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Getting the housing we want

Jane-Frances Kelly



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Overview

Grattan's recent report, *The housing we'd choose*, identified a mismatch between the housing Australians say they want and the housing we have. Contrary to myth and assumption, Australians want a mixture of housing choices – not just detached houses. Many want to live in a semi-detached home or an apartment in locations that are close to family or friends, or to shops.

However, the market does not provide nearly enough of these types of housing where we want them. Developers point to the barriers that prevent them from building in established areas. Residents, denied a real say in how their neighbourhood develops, often feel they have little choice but to oppose all planning applications and all change. State and local governments are caught in the middle, and no one wins.

Meanwhile, the population of our cities continues to grow. More residents face the costs of congestion, high petrol bills, distance from family, friends and jobs. More green space disappears and housing everywhere becomes more expensive. We urgently need a new approach.

With the right policies, there is a great opportunity to break the deadlock so that Australians get the housing they want. This report argues that to achieve a transformation in what we build and where we build it, there need to be new incentives for both communities and developers. We need extensive debate on the future of our cities and neighbourhoods. Many overseas cities that have managed growth well have involved their residents in decision-making. Australians must also have the chance to participate in decisions on how we accommodate growth.

The report recommends piloting Neighbourhood Development Corporations. Some areas would opt to establish these new organisations, which would increase the amount and choice of housing while ensuring that residents have a real say in the future of their neighbourhoods. NDCs would be set up in partnership with industry, local and state governments. They would be independent bodies with real powers over planning and delivery. Clear objectives for each area, coupled with an organisation designed to achieve them, would give residents and developers clarity and certainty.

A new Commonwealth-State Liveability Fund would support NDCs by providing funding for new parks, community facilities or local infrastructure in return for neighbourhoods accepting more households.

A lot of development, however, happens at small scale, and this includes some of the housing that is most contentious and distressing to residents. A new Small Redevelopment Housing Code would establish clear housing standards and speed planning approval if they were met. In return, the Code would ensure that small developments are well designed and respect the privacy of neighbours and the character of an area.

To get the housing and cities we want, communities need greater control, developers need more certainty, and the conversation about our cities should reflect the real choices we have to make. This report offers a pathway to making change happen.

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1. Introduction

1.1 Background to this report

Getting the housing we want addresses the mismatch between the housing Australians say they want and the housing they have. This mismatch was identified in an earlier Grattan report, *The housing we'd choose*.¹

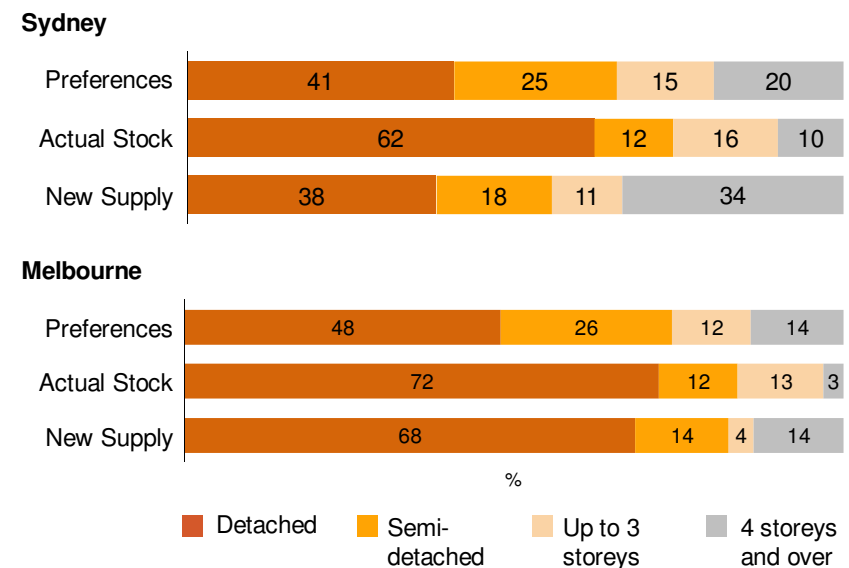
Representative samples of Sydney and Melbourne residents were asked to choose the type and location of housing they want, based on housing prices and their budgets. The results, summarised in Figure 1.1, brought data to a discussion that often seems evidence-free.

Contrary to myth and assumption, Australians do not all want to live in detached houses. Many want to live in a semi-detached home or an apartment in locations that are close to family or friends, or to shops. As a result, the housing people chose was a much more varied mix than either city currently provides. The results suggest significant shortfalls of semi-detached housing and apartments in the established areas of both cities (shown in Figure 1.2 and Figure 1.3).²

New supply is not reducing the mismatch, and there are barriers to delivering more of the housing people say they want. These include difficulty of land assembly and preparation, the risk and uncertainty of planning systems, and the cost of materials and

labour for buildings over three storeys. Indeed, the incentives facing developers and builders are skewed away from infill development, and towards building more detached houses at the edge of our cities.

Figure 1.1: Comparison of preferences, stock and new supply

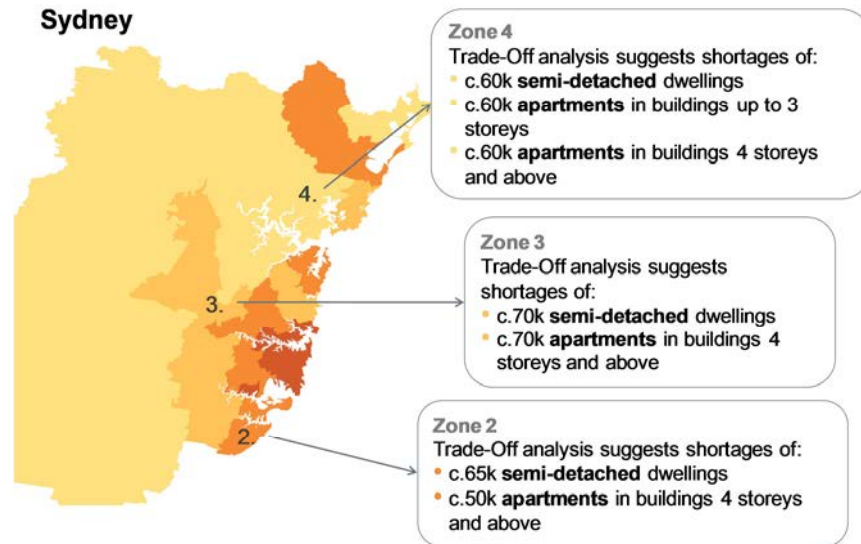


Notes: Preferred stock based on Trade-Off Survey; Actual stock as of 2006; New supply refers to 2001-2010 construction

¹ We recommend that this report be read in conjunction with *The housing we'd choose*, published in June 2011 – see www.grattan.edu.au

² Definitions of dwelling type are in Appendix A.

Figure 1.2: Shortfalls relative to what we'd choose: Sydney³

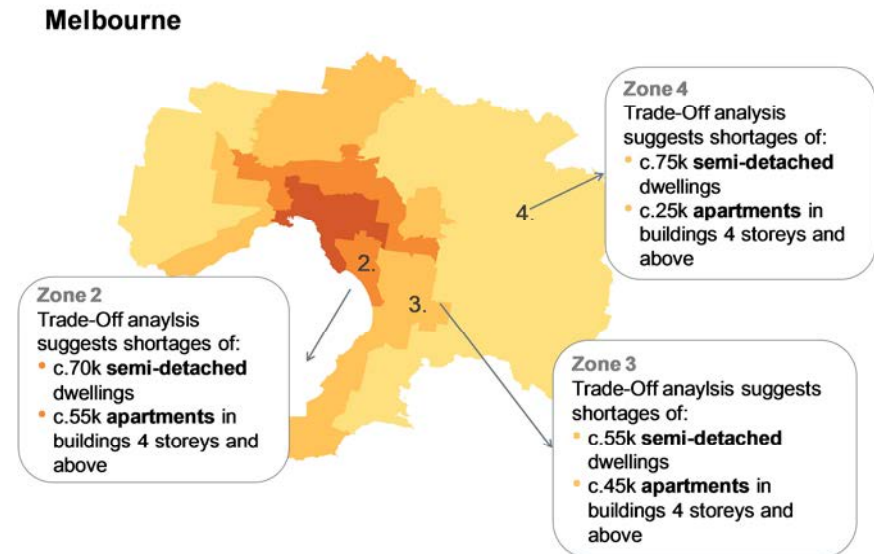


1.2 What's going on?

As a result of the barriers it faces, the development industry has become quite conservative. The risks and uncertainties involved in infill development are often too great for public development companies: the costs involved in holding land through long and uncertain planning processes make development in established areas unattractive. Similarly, banks are reluctant to finance new or different products.

³ The zones in Figure 1.2 and Figure 1.3 are based on land price, and generally relate well to distance from the CBD. See *The housing we'd choose* for more detail – www.grattan.edu.au

Figure 1.3: Shortfalls relative to what we'd choose: Melbourne



Multi-unit dwellings also often cost more to build. Labour and material costs are higher and both process and material innovation is low among small-scale multi-unit and townhouse constructors (particularly compared with highly innovative detached house construction). Taken together with the risk and uncertainty, these factors mean that developers often cannot provide these housing types for what people are able to pay, while still making enough profit.

There are also easier opportunities in greenfield construction than in infill development. The former is where, quite reasonably, the development industry chooses to expend most of its capital and capacity.

Government provides new infrastructure – roads, utilities, schools and so on – in greenfield areas. Many studies have found that accommodating more households in greenfield areas is more expensive than in established areas.⁴ While the exact ratios depend on assumptions (and can be contentious) it is clear that significant public funds are invested in greenfield development. Given that we are already paying for growth, we should consider spending this money where people say they would like to live.

The need for more consolidation in Sydney and Melbourne has been the focus of analysis and government policy for some time, and some development *is* happening in established areas. Relative to the maps in Figure 1.2 and Figure 1.3, however, it isn't nearly enough. To make a real difference – to start bridging the gap between the housing we have and the housing Australians want – we need a step change: in political will, in public engagement, in approach.

