Homes for All

The 40 things we can do to improve supply and affordability

Dr Tim Williams & Sean Macken

McKell Institute – Setting the public policy agenda

THE McKell Institute

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APRIL 2012

About the McKell Institute

The McKell Institute is an independent, not-for-profit public policy institute dedicated to developing practical policy ideas and contributing to public debate.

The McKell Institute was launched in 2012 with the release of this policy report.

The McKell Institute's key areas of activity include producing policy research papers, hosting policy roundtable discussions and organising public lectures and debates.

The McKell Institute takes its name from New South Wales' wartime Premier and Governor–General of Australia, William McKell.

William McKell made a powerful contribution to both New South Wales and Australian society through progressive social, economic and environmental reforms.

For more information phone (02) 9113 0940 or visit www.mckellinstitute.org.au

THE McKell Institute

The authors

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Tim is strategic advisor to the Committee for Sydney. He is a part time Principal for global consultancy Arup. He is also an advisor to the Federal Committee on Assisted Housing. He has advised PowerHousing, the peak organisation for Australia's biggest community housing providers. He has worked with a number of other Community Housing Providers in NSW and South Australia. This report is written in his private capacity.

Prior to becoming a resident here, Tim was Managing Director for Navigant Consulting in London where he built a team of 25 working on housing, urban renewal and local government. Acknowledged as one of the UK's leading specialists in his field, in 2003 Tim was named as the UK's Regeneration Personality of the year.

Tim was special advisor to the Rt Hon David Miliband when he was UK Cabinet Minister for the Department for Communities and Local Government. Tim then advised all subsequent housing and regeneration ministers until June 2010. Tim advised the current London Mayor on the housing design guide for London, the CEO of the Homes and Communities Agency and the CEO of Lend Lease Europe on the Olympic legacy. In 2007 Tim chaired an inquiry for the UK's Housing Corporation into the design of affordable housing in Thames Gateway, published as 'The Williams Report'. Tim was Chief Executive of the Thames Gateway London Partnership between 1998 and 2003, when the Gateway, Europe's biggest urban renewal programme, become a national priority.

Born and brought up in public housing in South Wales, Tim subsequently studied at Cambridge, Oxford and the University of Wales where he gained his Ph.D. He is also a qualified barrister. He lives in Sydney with his Australian family.

Sean Macken

Sean is Managing Director of Macken Strategic Planning Solutions. He has over 20 years advising on urban affairs and planning.

Sean was Director of Government Relations at Hawker Britton for over 10 years, where he specialised in planning and infrastructure development.

He was Deputy Chief of Staff to the NSW Planning Minister, Andrew Refshauge.

Sean was a Director of the NSW Urban Taskforce and chaired its Planning Reform Committee.

He was a Councillor on South Sydney Council from 1993 to 2000. He chaired the Council's Planning Committee and oversaw the development of the Green Square Masterplan and Council's City wide Local Environmental Plan.

Sean worked as an adviser in the Keating Government and Carr Opposition. He has a Masters in Public Policy and a Bachelor of Arts in History.

He lives in Sydney with his family.

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Foreword

AUSTRALIANS HAVE LONG EMBRACED THE TRADITIONAL HOUSING CAREER OF WORKING HARD, SAVING A DEPOSIT, AND BUYING A HOME.

But increasingly for too many Australians, the realisation of the dream of home ownership has slipped beyond their grasp.

Housing has not just become unaffordable for a growing number in New South Wales - the housing system is broken and we have in fact hit a crisis point.

Recent studies have indicated that Australia - and Sydney in particular – has one of the least affordable housing markets in the world. It is estimated that by 2020 New South Wales will have a housing shortage of almost 190,000 homes and Sydney's housing costs are now higher than London and New York.

These are more than just headlines in newspapers – it's a reality that afflicts a great deal of pressure and stress on Australians who in times past would have easily been able to sustain housing comfortably on their wages.

Due to the high cost of housing in Sydney, we are now seeing some workers spending up to 16 hours a week, the equivalent of two additional working days, travelling to and from their jobs because they can't afford to live any closer.

We are increasingly seeing families with children squashed into one or two bedroom dwellings because they can't afford to rent or buy an appropriately sized home.

People in their twenties, thirties and forties – whether single or married – are more often living with their parents because they can't afford to move out.

And the homeless, who sadly so often discover that even in such a lucky, wealthy and egalitarian community, our housing social net is woefully inadequate and waiting lists for public housing are too long to be a realistic option.

The housing crisis is a story about the struggles of real people. But even Australians who can afford housing should be concerned about the economic impact of a broken housing system.

The strength of our state's economy, and in particular Sydney's, relies on our ability to supply the next generation of workers locally as well as attract the best and brightest from interstate and abroad.

If we want to continue to grow our economy, boost productivity and improve the living standards of all residents, we need an adequate supply of housing.

Because if workers cannot find housing that is affordable, they will go elsewhere – and our economy suffers as a result.

For these reasons, the McKell Institute's first policy report focuses on the challenges of housing affordability and makes practical recommendations to help resolve the housing affordability crisis in New South Wales.

The authors of the report have decades of experience in the housing, planning, and government sectors both in Australia and internationally.

In developing this report, the authors and the McKell Institute have consulted extensively with a wide range of industry representatives and housing experts to enable a well-informed assessment of the policy settings that are affecting our housing system and to inform the recommendations that will help to turn this unsustainable situation around.

There is no one simple answer to this problem. A myriad of factors have led to the housing crisis that now exists and no single policy prescription or reform will resolve the challenge on its own.

The authors have proposed a suite of measures that, if implemented, will help to create a more affordable housing market, delivering positive outcomes for those that have been failed by the current system whether they be residents experiencing homelessness, renters, those who aspire to home ownership, first time buyers, and many existing home owners.

The report is comprehensive and will make a difference if implemented.

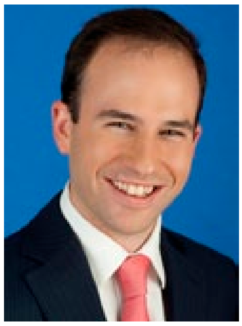
The report provides a balanced set of recommendations. It is pragmatic not ideological – seeking the best outcomes and not purity of inputs. When more free market solutions are needed, they are recommended. But when more intervention by government is required, it calls for that intervention.

We hope that this report stimulates debate amongst governments, industry, policy makers and the community at large. For too long, housing affordability has been left off the public agenda to the detriment of all Australians.

Not everyone will agree with all of the conclusions and recommendations the report makes – but there is an overwhelming consensus amongst industry, experts and social workers that major reform must be embarked upon and it needs to start immediately. The very vitality and competitiveness of Sydney and our state is in the balance.

Most importantly we hope that this report helps to inspire action, because only through significant and sustained policy reform will we begin to resolve this crisis and improve the lives of many New South Wales residents and safeguard the future of our state's economy.

The Hon John Watkins
CHAIR,
MCKELL INSTITUTE



Peter Bentley
EXECUTIVE DIRECTOR,
MCKELL INSTITUTE

Homes for All: Executive Summary

THERE IS A SYSTEMIC CRISIS IN HOUSING AND IT CAN ONLY BE FIXED BY A SYSTEMIC RESPONSE.

Twenty years ago it took three times the median salary to buy a house in Sydney. Now it takes nine times, a higher ratio than London or New York at the peak of the market. It puts Sydney at the top of the wrong league table.

At the same time, home ownership is becoming something older people do. Housing stress, whether it's the cost of a mortgage or rent, is now afflicting over half the population, with interest rates set to rise further. Many cannot get a home to buy or rent affordably or have to go to Sydney's edges to do so. First time buyers now typically pay half of their income on mortgage costs.

But while two thirds of 35 year olds in Sydney cannot access home ownership a fifth of the population now owns half the homes – because the perverse demand incentives and shortage of supply are making multiple ownership available to the few, but sustainable home ownership is open to a declining proportion and increasingly at an older age.

The whole system is under acute stress

The knock on consequences affect the whole system. Rents in Sydney are rising four times faster than inflation. The squeezed middle which used to be able to afford to buy now has to rent, pushing lower income renters to find the fewer remaining cheaper lettings – and again further out of Sydney to places with the fewest jobs. The pressure on public housing waiting lists grows unsustainably as there is not enough money to house those already in public housing let alone build enough new stock.

This is a housing system in acute stress. It is broken.

A comprehensive action plan to fix it is vital, *Homes for All* is it

The good news? Bad public policy caused these system failures. So, good public policy can fix them. But it needs to cover 6 areas at the same time:

1. the battle for more housing must be won – with politicians and the public;
2. new policies to increase supply constrained by anti-development planning rules and NIMBYism: we are at crisis levels in Sydney with less than half the supply needed;
3. new and better quality affordable housing supply is also vital but that requires new sources of private finance to be attracted to the sector – which can only come from a radical stock transfer policy, the growth of the community housing sector and a new regulatory framework;
4. new policies to reshape demand which has become distorted through incentives which give massive benefits to existing home owners, turned housing into a speculative investment and away from its prime role as shelter and actually increased home price inflation;

5. new housing and urban renewal agencies or special purpose delivery vehicles and a new active role for government: to work with the private sector to bring complex and large sites to market; and

6. strategic long term investment in the economic development and connectedness of Greater Western Sydney not just to take pressure off home prices near the CBD but also to enable the sustainable growth of what will be the biggest population centre in a Sydney of 7 million. We see this as requiring a special purpose delivery vehicle for Western Sydney. This would help plan and deliver town centres and large sites. It could also help promote the key game changing infrastructure investments that will open up denser, more and better housing capacity, and infrastructure such as a fast train to Parramatta from the CBD.

Politicians need to lift their game; so do we, the people

Our housing market is in crisis because successive governments, at every level, have choked off the supply of new homes while at the same time stimulating demand with the most generous of tax concessions, grants and exemptions. We pile burdens on developers and costs to first time buyers and wonder why Sydney's population and economic growth has fallen behind other Australian cities which have pro-growth leadership.

The planning system in New South Wales, whose role it is to deliver new housing, has broken down. We are now building just over 43 new homes for every 10,000 people – and at around 15,000 homes a year we are building less than half what we need to catch up on earlier population growth projections which themselves were conservative.

A campaign for more and better homes

This has coincided with a growing NIMBYism which has exploited the lack of informed debate about the need for new housing – and leads to the position where people who own homes are effectively inhibiting the possibility of home ownership and shelter for others. We also need to rethink the type of housing we provide and revisit and reinvent some old models such as terraces and semi-detached housing which served us so well in the past. Inheritance is becoming the major way into home ownership in Sydney – which is neither right nor very Australian. We have to do better than this.

Our recommendations start with us: we the people and our leaders need to understand our own dismal role in this crisis. We need a new civic dialogue on the needs and benefits of growth. A campaign for more and better homes. It starts here.

Homes for All:

The 40 things to do to improve housing supply and affordability

Priority area 1:
Political leadership must tackle the housing supply crisis in Sydney

ACTION 1.

That meeting housing need should be restored to the top of the political agenda in New South Wales, as in Australia overall – one of the first countries in the world to create a government department for housing.

ACTION 2.

That politicians of all parties in all tiers of government recognise that there is a crisis of housing affordability and supply in Sydney across all tenures whether to rent or to buy – and that they should make fixing our broken housing system an urgent priority, to meet housing need, to provide local benefits and to serve Sydney's economy - the engine of both the state and the nation's GDP.

Priority area 2:
A more intelligent civic dialogue about the need for housing – ending NIMBYism's threat to our children's futures

ACTION 3.

That we the people own up to our own dismal role in treating housing as a commodity rather than as a place of shelter and in preventing necessary new development.

ACTION 4.

That the State Government uses the current review of the planning system to create a new more intelligent civic dialogue on housing in Sydney between politicians, planners, developers and people – based on robust evidence, using new digital media and modern processes of consultation to enable more engagement with more citizens in making the strategic plans which will guide development.

ACTION 5.

That architects, developers and planners, who advocate denser development, convince the public, through delivering some exemplary schemes and by building great new places, precincts and town centres – not just units – that quantity and quality are complementary not opposites.

Priority area 3: The State Government must use planning reform to break through the barriers to housing growth

ACTION 6.

That the State Government have the reforming zeal and bravery to use the review of the planning system to replace the current Planning Act, which is a NIMBY's charter, with one that enables the homes and infrastructure we need to be built and that a global city needs to function. To this end the State Government should design a new Act based on COAG's Guiding Principles for the Review of Capital Cities' Planning Systems.

ACTION 7.

That the new Planning Act identifies a clearly defined hierarchy of plans with more statutory weight given to metropolitan and regional plans that contain policies to support housing, manage population growth, increase productivity and deliver economic growth.

ACTION 8.

That the NSW Department of Planning review the impact on dwelling prices and housing supply in Sydney of existing or future policies and regulations which, whatever their other merits, restrict land supply and development – such as percentage targets for housing development on Brownfield vs. Greenfield sites, SEPPs, and BASIX.

ACTION 9.

That as part of the reform of the planning system and its operation by councils and other planning authorities, the transaction costs, complexities and delays of making a development application should be reduced dramatically to improve returns for residential developers, to encourage new entrants to the housing delivery market and ultimately to increase both the quantity and diversity of housing built.

ACTION 10.

That the State Government takes decisive action to improve public sector coordination to speed up referral to, and approval processes by, the myriad of state departments and agencies.

ACTION 11.

That while some Big City thinking and reforms will be required to turn planning in Sydney from a barrier to development to an enabler, two minor reforms will have a big impact: the return of dual occupancy with suitable design guidelines in place as a proper response to enable infill development in existing areas; and a new State Environmental Planning Policy to allow small sub-divisions in areas within walking distance of a railway station or other transport node to be exempt development, again subject to compliance with suitable design guidelines. Such reforms can help deliver the reinvention of the Sydney terrace.

Priority area 4:
The State Government must phase out or reduce development levies and other charges which tax new housing supply and reform the system of paying for infrastructure

ACTION 12.

That the State Government urgently reviews the whole system of development levies and how infrastructure is to be funded – with a view to stopping Sydney from charging on average the highest up front development levies in Australia, because this deters development and results in enabling infrastructure, which benefits the whole community being paid for not by all existing home owners but by the purchasers of new homes.

ACTION 13.

That new value capture systems such as Tax Increment Finance be explored which enable infrastructure payments to be staged as development comes on stream and reward councils and communities significantly for permitting such development.

ACTION 14.

That, as development levies have risen while council rates have been capped, there needs to be reform to the rate capping system and a phasing in of rate rises in parallel with a lowering of levies on development.

Priority area 5:
That Stamp Duty be replaced by something which doesn't deter first time buyers, reduce mobility of home owners or add to the cost of buying a home: enter the Land Tax

ACTION 15.

That Stamp Duty be scrapped and replaced by a Land Tax because it is more efficient and equitable, spreads the cost load for purchasers, does not impact at times of special financial stress such as when people move house, doesn't disincentivise mobility and turnover as much as a transaction charge – but will tend to reduce the attractions of land as a speculative investment and thus bring downward pressure on residential price inflation and also more housing price stability. Land tax exemptions and/or transition arrangements should be provided for a period of time to those that have recently paid Stamp Duty to ensure an equitable transition.

Priority area 6:
That Federal and State Governments should favour tax policies which encourage housing supply over demand

ACTION 16.

That all politicians of all parties recognise that negative gearing and untaxed capital gains add wealth to existing home owners to leverage for second homes and investment properties without any evidence that they increase overall supply significantly; and that increasing effective housing demand in a constrained housing supply results in an increase in house price inflation and in problems of affordability for those seeking to buy.

ACTION 17.

That governments should redirect their policy focus away from encouraging the demand side of the housing market to supporting the supply side – and therefore consideration should be given to the phasing out of negative gearing over the long term in relation to existing properties but perhaps retained for new properties to stimulate supply.

Priority area 7: The State Government must also review its housing and urban renewal delivery capacity and create a big public land project

ACTION 18.

That the State Government recognises that planning reform in itself is necessary, but not sufficient to achieve a speedy uplift in housing delivery, to undertake large scale development on Greenfield or Brownfield sites, and to enable complex projects in established precincts to succeed. Evidence suggests the skills, focus, powers and funding of a dedicated urban renewal and housing agency are required to work effectively with the private and public sectors when large scale or complex development – in some cases creating new neighbourhoods or town centres – is mooted.

ACTION 19.

That the State Government should review state, national and international best practice in terms of the design and function of such housing and urban renewal agencies, the various kinds of delivery vehicles and the ways in which they reduce the risks and costs for developers, deliver political leadership, supply essential skills, coordinate key elements of the public sector, help supply enabling infrastructure, provide investment where relevant and engage with local communities.

ACTION 20.

That the State Government reviews the capacity and remit of the Sydney Metropolitan Development Authority in light of successful models such as *New Town Development Corporation* and the *London Docklands Development Corporation* in the UK; and reviews Landcom and its potential to evolve from its current more limited role back towards the wider remit it once had as a delivery vehicle for new and affordable housing, similar to England's national regeneration agency English Partnerships and Victoria's Places Victoria.

ACTION 21.

That the State Government initiate an inclusive public land program in which all tiers of government collaborate to identify key potential residential sites from their own land banks and agree to make them available for development – with land disposal managed by the proposed new urban renewal agency/reformed Landcom, which will work with a range of quality private and not-for-profit developers.

ACTION 22.

That the State Government reviews the current local council rate concession which encourages land banking of land rezoned for housing. Once land is rezoned it should be liable to be rated as residential not agricultural.

Priority area 8: The strategic way of reducing housing demand and prices in Sydney's hotspots is to develop the polycentric City of Cities

ACTION 23.

That the polycentric approach to developing Sydney's economy and centres advocated in the Sydney Metropolitan Plan be actually implemented as a key strategic contribution to easing demand pressures and house price inflation in inner suburbs.

ACTION 24.

That the emerging Long Term Transport Master Plan for New South Wales is properly integrated with the Sydney Metropolitan Plan so that future transport investment supports a polycentric Sydney – and a Sydney with better distributed job markets; and that other public service departments be invited to emulate their transport colleagues.

ACTION 25.

That developing the economy and connectedness of Western Sydney is the best housing policy for our capital city; requiring a dramatically raised emphasis on key strategic transport investment – such as a fast train from central Sydney to Parramatta – to ensure Parramatta realises its potential to be another CBD for Sydney.

ACTION 26.

That well connected residential and mixed use development be promoted in growing cities, town centres and employment areas to create attractive, lively places to work, live and visit – and that a special purpose vehicle or agency be created to achieve this and to promote the transport and social infrastructure necessary to rebalance the city: the Western Sydney Development Corporation or Commission.

Priority area 9: The housing crisis afflicts public housing too: the whole housing system is under pressure

ACTION 27.

That all politicians of all parties recognise that the housing crisis in Sydney afflicts public housing too; that low income renters in the private sector are being squeezed by higher income tenants who previously would have bought; that this is putting greater housing stress on low income families and pushing many onto public housing and community housing waiting lists; and that therefore what politicians and decision-makers need to recognise that what is in crisis in Sydney is the whole housing system.

Priority area 10: Public housing authorities have no cash to transform homes let alone tenant opportunities or build new supply – so innovation is required

ACTION 28.

