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## **A Housing Strategy for NSW**

I write in relation to the *Discussion Paper – A Housing Strategy for NSW (May 2020)* (the Discussion Paper) placed on public exhibition by the Department of Planning, Industry and Environment (the Department) for comment until 24 July 2020.

### **The Urban Taskforce welcomes the Discussion Paper**

The Discussion Paper and associated fact sheets are welcome documents as they clearly set the benchmark for housing supply targets for the planning system, establishes the need to 'catch up' for past shortfalls in housing supply to meet demand and sets realistic expectations for the growth of Sydney.

The Discussion Paper finds that between 2020 and 2040 there is one million additional dwellings within the Greater Sydney Area. That equates to approximately 50,000 housing completions each year between now and 2040. This has never been achieved and will require a fundamental cultural change and shift in mindset to embrace growth – within consent authorities, policy makers, government, and the broader community

The publication of this document highlights the extent of the policy and performance failure of Government in this space. This is not about tinkering with policy – this document demonstrates the need for a fundamental change in mindset of planners across Sydney. Sydney is losing out when it comes to international corporate investment to Melbourne. In Victoria, the planning system embraces growth and welcomes investment.

The Discussion Paper is clear, concise and action-focused document and we congratulate the Department for producing a Discussion Paper which takes a strategic approach to housing (from homelessness to home ownership) and considers the responsibility and roles of the government agencies in facilitating and producing housing. We would like to see the data and targets established in the Discussion Paper translated into effective actions and initiatives in the final strategy. The data and targets should also become the benchmark upon which housing supply and planning system performance is assessed in the future.

*Urban Taskforce recommends that the Fact Book be updated annually and published to show a genuine commitment to meeting housing supply and provide a guide to areas of success and failure. This will facilitate pro-active government intervention to correct areas of policy failure.*

Urban Taskforce contends there is no economic logic behind the recent trend towards new housing developments (most frequently apartment developments supplying demand from new first home buyers) bearing the burden of the provision of social and affordable housing.

The key driver in terms of housing affordability is the lack of supply in Greater Sydney. This is due, primarily, to over regulation by the NSW Planning system – that is: by the Department of Planning and Councils. Further, the slowness of the NSW planning system adds to costs and economically inefficient levies such as the affordable housing levies and overall taxation structures.

In short, Government intervention has caused the problem. Recent moves to fast track projects, improve the operation of planning panels and introduce a new Planning Delivery Unit in DPIE are all welcome. But they are constrained by a pro-NIMBY bias in the legislation which gives small activist groups too many opportunities to protect their own lifestyles at the expense of jobs, housing affordability and the future of our city.

Why should new home buyers bear the burden and be required to fund the solution when the problem has been created by government? Simply: they should not.

The biggest contribution to affordable housing would be an over-supply of housing. This would drive prices down. However, Figure 1 demonstrates that in Greater Sydney, there has been no chance of achieving this since 2005. If Affordable Housing levies are to be applied, it is critical that they be levied entirely separately to any other infrastructure charge. While housing supply caught up with demand for a split second in 2018, at the peak of supply, there were not enough new dwellings built to meet the target set in the draft Housing Strategy (50,000 per year, every year until 2040).

If the planning system is to contribute to the social imperative of affordable housing, it should do so by establishing an incentive-based affordable housing scheme where developers are encouraged via faster approval pathways, additional floor space (FSR bonus) and height bonuses etc.

