

**Submission
No 66**

**INQUIRY INTO HOMELESSNESS AND LOW-COST
RENTAL ACCOMMODATION**

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Date received: 26/06/2009

26 June 2009

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Dear Ms Simpson

Re: Inquiry into homelessness and low-cost rental accommodation

Dear Ms Simpson

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

We have a strong track record in policy and research on issues concerning the supply of affordable housing, including the supply of rental housing, into the NSW market.

This submission, to the above-mentioned inquiry, sets out our views on this important issue.

Executive Summary

- Any policy solution must boost overall home supply and help both those looking for rental housing as well as those aspiring to own their own home.
- Subsidies that are funded by levies or restrictions on other forms of housing are grossly inequitable and will lead to a decline in overall housing affordability.
- It is crucial that no new "affordable housing" levies be imposed.
- Any density bonus scheme is likely to reduce the amount of housing available because:
 - less homes will be developed under a rent control scheme or cap on the sale price of apartments than if the same floor space ratio had been available for new home development for sale at market rates (it is well established that price controls reduce the amount of supply of a regulated item); and
 - apartment buildings developed outside the scheme will be subject to more restrictive floor space ratios than would have applied if the bonus scheme had not existed.
- A reduction in the housing supply means higher prices for home buyers and renters who are not fortunate enough to be tenants in a rent control property or win the right to buy a home whose sale price has been capped below the market level.
- Floor space ratios should not be linked to any rent control scheme or any cap on the sale price of new homes.

- Providers of regulated or social housing should not be entitled to build unregulated housing (or housing that can be readily converted to unregulated housing) in areas where such construction is currently banned by law.
- Any special development rules for regulated or social housing should not come at the expense of the broader housing needs of the community.
- Any opportunity to develop regulated or social housing should be equally available to private sector – the law should not discriminate between non-profit and for-profit organisations.

1. Government policy should encourage a transition to home ownership

There has been a noticeable and serious decline in home ownership, particularly in Sydney, amongst key demographics. The central issue underlying housing affordability is the supply of housing. Lack of affordability is caused by a systemic mismatch between the demand for and supply of housing. Planning laws have been contributing to this problem by:

- preventing or limiting the construction of new medium and high density housing in areas where it is most in demand;
- restricting the availability of greenfield land for the development of detached housing; and
- imposing massive development levies on greenfield development and lower, but nonetheless burdensome, levies on brownfield development.

Supply-side measures are the key to boosting affordability for both renters and home buyers. Tackling these issues will improve affordability for everyone. **Any policy solution must boost overall home supply and help both those looking for rental housing as well as those aspiring to own their own home.**

Nonetheless, the Urban Taskforce does see the value in specific policies aimed at improving rental affordability, as part of a broader package.

There are four ways to make rental housing more cost effective:

- Increasing the supply of new housing generally by removing restrictions on the development of new homes that developers want to build and home buyers/investors want to buy.
- Reducing the cost of developing and building rental housing.
- Government subsidies for the rents of people residents in a certain class of housing. The Commonwealth's National Affordable Rental Housing Scheme is an excellent example of this approach.
- Cross-subsidisation - by making other housing more expensive; with the more expensive component being used to subsidise the "affordable" component.

The Urban Taskforce believes the biggest impact can be made on the largest scale through the first and second points. For example, the government should release residential land for development for detached housing on multiple fronts. This will boost competition between different land-owners and developers. The government should also more readily permit the development of new compact, pedestrian-friendly, mixed-use neighbourhoods in inner and middle ring suburbs. This would bring together new apartments, workplaces, shopping, and recreation areas within walking distance of public transport infrastructure and in the vicinity of major transport corridors.

The third policy point above – subsidies from government – can also be a valuable tool. However, **subsidies that are funded by levies or restrictions on other forms of housing are grossly inequitable, and will lead to a decline in overall housing affordability.**

2. No new levies

Many advocates of "affordable housing" policies believe that new levies on development activity can be used to fund the development. Those that argue for levies are mistaken if they

believe that either the developer or original land holder ultimately bears the costs of new or increased developer charges.

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

It is not often possible, in practice, to pay less for undeveloped land for several important reasons. Many developers have already acquired the land and factored in all the charges known about at the time of purchase – in these cases it is too late to adjust the price paid to landowners for new or increased charges, yet the development cannot proceed unless the necessary rate of return can be earned.

There is also a natural floor to land price, below which the owners of undeveloped land will not accept. This floor does, in part, reflect the opportunity cost for other uses of the land – such as rural lifestyle blocks (in greenfield) or low density housing (in brownfield). The floor is also driven by the long-held expectations of those land holders. Even though those expectations may not be realisable in the short term, these land holders are very patient, hold minimal debt and often originally acquired the land at very low prices. They tend to have no difficulty in waiting for prices to rise to the level consistent with their expectations.

In this debate, economic purists tend to overlook the disproportionate market power given to the landowners by planning laws. For this reason landholders are often able to resist developers' efforts to pass the cost of development charge onto them through a lower land acquisition cost. Land owners enjoy disproportionate market power because appropriately zoned land (both in greenfield and brownfield areas) tends to be drip fed by the planning system into the market.