That all politicians of all parties recognise that public housing does not now and will not ever receive the overall funding it needs to build significant new supply or to provide all tenants with the quality of homes they need. That the need is to transform not just the homes of public housing tenants but also their social capital and outcomes. That therefore radical innovation is required to secure the investment in homes and people which public policy and market failure are making ever more residualised.

Priority area 11:
New money, new thinking and new structures to secure new investment, grow community housing and achieve better outcomes for tenants

ACTION 29.

That the State Government remove the function of regulating social housing in New South Wales from the Department of Housing and vest it in an autonomous regulator so as to create a level playing field between public and Community Housing Providers and to create confidence in potential private investors in the sector.

ACTION 30.

That a new regulatory system be created which sets out the high standards of homes and organisational performance and capacity which all providers are to achieve. That a new NSW *Decent Homes* standard be established identifying the quality of homes to be provided by housing providers of all kinds, and that any failure to achieve the standard will lead to stock transfer to providers who can achieve this standard because they have access to the finance or the organisational capacity to deliver.

ACTION 31.

That the Department of Housing plans accordingly for a significant program of stock transfer (with full title) and the managed growth of the Community Housing Provider sector.

ACTION 32.

That the new approach to regulation will require not only that providers be assessed on the quality of their homes and financial capacity, innovation and probity but also on their relationships with tenants and the programs of social capital development they institute.

ACTION 33.

That the community housing sector and the Department of Housing need to collaborate to grow the capacity of the sector quickly and well, and that this will require regulation and subsidies to be targeted at creating fewer but better, larger Community Housing Providers, with the resources and skills to take on the new stock, attract new private funding and become a significant developer of new stock.

ACTION 34.

That the new regulator or Department of Housing work with the Community Housing Providers and the banks to identify the regulatory framework required to enable funders to invest more and in greater confidence in the sector.

ACTION 35.

That this may require that the State provides an implied guarantee that no regulated provider will be allowed to go bankrupt - bearing in mind that such an approach in the UK has seen no provider fail in more than 40 years of the regulatory regime which has levered in more than one new private pound extra for every public pound invested through subsidy, doubling the number of homes built for the public buck while enabling a million homes to become 'decent'.

ACTION 36.

That the new regulator or the Department of Housing work with the Community Housing Providers and the banks to create structures such as the Housing Finance Corporation in the UK or other similar bond financing structures such as those in Austria, to enable low cost long term bond finance to be available for affordable housing providers and products in Australia.

ACTION 37.

That a review should be undertaken by the State Government of what will secure new investment in new affordable housing products and private rented supply of scale and quality, from for example institutional investors, pension funds or superannuation funds.

ACTION 38.

That out of the process of stock transfer, the growth of the Community Housing Provider sector and the attraction of new private finance will come new business models of housing companies, both not-for-profit and for profit. Their goal will be to build a spectrum of affordable housing at sub-market rents, new private market rented accommodation, shared equity and homes for sale so as to avoid mono-tenure development, concentrations of disadvantage and a reproduction of the problems of social housing – and to contribute to an increase in supply of homes.

ACTION 39.

That over time the walls between these tenures are broken down as a conscious objective of public policy, as in the best interests of communities themselves and of the efficiency of the housing market.

Homes for All – a call to action

ACTION 40.

That every one of these recommendations be considered for implementation by the relevant authorities, providers, funders, politicians and we, the public, because no one initiative will solve the crisis of housing in Sydney.

Conclusion:

A program for delivery - and for effective and bold reformers

Collectively these recommendations amount to a program that will see a step change in delivery and an end to a business as usual approach in housing – an approach which has failed the homeless, tenants, those who want to get into home ownership, first time buyers, many existing home owners and the very vitality and competitiveness of Sydney itself.

We can do much better than business as usual – and we hope that *Homes for All* is useful to those who wish to be effective reformers of our housing system in this state and indeed in Sydney. In the spirit of one of them, William McKell himself, we commend it to you.

1. Introduction

1.1 The purpose of the report

Homes for All is both a critique and a call for action.

ITS PURPOSE IS THREEFOLD;

- **It contains an analysis of what has led to the crisis of housing affordability particularly in Sydney.**
- **It sets out actions to remedy the situation.**
- **It reaffirms a key principle which was once at the heart of our housing system and needs once again to be so, that homes are places to live and not speculative investments.**

The actions required are about increasing supply but also reshaping demand. This is what makes *Homes for All* different. A balanced – and we think effective – action plan, beyond ideology, requires that both the supply-side and demand-side of our housing problems are addressed. Supply-side measures on their own do not drive price levels.

The perfect storm for affordability crises of the kind we have seen occurs when inadequate supply and excess of demand combine. And as housing demand does not just come from housing need but also from the availability of credit and the impact of tax incentives for home owners, we see an imperative for reforms on the demand side too. Both are required to ensure stable home prices which do not rise faster than average earnings.

We do not attack home ownership. The opposite. Yes, we do want a sufficient supply of all types of homes in all tenures from a variety of providers to meet all needs and provide genuine choice. That must include new supplies of good quality affordable rental housing, a reform of public housing and a major contribution from innovative Community Housing Providers.

But our commitment to home ownership is not in doubt. What is in doubt is the capacity of the housing system particularly in Sydney to deliver, in current conditions, a sustainable model of home ownership – that is affordable for median wage earners to access, without being reliant on inherited wealth, excessive debt or public subsidy. The latter is code for the remarkable benefits which the tax system bestows on existing home owners which we think, in a situation of constrained housing supply, adds to price inflation and the squeezing out of first time buyers. When inheritance becomes a major route into home ownership the housing system is both structurally flawed and frankly un-Australian. Ours is both.

Our approach to reforming the housing system includes actions which will de-regulate and liberalise planning and land supply on the one hand. On the other hand, we call for the public sector in New South Wales, particularly in Sydney where housing conditions are most acute, to have the confidence and the pragmatism to make and shape the market when required.

Success lies both in less and more government. This must include State Government innovating around creating the big urban renewal and housing delivery vehicles and new forms of public-private partnership that most great cities find necessary to bring speedy, large scale housing developments and supporting infrastructure to fruition in complex environments. Tools to reshape Sydney and open up new housing markets are required to transform delivery. That's one of the 40 actions we recommend to provide *Homes for All*.

1.2 Sydney – top of the unaffordability league table

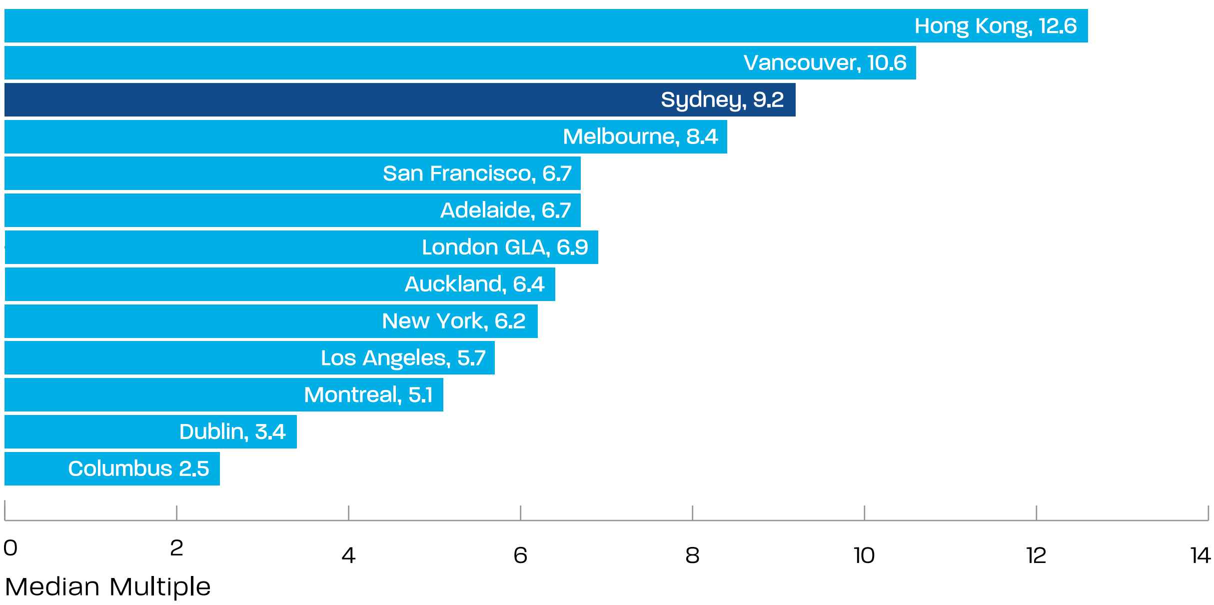
Australia is heading towards the top of the international league-table in many things. Unfortunately one of them is the price of housing, particularly in Sydney.

As a nation, we have amongst the most unaffordable housing on the planet. As a city, Sydney is ranked in a recent international survey as the third most 'severely unaffordable' for home buyers after Hong Kong and Vancouver in all the cities analysed.[1]

The long term international benchmark for housing affordability lies somewhere between 2 and 3 times the median household income. In Australia, overall it now takes 6.7 times median income to buy a home. In the UK, it's 5 times and in the United States it's 3.1. In Sydney, it's 9.2. The multiples required to live in suburbs such as Mosman are not something people on median incomes need to worry their calculators over.

FIGURE 1

INTERNATIONAL HOUSING UNAFFORDABILITY



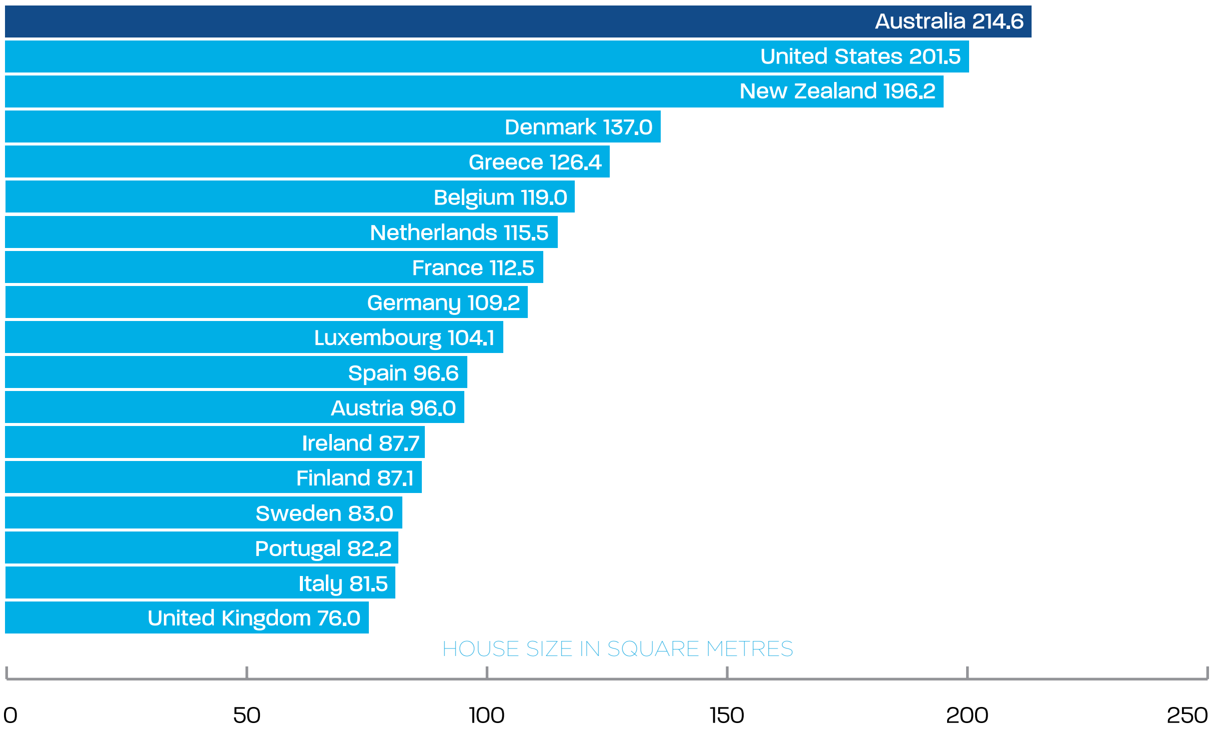
Median Multiple is defined as median house price divided by gross annual median household income.
Source: Demographia*, 8th Annual International Housing Affordability Survey 2012*

Although house prices declined markedly in the UK and the US following the Global Financial Crisis, in Australia overall there has been only a modest impact. In Sydney the affordability level barely moved, by any measure. Interestingly there is some evidence of the size of homes in Sydney modestly reducing in this market. The McMansion is itself an under-studied element of Sydney's rising housing costs with Australian plot sizes currently being the largest in the world and typically 2.5 times that of the UK[2] (Bigger homes cost more to build and to buy).

Though there is now perceived to be something of a pause and a modest cooling off in Sydney, as Australia is not immune to gloomier international market sentiment and there are some local concerns about the so-called two speed economy in Australia, there is no serious price adjustment downwards under way. No commentators are predicting any kind of collapse in Australian house prices. We can't rely on the housing market to fix itself.

FIGURE 2

AUSTRALIA HAS THE LARGEST HOMES IN THE WORLD



Source: **Australian Bureau of Statistics data cited in Commonwealth Securities, "Australian homes are biggest in the world", *Economics Insight*, November 2009**

BOX 1

Different ways to measure housing affordability:

- 'RESIDUAL MEASURE' – Looks at the amount of income that's left over to the household after deducting the housing expenses. This approach can indicate whether the households are falling into poverty due to rising housing prices.
- 'RATIO MEASURE' – Looks at the costs of housing to household income. It is generally agreed that if the cost of housing exceeds 30% of the household's income, the housing is considered unaffordable for people in the bottom 40% of the income scale.
- 'MEDIAN HOUSE PRICES MEASURE' – Looks at the ratio of median house prices to average household income.
- OTHER MEASURES – 'COST OF REPAYING A MORTGAGE MEASURE' Looks at the cost of repaying a mortgage to the income of households.

Source: **Henry Tax Review**

1.3 Great demand, less supply: go figure

This is partly to do with the fact that supply currently falls so far short of demand as to provide little downward pressure on prices. Housing delivery in Sydney is now around 15,000 homes a year. In 2006, the need was estimated to be 25,000 a year.[3] That was a conservative estimate then. Now, Sydney needs to build well over 35,000 homes a year just to catch up with that conservative growth projection; and over 45,000 a year if it wants to emulate the productivity levels of competing Australian cities let alone house the almost 7 million expected in our global city before mid-century. Estimates vary but by 2020 according to the National Housing Supply Council, the housing shortfall in New South Wales will be just under 190,000.[4]

Adverse economic consequences....

Sydney's failure to build enough homes has a consequence not just in terms of house prices or affordability. It affects Sydney's economic position adversely, reduces its contribution to the nation's GDP and damages its international competitiveness.

This latter context is not always discussed in over-specialised and narrow debates by housing experts. Bad housing policy is also bad economic policy. According to the Productivity Commission Review into Planning, Zoning and Regulation,[5] between 2007-08 and 2009-10, Melbourne approved 106,000 or 36% of all homes approved in Australia's capital cities. By comparison, over the same period Sydney approved 52,000 homes or 18% of the total.

The economic consequences of this stark contrast show up in the decline in Sydney's contribution to Australian GDP and the rise of Melbourne's, which is not explicable by Australia's two-speed economy. So between 1989 and 2010, Sydney's share of Australian GDP was on average 26.9%. Melbourne's was 16.5%. Between 1999 and 2010 Sydney's contribution had declined by over 40%, with Melbourne's contribution rising to 18.1%. In the one, possibly atypical, year of 2010-11, Perth's contribution to Australian GDP reached 20.7% with Melbourne's at 20.5% and Sydney at 16.6%.[6]

In this context of economic, population and housing growth for Perth, we note that although housing remains 'severely unaffordable' in all Australian cities, Perth has managed to move the mean income multiple required to buy a home from 8 times salary to 5.7.[7]

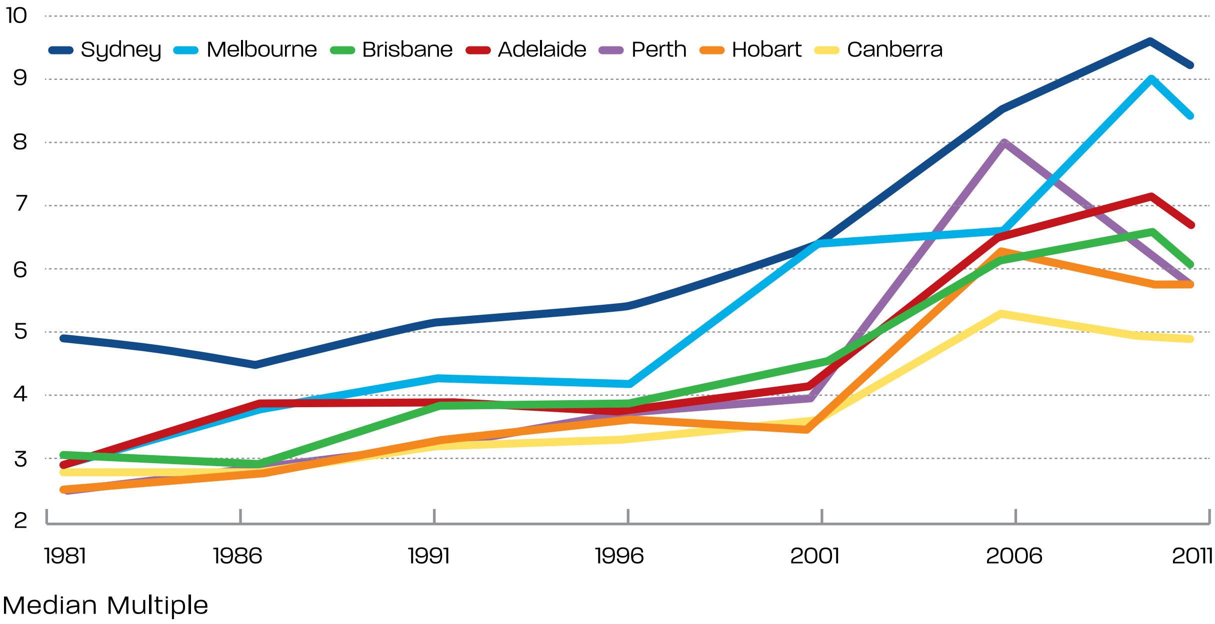
....and worse social consequences as meeting need gave way to housing as a commodity

Beyond the economic consequences, the failure to build enough homes in a variety of sizes, types and locations across Sydney has resulted not just in price inflation. It has reduced the livability of Sydney due to long commutes and congestion and the separation of families. It pushes new migrants away from the historic reception areas in denser inner-city neighbourhoods – with all their networks and connections to services, jobs, community engagement and ultimately integration which have become no longer affordable – to the edge of our city (and even deterred them from coming). The social and environmental consequences of that banishment to the edge for cheaper housing, of not being able to access jobs as well as services nearby, also need to be added to the charge sheet.