## New supply caught up with new demand in 2017-18

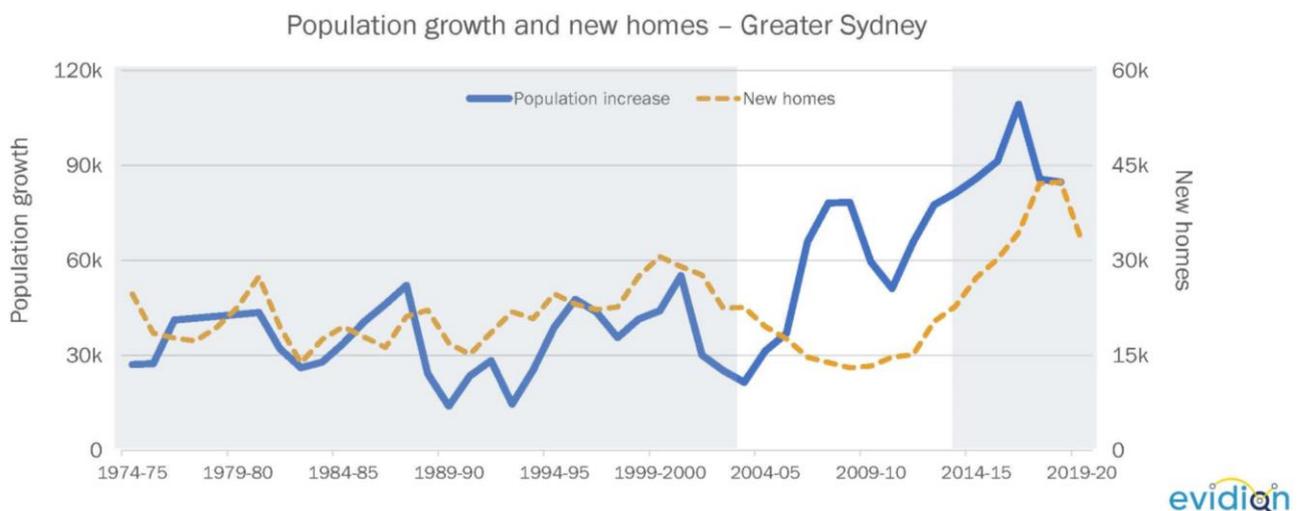


Figure 1 – Population growth viz new home completions, Source Evidion

Urban Taskforce notes that there is not a direct and consistent reference in the draft documents to the Commonwealth or NSW Intergenerational Reports. While the draft Discussion Paper highlights the housing supply task over the next 20 years, it does not break this down into cohorts of age groups.

The Housing Strategy would benefit from additional work on the aging of the population and the need for additional Seniors Living. Specifically, Urban Taskforce recommends a review of the intergeneration report to reveal the size of the task and enable, at a macro level, a performance measure of the efficacy of planning policy and practice in this field. This information should be included in the Housing Strategy. A specific 2040 target should be provided for:

- total dwellings
- social housing
- affordable housing
- seniors housing

### ***Partnerships between the private and public sector should be expanded***

Urban Taskforce supports the development of a clear picture of supply and demand for all housing types. Urban Taskforce welcomes the focus on housing diversity and diversity of choice. Urban Taskforce notes that many Council “talk the talk” when it comes to supporting social and affordable housing. However, they ignore questions of feasibility for private sector led projects.

A cultural change is required among planners and compromises need to be made to secure additional FSR and height when there is a manifest public benefit proposed through additional social and affordable housing.

The NSW Government’s Communities Plus program, which seeks to transform existing government owned social housing sites into sustainable mixed communities through private sector involvement should be expanded to include other government-owned sites. However, its roll-out by government has been slow and bogged in bureaucracy. Planning has too often been constrained by a failure to “think big and go high” to create greater economies of scale and capacity for ground level amenity and open space.

The program seeks to harness the creativity, expertise and innovation of the private sector to renew the state’s run-down social housing assets.

These kinds of partnerships, where government absorbs some of the costs and risks associated with the development, have potential to deliver substantial new affordable housing product. This also allows government to maximise the value and use of its land. Programs such as these should be supported and encouraged wherever possible.

The developments at both Ivanhoe, Waterloo, Riverwood and that proposed for Telopea are all steps in the right direction. They take large footprints of dilapidated public housing and replace them with mixed developments which replaces and modernises the public housing stock. The addition of height and FSR enables enough market priced housing to be developed to fund the replacement of the social housing stock and in some cases, more is added.

The Urban Taskforce strongly supports the Communities Plus program and urges the State Government to continue to work with the private sector to deliver large-scale innovative housing solutions utilising government owned land.

Urban Taskforce contends that an incentive-based scheme is the only way to deliver significant numbers of affordable homes without deterring investment and driving up the cost of housing for free-market buyers. The pursuit of mandatory affordable housing contributions by councils and other authorities only drives up the cost of market housing and penalises homebuyers.

