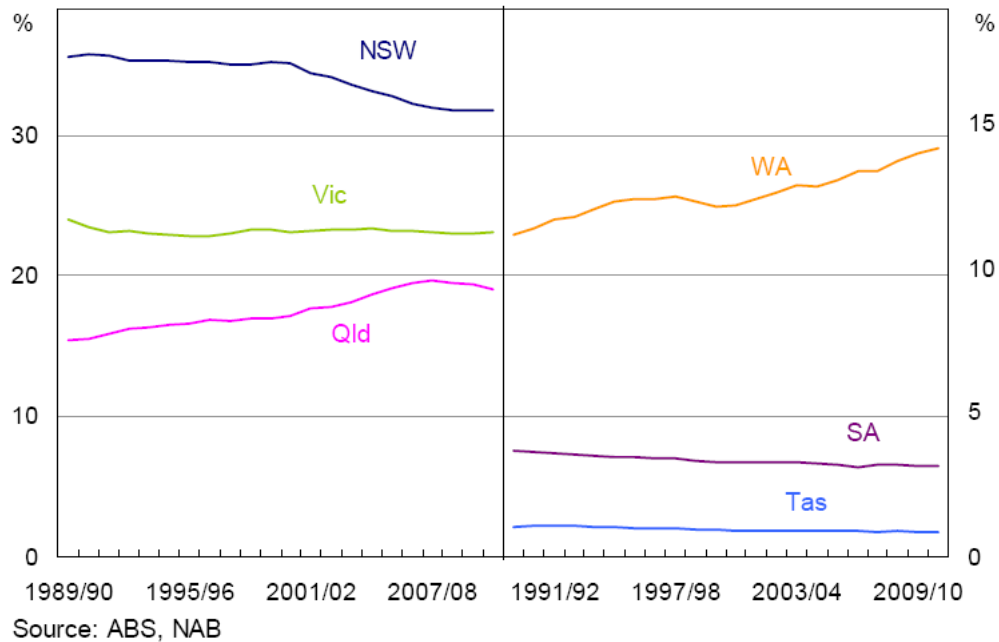


(Source: Commsec, *Economic Insights - State of the States*, Jan 23rd 2012

<http://images.comsec.com.au/ipo/UploadedImages/stateofstatesd3b572aba971480a8599185732643e6a.pdf>

NSW's housing industry collapse largely explains why its relative contribution to the national economy has been shrinking for a decade as shown in the next chart. Being one of the world's largest coal exporters did not help NSW offset its poor performance on home building. Indeed Victoria (which is not a major resource exporter) held up its share of national GDP in the face of booming economies in Western Australia and Queensland. When it comes to the economy, NSW has lost its mantle as the Premier State which explains why the newly elected government has made it a priority to make the state 'Number One' again starting with a raft of housing stimulus measures.

Share of Real GDP



(Source: National Australia Bank, *State Economic Update*, 21st March 2012, graph 22

<http://www.nab.com.au/wps/wcm/connect/f0f8c1804aac82fea642bf280d48474e/StateEconomicUpdateMar2012.pdf?MOD=AJPERES&CACHEID=f0f8c1804aac82fea642bf280d48474e>)

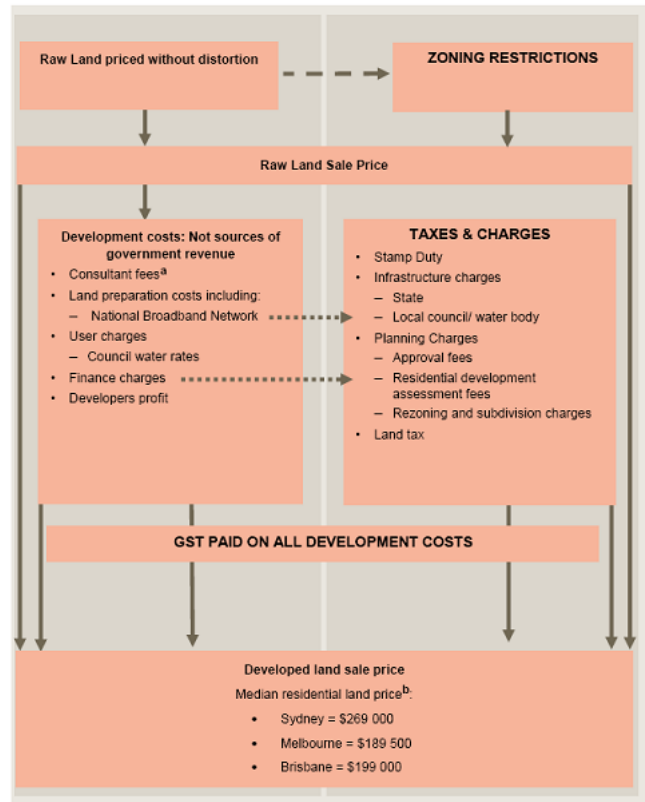
The resultant shortage of homes in Sydney is creating severe distress for many residents. A study by the National Centre for Social and Economic Modeling at the University of Canberra²⁸ found almost 300,000 NSW renters and home buyers were in "housing stress" - at risk of falling into poverty once they had paid for a roof over their heads. Proportionately that was higher than the one in ten Australian households that spend so much on rent or mortgage payments they have little left over for other bills.

Statutory Imposts

Adding to the cost of a home is taxes and statutory charges by each tier of government, national, state and local. The following chart depicts the layer of state and local government imposts on a new house.

²⁸ Study commissioned by Australians for Affordable Housing -<http://www.smh.com.au/nsw/nsw-in-slow-lane-of-new-economy-20111023-1me11.html#ixzz1wJ3OC6LG> 24.10.2012

3.4 Value chain land development



(Source: The CIE, *The Taxation of the Housing Sector*, 8th Sept 2011, page 34
<http://hia.com.au/media/Industry-policy/~media/Files/documents/CIE%20Tax%20Report.ashx>)

An independent report by the Centre for International Economics (CIE)²⁹ dispelled the myth that the home building is given favourable tax treatment by government. Indeed the reverse is true.

The housing sector is one of the most heavily taxed sectors of the Australian economy, both in absolute and relative terms. The housing sector contributes between \$36 billion and \$40 billion in taxation revenue each year to federal, state and local governments in Australia. This equates to 11 to 12 per cent of the total revenue collected by all tiers of government. Only one sector, wholesale and retail trade, contributes more and its contribution is only marginally larger.

For the average Sydney house, The CIE estimates that the percentage of tax as a share of the total dwelling cost is 17 per cent for hidden and ambiguous taxes, 14 per cent for generic taxes accruing to direct and intermediate inputs (indirect taxes) and 12 per cent for direct taxes. It says:

- *Including direct, indirect, and hidden taxes the tax on new housing is estimated at 44 per cent of a new house in Sydney, 38 per cent in Melbourne, and 36 per cent in Brisbane.*
- *Model simulations show that most of the burden of taxation falls on home buyers.*
- *Many of the taxes on housing are economically inefficient, ranging in value from \$45,300 on a new apartment in Melbourne to \$141,500 on a new house in Sydney.*

²⁹ The CIE, *The Taxation of the Housing Sector*, 8th Sept 2011, page 34

Total Taxes on New Houses and Apartments

	New homes			New apartments		
	Sydney	Melbourne	Brisbane	Sydney	Melbourne	Brisbane
Direct	75 422	63 312	55 170	73 694	55 607	52 238
Hidden/ambiguous	106 276	45 398	56 346	51 331	28 545	46 718
Indirect	86 180	75 071	79 265	84 598	73 058	72 504
Total	267 879	183 781	190 781	209 623	157 210	171 460

Data source: TheCIE 2011.

Other findings of the study which was commissioned by the HIA are³⁰:

- Total taxes collected by governments for a new house is 44 per cent (\$268,000) of the purchase price of a new home in Sydney.

- While Sydney houses yielded the highest figure, the other figures were also high.

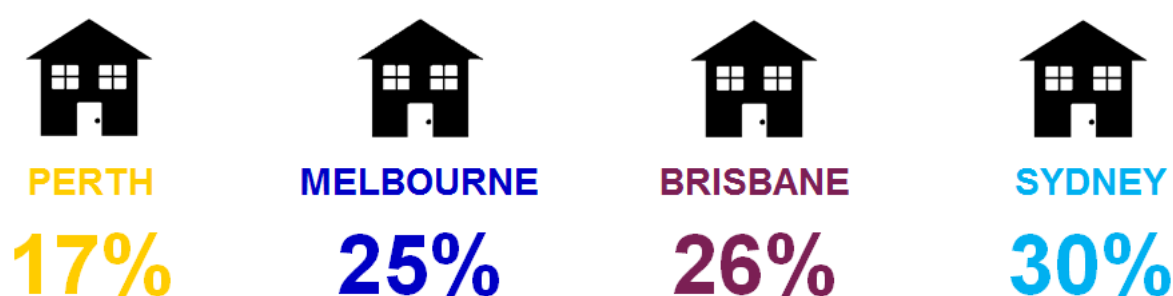
- However, the tax burden of housing was found to be considerably higher in Sydney:-

–For houses the tax burden is 46 per cent higher in Sydney than in Melbourne; 40 per cent higher than in Brisbane.

–For apartments the tax burden is 33 per cent higher in Sydney than in Melbourne; 22 per cent higher than in Brisbane.

NSW's excessive developer taxes and charges get built into home prices. According to one estimate state government imposts are higher in Sydney than other cities.

Percentage of a new home paid in taxes and levies

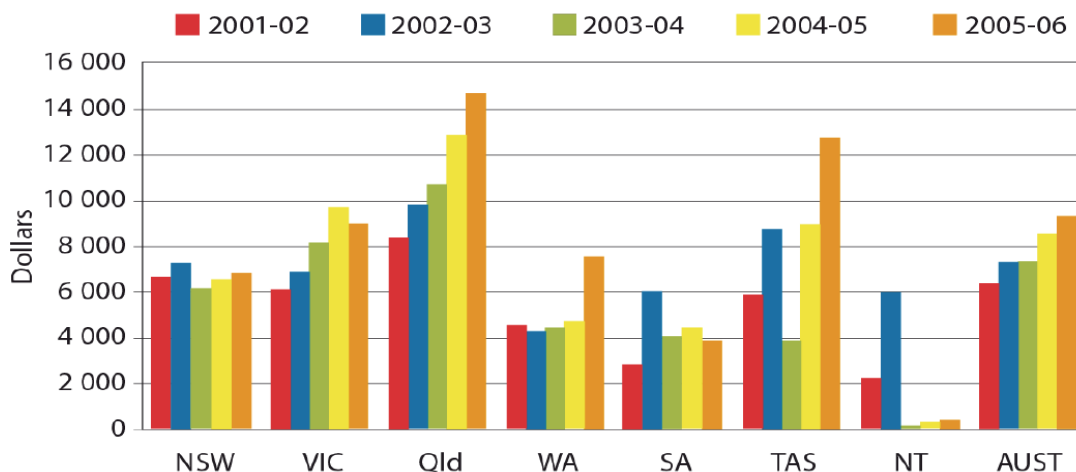


(Source: Matthew Quinn, Managing Director, Stockland, 2012 Property Market Outlook – Presentation to CEDA, 3rd April 2012)

This contradicts earlier research by the Australian Productivity Commission that reported developer contributions revenue per new dwelling commenced in 2005/06 was lower in NSW than every other jurisdiction except South Australia and the Northern Territory.

³⁰ <http://economics.hia.com.au/media/NSW%20IOB%20March%202012.pdf>

Figure 1. Rising Level of Developer Charges



Measured in developer contributions revenue per new dwelling commenced.⁴
 (Reprinted from Productivity Commission Report, *Assessing Local Government Revenue Raising Capacity*, April 2008, p133)

⁴ Points to note re data

- 2005-06 dollars
- Data are adjusted to 2005-06 dollars using the ABS non-farm GDP deflator.
- A building is commenced when the first physical building activity has been performed on site in the form of materials fixed in place and/or labour expended. A dwelling is a self-contained suite of rooms intended for long-term residential use.
- The NT revenue data prior to 2002-03 are considered unreliable and are not reported. NT local government can levy developers only for contributions to car parks, roads and drainage infrastructure, external to a development.
- Results might be driven somewhat by timing differences, and/or time lags, in the data.

Source: ABS (2007e); ABS unpublished; Productivity Commission calculations.

(Source: MBA, *Infrastructure Charges – when bad taxes beget more taxes*, 2009)

Development contributions are payments made by a developer to a consent authority to contribute to shared local infrastructure, facilities or services and certain types of State infrastructure. Development contributions may be in the form of money, land, buildings, or works in kind.

According to a NSW Parliamentary Library Research Brief³¹, the five main types of developer contributions in NSW are:

- *Section 94 contributions – often referred to as a local infrastructure contribution, these are paid to the local council.*
- *Section 94A levies - a levy paid to the local council which is a percentage of the proposed cost of carrying out development.*

³¹ Louise O'Flynn, *History of development contributions under the NSW planning system*, NSW Parliamentary Library Research Service e-brief, 3/2011
[http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/key/HistoryofdevelopmentcontributionsundertheNSWplanningsystem/\\$File/FINAL+development+contributions.pdf](http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/key/HistoryofdevelopmentcontributionsundertheNSWplanningsystem/$File/FINAL+development+contributions.pdf)

- *Planning agreements – negotiated between the developer and the planning authority outlining the agreed developer contribution. These are used as an alternative or adjunct to s94 contributions and s94A levies.*
- *Provision of affordable housing – levy collected by the council in designated areas for development that reduces the availability of or creates a need for affordable housing.*
- *Special infrastructure contribution – paid into an infrastructure fund established by the NSW Government for designated growth centres.*

The Brief cites Professor Brian Dollery of the University of New England as identifying three main reasons for such charges:

- 1. To augment the funding of municipal infrastructure by taxing those who benefit directly from infrastructure improvement.*
- 2. It is economically efficient for developer charges to be levied on those responsible for the development so that infrastructure costs are included in development decision-making*
- 3. It is equitable to charge those individuals who benefit from public investment in infrastructure.*

A study by Access Economics in 2009 of the annual increase in municipal rates, state and local government taxes and developer charges over the period 2001/02 to 2005/06 found that developer charges grew by almost three times the rate of the two other public revenue categories. This study applied to Australia as a whole, but the history of developer charges in NSW would suggest that the situation in this state was similar if not worse.

Indeed a developer backlash against local government infrastructure charges going well beyond the costs of providing immediate roads, kerbs, street lighting and storm water drains for new developments saw the state government in June 2010 impose caps on such contributions. Cynics at the time claimed that was simply to make room for additional state charges for water, sewerage, electricity and other utility infrastructure.

NSW Developer Charges Cap June 2010

New \$20,000 cap on local government infrastructure levies

- The NSW Government will make the current \$20,000 threshold a legal cap on all local development contributions and put in place mechanisms to allow councils to fund legitimate infrastructure costs that cannot be recovered under the cap.
- In the event of any council seeking an increase above that cap, IPART will now review that application.
- If IPART determines an increase is warranted, the council will then take responsibility for funding the difference, meaning developers will not pay any more than the cap.
- This will provide consistency for the housing industry, and allow councils to take control for funding the needs of their growing communities.
- Future ordinary rate increases will also be determined and set by IPART and not the Government under new criteria to be finalised with the Local Government Association (LGA).
- As well as the \$20,000 cap, councils will need to limit contributions in their Section 94 plans to essential infrastructure that is necessary for the development to happen, such as land for open space and community facilities, road works and stormwater management.

<http://www.gcc.nsw.gov.au/media/100604%20Housing.pdf>

12/06/2012

Percy Allen & Associates Pty Ltd

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(Source: <http://www.gcc.nsw.gov.au/media/100604%20Housing.pdf>)

In Sept 2010 the caps were refined further.

The Government announced additional measures on [16 September 2010](#) to "accelerate housing and keep downward pressure on prices."⁶⁰ The Direction issued by the Minister for Planning under section 94E of the *EP&A Act*, revoked the previous Direction, dated 4 June 2010. Planning Circular PS 10-022 explained:

- The \$20,000 per dwelling or per residential lot in existing areas would be retained.
- The cap will be \$30,000 per dwelling or per residential lot in greenfield areas to recognise the higher costs of creating well-planned communities in these areas.
- Areas where development applications for more than 25 percent of the expected dwelling yield under existing contributions plans have been lodged are exempted from the cap.
- An essential works list now applies when councils are seeking priority infrastructure funding or a special rate variation.
- Establishment of a \$50 million Priority Infrastructure Fund for projects on the essential works list above the cap.⁶¹

(Source: NSW Parlt – EBrief, *History of Development Contributions.....* March 2011, [http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/key/HistoryofdevelopmentcontributionsundertheNSWplanningsystem/\\$File/FINAL+development+contributions.pdf](http://www.parliament.nsw.gov.au/prod/parlment/publications.nsf/key/HistoryofdevelopmentcontributionsundertheNSWplanningsystem/$File/FINAL+development+contributions.pdf))

Whatever the rationale for developer charges their impact on housing affordability was depicted vividly in a flow chart that appears in an MBA report of 2009 called *Infrastructure Charges – when bad taxes beget more taxes, 2009*



A report by the Qld Infrastructure Taskforce in March 2011 recommended that infrastructure charges should exhibit the following attributes:

Final recommendation 1

The following principles be adopted as a guide to improving the current infrastructure charging system:

- a. **Certainty:** Infrastructure charges should be predictable with respect to the quantum and timing and in accordance with the declared regime
- b. **Transparency and accountability:** Infrastructure charges should be transparent, understandable and defensible. Infrastructure charging regimes should be supported by publicly assessable information regarding the determination of the charges and the allocation of the funds generated
- c. **Equity and reasonableness:** Infrastructure charges should be shared for the benefit of all Queenslanders with regard to the affordability for the community, industry, government and property owner
- d. **Simplicity and consistency:** Infrastructure charges should be clearly defined in line with published methodologies and schedules. Infrastructure charges should be derived, collected, held and spent consistently across responsible authorities
- e. **Efficiency and economic impacts:** Infrastructure charges should not unnecessarily inhibit allocative, administrative or transactional efficiency, so as to facilitate development

(Source: Infrastructure Charges Taskforce, *Final Report - Recommended reform of local government development infrastructure charging arrangements*, Brisbane, March 2011, page 26

<http://www.dlqp.qld.gov.au/resources/report/ict/ict-final-report.pdf>)

The taskforce identified several issues that needed to be addressed in infrastructure charging arrangements in Queensland. They included:

- The need for:
 - certainty in the timing, predictability and cost of infrastructure charges payments
 - transparency and equity in determining and apportioning the charge
 - clarity of the cost of infrastructure provision
 - clarity in the infrastructure charges and the way they are calculated-
 - consistency in the application of the charges
 - simplicity in infrastructure charging arrangements including streamlining the current
 - priority infrastructure planning process
 - consistency in the levels of service standards
- The capability of industry and local government to accommodate these issues
- Development conditions and appeals processes.