Further, by making housing scarce we have rendered it even more of a commodity, an asset class, an investment, to be leveraged to fund a retirement, transfer wealth to children, support consumption and buy second homes (at 8% of total housing, these have a big impact on supply and prices in New South Wales. In addition 22% of home owners own 55% of housing stock at present).[8, 9]

FIGURE 3

HOUSING UNAFFORDABILITY IN AUSTRALIAN CITIES, 1981-2011



Median Multiple is defined as median house price divided by gross annual median household income.
Source: **Demographia, *8th Annual International Housing Affordability Survey 2012***

Despite the rhetoric of growing home ownership, the emphasis of public policy for decades has really been on the ownership not the home. Although in the hierarchy of human needs, shelter is up there with clean water and food – a fundamental and basic human need – in reality the thrust of policy has been to build capital gains rather than social capital. It has also been to stoke up demand without increasing supply, indeed, while constricting it.

Tax breaks and incentives for those in housing have distorted demand, had perverse consequences on supply and given massive benefits to those who are lucky enough to be 'in it to win it'. So perverse did this become that for decades home owners have delighted in prices of residential properties rising much faster than incomes or general inflation. And of course prices rose ever higher in some desirable suburbs made even more elite by protectionist anti-development planning policies preventing other Sydneysiders getting access to the party. The gap in economic benefits from housing grew wider in Sydney and social mobility declined as the journey from Liverpool to Mosman grew longer.

Whereas in the 1990s, one house in Mosman would buy five in Liverpool, now it would be six.[10] The premium people will pay to live in desirable Mosman has been added to by the constraining of new supply in such places – supply constrained by policy not need or topography for that matter – and made their inhabitants even wealthier.

As Australians became addicted to the capital gain windfall of residential property, and as demand generation measures went up in step with supply restriction measures, the original goal of providing a place for everyone to live in became sidelined, with the complicity of the political class and of course of we existing home owners.

So public policy needs to not simply increase supply but also to influence demand pressures. In a situation in which an increasing number have leveraged their residential assets and tax incentives to own several homes while only a decreasing proportion can get onto the housing ownership ladder, the nature of 'housing demand' needs to be re-examined.

These policies have driven prices up and people out of home ownership, particularly people 35 years and under, and created a wealth gap between the housing 'haves' and 'have nots'. But the wealth gap is both a generational and a geographical one. While all areas have seen great increases in home prices in the last 15 years, some areas have seen prices quadruple while others doubled. This has exacerbated trends compelling those wanting to buy a house to move to the outer suburbs or even out of Sydney. It also means bigger barriers have been erected inhibiting social mobility – and making the journey therefore from Liverpool to Mosman even more difficult than previously.

With inner suburbs closed on cost grounds to the many, this also means that the traditional reception neighbourhoods for migrants are no longer available and the cultural networks and labour markets they are offered long gone. Today they are forced to the edge of our city where prices may be lower but also where densities are lower thus services are fewer and farther between, public transport is notable by its absence and community integration is more challenging. With long commutes to jobs, these communities are also the most vulnerable to rises in mortgage and transport costs, as we have seen.

This is a housing system under great pressure, causing stress.

BOX 2

MEASURES THAT RESTRICT SUPPLY

Housing has been constrained by changes in government policies which has either increased the cost of building new homes or constrained the availability of land for new houses.

These include among others:

- a more complex planning and approvals process;
- sustainability requirements such as BASIX (online building sustainability index);
- State Environmental Planning Policy 65 – Design Quality of Residential Flat Buildings;
- restricting re-zoning land due to inadequate infrastructure;
- restricting new housing to protect local communities and amenity;
- aircraft noise restrictions;
- increased flooding constraints;
- increasing bushfire protection and APZ's (asset protection zone buffers);
- greater heritage protection;
- higher urban design standards;
- increased infrastructure standard for roads, water, curbing, etc;
- infrastructure levies;
- Stamp Duty; and
- policies which restrict development to Brownfield or previously used land.

This list is by no means exhaustive. Each of these regulatory changes has individual policy merit but collectively have either increased the cost of construction for new houses or prevented new housing in many areas.

MEASURES THAT GENERATE DEMAND

Demand for housing is stimulated by a range of government initiatives and policies, including:

- tax exemptions for the family home;
- federal tax exemptions for second homes and investment properties, especially negative gearing;
- First Home Owner Grants;
- council rate capping; and
- rental assistance.

Again, this list is not comprehensive and there are many other hidden subsidies which promote demand for housing. These subsidies were designed to promote home ownership and help people access the housing market. They are aimed at dealing with housing stress. In that sense they are well intentioned.

However, promoting demand for housing while constraining supply simply increases housing unaffordability. Tax exemptions such as negative gearing have allowed many people to purchase second, third or even more properties. In the past, these may have supported the rental market, but in a market where supply is constrained it simply increases the price of housing for everyone.

1.4 The need and the opportunity

'Housing stress' (see Box 3) now afflicts more than 57% of households in New South Wales. That is, they are currently paying more than 30% of their income on rents or mortgages. Almost a third are spending more than 40% of their income on housing costs.[11] A recent survey indicates that typical first time buyers are paying 50% of their income to service housing debt.[12]

Furthermore, hundreds of thousands of people are either unable to afford to form a household, buy a starter home, rent affordably or get into public housing. Something radical needs to be done.

We believe that the policies to achieve the increase in supply – and the suppression of the wrong kind of demand, itself a key source of dysfunction in the housing market – are relatively easy to design and implement.

We also believe that there is not just a need for such policies but an opportunity.

This is partly the opportunity of a Federal Government which has shown itself to be innovative in terms of public and affordable housing, and of a new State Government with the proverbial blank sheet of paper to fill with potentially far reaching reforms on planning, supply and demand management.

It is also about local councils stepping up to the plate to show leadership around the aims of housing the many not feeding the self-interest of the few. Also the development industry, aware of the need to be a better partner for the public sector in achieving higher quality as well as quantity outcomes, is also looking to innovate.

It is also the opportunity provided by a banking sector not as able as previously to supply either cheap project finance or mortgages, looking to new business models, new housing tenures, new products and new partners to invest in.

But there are also opportunities due to the context we are in – where house price inflation has paused in Sydney after the rampaging easy money years, giving us a new opportunity to see a value in housing other than the bottom line. So it is also fundamentally about we the people reassessing our attitude to housing need and returning to the original principles that drove earlier generations to work so hard to ensure our society had a place for everyone. In housing, what happened to the 'Fair Go for All'?

On current policies, there will be no return towards the kind of earnings-to-house-price ratios which made housing affordable to younger households in Australian cities a generation ago. Current policies, which have led to Sydney's top position in the world unaffordability league table, will have to be replaced. This report advocates such policies. Something has to be done – and this report is a guide to what that might be. It is also a call to action. Forty actions to be precise.

BOX 3

Defining housing stress – why is it a problem?

Housing stress is defined as having to spend more than 30% of your income on rent or mortgages.

Some of the impacts of housing stress include:

- reduced income to spend on other essentials;
- difficulty saving money;
- increasingly longer commutes with social, economic and environmental consequences for individuals and families;
- impact on the productivity of our major centres and cities; and
- transport congestion.


SCHOOL ZONE
40

1.5 The good news? Bad policy actions drove bad outcomes so good policy actions will bring good outcomes

The emphasis on actions suggests the good news in the report. Something can be done to improve the position. The wave of cash, the tsunami, which flooded into international housing markets in the mid-noughties was caused by bad public policy as much as bankers' cupidity and stupidity. It wasn't an act of God.

Restrictive land use regulations and planning systems which actively inhibit housing growth are conscious public policy levers not accidents. The same goes for development levies for infrastructure which never used to exist. They are a drag on supply and a source of costs unfairly added to new homes and new home buyers, but not existing home owners who get a free ride from new infrastructure. Councils previously funded infrastructure from rates or governments used to supply it from general taxation. These new policies and choices, combined with easy money, did what constraining land supply, adding construction costs whilst expanding the availability of cash, always do: cause residential price inflation to go off the scale.

But that means that none of the causes of the current housing crisis in Sydney are caused by supernatural forces, inevitability or something in the water. Nor is the crisis caused simply by rising demand from population increase as though other cities apart from Sydney haven't seen such growth (which in the last decade has been about half of Melbourne's let alone Perth's). People have created bad consequences through bad public policy and regulation, so people can use new policies to sort the problem out. We can incentivise supply, reshape demand, improve affordability, reduce barriers to housing growth and bring new sources of funding and delivery tools to bear.

1.6 We have to change – and 'we' doesn't just mean politicians, it means us too

In terms of this report 'we' means not just politicians, decision-makers or administrators. It means us, the public. We have all been complicit in creating the policy framework and attitudes which have produced the results we see before us – or more pertinently, the results we don't see before us. We will all be required to work together to put housing on a new path in Sydney as in Australia.

Yes, to turn away from policies which have failed to create the housing supply, either of rental accommodation or at affordable prices for those who wish to buy, requires political leadership of the kind we have seen little of. In Sydney that means Big City leadership for a global city. We call for this in our report and the bravery – and governmental reforms – which will be needed.

Yes, policy innovation and regulatory reform will also be vital, by administrators, planners and decision-makers in public and private sectors. And we have some suggestions we think will be effective.

And yes, we will need to see some renewal and innovation from the private development and funding sectors – and some diversification of, and new entrants to them – in response to a reforming public sector.

But more important will be for people – us – to really reflect on the role we have played in creating today's dysfunctional planning and housing system in places like Sydney and to resolve to do – to be – better. If we are to see our own children housed in the city let alone the large number out there wanting to be new Sydneysiders, attitudes and approaches have to be set aside. Attitudes and approaches which have made housing a scarce commodity to be leveraged by lucky owners who then keep others from joining their magic circle.

1.7 The need to break the 'green/NIMBY nexus'

Some of those approaches have seen well-meaning environmental concerns and ambitions for compact cities, with new development meant to be restricted to Brownfield sites near public transport, in effective alliance with NIMBY (Not In My Back Yard) forces seeking to protect property values. To be clear, the report supports sustainable housing development, energy-efficient homes and green infrastructure. It supports the delivery of quality, well-designed homes in properly planned places. But it also supports building dramatically more homes than are currently being delivered, at prices which make them more affordable to those on average salaries, with the infrastructure that creates homes as well as just units.

This will require a step change in delivery of homes in established Inner East and West suburbs and Western Sydney, Greenfield as well as Brownfield. The policy focus on the latter has itself led to constrained delivery and higher prices – and in so doing had perverse and adverse consequences on the environment. Development prevented on 'green grounds' or by green belts in established areas usually goes somewhere else less sustainable. Arguably there has been a naïve and one size fits all approach to density. Targets for Brownfield development have been rigidly interpreted and implemented. Few new family homes in the inner suburbs of Sydney have been created through this process, driving families to the outer suburbs and beyond.

Moreover, an environmentalism which restricts land supply, slows growth and pushes up the price of homes is obviously very attractive to those who already are home owners. All this and more has been achieved through the complicity of these forces in Sydney. The green/NIMBY nexus has to be broken for real progress on housing in this city.

1.8 The increasing wealth gap between the housing 'haves and have nots'

Worse of course, has been that the corollary of this policy of 'to those that have shall more be given' is that those on lower and even average incomes not yet in home ownership have less chance to access it than ever despite Australia being one of the first 'home owning democracies'. The current New South Wales planning system, now under review, has become inconsistent in Sydney with the loudly proclaimed Australian objective of providing affordable owner-occupied housing.

To get a fair go in home ownership and particularly to buy a first house means for the average person that they have to look to the outer suburbs of Western Sydney and possibly leave Sydney. The figures show that only 29% of those in Sydney on average salaries can now afford to buy a house. In Melbourne it's 38%.[13] This cannot ever have been intended but it is the consequence of bad policy.

The tax system then fuels the benefits of existing home owners by failing to tax unearned income from capital gains and by maintaining the extraordinary tax hand-out to the well-off that is negative gearing: both lead to the advantages for home owners of leveraging and disadvantage to those who cannot get on the property ladder not least because tax-holidays and leverage also mean greater inflationary pressures on the price of dwellings. Add this benefit to land use, planning restrictions and the easy access to relatively cheap finance and you have most of the origins of both price inflation and the constrained supply in Sydney. All these are amenable to policy fixes, political will – and changed public attitudes.

1.9 Declining home ownership: a threat or an opportunity?

Perhaps one of those changed attitudes is about home ownership itself. Whilst the ambition to be a home owner remains powerful and Australia has a proud reputation as one of the world's first home owning democracies, the practice of home ownership actually continues to fall far short of the rhetoric.

In particular a generational gap has opened up over home ownership in Australia and particularly cities like Sydney where 67% ownership[14] overall conceals a significant fall of ownership over the last few decades amongst 30-35 year olds.[15] The age at which first time buyers are getting onto the first rung of property ownership has now risen to the mid-30s – as of 2008, only 38% of Australians under 35 own their own home,[16] compared to 44% in 2001. In Sydney the proportion is less than a third. Ownership is becoming something older people do and is clearly increasingly excluding younger generations without wealth from home ownership.

This has been driven by a shortage of housing stock, distortions in demand incentives and resulting high prices. But some change in tastes and demography have had an independent effect, with an increasing number of households being single person or couples with no children, attracted by urban lifestyles and proximity to employment. Such households are comfortable accessing urban apartments and more open to diversity of tenure including renting.

There is an opportunity as well as a threat in this phenomenon. With more diverse tastes and households, the possibility opens up of more diversity in the housing products coming onto the Sydney market. This could offer a broader menu for housing customers and clients bringing new business models and providers as well as tenures and housing types – and sizes - onto the market. It requires innovation. For example, higher density housing in town centres or locations close to stations could be served by car clubs instead of requiring expensive underground car parking.

Recent Federal housing reforms and investment packages such as the National Rental Affordability Scheme (NRAS) have resulted in an increase in sub-market rental stock and more affordable housing overall. This report explores what incentives and policies need to be put in place to encourage the development of a bigger private and sub-market rental market in Sydney, producing much more new stock.

1.10 The bottom line

The bottom line is this: whether or not such age groups as the key under-35 cohort wish to buy their own house or unit, they are increasingly unable to do so. But they still need a home. So this cohort are increasingly renting or even, quite unlike previous generations, now exhibit a trend towards living at home with their parents, for longer. When this cohort does form households, they do so later than has been the case and – by the way – then proceed to have fewer children because of it. Housing affordability pressure is thus changing family structure and culture in Sydney: it's that important.

It's also putting new knock-on housing stress onto lower income households. That is, the growth of a cohort that used to be able to buy on salaries which now cannot support a mortgage for a house of their own or even a unit is leading to greater competition than before for what housing there is to rent. In a climate of relatively constrained rental stock, there is both upward pressure on rents and a crowding out of tenants perceived as less desirable/more risky. (Figure 4)

So potential lower income tenants unable to compete with the new renters coming from the bottom end of the cohort previously able to buy, are either moving to cheaper, less central locations, often further away from employment and facilities or indeed presenting as homeless, in increasing numbers.

1.11 Pressure on public housing – permanently underfunded with ever more residualised tenants

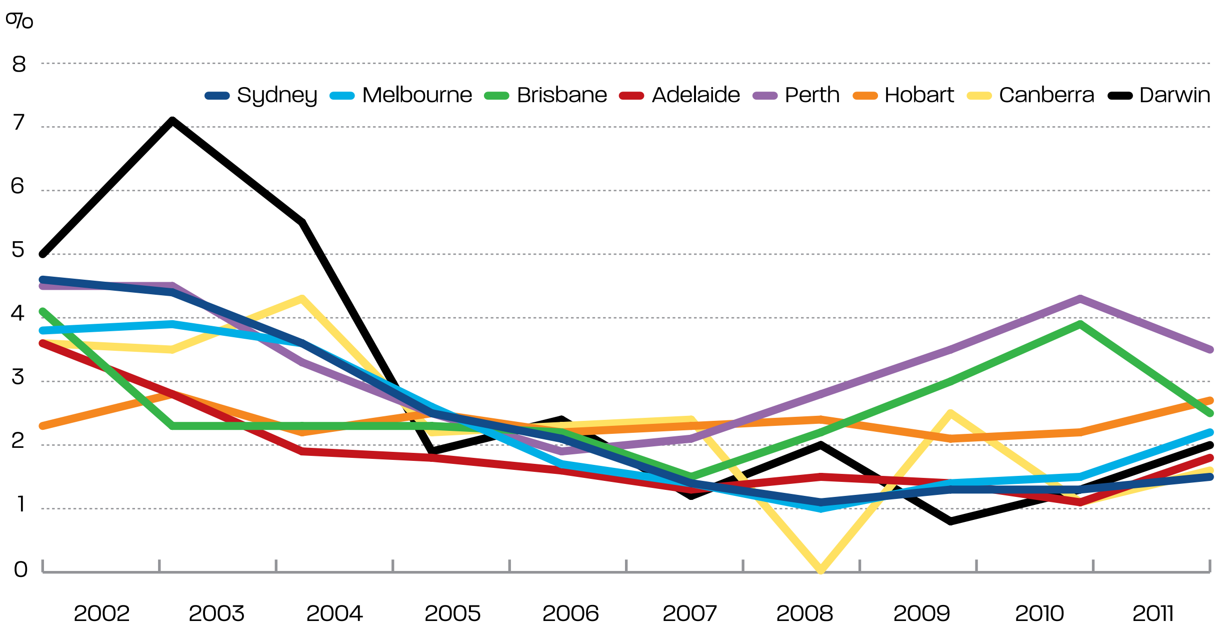
This in turn is putting not-for-profit Community Housing Providers (CHPs) and public housing providers under pressure as social housing waiting lists grow. Whilst we should all welcome that CHPs have grown markedly under federal housing incentives and some modest phases of stock transfer by the state governments, we need to confront the bigger truth about public housing itself.

THIS IS:

- that public housing does not now and will not ever receive the overall funding it needs to build significant new supply or to provide all tenants with the quality of homes they need;
- that the restrictions of public housing supply over time have rationed who receives housing to the most needy, so there has been a catastrophic race to the bottom to get into it which has resulted in previously unseen concentrations of multiple disadvantage and social immobility;
- that the imperative, beyond ideology or a dysfunctional sentiment, is to transform not just the homes of public housing tenants but also their social capital and outcomes by bringing new investment, new housing management and ownership models – and a new focus on developing people as much as managing property; and

FIGURE 4

RESIDENTIAL RENTAL VACANCY RATES BY CITY



Source: Australian Bureau of Statistics and Real Estate Institute of Australia; see QBE LMI *Australian Housing Outlook 2011-2014*, prepared by BIS Schrapnel

- that government recognises the need to enable and incentivise properly and independently regulated social enterprise organisations or other appropriate housing companies:
  - to take on the title of public housing properties;
  - to bring in new investment and management so as to transform the real estate, neighbourhoods and lives of this increasingly residualised population;
  - to create new mixed tenure/mixed income communities where increasingly mono-tenure, low or no incomes prevail and tenants find themselves in a social welfare trap; and
  - to break down the walls between public housing, affordable housing, low cost private rented housing, low cost/shared equity home ownership and full home ownership – and the increased supply and better outcomes which will flow from these barriers.

In our view also, that requires a fundamental policy choice by the State Government to grow the operational and financial capacity of CHPs to become a new provider of choice in a transformed housing system and to create the independent regulatory framework which gives confidence to the banks to invest even more in the sector.