If levies are applied, all contributions to any affordable housing scheme must be centrally registered and made publicly available. Similarly, affordable housing which is constructed should be made available for each Council on a centralised web page or “tracker”. Developer contributions should not be confused with Commonwealth or State government grants or social housing.

The “Fact Book” notes home ownership rates for people between 25 and-34 years have dropped from 49% in 2005 to 35% in 2017 (see Figure 2). There is a clear message here to government that home ownership is becoming unattainable.

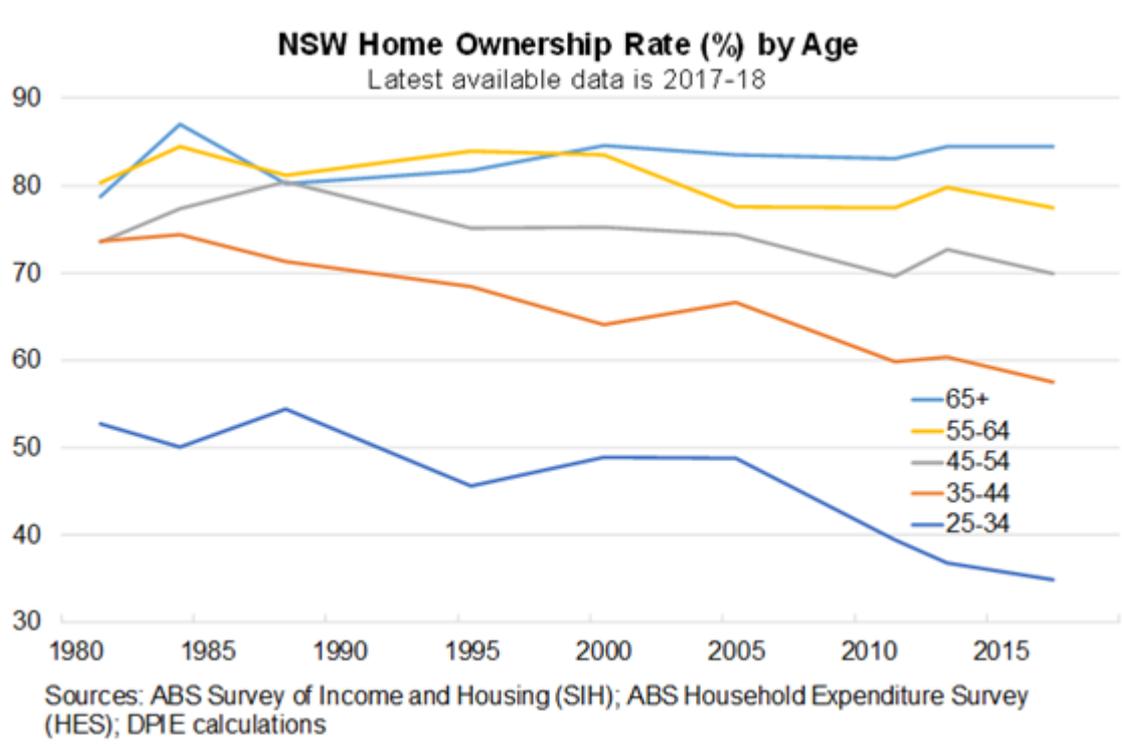


Figure 2 – Source: NSW DPIE, “A Housing Strategy for NSW – Fact Book”, May 2020, Figure 20, p27.

Anecdotal evidence based on household affordability suggests that this downward trend has continued up to mid-2020.

The Build to Rent Land Tax relief package will assist in offering an alternative – but the more housing is the only thing that will drive prices down.

***Inclusionary zoning policies drive up the cost of market housing***

Urban Taskforce believes that inclusionary zoning for affordable housing has significant negative consequences. Inclusionary zoning does not actually result in an increase in housing stock, as it simply displaces homes that would have been built anyway and supplied to the private rental market.

The cost of providing affordable rental housing free of charge to Council is not actually borne by the developer. Developers lose money on affordable rental housing, and this cost is passed onto the buyers of the remaining apartments in the building. New home buyers bear the burden of these

policies. One practical effect of these policies is to encourage developers to build higher-end, luxury apartments to recoup their costs than they would have otherwise, further squeezing out lower and moderate-income tenants and buyers.