(Source: Infrastructure Charges Taskforce, *Final Report - Recommended reform of local government development infrastructure charging arrangements*, Brisbane, March 2011, page 8
<http://www.dlqp.qld.gov.au/resources/report/ict/ict-final-report.pdf>)

The same could be said for NSW local government developer charges which notwithstanding state government caps don't have to be justified according to rigorous criteria as stated above.

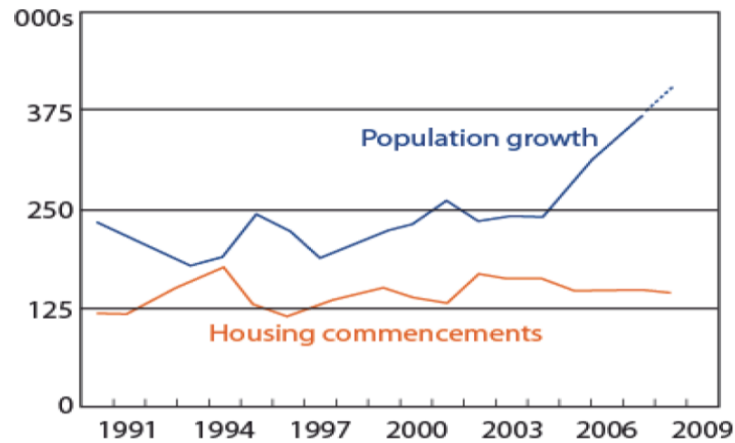
The NSW Government's Green Paper, *A New Planning System for New South Wales*, released in July 2012, acknowledged that the approach to developer contributions in the past has been complex, inequitable and inefficient with attempts at reform falling short of promise. The government says it is determined to introduce a fairer, more transparent and more efficient scheme in future where:

- Levies contributing to cost recovery must be competitive with those in comparable markets in other jurisdictions and must not compromise housing affordability or inhibit housing delivery.
- The 'beneficiary pays' principle and the principle of 'avoidable cost' raised by the productivity commission and the Henry Tax Review shall apply where appropriate.
- Levies should demonstrate that the cost of provision of infrastructure in some areas is higher than others.
- Levy contribution should spread costs to the broadest base of beneficiaries over a long timeframe where possible to avoid concentrating costs on a minority of residents.
- Levies should support developer contestability in catering for a diverse range of market requirements for infrastructure and services.
- Levy revenue collection must have a transparent link to infrastructure programming and delivery rather than be used for improving the authority's fiscal position.

Dwelling Stock Deficiency

Australia's population increase is higher than its housing commencements.

Figure 4. Housing Demand and Supply

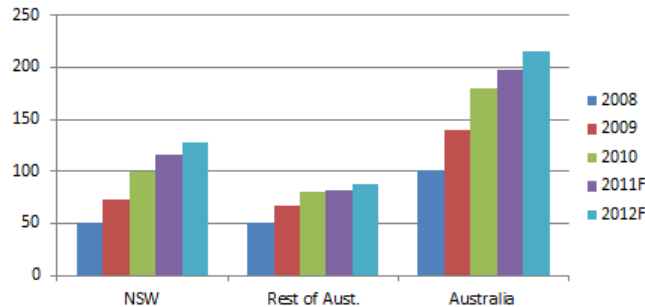


Source: Reserve Bank of Australia, *Financial Stability Review*, March 2009

(Source: MBA, *Infrastructure Charges – when bad taxes beget more taxes*, 2009, page 8)

According to BIS Shrapnel³², in 2008 NSW accounted for about half of Australia’s dwelling stock deficiency of 100,000 homes. Now NSW’s dwelling shortage has grown to about 125,000 which accounts for about 58% of Australia’s total shortfall.

**Dwelling Stock Deficiency Trends
- NSW versus Rest of Australia**



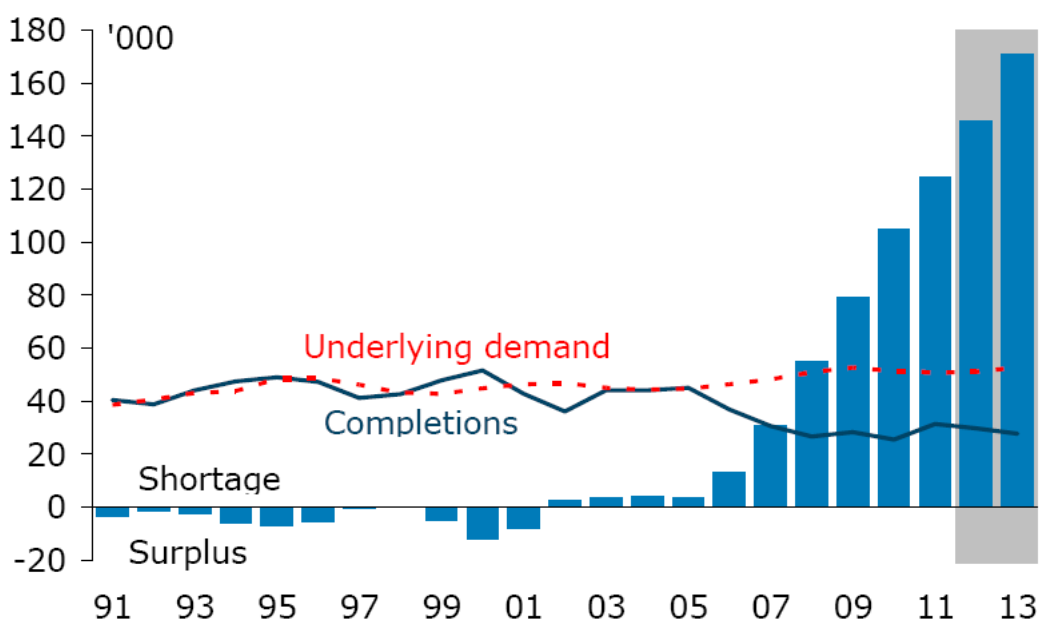
Source: BIS Shrapnel, *Building Industry Prospects*, March 2011, page 19.

The ANZ Bank’s economics department³³ estimates the NSW housing shortfall was about 125,000 in 2011 growing to 170,000 by 2013.

³² BIS Shrapnel, *Building Industry Prospects*, March 2001, page 19

³³ ANZ Research, *Australian Housing Chartbook*, January 2012, page 10

NSW housing market balance



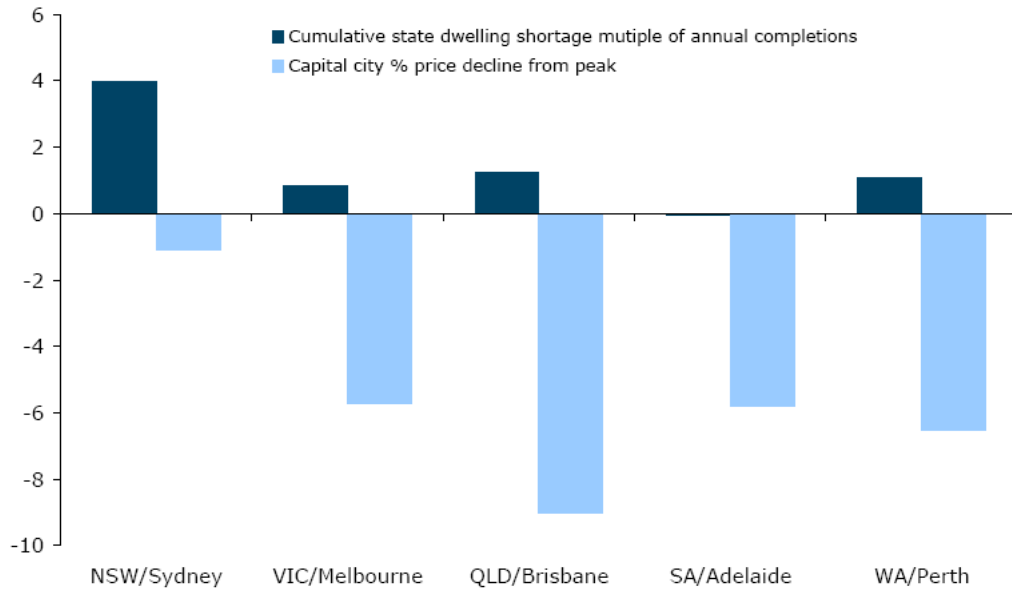
(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 10

<http://www.anz.com/resources/4/f/4f8395804a46c7e08341cbac93b0266b/Australian+Housing+Chartbook.pdf?CACHEID=4f8395804a46c7e08341cbac93b0266b>)

The ANZ Bank’s economic team³⁴ estimate that Sydney’s cumulative housing shortage expressed as a multiple of annual housing completions is at least four times that of any other mainland state capital city. It explains why Sydney’s home prices have not come off the boil as much as those in other cities.

³⁴ ANZ Research, *Australian Housing Chartbook*, January 2012, page 6

DWELLING PRICES & HOUSING MARKET SHORTAGE



Sources: ABS, RP Data-Rismark, Residex, ANZ Research

(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 6, <http://www.anz.com/resources/4/f/4f8395804a46c7e08341cbac93b0266b/Australian+Housing+Chartbook.pdf?CACHEID=4f8395804a46c7e08341cbac93b0266b>)

The National Housing Supply Council's State of Supply Report 2011³⁵ found that for Australia.

- *The shortfall in dwelling supply to underlying demand was around 215,000 in 2010-11.*
- *The largest gaps are in NSW and Queensland which between them account for over three quarters of Australia's supply shortage (see table below).*
- *The greatest shortages are in affordable purchase and rental for households on low to moderate income, and subsidised rental housing for low income people.*
- *On existing trends a shortfall of over 600,000 dwellings would occur by 2030.*
- *Such severe shortages could have negative repercussions for economic growth and living standards.*

Table 4.3 Estimated dwelling gap since June 2001 ('000 dwellings), states and territories

	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	Australia
2001	0	0	0	0	0	0	0	0	0
2002	6	0	11	2	2	1	0	0	21
2003	4	-5	21	2	3	2	0	0	26
2004	4	-11	26	2	4	2	0	-1	26
2005	3	-18	28	1	5	2	0	0	21
2006	10	-26	31	0	5	2	1	-1	22
2007	16	-13	38	-1	9	1	4	0	54
2008	22	1	40	-3	17	0	9	0	86
2009	56	18	55	0	29	0	10	1	169
2010	74	16	66	-2	34	1	11	0	200
2011	89	10	83	-3	38	0	12	-1	228

Source: National Housing Supply Council estimates of underlying demand; National Housing Supply Council estimates of dwelling completions net of demolitions and adjusted for unoccupied dwellings.

Note: Figures may not sum exactly due to rounding. Size of gap is measured as the difference between the increase in underlying demand and the increase in adjusted supply. A negative value indicates a surplus.

³⁵ <http://www.nhsc.org.au/council-media-release.html>

(Source: National Housing Supply Council, *Housing Supply and Affordability Indicators*, 2012, page 25, http://www.nhsc.org.au/content/publications/housing_supply_affordability/downloads/housing_supply_affordability_report.pdf)

The Council's projections are shown in the following table.

Table 5 Growth in gap between underlying demand and adjusted net supply including cumulative gap (number of dwellings), selected years, 2010–2030

Year ended 30 June	Additional annual underlying demand and supply			Cumulative gap
	Medium household growth	Adjusted net medium supply growth (a)	Annual growth in gap between underlying demand and adjusted net supply	
2010	–	–	–	186,800
2011	162,600	134,600	27,900	214,700
2012	164,200	135,300	29,000	243,700
2013	165,100	135,900	29,100	272,800
2014	164,800	136,500	28,300	301,100
2015	164,800	137,100	27,700	328,800
2020	163,500	140,300	23,300	456,400
2025	162,200	142,100	20,100	556,900
2030	161,900	145,300	16,700	640,200

Source: National Housing Supply Council projections based on McDonald and Temple medium household growth scenario; National Housing Supply Council projections based on trends in dwelling completions; see Appendices 2 and 3 for full details.

Note: (a) Adjusted net medium supply growth is additional supply less estimated demolitions, with resulting net production discounted by 5.9 per cent to account for dwellings unavailable to meet underlying demand.

(Source: National Housing Supply Council, *Key Findings of the 2011 State of Supply Report*, Dec 2011. Page 5, http://www.nhsc.org.au/state_of_supply/2011_ssr_rpt/docs/nhsc-key-findings-2011.pdf)

Developer Strike

Given the three major complaints of developers – inadequate land zoned for denser development, high holding costs from planning uncertainty and mandatory levies that go beyond the costs of property development - what are the consequences for Sydney of being too expensive to develop? Indeed given the low rate of expansion of residential stock in Sydney in the last decade is the city in the grip of a developer strike or at least a go slow action? The evidence would suggest yes.

The lack of housing activity in Sydney can be traced to a flight of capital to other states. Sydney's antipathy to development is stoking a housing crisis. Residential developers in Sydney complain that medium and high density residential projects just don't commercially stack up because homes can no longer be built for a price affordable to most people.

In rejecting development Sydney-siders may have achieved their wish, but the consequences for the metropolis could be devastating. No one can force developers to stay in NSW if they find it's too difficult to do business here. Unless developers stop voting with their feet Sydney's acute housing shortage will grow worse as its population growth continues to outstrip its home construction.

A growing housing scarcity will push up prices which are already excessive by historical and international standards. This will make it hard for the younger people to plan a future here. Or it could precipitate a US style housing bust should interest rates start rising after falling for 30 years.

Unless the balance of multi to single dwelling zoning is significantly increased it will be harder for retirees wanting to unlock the values of their houses to buy apartments and provide for their retirement. Indeed it could result in a surfeit of large detached houses and a worsening scarcity of smaller dwellings including units.

The 2012 NSW Budget recognised the absence of residential development as the key reason why the NSW economy had stalled. The centerpiece of the Budget was a *Building the State* package to stimulate the housing sector by:

- provide half a billion dollars for additional infrastructure that accelerates the delivery of up to 76,000 more properties to significantly boost housing supply,
- redirect financial incentives to new housing for first home owners and buyers of new properties,
- allocating \$13 million to fast track approvals for State significant projects and clearing the backlog of residual Part 3A projects awaiting determination, and
- creating Urbangrowth NSW – a new agency blending Landcom and the Sydney Metropolitan Development Authority to drive urban renewal and land release.

(Source: <http://www.propertyoz.com.au/Article/NewsDetail.aspx?p=16&id=5840>)

Conclusion

Historic records suggest real Australian house prices fell between 1880 and 1950. Thereafter they escalated sharply, especially in the early 2000s. Sydney's average home price has traditionally been higher than that of any other capital city, but the gap has narrowed in recent years because other capital cities have experienced faster population growth. However, this gap is likely to grow again since Sydney's housing shortage is more acute than elsewhere in the nation. Not only are Sydney home prices set to increase relative to other states, but its rents which have been flat for a long time could escalate sharply since vacancy levels are historically low.

Since 1987, Australian home prices have outpaced both building construction costs and average household incomes in real terms. Households borrowed more to bridge the gap with the result that Australian mortgage debt to GDP now exceeds that of America whose housing crisis triggered a global financial meltdown in 2008. However, Australia's housing scarcity stands in stark contrast to America's housing glut which explains why our home prices have held up and with it the solvency of our banks.

Many reasons are given for why Sydney home prices have historically exceeded that of other capitals and are showing an underlying growth trend well in excess of household incomes and construction costs. They include high immigration, easy credit conditions and tax concession/home grants on the demand side and limited greenfield land releases on the supply side. But three important supply constraints can be traced back to local government, namely planning restrictions on denser land use, an uncertain and tortuously slow development approval process and excessive developer charges for housing related infrastructure.

These constraints often increase developer land holding costs making new housing unprofitable. The result has been a developer strike which has seen the level of home construction in NSW halve to

what it was previously. No other state has experienced such a severe slump. Its ramifications for NSW economic activity were that serious that the state government made reviving home building the top priority in its 2012-15 budget.

While these bold state actions are welcome unless they are quickly supplemented by reforms to local council planning and developer levies any upturn in building activity may not be sufficient to kick start the flat state economy.

Part 5. What Residents Want for Sydney

Opinion Polls

In 2005 communication's company, Trilogy Integrated Communications surveyed 200 residents in Sydney and Melbourne on how they viewed their respective cities³⁶. Compared with their Melbourne counterparts, Sydneysiders were overwhelmingly cynical about their city and had little faith in local and state governments to get planning and development right.

In contrast, Melbourne residents felt happier with everything around them. They thought their city was more affordable, their public transport systems were better and they had greater confidence and trust in their local councils.

The main findings for Sydney in the Trilogy Property Pulse 2005 survey were:

- *74% thought development was necessary to support the city's population growth.*
- *Yet 58% believed future growth and development is poorly managed, planned and designed.*
- *62% said that the Government doesn't have a good long term plan for Sydney's growth.*
- *54% wanted pressure taken off Sydney by developing elsewhere.*
- *67% believed Sydney's infrastructure was ill-equipped to handle future growth.*
- *Hence, 57% thought Sydney's plans for growth were unsustainable.*
- *59% felt there was inadequate community consultation in development.*
- *Only 30% felt developers cared as much about environmental and development issues as they did.*
- *58% thought local government does a poor job in controlling development.*

The survey concluded that a majority were concerned about the lack of a clear vision for what Sydney will look like in future, residents wanted a long term planning strategy to chart Sydney's future growth and development, Sydneysiders supported development that was sustainable, well designed and of a good quality and that getting community input to the substance of a project before it starts would be widely welcome.

Trilogy repeated its Property Pulse survey in 2006³⁷ increasing the number of people interviewed in Sydney and Melbourne to 300. The results showed some shift in attitudes from the previous survey:

- *Sydneysiders believed development is okay as long as it is planned well and has the support of the community (71% up from 62% in 2005).*
- *Sydneysiders were not aware of the Sydney Metro Strategy (81% up from 64% in 2005).*
- *Sydneysiders thought future growth and development was poorly managed, planned and designed (75% up from 58% in 2005).*
- *Sydneysiders thought Government did not have a good long term plan for Sydney's growth (82% up from 62% in 2005).*
- *Sydney's infrastructure was ill-equipped to handle future growth (81% up from 67% in 2005).*

³⁶ Trilogy Integrated Communications, *Property Pulse 2005*, Property Council of Australia, 4th August 2005. See also Media Release, *Work to be done to win Sydney's faith on the future*, PCA, 4th August 2005

³⁷ Trilogy Integrated Communication, *Property Pulse 2006*, Property Council of Australia, 2nd November 2006. See also Media Release, *Melbournians love their city*, PCA, 2nd November 2006

- *Sydneysiders supported mid-development in their local area (57%).*
- *Sydney's new suburbs were not a good place to live (64% up from 44% in 2005)*
- *Access to public transport was the second most important factor when deciding where to live (78%)*

Trilogy did not continue the Property Pulse survey after 2006.