It also requires that those from the side of politics which built the early heroic generations of public housing now recognise that fundamental reform is required to achieve that mission in the current era. Indeed to recognise that public housing as it is no longer provides a springboard for social mobility. It has become a trap. Caring about outcomes rather than inputs and results over ideology requires that we innovate and diversify the range of housing providers for the good of our people and to increase supply.

1.12 A crisis for the many not just the few

The crisis of supply and affordability in Sydney affects far more than just first home buyers. The pressures from the unaffordability of housing are having an impact on affordable rented and public housing – at a time when there are other big challenges confronting social housing in Sydney.

But such challenges can also provoke new thinking. There need to be urgent debates about what benefits for new housing supply and tenant outcomes might flow from a radical program of stock transfer from public housing providers into the community housing and not-for-profit sector.

In this ferment of thinking provoked by the comprehensive housing crisis, ideas are also re-surfacing about the relevance new shared equity or shared ownership products might have, given the difficulties of accessing lower cost home ownership by the usual methods in Sydney.

A balanced housing policy will encourage and incentivise a range of tenures and housing types to meet the needs of diverse people and also to meet people's diverse and changing needs over time. It will also ensure that people have the homes they need, of the type they need, properly integrated with labour markets, facilities and services. But simply and fundamentally, an adequate housing policy fit for purpose would deliver more and better homes, faster and more affordably. We are a long way from that goal at the moment.

We believe that our analysis of the key policy areas and the 40 actions which follow from it will transform housing supply and better shape demand – and get us closer to the goal of *Homes for All*. The first few actions called for may be the hardest and most important of all: that our leaders really prioritise housing delivery and meeting need; and that we, the people, give them permission to do so by recognising that priority too.

We add: each of the actions, whose inspiration is beyond ideology, will make a difference to supply and affordability. Collectively they will make a transformation.

2 Key areas of action

THIS SECTION HIGHLIGHTS THE KEY PRIORITY AREAS OF ACTION REQUIRED TO MAKE A DIFFERENCE TO THE SUPPLY AND AFFORDABILITY OF HOUSING IN NEW SOUTH WALES, AND PARTICULARLY IN SYDNEY.

Under each key area we have highlighted the current situation and problems, suggested solutions, and provided recommendations for action.

Priority area 1: Political leadership must tackle the housing supply crisis in Sydney

The crisis isn't just about market failure…

The housing crisis is in origin a failure not just of markets but of political leadership and public regulation.

This does not mean that there is no market failure in housing or that the business models of developers or house builders should remain unchanged. There is evidence of some market failure around quantity, quality and type of housing. There is a need to innovate as the best companies have been doing.

The recent Grattan Institute Report, *The Housing We'd Choose* (2011), surveyed more than 700 residents of Sydney and Melbourne to discover their housing preferences, taking into account realities such as current housing costs and their income. The survey revealed a mismatch between the housing we want and the stock we have. In particular, it highlighted a large shortage of semi-detached homes and apartments in the middle and outer areas of both Melbourne and Sydney.[17]

Very large detached housing is the default in such places still, even while in reality Australians have as Bernard Salt puts it, 'discovered apartmentia'. And although there are good exceptions, not enough developers seem able to build at the moment one of the most successful, sustainable, liveable and affordable of built-forms in Sydney's history: the terrace – or the re-invention of it for 21st century households. Part of the problem is that the incentives in place that are driving 'mums and dads' to develop a unit or a small plot mean that much development is delivered without enough expertise or innovation. A vision of Australia driven by large families wanting quarter acre blocks prevails when the reality is that already in Sydney 30% of households are formed by singles and that will be more like 40% in a generation. More than 41% of women in Sydney between the ages of 25 and 34 are single. In Elizabeth Bay, no less than 68% of women aged between 40 and 54 are single.[18] Singles and couples without children now form the majority of households. (Figure 5)

And it is not just young people that are setting up on their own. With a rapidly ageing population there will be the need to provide smaller homes, and not just in Pyrmont and Green Square but also in suburbs close to family and friends. We must plan and build to meet this demand in such places.

We add: we must all understand that developers are in a risky business – made riskier by the bad public sector regulation and planning delays – where the costs are loaded up at the front (land acquisition, securing development approval and construction) and returns (sales) at the end.

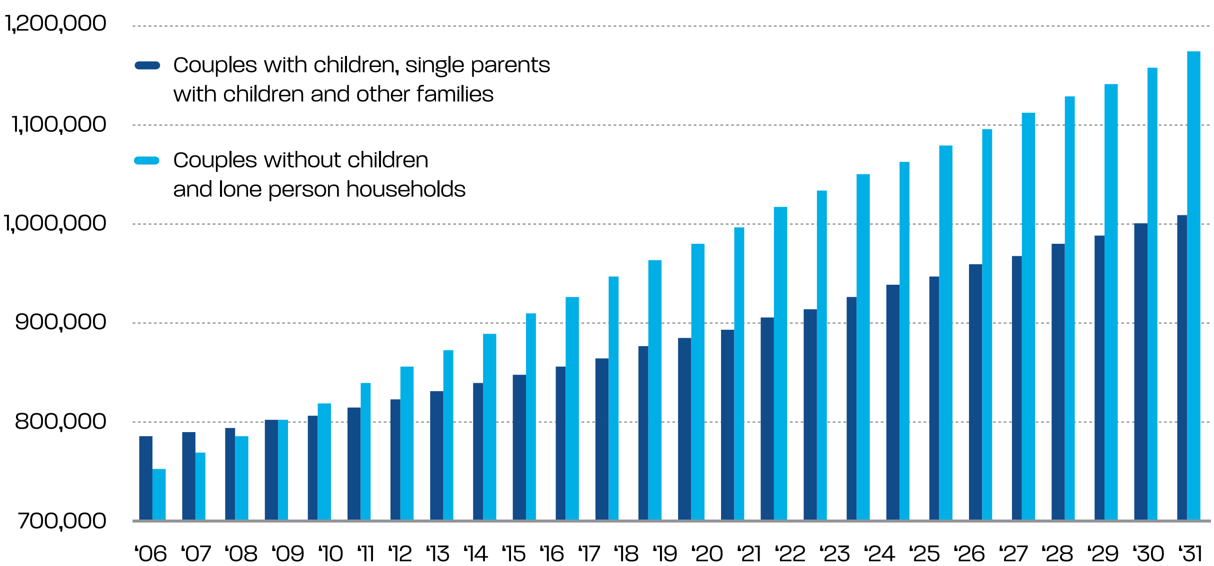
This exposes developers to the risk that the market will turn before the homes are sold (it also explains why they prefer developing houses to multi-unit apartments which, unless finance and off-plan sales are secured up front, are expensive to hold until they are all sold). So they are under a form of structural pressure to constrain overall housing production for fear of reducing sales values. They are quite unlike manufacturers who increase supply and often drop prices and rates of return to get an increased income from a temporary increase in demand. But this business model was not created in isolation. It's a rational response to real risks posed not just by market conditions but by public regulation and planning. So to change this business model requires changing public regulation and planning. That requires public sector leadership.

....and poor public sector regulation and leadership have made it worse

In such a highly regulated market as we have in land and property in New South Wales, what the public sector does is critical. Bad public regulation and planning have created a bad market, particularly in Sydney. One of the consequences of this is to squeeze out the smaller developers and home builders who simply increasingly cannot afford the risks, costs and delays of making a development application. This leads to

FIGURE 5

HOUSEHOLD AND FAMILY PROJECTIONS – SYDNEY 2006-2031



Source: **Australian Bureau of Statistics 2010 (Reissue), *Household and Family Projections, Australia, 2006-2031*, cat no. 3236.0, ABS, Canberra**

This graph shows that the total number of lone person and couples without children households started to exceed the total number of family households in 2010 and is projected to grow faster than family households.

concentration in the industry and the reduction of choice and competition. It affects supply too.

Behind all this is a widespread failure of political leadership on the issue of housing supply and affordability. Indeed for much of the recent past there have been questions as to whether there was an issue with housing affordability at all. Rising prices were simply a reflection of growing wealth in Australia; or increasing house prices simply reflected the bigger and better quality of Australian houses; or that the market should be left to sort it out.

While governments at all levels have now started to realise that this issue is seriously impacting on a lot of households and is impairing the wider economy, there is still a reluctance to begin an honest conversation with the public on what needs to be done. There is still a real fear across the political spectrum that the NIMBYism which has characterised our civic dialogue will punish anyone who speaks out for greater urban consolidation and density around established areas, or for more infrastructure spending on our city's fringe. These fears are real but need to be resisted. We need real political leadership from each tier of government if we are to address this problem and ensure our community can provide a place for everyone.

Decline of housing supply as a political priority

Over recent decades housing has declined as a political priority. Where once the Housing Portfolio was held by senior Ministers – Prime Minister Chifley insisted he hold on to it on taking office and so between 1945 and 1949 an extra 200,000 homes were built in a nation recovering from war – it has declined in political significance. In 2011, the incoming O'Farrell Government abolished the portfolio all together. We need to make housing supply a top political issue again in New South Wales and demand action from all levels of government.

The Federal Government is to be applauded for its recent housing stimulus package and reforms such as the National Rental Affordability Scheme (NRAS) which have had a positive impact on the growth of the not-for-profit CHPs, which brought some new private investment into housing and helped sustain home building during the global downturn. However, elements of the Federal Government's housing policy fuel demand whilst not necessarily increasing overall supply.

The need we see is for politicians of all parties to stop strengthening housing demand whilst limiting supply and to stop giving unique and unsustainable economic benefits to 'insiders' – those in home ownership – whilst treating the rest of society as 'outsiders'.

We recognise that the recommendations in this paper are not politically easy and we will need political courage if they are to be successfully implemented.

The first step in this is to recognise that housing affordability is a problem; and a problem which won't go away by itself. Government needs to accept its role in causing much of the problem and accept that it has an even bigger role in solving it.

The second step is to make the case for change. There will be winners and losers in restructuring the housing market but the need for restructuring is paramount. From a social justice perspective we cannot leave so many of our citizens in housing stress. From an economic perspective the productivity and functioning of our economy is under threat. Finally, politicians, particularly at council level, should consider not just the 'costs' to the area of new development. They should also understand what gains they will lose for their electorates in economic and amenities benefits when suitable applications are rejected. There is a cost to saying "no" all the time.

So our first recommended actions are not technical. They are the building blocks of any serious program of reform in housing. Fundamentally there is a need for politicians to help create a new consensus in the community behind growth and the radical increase in housing supply needed. All political parties are urged to support a cross party campaign for more and better homes and to engage with communities on this agenda.

Priority area 1:
Political leadership must tackle the housing supply crisis in Sydney

ACTION 1.

That meeting housing need should be restored to the top of the political agenda in New South Wales, as in Australia overall – one of the first countries in the world to create a government department for housing.

ACTION 2.

That politicians of all parties in all tiers of government recognise that there is a crisis of housing affordability and supply in Sydney across all tenures whether to rent or to buy – and that they should make fixing our broken housing system an urgent priority, to meet housing need, to provide local benefits and to serve Sydney's economy – the engine of both the state and the nation's GDP.

Priority area 2:
A more intelligent civic dialogue about the need for housing – ending NIMBYism's threat to our children's futures

If only to free politicians to initiate reform, we the people need to own up to our own responsibilities in preventing acceptable and necessary development and in effect preventing our own children from accessing housing. This is circular because without leadership from politicians, the citizens of New South Wales, and Sydney residents in particular, have proven unable to engage in a meaningful discussion about providing new housing for our population. There has been a break down in trust between people and the planning process.

The rancour and animosity which greet each new proposed development or plan has been allowed to crowd out a proper discussion on how and where to provide housing. What discourse there is has broken down into mistrust and suspicion. People point to ugly or badly designed developments of previous years and vow never again. Residents are mistrustful of developers and the property industry that they see as profiting from overdevelopment or exploiting loop-holes for private gain. They regard local councils with suspicion with the vast bulk of complaints about local government now involving the handling of development applications. The backlash against State Government involvement in planning and state significant development through Part 3A has seen the State Government retreat from the field.

There has been an explosion in well resourced resident action groups seeking to sterilise their local area from development. The media have treated this conflict as a blood sport. Australians should know they are in trouble when the local newspapers dedicate more resources to urban affairs and environment writers than to sport or politics. This has to change. We need to start again from first principles.

Providing housing is important to us all

As citizens we need to accept that providing housing for our kids or ageing parents is important for all of us. Rising unaffordability is having adverse social and economic consequences. Increasing numbers of people are unable to access housing near their jobs or family and are being forced to endure long commutes (40% of Sydney workers spend at least 40 minutes commuting each way and 23% spend over an hour to get to work).[19] Moreover, our own grown up children are not able to leave to form new households or afford to live near us because we block development near our own homes. We 'insiders' are making 'outsiders' of them.

Not only does this have obvious social consequences for those stuck in traffic, working or living away from both family and friends, but also our major centres and cities then struggle with congestion and pollution. Productivity then suffers. The human side to this is that many of our fellow citizens are leaving Sydney and sometimes the state in order to secure a decent home. As a society we need to remind ourselves that housing is a basic need; like food or water. If so many of our fellow citizens were thirsty or hungry, it would be a national scandal. It's a national scandal that housing is so unaffordable and for many unattainable. Neither politicians nor the media are responsible for this scandal really: it's home made.

We all need to embrace housing growth

But we have an opportunity for a new start. A review of the planning system in New South Wales is under way. If the State Government does what it should do, make housing supply a priority, it will use the more radical ideas coming from the review to break some of the main planning barriers to housing growth, many of them rooted in the existing NSW Planning Act. Reform is vital as the planning system is failing to deliver the balance we need between the environmental, social and economic needs of our citizens.

But it also needs to transform the very way in which the community is engaged in the process of making strategic plans for our neighbourhoods and cities. Too often the current system fails to involve the community in the formative plan making process. All too often the first the community hears of a plan for new development is when the application is lodged, often years after the Local Environment Plan (LEP) was written.

We need a totally new approach to plan making

We need an approach which enthuses and engages people, based on robust evidence, so that there is serious and extensive involvement from the start by we the people – using modern digital and social media now ubiquitous – in understanding the key strategic issues facing us, in identifying the key objectives for development and in taking responsibility for the future of our communities.

Too often people have been asked only to take a reactive role in response to development applications. We need to be involved from the plan making start and involved in understanding the grown up trade-offs which societies need to make to balance self-interest with the community interest, the local with the more strategic and today's needs with tomorrow's. The existing approach to plan making has failed. We can do better than this. We have to have a new civic – and civil – dialogue around the need for growth. The New South Wales planning review, supported by the COAG reform agenda, is a real chance for us all to step up.

In saying 'all' need to step up to help create a better civic dialogue, we include developers, home builders, planners and architects. Part of the problem of public opposition to new development is that too much of what we have seen in our cities in the last few decades has been undistinguished and poor quality. There are obviously exceptions. While much has been done to improve urban design and lay-out of new subdivisions in recent years and planning instruments have sought to ensure architects' involvement in the design process, this is still a work in progress. Our firm belief is that the new civic dialogue on housing is vital and will benefit hugely from new development of quality and distinction on the ground. There is an opportunity for developers and home builders to promote new forms of housing and reinvent those which have been popular in the past, such as the terrace and mixed use development in appropriate locations.

Priority area 2:
A more intelligent civic dialogue about the need for additional housing – ending NIMBYism's threat to our children's futures

ACTION 3.

That we the people own up to our own dismal role in treating housing as a commodity rather than as a place of shelter and in preventing necessary new development.

ACTION 4.

That the State Government uses the current review of the planning system to create a new more intelligent civic dialogue on housing in Sydney between politicians, planners, developers and people – based on robust evidence, using new digital media and modern processes of consultation to enable more engagement with more citizens in making the strategic plans which will guide development.

ACTION 5.

That architects, developers and planners, who advocate denser development, convince the public, through delivering some exemplary schemes and by building great new places, precincts and town centres – not just units – that quantity and quality are complementary not opposites.

Priority area 3:
The State Government must use planning reform to break through the barriers to housing growth

The planning system is broken

The biggest constraint on providing new housing in New South Wales is the overlay of planning restrictions and regulations which have made developing new housing a difficult, risky, costly and uncertain process. A new Planning Act is required.

The 1979 *Environmental Planning and Assessment Act* (EP&A Act) worked well for some years: economic growth continued, housing and employment demands were met and important environmental and heritage issues protected. However, successive amendments and changes have been added to the system as community, industry and government priorities have changed and evolved. The system is now extremely complex and technocratic. Many of the changes and reforms that have been made to the EP&A Act are at best contradictory. Increasingly the emphasis of many councils when implementing the EP&A Act has been to give priority to local and environmental considerations over economic ones or ensuring housing supply.

Well intentioned amendments aimed at securing certain policy objectives have had perverse and unforeseen outcomes. Many policies are not prioritised, so a minor heritage or environmental concern can overrule a state significant development. Local traffic issues can lead to a prohibition of well-placed transport oriented residential development. Even more serious is that the process of planning in New South Wales has become deeply political. Community consultation has degenerated into a political dog fight, involving buck passing between jurisdictions or agencies, animosity and distrust among the public and a heightened NIMBYism. The EP&A Act has become a "NIMBYist charter", with a thousand reasons why nothing should be allowed to happen anywhere.

Other Australian cities have better planning systems

Other Australian cities enable the homes and the infrastructure their capital cities need. Overall in 2001-2009, Sydney's population grew by 9% while Melbourne's grew by 15% and Perth and Brisbane by roughly 20% each.[20] As population growth tends to coincide with economic growth it is no accident that Victoria's annual economic growth in 2003-2009 was almost twice that of New South Wales.[21] Nor is it an accident that the contribution of other non-mining capitals to Australian GDP has grown whilst Sydney's has seen a dramatic fall.

Despite this comparatively lower population growth, Sydney, with the worst record of housing delivery among Australian capital cities, has seen an inexorable rise in house prices while home ownership has declined. Whereas 39% of homes in Melbourne are affordable to moderate income households, in Sydney it's just 29%.[22] In 2009-10 just 43 homes were approved for every 10,000 Sydney residents compared with 106 in Perth, 103 in Melbourne and 77 in Brisbane. In 2002-03 the figure was 75.[23]

The system is broken. It cannot achieve its fundamental purpose: to reconcile, in the fairest and most efficient manner possible, competing economic, social and environmental priorities, at the state, city and local level. It literally cannot deliver. We need to start again.

A new Planning Act on new principles

The current review of the planning system in New South Wales needs to ensure that its recommendations do not amount to business as usual. And if they do come up with only modest reforms or tinkering, the State Government needs to mandate the Department of Planning to introduce its own planning reform program geared to delivering a step change in housing delivery. This state needs radical reform of, not a tinkering with, planning – and it should be driven by a mission to deliver more and better homes.

The key to the barriers of the current Planning Act is s79C where the criteria to be taken into consideration when assessing development applications are set out. Whilst they cite economic matters as a consideration, in practice planners give more and undue priority to local environmental impact. On this basis, s79C virtually invites rejection of a housing development of scale or of strategic significance.

The review must lead to the scrapping of s79C and replacing its existing narrow criteria for assessing development applications with assessment criteria based on the new COAG Reform Council principles for planning Australian cities (see Box 4, where we also give an example supplied to the New South Wales planning review by the Committee for Sydney of possible text for a replacement of s79C derived from the COAG principles). These enable planners to consider a broader range of issues arising from development and provide a Big City strategic canvass for determining development applications. They should be imported wholesale into a new Planning Act for New South Wales.