1.3 What is at stake

At the individual level, the mix of housing we have affects whether we'll be able to live in our preferred housing type and location. It affects whether our children will be able to live close to where they grew up, if they want to. As we grow older and some of us consider downsizing, it also affects whether there will be appropriate housing for us to move into.

Box 1.1: A better way to work

The Draft Place Framework for the Coburg Initiative summarised a common view of the current approach to development:

“Stereotypically (as we read routinely in the media) the interests of developers and community collide.

Developers place their capital at risk and therefore quite properly seek a robust commercial return.

The community frequently wishes the developer would simply go away (in which case nothing ever happens) or, alternatively, has unrealistic expectations of the benefits it might receive in the way of public amenities in return for granting “permission” to the developer to proceed.

How often do we see this scenario? Invariably it becomes a war of attrition, waged between the community and the developer with the council caught in the middle. A developer lodges a Development Application for a 12-storey apartment tower in the expectation that they will eventually settle for, say, 8 stories. It wastes an enormous amount of time, energy and resources for all parties, not to mention incurring very large legal fees.”⁵

⁴ For example, see SGS Economics and Planning (2003); Trubka *et al.* (2008); The Centre for International Economics (2010).

⁵ Moreland City Council (2010), p. 9.

What we build also has consequences for the community as a whole, as, over time, it affects the way our cities are structured. The amount of time we spent getting around – to work and to see family and friends – is one example of how these aggregate consequences affect our everyday lives.

The development of Melbourne since the late 1800s is shown in Figure 1.4. Looking back at how our cities have evolved, it is clear that residential development has primarily catered to the needs of people buying newly constructed houses. While this relatively small group is very important, their needs have been allowed to drive the overall structure of the city over time.

For example, in central and inner Melbourne in 2008, there were more than three local jobs for every resident of working age, but fewer than one in outer western and eastern Melbourne.⁶ The density of jobs in Melbourne, heavily concentrated in the centre, is shown in Figure 1.5. Commuting to work costs outer-suburban households more than \$500 per week, compared with around \$300 for those living in inner areas.⁷

Figure 1.6 (top) shows that households in Sydney and Melbourne's outer suburbs are significantly more vulnerable to increases in interest rates and petrol prices. These households not only have poorer access to jobs but much lower qualification levels (Figure 1.6, bottom), and higher reliance on cars for transport.

⁶ Melbourne @ 5 million (Department of Planning and Community Development Victoria (2008)).

⁷ Bureau of Infrastructure Transport and Regional Economics (BITRE) (2011).

Access to opportunities (including jobs and education), is therefore affected by city structure. Indeed, it could be argued that the structure of these cities makes some of our most economically vulnerable households yet more vulnerable. If this polarisation worsens it could have further undesirable consequences such as disengagement from society and the workforce.⁸

The structure of a city also affects its overall economic productivity. High commute times mean that some jobs have a smaller labour pool from which to draw, potentially affecting the fit between employer and employee. As is much publicised, the national costs of congestion are in the order of billions.

Congestion – a common side effect of cities that expand outwards – also has social, environmental and health impacts. Although these are harder to quantify, they are emblematic of the varied ways that a city's structure affects individuals and communities.

Modelling by the Reserve Bank of Australia shows that making it too hard to build in established areas through conservative zoning pushes up housing prices across the city.⁹ This also affects productivity, because it puts pressure on household budgets and ties up capital that could be better used elsewhere.

In sum, our cities are growing and changing. As they do, we should try to be clear about how those changes affect the overall structure of our cities – and, in turn, what that means for residents. Perhaps most importantly, we should be clear about the trade-offs cities face, and pay attention to the choices Australians want to make.

⁸ Hancock and Horrocks (2006); Victorian Council of Social Services (2011).

⁹ Kulish *et al.* (2011).

Figure 1.4: Melbourne's urban development, 1883-2010¹⁰



Figure 1.5: Density of jobs in Melbourne¹¹

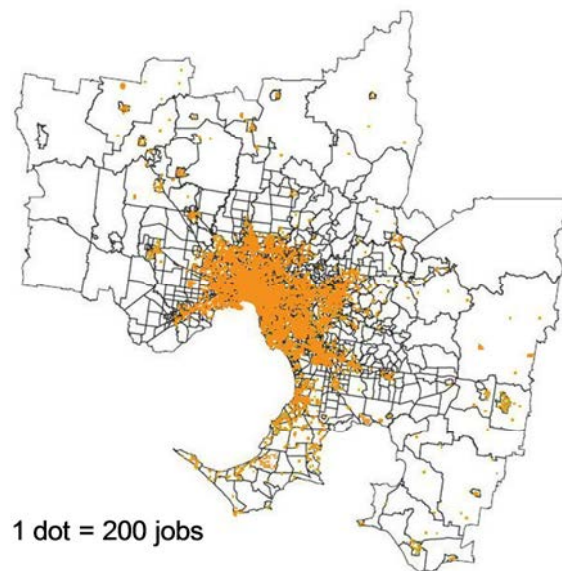
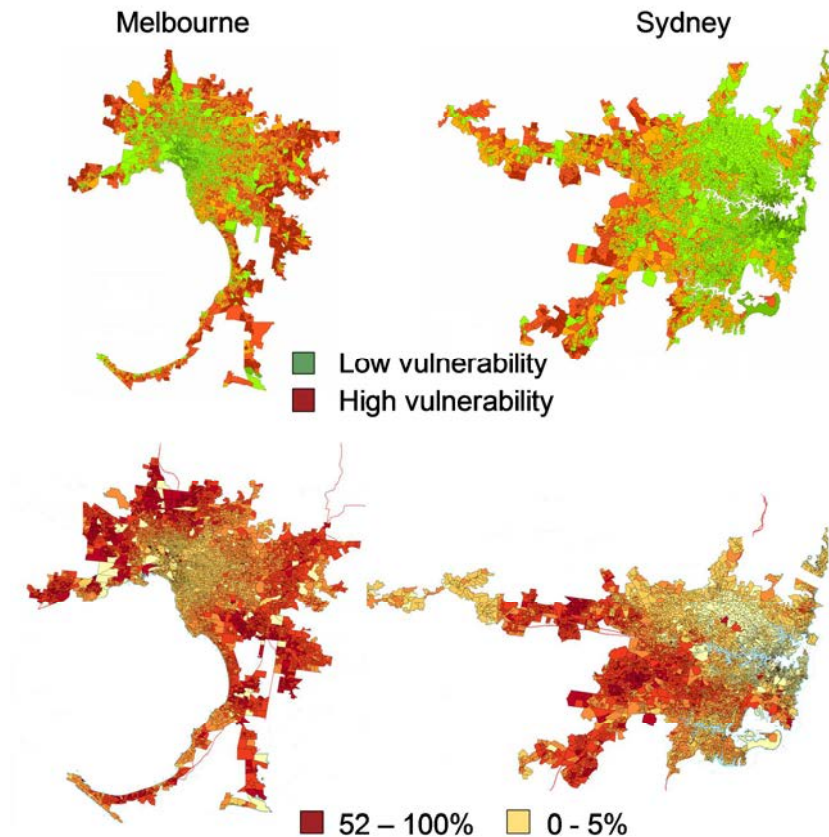


Figure 1.6: Vulnerability Assessment for Mortgage, Petrol and Inflation Risks and Expenditure (top),¹² and percentage of the labour force with no qualifications (bottom)¹³



¹⁰ Department of Planning and Community Development (Victoria) (2010), p 3.
¹¹ Bureau of Infrastructure Transport and Regional Economics (BITRE) (2011).

¹² VAMPIRE index, Dodson and Sipe (2006).
¹³ Australian Bureau of Statistics (2006).

1.4 What this report isn't about

This report focuses on **how to make the biggest difference to what type of housing is built where**. To maintain this focus, there are a series of issues that the report does not focus on, although they are certainly important.

It does not consider **greenfield development**, for example. While new suburbs do not have the mix of housing type that people want, the barriers to its provision are not as strong as in established areas, and some change is already happening in these developments.

Home ownership levels are beyond the scope of the report, although we recognise that investment concerns may have an effect on choice of housing type. For many people, their dwelling is their main asset, encouraging them to be more conservative in their choices. In other words, if people believe that a detached house is a much better investment than any other type of housing, they may be more likely to purchase one, even if they would prefer a different trade-off between house and location. Where people want to live, and the dwellings and locations they end up choosing may be two different things.

We do not focus on the effect of subsidies for first home buyers, nor on the many **tax drivers** of housing consumption, such as negative gearing, land tax or capital gains tax settings.¹⁴ While

¹⁴ As it stands, in all Australian states the rate of land tax increases with the size of holding, which effectively discourages land-based investment by institutions. If, as the Henry review recommends, a broad-based land-tax is introduced, which exempts agricultural land but has an increasing marginal rate with

these policies do affect the housing market, their primary impact is on the price of housing.¹⁵ This in turn influences what gets built, and where, but, as stated in the Henry review,¹⁶

“...taxation is not the major source of supply constraints in the Australian housing market... a range of non-tax policies have a more significant impact on housing supply and affordability.”

We don't address **regulatory issues related to multi-owned housing**, such as progress payments and deposits for apartments,¹⁷ or termination of ageing strata title.¹⁸

The report does not discuss **attitudes to housing types**, particularly regarding the unpopularity of owners' corporations in multi-owned housing, or **attitudes to renting compared with owning**. These things are important, as they affect demand and mobility, but they are beyond the scope of this report.

increasing per area land value, urban consolidation is likely to be promoted, to a greater degree closer to the CBD (Henry (2009); Wood *et al.* (2009)).

¹⁵ Current policy settings in these areas all put upward pressure on housing prices (Eslake (2011), Battellino (2009)). One exception is stamp duty which, according to Leigh (2011), reduces house prices. Because of its negative influence on housing mobility, stamp duty is discussed in this report on page 34.

¹⁶ Henry (2009).

¹⁷ In Australia, unlike in Singapore, progress payments cannot be made during the construction of apartments. This significantly increases the financing risk, and therefore cost, compared to a detached house.