A Sydney Morning Herald Readers Panel Poll published on the 6th April 2012 found that:

- *48.8% thought Sydney's population was too big.*
- *40.4% disagreed while another 10.8% had no opinion on this issue.*

The 1097 readers who answered the poll were roughly equally divided on whether they thought Sydney's size was a concern.

This confirmed the findings of a community survey by the Australian Productivity Commission published in April 2011³⁸ which found that of 24 selected cities in Australian, Sydney displayed the most antipathy to population growth with 64% opposing it and only 9% favouring it. The rest largely didn't care or know.

The main reasons for not wanting a population increase in Sydney were increased traffic congestion (89%), increased noise (60%), more crowded public transport (46%), loss of street appeal (43%), decreased property value (29%), loss of amenity (26%) and shadows cast by tall buildings (17%). Those favouring population growth gave as their reasons – brings in more services (56%), a more vibrant suburb(46%), increasing property values (43%), attract more retailers (40%), bring more transport (43%) and it's too quiet here now (9%).

In terms of attitudes to new development, 56% of Sydney respondents said they did not like multiple dwellings replacing single dwellings in their neighborhoods (the highest score for any capital city). Opposition to other forms of development was lower – changes in the use of industrial land (36%), residential development in new areas (34%), changes in shopping arrangements (25%) and alterations to an existing house or apartment block (17%). Opposition to development in Sydney was generally higher than all other cities except Geelong and Cairns.

Housing Preferences

Yet if we judge Sydneysiders by their actions rather than opinion polls, peoples' preferences look very different. According to a recent news report on accommodation changes between the 2006 and 2011 national censuses³⁹:

Sydney has more flats and other higher density dwellings than any other Australian city as residents continue their steady drift away from separate houses and into apartments and townhouses, according to the latest census.

³⁸ Productivity Commission, *Performance of Australian Business Regulation: Planning, Zoning and Development Assessments*, Vol. 1, April 2011, pages 27-31

³⁹ Matthew Moore, *Census 2011 - Sydney switches to apartment living*, SMH, 22nd June 2012, page 5, <http://smh.domain.com.au/sydney-switches-to-apartment-living-20120621-20qz6.html>

In the five years since the 2006 census, the percentage of separate houses in Sydney has fallen from 60.9 per cent of all private dwellings to 58.9 per cent as high housing costs encourage the move to more densely populated communities.

In Sydney, 27.6 per cent of all private dwellings are now apartments with terraces and townhouses making up a further 12.8 per cent of housing stock. Only Darwin, rebuilt after the 1974 cyclone, comes close with separate dwellings making up 60.3 per cent of housing stock and flats making up 21.2 per cent.

Bill Randolph, a professor at the University of NSW's City Futures Research Centre, was surprised by the reduction in the amount of free-standing dwellings in Sydney.

"Where might those houses be going, the only logical thing is that they were houses on single blocks being redeveloped into town houses," he said.

John Wynne, the managing director of town planning firm Urbis, said the census confirmed a trend that had been under way for years where there was a structural change in society that accepted more high density living.

His analysis of the census showed the number of medium and high-density dwellings in greater Sydney grew 15.3 per cent in the last five years compared with just 2.3 per cent growth in the number of free-standing homes.

While the majority of new apartments had been built in the city, and in south Sydney, "we are now seeing apartments across the city from Camden to Kuringai," he said.

The difference between opinion polls and living preferences can be explained by the views of the declining majority already living in detached housing (who rule opinion surveys) and those of the rising minority in denser dwellings (who drive new construction). But for the latter to get affordable homes requires more detached housing to be converted to townhouses, terraces, apartments and units.

The Grattan Institute examined the housing preferences of more than 700 Sydney and Melbourne residents⁴⁰. Its conclusions were⁴¹:

Housing needs to shift as people age (children leave home) and the necessity for space diminishes. The physical, financial and time cost of maintaining larger homes is a strong driver to downsize. As well as freeing up some income and facilitating a more active/externally focused lifestyle.

However, associations with small spaces are still predominantly negative – with "the average" apartment representing the most challenging end of the spectrum. Although there is a realisation that available land is shrinking and we, as a community, need to be "smart" about housing options of the future – there are strong rational and emotional drivers that

⁴⁰ Jane-Frances Kelly, *The housing we'd choose*, Grattan Institute, June 2011
<http://grattan.edu.au/publications/reports/post/the-housing-we-d-choose/>

⁴¹ Sweeney Research, *Project New Home, Part 1*, Grattan Institute, May 2011, page 12

(particularly for families), it is part of building a life, something that is earned and relished and the best property option.

Outside of the pull to detached houses are the push factors away from attached homes of which “neighbours” is the major barrier. Australians want a sense of community and select suburbs on this basis. They seek to engage and enjoy community facilities that allow this to occur. However, there is an equal desire to retreat and having the option to disengage is important. In many regards, despite the easy going bravado, Australians have pronounced private streak. They don’t want their pleasure or pain heard by neighbours and resent being drawn into the daily lives and “ablutions” of those around them. Good neighbours are worth their weight in gold. However, it is the one factor that can’t be controlled when it comes to selecting a home. Living in smaller, communally orientated spaces brings this fear to the forefront.

Apartment	Semi Detached	Detached
		
<ul style="list-style-type: none"> ▪ Well entrenched barriers to most demographics... <ul style="list-style-type: none"> – Assuming an ‘average’ apartment ▪ Those most likely to consider... <ul style="list-style-type: none"> – Lone person – Older couples seeking proximity to city (lifestyle) – Those with limited means ▪ Rejected as an option for families ▪ Option of last resort for many ▪ Something you move on from 	<ul style="list-style-type: none"> ▪ More aspirational ▪ Has ‘home like’ qualities – a legitimate house ▪ Provides more freedom and flexibility ▪ More lifestyle conducive ▪ Those most likely to consider... <ul style="list-style-type: none"> – Lone person – step up for some – Older couples / 60+ – acceptable step down ▪ Rejected by Younger couples/ families – too restrictive 	<ul style="list-style-type: none"> ▪ Meets all needs ▪ Will move away from large family home over time but still seek same characteristics – just smaller! ▪ Those most likely to consider... <ul style="list-style-type: none"> – Families – Older couples – Lone (if can afford/ not too large)
<p style="text-align: center;"><i>Limited appeal... Entry to a location for lifestyle</i></p>	<p style="text-align: center;"><i>Worth considering... Taps into traditional home cues</i></p>	<p style="text-align: center;"><i>The ideal... Will strive for, will resist letting go</i></p>

(Source: Grattan Institute, *Project New Home* (Part1), May 2011, page 9)

Yet the survey found that once people took into account real-world factors such as current housing costs and their income, they chose a far wider range of housing types than the stereotype of all Australians wanting a detached home on a large block would suggest. In other words there is a distinction between what people would ideally like (if they could afford it) and what they actually want (when home seeking).

According to Jane-Frances Kelly, Cities Program Director at the Grattan⁴²:

We're just not building the variety of housing that Australians say they want. We should not be afraid to shape our cities: otherwise we risk them shaping us. But we should shape them in accordance with what Australians say they want, not just what we think they want.

In particular, she points to shortages (compared to what we say we want) of semidetached homes and apartments in the middle and outer areas of both Sydney and Melbourne.

The Grattan Institute observed that⁴³:

Construction of new dwellings in the last ten years has not reduced the gap between the housing people say they want, and the housing we have. In Sydney, the volume of construction has contracted sharply. In Melbourne, detached homes in outer and fringe areas have predominated.

If people say they want different types of housing, why aren't they being built? The answers are largely to be found in the incentives facing residential developers. Through interviews with developers, banks, builders, councils and others, along with our own analysis, we discovered a range of reasons why some housing types are not being built where people say they would like to live. These include financing practices, planning and land issues and material and labour costs.

If we are serious about shaping our cities in the directions residents say they want to see, the incentives facing developers would have to change.

Changing Needs

The Sydney-wide shortage of apartments relative to detached houses is reflected by the gap in median rents between the two types of accommodation narrowing to just \$30 according to the Australian Property Monitors.⁴⁴

Rents for units have surged as demand continues to increase for apartment-style living," the senior economist for Australian Property Monitors, Andrew Wilson, said. APM's June Rental Report, released today, shows the median weekly asking rent for Sydney apartments rose by 4.4 per cent over the June quarter to \$470. House rents were stagnant at \$500.

The State government and Sydney local councils need to recognize that today's young people will be the predominant constituency of tomorrow and if their home aspirations are frustrated or made too expensive then the social problems arising from involuntary house sharing, rental and mortgage stress will weigh heavily on public finances.

⁴² Media Release, *What Australians actually want from their housing*, Grattan Institute, 20th June 2011 http://grattan.edu.au/static/files/assets/cd50d7f5/20110620_cities_report.pdf

⁴³ Jane-Frances Kelly, *The housing we'd choose*, Grattan Institute, June 2011, page 2 http://grattan.edu.au/static/files/assets/e62ba29d/090_cities_report_housing_market.pdf

⁴⁴ Stephen Nicholls, *Price gap closes between unit and house rentals*, SMH, 12th July 2012 <http://m.smh.com.au/domain/real-estate-news/price-gap-closes-between-unit-and-house-rentals-20120711-21waj.html>

The National Housing Supply Council has warned that NSW's serious housing shortfall will have dire social consequences⁴⁵:

A variety of changes in living patterns could occur, including adult children living at home longer; increasing use of non-private dwellings such as boarding houses; people forming households later in life; more multi-generational households; and increased incidence of overcrowding, particularly in the social housing sector and lower end of the private rental market.

Robert Mellor, Chief Building Economist at BIS Shrapnel thinks Sydney will keep underbuilding for at least another five years⁴⁶:

That means we will keep adding to the existing deficiency," he said. "Somewhere along the line, people just go elsewhere.

A shortage of townhouses, terraces, apartments and units is also acting against the interests of baby boomers as they retire and plan to downsize from a self-standing house to something smaller and easier to maintain. If detached housing can't be easily converted to denser accommodation then older generations will also feel the housing crisis.

Waiting for opinion polls to change could prove lethal for state and local politicians when the public wakes up to the fact that residential planning and development inertia has made Sydney less livable and overcoming the backlog of necessary housing has been left too late.

Conclusion

Several opinion surveys over recent years point to Sydneysiders' fears about increased population and development being largely about increase private and public transport congestion, higher noise levels and loss of street appeal. This antipathy to increase city size is more pronounced in Sydney than other capital or major regional city in Australia. Opposition to multiple dwellings replacing single dwellings was more marked in Sydney than other cities.

Both politicians and developers will need to address the fears of increased transport congestion, higher noise levels and loss of street appeal head on if popular sentiment against growth is to be turned around. Only the state government can ameliorate transport bottlenecks while developers need to be mindful that new developments appeal not only to buyers but to the surrounding community. We shall return to the form that new developments should take later in this report.

But there is a split in what the declining majority (who live in detached housing want) prefer and what the rising minority (who can only afford smaller dwellings) demand. Also today's baby boomers are tomorrow's retirees who will want to supplement savings by selling their detached houses and buying smaller homes with a smaller price tag and less upkeep.

⁴⁵ Gen Living, *Housing Council recognises growing trend in multi-generational housing*, SMH, 16th June 2012 <http://genliving.com.au/528/housing-council-recognise-growing-trend-in-multi-generational-housing/>

⁴⁶ Matt Wade and Matthew Moore, *New homes, new rules ...now for new buyers*, SMH News Review, June 16th -17th 2012, page 4, <http://m.smh.com.au/domain/first-home-buyers/new-homes-new-rules-now-for-the-new-buyers-20120615-20fdr.html?page=2>

Politicians at both state and local level need to recognize that this growing coincidence of interest between the young and the old will see a tidal change in public opinion about denser living. This is not reflected in opinion polls about accommodation preferences, but emerges in more in-depth interviews of what people actually want given their means. Unless both the state government and local councils urgently respond to Sydney's massive shortage of smaller housing the social, economic and political repercussions will be adverse.

Appendices

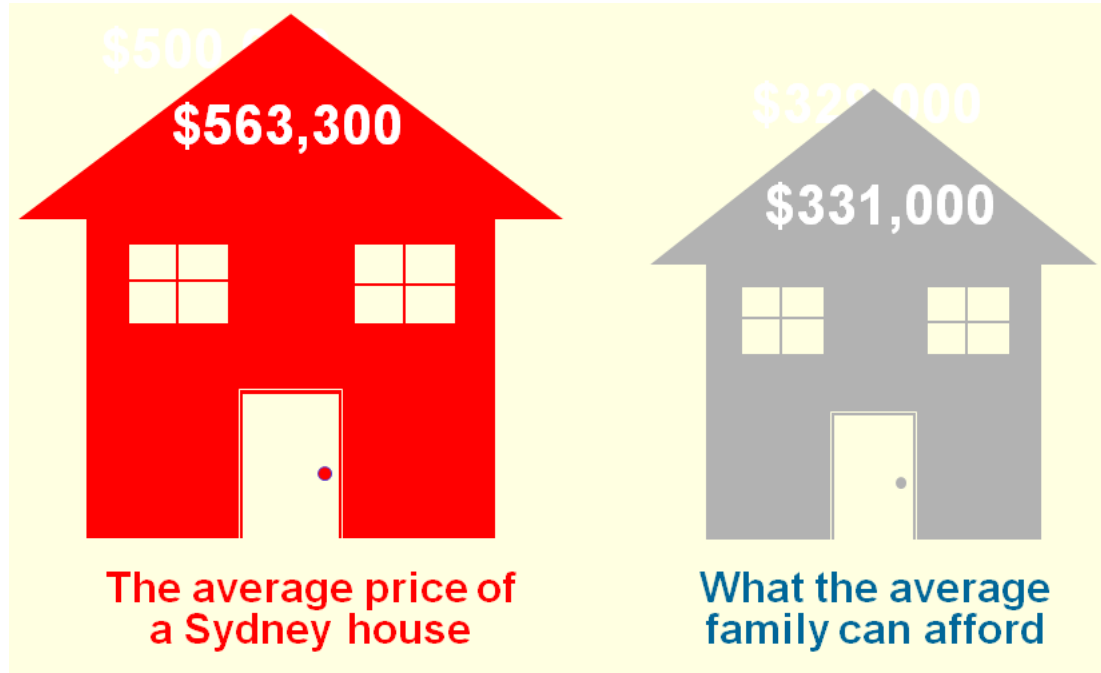
File B:

8. Providing Affordable Quality Homes -
9. Rebuilding Local Communities
10. Relieving Pressure on Sydney

Part 5: Providing Affordable Quality Housing

What Can a Family Afford?

The average family should be able to afford the average house – yet it can't. As the next chart shows the average price of a house in Sydney is \$563,300, yet the most that an average family can afford is \$331,000.



Sources:

Data on average price of a Sydney house:

ABS, *House Price Indexes: Eight Capital Cities*, (6416.0) Tables 7 and 8. *Median Price -Unstratified- and Number of Established House Transfers*

Calculation of what an average family can afford:

The median equivalised disposable household income for Australia in 2009/10 was just over \$44,000 a year according to the ABS:

(<http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6523.0Main%20Features22009-10?opendocument&tabname=Summary&prodno=6523.0&issue=2009-10&num=&view=>)

A family on such an income could afford to buy a house worth \$331,000 assuming they had a 10% deposit (i.e. borrowed 90%), had no other debts (e.g. car or credit cards), the variable loan rate was 6.2% and the loan term was 30 years. (Source:

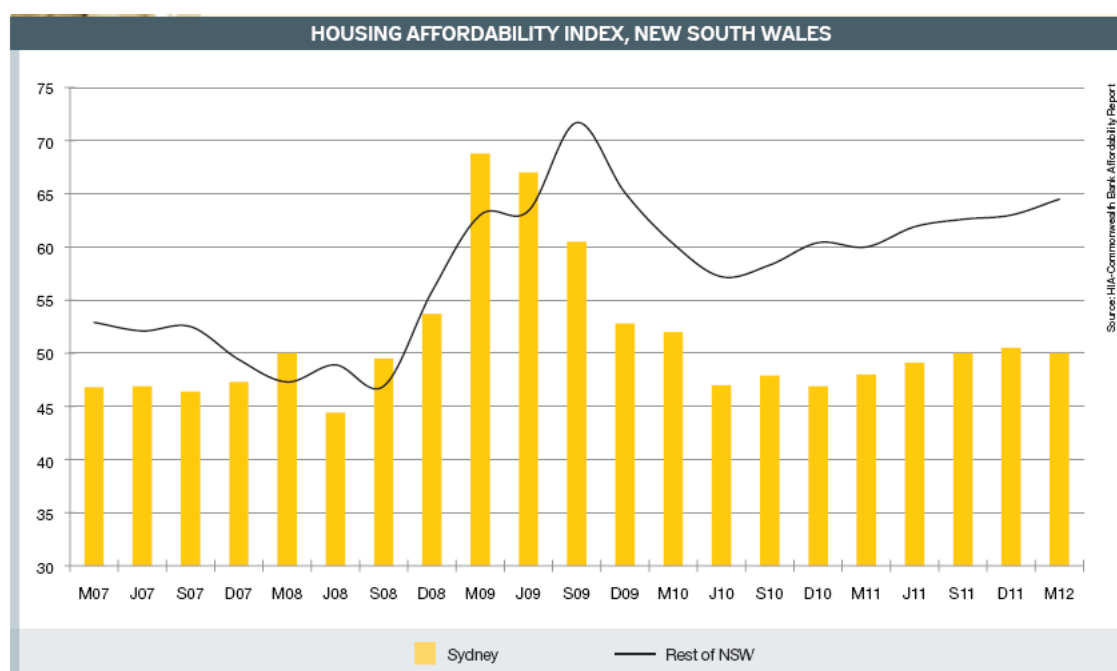
<http://www.mortgage.com.au/calculators/what-can-i-afford-to-borrow.html>The average).

Sydney's Unaffordability

The HIA Commonwealth Bank Housing Affordability Index for the March quarter 2012 showed that Sydney remained the least affordable capital in Australia with someone on average weekly earnings only having half the income to afford buying a house with a bank mortgage.

