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Submission to the City of Parramatta

Affordable Housing Discussion Paper

15 June 2017

Executive Summary

The Property Council of Australia welcomes the opportunity to provide feedback to the Affordable Housing Discussion Paper.

We encourage the City of Parramatta to engage in a holistic approach to new regulation in the LGA. This paper, together with the paper released in March 2017 on value capture and the GSC's district plans appear not to have been considered in unison but rather as separate matters that will both have an impact on industry. A unified, comprehensive approach would deliver fairer, more transparent outcomes.

In this submission, we address each of the recommendations put forward by the City of Parramatta to increase affordable housing in the Parramatta area. The key message that is relevant across many options is that inclusionary zoning as a stand-alone measure will harm housing supply. In the broader housing affordability context, jeopardising large development projects by enforcing quotas of affordable housing will affect affordability across the board.

We suggest that if inclusionary zoning is to be implemented that it be provided as an incentive to developers. This could be done through a density or height bonus that would encourage development and ensure that critical housing supply needs are met.

The Property Council can provide the critical industry perspective moving forward and would welcome the opportunity for further consultation as the process matures.

About the Property Council of Australia

The Property Council of Australia is the nation's peak representative of the property and construction industry.

The property industry underpins economic activity in North Sydney, contributing to the millions collected by the council in rates and charges.

In addition, our members contribute to local government infrastructure through significant development levies. Last financial year, the City of Parramatta Council collected \$16.5 million via section 94 levies and Voluntary Planning Agreements and a further \$51.6 million in rates from local business in Parramatta.

The property and construction industry also underpins the health and prosperity of the broader NSW economy. The industry:

- generates over 311,000 jobs - one in ten workers
- provides \$20.3 billion in wages to workers and their families
- pays \$17 billion annually in State taxes to the NSW Government – the State's single largest tax payer
- is levied an additional \$7.2 billion in local council rates and charges annually
- contributes \$54.5 billion directly to Gross State Product – 11.1 per cent of total GSP, and creates \$88.3 billion in flow on activity.

Our 2,000 member firms Australia wide and 55,000 active individuals span the entire property and construction industry, which includes all:

- dimensions of property activity – financing, funds management, development, ownership, asset management, transaction, and leasing.
- major property types – offices, shopping centres, residential development, industrial, tourism, leisure, retirement, and infrastructure.
- major regions of Australia and international markets.
- four quadrants of investment – public, private, equity and debt.

Introduction

The Property Council supports the requirements to increase the penetration of affordable housing across Sydney – as the population rises, so too does the need for affordable housing. We do however hold some concerns with the discussion paper as it was released.

There are already affordable housing targets incorporated in the Greater Sydney Commission's district plans. The targets range from 5-10% per development. It is the view of the Property Council that any targets that go beyond the recommendations of the GSC should be voluntary and incentives based.

There appears to be an ad hoc approach to the introduction of policy changes in the Parramatta LGA. There is a potential new value sharing mechanism already proposed to capture part of the value proposed to be created through the CBD planning proposal. The proposed rate (ranging from \$150 to \$375/m² of additional Gross Floor Area) was flagged in a discussion paper released in March 2017. This rate was set to ensure that development remains viable. Adding more charges, like the ones proposed in this paper or a SIC for light rail would make many developments unviable and prevent them from proceeding. There is a need for a holistic approach to contributions from the development and construction industry.

There is a concerning lack of detail on the expectation for the delivery of affordable housing which could lead to radically variable financial outcomes. For example, will mandated affordable housing need to be constructed and gifted? Will it be sold to a Community Housing Provider? Will there be a monetary offset rate payable instead of onsite provisions? Many of these questions need to be answered before the discussion can progress.

Finally, the options paper was released prior to any consultation and displayed for a short amount of time. As a large industry association, the Property Council requires time to provide quality feedback. To ensure that the views of the property industry can be accurately represented, we would appreciate further opportunity for consultation as the process matures.

