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Committee Secretary

Senate Select Committee on Housing Affordability in Australia

PO Box 6100

Parliament House

Canberra ACT 2600

Dear Sir / Madam

**Submission to the Senate Select Committee on Housing Affordability in Australia**

Thank you for the invitation to give evidence to the Senate Select Committee on Housing Affordability. My submission focuses on issues relating to the planning system and housing affordability.

As a researcher within the Australian Housing and Urban Research Institute (AHURI) Sydney Centre, and a senior lecturer in the University of Sydney's Urban and Regional Planning Program, I teach a number of urban planning subjects at the post graduate level, and contribute to the teaching of housing and urban and regional development. Additionally, I have several years professional planning experience as a practitioner and consultant at national, state and local levels. This submission is based on my research on international approaches to planning for housing affordability, and my current AHURI research with Professor Bill Randolph on the impacts of planning, and related government charges on the cost of land and housing.

Before turning to the specific terms of reference of the Committee, I outline the role of the urban planning system in regulating housing development, promoting housing affordability, and in some cases, facilitating specific forms of housing affordable to households on low and moderate incomes.

**Urban planning and housing affordability**

While not a physical planning goal, housing affordability is an important urban policy objective underpinning sustainability and economic growth. Without affordable housing opportunities for essential workers, cities lose their competitiveness and appeal. Affordable housing near jobs and services reduces urban sprawl, traffic congestion, and air pollution, so supports environmental goals. Housing affordability fits within the broader urban planning goal of spatial equity of access to jobs, education, urban amenity, and environmental quality.

Working optimally, the planning system supports housing affordability by ensuring an adequate supply of well located land for residential development, in response to existing and forecast demand, and by coordinating the infrastructure and services required to support new housing development and renewal of existing areas. The process of identifying and

allocating land for housing, specifying controls to govern its density, configuration, and design, coordinating infrastructure requirements, and assessing development proposals, all influence the location, amount, style, building costs, and timing of new housing, and may also have broader impacts on the value or price of housing in the market and its tenure mix.

Internationally, the planning system plays a crucial role in preserving and creating specific housing opportunities that are affordable to low and moderate income earners to rent or buy. This is standard practice in many cities and regions across the United States, United Kingdom, Ireland, and the Netherlands<sup>1</sup>. For instance, “Anti-snob” legislation in Boston, Massachusetts, overcomes local barriers to low income housing development. A regional “job/housing index” ensure that localities in and around Seattle, Washington, set strong targets for affordable housing creation. In Ireland, mixed tenure requirements mean that new housing estates must include a 20 per cent affordable housing component, but developers receive reasonable compensation for this dedication. The Greater London Authority has a target that 50 per cent of new housing be in the affordable home purchase or rental sector.

In contrast to this established international practice, there has been only sporadic and localised implementation of planning approaches for affordable housing in Australia. Despite recent concern about the capacity for planning systems to deliver sufficient housing supply, there is limited direct coverage of affordable housing goals in Australian State and Territorial planning legislation. There are legal impediments to many of the proactive strategies used internationally to secure affordable housing in new development or to maintain existing sources of low cost housing supply<sup>2</sup>. Planning approaches in cities of the United Kingdom and the United States work hand in hand with a range of other financial incentives and subsidies, to secure access to well located land for affordable housing development, and maximise the impact of government investment. However, Australian governments have been slow to align investment or incentives for affordable housing with planning strategies to secure sites and development opportunities to support the sector.

### **Response to issues raised by the Senate Select Committee**

The following comments in response to the Committee’s terms of reference, relate specifically to the planning system and housing affordability in Australia.

#### *The taxes and levies imposed by state and territory governments*

Housing development is subject to taxes and levies imposed by different levels of government in Australia, ranging from the Goods and Services Tax (GST) to stamp duties on property transactions. Planning authorities, at state, territorial, or local levels, may also impose charges on new housing development. These include application fees for assessing development proposals, as well as contributions towards local infrastructure, which are usually required as a condition of development consent. These contributions relate to necessary utility connections to the site itself and extend to other important forms of neighbourhood infrastructure or services, like footpaths, local parks, or car parking. Each of the States and Territories have different legislation governing the collection of development

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<sup>1</sup> Gurrán, N Milligan, V, Baker, D and Bugg, LB 2007, *International Practice in Planning for Affordable Housing: Lessons for Australia*, Australian Housing and Urban Research Institute, Melbourne.