HOUSING AFFORDABILITY INDEX BY REGION													
	NSW		VIC		QLD		WA		SA		TAS		ACT
	Sydney	Rest of State	Melbourne	Rest of State	Brisbane	Rest of State	Perth	Rest of State	Adelaide	Rest of State	Hobart	Rest of State	All
Sep Qtr 10	47.9	58.3	52.2	52.4	56.0	56.7	53.4	65.9	59.9	57.0	69.1	76.5	57.8
Dec Qtr 10	46.9	60.4	51.1	53.5	56.7	57.8	53.2	64.3	59.6	58.7	64.5	73.7	55.9
Mar Qtr 11	48.0	60.0	51.9	52.2	57.5	57.6	56.4	68.6	60.6	58.1	67.2	74.7	55.5
Jun Qtr 11	49.1	61.9	53.1	53.2	56.5	59.5	58.2	70.2	60.9	58.0	69.1	76.2	56.3
Sep Qtr 11	50.0	62.6	53.7	54.2	56.8	59.6	58.4	71.1	63.6	61.8	68.8	76.3	57.4
Dec Qtr 11	50.5	63.0	56.2	58.4	61.7	59.9	60.8	67.9	61.3	60.5	71.0	76.7	60.9
Mar Qtr 12	50.0	64.5	60.3	58.4	65.6	62.6	59.7	73.8	65.8	64.4	73.1	77.0	65.2

AFFORDABILITY MULTIPLE*													
	NSW		VIC		QLD		WA		SA		TAS		ACT
	Sydney	Rest of State	Melbourne	Rest of State	Brisbane	Rest of State	Perth	Rest of State	Adelaide	Rest of State	Hobart	Rest of State	All
Sep Qtr 10	2.1	1.8	2.0	2.0	1.8	1.8	1.9	1.6	1.7	1.8	1.5	1.4	1.8
Dec Qtr 10	2.2	1.7	2.0	1.9	1.8	1.8	1.9	1.6	1.7	1.8	1.6	1.4	1.8
Mar Qtr 11	2.1	1.7	2.0	2.0	1.8	1.8	1.8	1.5	1.7	1.8	1.5	1.4	1.9
Jun Qtr 11	2.1	1.7	1.9	1.9	1.8	1.7	1.8	1.5	1.7	1.8	1.5	1.4	1.8
Sep Qtr 11	2.1	1.6	1.9	1.9	1.8	1.7	1.8	1.5	1.6	1.7	1.5	1.4	1.8
Dec Qtr 11	2.0	1.6	1.8	1.8	1.7	1.7	1.7	1.5	1.7	1.7	1.5	1.4	1.7
Mar Qtr 12	2.0	1.6	1.7	1.8	1.6	1.6	1.7	1.4	1.6	1.6	1.4	1.3	1.6



(Source: HIA Media Release, 24th May 2012, <http://economics.hia.com.au/media/HIA%20National%20Release%20Mar%20Qtr%202012.pdf>) and the HIA- Commonwealth Bank Affordability Report, March Qtr 2012, http://www.commbank.com.au/corporate/research/publications/economics/hia-housing-report/2012/2012_March_Qtr.pdf)

The following three tables are produced by RP Data Information Services using ABS data. They show that house and unit price to income ratios have consistently been highest in Sydney for the three separate years analysed.

Capital city median dwelling prices to median household income multiples*

	Median dwelling prices			Median annualised household income			Dwelling prices to income		
	2001	2006	2011	2001	2006	2011	2001	2006	2011
Sydney	\$315,000	\$420,000	\$500,000	\$51,376	\$60,996	\$75,088	6.1	6.9	6.7
Melbourne	\$230,000	\$330,000	\$460,000	\$46,228	\$56,680	\$69,212	5.0	5.8	6.6
Brisbane	\$165,000	\$328,500	\$420,000	\$42,432	\$57,824	\$72,020	3.9	5.7	5.8
Adelaide	\$141,800	\$266,500	\$365,000	\$37,024	\$48,308	\$57,460	3.8	5.5	6.4
Perth	\$155,000	\$405,000	\$452,000	\$41,340	\$56,524	\$75,660	3.7	7.2	6.0
Hobart	\$110,000	\$255,000	\$320,000	\$35,152	\$46,904	\$55,224	3.1	5.4	5.8
Darwin	\$155,927	\$295,000	\$419,500	\$52,052	\$65,624	\$91,728	3.0	4.5	4.6
Canberra	\$198,000	\$355,000	\$485,000	\$57,356	\$75,400	\$99,632	3.5	4.7	4.9
National	\$185,000	\$325,000	\$404,000	\$40,768	\$53,508	\$63,960	4.5	6.1	6.3

Source: RP Data, ABS

Capital city median house prices to median household income multiples*

	Median house prices			Median annualised household income			House prices to income		
	2001	2006	2011	2001	2006	2011	2001	2006	2011
Sydney	\$320,000	\$470,000	\$560,000	\$51,376	\$60,996	\$75,088	6.2	7.7	7.5
Melbourne	\$224,500	\$343,000	\$481,000	\$46,228	\$56,680	\$69,212	4.9	6.1	6.9
Brisbane	\$164,000	\$340,000	\$440,000	\$42,432	\$57,824	\$72,020	3.9	5.9	6.1
Adelaide	\$150,000	\$280,000	\$385,000	\$37,024	\$48,308	\$57,460	4.1	5.8	6.7
Perth	\$160,000	\$420,000	\$467,000	\$41,340	\$56,524	\$75,660	3.9	7.4	6.2
Hobart	\$114,000	\$270,000	\$340,000	\$35,152	\$46,904	\$55,224	3.2	5.8	6.2
Darwin	\$165,000	\$330,000	\$415,000	\$52,052	\$65,624	\$91,728	3.2	5.0	4.5
Canberra	\$221,000	\$405,000	\$537,750	\$57,356	\$75,400	\$99,632	3.9	5.4	5.4
National	\$177,000	\$330,000	\$410,000	\$40,768	\$53,508	\$63,960	4.3	6.2	6.4

Source: RP Data, ABS

Capital city median unit prices to median household income multiples*

	Median unit prices			Median annualised household income			Unit prices to income		
	2001	2006	2011	2001	2006	2011	2001	2006	2011
Sydney	\$310,000	\$378,000	\$456,200	\$51,376	\$60,996	\$75,088	6.0	6.2	6.1
Melbourne	\$245,000	\$307,000	\$420,000	\$46,228	\$56,680	\$69,212	5.3	5.4	6.1
Brisbane	\$170,000	\$294,000	\$370,000	\$42,432	\$57,824	\$72,020	4.0	5.1	5.1
Adelaide	\$118,000	\$228,000	\$318,000	\$37,024	\$48,308	\$57,460	3.2	4.7	5.5
Perth	\$142,000	\$350,000	\$389,500	\$41,340	\$56,524	\$75,660	3.4	6.2	5.1
Hobart	\$94,000	\$221,000	\$270,000	\$35,152	\$46,904	\$55,224	2.7	4.7	4.9
Darwin	\$135,000	\$246,500	\$420,000	\$52,052	\$65,624	\$91,728	2.6	3.8	4.6
Canberra	\$170,000	\$317,000	\$425,000	\$57,356	\$75,400	\$99,632	3.0	4.2	4.3
National	\$215,000	\$310,000	\$385,000	\$40,768	\$53,508	\$63,960	5.3	5.8	6.0

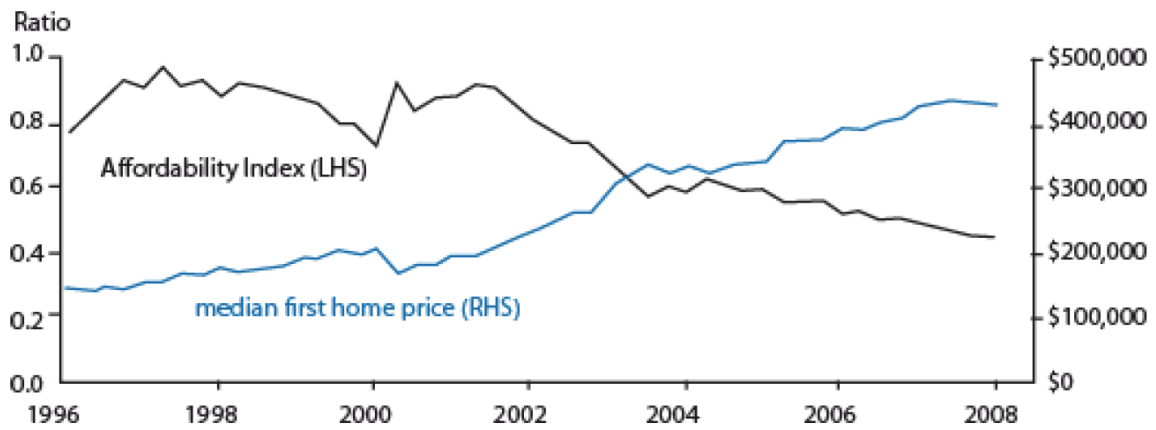
*Median price is based on the three months ending August and the median annualised household income is simply the median weekly household income as report by the ABS Census multiplied by 52

Source: RP Data, ABS

The report of the 2008 Senate Select Committee on Housing Affordability in Australia⁴⁷ found that "On some measures, housing affordability is at a record low." and "the average house price in the capital cities is now equivalent to over seven years of average earnings; up from three in the 1950s to the early 1980s."

⁴⁷ Senate Select Committee on Housing Affordability in Australia, *A good house is hard to find: Housing affordability in Australia - Executive Summary*, 16th June 2008.
http://www.aph.gov.au/Senate/committee/hsaf_ctte/report/b01.htm

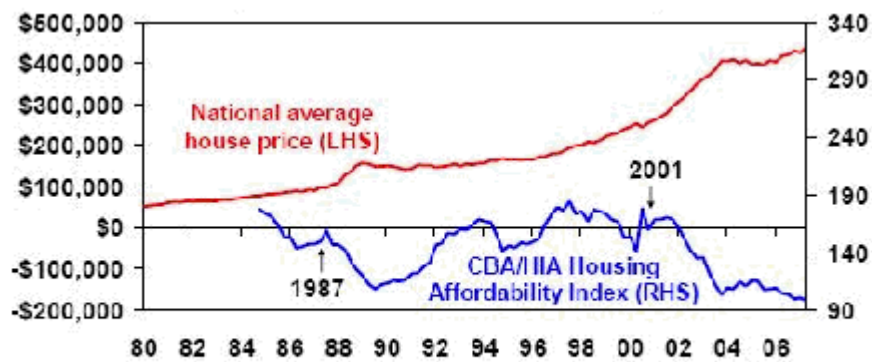
Figure 3. Declining Housing Affordability



(Reprinted from State of Supply Report, National Housing Supply Council)⁹

(Source: MBA, *Infrastructure Charges – when bad taxes beget more taxes*, 2009, page 7)

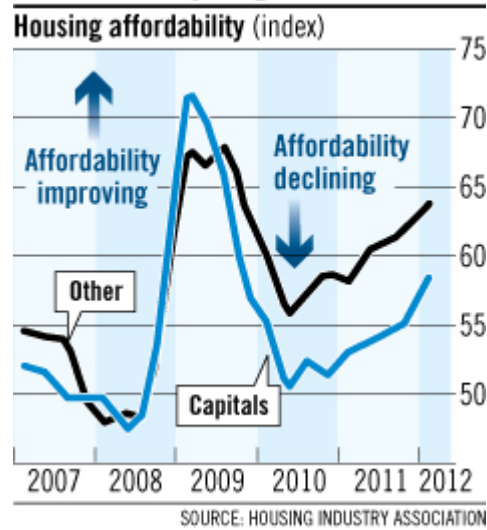
This was supported by data from the CBA/HIA Housing Affordability Index historical series up to that time – see chart below.



Source: Commonwealth Bank/HIA, Real Estate Institute of Australia, AMP Capital Investors

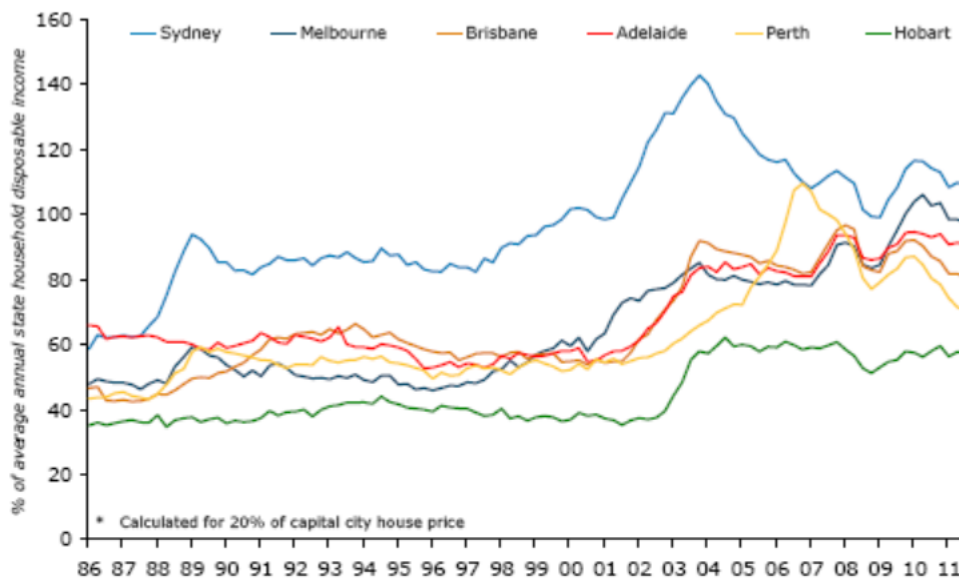
Since then the index would suggest that the situation improved dramatically in 2009 as interest rates fell, but then deteriorated again in 2010 as rates bounced back before improving modestly in 2011.

Better buying



House deposits as a proportion of annual household disposable income continue to be higher in NSW than any other state though the gap has narrowed since 2003 as average home prices in other capitals have moved closer to that of Sydney.

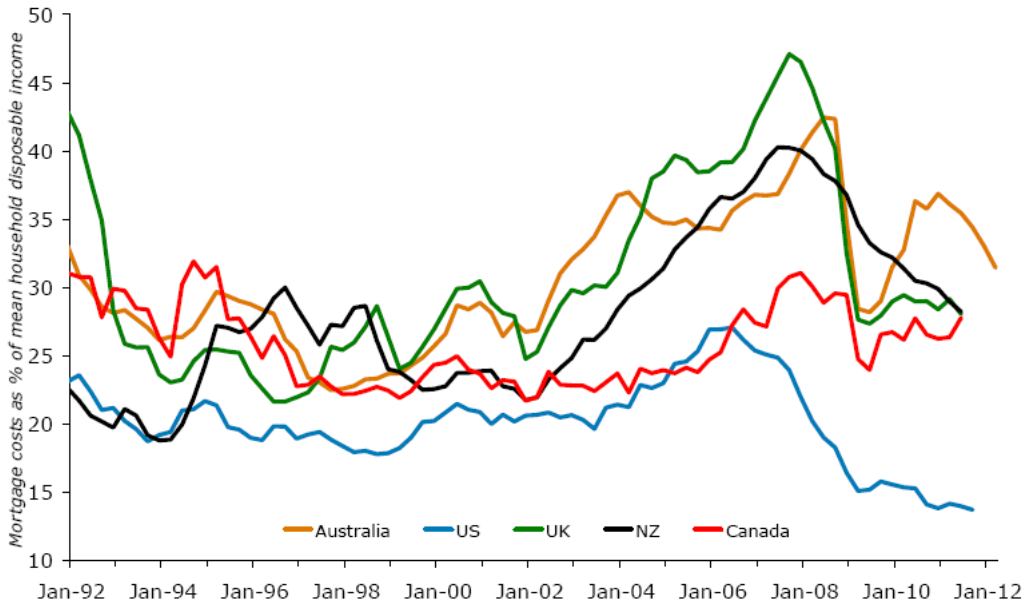
HOUSE DEPOSIT* AFFORDABILITY, CAPITAL CITIES



(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 7)

The ANZ banks economic department says homes are less affordable in Australia than in the USA, UK, New Zealand and Canada though affordability has improved in the last year due to a combination of lower interest rates, falling house prices and rising household incomes.

HOUSING AFFORDABILITY



(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 3)

Nevertheless the ANZ Bank argues that Australian housing affordability – measured as the proportion of household disposable income expended on housing costs such as mortgage rates, council rates and repairs - is only just over its long term trend and is forecast to fall as interest rates decline further.

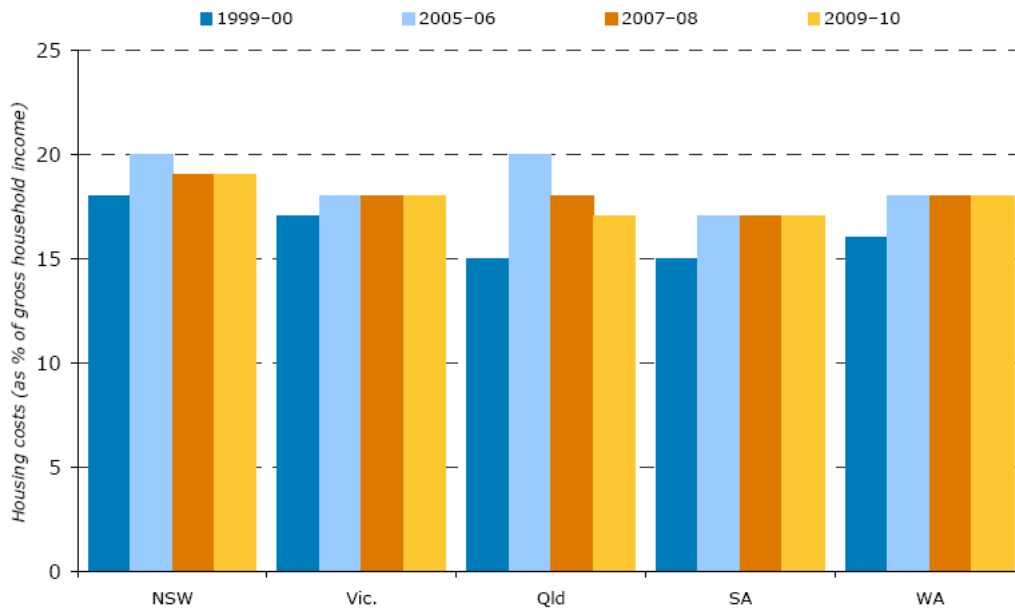
HOUSING AFFORDABILITY



(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 7,)

On a state basis mortgaged household housing costs remain highest in Sydney because with more expensive homes it has bigger mortgages.