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

That's why, in part, the supply of new houses in Sydney has almost completely dried up. State, local council charges of up to \$70,000 to \$90,000 for each home lot in the growth centres cannot be afforded by anyone – land owners, developers or home buyers. So the homes simply don't get built and no money is actually raised.

For these reasons it is crucial that no new "affordable housing" levies be imposed.

3. Density bonuses will reduce the supply of housing and increase the costs of home buyers

Some groups regularly propose the use of density bonus for apartment development if some or all apartments are sold or rented below market rates.

We do not understand why an apartment building of a particular bulk and scale is more acceptable to the planning system if it is subject to a rent control scheme or sold cheaply. We understand the policy rationale of floor space ratios is to ensure that the bulk and scale of buildings is appropriate to the streetscape and in keeping with physical form of the surrounding community. A bonus scheme like this utterly undermines this rationale.

A bonus scheme of this kind simply encourages planning authorities to scale back proposals for increased floor space, to take into account the availability of the bonus. That is, if 2:1 is thought to be appropriate in a particular street because of nearby parkland, and low-rise buildings, planning authorities will adjust the intended floor space ration to 1.5:1, to ensure that any rent

control developments are still in keeping with the surrounding urban form. Any bonus scheme is likely to reduce the amount of housing available because:

- less homes will be developed under a rent control scheme or cap on the sale price of apartments than if the same floor space ratio had been available for new home development for sale at market rates (it is well established that price controls reduce the amount of supply of a regulated item); and
- apartment buildings developed outside the scheme will be subject to more restrictive floor space ratios than would have applied if the bonus scheme had not existed.

A reduction in the housing supply means higher prices for home buyers and renters who are not fortunate enough to be tenants in a rent control property or win the right to buy a home whose sale price has been capped below the market level.

We don't have to go far to find examples of this approach. Byron Shire Council has been consulting publicly on an affordable housing policy.

This policy offers a "bonus" in return for a financial payment to fund "affordable housing". However, there is no real bonus because the council is setting its floor space ratio a low 0.4:1 and then offering a "bonus" of 0.1. This gives a total density of 0.5:1 - a very modest density for medium density development. In fact, the existing residential dwelling floor space ratio in Byron Shire is currently 0.5:1. The proposed total floor space ratio is equivalent to that existing under the current local environment plan.

Floor space ratios should not be linked to any rent control scheme or any cap on the sale price of new homes.

In any event, in many, if not most cases, a bonus floor space ratio is unlikely to result in additional apartment densities. This is because height controls and site coverage rules already often prevent existing floor space ratios from being fully utilised.

In *NSW State Environmental Planning Policy No 65—Design Quality of Residential Flat Development* would need to be re-written if a bonus scheme was to function at all.

4. There should be no preferential development rights for non-profits or public authorities

Some proponents of "affordable housing" argue that the influence of the private sector needs to be reduced in the production of new homes, and instead there needs to be a much stronger role for public authorities and not-for-profits.

This argument suggests that these not-for-profit organisations should be able to access additional income through preferential development rights under the planning system, which they can then use to finance their social housing program. This is achieved by creating a more generous regulatory environment for public authorities or not-for-profits seeking to purchase prime development sites close to transport infrastructure. These preferential development rights may include the right to build apartments in an area where apartments are banned, or the right to an additional floor space ratio.

Such proposals invariably would allow public authorities or non-profits the ability to undertake developments in which:

- some or all of the housing can be sold off in the open market in direct competition with private sector developers; and/or
- newly developed housing is initially designated as social or regulated housing, but individual homes can be sold off later as unregulated housing.

This kind of policy restricts competition and choice. It will have the effect of either:

- reducing the price obtained by land owners for potential apartment development sites (by banning private sector "for-profit" developers for bidding on the same terms of others); and/or
- requiring home buyers to pay more for their new home than they should, because the developers of apartments will be artificially restricted to a smaller pool.

In effect, this policy is nothing more than a disguised subsidy for certain housing providers. The burden of the subsidy is borne by a small class of land owners and home buyers, which is neither equitable nor justifiable. Such subsidies should come from the broader tax base. Providers of regulated or social housing should not be entitled to build unregulated housing (or housing that can be readily converted to unregulated housing) in circumstances where such construction is currently banned by law.

Even if any rules required all of the developments to be built and remain as regulated or social or housing on land close to transport infrastructure, it would still not be justifiable because:

- such land has already been generally identified as appropriate for higher densities – so a special rule for regulated or social housing will come at the expense of home buyers and other renters; and
- if there is any special regime for regulated or social housing, the business sector should have the opportunity to develop sites for social or regulated housing on an equal footing with not-for-profit organisations.

Any special development rules for regulated or social housing should not come at the expense of the broader housing needs of the community.

Any opportunity to develop regulated or social housing should be equally available to private sector – the law should not discriminate between non-profit and for-profit organisations.

Thank you for the opportunity to make a submission on these important issues.

I would be happy to provide more information to the committee, or appear before it, should this be necessary or desirable.

Yours sincerely
Urban Taskforce Australia



Aaron Gadiel
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