¹⁸ To terminate strata title requires agreement from all, or almost all, residents. Relaxation of these laws is important for renewing old stock, much of which was built in the 1960s and 1970s and makes poor use of land.

Making it easier to move house could lead to a more efficient use of the housing stock we have. It would free people to choose housing that meet their needs at different stages of their lives. This is not discussed in the body of the report, but Appendix A considers what would increase housing mobility in Australia.

Finally, it should be noted that our recommendations do not cover *everything* we think should be done. We need a range of approaches, as the problems are many and system-wide.¹⁹

Much more important than whether these specific ideas are adopted, is that this report stimulates a serious conversation about the trade-offs we face, and how they might be addressed.

1.5 Report structure

Chapter 2 of this report discusses change from the perspective of city residents. It discusses how the conversation about change should reflect what is at stake, and the evidence that successful decision-making requires significant investment in resident engagement.

Chapter 3 presents our recommendations for how to significantly change what gets built where. Chapter 4 concludes and summarises our recommendations.

¹⁹ There are many examples of good work by others that have the potential to make a difference in this area, that we don't cover. Some examples are co-operative housing (see Alves (2010)); Landcom's 21st century terrace project in North Penrith, Sydney (see, for example, <http://workshop1.com.au/projects/landcom21stcenturyterraces.html>); the Fisherman's Bend greyfield precinct in Melbourne; and specific proposals for changes to zoning and other planning regulations (Kulish *et al.* (2011); Productivity Commission (2011)).

2. Change and city residents

2.1 The public conversation

People in established neighbourhoods seem to resist change. As one local government official told us, change is at best tolerated. A “*public sullenness*” is widespread.

Population growth often fuels anxiety.²⁰ Debate about population can be highly emotive, and can focus on the potential negative consequences of more people (increasing congestion, for example). These challenges are real. But there are also serious consequences of the population not growing. For example, without population growth, the workforce would shrink relative to the number of older people (who have higher healthcare and pension costs). This would mean either higher tax rates for working people or reduced support for older people.

The benefits of population growth accrue to society as a whole. However, neighbours experiencing change on their street feel that they are paying a disproportionate share of the costs. We want the benefits of a larger population without making any changes to the way we live. It sometimes seems that governments pretend this circle can be squared. When no one level of government owns the challenge,²¹ it is easier to avoid difficult decisions about managing the effects of population growth.

A recent survey of people’s attitudes to increased population in their neighbourhood found that over half the respondents said they would not like it (see Figure 2.1). If this question is asked without any sense of the consequences of a stagnant population, this attitude is to be expected. It should not be surprising if people do not want change when they have no real say over its form, no sense of why it is necessary and no idea of what they get in return for having more households in their neighbourhood.

Yet well-managed change can bring benefits. An increased diversity of housing types and choices can enable grandparents to downsize and stay local, and can provide more affordable options for grown-up children to stay in the neighbourhood. More households mean more diverse local shops and more rates, which can be spent on better public spaces and local services. Each neighbourhood would be ‘doing its bit’, responding to the pressures on the wider city structure.

Well-managed growth also avoids the decline that can come with a static population. Ageing communities would lead to the closing of local schools and shops and services. The children of residents would be priced out of the area where they grew up. As people age and are less able to maintain houses and gardens, there will be few downsizing options for them, so that if they do move, they

²⁰ Population *change* – in particular shrinking household sizes – is also a big driver of needing more housing, though much less appreciated.

²¹ More households means more tax revenue, which flows mainly to the Commonwealth. States are mainly responsible for paying for new infrastructure

in response to growth (particularly in greenfield areas). Meanwhile the politics of change are most difficult at local council level, the ‘planning frontline’.

will face having to move neighbourhood as well as moving house.²²

Whether any level of population works or not depends critically on how well growth is managed. Yet even with a more informed public debate, these issues are genuinely hard, and discussion can be fraught. There are many examples of how change has been poorly managed in the past.

Political leadership is vital. It provides the framework for residents to think about choices facing their cities and neighbourhoods, and to be able to make trade-offs. Evidence suggests that involving residents in making these trade-offs is critical. Public acceptance can only come by involving residents in decisions about the future of their city *and* their neighbourhood.

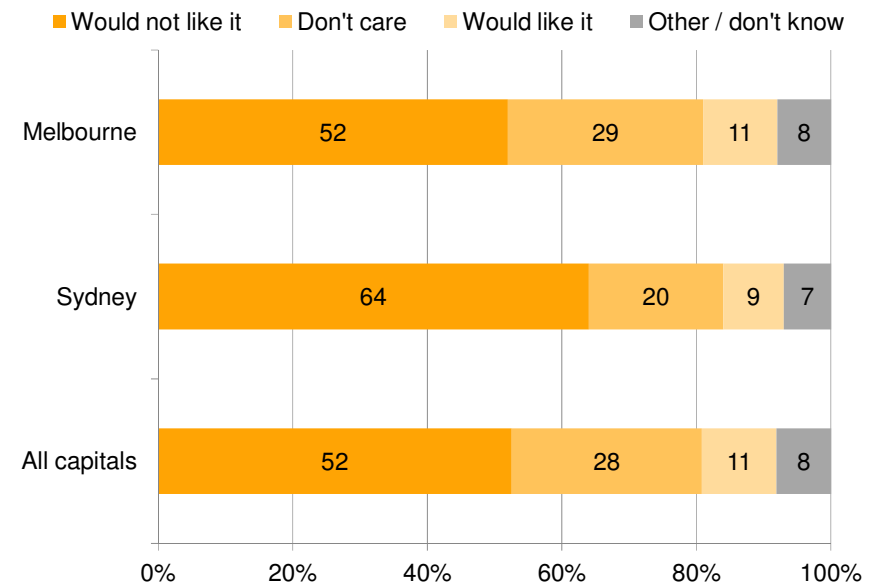
2.2 Making decisions about the future of our cities

Local communities know more about their neighbourhood, and care more about it, than anyone else. Almost all Australians see themselves as members of their local community. A quarter work to improve their local area, and many more are willing to.²³

²² Previous Grattan research has shown that as people age, they increasingly prioritise “neighbourhood” and being close to family and friends. For more detail on housing preferences of different demographics, refer to the Grattan Institute working paper, *What matters most?* – www.grattan.edu.au

²³ 93% of Australians agree or strongly agree that they see themselves as members of their local community (World Values Survey (2005)). 83% of people in Greater Western Sydney agree they would work with others to improve their neighbourhood (Randolph *et al.* (2001), Australian Bureau of Statistics (2007)).

Figure 2.1: Community attitudes to increased population in their neighbourhood²⁴



Despite this, residents feel they have little control over changes to their area. Residents usually only engage in the planning process in response to specific development applications rather than to proposals on how the whole neighbourhood should change over time.

Grattan’s 2010 report, *Cities: who decides?*,²⁵ examined decision-making arrangements in comparable cities that changed and

²⁴ Productivity Commission (2011), p. 28. Note that figures may not add to 100% due to rounding.

improved significantly across a broad range of areas. Put simply it asked: in successful cities, who made the decisions, and how?

Many of these cities faced challenges similar to our own: how to manage the next stage of evolution and growth in a way that would make them better places to live. But the engagement of residents in making the tough trade-offs was an order of magnitude different to anything we have seen in Australia.

Consider how Vancouver developed its *CityPlan* in the mid-1990s. First, the scale of public engagement: the City Council engaged directly with around 20,000 people, and a survey showed that *“about 100,000 people felt they were involved in some way, shape or form”*. Second, the depth of engagement: people in Vancouver were presented with *“real choices”* along with their consequences, *“there’s no right or wrong answer, there are just different consequences”*. Residents were therefore invited to consider the trade-offs of any decision. The ‘flavour’ of engagement was also important: *“it was very much citizens speaking to citizens”*, rather than *“pontificating by staff or politicians”*.

In several cities that successfully managed change, decisions were first made (with the involvement of residents) at a metropolitan level. In Vancouver, for example, the more people engaged, the more they came to accept the need for hard choices, and opted to accommodate more households in existing residential areas, rather than *“sending sprawl up the valley”*. As

one resident commented *“we may be in different boats, but we are in the same sea”*.

Following the metropolitan-level process, each neighbourhood decided how it would accommodate extra households. In effect, residents said: *“we’ll take more into the neighbourhood, but we want a big say in how”*.

The process often started with identifying a set of values that each neighbourhood wished to preserve: open space for children to play, or shops a safe walk away, for example. During the planning stage, these values were constantly referred to, so that these aspects of the neighbourhood would either stay the same or improve.

In Seattle, each neighbourhood was funded to hire the expertise it needed to develop its own values and vision (within a common framework of targets) and to then work on land-use issues, design, and anything else needed to make the vision work. This is difficult, and investment is required to do it well. In this period, around three quarters of Seattle’s planning budget was spent on public engagement.²⁶

In Vancouver, clarity about the benefits of change to a neighbourhood was also critical to the success of engagement. It

²⁵ All quotations in this section are from interviews carried out as part of research on *Cities: who decides?* Available from www.grattan.edu.au

²⁶ Public engagement is often done badly, and it should be clarified that we are advocating that it be done well. As well as expertise, this requires, as one former Sydney councillor put it, “nerves of steel”. In Seattle in the 1990s, they recognised that many planners and councillors were poor presenters, and hired actors to help them present to people and deal with hostile audiences. As a former planning official commented, *“If Seattle people smell fear they’ll go for your throat”*.

was explained to each neighbourhood that the more households it had, the bigger the tax take, and the bigger the purse for the public realm. Working with developers and builders, residents frequently opted to have some buildings higher than required for their targets in return for amenities they valued: *“If we had a little more density here, we could have an even larger library”*. They were willing to add *“another floor on this building in return for that”*.

Social Bonus Zoning in Vancouver allowed higher density development in exchange for public amenities such as parks, schools, and social housing. *“We’ve been able to show that the level of population growth is not the problem, it’s how you manage the growth... you need to have high quality amenity and high quality public spaces...”*. People need to be able to *“see a benefit to the new growth coming in”*.