MORTGAGED HOUSEHOLD HOUSING COSTS, MAJOR STATES

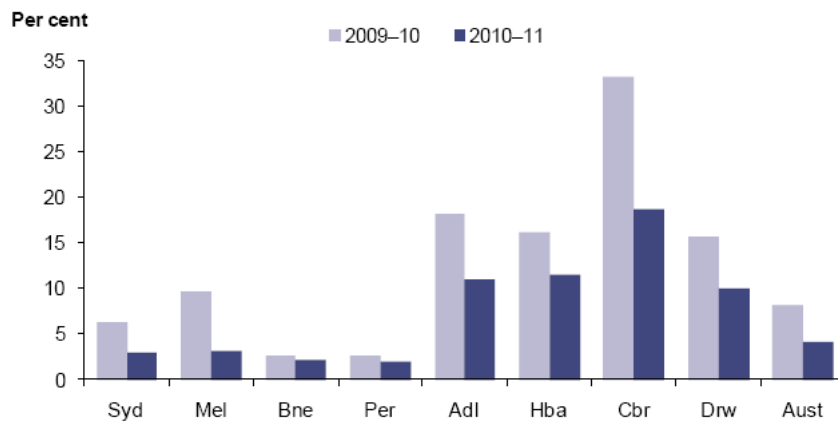


(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 7,)

But the ANZ Bank charts don't tell the whole story because they refer to existing home owners, not first home seekers. It's the plight of the latter as well as renters that should focus our minds.

The 2012 COAG Reform Council's report on housing affordability⁴⁸ found that less than 3% of homes in Sydney, Melbourne, Brisbane and Perth were affordable to low income households. By contrast over 10% of homes were affordable to such households in Canberra, Hobart, Adelaide and Darwin.

Figure 3.3 Proportion of homes sold that were affordable to low income households, by capital city



Notes:

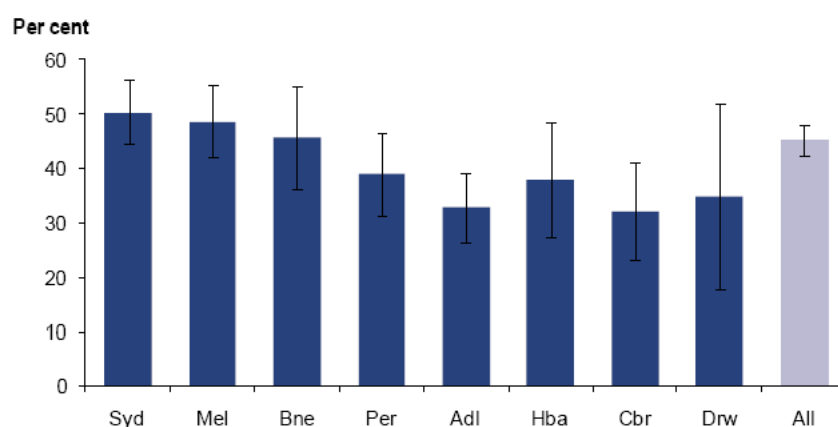
1. See Statistical Supplement, Tables NAHA.2.1 and NAHA.2.7 for data and technical notes.
Source: ABS (unpublished) Analysis of Survey of Income and Housing 2009-10; Valuers-General sales data for 2009-10 and 2010-11, RBA (2012) F5 Indicator Lending Rates

⁴⁸ COAG Reform Council, *Affordable Housing 2010-11, Comparing performance across Australia*, 30th April 2012, page 19
http://www.coagreformcouncil.gov.au/reports/docs/ah_comparing_10_11/Chapter3_Housing_10-11.pdf

(Source: COAG Reform Council, *Affordable Housing 2010-11, Comparing performance across Australia*, Chapter 3, *Home purchase affordability*, 30th April 2012, page19)

The Council also found that Sydney had a significantly higher rate of rental stress (50.4% of lower income households) compared to the rate for all capital cities (45.2%). Adelaide and Canberra were significantly below the rate for all capital cities (32.8% and 32.2% respectively). The Council defined rental stress as the proportion of lower households that spend over 30% of their income on rent. Such households were those in the lowest 40% income bracket.

Figure 2.5 Proportion of low income rental households in rental stress, by capital city, 2009–10



Notes:

1. 'All' refers to the weighted average of all eight capital cities.
2. Estimate for Darwin has a relative standard error of between 25% and 50%, and should be used with caution.
3. See statistical supplement, Table NAHA.1.1, for data, relative standard errors and technical notes.

Source: ABS (unpublished) Survey of Income and Housing 2009–10

(Source: COAG Reform Council, *Affordable Housing 2010–11: Comparing performance across Australia*, Chapter 2, *2B Affordability in the rental market*, 29th June 2012, page 12)

The plight of young people trying to find affordable rental accommodation is illustrated by this newspaper story⁴⁹:

Sydney real estate agent Vicki Laing understands how hard it is for young people to get into the rental market.

“From the beginning of this year particularly with share houses, I’ve never had so many parents ring me to ask for help,” says Laing, who works on the CBD fringe.

They’re battling with sky-high rents and scarce supply of homes close to where they study and work. Newly released census data from the Australian Bureau of Statistics

⁴⁹ Ben Hurley, *Housing undersupply is pushing rents higher*, AFR, 22nd June 2012, page 48, http://afr.com/p/national/rising_rents_push_families_to_the_rLzaxTwpmOTfrfUcb0epRI

shows the median weekly rent was \$285 in the latest census, up from \$191 five years ago.

For those who opted to buy, the average monthly mortgage repayment was \$1800, compared with \$1300 five years ago.

In 2011, Australia topped the 7th Annual Demographia International Housing Affordability Survey⁵⁰ for the second year in a row with the least affordable property market in the English speaking world. The survey covered 325 urban markets of the United States (211); United Kingdom (33); Canada (35); Australia (32); New Zealand (8); Ireland (5) and Hong Kong, China (1).

The survey was based on a comparison of each market's median house price divided by gross annual median household income in the 3rd quarter of 2011. Demographia rates affordable housing markets as being those with a median house price under three times gross annual median income. Of the three categories of unaffordability (moderate multiple = 3.1 to 4.0), serious (4.1-5.0) and severe (5.1 and over) only Hong Kong (12.6) was worse than Australia (5.6).

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	National Median
Australia	0	0	7	25	32	5.6
Canada	9	19	1	6	35	3.5
China (Hong Kong)	0	0	0	1	1	12.6
Ireland	3	2	0	0	5	3.3
New Zealand	0	0	3	5	8	5.2
United Kingdom	0	1	12	20	33	5.1
United States	117	64	16	14	211	3.0
TOTAL	128	87	39	71	325	

(Source: Demographia, *8th Annual Demographia International Housing Affordability Survey 2012*, 23rd January 2012)

Within national markets Hong Kong, Vancouver and Sydney continued to be the most unaffordable metropolitan areas. Sydney ranked third most unaffordable (with a Median Multiple of 9.2) while Melbourne ranked fourth (with a Median Multiple of 8.4)

⁵⁰ Demographia, *8th Annual Demographia International Housing Affordability Survey 2012, Data for the Third Quarter 2011*, 23rd January 2012

Housing Affordability & Land Regulation LARGER METROPOLITAN MARKETS

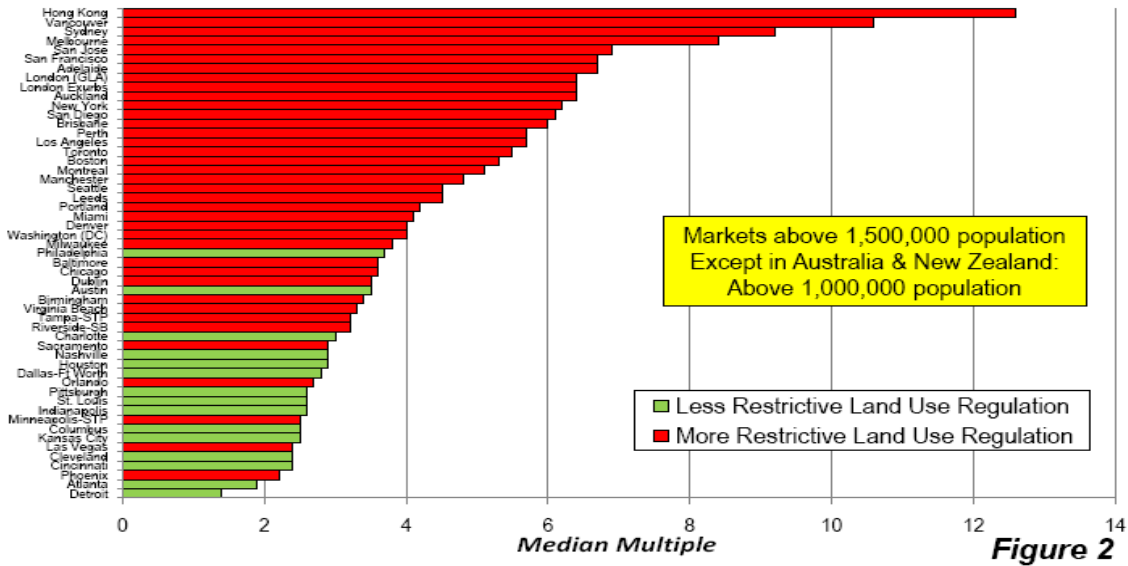


Figure 2

(Source: Demographia, 8th Annual Demographia International Housing Affordability Survey 2012, 23rd January 2012)

The survey found there were no affordable cities within Australia in 2011 and the overwhelming majority was severely unaffordable. Except for 2001, Sydney has been the least affordable housing market in Australia for the past 30 years.

Housing Affordability: Australia MAJOR MARKETS: 1981-2011

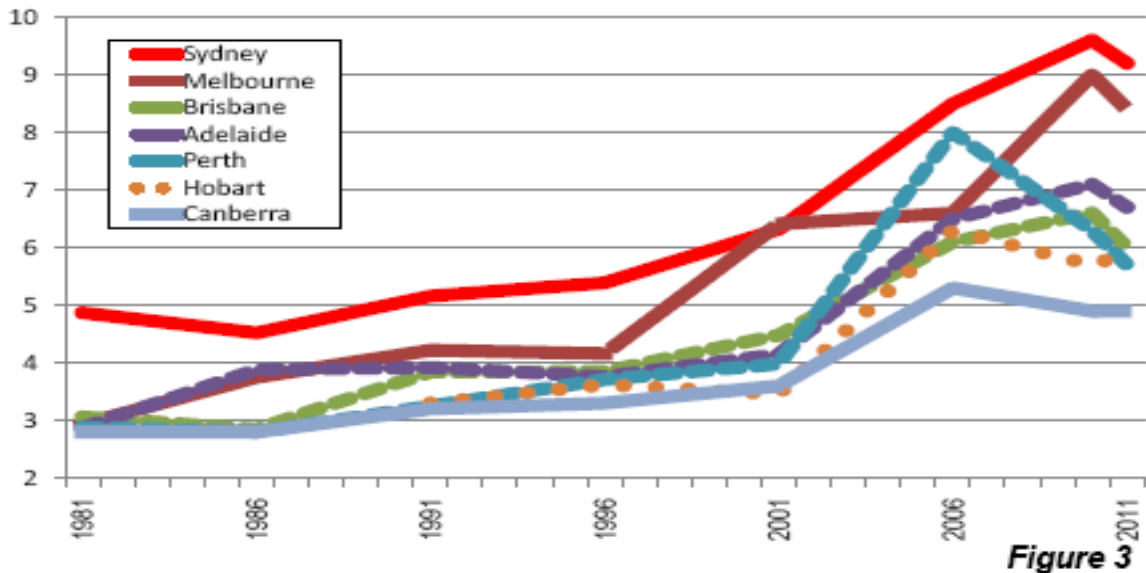
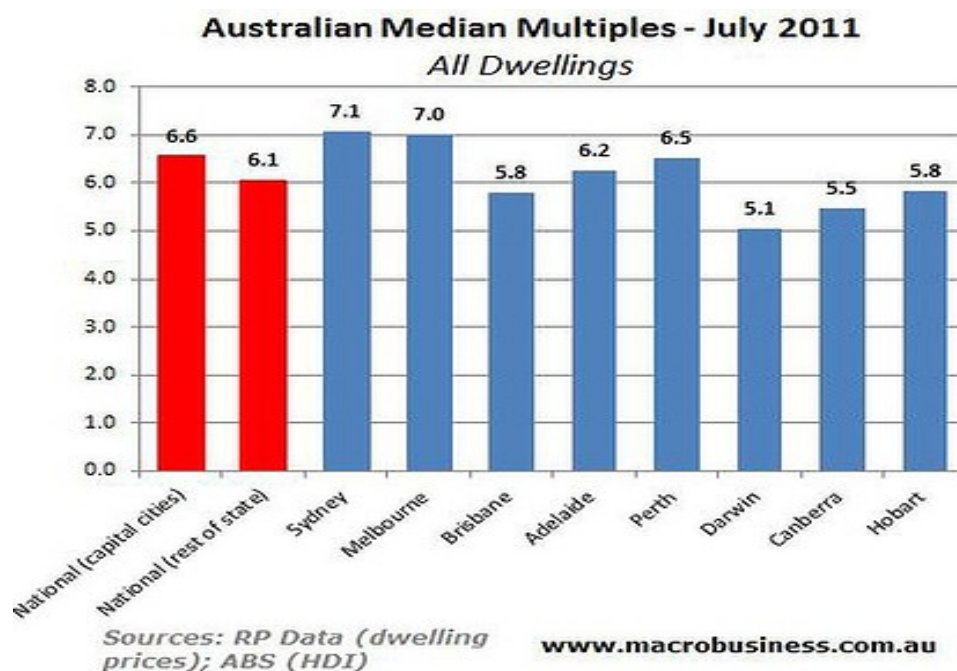


Figure 3

(Source: Demographia, 8th Annual Demographia International Housing Affordability Survey 2012, 23rd January 2012)

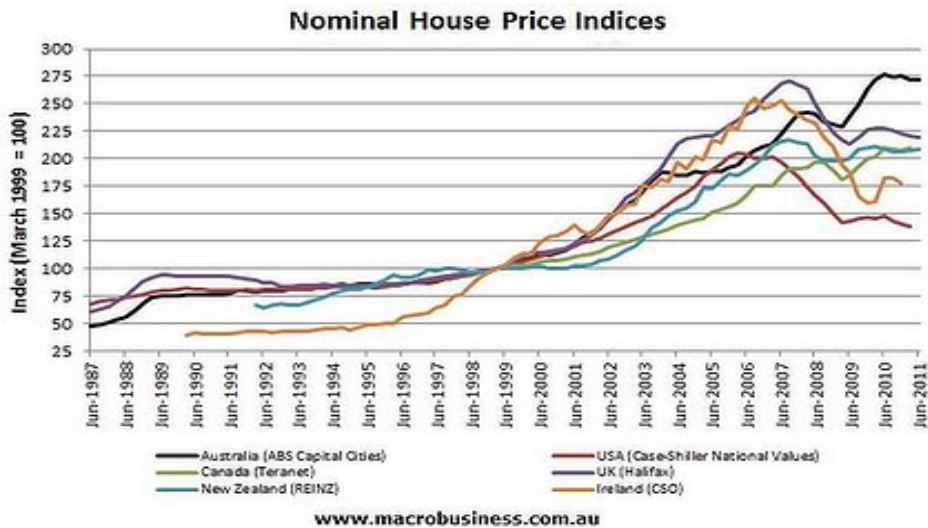
According to the inaugural 2011 MacroBusiness Housing Valuation and Investment Report⁵¹ national median multiples of dwelling, house and unit prices against incomes at the capital city and rest-of-state levels are 6.6 and 6.1 respectively. Sydney (7.1) and Melbourne (7.0) are the most expensive capital cities, whereas Darwin (5.1) and Canberra (5.5) are the least expensive.

No major Australian housing market could be considered affordable under this measure. Each market's median multiple is well in excess of 3.0 times, which is commonly considered the benchmark for an affordable housing market and represents the level of house prices relative to incomes that was commonplace in Australia in previous generations.



As can be seen in the next chart Australian dwelling prices continued rising after the global financial crisis of 2008 whereas other nations experienced a property slump.

⁵¹MacroBusiness, *Housing Valuation and Investment Report*, 14th September 2011
<http://www.macrobusiness.com.au/2011/09/australian-housing-valuation-report/>
 See also Leith van Onselen, *Australian houses are overpriced, but how much?*, 14th September 2011
<http://www.smh.com.au/business/australian-homes-are-overpriced-but-how-much-20110914-1k8tm.html#ixzz1uuvedtVG>



The situation has not improved in 2012. According to the HIA-Commonwealth Bank Housing Affordability Index Sydney and Perth both recorded deteriorating affordability in the March quarter of 2012 with their indices falling by 1.0 per cent and 1.8 per cent respectively. Affordability improved in the remainder of Australia's capital cities with Melbourne up by 7.3 per cent, Brisbane up by 6.3 per cent, Adelaide up by 7.3 per cent, Hobart up by 3.0 per cent and Canberra up by 7.1 per cent.

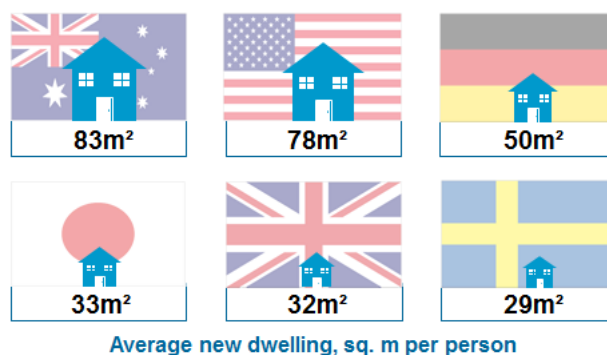
The report concluded that “Sydney remains home to the nation’s least affordable housing, followed by Melbourne”.⁵²

Affordability Solutions

The question for policy makers is how to put quality housing within everyone’s reach?

The first thing to note is that Australian housing is very big by international standards as can be seen in the next chart. Only the USA comes close to Australia.