"Option 1: Advocate for Federal Tax Reform."

Housing affordability is undeniably one of the highest priority issues for the community and for governments across Australia. The challenge of delivering more housing, including at sub-market or affordable rates, or through public and social housing, is one that requires a unified approach from all levels of government in collaboration with industry.

The 2017-18 Federal Budget has made some significant progress on tackling housing affordability. The focus on supply initiatives will lead to more affordable housing being made available, these initiatives include releasing surplus Commonwealth land, encouraging seniors to rightsize and the new National Housing and Homelessness Agreement with State and Territory governments. To complement these initiatives, the Federal Government is implementing demand-side measures including tightening negative gearing deductions and the creation of a new Real Estate Investment Trust asset class for "affordable housing".

There is still more to do in advocating for change at a federal level. The Federal Budget was the platform for a range of measures focused on foreign investors. These included additional FIRB, CGT and land charges for vacant property owned by foreigners. Disappointingly, these measures are premised on a poor understanding of the role of foreign purchasers in underpinning the development of new dwelling supply.

“Option 2: Advocate for State Tax Reform.”

With conveyancing stamp duty revenue projected to reach \$8.5 billion in 2018, NSW is poised for a multi-lateral dialogue on major tax reform. Stamp duty has long been recognised as Australia’s most distorting tax. The Commonwealth Government’s Re:think Tax Discussion Paper¹ identifies stamp duty as the tax with the highest cost to economic growth and living standards. Stamp duty does the very thing taxes are not supposed to do – it changes decisions of businesses and individuals, deters transactions, and slows economic activity to the detriment of all Australians.

The cyclical and volatile nature of stamp duty revenues – which can vary as much as 60% in one year² – makes stamp duty highly unsuitable as a reliable source of state revenue.

The Property Council also believes that community attitudes are hardening against the imposition of stamp duty, with it largely being seen as an opportunistic tax grab raising on average \$40,000 per housing transaction in the Sydney region. The tax offers no services, lacks accountability, and the community is increasingly questioning where the funds are being spent. The whole economy would benefit if we were to replace stamp duties with a more efficient tax. That’s why abolition of commercial conveyancing stamp duty was part of the original GST agreement in 1999.

There are however political boundaries as to what reforms can be taken to replace stamp duty with a broad-based land tax. Economic modelling that the Property Council commissioned from Deloitte Access Economics³ suggests that it would cost the typical household \$2,360/year in land tax to replace stamp duty revenue. In the Sydney region, this would be much higher, reaching an average of \$5,200/year in wealthy suburbs.

This discussion on broad tax reform is worth pursuing and Local Government Councils are essential players in making it a success. The Property Council encourages the City of Paramatta to continue advocating for state tax reform.

“Option 3: Advocate for the NSW Government to adopt precinct development affordable housing targets we recommend: 10% on private and 30% on Government owned land.”

The Greater Sydney Commission has estimated that the region will need an additional 725,000 dwellings over the next 20 years to accommodate a growing population.

The creation of new housing supply must be turbo-charged in the years to come if we are to achieve our targets. For this, the planning system must be fine-tuned to facilitate more stock coming onto the market as fast as possible.

¹ Re: Think Tax Discussion Paper (2015) Australian Government.

² AAC Tax Report

³ The revenue raising potential of a broad based land tax, Deloitte Access Economics,

Implementing precinct development targets jeopardises the viability of development and undermines housing supply. It is likely that quarantining a portion of development for affordable housing will lead to some projects not going ahead, affecting both affordable and regular housing stock. Further, including the costs of providing below-market price dwellings within projects will mean that the additional cost is borne by all other purchasers in the development through increased purchase prices.

An option to consider would be advocating for the NSW Government to compensate developers with an increased percentage of height or density for individual developments or across precincts. Allowing flexibility to add height in different developments across a precinct could bolster the viability of projects. Unless they compensate developers, affordable housing targets will affect supply across all categories of residential housing and lead to higher prices for all.