<sup>2</sup> Ibid; Gurrán, N 2007, “How can Australian local governments use planning levers for housing diversity, choice and affordability?”, in Gurrán, N *Australian Urban Land Use Planning*, Sydney University Press, Sydney, pp. 169-188.

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contributions<sup>3</sup>. Many jurisdictions are also reforming the ways in which contributions may be sought by local or state planning authorities and the uses to which they may be put.

As well as contributions for local infrastructure, the NSW State Government requires additional contributions (currently about \$23,00 per lot) towards regional infrastructure (like rail and bus infrastructure and land for police stations, hospitals, schools and regional parks) in Sydney's designated North West and South West Growth Centres.

While development contributions affect the costs of residential development, they do not necessarily affect the market price of the housing, aside from the positive amenity impacts associated with access to local parks or other facilities. International evidence suggests that development contributions (often called 'impact fees' in the United States and 'planning obligations' in the United Kingdom) have marginal if any impact on house prices, unless they have been specifically designed to act as a deterrent to development in undesirable locations that are expensive to service. House prices are determined by the market, not on the actual costs of housing production<sup>4</sup>, so in buyers' market, sellers (developers) will accept a lower price, while in the opposite scenario, the developer will ask for a higher price. Actual money spent on contributions to the planning authority is likely immaterial to this market process.

Further, if contribution requirements are transparent and knowable when the land is acquired, arguably the developer is able to bid less for the overall site transferring the financial burden to the seller rather than the developer or house buyer.

However, if the scale of contribution requirements is excessive or disproportionate to the actual development, it is likely to deter housing development or encourage premium housing with a higher profit margin, therefore leaving a negative overall impact on affordability.

#### *The rate of release of new land by state and territory governments*

A sufficient supply of land for new housing is crucial for affordability, so long as the land is in the right locations, accessible to jobs, transport, and services. As noted above, it is important that land supply be matched to existing and projected new housing demand. The usual benchmark is 10-15 years supply, with potential to bring more land online if needed. Close monitoring of the take up of residential development opportunities is necessary to get the right balance between demand and supply.

If there is too much land available, this may encourage more dispersed development patterns that are difficult to service and that have poor environmental and social outcomes. Further, an oversupply of land is likely to deter housing development and may even lead to housing market failure in some locations.

There are two important strategies for getting land supply strategies right. The first is to maximise the responsiveness of the planning system to shifts in demand. Planning system enhancements, like clearer land allocation criteria and design requirements, and effective

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<sup>3</sup> Gurrán, N 2007, "Comparison of State and Territorial Planning Systems in Australia", in Gurrán, N *Australian Urban Land Use Planning*, Sydney University Press, Sydney, pp. 117-140.

<sup>4</sup> Gurrán, N Milligan, V, Baker, D and Bugg, LB 2007, *International Practice in Planning for Affordable Housing: Lessons for Australia*, Australian Housing and Urban Research Institute, Melbourne.

systems for monitoring take up rates are important strategies. Most Australian State and Territorial governments have undertaken reforms of their planning systems and metropolitan land release programs in recent years, to achieve these goals and it is likely premature to evaluate their success.

The second strategy is to increase the actual amount of land released, which is only effective if there is a shortage of development opportunity relative to existing and forecast demand. Government land development or renewal authorities can help by identifying existing and potential supplies of land and perhaps acquiring potential development or redevelopment sites. Queensland's new Urban Land Authority which focuses on high growth areas is an example, and there is potential to strengthen and reinforce the affordability charter of government land developers in the other Australian states.

New supply programs on the metropolitan fringe are unlikely to impact on house prices or the availability of lower cost housing stock in established or inner city housing markets. However, "substitute markets" might be created in alternative regional areas to relieve pressure from the high demand inner suburbs. New growth opportunities should be concentrated in areas where investment in infrastructure makes sense, and must be supported by deep funding for major facilities like public transport, hospitals, schools, and recreational areas.