Australian houses are very big by foreign standards



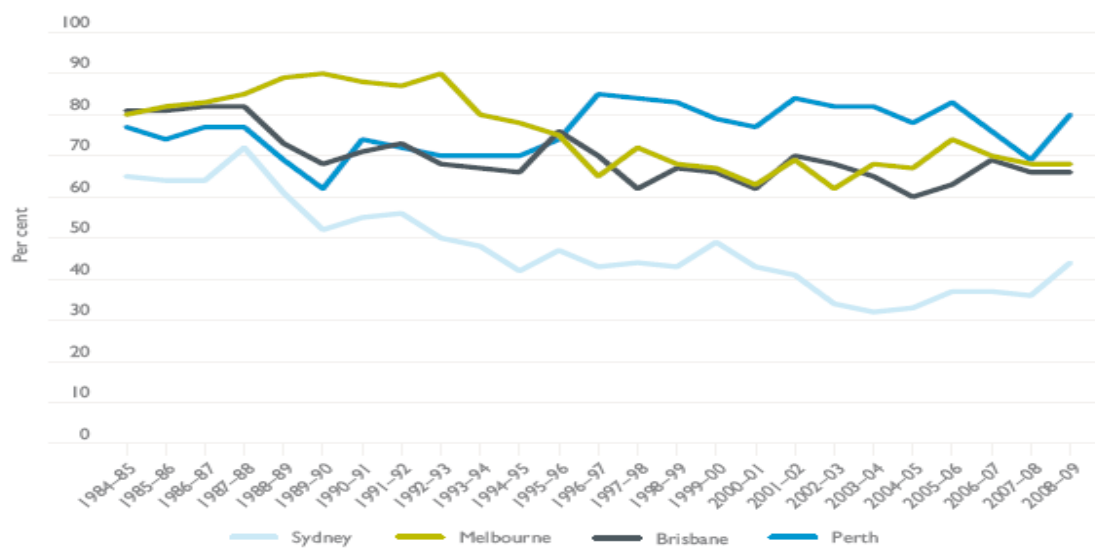
⁵² HIA-CBA Affordability Report, December 2011 Quarter, 25th March 2012
<http://economics.hia.com.au/publications/Affordability%20Report-%202012%20extract.pdf>

Homebuilders in Australia can offer house and land packages from under \$350,000 in all States provided their holding costs, developer charges and warranty liabilities can be contained. This is possible using smaller land blocks, efficient building materials and high quality finishes.

The National Housing Supply Council⁵³ sees a growing demand for smaller dwellings as the population ages and more households become lone-persons and couples without children. Flats, apartments, terraces and townhouses will grow faster than detached houses which are preferred by families with children.

Sydney's high prices have caused the proportion of total building approvals for detached houses to fall from 60-70% in the 1980s to just 30-40% in the last decade. Such a sharp fall has not been evident in other major capital cities.

Figure 3.18 Building approvals—houses as a per cent of total dwelling units



Source: ABS 2009c.

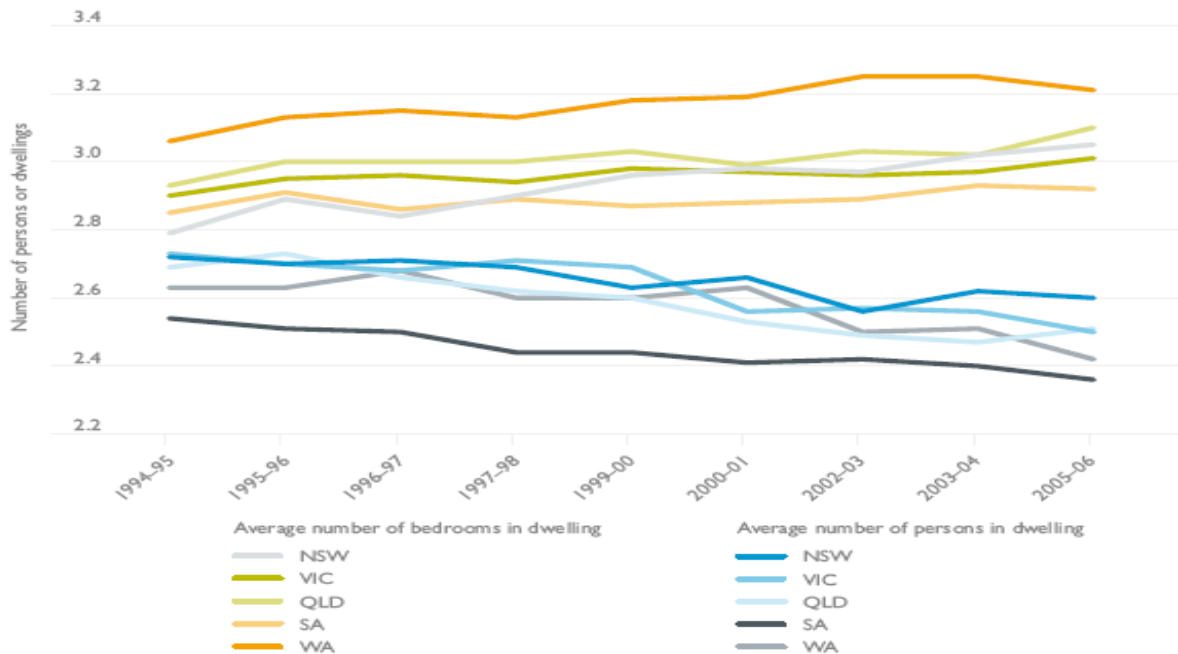
(Source: Department of Infrastructure and Transport, *State of Australian Cities 2011*, 20th October 2011, page 16)

Yet even in Sydney the average number of bedrooms per dwelling continued to grow up to 2006, notwithstanding the average number of residents per household was declining. The 2011 census found that the average number of people per household since 2006 had stabilised at 2.7 people.⁵⁴ This presumably reflects a growing scarcity of housing stock which could see the average occupancy per dwelling increase by the time of the next census.

⁵³ National Housing Supply Council, *Key Findings of the 2011 State of Supply Report*, 2011 http://www.nhsc.org.au/state_of_supply/2011_ssr_rpt/docs/nhsc-key-findings-2011.pdf

⁵⁴ ABS, 2011 Census QuickStats – Greater Sydney – Dwellings http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/1GSYD?opendocument&navpos=220

Figure 3.19 Average number of persons per household and bedrooms per dwelling for five states



Source: BITRE analysis of ABS 2007b.

(Source: Department of Infrastructure and Transport, *State of Australian Cities 2011*, 20th October 2011, page 20)

Conclusion:

The average family can no longer afford an average house in an Australian capital city. Indeed housing affordability is at an historic low. Thirty years ago average house prices were about three times average annual earnings whereas now they exceed seven times average earnings. The children of the baby-boom generation are being locked out of owning their own home.

Within Australia, Sydney has the least affordable property market on such a price to earnings ratio. International surveys show that Sydney is not only the least affordable housing market in Australia, but also the least affordable metropolitan area to live in the world after Hong Kong and Vancouver.

The global financial crisis brought a respite to housing unaffordability in the rest of the world as home prices dramatically collapsed. But in Australia home prices escalated sharply after 2007 widening the affordability gap with other countries. Sydney did not participate in as strong a price rise as other capital cities in the last five years, but it still remains the least affordable city to buy a home. Also its home market is tighter than any other capital city prompting property analysts to predict it will undergo faster price rises in future. That would aggravate its unaffordability further.

To make Australian capital city homes more affordable in future will require reducing their scale. Houses in Australia are larger than in America and almost three times the size of typical houses in the UK, Europe and Japan. Australian homebuilders could provide an affordable home and land package provided their holding costs, developer charges and warranty liabilities can be contained. This is possible using smaller land blocks, efficient building materials and high quality finishes.

In Sydney the proportion of total building approvals for detached houses has halved in the last decade as more people opt for townhouses, apartments and units. No other Australian city has experienced such a dramatic switch of preference. Clearly reduced housing affordability is forcing this change of abode. But unless the state government and metropolitan local councils facilitate this process, the acute shortage of affordable housing in Sydney will become even more severe.

Part 6: Rebuilding Local Communities

Creating Affordability

Making Sydney affordable for future generations requires permitting suburbs to have more mixed use precincts rather than vast tracts zoned exclusively for detached housing.

This would result in a more integrated city for living, working, recreation and shopping...

Accept more townhouses and fewer detached houses

Detached houses **Town Houses**



20/06/2012 Percy Allan & Associates Pty Ltd 188

Replace strip shopping roads with mixed use corridors

Strip shopping roads **Apartments above shops**



20/06/2012 Percy Allan & Associates Pty Ltd 189



Necessary Strategies

Five strategies for accommodating increased population in metropolitan areas were summarised by Professor Bill Russell, Co-Coordinator of the Australian Centre for Governance and Management of Urban Transport (GAMUT), University of Melbourne.⁵⁵ Each of these strategies is relevant to Sydney's ability to house, work and entertain its residents and visitors as they grow in number:

- **Increase density in new growth areas**
New growth areas should permit town-houses and terraces so that Paddington and Balmain style neighbourhoods are not confined to inner harbour suburbs.
- **Utilise urban brownfields**
Disused industrial land should be developed for residential and associated purposes. The cost of removing past chemical and industrial contamination should be borne by taxpayers so these vast tracts of land don't remain sterile.
- **Increase housing density along transport corridors**
The Urban Taskforce has proposed that 100,000 new homes, in the form of apartments, be built along the Parramatta Road corridor which at present is an eyesore comprising car yards, dilapidated buildings and decaying infrastructure.
- **Permit more inner city high-rise residences**
Many people, especially immigrants, prefer high rise to low rise living since this is less expensive and allows closer living to the CBD with its offices, shops, nightlife and other amenities. It's important that this be a viable option for Sydneysiders.
- **Allow dual occupancies**
Having two dwellings on a single allotment enables an increase in urban density without significantly changing the low rise character of a suburb. This will require changes to existing planning restrictions.
- **Encourage further decentralisation**
Some of the pressure on Sydney's population growth could be deflected by making regional cities in NSW more desirable to live and work in. This will require improving the road and rail

⁵⁵Bill Russell, *Assessing the infrastructure issues of Victoria's population growth*, Victorian Infrastructure Summit, 10th November 2009
<http://www.abp.unimelb.edu.au/gamut/pdf/victorianinfrastructuresummitpaper.pdf>

links between Sydney and major regional centres and helping their local governments to enhance urban infrastructure and civic facilities.

Sydney Villages

The above strategies would be pursued within a metropolitan strategy that shaped Sydney as a network of villages and their surrounds, each with its own distinct contract council (using a common regional shared service centre) and comprising three types of land use:

1. A village 'centre' designed as a community hub with medium height offices and residences built above shops and recreational facilities;
2. A village 'butress' comprising high rise offices and residences with ground floor shops and other public amenities (e.g. cinemas and gymnasiums); and
3. A village 'outskirts' made up of low rise terraces, town-houses, medium high apartments and detached houses plus distinct areas reserved for medium height offices, light industry, warehouses and convenience shops.

A village pattern of development need not be concentric. It could also be linear, rectangular or triangular depending on existing transport corridors. The new configurations being considered for Sydney railways recognises such a network of corridors and nodes.

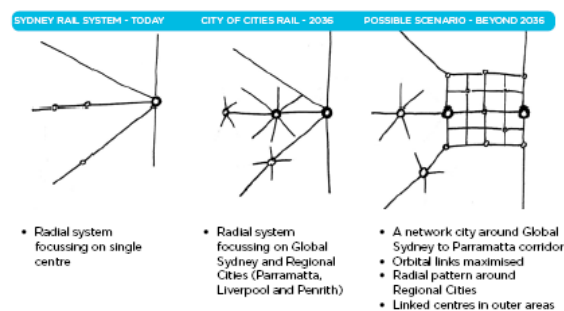


FIGURE 7 SYDNEY RAIL SYSTEM STRUCTURE DIAGRAMS

SYDNEY TOWARDS 2036 | PAGE 15

Having an urban renewal authority to conceive a masterplan with public input and joint regional planning panels to assess development applications could help realise such a city of villages concept. The alternative would be unplanned development resulting in modern slums as residents and businesses scramble to develop their own plots in isolation of the wider public good.

Parramatta Example

The Urban Taskforce's Parramatta Road proposal⁵⁶ is a good example of how such a metropolitan strategy would work in a particular area. The following excerpts from the report paint a vivid picture of what is possible:

A bustling mixed use urban neighbourhood

⁵⁶ Urban Taskforce, *100,00 new apartments and 100,000 new jobs can transform Parramatta Road into a Liveability Corridor*, Urban Ideas magazine, June 2012, pages 5 and 7
<http://www.urbantaskforce.com.au/urbanideas/june2012/>

The Parramatta Road corridor will be the place to live and work. With 100,000 new apartments a whole new series of neighbourhoods will develop. This will be the Gen X and Gen Y activity strip where everything is at your doorstep. But the liveability corridor will also be a place for older people with more time on their hands and who want to be near amenities and activities.

Walk or cycle to work

By having 100,000 jobs along the corridor many residents will be able to walk or cycle to work. We need a diverse approach to work that includes light industrial, technology industries, traditional offices and flexi-offices where residents can plug into a shared work node.

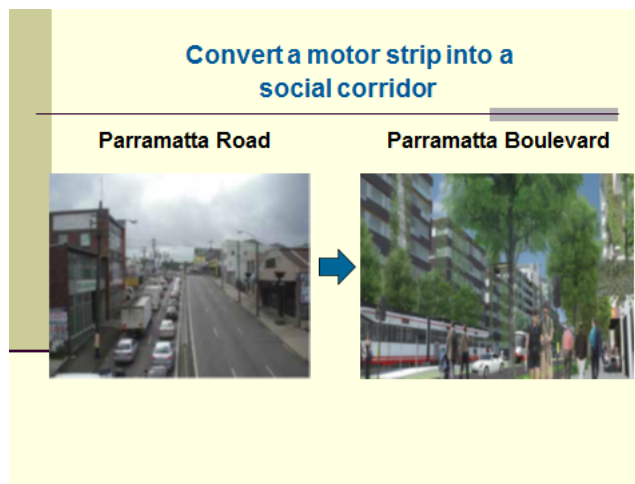
Cafes, restaurants, supermarkets, theatres, cinemas

With densities that come with 100,000 new apartments and 100,000 new jobs comes the need for retail, recreation and cultural facilities. The new council network will ensure the provision of cultural and community facilities and the market will deliver the shops, retail and recreational facilities.

What is a liveability corridor?

Our proposed liveability corridor zoning is all about mixing uses up so that for every new apartment there is a new job close by. The character of these precincts would be urban and bustling with lots of diversity. Residents would feel part of their walkable neighbourhood that includes their favourite coffee shop, gym, supermarket and a range of work options. The character would be a bit like King Street Newtown but with much more density and higher buildings.

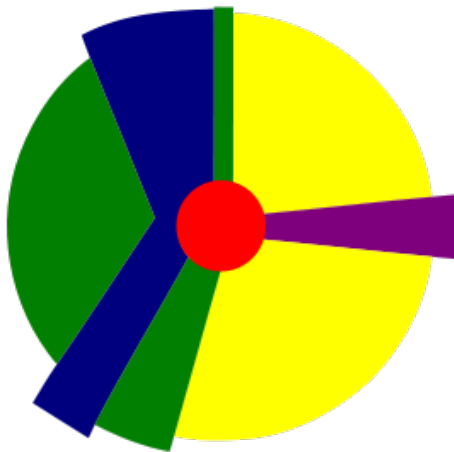
The transition would be from an anti-social motor strip to a bustling human corridor as shown below:



Multi-Use Living

Smart multi-purpose villages would replace the mono-use precincts that emerged during the industrial revolution. These took various forms such as the Ernst Burgess' *Concetric Zones*, Homer Hoyt's *Sectors* and Chauncy Harris and Edward Ullman's *Multiple Nucleis* as depicted by the charts below.

Hoyt Sector Model Key



- CBD
- Factories/Industry
- Low class residential
- Middle class residential
- High class residential

- Central business district (CBD)
- Wholesale, light manufacturing
- Low class residential
- Medium class residential
- High class residential
- Heavy manufacturing
- Outlying business district
- Residential suburb
- Industrial suburb



- Commuter zone
- Residential zone
- Working class zone
- Zone of transition
- Factory zone
- Central business district

A metropolitan network of mixed use villages would also be a break from the modernist city concepts of Le Corbusier (*Urbanisme*, published in 1924) and Frank Lloyd Wright (*The Disappearing City*, published in 1932) that envisaged skyscraper-building techniques to eliminate “disorder, congestion, and the small scale, replacing them with preplanned and widely spaced freeways and tower blocks set within gardens”.⁵⁷

⁵⁷ For a brief history of the evolution of urban planning visit http://en.wikipedia.org/wiki/Urban_planning

According to the same source:

By the late 1960s and early 1970s, many planners felt that modernism's clean lines and lack of human scale sapped vitality from the community, blaming them for high crime rates and social problems.

Modernist planning fell into decline in the 1970s when the construction of cheap, uniform tower blocks ended in most countries, such as Britain and France. Since then many have been demolished and replaced by other housing types. Rather than attempting to eliminate all disorder, planning now concentrates on individualism and diversity in society and the economy; this is the post-modernist era.

The Sustainable City

More livable urban places require urban designs that pay attention to⁵⁸:

- Place,
- Density,
- Mixed and compatible uses,
- Pedestrianization and human scale,
- Human culture,
- Public realm,
- Built environment, and
- Natural environment

Professor Stephen Wheeler of the University of California researches the theory and practice of sustainable development and the evolution of built landscapes in and around metropolitan regions and the role of governments in shaping them. He defines sustainable urban development as "development that improves the long-term social and ecological health of cities and towns."⁵⁹

He sketches a 'sustainable' city's features as promoting⁶⁰:

- Compact, efficient land use;
- Less automobile use, yet better access;
- Efficient resource use;
- Less pollution and waste;
- The restoration of natural systems;
- Good housing and living environments;
- A healthy social ecology; a sustainable economy;
- Community participation and involvement; and
- The preservation of local culture and wisdom.

The Urban Taskforce's Parramatta Road proposal should further those ends and as such be given serious consideration by local councils and the state government in consultation with the neighbouring and wider community.

Overseas Inspiration

⁵⁸ Koray Velibeyoglu, *Urban Design in the Postmodern Context*, Izmir Institute of Technology, 1999, <http://www.angelfire.com/ar/corei/ud.html>

⁵⁹ Stephen Wheeler, *Planning Sustainable and Liveable Cities*, Routledge, New York, 1998, ISBN 0-415-27173-8

⁶⁰ Ibid.