The local plan needs to conform to regional and Sydney-wide plans

A related problem in the planning system which helps reinforce the triumph of (often very) local self-interest over need, is that current strategic plans at regional or all-Sydney level do not have statutory primacy over local plans. In any conflict between pro-growth regional or metropolitan plans and LEPs, the latter are given more weight by local planning authorities. We would reverse this. The London model is a guide.

The London Plan drawn up by a pan London tier (the Mayor) sits above the plans of London's 32 councils. Their plans must be in general conformity with the London Plan. The London Mayor can take over a development application above a certain number of homes (150) as that is deemed a development of city-wide significance. In reality, very few applications have had to be taken over by the London Mayor because local councils, knowing he can intervene, play by the rules. They determine such applications in accordance with the London Plan.

This system has enabled more applications to go through without the rancour and uncertainty of the planning system operational in Sydney today. The system also is based on local councils but working in

BOX 4

NEW CRITERIA FOR ASSESSING PLANNING APPLICATIONS

1. COAG Reform Council

Capital city strategic planning systems should address nationally significant policy issues including:

a. population growth and demographic change;
b. productivity and global competitiveness;
c. climate change mitigation and adaptation;
d. efficient development and use of existing and new infrastructure and other public assets;
e. connectivity of people to jobs and businesses to markets;
f. development of major urban corridors;
g. social inclusion;
h. health, liveability, and community wellbeing;
i. housing affordability; and
j. matters of national environmental significance.

http://www.coagreformcouncil.gov.au/agenda/cities.cfm

2. Committee for Sydney

Suggested text for a replacement to s79C of the current Planning Act, taken from the Committee's submission to the New South Wales planning review.

This draft is informed by the COAG planning system principles.The Committee for Sydney has adapted and selected from them, focussing on the principles which are most relevant to the development application process.

(1) Matters for consideration-general. In determining a development application, a consent authority is to take into consideration such of the following matters as are of relevance to the development:

(A) THE PROVISIONS OF:

(i) any appropriate planning instrument, including, where relevant, the Sydney Metropolitan Plan or any other Metropolitan Plan, SEPPS, REPs, Local Development and Environment Plan (LDEP) in particular whether the objectives as stated in those instruments are achieved by the granting of consent to the development application etc.

(B) THE LIKELY SOCIAL, ECONOMIC OR ENVIRONMENTAL IMPACTS, INCLUDING:

(i) local impacts in the precinct;
(ii) regional or, where applicable, metropolitan impacts; and
(iii) issues of state significance which increase productivity, liveability and sustainability and which include:

(a) ensuring there is an adequate supply of housing and a diverse housing mix (including an adequate supply of affordable housing for all aged groups), and an adequate supply of employment and other lands required to manage the demands of population growth targets and demographic change in the state, the region and the locality;

(b) ensuring the efficient development and use of additional and enhanced infrastructure and other public assets;

(c) enhancing connectivity of people to jobs and businesses to markets; and

(d) ensuring biodiversity and conservation.

partnership with higher authority to support strategic decision making by planners and councillors. It has meant that determination has not been taken away from politicians and given to independent panels such as Joint Regional Planning Panels (JRPPS), as in the New South Wales system. Of course, JRPPS are required in the absence of a London style planning system in order to get developments approved which might wrongly be blocked by a council under local pressure.

JRPPs are not required in the London system because the system is clear about the rules for each tier which operates them because there is a proper hierarchy of statutory planning. Sydney urgently needs a system in which local plans have to be in general conformity with more strategic obligations from 'above'. However, for a regional or metropolitan plan to command such authority they need to be based on far better evidence bases and community engagement than the current Sydney Plan. Communities need to be bought into the need for growth in Sydney, particularly housing. The model within Australia for this is the Queensland approach: Brisbane City's plan for example has to be in conformity with the appropriate regional plan for South East Queensland – though the latter is highly evidenced based and has been developed through intense involvement of local councils and communities.

Another key element New South Wales needs urgently to adopt from Queensland is to move towards a more objective code-assessable approach to development applications. This would enable development which conforms with the statutory plans to proceed.

The virtual prohibition on small lot subdivisions and dual occupancy development is a case in point. Many of Sydney's middle ring suburbs are characterised by single story, detached housing set on a quarter acre block. This form of housing was appropriate in the post war years and reflected the larger family needs of the time. However this type of housing is land intensive and doesn't reflect the needs or demands of our now very different demographics.

As we have seen, the fastest growing household type in Australia is the single person household. Many people don't want or need a three to four bedroom house with a large garden and garage; but this is what many of our existing suburbs offer them.

In the 1980's arising out of new needs, there was a growing trend to subdivide quarter acre blocks into two and build a second house in the backyard. Dual occupancy was permitted and indeed encouraged. However, at the time there was little design control or regulation over the second dwelling and many neighbours were shocked to find a new house overlooking their backyard.

Responding to the politics of these concerns the incoming Carr Government introduced a series of reforms to restrict dual occupancy development. Minimum lot sizes were mandated and local councils ordered to amend their local plans accordingly. New housing in Sydney now had to be met either though Greenfield development on the city fringe or Brownfield development on former industrial sites. New housing was to be either apartment buildings or McMansions. Unfortunately, the cost of developing on Greenfield sites is increasingly prohibitive and Sydney is running out of former industrial sites.

So we call for a renewed 'back to the future' policy emphasis on enabling dual occupancy – subject to sensible design stipulations – as a quick win for turning the tide on housing supply particularly in established areas. It also enables family formation and growth to go together, locally – and for denser development to be realised without significant and expensive new infrastructure, especially within walking distance of transport nodes.

…with development subject to better design guidelines and linked to transport nodes

A better response to community concerns regarding overshadowing and loss of amenity would have been to impose better design guidelines. Australia has a lot of experience with small lot subdivisions. Prior to World War Two almost all urban housing was terraces and semi-detached housing. Built mostly before the advent of the automobile this was the original Transit Oriented Development (TOD); close to public transport and pedestrian friendly. Importantly it is a tried and tested housing design which doesn't overshadow or over-look the neighbours. It's a type of housing Sydneysiders understand and it remains very popular. Sydney is famous for its terrace houses yet in spite of this it is effectively prohibited in most LEPs. This should change. Small lot subdivisions attract less Land Tax and rates, provide more housing choice and are a built form which is more acceptable for communities. *Homes for All* could and should mean the return of the terrace. The return, the reinvention of the terrace for 21st century households should be incentivised. It's good quality design, liveable, sustainable and more affordable. So let us build more of them.

It is time to revisit the middle ring suburbs. Sydney's train stations mostly service low density, middle ring suburbs. Most have the potential for much more densification and provide a significant increase in housing stock without much in extra infrastructure. The current review of the Planning Act should look at removing the prohibition and encourage large block subdivisions around transport nodes. Even before a new Act is written it would be relatively easy to implement a State Environmental Planning Policy (SEPP) to allow small subdivisions within walking distance of a railway station or other transport node. In Perth the distance prescribed is 800m which may provide a benchmark.[24] Such housing should also be classified exempt development under the Act as long as it complies with good design standards. The middle ring suburbs have the potential to meet much of the shortfall in our housing supply. Importantly they can also provide much of the type of housing our community increasingly want.

Ensuring planning reforms don't accidentally deter development

The changes pioneered by former Premier Bob Carr to address poor design in residential flat buildings included SEPP 65. This has improved the quality of new apartments, however not without increasing the cost of construction and often resulting in reduced yield. This was a good policy which had unforeseen consequences for housing supply. Another well intentioned initiative which had unfortunate consequences for supply was the introduction of BASIX's sustainability requirements for new construction. Building for sustainability and energy efficiency is clearly a laudable policy and the authors are not suggesting it be removed. However, its interaction with other policy objectives needs to be understood and the consequences for housing affordability taken into consideration. In many new residential developments the BASIX requirements can contradict the design objectives of SEPP 65, increasing constructions costs and reducing density and yield.

Any new planning reforms or a new Planning Act need to be adaptable to changing community, industry and technological developments. However such evolution should not be allowed to undermine the fundamental principles and objectives the system is aiming to achieve. The opportunity costs of new policies need to be taken into consideration before another layer or constraint is imposed on the planning system. So we advocate that any new Planning Act must mandate that every new SEPP, LEP or DCP contain a housing affordability assessment before it can be implemented. Additionally, where we sterilise land from residential development we need to clearly articulate where else residential development can happen and articulate the opportunity cost of the decision. We can't keep saying no all the time.

Piling up policy and raising transaction costs for the private sector

Nor can we just carry on piling new policy on new policy without understanding how these, with all the other delays, risks and demands of making a development application, add to the costs of business, undermine the viability of schemes and ultimately inhibit development. In order to increase delivery and indeed to retain smaller developers (with their variety of designs and business models) in the system – and indeed to attract new entrants to deliver – we must reduce the transaction costs of surviving the obstacle race which the development application process has become.

This is partly an experience and training issue. Well meaning policy reformers and planners usually have little knowledge of the development sector, their business models and their costs. New policy is often introduced without retiring any old policy so the amount of policy knowledge and conformity required today is exponentially greater than that required even 10 years ago.

The processes to be gone through and the evidence gathering required are much more arduous and expensive than previously and arguably bring more gains to consultants than to ordinary citizens needing a home. The time and effort it takes to get development applications across the finishing line are disproportionate now – and none of this is cost free. Most of it is passed on in the form of higher home prices or non-delivery of homes.

In addition to subjecting development applications to the more objective code-assessable regime we advocate, mere simplification of the application process would also bring benefits to all. Policy obligations can remain but the processes required to show conformity with them can be reduced in terms of bureaucracy and costs.

Today the paperwork required for a development application can fill a small van when something much more modest would do. In the digital era an efficient, uniform development application form requiring no paper at all must be readily available and usable across all New South Wales councils. This action essentially requires that the public sector understands the unnecessary costs its own processes bring for the private sector – and re-engineers them to achieve a better outcome.

Not just local councils: lack of public sector coordination is a huge cost to development

The lack of coordination across the public sector in New South Wales is a major delivery barrier – and one amenable to reform because it doesn't require money. It requires common sense, good management and political will. State government is critical to this area of reform because most of the non-coordinating public bodies, which cause delivery problems for developers, are at that tier. It isn't just local councils which need to reduce transaction cost delays and uncertainties for developers or home builders.

A simple reform can form part of the new Planning Act. In New South Wales referral provisions – for development applications to be considered by the myriad of public agencies which under current legislation need to be consulted – are contained in 101 local and state statutory instruments. By contrast, all of South Australia's referral requirements are contained in its Planning Act. This single reform would bring real benefit.

Two other related reforms are necessary. **One** is to ensure that all statutory land use and infrastructure plans (including the State Plan, Sydney-wide, Regional or Local Plans) are integrated and bind-in the 'whole of government' including departments responsible for transport, energy, water, sewerage, waste, health and education. This 'duty to cooperate' should be required in the new Planning Act. This would mean developers can see up front what the relevant public agencies' plans are for all areas.This will reduce the requirement for long-winded referral periods at the development application stage and any uncertainty about such public bodies' intentions or requirements.

The second reform is as a penalty for unconscionable delays in dealing with development applications. Either binding timeframes should be applied with limited 'stop the clock' provisions to the decisions made by referral bodies or – more radically – the failure of an agency to meet the referral time limit should be treated as a deemed approval from the referral agency. This is the practice in Queensland and the ACT.
We need it here.

Priority area 3:
The State Government must use planning reform to break through the barriers to housing growth

ACTION 6.

That the State Government have the reforming zeal and bravery to use the review of the planning system to replace the current Planning Act, which is a NIMBY's charter, with one that enables the homes and infrastructure we need to be built and that a global city needs to function. To this end the State Government should design a new Act based on COAG's Guiding Principles for the Review of Capital Cities' Planning Systems.

ACTION 7.

That the new Planning Act identifies a clearly defined hierarchy of plans with more statutory weight given to metropolitan and regional plans that contain policies to support housing, manage population growth, increase productivity and deliver economic growth.

ACTION 8.

That the NSW Department of Planning review the impact on dwelling prices and housing supply in Sydney of existing or future policies and regulations which, whatever their other merits, restrict land supply and development – such as percentage targets for housing development on Brownfield vs. Greenfield sites, SEPPs, BASIX and the range of policies identified in Box 2.

ACTION 9.

That as part of the reform of the planning system and its operation by councils and other planning authorities, the transaction costs, complexities and delays of making a development application should be reduced dramatically to improve returns for residential developers, to encourage new entrants to the housing delivery market and ultimately to increase both the quantity and diversity of housing built.

ACTION 10.

That the State Government takes decisive action to improve public sector coordination to speed up referral to, and approval processes by, the myriad of state departments and agencies.

ACTION 11.

That while some Big City thinking and reforms will be required to turn planning in Sydney from a barrier to development to an enabler, two minor reforms will have a big impact: the return of dual occupancy with suitable design guidelines in place as a proper response to enable infill development in existing areas; and a new State Environmental Planning Policy to allow small subdivisions in areas within walking distance of a railway station or other transport node to be exempt development, again subject to compliance with suitable design guidelines. Such reforms can help deliver the reinvention of the Sydney terrace.

Priority area 4: The State Government must phase out or reduce development levies and other charges which tax new housing supply and reform the system of paying for infrastructure

Regarding the Henry Tax Review

Although the Henry Tax Review saw infrastructure charges as an effective way of encouraging the efficient provision on infrastructure and more likely to lead to developers paying less for the land than to purchasers paying more for homes, there was one big caveat. However, where infrastructure charges are poorly administered – particularly where they are complex, non transparent or set too high – they can discourage investment in housing, which can lower the overall supply of housing and raise its price.[25] Welcome to Sydney. The Henry Tax Review thus called for COAG to review developer charges. We add: the State Government should ensure that the planning review and IPART come up with a levy regime which:

- is not complex;
- is transparent;
- is not set too high;
- is more equitable between councils;
- actively incentivises housing growth;
- is fair between existing home owners and those buying new homes; and
- brings legitimate benefits to local communities.

It is possible to design such a system. It's just not the one we have.

Where once government provided, now there are growing burdens on developers

One of the biggest constraints on the development of new housing is the growing impost of extra costs, charges and levies from government. Historically, most of the costs of infrastructure for new suburbs and communities were shouldered by government.

The State Government provided schools, roads, public transport and the like through Treasury. Local government provided local amenities and services through rates levied across the municipality. Water, sewerage and electricity were funded through a levy on all households across the state. In some cases the Commonwealth provided special funding grants to speed up infrastructure delivery as the Whitlam Government did, providing sewerage services for every house in Western Sydney. Funding new infrastructure was seen as everyone's responsibility and everyone paid.

The impact of rate capping

In recent years this situation began to change. In 1976, the State Government imposed a cap on local government rates which restricted councils from charging higher than the CPI. After a few decades this cap began to seriously reduce the capacity for local government to fund new infrastructure and councils began to impose special levies on new housing developments and increased developer contributions through S.94 of the *Local Government Act*. In many cases local councils also tried to restrict the amount of new residential developments in their area, citing their inability to meet the increasing infrastructure costs. These combined to increase the cost of new housing while restricting supply.

In the late 1990s the State Government joined in too. State Owned Corporations (SOCs) like Sydney Water and the energy utilities were required to seek full cost recovery for new infrastructure and additions to the network. This was soon followed by general State Infrastructure Levies to fund schools, roads and the like. The principle was a simple one. Those who were generating the demand for new infrastructure had to pay for it. The problem was however that this taxed new residences while under taxing existing residences that have also benefited from the new infrastructure. This key problem needs to be addressed.

The levies approach has contributed to the decline of dwelling production

Work done by the Urban Development Institute of Australia is definitive. In its 2008 *Review of Development Levies* it showed that new home buyers in Western Sydney pay some seven times more in state and local levies than in Melbourne and twice as much as in Brisbane.[26]

New South Wales now has the highest charges and levies on new housing in Australia. According to the Productivity Commission, New South Wales charges on average $37,000 per lot on Greenfield residential sites. This figure is often higher in many parts of Sydney. South Australia charges just $3,693 per lot.[27] Developers attempt to get back some of this by paying less to landowners. Given much of the land which has been rezoned for residential has sat underdeveloped as it is uneconomical for the land to be developed with these extra development costs, the price is paid in under-delivery of homes and these higher prices. An alternative is that the charges end up being incorporated into the price paid by the home purchaser – all too often a first time home buyer.

The levies are not just restricted to Greenfield sites; Brownfield developments face similar levies. Last year the State Government moved to cap the amount councils can levy and removed some of their own charges. However Sydney councils still charge more on new house developments than anywhere else in Australia, with some councils charging multiples of what councils outside Sydney or the state would charge.

These taxes and charges are having a dramatic impact on the supply of new housing in New South Wales. According to NSW Treasury, completions of detached houses in New South Wales have declined by 50% since 2000. In the same period, completions of multi-unit dwellings declined by 40%. By comparison, in the rest of Australia completions of houses increased by 10% and increased by 40% for apartments.[28]

Stop taxing supply

If we are going to increase housing choice and affordability we need to stop taxing the supply side of the housing market. Many levies and imposts should be reconsidered and abolished. Government at all levels should reassess the user pays principle for new infrastructure. We all operate in the housing market and taxing one part of it affects everyone else. As a society we all benefit from new houses, particularly when it comes to growing the economy, and we all should pay for the infrastructure that enables them and brings benefits to existing home owners who get a free ride. The authors are not suggesting that developers do not have to play a part in paying for new infrastructure. They do; but better mechanisms need to be found so new home owners aren't expected to fund it all through the housing price.

End rate capping and introduce new more equitable ways of paying for infrastructure

There needs to be an acceptance that for some things we all have to pay. The cap on rates is a case in point. Existing home owners in New South Wales have seen the cost of their contributions to civic infrastructure through rates dramatically reduced over the past few decades while new home owners have seen their costs increased. This needs to be reversed as part of a reinvigoration of council rates as a more equitable way of sharing around infrastructure costs which benefit all.

Council rates are an efficient form of taxation; broad based, easily collected and impossible to avoid. Consideration should also be made to levying a city or region-wide special rate to fund new infrastructure, to rebuild and reinvigorate town centres and fund better place making. In the UK the new strategic rail link, Crossrail, is being funded by a number of mechanisms including, a development levy on newly built homes but also a rate charged on all homes and a levy paid by all existing businesses who will benefit from the investment. Spreading the cost of infrastructure widely and over time is more efficient than trying to load up on a first home buyer to pay for everything. Importantly those local councils experiencing the greater demand for housing should be able raise rates higher than the cap to meet their urgent infrastructure needs.

Finally more attention needs to be given to innovative value-capture approaches to funding new development and to Tax Increment Finance (TIF) models of the kind which funds so much infrastructure in many cities in the US – and which provides local communities with local incentives to support growth.

Another model is the New Town Development Corporation Model. This was a value capture model where an area is designated for development by a public body. The land was compulsorily purchased at agricultural prices with money borrowed from the government; the land was then rezoned and community infrastructure developed by the Development Corporation; the value uplift enabled the repayment of the original loan and funded the cost of the infrastructure. TIF models are ubiquitous in the US and are being piloted in the UK. Municipalities designate development areas and get bond finance from the market to put in infrastructure which leads to an increase in site values and local tax revenues. The increased tax take pays back the cost of debt financing. TIF creates funding for public or private projects by borrowing against the future increase in these property tax revenues. Any number of varieties exist as potential replacements for development levies which suppress rather than enable supply. We call for a phasing out of the existing development levy approach and a review of new approaches to paying for infrastructure.