The end-result of additional taxes and costs upon development through inclusionary zoning is to exacerbate broader housing affordability. Inclusionary zoning makes housing less affordable, reduces housing supply and encourages developers to produce most costly product to cover their costs.

The cost of producing affordable housing units to be provided free to Council will not be financed by banks or financial institutions as this is considered risky, and there is no security to draw down upon for this cost should the developer's project fail. The developer then must find the capital upfront to fund this or explore more expensive forms of financing to cover this cost. This has the impact of further driving up the cost of housing production or driving investment to competing cities like Melbourne or Brisbane.

### ***Affordable housing contributions drive up the cost of housing supply***

The Urban Taskforce supports the underlying objective of SEPP 70 to provide affordable rental housing in areas experiencing housing stress, however, we have significant concerns regarding the policy approach adopted in SEPP 70.

However, the amendment to SEPP 70 will ultimately permit councils to introduce a significant and aggressive new taxes on property development that will have the unintended consequences of stalling residential construction and thus adding to the price of new housing in these LGAs. This will constrain housing supply and work against the stated objectives of this Discussion Paper.

With the impact of COVID-19 in mind, introducing any new taxes on property development will exacerbate the current downturn in the market, with approvals and purchases falling already, reduce housing production and deter investment in these areas. We highly recommend the Department of Planning & Environment pursue incentive-based approaches to encourage the supply of affordable housing.

Urban Taskforce welcomes the appointment of the NSW Productivity Commissioner to independently assess the impacts of infrastructure charges, including affordable housing contributions schemes, and examine the economic feasibility of development and housing affordability.

Affordable housing contribution schemes have significant impact on the financial feasibility of development. Further, where they can be afforded, this simply adds to the price of the house for the new home buyer and has the opposite impact on prices to the one which the policy designers intended.

### ***Population Density Comparisons***

The population density data on page 25 of the discussion paper shatters the myth that Sydney is in any way over-developed. The planning community needs to recast its typology. Medium density in the context of major capital cities of the world is anything up to 9 storeys.

Apartment living is typically between 10 and 60 storeys. By continually referencing such low heights, the public is conditioned into expecting low level development. This is a highly inefficient use of Sydney's most precious asset – land. While mindful of the need for solar access and

preventing significant overshadowing of public open space – the future for our city is upward, thus creating the potential for greater separation between buildings, improved amenity for residents and the community, and a focus on design excellence that lower level flat developments simply cannot afford nor deliver.

***Developer-owned affordable rental housing options should be explored***

As noted above, Urban Taskforce encourages the DPIE to pursue incentive-based approaches to provide a sustainable supply of affordable rental housing. We believe that this option has not been given adequate consideration by councils or the state government.

If councils genuinely wish to the numbers of affordable rental dwellings available to those on low and moderate incomes, proponents will be able to provide far more dwellings for rent under an arrangement where the developer retains ownership of the dwellings with a 10-year caveat to ensure they are used for affordable rental housing, compared to a scenario where ownership of the dwellings passes to Council.

The 10-year caveat model has been used successfully in the *State Environmental Planning Policy (Affordable Rental Housing) 2009* and the National Rental Affordability Scheme (NRAS) to deliver affordable rental housing.

Implementing incentives for developers to provide affordable rental housing will encourage far greater supply compared to a system which burdens and penalises developers. The Urban Taskforce has developed an Affordable Housing Policy which could supply 40,000 affordable homes in Sydney over 10 years (see Attachment A).

Council should permit proponents to provide ARH in satisfaction of some or all of any VPA amount agreed. The market value – not the cost – of any ARH provided should be used to calculate the \$ benefit provided.

As noted above, the recent recognition of the importance of the Build-to-Rent model will be important in offering consumers a viable long-term choice to home ownership. Build-to-rent is common-place in the UK and across North America and is particularly attractive for institutional investors.

The Urban Taskforce is always willing to work closely with the Government to provide a development industry perspective on these issues.

Yours sincerely



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Urban Taskforce Australia