#### *The role of all levels of government in facilitating affordable home ownership*

All governments have a role to play in facilitating housing affordability, including home ownership.

- At the national level strong policy and financial support for affordable housing is essential. Equally important is a strong, nationally led commitment to urban and regional development, underpinned by deep funding for infrastructure to enable greater decentralisation of employment opportunity and housing demand. Nationally consistent benchmarks and approaches to planning for housing affordability and affordable housing creation are needed.
- State and territorial governments must ensure that their planning frameworks enable and support affordable housing objectives through responsive land supply strategies and through dedicated levers to maintain and generate opportunities for housing that is affordable to low and moderate income households. They must orient their planning policies and systems to support other Federal or state level incentives and investments in housing assistance. They must ensure that infrastructure funding strategies encourage decentralisation of housing demand to preferred locations, recognising the role of the planning system in coordinating, rather than funding, regional infrastructure provision.
- Local governments must ensure their land allocation and development approval processes are working optimally to maintain an adequate supply of housing development opportunities in response to forecast demand. They must monitor local housing supply and demand trends and maximise opportunities available through their local planning and development approval roles to maintain housing choice and affordability.<sup>5</sup>

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<sup>5</sup> For example, see the NSW Local Government Housing Kit:

<http://www.housing.nsw.gov.au/Centre+For+Affordable+Housing/NSW+Local+Government+Housing+Kit/Planning+Mechanisms+for+Affordable+Housing/>

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*The effect of the market of government intervention in the housing sector including planning laws*

The main way that planning affects the housing market and house prices is by creating or preserving an attractive and efficient urban environment, as this amenity has a value people are prepared to pay for. Without appropriate planning controls, development tends to be dispersed and difficult to service. Investment is often limited because of the uncertainty about future development in surrounding areas. Housing may be cheaper but represents poor value for home owners in the long term. On the other hand, if planning controls are highly restrictive, particularly in relation to types of housing, if requirements are uncertain and approval times extended, development may be discouraged and an artificial supply blockage arises.

This means that effective planning laws should create attractive, well functioning communities that have high amenity. These values may be reflected in house prices but rather than allowing poorer quality design, or dispersed development, which comes with environmental, social, and economic costs, planning laws must enable lower cost entry points to the housing market – student housing, seniors accommodation, modest apartments for singles and young home leavers – and give incentives for these housing forms in the right locations.

In summary, to promote housing affordability in Australia it is essential to:

- support new housing supply in preferred metropolitan and regional areas, through infrastructure funding and targeted land release strategies;
- enable the use of specific planning mechanisms to secure dedicated housing opportunities affordable to low and moderate income households, within existing and new urban and regional areas; and,
- align planning approaches with broader national policy objectives and investment in affordable housing supply and housing assistance.

I refer the Committee to the attached list of my related publications for further information on the issues raised.

Yours sincerely,

Dr Nicole Gurr  
Head of Discipline, Urban and Regional Planning Program

2 April 2008

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**Attachment 1: Summary list of publications relevant to planning and housing affordability in Australia**

Gurran N 2007, "International Practice in Planning for Affordable Housing, *Australian Planner*, pp. 18-20.

Gurran N 2007, Planning for Affordable Housing in Australia's Metropolitan Regions, Refereed Conference Proceedings, State of Australian Cities Conference, Adelaide, November 28-30, 2007, pp. 985-997.

Gurran, N 2007, *Australian Urban Land Use Planning: Introducing Statutory Planning Practice in New South Wales*, Sydney University Press, Sydney (available at [www.sup.edu.au](http://www.sup.edu.au))

Gurran, N 2008, "Affordable Housing: A Dilemma for Metropolitan Planning?" *Urban Policy and Research*, 26(1), pp. 101-110.

Gurran, N Milligan, V, Baker, D and Bugg, LB 2007, *International Practice in Planning for Affordable Housing: Lessons for Australia*, Australian Housing and Urban Research Institute, Melbourne. (available at [www.ahuri.edu.au](http://www.ahuri.edu.au))

Gurran, N Milligan, V, Baker, D and Bugg, LB 2008 forthcoming, *International Practice in Planning for Affordable Housing: Lessons for Australia Final Report*, Australian Housing and Urban Research Institute, Melbourne.