Priority area 4:
The State Government must phase out or reduce development levies and other charges which tax new housing supply and reform the system of paying for infrastructure

ACTION 12.

That the State Government urgently reviews the whole system of development levies and how infrastructure is to be funded – with a view to stopping Sydney from charging on average the highest up front development levies in Australia, because that deters development and results in enabling infrastructure, which benefits the whole community being paid for not by all existing home owners but by the purchasers of new homes.

ACTION 13.

That new value capture systems such as Tax Increment Finance be explored which enable infrastructure payments to be staged as development comes on stream and reward councils and communities significantly for permitting such development.

ACTION 14.

That, as development levies have risen while council rates have been capped, there needs to be reform to the rate capping system and a phasing in of rate rises in parallel with a lowering of levies on development.

Priority area 5:
That Stamp Duty be replaced by something which doesn't deter first time buyers, reduce mobility of home owners or add to the cost of buying a home: enter the Land Tax

Stamp it out....

Stamp Duty has few merits except from the point of view of a tax-hungry government – though even there it's not as efficient or as reliable as other forms of taxation. So it may have delivered a whopping near $15 billion to governments in the financial year ending in June 2008, but the tax take is volatile depending on the market. There was for example a 19% drop in property Stamp Duty take in Sydney between 2007 and 2008.[29] Having said that, the almost 25 years of inflation there has been in residential property prices in New South Wales has resulted in the total Stamp Duty payable on the median priced property increasing by almost 20 times.[30,31] The other result is that now nearly a quarter of the state's income comes from Stamp Duty.[32] This makes the State Government complicit with inflation in residential markets.

Whether or not governments like it, potential purchasers and developers don't. It is in principle clearly a deterrent particularly to first time buyers and those on lower incomes. It 'hits' buyers hard when it hurts the most. It also deters people already in properties from moving, whether it be for employment opportunities or to 'right-size'.

Stamp Duty clearly adds to the total cost of acquiring housing. When as a front end, one off charge on a property transaction it is combined with the hard enough task of saving up for a deposit, the result is clearly to raise the value of the total loan required. This then makes it even more difficult for first time buyers to generate the deposit needed by banks. As many first time buyers are currently renting, and thus have little prior security, borrowing becomes even more difficult to access. It has been estimated that Stamp Duty has typically accounted for around 23% of up-front cash costs for renters seeking to become home owners.[33]

Although the State Government has in place the First Home – New Home scheme which provides exemptions or concessions on transfer duty for people who are buying their first home in New South Wales, this is actually less significant than the previous First Home Plus Scheme. First Home – New Home exemptions – on homes of up to $500,000 in value no longer apply to the purchase of an existing dwelling. As sales of existing dwellings make up the vast majority of all purchases each year, the impact of these concessions is minimal, albeit intended to encourage the building of new homes.

This is true even on new builds where properties up to $500,000 make up only about half of the stock conveyed in Sydney, though the exemptions would have bigger significance for apartments.[34] However, given that there is so little new build, the number of beneficiaries is small while the barrier that is Stamp Duty remains large for many potential purchasers.

It particularly suppresses the vital first time buyer market. But it is also a tax on mobility among existing home owners. Stamp Duty discourages down-sizing and puts more pressure on first time buyers to buy something bigger rather than stepping up through the ladder as their needs dictate. Moreover, it restricts housing turnover in the market – and thus adds further to the inflationary spiral.

....and bring in the Land Tax

An alternative to Stamp Duty, this inefficient one off transaction tax, must be found. Luckily, the obvious solution is to hand. We recommend annual Land Tax replace Stamp Duty.

Because it's an annual charge it spreads the cost load and does not impact at times of special financial stress such as when people move house, it doesn't discourage mobility and turnover as much as a transaction charge. Indeed, because it taxes land value it creates an incentive for those who are asset rich but income poor to move to lower valued property.

More fundamentally by taxing value increases on land, Land Tax will tend to reduce the attractions of land as a speculative investment and thus bring downward pressure on residential price inflation and also more housing price stability.

A vital part of the affordability tool kit

While the Henry Tax Review worried about how to transition from Stamp Duty to a broader Land Tax base, it didn't doubt the benefits. Nor do we. The advantages of Land Tax from the Henry Tax Review perspective is that, by contrast with Stamp Duty, it helps to lower the price of land. As Henry puts it: 'When a land value tax is introduced, the existing owners of land bear the burden of tax as a reduction in land values. Potential buyers of land will reduce how much they are willing to pay for land by the value of the expected land value tax payments.'[35] This means Land Tax is a vital part of the tool kit to suppress home price inflation and land speculation and to help create stable housing markets.

We sometimes forget that raising revenue is only one purpose of taxation: it can also help balance and regulate markets, guide the flow of private investment, incentivise or discourage different behaviours and redistribute windfall gains that would otherwise be privatised. The most effective fiscal policy to achieve this is the annual Land Value Tax.

How would it work?

All land would face an annual charge for the benefits received as a consequence of being a land owner on the basis of the unimproved site value of the land, which would be revalued for tax purposes annually. We must be clear here. We are not talking about a tax on property values. If people improve or develop their home then the benefits would still accrue to them. We are just talking about the value of the land their home sits on.

A stop to sterile land speculation

Land Tax encourages a shift from sterile land speculation to productive enterprises.
By removing the main speculative driver of house price growth, Land Tax would reduce and stabilise property prices, making both renting and owning homes cheaper for everyone, reducing the economic gulf between different tenures and placing the entire economy on a more robust and equitable footing. It would alter the dynamics of the New South Wales property market, smoothing out the peaks and troughs and preventing housing market bubbles from developing in future. It also makes home ownership more sustainable in the long term whilst also bringing gains for renters. Land Tax is a must for a government that wants to shape a more sustainable housing market with more diverse supply.

Just in case the State Treasurer is holding his head in his hands at this point staring at the new hole we propose creating in his income projections, we stress that the evidence is that even quite low rates of Land Tax result in significant revenues – and potentially a lot more than Stamp Duty itself, which is one of the key reasons this approach has been recommended to be phased in by the Henry Tax Review.

Land Tax as an alternative to Stamp Duty removes the volatility of budget revenue. For example in 2008 there was a 19% drop in Sydney stock turnover, which is about 10,000 houses.[36] If the average of those paid even just $25,000 in Stamp Duty, that's a quarter of a billion dollars right there. Basically the state's reliance on Stamp Duty meant that their budget revenue was double hit by the Global Financial Crisis when housing turnover contracted. That wouldn't happen under a Land Tax.

The fact that governments have brought in exemption thresholds for Stamp Duty indicates that they see the problem. But exemptions are not the solution. We need a more radical and socially beneficial approach to taxing residential property which also will encourage first time buyers and turnover of properties. The State Government needs to replace Stamp Duty with a form of Land Tax.

To ensure this approach is equitable, particularly for those who have just paid Stamp Duty, options for transition arrangements for the payment of Land Tax should be provided. The Henry Tax Review suggested a number of options on this Land Tax/Stamp Duty transition including on how to grandfather the provisions over a 10 year period.

Priority area 5:
That Stamp Duty be replaced by something which doesn't deter first time buyers, reduce mobility of home owners or add to the cost of buying a home: enter the Land Tax

ACTION 15.

That Stamp Duty be scrapped and replaced by a Land Tax because it is more efficient and equitable, spreads the cost load for purchasers, does not impact at times of special financial stress such as when people move house, doesn't disincentivise mobility and turnover as much as a transaction charge – but will tend to reduce the attractions of land as a speculative investment and thus bring downward pressure on residential price inflation and also more housing price stability. Land Tax exemptions and/or transition arrangement should be provided for a period of time to those that have recently paid Stamp Duty to ensure an equitable transition.

BOX 5

Henry Tax Review – Option 5 for Land Tax Stamp Duty transition

This box outlines one approach suggested by the Henry Tax Review which is provided as an illustration of the type of measures that could be put in place.

A phase-in arrangement could be adopted under which the level of Stamp Duty could annually step down by one-tenth of its current level and the level of Land Tax could step up by one-tenth of its ultimate level.

Under this arrangement, for example, a house sold in the third year would pay 70% of the full Stamp Duty on the transaction and 30% of the assessed Land Tax each year for a specified period. This would result in some Stamp Duty collections occurring in the phase-in period, reducing the fiscal cost compared to complete grandfathering.

Limiting the period over which discounted Land Tax applies, perhaps to 10 years, reflects the fact that the discount will have lock-in effects eventually. After this period, the percentage paid in Land Tax could gradually phase up to the full rate.

Similarly, people who never transact could remain fully exempt for a period, say 15 years, with the Land Tax then gradually phased in, in line with the time periods applied to others. This would provide a measured phase-in over a predictable period and would avoid sudden jumps in liability.

Priority area 6: That Federal and State Governments should favour tax policies which encourage housing supply over demand

While successive governments have stifled supply with excessive charges and taxes, on the demand side governments have introduced a raft of tax concessions and incentives which have stimulated housing demand.

As discussed earlier, while housing demand has been rising, fuelled by population growth, demographic changes, increased household income, bank deregulation and competition compounded the growth in demand by dramatically increasing the availability of housing finance at historically low costs. Supply did not increase to meet this form of demand which came from increased liquidity rather than just an increase in household formation. The result: Australian households are wealthier than they've ever been before, but the cost of housing is still outstripping wages growth, and housing stress continues to grow.

Governments of all political persuasion have tried to address this housing stress with a growing array of tax concessions and grants to help people into the market. First Home Owner Grants, Stamp Duty concessions and the like have proliferated in recent years as governments respond to growing political pressure for relief from housing stress. There is some evidence that these initiatives have changed purchasing patterns and helped some people into the market earlier than they otherwise would have. However there is no evidence that any have increased supply or made housing more affordable. Stimulating demand in a constrained market only leads to higher prices.

The State Government has started removing some of these demand stimulating concessions or is targeting them better to help only first home buyers of new residential properties. This will help increase investment in supply without increasing demand. However, much more needs to be done and not just about incentives for new supply to first home buyers.

Little positive about negative gearing

Something radical needs to be done on a little discussed cause of home price inflation and of 'insider' benefits to existing home owners. This is the very generous tax concession of negative gearing for property investment.

Negative gearing was never intended to fund investment property but to help small business defray the cost associated with setting up a new business. However it is with property investments that it is now mostly used. There is little economic rationale for keeping negative gearing and there is no rationale on equity grounds. Negative gearing favours those who don't need it. It encourages the wealthier to invest in second, third or more homes which crowds out the less well-off, and their own children, out of the market. As mentioned earlier, stimulating demand in a constrained market only leads to higher prices.

Many have argued that negative gearing has helped create a secondary market of rental properties which help those who can't afford to, or don't want to, buy. Removing it will just increase rents or lead to less supply. There is little evidence for this argument. Our consultations with the banking industry suggest that housing will remain an asset class with or without negative gearing. Housing is an investment class which is easily understood, unlike shares or other financial instruments. It has a permanence – 'bricks and mortar' – and certainty which many investors like.

People will invest in property even without negative gearing incentives, as the example of the UK suggests. Negative gearing does not apply there though even with the more modest tax advantages available, existing owners have been able to leverage those and cheap money to establish multi-property portfolios – so much so that the evidence in the UK is also of the 'buy-to-let' phenomenon having an upward adverse impact on the price of residential properties, making some rental properties available at the price of squeezing some potential first time buyers further from being able to access home ownership.

The effect on overall supply is modest while the gains for negative gearers able to speculate in property or to buy second and third homes – of which Australia has an internationally high proportion – are considerable and inequitable.

We believe a more balanced housing market would result from phasing this subsidy out of its current role in home purchasing, whilst giving a more level playing field to first time buyers so they can enter the market. This should be done gradually to allow the market time to adjust and provide certainty for investors. Indeed our substantive proposal is that government should consider making only new property available to be negatively geared, in the way in which NRAS has attempted to stimulate new supply. As the vast majority of home sales in any year are from existing properties, this targeting of negative gearing to new properties may lead to some growth in supply but also reduce the inflationary crowding out effect of negative gearing on existing supply.

The principle point behind this priority area is this: government should stop directing limited resources to stimulating demand, because in a constrained market this will only increase housing unaffordability. If Governments want to help address housing stress they should direct their resources at increasing supply not demand.

Priority area 6:
That Federal and State Governments should favour tax policies which encourage housing supply over demand

ACTION 16.

That all politicians of all parties recognise that negative gearing and untaxed capital gains add wealth to existing home owners to leverage for second homes and investment properties without any evidence that they increase overall supply significantly; and that increasing effective housing demand in a constrained housing supply results in an increase in house price inflation and in problems of affordability for those seeking to buy.

ACTION 17.

That governments should redirect their policy focus away from encouraging the demand side of the housing market to supporting the supply side – and therefore consideration should be given to the phasing out of negative gearing over the long term in relation to existing properties but perhaps retained for new properties to stimulate supply.

Priority area 7: The State Government must also review its housing and urban renewal delivery capacity and create a big public land project

Beyond planning reform: an active role for State Government

The State Government must review its housing and urban renewal delivery capacity, how it disposes of public land, what role it should take in enabling large scale housing development - and how we can ensure we build places not just units.

Although many state governments in the past have directly developed and built large scale public housing developments, they have not done so for many years. New South Wales is not alone in this respect. Some states however have been more actively involved in developing extra capacity on some of their bigger estates through estate renewal programs, although New South Wales has embarked on probably the biggest housing Public Private Partnership (PPP) experiment at Bonnyrigg and has just announced a similar new project at Airds, both in Sydney.

The transfer of state housing assets to the NSW Department of Finance is seen by many to suggest some innovation around funding and delivering new development, though given conventional State Government concerns about retaining its AAA credit rating, there must be a question over this unless the plan is to put such development in off-balance sheet vehicles. There may also be specific questions over the precise design of these particular PPPs which are idiosyncratic.

Welcome innovative PPPs

The PPP projects should be welcomed overall as innovations and as new ways of bringing extra housing to areas with capacity for large scale development – with the right support from government, the right delivery mechanisms and the right relationship with the private sector.

They also suggest that when such de-risking and support elements are in place, the pace and scale of delivery – of not just more public housing but of a range of tenures including affordable rent, low cost home ownership and full market ownership - can be increased significantly over and above what the conventional housing market left to itself will achieve and where it would achieve it.

Faster and better urban renewal

We argue that the logic of this more direct and entrepreneurial involvement by the public sector in complex and challenging urban areas needs to be developed into a new, more creative and more ambitious approach to delivering places as well as units. Faster and better delivery mechanisms should also be applied not just to estate renewal but also to other public landholdings whether Brownfield or Greenfield, where whole new, large, mixed tenure communities can be built. They should also have a role in enabling more integrated precinct development to be delivered in established areas.

This whole approach means recognising that the role of government in housing and urban renewal in big cities is not just to be left to providing the planning framework. Governments, internationally, have usually had to move further away from the neo-liberal hands off approach in such challenging places because the risks for the private sector are such that without providing strong support to help make good, safe markets, delivery is sub-optimal and private investment will not be secured, either at all or not to the extent and pace required.

Many countries and leading cities have thus created bespoke special purpose delivery vehicles or urban regeneration and housing agencies to help focus relevant powers, expertise and funding at strategic land opportunities – some but not all in public ownership – and speed up delivery, in partnership in various ways, with the private sector.

They have, in parallel with this, reviewed how public land is disposed of and set up varieties of public land initiatives where public land ideal for residential development is identified and effectively entrusted with the delivery vehicle or agency. Depending on the precise approach adopted, they may merely master plan it, bring it to market and sell it to private sector bidders. But they may actively develop it themselves, albeit working with delivery partners such as private sector home builders or CHPs and retain a long term interest in the development.

Both have merits though from the perspective of the authors the latter is the preferred model in terms of creating a place with integrated services and enabling infrastructure. The latter is now rare in the Australian context, though Landcom historically played in this place-making space in New South Wales from which role it effectively retreated over time. South Australia has also just restructured its Housing Trust and Department of Housing to create an agency with this kind of mandate and access to a wider public sector land bank. It's time for a re-think here in New South Wales.

UK best practice

The approach advocated here is essentially that adopted by three of the major publicly-led housing delivery initiatives which were successful in the UK. And all three have resonance for Sydney.

The first is the big ***New Town Development Corporation*** program under way in England from the late 1940s to the late 1960s. Successful in creating large scale places quickly, sometimes with as many as 20,000 mixed tenure homes being constructed in a matter of years, the New Town delivery vehicles were publicly owned entities but with private sector directors. They had planning powers. They compulsorily purchased private agricultural land with money borrowed from the Government Treasury and rezoned it for residential uses. They built the infrastructure – roads, facilities, and schools – and paid the Treasury back from land and property sales. The private sector built the homes but at lower contractor returns as they weren't taking the developer risk. This also meant a speedier delivery rate as the home builders had no target return on capital employed to be protected.

The second model derived from this was the Development Corporation model whose zenith was the ***London Docklands Development Corporation*** (LDDC). Although focused on developing economic and commercial opportunities, the LDDC got thousands of homes built quickly in a variety of tenures. Again, success lay in having a dedicated area-based team and development expertise, planning and re-zoning powers, which they 'borrowed' for ten years from local councils, powers of compulsory purchase and the capacity to trade in land and re-cycle profits. The private sector built the homes in a variety of different commercial relationships with the LDDC – as a contractor, as a developer – who sometimes retained the freeholds on land in order to influence design and quality through the lease.

The final UK model derived from the *New Town Development Corporation* model was what had started as English Partnerships (EP) and became the ***Homes and Communities Agency (HCA)***. Possessing planning powers from inheriting the *New Town Development Corporation* remit, EP and now the HCA, owns land and develops it with private sector partners. Or they partner with the private sector which owns key strategic land but needs finance expertise or assistance on community engagement or planning to bring it to market in sometimes challenging places or conditions.

HCA's latest initiative is a public land initiative whereby all public sector agencies and tiers of government, including local councils, are invited to entrust the development of their land to the HCA in a region. Private sector and/or not-for-profit contractor or development partners are then sought not just for individual parcels of land but for a pipeline of development opportunities from the public land initiative. This gives confidence to the developers, de-risks projects, allows teams to not be dismantled between projects, provides economies of scale, reduces costs and increases delivery in a difficult market. On large projects, the build-out rate and sales rate are increased by dividing land parcels amongst a range of private delivery partners or not-for-profits with different business models. A unified infrastructure plan and a common system of developer contributions underpin the development and bind in all aspects. A range of tenures reduces the sales risk and diversifies the community.

So what is happening in Sydney?

Elements of all these initiatives have been evidenced in New South Wales in her past. Some can be found at Rouse Hill, in perhaps the best recent example in New South Wales of an attempt through a long term public-private relationship involving Lend Lease, Landcom and the local council, at creating a new town with a proper town centre as its focus rather than just a collection of houses alongside a retail box – though without yet the public transport link which will dramatically increase residential development and indeed density. But overall, such approaches are not as evident in Sydney as they could and we think should be.