In city after city, where hard decisions had been made and then implemented, there was early, genuine, sophisticated and deep public engagement. This is neither easy nor cheap. But if we want to face hard decisions in a way that makes our cities even better places to live, we need to involve residents at both a metropolitan and neighbourhood level.

The experience of successful overseas cities suggests there is an important sequence to engagement about the future – a metropolitan-level discussion about the future of the city comes first, so that harder choices about individual neighbourhoods can take place in the context of an understanding of broader consequences.

Residents need information about the consequences of each of the choices we face about the future, and what these choices mean for how we want to live. These choices include the status quo, which also has consequences for city structure, for the future of neighbourhoods and our children. The potential benefits of accepting more households into an area need to be clearly articulated. Managed well, accepting more residents can lead to improved infrastructure, more and better services, more shops and more funding for community facilities.

This type of engagement would provide the permission for the kinds of recommendations in the rest of this report.

To make things stick, we should consider council-level housing targets to make it clear what each neighbourhood is taking on. Experience has shown that housing targets need to be realistic and need to have consequences if they are going to work. The targets should take into account the growth of the city as a whole, as well as the different barriers and opportunities in different areas.²⁷ They could be linked to funding incentives and the planning tools available to local governments.

Once targets have been agreed for each local council, there should then be a process to identify which parts of the area can take more households. Residents should be involved in all these decisions.

²⁷ The Department of Planning and Community Development (Victoria) is currently making detailed assessments of housing capacity in local areas across Melbourne, see footnote 34, p. 26.

Box 2.1: Visualisation tools for community engagement

Traditional community consultation can fail to engage many, and those with the time and inclination to participate are not necessarily representative. A new development in community engagement is the use of 3D visualisation tools. These have the potential to reach beyond the 'squeakiest wheels' to a far broader cross-section of the community than would otherwise be possible.

They are also often far more effective at conveying what the proposed development will actually be like – how it will look and feel to be there:

*"this tool is moving us from year-long to hour-long negotiations"*²⁸

*"previously it was all plans and words – and they didn't understand. Now they can see it clearly, as plain as day"*²⁹

As useful as visualisation tools are, they should be used in conjunction with other engagement methods, and are not a substitute for political leadership.



Source: Property Council of Australia (2011)

²⁸ Statutory Planning Director, Victorian DPCD, from <http://www.circus3d.com/>

²⁹ Project Manager, Leighton Marine, from <http://www.circus3d.com/>

3. Building the housing we want

3.1 Changing what gets built

Under the current system, no-one wins. Residents fear new development, home-builders say they lack certainty, and we are not getting the housing Australians want. We need to take new approaches to break the deadlock and build a variety of new housing in established areas. Both home-builders and communities need to contribute to the solution and share the benefits of development. The barriers identified in *The housing we'd choose* need to be addressed (see Figure 3.1).

This needs to happen in different ways for large and small-scale redevelopment. In some areas, major redevelopment can achieve a significant change in the number of residents, shops and services. We need new ways of managing change in these neighbourhoods to balance the needs of residents and developers. This should include partnerships to attract public and private investment and to ensure that community objectives are achieved.

Major redevelopment is important, but it is not appropriate for most established areas and cannot provide all the housing people want. We also need to encourage high quality smaller developments, such as those built on one or two small lots on a residential street. While they typically provide only a few new homes, these developments make up the bulk of new housing in many established areas. We need to protect neighbours and communities from badly-designed buildings, cut red tape for developers, and promote new ways to improve quality and reduce costs.

Figure 3.1: Barriers to building infill in Sydney and Melbourne



3.2 Neighbourhood Development Corporations

Large-scale redevelopment is not appropriate for all areas, but in some areas significant growth can benefit new and existing residents.

In these neighbourhoods, we need a new mechanism that simultaneously breaks through market barriers and gives communities much greater control over change in their area. To do this, governments, developers and communities should be able to establish Neighbourhood Development Corporations (NDCs).

NDCs will be dedicated, independent bodies with the right skills and resources to manage large-scale development. They will broker agreement between residents, governments and developers, making clear what each group needs to contribute and how each group will benefit.

NDCs will be a partnership that combines the resources and authority of state and Commonwealth governments, the community knowledge of local government and the energy, skills and commercial focus of the private sector. However, NDCs will only go ahead with the support of local residents.

Initial funding would come from a Commonwealth-state Liveability Fund. To get seed funding, NDCs would have to show how they can meet a set of clear objectives, such as the amount and diversity of housing they would create – diversity in terms of both type and price. Once they are established, NDCs will bring together a range of private and public funding, work with different

levels of government and use temporary planning powers to drive change.

NDCs might be focused around redevelopment of surplus government land, public housing (such as in Bonnyrigg, NSW), or former industrial land (as in London Docklands and Hamburg HafenCity, see Box 3.2 for more case studies). Alternately, NDCs might purchase smaller lots to achieve substantial redevelopment in areas with fragmented ownership and ageing stock.

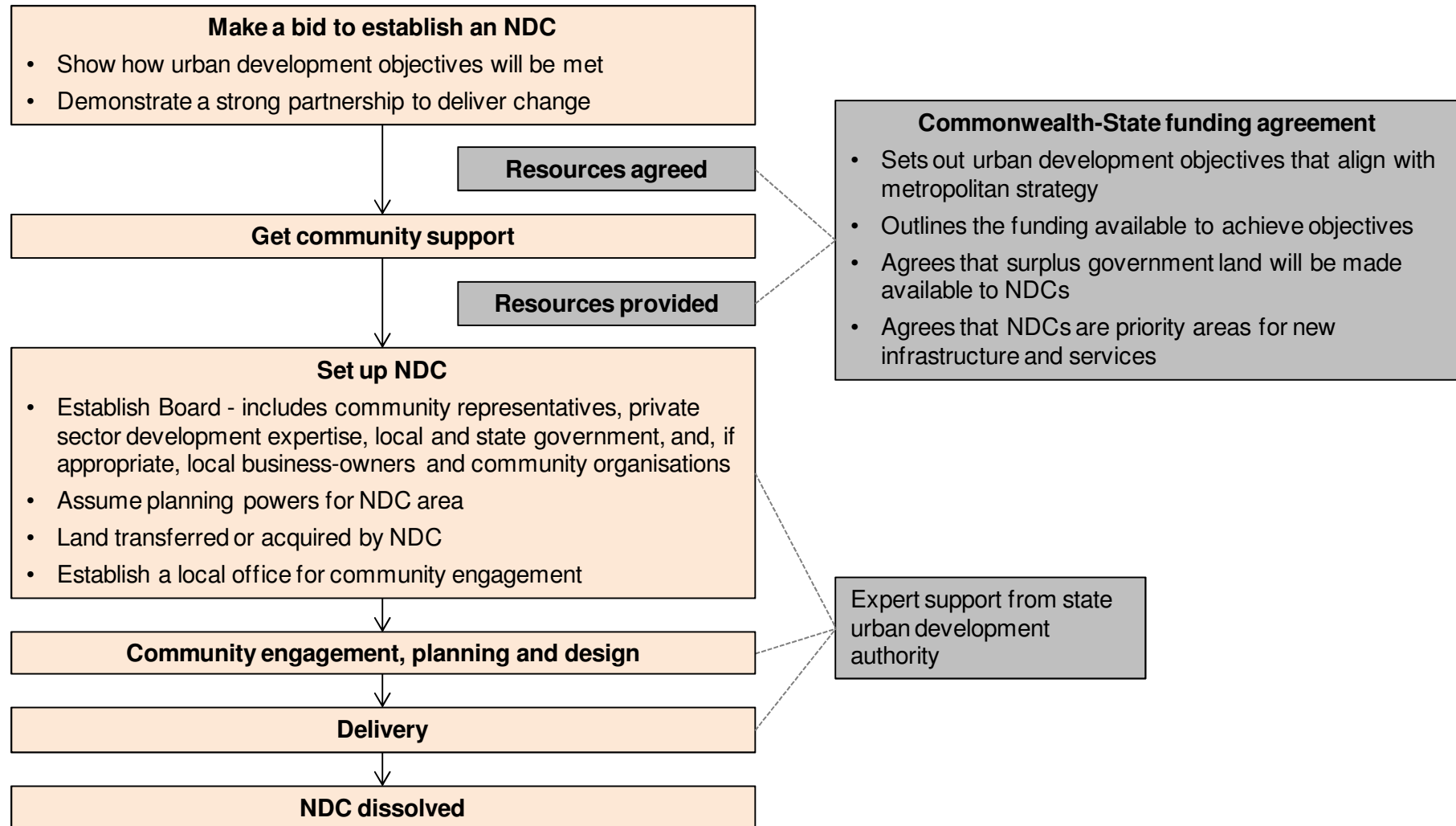
NDCs would have to be big enough to attract substantial private investment, but small enough to have a clear identity as a local neighbourhood. In some cases they might be focused on an existing activity centre, and may cross local government boundaries.

Because this is a radically new way to manage development of our neighbourhoods, a small number of NDCs should be piloted in major capital cities to learn what works.

Variations of this model have been successful in Australia and around the world. We have drawn on case studies from England, Germany and Australia, but no single example captures all of the characteristics that will ensure success in different parts of our cities. Based on the evidence, NDCs must:

- give communities more control
- focus on a single neighbourhood
- be independent
- run for long enough to make a real difference
- have powers and resources to achieve change.

Figure 3.2: Neighbourhood Development Corporations – how they will work



Give communities more control

As discussed in Section 2.2, local communities care about their neighbourhood, but they usually have little control over changes to their area. Consultation is rarely comprehensive and is often focused on specific developments rather than how the neighbourhood should change over the long term.

Genuine community engagement should be about the future of a neighbourhood. It should start by clarifying shared principles and values and it should inform people about the choices and trade-offs they can make. Communities should then have real control over the kind of development that happens.

This kind of community engagement is difficult. It takes time, resources and expertise, but evidence shows that it is essential for real change. NDCs should help communities to articulate their goals and to develop a neighbourhood plan that reflects them. These goals could include aspects of the neighbourhood to preserve, like heritage landmarks or open spaces, or things to add, like better pedestrian access, new community facilities or playground equipment. Once the neighbourhood plan is developed, it should guide all the development decisions in the neighbourhood for the life of the NDC.