San Diego is California's second largest city. The City's General Plan made a concerted effort to avoid urban sprawl. In 2010 the American Planning Association honored the Plan with the National Excellence Award for Comprehensive Planning. Some of its distinguishing characteristics are⁶¹:

- *Crafting of 10 principles and resolving them resolved in the process to guide the development of its General Plan document.*
- *Making a conscious decision to move from an outward growth focus to one that looks inward, centered on the concept of "villages" and defining what that meant.*
- *Making the "city of villages" the central organizing concept of the General Plan. The villages are envisioned to be compact and walkable, to have a robust mix of uses focused upon transportation networks and to be defined by open-space networks.*
- *Helping to ensure the quality of internal growth, the Plan strongly focuses on fostering attractive urban design throughout the city.*
- *Protecting and enhancing its economy by limiting conversion of nonresidential land uses to residential uses to preserve land for employment generating land uses.*
- *Undertaking a vigorous public education and engagement process throughout the five-year period of developing the General Plan and involving many other agencies and organizations to develop a vision and provisions for realizing that vision.*
- *Having a practical focus on realistic implementation and laying out a clear roadmap to achieving that vision through community plan updates, capital improvement programming, and future city budgets.*

Sydney's City of Cities Concept

In a 2006 address to the Victorian Division of the Australian Property Council that compared the metropolitan strategies of Sydney, Melbourne and Brisbane, David Wilmoth, a professional town planner, identified a clear hierarchy of centres and places that could constitute the modern villages of Sydney.

⁶¹ California Planning Roundtable and American Planning Association, *Great Model: City of San Diego*, <http://reinventingthegeneralplan.org/models/san-diego/>

Clear Sydney hierarchy of centres and places



Types of Centres and Places State / Local

TYPE	EXAMPLE
SYDNEY CITY	Sydney CBD & Fringes (Kings X, Pyrmont)
REGIONAL CITY	Parramatta, Newcastle, Wollongong
MAJOR CENTRE	Chatswood, Hornsby, Bondi Junction, Blacktown,
SPECIALISED CENTRE	North Sydney, St Leonards, Macquarie Park, Airport + Port
POTENTIAL MAJOR CENTRE	Prairiewood, Fairfield, Green Square
RENEWAL CORRIDOR	Parramatta Road Corridor
KEY EMPLOYMENT LANDS	Wetherill Park, Silverwater, M4, M7
<hr/>	
TOWN CENTRE	
VILLAGE	
NEIGHBOURHOOD CENTRE	
LOCAL EMPLOYMENT LANDS	
ENTERPRISE CORRIDOR	

(Source: David Wilmoth, *Sydney and Brisbane's Metropolitan Strategies: Ideas for Melbourne*, Property Council of Australia Division, Melbourne 24th May 2006, page 27)

Wilmoth saw 'major centres' as having the following attributes⁶²:

- *Higher order admin, education, services, cultural and recreation facilities and civic and retail services.*
- *Mid-to-high rise residential density within the centre.*
- *Contain at least 8,000 jobs and serve a wide catchment of 100,000 and above.*

Wilmoth's outline was consistent with the 2005 State Government Metropolitan Strategy document, *City of Cities - a Plan for Sydney's Future*⁶³, which envisaged a Global kernel (Sydney City and North Sydney), regional cities (Parramatta, Liverpool and Penrith), specialised centres (e.g. Sydney Airport, Port Botany, Olympic Park/ Rhodes), major centres (e.g. Bankstown, Blacktown, Bondi Junction) and over 400 neighbourhoods, villages and town centres.

The Bleak Alternative

⁶² David Wilmoth, *Sydney and Brisbane's Metropolitan Strategies: Ideas for Melbourne*, Property Council of Australia Division, Melbourne 24th May 2006, page 28

<http://www.wilmoth.com.au/publications/20060523PropertyCouncilTalk.pdf>

⁶³ NSW Planning, *City of Cities - a Plan for Sydney's Future*, 4th December 2005

<http://www.metrostrategy.nsw.gov.au/WhatsNew/2005/CityofCitiesaPlanforSydneyFuture/tabid/207/language/en-AU/Default.aspx>

Unless Sydney consciously plans for a denser future it will spill out taking up more and more of its surrounds until NSW becomes an acronym for an urban conurbation encompassing Newcastle, Sydney and Wollongong and areas to their west.

Such urban sprawl discourages both social mobility and integration because the majority of new housing development in outer areas is single detached dwellings. Urban sprawl also fragments communities and increases traffic congestion since it increases travel between home, work, shops and recreation outlets.

The Commonwealth Department of Infrastructure and Transport⁶⁴ has made this point strongly:

As a result of this type of urban development, the populations of Australia's major cities are distributed over relatively large land areas. As at the 2006 Census the area covered by the major cities was 48,908 square kilometres with an average of 1,332.2 persons per square kilometre. However, considerable differences exist between the cities in the relationship between area of land covered by urban development and the number of persons per square kilometre....

The impacts of outward urban expansion and low-density residential development have been a greater separation between residential areas and locations of employment, greater use of cars for mobility, higher costs of transport and vulnerability to oil price rises, and a loss of productive agricultural land or habitat.

The high price of Sydney homes is already resulting in a greater demand for townhouses, terraces, apartment and units as the following newspaper report attests⁶⁵:

A village in the sky

The rush to buy into apartment towers rising in Sydney's west is evidence of the growing view that convenience trumps home size. It is being dubbed the "vertical village", a \$300 million tower that is set to become the tallest in Parramatta. But it will not stand alone. Two more high-rises - each of 25 storeys - will be built in nearby Rhodes and Olympic Park, with more than 800 apartments across the three developments.

Many residents are trading location for house size, according to former NSW government architect Chris Johnson, the chief executive of the Urban Taskforce Australia, which represents developers. "Now Sydney is reaching a tipping point where we're starting to move more away from the suburban house towards the apartment," he says.

For denser development to be accepted by the wider community body corporate laws will need to be overhauled to ensure residents respect each other's rights to avoid the following outcome⁶⁶:

Strata board bullies can turn community living into a proxy war

⁶⁴ Department of Infrastructure and Transport, *State of Australian Cities Report 2010*, Chapter 3: *Population and Settlement*, March 2010, page 14

⁶⁵ Toby Johnstone, *A village in the sky*, April 8th 2012, <http://smh.domain.com.au/real-estate-news/a-village-in-the-sky-20120407-1wi6z.html>

⁶⁶ Keith Jackson, *Strata board bullies can turn community living into a proxy war*, January 5th 2012 <http://smh.domain.com.au/real-estate-news/strata-board-bullies-can-turn-community-living-into-a-proxy-war-20120105-1pmcq.html>

Sydney, one of the most expensive housing markets in the world, is becoming a city of apartment dwellers. Construction of attached dwellings overtook separate houses in 1994, and apartments, units and townhouses now comprise more than half the home stock in central and inner Sydney, as well as a growing proportion of the middle and outer suburbs.

As anyone who has moved from a house to an apartment will tell you, there's a huge difference between living in your own free-standing Emoh Ruo and sharing a building as part of an attached community. Freedom of individual choice gives way to collective consideration, which can induce stresses ranging from mild irritation to serious upset.

The main problem with collective living is governance. Buildings need to be managed, and the management is provided by a group of owners elected by annual meetings of the body corporate (a flash name for all the owners). These elected bodies are called executive committees and they're usually small. Their competence ranges from highly skilled to terminally incapable and their approach to the task fluctuates from self-sacrificial to sociopathic.

Social Capital

Most Sydney residents want their neighbourhoods to be closely knit communities with a unique identity. That can be facilitated by community body corporates with strong place management and shared service centres. Such mini-councils would control the provision of neighbourhood services and planning and approval for small scale developments.

A metropolis of multi-use villages built around major transport corridors and hubs would enable Sydneysiders to choose the style of accommodation they can afford and prefer. Younger people wanting a vibrant neighbourhood close to entertainment and recreational amenities could obtain affordable apartments or units within a village 'centre' or its immediate surrounds.

Older people wanting a quieter lifestyle might prefer to live in terraces, townhouses or detached homes on the 'outskirts' of the village which would still be close enough to enable ready access its services and other attractions. Middle aged people could choose between the faster or slower lane depending on their lifestyle preferences. People of working age would have greater opportunity to find employment within their neighbourhoods thereby reducing pressure on Sydney's roads and public transport.

Living, working, shopping, recreating and generally interacting with other people, groups and institutions within the same community builds social capital. According to the World Bank⁶⁷:

Social capital refers to the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions.

Increasing evidence shows that social cohesion is critical for societies to prosper economically and for development to be sustainable.

⁶⁷ The World Bank, *What is Social Capital?*

<http://web.worldbank.org/WBSITE/EXTERNAL/TOPICS/EXTSOCIALDEVELOPMENT/EXTSOCIALCAPITAL/0,,contentMDK:20185164~menuPK:418217~pagePK:148956~piPK:216618~theSitePK:401015,00.html>

Social capital is not just the sum of the institutions which underpin a society – it is the glue that holds them together.

While there are many views on social capital they share a common premise that “social networks have value”. According to a review of the research literature on the subject⁶⁸:

Social capital is charged with a range of potential beneficial effects including: facilitation of higher levels of, and growth in, gross domestic product (GDP); facilitation of more efficient functioning of labour markets; lower levels of crime; and improvements in the effectiveness of institutions of government (Aldridge et al. 2002; Halpern 2001; Kawachi et al. 1999b; Putnam et al. 1993).

Social capital is an important variable in educational attainment (Aldridge et al. 2002; Israel et al. 2001), public health (Coulthard et al. 2001; Subramanian et al. 2003), community governance, and economic problems (Bowles and Gintis 2002), and is also an important element in production (Day 2002).

Economic and business performance at both the national and sub-national level is also affected by social capital (Aldridge et al. 2002). Others have emphasized the importance of social capital for problem solving and how only certain types of social capital contribute to this (Boyte, 1995; Sirianni & Friedland, 1997).

Conclusion

Making Sydney affordable for future generations requires permitting suburbs to have more mixed use precincts rather than vast tracts zoned exclusively for detached housing. That means having more terraces and town houses instead of detached houses; replacing strip shopping centres with mixed use corridors housing apartments and units above shops; and upgrading older shopping centres surrounding open car-parks into community hubs acting as a town square.

Strategies for accommodating increased population in metropolitan areas will involve increasing density in new growth areas, utilising urban brownfields, increasing multi-unit dwellings along transport corridors, permitting more inner city high-rise residences, allowing dual occupancies and encouraging further decentralisation to regional cities. Such strategies would be pursued within a metropolitan strategy that shaped Sydney into a network of villages and their surrounds, each with its own distinct contract council (using a common regional shared service centre) and comprising three types of land use:

- a medium height village ‘centre’ of shops with apartments above them;
- a village ‘buttress’ of high rise offices and residences with ground floor shops and other public amenities; and
- a village ‘outskirts’ of low rise terraces, town-houses and detached houses with distinct areas serving as business centres.

A village style pattern of development need not be concentric. It could also be linear, rectangular or triangular depending on existing transport corridors and nodes. Having an urban renewal authority

⁶⁸ T. Claridge, *Social Capital and Natural Resource Management*, Unpublished Thesis, University of Queensland, Brisbane, 2004. <http://www.socialcapitalresearch.com/benefits.html>

to conceive a masterplan with public input and joint regional planning panels to assess development applications could help realise such a city of villages concept.

The Urban Taskforce's Parramatta Road proposal is a good example of how such a strategy would work in a particular area. It would create lively and distinct new neighbourhoods offering work, shopping, cafes, cinemas, theatre, gymnasiums and other amenities locally. With 100,000 jobs along the corridor many residents would be able to walk or cycle to work rather than having to travel long distances which congests Sydney roads and public transport.

The proposed liveability corridor zoning would mix uses up so that for every new apartment there was a local job as well as retail and recreational outlets to make village style living a reality. Such a concept would be a break from modernist planning which attempted to break up land use into large exclusive sectors for a particular purpose. This meant people lived in one region, worked in another shopped in a third and sought recreation in a fourth. The result was often soulless uniformity in each area. By contrast the village style model enshrines land use diversity and social interaction thereby building a stronger and more united community.

Unless Sydney consciously plans for a denser future it will continue to sprawl until its natural boundaries (ocean, escarpment and national parks) prevented further expansion. Also such urban sprawl is fragmenting communities and aggravating traffic congestion since it is increasing average travel time between home, work and shops.

Developing a network of mixed use villages each with a medium rise core, high rise buttress and low rise surround could strengthen individual community integration, cohesion and identity. This would offer social, economic, environmental and political benefits including less crime and greater interpersonal trust, improved productivity and lifestyle from reduced commuting time, less pollution and noise from traffic volumes and congestion, and greater commitment to civic values and institutions.

The state government and local councils should articulate and promote such a vision because without a clear blueprint of what Sydney will look like in future, public opposition to growth will continue resulting in ad hoc and unbalanced development which is in no one's interest.

Part 7: Relieving the Pressure on Sydney

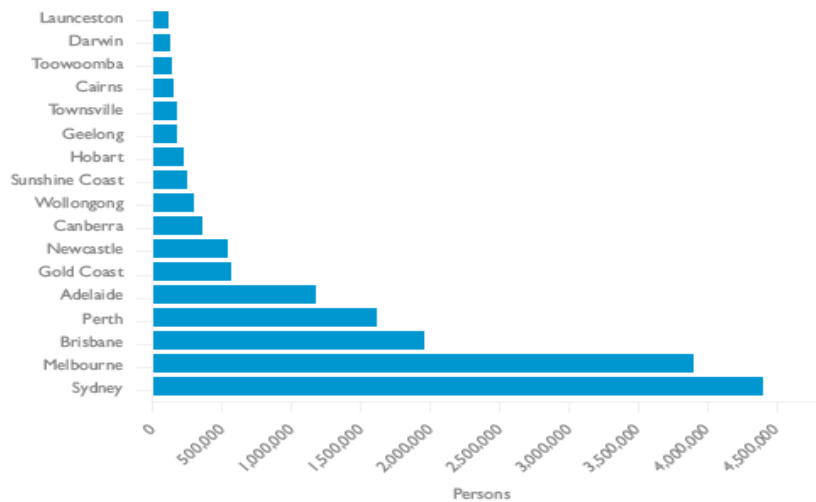
Urban Concentration

Australia is one of the most urbanised countries in the world. Almost nine out of ten Australians live in urban areas, while around three in four people live in a city with more than 100,000 residents.

This high concentration of urban living has been a feature of Australian settlement for the past century and, consistent with global trends, has been intensifying.

Australia has 17 cities with more than 100,000 people each. All but three are close to capital cities.

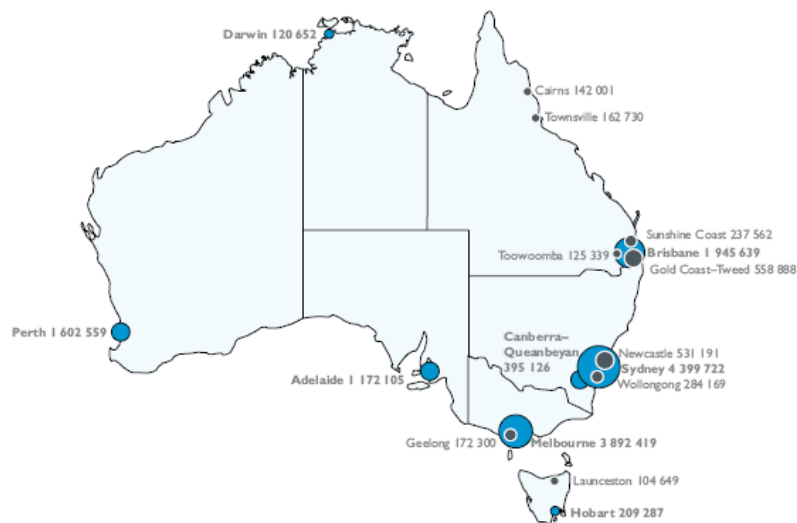
Figure 3.1 Estimated Resident Population of Australia's major cities, 2008



Source: ABS 2009a

Furthermore Australia's urban settlement is largely concentrated in coastal hubs.

Figure 3.13 Australia's major cities, estimated resident population at June 30, 2008



Source: ABS 2009a

The average density of Australia’s major cities is 1,332 people per square km. Sydney has the highest density with 2,037 people per square km.

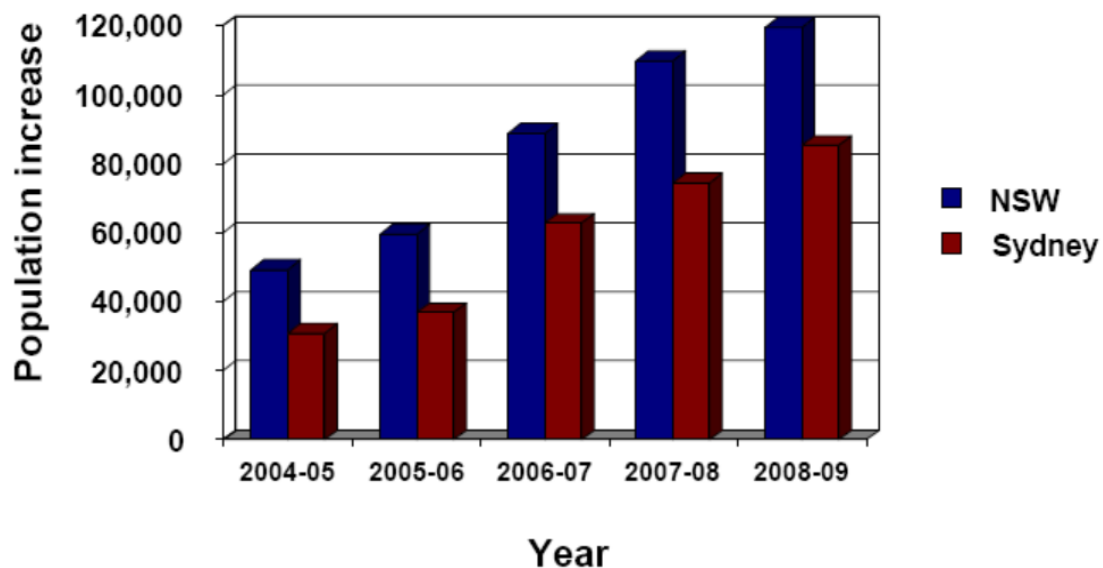
Table 3.2 Population distribution within major cities, Australia, 2006

City (a)	Persons per sq km
Sydney	2 037
Melbourne	1 566
Brisbane	918
Perth	1 213
Adelaide	1 374
Gold Coast	553
Newcastle	1 102
Canberra	1 081
Wollongong	1 272
Sunshine Coast	848
Hobart	1 027
Geelong	1 356
Townsville	8 28
Cairns	775
Toowoomba	803
Darwin	845
Launceston	747

(a) Geographic unit of analysis for capital cities is 'urban centre'; for regional cities this is 'statistical sub-division'.
Source: ABS 2006

The growth of Sydney relative to NSW as a whole is depicted in the next chart.