There is no *New Town Development Corporation* building new towns in Western Sydney, where surprisingly small parcels of land are drip fed onto the market with no large scale place-making vehicles in prospect to make places with facilities, jobs and services – and increase the delivery of homes.

There is no equivalent of the Docklands Development Corporation building mixed development of jobs, facilities and homes in Brownfield sites in inner Sydney, though the Sydney Metropolitan Development Agency could be beefed up to play that role.[37]

There is no urban regeneration and housing agency de-risking development, providing key skills, helping with infrastructure and community engagement, enabling private sector partners to build precinct-scale projects in established communities.

There is an agency gap in the delivery architecture for housing and urban renewal in Sydney and it must be filled. There is also a need for an integrated cross public sector land initiative. New public-private structures and relationships need to be built. We advocate a number of initiatives.

Priority area 7:
The State Government must also review its housing and urban renewal delivery capacity and create a big public land project

ACTION 18.

That the State Government recognise that planning reform in itself is necessary, but not sufficient to achieve a speedy uplift in housing delivery, to undertake large scale development on Greenfield or Brownfield sites, and to enable complex projects in established precincts to succeed. Evidence suggests the skills, focus, powers and funding of a dedicated urban renewal and housing agency are required to work effectively with the private and public sectors when large scale or complex development – in some cases creating new neighbourhoods or town centres – is mooted.

ACTION 19.

That the State Government should review state, national and international best practice in terms of the design and function of such housing and urban renewal agencies, the various kinds of delivery vehicles and the ways in which they reduce the risks and costs for developers, deliver political leadership, supply essential skills, coordinate key elements of the public sector, help supply enabling infrastructure, provide investment where relevant and engage with local communities.

ACTION 20.

That the State Government reviews the capacity and remit of the Sydney Metropolitan Development Authority in light of successful models such as the *New Town Development Corporation* and the *London Docklands Development Corporation* in the UK; and reviews Landcom and its potential to evolve from its current more limited role back towards the wider remit it once had as a delivery vehicle for new and affordable housing, similar to England's national regeneration agency English Partnerships and Victoria's 'Places Victoria'.

ACTION 21.

That the State Government initiate an inclusive public land program in which all tiers of government collaborate to identify key potential residential sites from their own land banks and agree to make them available for development – with land disposal managed by the proposed new urban renewal agency/ reformed Landcom, which will work with a range of quality private and not-for-profit developers.

ACTION 22.

That the State Government reviews the current local council rate concession which encourages land banking of land rezoned for housing. Once land is rezoned it should be liable to be rated as residential not agricultural.

Priority area 8:
The strategic way of reducing housing demand and prices in Sydney's hotspots is to develop the polycentric City of Cities

The long term fix

There are short, medium and long term fixes to overheated housing markets. In the short term, the shortage of cheap mortgage money can put an immediate dampener on home price bubbles. In the medium term, the tax and levy changes we argue for will reduce land prices. In the long term, it is critical to ensure that a big city has concentrations of jobs in more than one location and that commuters can access them as easily as – if not easier than – travelling to the CBD.

Sydney is a long way from this objective at the moment. With a dominant CBD sucking in a massive amount of commuters to what in comparative terms is a constrained location doesn't just bring congestion problems. It doesn't just attract public transport investment which reinforces the emphasis on journeys to the CBD rather than opening up other areas with additional economic capacity. It doesn't just add to the cost of Sydney's office rents, which are already twice that of Melbourne's, with its bigger floor-plate for office accommodation and more open approach to development. It also helps drive up home prices around this economic hotspot because there is a premium in housing close to CBDs.

These areas also then tend to be ones in which NIMBY activity is at its peak and new supply is suppressed. So the transport and economic development focus on the CBD ends up exacerbating home price inflation and adding to the unearned gains of existing home owners in those areas. It's time to plan for and deliver a more balanced city and to smooth out economic growth and development pressures across a wider area.

Polycentric Sydney having been announced several times now needs to be realised – for the good of those needing homes as much as to increase the effective job density of Sydney. Yes, we need policies to densify established areas and suburbs but we also need to recognise that having our capital city's sole CBD on its eastern edge, leaving a commute of 30-70 kilometres for Western Sydney inhabitants, distorts the housing market as well as narrowing the economic base for the high value added jobs the city needs to grow.

Creating a balanced city

The imbalance of Sydney can be summed up in one big fact, one massive trend and one serious problem. Currently as many people now live west of Parramatta as east of it, and when Sydney becomes a city of 7 million towards mid-century, 4 million will live in Western Sydney.[38] The problem? Presently, two thirds of the jobs are in central and east Sydney. Bill Clinton once said that the best welfare policy was a job. Likewise we believe that that policies to grow jobs – and good jobs – in Parramatta and Western Sydney overall amount to the best long term strategic investment in housing affordability for the city.

If the State Government and local councils can collaborate to really identify and deliver the strategic infrastructure and connectivity required to raise the effective job density of Western Sydney and reinforce its attractions as a market, then, together with the reformed planning and tax regimes we advocate, a new more decentralised, diverse and even housing market can develop in Sydney. This also means that strategic transport investment is the best housing investment.

Game changing infrastructure required

Although the Sydney Metro Strategy, various New South Wales transport blueprints and no doubt the upcoming Long Term Transport Master Plan will name check the 'city of cities' concept which sees Parramatta, Penrith and Liverpool as having key roles to play in the future development of Sydney, we have seen largely business as usual. Although welcome, even the North West Rail Link is essentially business as usual as it reinforces commuting trends into the existing CBD rather than creating new economic geographies.

We see little evidence of game-changing transport investment being delivered or even planned to make a reality of the 'city of cities' and to ensure for example that Paramatta realises its potential as a second tier CBD for Sydney on a par with North Sydney.

As a comparison, London has made east London its development focus for the last 10 years and the next 20. This is based primarily on investment in light and heavy rail infrastructure, which reduced journey times by half to central London. This hasn't just brought the centre closer to the east: it has made the east part of the centre, and made the east a new destination for London's housing growth. The fast train to Parramatta, a journey feasibly travelled in 10 to 12 minutes by transport means currently available in international cities, would achieve the same result as east London.[39] But who is planning it? Through what agency will this happen? It is more than just a transport project.

Transforming governance

The governance and capacity gap in Sydney for enabling projects of metropolitan significance has grown ever wider. A planning system which today we believe would reject development applications to build the Harbour Bridge or Opera House, let alone the Snowy Mountain project, virtually makes such grand projects impossible.

But even if the fast train to Parramatta were acceptable in planning terms, who would promote it and deliver it in the absence of a metropolitan wide authority? Given the reluctance of successive state governments to reorganise local government in Sydney or give it a metropolitan governance, the answer must be that the State Government needs to innovate structures and governance which can conceive of and deliver development projects and enabling infrastructure of this scale to transform the prospects – and place – of Western Sydney.

We add: merely freeing up planning restrictions and speeding up land release in themselves – as has been mooted by the State Government – will neither deliver the number of homes needed or the quality of places needed to transform Western Sydney. A more strategic approach is required to rebalance the city to provide the range of jobs, social and cultural facilities, homes, transport and town centres that will make Western Sydney a place of choice, with homes for all. That will not be achieved without a coordinated governance and policy focus as well as targeted planning and investment by all government agencies and councils collaborating with top quality private sector partners.

In our view, the market, planning reform and speeding up land release will, without this coordination and public-private partnering, deliver low density, dispersed, detached homes and inadequate supply in places with little identity, when the need is for a range of homes in well designed and well connected communities near agglomerations of jobs. Something else is required.

A Western Sydney Development Corporation

The something else required echoes our discussion on delivery vehicles. Special governance will be required to realise Western Sydney's potential. In other states and countries such governance has brought the various tiers of government together to coordinate and design new communities, create the right delivery framework for effective private-public partnering, design funding mechanisms for vital infrastructure and use appropriate planning powers.

We have seen that the Development Corporation model has worked effectively elsewhere and was at the heart of the delivery of London Docklands' new office, residential and transport capacity. Heavy lifting like this is usually required to transform places quickly and well. We see the pressing need for a governance revolution – a Development Corporation or Commission for Western Sydney, to focus resources and skills, to plan the places, bring the infrastructure and attract the quality and quantity of residential investment so urgently required.

Priority area 8:
The strategic way of reducing housing demand and prices in Sydney's hotspots is to develop the polycentric City of Cities

ACTION 23.

That the polycentric approach to developing Sydney's economy and centres advocated in the Sydney Metropolitan Plan be actually implemented as a key strategic contribution to easing demand pressures and house price inflation in inner suburbs.

ACTION 24.

That the emerging Long Term Transport Master Plan for New South Wales is properly integrated with the Sydney Metropolitan Plan so that future transport investment supports a polycentric Sydney – and a Sydney with better distributed job markets; and that other public service departments be invited to emulate their transport colleagues.

ACTION 25.

That developing the economy and connectedness of Western Sydney is the best housing policy for our capital city; requiring a dramatically raised emphasis on key strategic transport investment – such as a fast train from central Sydney to Parramatta – to ensure Parramatta realises its potential to be another CBD for Sydney.

ACTION 26.

That well connected residential and mixed use development be promoted in growing cities, town centres and employment areas to create attractive, lively places to work, live and visit – and that a special purpose vehicle or agency be created to achieve this and to promote the transport and social infrastructure necessary to rebalance the city: the Western Sydney Development Corporation or Commission.

Priority area 9:
The housing crisis afflicts public housing too: the whole housing system is under pressure

There is a whole system problem – and it includes public and community housing

Housing supply and affordability are usually discussed separately from public and community 'affordable' housing as though there are 'Chinese Walls' between them. In fact there is a housing system – albeit a badly functioning one – with links between all levels. This is especially clear at a time of high priced housing and inadequate supply on the one hand and constrained State Government resources for public housing on the other. Such conditions apply today in New South Wales.

Essentially, the high price of homes to buy, and an inadequate supply of them, are driving many who formerly bought to become market renters. Demand from such renters, when rental supply has grown but not enough, then raises the price for low paid renters who then look for low cost rentals. Under such pressures, rents in Sydney are now rising at four times the rate of inflation.[40] These then put pressure on those in low cost rentals and entitled to Commonwealth Rental Assistance to get onto community and public housing waiting lists. The race to the bottom then concludes with an increase in the number of those presenting themselves as homeless. And so it goes.

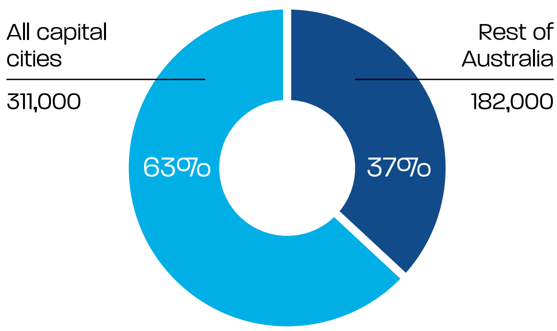
Housing stress crosses tenures and links them. We have a housing system in silos and public policy is doing its best to drive and keep the silos apart – to the detriment of people and a healthy mixed economy of housing supply.

Public housing tenants are part of a wider cohort needing affordable rental property

Because only 4%-5% of households are in community or public housing we tend to set them to one side as though they are not and can never be part of the mainstream housing system. It is this attitude which has helped trap people in social housing. The reality is that they are part of a much bigger cohort which cannot buy or access low cost rental in Sydney and thus part of a much bigger problem. The very shortage of low cost rental homes adds to the perverse incentives already in the housing system to trap people in public housing.

We need to increase the supply of affordable rented homes of all kinds with different types of landlord or cooperative/not-for-profit owners. We need to break down the silos between these not just to end stigma but also to make the provider market more varied and flexible. We need more rental product with more diversity as well as more private homes for sale and shared equity products.

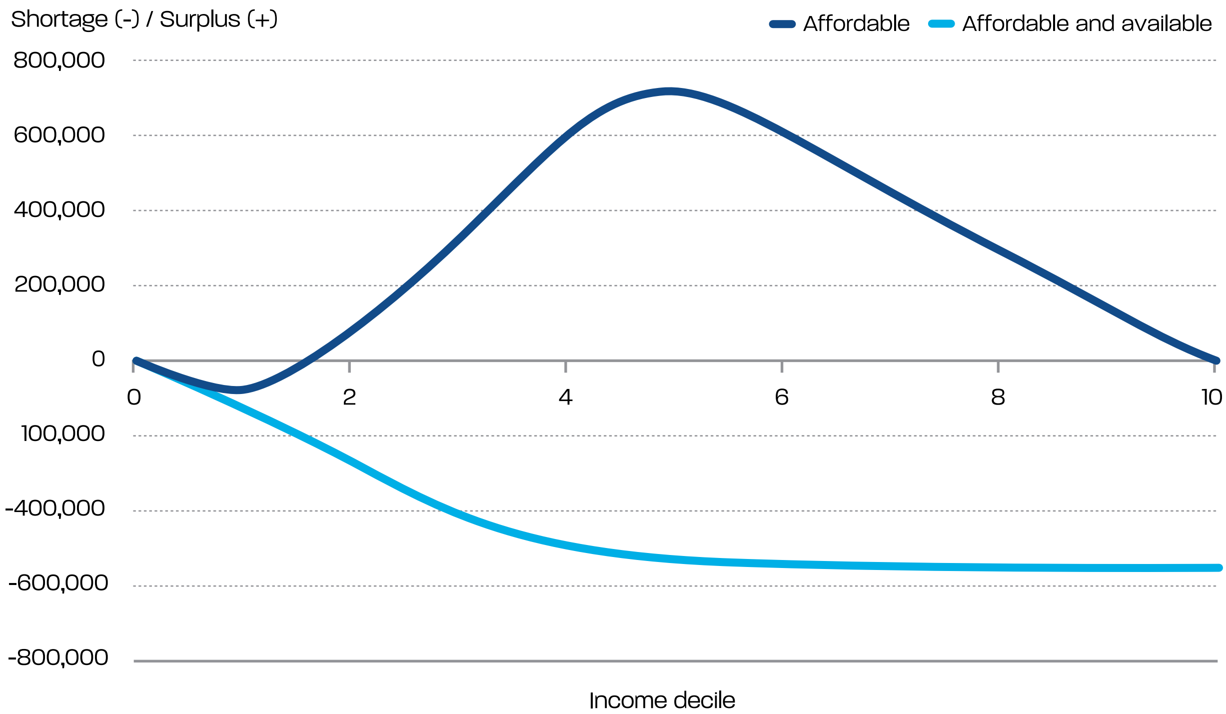
FIGURE 6
SHORTAGE OF AFFORDABLE AND AVAILABLE RENTAL PROPERTIES 2010



Source: **National Housing Supply Council, *State of Supply Report 2010***

FIGURE 7

NATIONAL SHORTAGE OF AFFORDABLE AND AVAILABLE RENTAL PROPERTIES 2007-08



Source: National Housing Supply Council, *State of Supply Report, 2010*

We need a more flexible housing system, breaking down the walls

We also need to create a housing system which embraces the fast changing nature of consumer demand and demography. This means that for different parts of a person's housing career they may live in public housing, community housing, low cost private rental, student accommodation, market rental, shared equity apartments, open market housing for sale, small open market apartments, retirement homes and cooperative elderly care facilities. We should encourage this diversity as it will encourage turnover of properties and the freeing up of accommodation for more appropriate households – while reducing the stigma of one kind of tenure over another.

Embracing this diversity also means encouraging more diverse developers and providers with different business models to support the housing system. And with diversity of business models comes more sources of supply.

This all leads to the punch line that the housing crisis in Sydney is not confined to private homes for sale but afflicts public housing too, which has little money to cater for its existing tenants let alone house anyone else. The plus side of this recognition of a unified housing system is that a key to resolving the problems of all parts of it is to increase supply of homes which are affordable at all levels and tenures, while breaking down the walls between them. This explicitly doesn't mean that the problems of public housing will be resolved by creating more public housing. Not only will the cash not be available but also that is not the right result given the poor outcomes for people in public housing. We need more housing overall – with more support for people to move from one part of the housing system to another.

Priority area 9: The housing crisis afflicts public housing too: the whole housing system is under pressure

ACTION 27.

That all politicians of all parties recognise that the housing crisis in Sydney afflicts public housing too; that low income renters in the private sector are being squeezed by higher income tenants who previously would have bought; that this is putting greater housing stress on low income families and pushing many onto public housing and community housing waiting lists; and that therefore what politicians and decision-makers need to recognise that what is in crisis in Sydney is the whole housing system.

Priority area 10: Public housing authorities have no cash to transform homes let alone tenant opportunities or build new supply – so innovation is required

Not enough – never enough – money

Even after new money entered the public and community housing sectors from the Federal Government housing stimulus package, the headlines in New South Wales are still of under funding, of what one newspaper has called 'the disgrace' of inadequate quality housing and of tenants under stress.[41]

This type of report may or may not overstate the overall picture. But we all recognise that because of the scale of the task New South Wales faces with just under 130,000 homes under its direct management, the growing need and vulnerability of tenants and the pressure on public finances, which always has a higher priority than public housing, such stories are going to increase.

There is not now and will never be enough money in public housing to pay for the backlog of repairs let alone build enough new stock to meet the needs of those on waiting lists - which also grow as other stock diminishes and private rents rise. Public rent income is too low to meet those needs without a big subsidy from the Treasury and the subsidy is never enough to fill the gap. There is a permanent shortfall in funding for public housing under current or likely conditions.

People first: not ideology

If you are ideological about it, you will put public ownership of this housing stock as a principle ahead of the issue of whether tenants and their homes can ever get the investment they need from being guests of the state. The authors care about outcomes for tenants more than any ideology which puts structures before people. We think politicians need to do the same. If you want the investment these tenants homes need then the State Government is unlikely to come up with it any day soon. It is not a priority and the sums required are not small. We want the money found – wherever it can be found. That requires innovation not ideology.

Priority area 10: Public housing authorities have no cash to transform homes let alone tenant opportunities or build new supply – so innovation is required

ACTION 28.

That all politicians of all parties recognise that public housing does not now and will not ever receive the overall funding it needs to build significant new supply or to provide all tenants with the quality of homes they need. That the need is to transform not just the homes of public housing tenants but also their social capital and outcomes. That therefore radical innovation is required to secure the investment in homes and people which public policy and market failure are making ever more residualised.

Priority area 11:
New money, new thinking and new structures to secure new investment, grow community housing and achieve better outcomes for tenants

The first instinct of many decent people in Departments of Housing when attempting to meet the escalating demands and needs of existing tenants for further investment in their homes or for other support, is optimism. They want to find the money required and will hope to do so through ever more resourceful means. The list might include efficiency savings or re-allocated resources, more subsidy or reform of the National Affordable Housing Agreement (NAHA) and having a level playing field with the community housing sector so that public housing can access and leverage Commonwealth Rent Assistance too. In the real world of constrained public finances and the low priority of public housing, such optimism is sadly misplaced.

Some in public housing see that the most realistic option for delivering new investment to, and support for, their tenants actually lies in collaboration with and indeed stock transfer to CHPs. But they still have doubts about the capacity of many CHPs to take the agenda forward. Some may see CHPs as too small to take on a significant stock transfer. Many are deemed not to have the staff, capacity, skills or systems to become big players in the housing system or to have the values and safeguards in place to look after tenants to the standard required.