“Option 4: Rely on ARH SEPP 2009 to provide affordable housing.”

The Affordable Rental Housing SEPP 2009 provides a good framework for developers to provide affordable housing. Ensuring that planning policy incentivises commercially viable projects that include affordable rental accommodation will deliver additional supply at no cost to local councils. The SEPP as it stands has not delivered many results, but the Urban Taskforce estimates that by increasing the incentives to 20% bonus floor space it would dramatically increase the delivery of affordable housing.

Having certainty and a clear framework for affordable rental housing allows developers to build it into their business plans and ensures a “no-surprise” outcome on projects. The SEPP has been in place since 2009 and should be modified to deliver more positive outcomes.

“Option 5: Continue to use VPAs to secure affordable housing.”

VPAs entered into by a planning authority and a developer are a useful component of a flexible planning system. However, applied improperly they can be used to demand excessive infrastructure contributions from developers. These add to the cost of apartments and houses which are ultimately borne by the purchaser worsening the affordability crisis.

VPA reform currently underway should be directed towards increasing flexibility and transparency and should not inadvertently entrench the worst aspects of the current system that legitimise restrictive council practice and increase the hidden costs of delivering housing. The Property Council encourages the City of Parramatta to continue applying VPAs in a fair and transparent way to encourage development in your local area.

“Option 6: Pursue inclusionary zoning by applying for inclusion in SEPP 70.”

As stated under Option 3 above, inclusionary zoning targets by development, precinct or LGA will drive prices up and affect supply. The viability of projects will be affected leading to a proportion of developments not going ahead. This will further restrict supply and force purchasers to subsidise under-priced affordable housing.

To make this work, incentives must be provided to developers in the form of density or height bonuses. Without this, investment will flow elsewhere to areas with more favourable policy rules.

“Option 7: Pursue affordable housing development on council-owned land.”

One of the key announcements in the Federal Budget 2018 was that surplus Commonwealth land would be released for housing. A new online register of under-utilised or surplus Commonwealth land will be created to identify opportunities for developers and the community to propose better use of the land, including for housing.

Similarly, the NSW Government announced as part of the Housing Affordability Package that surplus state-owned land will be released for development. Property NSW will lead the identification of underutilised or surplus land across all NSW Government entities to contribute to increasing housing supply and the provision of social infrastructure.

In the same way, the Property Council encourages the City of Parramatta to pursue this option. The Communities Plus program is a good example of the successful delivery of social housing through a government/private sector partnership. We encourage the City of Parramatta to model their efforts on this program with consideration for corridor protection.

“Option 8: Allow Local Government to transfer affordable housing ownership to CHPs.”

The Property Council is supportive of this option. Allowing Community Housing Providers to leverage their existing assets to provide more affordable housing is a budget neutral way of increasing supply. Relinquishing ownership of affordable housing stock will generate income for council and allow a reinvestment in other critical infrastructure.

“Option 9: Advocate to the NSW Government to increase the supply of social housing.”

This recommendation is broad and could be implemented in many forms. The Property Council is supportive of maintaining the social sustainability of the city through the delivery of social housing across LGA's. We would require more detail on this initiative to ascertain its impact on our membership.

“Option 10: Explore developer-owned affordable rental housing models.”

Many developers are exploring build-to-rent models for regular housing. This comes with the advantage of centralised administration and economy of scale for services to the dwellings. The Property Council has formed a new Build to Rent roundtable of members exploring the model, and will be pleased to brief Council as our work evolves.

Applying this model to the affordable housing rental market is a worthwhile endeavour and should be explored as an option. Mixed market-based and affordable housing is often a more viable option and should be considered accordingly. This model could be applicable to council owned land as outlined in Option 7. Council owned land allows for the greatest control over stock and delivery as it would be the owner and developer of the project. This could be used to bring affordable housing to the market in the shortest possible timeframes.

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