NSW and Sydney annual population increase



(Source: Ku-ring-gai Council, *NSROC Submission to Sydney Metro Strategic Review – Sydney towards 2036*, slide 1, undated)

http://www.kmc.nsw.gov.au/resources/documents/Pres3_on_NSROC_Sydney.pdf

Western Sydney and selected parts of central Sydney on or near the coast will account for the strongest population growth for NSW (along with a few regional centres) in future.

Regional Development

Yet stronger regional development of NSW could provide a safety valve for Sydney's growth pains. Out-migration won't solve Sydney's home affordability and traffic congestion, but it could relieve some pressure on the city arising from serious housing stock and mass transport deficiencies. But it won't be a substitute for addressing these problems at source.

The obvious candidates for greater settlement are regional areas that already have a critical mass of people and have demonstrated a capacity and eagerness to grow. In NSW such urban regions fall into the three categories.

First there are the two major satellite cities to Sydney:

- Newcastle (553,000 residents) in 7th place in Australia's city league table; and
- Wollongong (394,000) and 9th in size.

While the West Dapto release area will allow Wollongong to expand south, the Illawarra escarpment curbs the potential of Wollongong to grow west or north.

The Newcastle statistical region which incorporates Maitland and Cessnock has enormous capacity to grow since it sits in the Hunter, which has been described as the Ruhr Valley of NSW. Unlike the Sydney basin or the Wollongong coastal strip, the Newcastle hinterland is rich in water, arable land and is the largest coal exporter in the world. But worn out transport and civic infrastructure in its main cities - Newcastle (8% of total infrastructure is past its used-by date), Maitland (6%) and Cessnock (10%) - is holding back their development and threatening the financial sustainability of their local councils.

Nevertheless, the Lower Hunter Regional Strategy 2006-2031⁶⁹, provides for

- 115,000 new homes to cater for a projected population growth of 160,000 people.
- Up to 66,000 new jobs and ensures an adequate supply of employment land.
- A greater choice of housing and jobs in Newcastle's CBD and specified major centres.
- Green corridors that align with existing public reserves, some of which will be expanded.
- Protecting high quality agricultural land, and natural resources such as water aquifers and extractive materials.

The strategy guides local planning for land use, infrastructure and public services in the five local government areas of Newcastle, Lake Macquarie, Port Stephens, Maitland and Cessnock, and is subject to review every five years.

The second group consists of urban regions that are extensions of cities in other states and territories:

- Gold Coast – Tweed (600,000 residents) the 6th largest urban area in Australia;
- Canberra – Queanbeyan (418,000 residents which ranks 8th); and
- Albury – Wodonga (107,000 residents at 17th place.

⁶⁹ NSW Department of Planning, *Lower Hunter Regional Strategy*, October 2006

The first two regions are enjoying strong population growth of almost 2% per annum, while the third is expanding at 1.2% a year, the same rate as for NSW as a whole. Further growth of these regions is heavily dependent on the urban renewal plans of neighbouring jurisdictions. Nevertheless NSW needs to match such efforts lest its part of these growth hubs becomes their backwater.

The third group are single city dominated regions with between approximately 40,000 and 60,000 residents. Two are coastal cities and four are based west of the Great Dividing Range.

- Wagga (60,000 residents) and 29th in size in Australia;
- Coffs Harbour (54,000) and 30th;
- Tamworth (48,000) and 34th;
- Port Macquarie (45,000) and 35th;
- Orange (40,000) and 36th; and
- Dubbo (39,000) and 37th.

Regional areas outside Sydney have large and in most cases growing local infrastructure backlogs which are holding back their development as alternative growth nodes to Sydney. Yet the cost of renewing their infrastructure is relatively small compared with the costs of enhancing roads, public transport, storm water drainage and civic facilities in Sydney.

For financial year 2007/08, Review Today Pty Ltd⁷⁰ reported infrastructure renewal backlogs as a proportion of total local physical assets for the main city local governments of these regions of between zero (Orange) and 10% (port Macquarie and Dubbo) with an average backlog ratio of almost 7%. It also estimated that annual infrastructure renewal spending as a proportion of that required to replace assets that have reached the end of their useful life or have degraded below an acceptable standard ranged from an excess of 12% in Tamworth to shortfalls of between 4% (Dubbo and Orange) and 42% (Wagga). In other words five of the six municipalities were under-spending on infrastructure thereby adding to accumulated backlogs of dilapidated roads, pavements, kerbs and guttering, culverts, storm-water drains, retaining walls, sea-walls, parks, civic buildings, airport tarmacs, etc.

The current annual population growth rates of these six areas ranges from 0.8% in Wagga to 1.8% in Orange. Their mean population growth rate is 1.4%. This compares with recent growth rates for Wollongong, Newcastle and Sydney of 0.8%, 1.1% and 1.4% respectively.⁷¹ In other words the average growth rate of NSW's main non-metropolitan areas matches that of Sydney and Sydney's growth exceeds that of Newcastle and Wollongong.

Causes of Centralisation

A question that bedevils Australia's population settlement is why is it so centralised? Except for Queensland, population is very heavily concentrated in state capital cities, which makes it difficult to establish regional governments that would have sufficient taxpayers to support the corporate overheads of state administrations.

⁷⁰ Review Today, *No Improvement Discernible in NSW Local Government Sustainability*, Media Release, 26th May 2009 and FiscalStar, *2009 NSW Local Government Financial Sustainability Review*, May 2009, http://reviewtoday.com.au/2009_FS_report.php

⁷¹ http://en.wikipedia.org/wiki/List_of_cities_in_Australia_by_population

Yet the absence of strong regional government may be the very reason that Australia's population and economy is so centred on a few state capitals. People want good jobs and amenities which at present are concentrated in the national or state capitals.

But restrictions on new land releases and re-development of existing sites in our major state capitals has made the average prices of homes in these cities among the most expensive in the world relative to average family income. A high immigration program combined with a severe shortage of housing stock (due to years of under-building) means that the sharp drop in home prices experienced in other countries since the onset of the GFC is less likely to happen here.

De-concentrating Australia

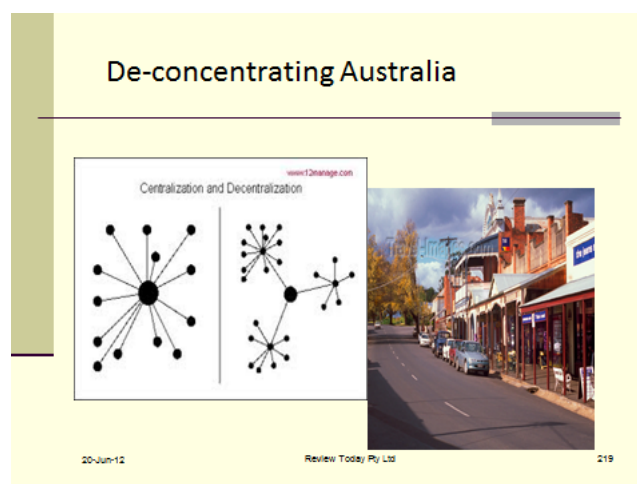
If community infrastructure in regional cities was improved to the standard of other developed countries those people struggling to find affordable accommodation in metropolitan Sydney, Melbourne, Brisbane, etc. would have a viable alternative. Also the urban sprawl and consolidation of our state capitals, which is causing a political backlash, need not be so intense.

Deficient local infrastructure in regional Australia is impeding population and economic decentralisation that would take pressure off our major metropolises.

The superior infrastructure of state capitals means 21 of the 25 most liveable communities in Australia are in metropolitan suburbs rather than regional towns⁷².

Though many dream of a sea or tree change, in reality the best quality of life is found in the metropolitan suburbs where residents often have the best of all worlds with access to good schools, modern hospitals, reliable jobs, large houses, fast internet and low crime.

Of the states and territories, only Queensland (the most decentralised state) has a better lifestyle outside its capital.⁷³



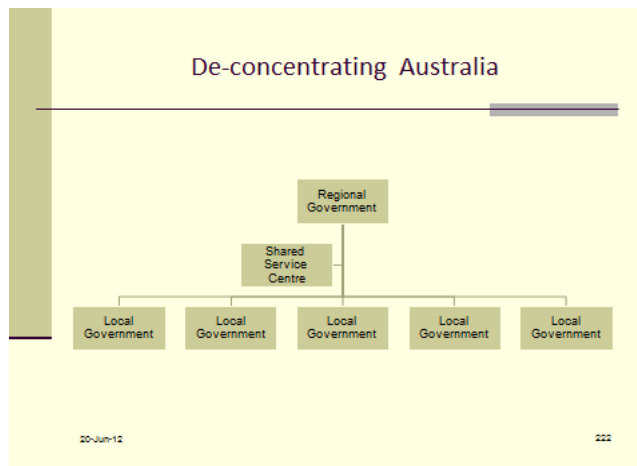
Australia's population will continue to gravitate to a few state capitals so long as we have only a few states. That's because both public and corporate administrations in Australia are largely run out of state capitals. By dividing our mainland states into say smaller regional governments we would stand

⁷² BankWest, *Quality of Life Index*, August 2008

⁷³ Ibid.

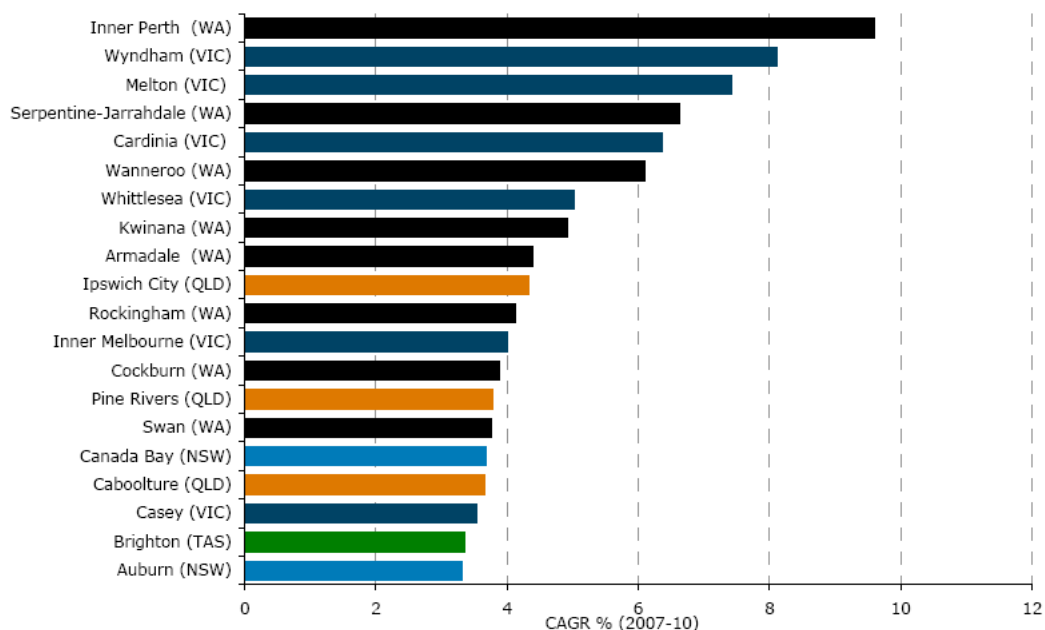
a better chance of fostering socially and economically attractive medium sized cities as exist in most other developed countries.

To minimise the cost of public administration corporate overheads a common shared service centre should provide back-office services to both the regional government and all local governments within a region. With shared support services local councils could cover smaller geographic areas than now without losing any economies of scale. The shared services centre would define the capital city of a regional government and act as a magnet for its economic activity.



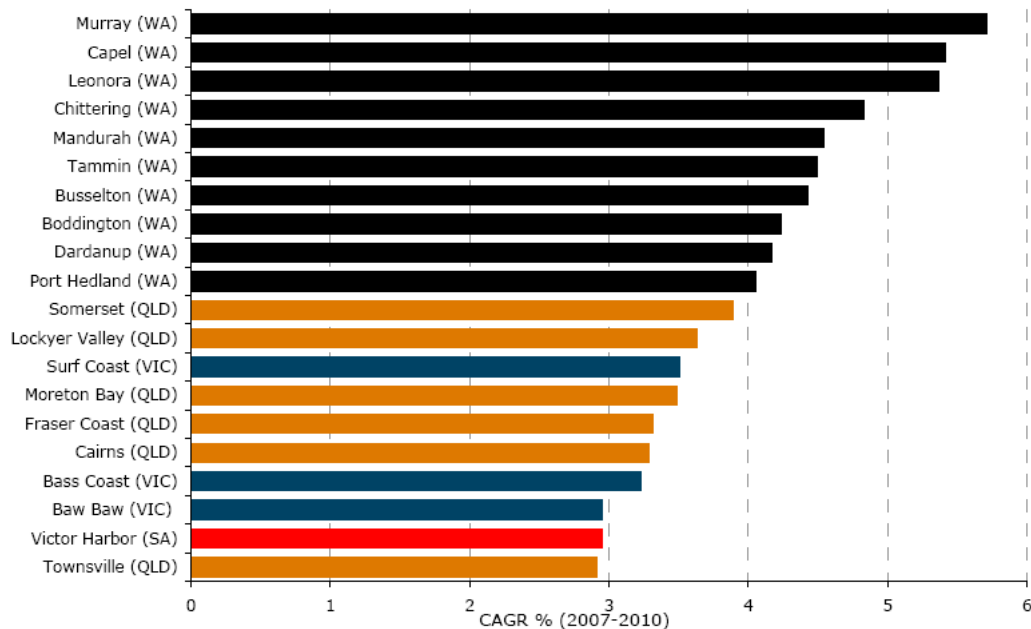
The next chart shows the fastest growing urban and regional populations of Australia. Not surprisingly the list is dominated by places in Western Australia and Queensland, yet Victoria still manages to have nine such areas. By contrast NSW has only one fast growing area (Canada Bay, a municipality of Sydney) putting it on par with the slow growing states of South Australia and Tasmania each of which also has only one fast growing area. Interestingly all of Victoria’s fast growing areas are regional with six being outer satellite cities of Melbourne and three being located well away from the metropolis.

TOP 20 FASTEST GROWING URBAN POPULATIONS



(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 4
<http://www.anz.com/resources/4/f/4f8395804a46c7e08341cbac93b0266b/Australian+Housing+Chartbook.pdf?CACHEID=4f8395804a46c7e08341cbac93b0266b>)

TOP 20 FASTEST GROWING REGIONAL POPULATIONS



(Source: ANZ Research, *Australian Housing Chartbook*, January 2012, page 4
<http://www.anz.com/resources/4/f/4f8395804a46c7e08341cbac93b0266b/Australian+Housing+Chartbook.pdf?CACHEID=4f8395804a46c7e08341cbac93b0266b>)

Compared with Victoria (let alone Western Australia and Queensland) NSW has not done enough to encourage people to live in either satellite cities of Sydney or other regional centres of the state.

California has 59 cities with a population in excess of 100,000 people. NSW has only 3 cities with populations of this size; Sydney, Newcastle and Wollongong. If NSW was as decentralised as California it would boast 12 large cities given that its population is one fifth that of its American cousin. Dryness can't be an excuse since NSW has more arable land than arid California.

Sydney will continue to grow as a metropolis. Yet striving for more balanced growth between Sydney and other regional centres of the state would alleviate a popular fear that governments want to cram all NSW development into Sydney at the expense of its liveability.

NSW needs a population settlement policy, not just metropolitan and regional strategies. Urban sprawl versus urban consolidation is a false choice since it ignores decentralisation. Funding new infrastructure in regional centres is less expensive and disruptive than in Sydney. Nevertheless, without an efficient mass public transit system Sydney will become less liveable and affordable. Public private partnerships are needed to secure new road funding through CPI-linked tolls which act as de facto congestion charges encouraging residents to work, shop and leisure near their homes rather than drive between suburbs. However, even with a concerted decentralisation effort, the main engine of the NSW economy will still remain Sydney.

Conclusion

Australia is a highly urbanised country by world standards with almost four in five people living in 17 cities with over 100,000 residents. The largest of these cities is Sydney which is home to more than one in five Australian inhabitants. Wollongong and Newcastle which are within a 1.5 to 2.5 hour drive from Sydney are amongst the nine largest cities in Australia. But beyond the Newcastle-Sydney-Wollongong corridor no other city in NSW is close to joining the 100,000+ league table. Which is why the initials for this transport corridor, represent an appropriate acronym for the state.

While Sydney's population growth can't be stopped, its growth pains along with that of other capital cities could be ameliorated by national and state governments planning for a more dispersed population settlement of Australia akin to Europe, America and Asia. For instance, if NSW was as decentralised as California it would boast 12 large cities given that its population is one fifth that of its American cousin. Dryness can't be an excuse since NSW has more arable land than arid California.

Too many regional cities in NSW are being held back by dilapidated local infrastructure which local councils are too poor to renew let alone expand. For these cities to achieve the 100,000+ league status they need to attract entrepreneurs and professionals by offering metropolitan-style amenities without the traffic congestion, noise and pollution. NSW's major regional centres have already upgraded their civic centres, but they could do more to beautify their urban landscapes and install better recreation and entertainment facilities. Several are already making the effort such as Dubbo with its Regional Theatre and Convention Centre and Western Plains Zoo and Tamworth with its Australian Equine and Livestock Events Centre and Sports Dome.

Also land and air transport connections to these regional hubs are vital. The larger centres are already well connected to Sydney by road, air and rail transport. With only a relatively modest injection of public capital by either the state or the commonwealth government, NSW regional centres with populations of between 40,000 and 50,000 (Wagga Wagga, Coffs Harbour, Port Macquarie, Tamworth and Orange) should be able to aspire to populations of 80,000+ that would make them more economically self-sufficient.

At present NSW can boast only two regional cities above this population threshold (Newcastle and Wollongong) which puts it on par with Tasmania (Launceston and Burnie-Devonport). By contrast Queensland (with a population less than two thirds of NSW) has six cities in excess of 80,000 people (Sunshine Coast, Townsville, Cairns, Toowoomba, Mackay and Rockhampton). But most decentralisation in NSW should focus on the Hunter valley which unlike the Sydney basin could accommodate a much larger population living in detached housing on affordable land lots.

The Lower Hunter Regional Strategy, drafted in 2006, could be revisited to make it more ambitious for relieving housing pressures in Sydney. Its present 25 year land use target is for an extra 115,000 new homes to cater for a projected population growth of 160,000 people. It also plans to set aside enough industrial and commercial land to cater for businesses generating 66,000 new jobs. Given that Sydney's population is growing by between 60,000 and 80,000 a year suggests no concerted effort is being made to decentralise population from Sydney to its most obvious alternative location.