Historically there has been some truth in this, but what's missed in their critique is how the community housing sector has been transformed since the economic stimulus package. Some have grown by 60%-70% in staff, turnover and stock in the last 5 years. Now almost 15% of all social housing in New South Wales is either owned or managed by CHPs.[42]

All the bigger CHPs have grown in sophistication and capacity in a short period, with some of them now owning or managing several thousand units. Such organisations increasingly have the staff complement of the right scale and skills to manage such units well, to develop new stock – usually a mixture of tenures – and serve their tenants' needs.

They have ambitions to grow further. The previous State Government backed this ambition, as did the Federal Government, and both had a commitment to grow the sector to hold a third of social housing stock by 2014. Though there has been progress, this will not be achieved. It is not clear yet to what extent the current State Government share the objective of their predecessors to grow the CHP sector, though why a Coalition Government would wish to resist the growth of the not-for-profit sector and defend a government monopoly in social housing is also not clear.

Why the previous State Government favoured a massive growth in community housing, and a stock transfer program to it, is interesting. Perhaps former Federal Social Housing Minister Mark Arbib gave us a clue to the thinking of both state and federal government at the time. He had financial concerns – about, if you like, capital and social capital. Despite an expenditure of $10 billion over 10 years from the Federal Government in public housing, he noted, the shortfall in supply of public housing vis-a-vis demand had grown during that period. And given that that national shortfall would almost double to 150,000 homes by 2020 and cost $24 billion that no government has, alternatives were required.[43]

He sought a major increase in homes managed and owned by CHPs, as had Minister Plibersek before him, because the evidence was that properly regulated CHPs with sufficient stock and skills could leverage their assets and Commonwealth

Rent Assistance with borrowers and thus bring new money into the sector. Effectively this means they can build a new home for 75% of what it might cost public housing departments, and on the UK precedent over time that figure might fall to 50%.[44] Twice the bang, perhaps, for the public buck. Minister Arbib also worried about the adverse social outcomes of concentrated public housing stock. This led him to seek a step change in delivery by CHPs, though he left the issue of a radical stock transfer program open.

In a speech he gave in early 2011, Minister Arbib, made the following points which we endorse:[45]

- rather than government alone providing the housing, the community sector and not-for-profit providers need to be empowered to deliver the homes;
- this has been successful in other countries such as the UK where large community housing organisations have emerged with the appropriate leverage needed to borrow significant money from the banking industry;
- to achieve success the not-for-profits need to have a significant asset base and an appropriate mix of affordable housing and social housing in their portfolios;
- the states and Federal Government were working to create a national regulatory framework for community housing; and
- change could come through the next renegotiation over the National Affordable Housing Agreement.

In supporting this we note that the system of national social housing regulation in the UK has created big CHPs with tens of thousands of homes and billions of assets. It has enabled record levels of new social homes to be built by such providers at less than half the cost to government of the previous situation where massive subsidies were required from government. Subsidies are now less than 50% of the build cost with the rest coming from income leverage and borrowings, partly from banks and partly from bond finance.[46] Because of the independent national regulatory framework, the implied guarantee that government will regulate providers and prevent any from going bankrupt (and in 40 years none has) and the big asset base of providers (who own the title to their units), CHPs in England typically can get loans cheaper than major corporates. And cheaper finance means more homes delivered.

Independent regulation can lower risk and reduce the cost of finance – thus increasing delivery

Independent national regulation means that the regulatory function in relation to the finances and efficiency of the CHPs on the one hand and their performance vis-a-vis tenants and the standard of housing management and maintenance, does not sit with the Department of Housing. In England today, the performance of both public housing and community housing is assessed by a regulator who is at arm's length from the Department and the Minister. CHPs thus feel there is a level playing field in regulation. More importantly banks see a safe, rule bound and simple form of regulation which does not have any political interference and does not favour public housing over other such tenures or providers.

Key components of the English regulatory framework include:

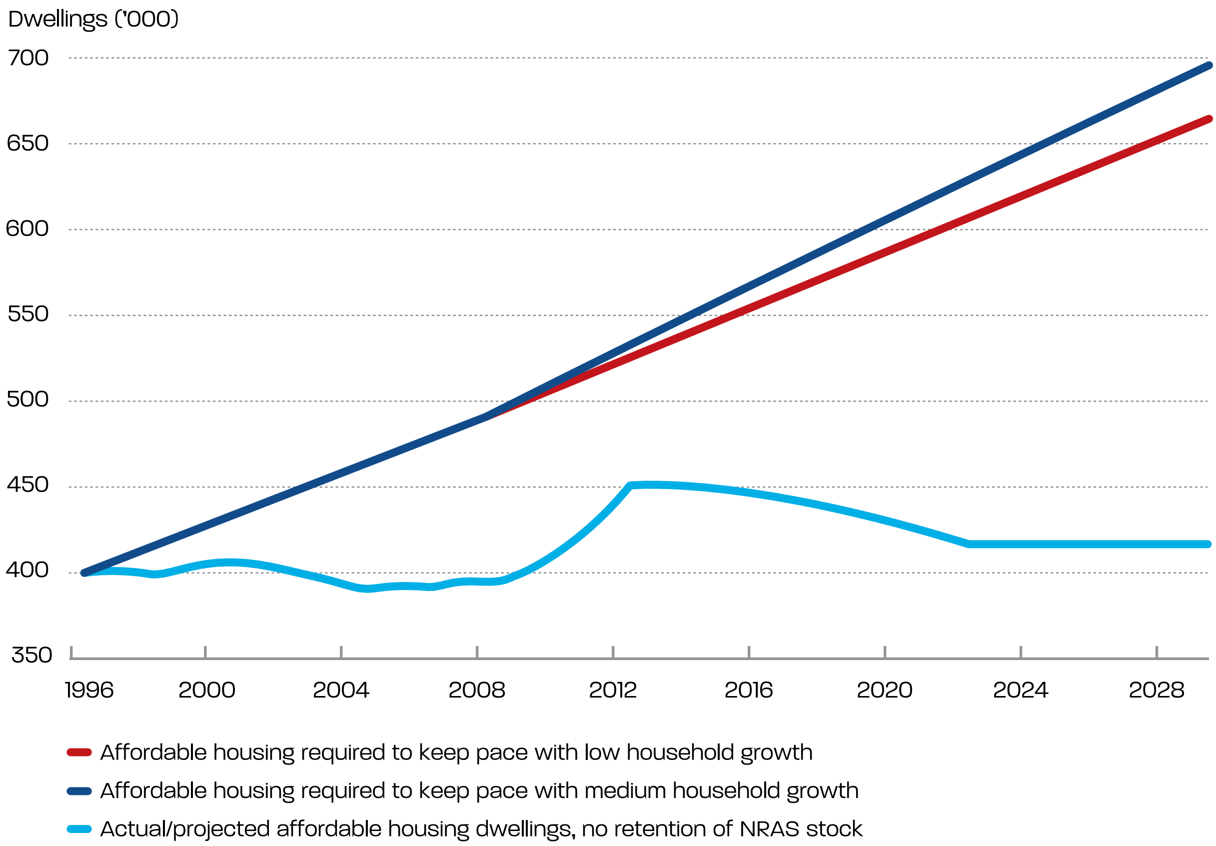
- the establishment of an independent national regulator at arm's length from government and not embedded in a government housing department;
- a national public register of approved recipients of grant, now limited to those with significant development capacity;
- clear and effective powers for the regulator to intervene if problems are identified;
- a set of national standards that cover governance and viability; and
- the subordination of public debt to private finance, enabling securitisation and leverage of assets.

The latter means that any homes transferred to CHPs become the unencumbered assets of housing associations. The first charge on their assets goes to private funders not government, creating fully leverage-able titles and more private investment to deliver more public benefit. In Australia transfer of assets without title has been the common approach: and that is a limiting factor on the leverage capacity of the CHPs.

We add that where state housing stock freeholds are not to be transferred, leasehold transfer to CHPs should still be further encouraged by regulation as it attracts Commonwealth Rent Assistance funding into the equation, which CHPs can opportunistically use to redevelop stock. This has been an area of real innovation by CHPs in Australia and one which the State Government should take into consideration.

The result in the UK of this regulatory regime is a system the UK's private sector Council for Mortgage Lenders says 'gives lenders confidence so as to safeguard a continuing flow of private funding to help build and improve more homes. It also enables housing associations to retain their strong investment grade ratings and borrow more easily – and at lower rates.[47]

FIGURE 8
PROJECTIONS OF SOCIAL AND SUBSIDISED HOUSING DEMAND



Source: **National Housing Supply Council, *State of Supply Report, 2011***

This framework has levered in 50 billion sterling of new finance into social housing in 20 years.[48] This framework also has allowed CHPs to become developers of new and mixed tenure developments including private rental, low cost home ownership and open market for full ownership – a hybrid model of funding to build a variety of stock with a variety of tenants.

We see the need for similar reforms to regulation in New South Wales to achieve a similar effect. National regulation is slowly coming to Australia and New South Wales could lead the way by identifying the key elements of a regulatory system which, along the lines of the UK experience, can lever most private funding into the sector. The State Government should, when re-designing regulation in New South Wales, work to protect tenant interests but also work with relevant bankers and finance houses to understand what regulatory framework will lead them to increase funding to the sector.

Stock transfer – and a NSW 'Decent Homes' Program

A key to the success of CHPs in the UK has been a massive stock transfer program which has seen more than half of public housing stock pass to CHPs. This was initially incentivised by a government dowry to CHPs taking on some difficult stock, as a contribution to its repair. From around 2000 to 2010 there was a new force driving up housing investment in social housing and driving tenants towards stock transfer. This was called the Decent Homes Program. And again, we think this could have impact in New South Wales.

The Decent Homes standard identified a minimum standard to be achieved in social housing stock whether in public or community housing. If the provider could not show a credible plan for funding and implementing the standards, the stock would have to be transferred to organisations that could show the regulator they could achieve the standard. Such a device should be introduced into New South Wales housing both to drive up standards of public homes and to enable transfer when appropriate to other providers such as CHPs.

New sources of private finance – new private rented stock

The final parts of the new New South Wales affordable housing jigsaw is how we lever in not just extra bank finance but bond finance and also how we should try to incentivise new providers of quality private rented stock to enter the market. Not the mums and dads but institutional investors in property, to provide more well managed, high quality stock, of scale.

Bond finance

The UK is one of the market leaders in enabling even quite small CHPs to access bond finance. There were two key requirements in the UK for developing a bond finance market for CHPs. The first was the regulatory regime we have described, which de-risks the sector for private investors. The second was the existence of a specialist not for profit agency supported by government and the CHP sector which acts as an intermediary in the bond market. This is the Housing Finance Corporation which provides an umbrella or a bond wrapping service which enables small CHPs to band together, to reduce costs and risks and to access bond finance at attractive rates.

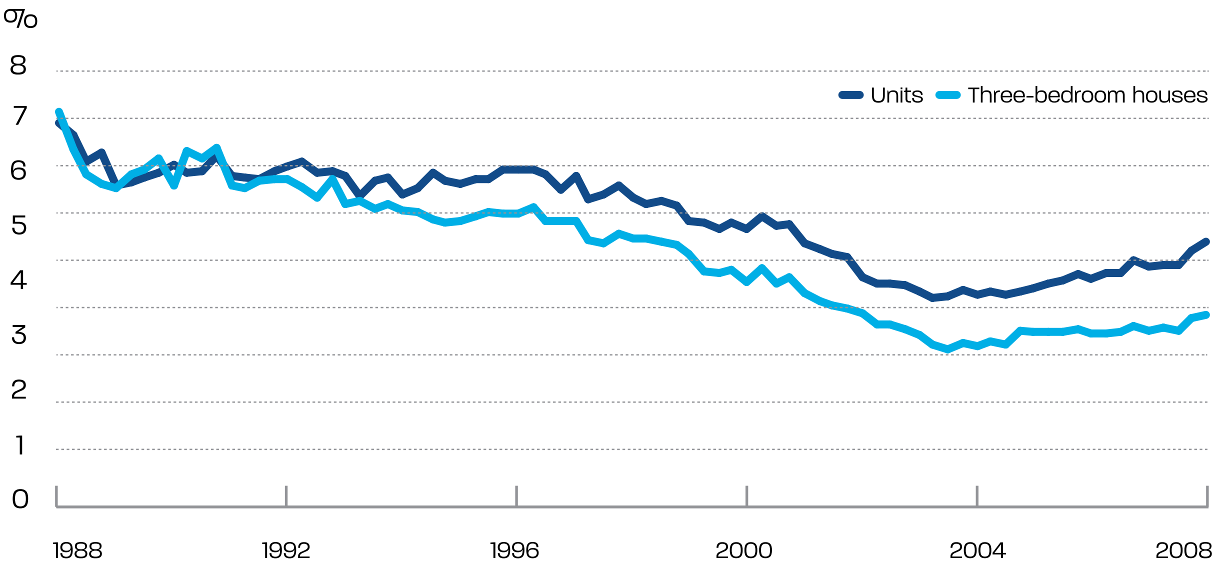
CHPs in the UK of the same size as those in New South Wales can access this service by means of the Housing Finance Corporation and can each borrow anything from $8 million upwards from the bond issuance. There are alternative models to the UK's such as Austria's[49] and both should be explored by the State Government.

New institutional investment in private rented

Given the increasing significance of private rented stock and the role it can play in creating new supply and meeting housing needs, it is important to grow investment from as many sources as possible. NRAS was targeted at individuals and their personal tax benefits though there has been some innovation by CHPs to develop alternative

FIGURE 9

REDUCTION OF RENTAL YIELDS OVER TIME



Source: National Housing Supply Council, State of Supply Report, 2008

This graph illustrates the reduction of rental yields over time and highlights a growing focus on expected capital gains over realised yields.

approaches to leveraging NRAS. But on the whole, there are few incentives for bigger providers of quality housing stock of some scale – blocks of apartments with a hundred or more tenants for example – to enter the market.

This is partly because the tax incentives for individuals have had something of a deterrent effect on specialist investors in property such as institutional funds, pension funds or superannuation funds. They have made investment in private rental supply less attractive as individuals with several homes rented out do not always apply commercial standards to their assets. As long as capital gains can be secured, rents may be less important for such owners and certainly few make the returns or the yields which institutional investors seek (see above). So there is some evidence that the latter are crowded out by current approaches fuelling individual ownership of several lettings.

Of course there are other barriers to large scale institutional investment in this sector including the usual ones of planning risk for new build or rezoning industrial buildings and converting them, as well as the costs of developer levies. The absence of large scale private renters and institutional investors from the residential market in Australia – by contrast with the United States – is a flaw however. It would add to the diversity and resilience of the housing market and increase the supply of new dwellings. We recommend the State Government review what changes would be required to attract significant new private rented supply in this state.

Priority area 11:
New money, new thinking and new structures to secure new investment, grow community housing and achieve better outcomes for tenants

ACTION 29.

That the State Government remove the function of regulating social housing in New South Wales from the Department of Housing and vest it in an autonomous regulator so as to create a level playing field between public and Community Housing Providers and to create confidence in potential private investors in the sector.

ACTION 30.

That a new regulatory system be created which sets out the high standards of homes and organisational performance and capacity which all providers are to achieve. That a new NSW *Decent Homes* standard be established identifying the quality of homes to be provided by housing providers of all kinds, and that any failure to achieve the standard will lead to stock transfer to providers who can achieve this standard because they have access to the finance or the organisational capacity to deliver.

ACTION 31.

That the Department of Housing plans accordingly for a significant program of stock transfer (with full title) and the managed growth of the Community Housing Provider sector.

ACTION 32.

That the new approach to regulation will require not only that providers be assessed on the quality of their homes and financial capacity, innovation and probity but also on their relationships with tenants and the programs of social capital development they institute.

ACTION 33.

That the community housing sector and the Department of Housing need to collaborate to grow the capacity of the sector quickly and well, and that this will require regulation and subsidies to be targeted at creating fewer but better, larger Community Housing Providers, with the resources and skills to take on the new stock, attract new private funding and become a significant developer of new stock.

ACTION 34.

That the new regulator or Department of Housing work with the Community Housing Providers and the banks to identify the regulatory framework required to enable funders to invest more and in greater confidence in the sector.

ACTION 35.

That this may require that the State provides an implied guarantee that no regulated provider will be allowed to go bankrupt – bearing in mind that such an approach in the UK has seen no provider fail in more than 40 years of the regulatory regime which has levered in more than one new private pound extra for every public pound invested through subsidy, doubling the number of homes built for the public buck while enabling a million homes to become ‘decent’.

ACTION 36.

That the new regulator or the Department of Housing work with the Community Housing Providers and the banks to create structures such as the Housing Finance Corporation in the UK or other similar bond financing structures such as those in Austria, to enable low cost long term bond finance to be available for affordable housing providers and products in Australia.

ACTION 37.

That a review should be undertaken by the State Government of what will secure new investment in new affordable housing products and private rented supply of scale and quality, from for example institutional investors, pension funds or superannuation funds.

ACTION 38.

That out of the process of stock transfer, the growth of the Community Housing Provider sector and the attraction of new private finance will come new business models of housing companies, both not-for-profit and for profit. Their goal will be to build a spectrum of affordable housing at sub-market rents, new private market rented accommodation, shared equity and homes for sale so as to avoid mono-tenure development, concentrations of disadvantage and a reproduction of the problems of social housing – and to contribute to an increase in supply of homes.

ACTION 39.

That over time the walls between these tenures are broken down as a conscious objective of public policy, as in the best interests of communities themselves and of the efficiency of the housing market.

3 Conclusion: Homes for All – a call to action

WE HAVE IDENTIFIED 40 ACTIONS, SOME OF THEM LARGE AND SOME OF THEM SMALL, THERE IS A LOT TO PUT RIGHT ACROSS THE HOUSING SYSTEM IN THIS STATE AND IN SYDNEY. THERE IS NO ONE MAGIC BULLET.

They mostly don't require new money. They do require determination and innovation. They will work to improve delivery and supply. But to achieve *Homes for All*, we think the kind of comprehensive Action Plan set out here will be needed.

Business as usual will get us nowhere and has got us where we are. We can do much better than this – and *Homes for All* will, we hope, at least provoke some new thinking and that sense of urgency and ambition which always form the basis of any thorough reform.

Exactly 80 years ago the great planners, engineers and politicians who transformed Sydney with one of the most iconic bridges in the world showed what we are capable of. We will need that level of energy, vision boldness and innovation to galvanise new housing supply in Australia's global city. We've done big transformation before and we can do it again. We hope *Homes for All* provides a kind of map to set out the direction of travel for public policy.

Collectively these actions amount to a program that will see a step change in delivery and an end to a business as usual approach in housing – an approach which has failed the homeless, tenants, those who want to get into home ownership, first time buyers, many existing home owners and the very vitality and competitiveness of Sydney itself.

We can do much better than business as usual – and we hope that *Homes for All* is useful to those who wish to be effective reformers of our housing system in this state and indeed in Sydney. In the spirit of one of them, William McKell himself, we commend it to you.

ACTION 40.

That every one of these recommendations be considered for implementation by the relevant authorities, providers, funders, politicians and we, the public, because no one initiative will solve the crisis of housing in Sydney.

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