Figure 3.3: Residents engaged in planning, Vancouver³⁰



Focus on a specific neighbourhood

An NDC that guides the development of a single neighbourhood can respond to local conditions, build long-term relationships with local communities and work towards a clear set of objectives. Having clear objectives that relate to a specific neighbourhood has been important to the success of redevelopment efforts in Germany, the United Kingdom and Australia, summarised in Box 3.2.

³⁰ Picture courtesy of Ann McAfee.

Focusing on one area makes it easier to tailor new housing to local market conditions. Local areas have different kinds of residents, different levels of supply and demand and different priorities for renewal of local services and infrastructure.³¹ Local housing markets can be made up of complex, overlapping pockets as small as a few blocks. Different neighbourhoods also have different barriers to development. In one area, land assembly might be the main obstacle to development, while in another it might be limited infrastructure.

Finally, being responsible for a specific area will make NDCs accountable for one set of outcomes and accountable to one community. This will focus attention and resources. By contrast, a state-wide agency will struggle to respond to the local conditions and communities in many different developments.

Nevertheless, state urban development authorities, such as the new Places Victoria and Landcom in New South Wales, have crucial skills and resources that can help NDCs succeed. They can provide expert assistance in urban planning, construction technology and design, and share lessons about what works in different NDCs.

Be independent

Independent organisations are good vehicles for stimulating new housing supply. The housing we need will be built by the private sector, within existing communities, in the context of regulations,

infrastructure and services controlled by governments. This means that industry, communities and governments need to work together to overcome blockages in the market.

An independent body is more likely to allow substantial input from all these groups – and from all levels of government – than an organisation controlled by one level of government. In many cases, independent bodies have also been better at working with the private sector. While NDCs are not-for-profit, they need a commercial orientation to attract investment and push complex, large development projects through to delivery. Independent bodies are more likely to attract leaders and support staff with the right set of skills, including extensive private sector experience.

Importantly, independence also insulates the development of a neighbourhood from local politics, four-year council election cycles, and political changes over time (as occurred in the London Docklands Development Corporation, see Box 3.2).

Run for long enough to make a real difference

Developing and implementing a plan for a neighbourhood requires long-term commitment. Successfully providing new housing and improving a place typically takes at least ten years. A 30-year agreement guides the redevelopment of Bonnyrigg in western Sydney. The London Docklands were redeveloped over 18 years, and HafenCity is being built over several decades (see Box 3.2).

³¹ Several studies show that statistically-identified sub-markets are better predictors of price than the market as a whole, or markets defined by local government area (Bourassa *et al.* (1999); Randolph and Tice (2009); Adams and Tiesdell (2010), p. 194).

Box 3.1: Neighbourhood Development Corporations and local government

Local government will play an important role in NDCs. They will be on the board and their support for projects will be a significant factor in considering which NDCs should go ahead.

Major redevelopments in a neighbourhood are rare. This means that local governments do not always have the resources to guide them effectively. By contrast, NDCs will be dedicated and specialised organisations, and they will not be funded out of existing local government budgets.

Local governments that help establish an NDC would attract new funding for planning, community engagement and local facilities and infrastructure. Ultimately, they will benefit from more residents, well-managed growth and increased rates. NDCs would only temporarily assume local government planning powers for the NDC area. These powers would revert to local government after an NDC is wound up.

Neighbourhood plans, new buildings and local infrastructure will take time to plan and deliver. In many cases development will take place in a series of stages in different parts of a neighbourhood. This gives developers and governments a chance to plan change and investment, and to manage it well over time.

It is also important to have a clear end date. NDCs are *not* a new, permanent level of governance. They would be disbanded once

the locally agreed plan is implemented, with any planning powers and ongoing funding reverting to local government.

Powers and resources to achieve change

Finally, any organisation that attempts to reshape market conditions needs the right resources to make a real impact. Many of the most successful organisations have used temporary planning powers, owned or acquired substantial amounts of land, and combined public and private investment (see Box 3.2 for case studies).

NDCs should work with the local community to develop a neighbourhood plan, as discussed above. They should then select proposals from developers that comply with the plan and meet the community's objectives, without requiring additional planning approval. Providing planning certainty has been critical in attracting redevelopment investment overseas as well as in Perth (in projects managed by the East Perth Development Authority) and Brisbane (in projects started by the recently established Urban Land Development Authority).

In return for planning certainty, private sources can provide most of the funding for neighbourhood development. However, to really improve neighbourhoods, it is important to invest enough public resources to kick-start high quality development. This should include investments in infrastructure, public spaces and services to make sure residents benefit from development. In many cases, it will also include helping to assemble development sites.

Funding will be needed, and it should be provided in a consistent way. To do this, the Commonwealth and state governments should establish a Liveability Fund to fund NDCs.

Developers, local governments or community groups would make a bid to the Liveability Fund to establish an NDC (see Figure 3.2). Funding would be provided if the proposal demonstrates a strong partnership that would achieve a range of goals. Most importantly, NDCs should provide a large amount of diverse new housing. In addition, they should feature good urban design and might achieve other objectives, such as high standards of environmental sustainability and a mix of affordability. These goals should be consistent with the outcomes of metropolitan-level discussions (see Section 2.2).

Providing enough of the housing Australians want, improving our neighbourhoods, and getting a city structure we can all live with is an important goal. If we care about achieving it, we should be willing to invest in it.

Box 3.2: Case studies of place-based redevelopment

There are many examples of government or independent agencies facilitating development of a specific area, such as Pyrmont in Sydney and the Docklands in Melbourne. Subiaco, and several parts of East Perth, have also been successfully redeveloped by specialised authorities focused on one area.

Without these developments, it would be even harder for Australians to get the housing they want. In most cases, they have created great places to live. Where the results have been criticised, such as Melbourne's Docklands, this reflects failure to select the right objectives and incentives, not a failure to facilitate development.

These examples and international experience show that actively reducing the barriers to private development can be very successful. The three case studies below highlight the ingredients that contribute to success.

We can learn a lot from these case studies, but our challenge is to apply these ingredients to a broader range of areas. A lot of successful redevelopments have focused on large post-industrial sites, big parcels of publicly-owned land, or on severely depressed areas. Many of the places where we need new housing are different. This means we need a flexible approach that can work in a range of contexts.

London Docklands Development Corporation

The London Docklands Development Corporation (LDDC) illustrates many characteristics of Neighbourhood Development Corporations – it was the first of its kind, and remains one of the largest and most successful instances of place-based urban renewal. The LDDC had all of the essential elements of NDCs: intensive community engagement; focus on a single area (it involved three local governments); independence; a long but limited time-frame; and planning powers and resources.

The LDDC was established in 1981 to renew the “6,000 acres of forgotten wasteland” on the bank of the Thames that resulted from the economic decline of the 1960s onwards. It oversaw the transformation of the area into a vibrant district, with residents doubling and jobs quadrupling from 1981 to 1998. The resultant Docklands area has 24,000 new dwellings (40% of which were, initially at least, affordable for people on average wages), restaurants, concert halls, galleries and a thriving financial district. The Docklands was handed back to the three local governments between 1994 and 1998, when the LDDC was wound up.

The LDDC was established with clear objectives, but flexibility in how to achieve them. It was, especially initially, private-sector oriented. It worked with a wide range of partners, carrying out an effective marketing campaign to change the image of the area and attract investment. This private-sector orientation resulted in discontent from residents and local politicians until it established local offices and intensively engaged the community from the mid-1980s.

While the LDDC initially had little funding, it had a large amount of public land, as well as powers to acquire land (by compulsion or agreement) and to approve development. Over its life the project received £3.9 billion of public sector funding and attracted £7.7 billion of private sector investment.

HafenCity, Hamburg

Another redeveloped dockland, HafenCity began in the early 1990s with a plan to transform an under-utilised area of Hamburg into an attractive river-side district with mixed residential, commercial, cultural and leisure uses. The municipally-owned development corporation HafenCity Hamburg GmbH was established in 1997, with plans to run at least several decades, and charged with overseeing the redevelopment of the area. Once completed, HafenCity will contain 5,800 new dwellings, house 45,000 new jobs and contain 26 hectares of public space.

In the late 1990s an urban planning ideas competition was held, and the resultant masterplan contained clear objectives regarding design and mix of land-use, strongly shaping what was to come.

In order to ensure these objectives are met, HafenCity Hamburg GmbH – which owns almost all the land in the area – sells sites below the market rate. The bids are awarded on the condition that they adhere to the objectives laid out in the masterplan, which include ambitious sustainability ratings and excellent urban design. The project has attracted €8 billion of private investment and raised €2.4 billion in public investment, €1.5 billion of which is through the sale of land in HafenCity.

Figure 3.4 The redeveloped HafenCity Hamburg



Source: HafenCity Hamburg GmbH

Newleaf/Bonnyrigg

Bonnyrigg, in Sydney's west, was a social housing estate with deteriorating housing stock, rising crime and increasing disadvantage. In 2004 a 30-year Public Private Partnership was announced by the government, the objectives being to renew Bonnyrigg, and provide a mix of housing types and a lively centre over 12 years. While there were some difficulties in the tender process, these were overcome and the winning bidder (Bonnyrigg Partnerships, a consortium of four companies) was announced in 2006. Bonnyrigg Partnerships are well resourced and have independent management rights for the renewal, based upon a set of clear objectives outlined by the Government.

While there was a high degree of flexibility on how to proceed, strong community consultation was a focus. The key objectives were improving public housing (a small proportion of which was moved off-site), providing better services, a stronger, more engaged community and renewed housing and public areas. Intensive engagement activities were undertaken between 2004 and 2007, attended by over 4,000 people, and in many languages, since almost half did not speak English well, or at all.

The \$733 million project, still in progress, will change the housing mix from 59% detached housing to 15%, and the 833 run-down social dwellings will be replaced by 2,330, 699 of which will be social housing (the balance of the 833 to be built or purchased nearby).

Figure 3.5 The redeveloped Newleaf/Bonnyrigg



Source: Newleaf Communities

3.3 Smaller-scale development

As well as the larger redevelopments that NDCs will deliver, small-scale projects are essential for building the housing Australians want. In many established areas, small developments of just a few new homes provide most new housing. In the City of Monash, for example, more than 98% of developments built from 2000 to 2006 created between two and seven dwellings (see Box 3.3). Despite this, government has mainly focused on promoting development in activity centres and transport corridors rather than making small-scale development easier and higher quality.³²

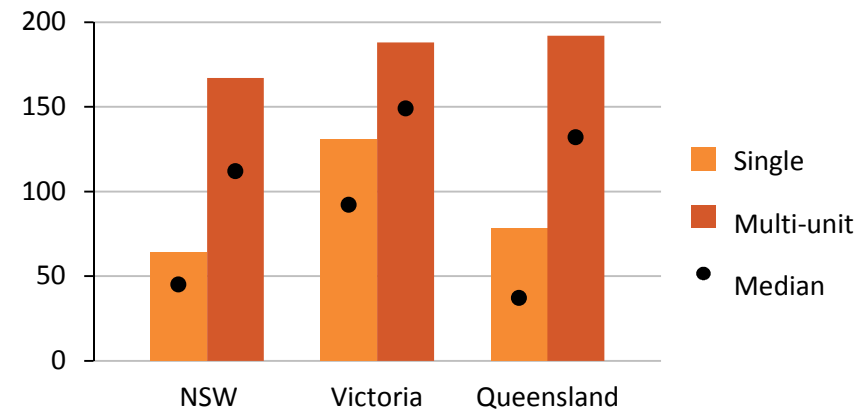
Too often, small redevelopments are poorly designed and have a negative impact on neighbourhoods and streetscapes, to the distress of residents. Quite reasonably, they will only accept change if they are better protected from low quality development.

At the same time, smaller home-builders need to be assisted to develop good quality, small-scale developments. Even more than larger companies, they often have trouble dealing with the barriers to development identified in *The housing we'd choose*, such as complex and uncertain planning processes. They also find it harder to adopt new designs, technologies and processes.

Use of clear standards for small developments can make the planning approval process simpler and cheaper. These standards can also ensure that smaller developments are better designed and respect the privacy of neighbours and the character of an

³² Newton *et al.* (2011), pp. 13-16.

Figure 3.6: Average residential development application approval times in days, 2009-10³³



area. Small developers should also be supported to use new designs and technologies.

Clear standards instead of planning applications

Frequent long delays in getting planning permission make development expensive and sometimes even impossible. As Figure 3.6 shows, the average approval time for multi-unit residential dwellings is around five and a half months in NSW and over six months in Victoria and Queensland.

In response, some state governments are using clear minimum standards, or 'codes', to determine planning approval for more kinds of development. These codes cover aspects of the scale and appearance of buildings and how they integrate into a street.

³³ Productivity Commission (2011), p. 259.

They cover internal features, such as how much sunlight can enter living areas, and the amount of private open space. In some cases, the codes are self-assessed, meaning that no planning permission is needed. In others, planning approval is granted through a special 10-day process.

Housing codes can protect existing residents from obtrusive and badly-designed developments while reducing the costs from long planning approval processes. Yet at present these codes only apply to detached houses, or to narrow, specified areas. In practice, this means they are not encouraging the mix of housing that people want.

A new Small Redevelopment Housing Code would protect neighbours, reduce planning uncertainty, improve the quality of new developments and promote the kind of housing we need. It should apply to all residential areas, unless there are heritage or environmental restrictions, or if there is not enough infrastructure to cater to new residents.³⁴

The Code should include the things that worry neighbours most, such as privacy, height and overshadowing in their outdoor areas and the appearance of new developments from the street (see Box 3.4). It should cover all developments that provide two to ten new dwellings, depending on the lot size, and are one or two storeys high. Compliance with the Code should be assessed within 15 days.

³⁴ Assessing how much housing a local area can absorb requires detailed analysis. In Victoria, the Department of Planning and Community Development is developing Housing Capacity Assessments. The Assessments will identify the opportunities and constraints affecting delivery of new housing in established areas across Melbourne. See <http://www.dpcd.vic.gov.au/planning/plansandpolicies/housing/housing-growth>.

We are not suggesting a simple checklist of minimum standards. This would not guarantee protection from badly-designed developments. There must be a qualitative assessment, made by local governments or by licensed planning professionals (in a similar process to building surveyor assessments of compliance with building regulations). Whoever checks the quality of proposed designs, there must also be further resources and expertise to ensure assessments are quick and fair.³⁵

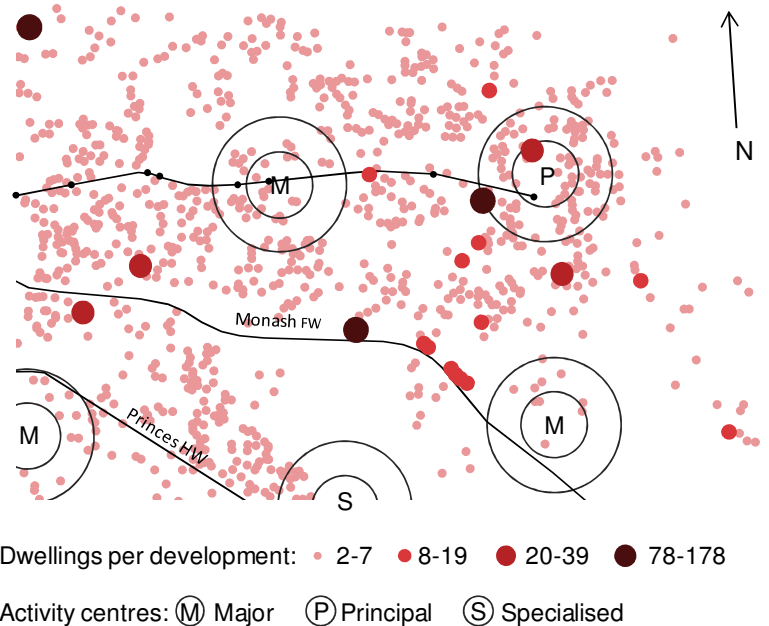
Homes that comply with the Code will be well designed and respect the character of the neighbourhood. This means that in Victoria, where extensive third party appeal rights are a barrier to new development, appeals should only be possible on the basis that proposals are inconsistent with the Code.

In some cases, a land-owner might want to build something that falls outside the specifications in the Code, but which still respects the needs of neighbours and the local area. There should be a way for these developments to go ahead if they are well-designed and innovative. In these cases, developers should be able to apply to an expert metropolitan design panel. The design panel would grant approval if the project was of an unusually high quality, if deviations from the Code were limited, and if the Code's objectives were met.

³⁵ The overwhelming majority of councils report that workload pressures have a moderate or major impact on their ability to manage the planning process; 78% in Victoria (the lowest figure for all states) and 91% in NSW (Productivity Commission (2011), p. 380).

Box 3.3: Infill development in the City of Monash

In Monash, south-eastern Melbourne, over 98% of infill developments built between 2000 and 2006 created only two to seven dwellings. These smaller developments provided around nine out of ten new homes. As the map below shows, they were spread across the suburb, with only a small number close to an activity centre. Overall, these developments represent less than 1% growth on existing stock per year.



Source: Phan et al. (2008)

Box 3.4: Small Redevelopment Housing Code, benefits for neighbours and neighbourhoods

Developments that comply with the Code would respect the streetscape, protect existing residents and maximise community benefits. The Code could cover areas such as:

Impact on neighbouring properties

- Set maximum height limits
- Maintain privacy and minimise overlooking
- Minimise overshadowing, glare and reflection
- Use layout and building design to protect residents from noise

Appearance from the street

- Set back at least as far as the average of neighbouring buildings
- Reduce appearance of bulk with balconies, variations in appearance and front and side set-backs for upper storeys
- Dedicate a minimum area to landscaping
- Provide unobtrusive garbage collection and clothes-drying spaces
- Place garages to reduce their visual impact on the street
- Retain significant trees and landscaped public areas

Contribution to the neighbourhood

- Improve safety and security through public lighting and windows facing the street
- Contribute to high-quality public open space
- Provide physical links between buildings and public places

3.4 Promote new designs, methods and technologies

Cutting construction costs would make building in established areas more attractive to developers and reduce costs for buyers. Construction makes up more than half the cost of a new dwelling, and is the biggest reason for the higher cost of new dwellings in established areas relative to greenfield (see Figure 3.7).³⁶ New materials and new methods, such as pre-fabrication, can have a big impact on costs.

Innovation emerges in response to changing economic and social trends, and consumer preferences. However, because of the undersupply of housing, developers are not always forced to respond to these changing factors.³⁷ The sector is also highly fragmented, exposed to few international competitors and products and has long and complex supply chains.³⁸

These challenges make it hard for new ideas to be tested and to spread between different companies. This is partly why construction is ranked as Australia's least innovative sector in recent studies.³⁹ On top of this, the size of smaller developers

³⁶ Construction costs make up more than half the costs when raw land, construction, professional fees, government taxes and charges, and development costs and interest are included (National Housing Supply Council (2010), pp. 119-120).

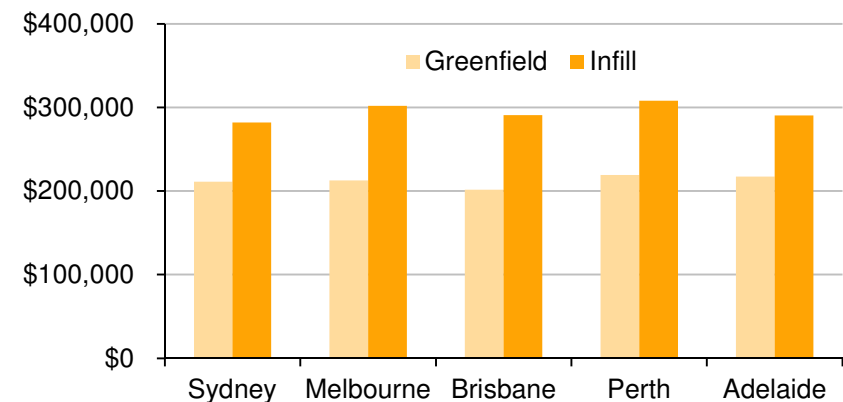
³⁷ Manley *et al.* (2009), p. 514.

³⁸ Blismas and Wakefield (2010); other authors note that intellectual property can be hard to protect in construction and that the sector is strongly affected by cyclical conditions, reducing the incentive to invest in employees' ability to innovate (Hassell *et al.* (2003), pp. 42-43).

³⁹ IBM and Melbourne Institute (2010); Australian Bureau of Statistics (2010a). It should be noted that these data include the construction sector as a whole, not just building construction. While there are counter-arguments that comparisons

makes it difficult for them to shift to new technologies, processes and designs to cut costs and improve quality. They have fewer resources to invest in learning about new ways to reduce building costs and they face greater competition than larger firms.⁴⁰

Figure 3.7: Construction costs per dwelling, 2009⁴¹



These small companies make up the bulk of the construction sector, especially in small-scale development. More than half of the companies building multi-unit apartments and townhouses earn less than \$100,000 a year, while the largest firms have much less market share (see Figure 3.8). If they are not taken up by small firms, new approaches may take decades to affect the building techniques and designs that are used.

artificially disadvantage construction (Winch (2003)) interviewees in the construction sector noted how conservative the industry is.

⁴⁰ National Housing Supply Council (2010); Hassell *et al.* (2003); Manley (2008).

⁴¹ National Housing Supply Council (2010).

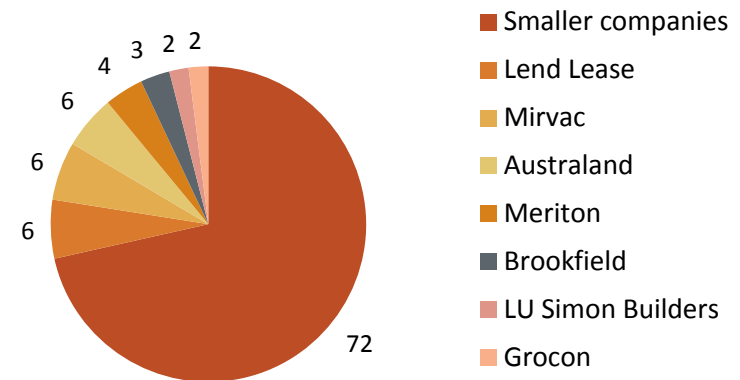
Australia is one of the few OECD countries with both a rapidly increasing population and a significant housing shortage. Despite this, there have been few major innovations in multi-unit dwelling design and construction.⁴²

In the middle part of last century, the Royal Victorian Institute of Architects, under the direction of Robin Boyd, established the *Small Home Service*, providing design and technology assistance to the small construction sector.

A modern-day version could be an association of small-scale developers, suppliers, universities, and architects. It would promote innovation for multi-unit developments in established areas, and could jointly develop and promote new designs, processes and construction technologies.⁴³

This will bring together expertise from different groups, enabling them to share innovations and to pool resources, further reducing the risk and expenditure of innovating.

Figure 3.8: Market share of large and smaller companies for multi-unit and townhouse construction, 2010 (%)⁴⁴



⁴² For example, the Multi-Residential Timber Framed Construction was introduced to the Building Code of Australia in the 90s, but there have not been significant changes since then. More recently modular pre-fabricated building is beginning to emerge. Both timber-framed construction for larger buildings, and pre-fabrication, are used much more widely overseas than in Australia.

⁴³ For example, the NSW Department of Planning and Infrastructure produces a *Residential flat design code*.

⁴⁴ Australian Bureau of Statistics (2004); Kelly (2010).

4. Conclusion

We know that our cities will keep growing. If we do not make the right choices about the way they grow, the problems identified in *The housing we'd choose* will deepen. Fewer Australians will get the housing they want, and our cities will become more polarised, less productive and less sustainable.

The situation can seem intractable. The interests of developers, local residents, and people looking for a new place to live often seem fundamentally opposed. This report recommends ways to overcome the deadlock. *Getting the housing we want* outlines a new approach to city development that involves residents and makes the housing market work better for all parties.

Large-scale development guided by Neighbourhood Development Corporations can provide new homes while making a whole neighbourhood a better place to live. This kind of redevelopment would bring developers, residents and governments together to meet clear social and commercial objectives. Crucially, government resources need to kick-start the process, and the community needs much greater control over how their neighbourhood changes.

Some of the most contentious and distressing development is at a much smaller-scale: building on one or two lots in residential streets. Here too, a new mechanism is needed to better balance the interests of current residents, future residents and developers.

The burden of long and uncertain planning approval processes should be reduced. It does little to protect residents, but it does a lot to stifle the supply of new homes. This burden should only be

lifted in return for strict new standards that protect neighbours and local residents from badly-designed and obtrusive buildings.

Before we change our cities, we must change our conversation. We need a discussion that makes it clear that while change is hard, maintaining the status quo also carries heavy costs, not just for ourselves, but for our parents and our children. We hope that *Getting the housing we want* will provide a fresh starting point for an urgent challenge.

Summary of recommendations

Invest in real engagement at metropolitan and local levels

Experience in other cities tells us that early and intensive resident engagement is essential. Change can only be managed well if we allow residents to make informed decisions about the future they want for their cities and neighbourhoods.

Pilot Neighbourhood Development Corporations

NDCs will be dedicated, independent bodies that facilitate substantial development in a specific area. They will be a partnership between local residents, developers and governments and should be funded by a range of sources, including a new Commonwealth-state Liveability Fund.

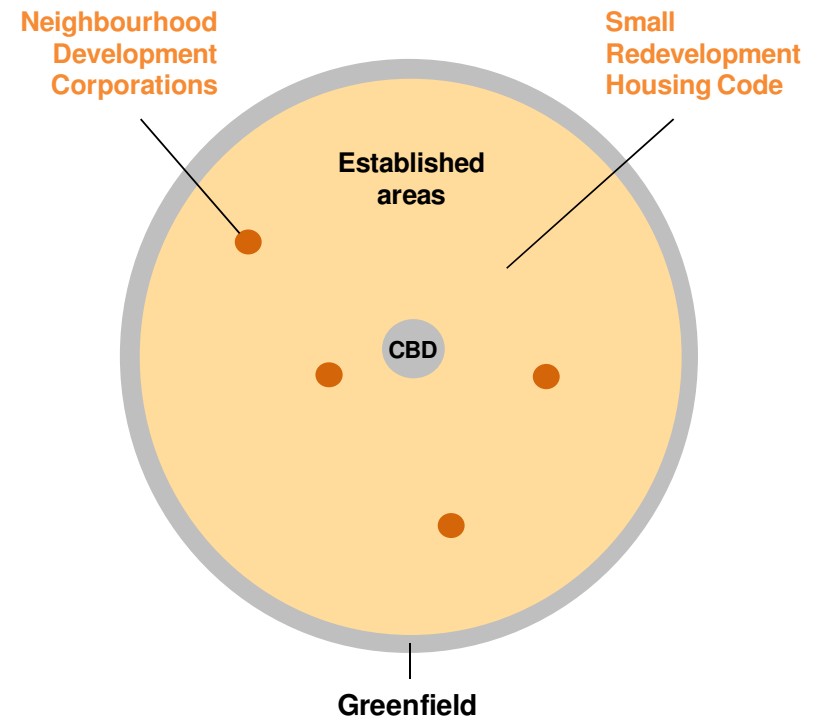
Establish a Small-Scale Redevelopment Housing Code

To protect existing residents, the design of small-scale development must be of high quality; the Code will promote this while cutting time and uncertainty from the current process.

Establish an association of small developers, universities and architects

The association will partner small-scale developers and their suppliers with universities and architects. It should promote new technologies, designs and processes.

Figure 4.1: Where recommendations would apply (stylised city)



Appendix A – How can we use our current stock better?

Residential mobility is important. To be able to move house with minimal penalty allows us to change dwellings when our life situation changes (for example, down-sizing when children move out), to take up job opportunities (or reduce our commute), or to move closer to family and friends.

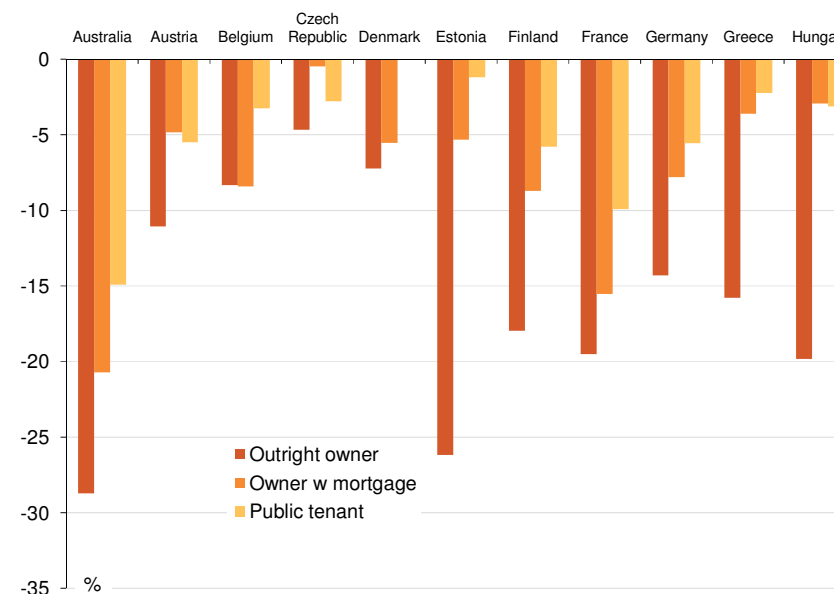
Increasing residential mobility allows better use of the housing stock we have. It will mean that more people are able to live in the type of housing they want, where they want it.

Who moves?

Australia has high residential mobility relative to the rest of the world. In fact, Australian mobility is second in the OECD, behind only that of Israel. However, when this is broken down by tenure, a different story emerges, shown in Figure A.1.

Those owning their home outright are almost 30% less likely to move than private tenants; those with a mortgage over 20% less likely to move.⁴⁵ Childless couples and older people are the least likely to have moved in the last five years, while 57% of all Australians have not moved at all in the last five years.

Figure A.1: Probability of moving by tenure type, relative to private renters⁴⁶



What are the major barriers to mobility?

There are barriers that stop people from taking up their preferred housing option, and that therefore prevent the most efficient utilisation of our housing stock.⁴⁷

⁴⁵ Australian Bureau of Statistics (2008); Andrews *et al.* (2011).

⁴⁶ Andrews *et al.* (2011).

⁴⁷ Leigh (2011).

The most significant and oft-cited factors discouraging people from moving house are transaction costs and the limited mix of housing type available in most suburbs. The former is almost self-explanatory – the financial cost involved provides a disincentive to moving. The latter is a problem because as people move through their life-cycle they require different types of housing. Frequently, though, there are no alternative housing types available in the same area. This is particularly so for older people because, as discussed in *The housing we'd choose*, older people increasingly prioritise characteristics of the neighbourhood over those of the dwelling. As they reach a point where they might otherwise downsize, they don't because there are few smaller dwellings available nearby.

Approximately 10% of Sydney and Melbourne residents surveyed for *The housing we'd choose* who did not move in the preceding 12 months cited government charges as the main reason; 10% cited the lack of a mix of housing types in the neighbourhood.

Transaction costs

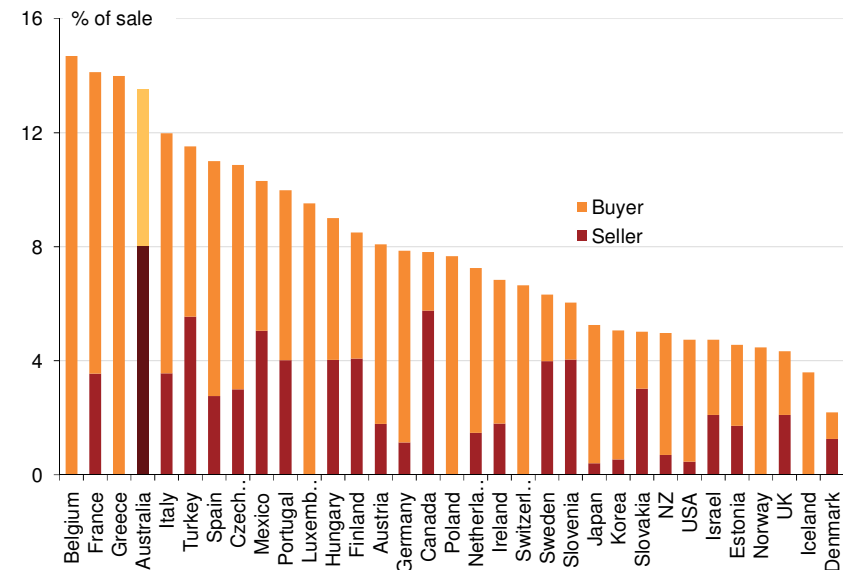
The three main costs that impact residential mobility are stamp duty (conveyance tax); real estate sales commissions; and preferential treatment for home ownership in asset tests for welfare (in particular the age pension asset test).

Figure A.2 shows transaction costs for buyers and sellers across the OECD. Australia has the fourth highest transaction costs – about 13.5% of the sale price.

Stamp duty

It is almost universally agreed that stamp duty is an inefficient tax, one that unnecessarily distorts the housing market and discourages transactions that would otherwise be favourable. It is also rather inequitable, as it places a higher tax burden on those who, for whatever reason, need to move more frequently.⁴⁸

Figure A.2 Transaction costs for buyers and sellers across the OECD⁴⁹



⁴⁸ Henry (2009).

⁴⁹ OECD (2011).

The Australian average stamp duty rose from 2.5% in 1993 to 3.25% in 2005.⁵⁰ In Victoria stamp duties reached 5% in 2011.⁵¹ They form a significant part of state revenue – in 2008-09 the states raised \$12.3 billion in stamp duty, 22% of own-source tax revenue.⁵²

Leigh (2011) estimates that a 10% reduction in stamp duty would increase housing turnover by over 2%. This reduction would also increase house prices by about 1.6%. Looking only at the *direct* effects on government revenue, reducing stamp duty by 10% (from 3.25% to 2.93%) would decrease states' own-tax revenue by about 1.5%.⁵³

Stamp duties are entrenched in our tax system, and it is unlikely that they would be abolished entirely, despite the recent clamour of voices calling for their removal. However, it is certainly sensible to reduce them. As recommended by the Henry review, stamp duties should be replaced by a broad-based land tax, but one with important differences to current land taxes – based on value rather than size of holding. As discussed in Section 1.4, as well as removing the barrier to mobility that stamp duty presents, this would also promote urban consolidation.⁵⁴

⁵⁰ Leigh (2011).

⁵¹ Larocca (2011).

⁵² Australian Bureau of Statistics (2010b).

⁵³ This does not consider any of the social and economic benefits of mobility – decreased congestion, increased productivity (and therefore increased income tax receipts), and more efficient utilisation of our housing stock.

⁵⁴ Wood *et al.* (2009).

Real estate fees and charges

Real estate sales commissions are typically of the order of 1-3% of the sale price. In most Australian states these are unregulated; in Queensland they are capped at between 2.77% and 3% of the sale (decreasing with increasing sale price). Being of a similar size to stamp duties, real estate commissions will provide a similar barrier to residential mobility.

House prices have seen dramatic real increases since the beginning of this century. During this time, real estate commissions have remained relatively constant as a percentage of sales, providing estate agents with a larger and larger return. Despite this, competition on price in the sector is weak. This is consistent with the industry elsewhere, too – the UK Office of Fair Trading (OFT) recently conducted a review of UK real estate buying and selling.⁵⁵ It found that while 32% of those who had used a traditional real estate agent believed that the fees represented either slightly or very poor value for money, 64% said that they did not negotiate a lower fee.

Property sellers and their brokers represent a classic principal-agent problem, where there exists an information asymmetry between the two. Agents are employed for their special knowledge of the real estate market, however the principal has little understanding of their effort, or even the output, relative to other possible agents. As well as not being able to monitor effort, sellers have, generally, a poor understanding of what this effort is worth in the market. This situation is what leads to poor

⁵⁵ Office of Fair Trading (2010).

competition on price, and what seems an unnecessarily high barrier to residential mobility.⁵⁶

As in the UK, alternative models of real estate agency have begun to emerge in Australia, but are thus-far in their infancy. Low commissions or fixed fees would have a significant effect on housing turnover, and should be encouraged. Negotiations and direct competition between alternate brokers should also be encouraged. Governments and consumer advocacy groups have a role to play here, providing tools for potential sellers which help them undertake such negotiations, and encouraging exploration of alternate models of agency. Governments should mandate that real estate agents make public their sales and commissions data. These could then be analysed and published by private firms, allowing direct comparison between estate agents.

Preferential treatment of the home in asset tests

The primary residence receives preferential treatment in the asset tests for income support payments, such as the age pension. This provides a disincentive to pensioners downsizing (and thus realising their asset) as they might otherwise.⁵⁷

The rationale for treating the home preferentially is clear – in the case that a pensioner is asset rich but cash poor, without this clause the value of their home might exceed the asset threshold, thus forcing them to sell their home to pay for their living expenses. However, there are there are approximately 730,000

households that are owned outright by age pensioners,⁵⁸ so this is clearly a significant barrier to our more efficient utilisation of housing stock.

To make it easier for these households to downsize, as some of them will want to do, the proceeds of the sale of the primary residence should receive preferential treatment in the age pension asset test. Of course, this could easily be gamed by upsizing immediately prior to reaching the pension eligibility age. Such gaming could be discouraged by a clause stating that for the proceeds to receive preferential treatment in the asset test, the person must have lived in the same house for several years.

⁵⁶ Anglin and Arnott (1991).

⁵⁷ Wood *et al.* (2011).

⁵⁸ Based upon 2006 ABS Census data and data specially requested from Centrelink, and assuming that the proportion of pensioners living alone is the same as the proportion of pension-aged Australians living alone.

Appendix B – Definition of housing types

Table B.1: House types

Type	Comment
Detached	Sometimes referred to as 'separate houses'. Detached houses vary significantly in size.
Semi-detached	Includes townhouses, terrace houses, row houses, courtyard houses and villa units.
Up to 3 storeys	Sometimes referred to as 'low-rise' or 'walk-ups', these are apartments or units in buildings up to 3 storeys.
4 storeys and above	This covers a range of buildings, including high-rise apartments and blocks of flats. We focused on apartments in buildings of 5-8 storeys.

Appendix C – People who contributed to our report

In October we held workshops with senior developers, planners, academics and public servants in Sydney and Melbourne. The workshops were very useful for testing our thinking and informing the final report, and we thank the following attendees for their help:

Last name	First name	Affiliation	Last name	First name	Affiliation
Arcaro	Dominic	VicUrban	Newton	Peter	Swinburne University
Beaumont	Peter	DPC Victoria	O'Toole	Sean	Landcom
Bennet	Robert	Lend Lease	Otto	Anthony	Winten Property Group
Blake	Adrian	ANZ	Ramkrishnan	Maya	DPC Victoria
Byrne	Paul	Growth Areas Authority, Victoria	Shankie-Williams	Norma	DPI NSW
Chesterman	Andrew	City of Brisbane	Speed	Caroline	Residential Development Council
Curry	John	Brookfield Residential Properties	Sussex	Meredith	CoAG Reform Council
Davis	Brent	Master Builders Australia	Thomas	Cheryl	Council of Capital City Lord Mayors
Hrovatin	Silvia	Walker Group Holdings	Toohill	Siobhan	Stockland
Hunter	Bruce	Wyndham City Council	Turnbull	David	City of Whittlesea
Jurjevic	Angela	DPCD Victoria	Turnbull	Lucy	Turnbull and Partners
Kakas	Caryn	Residential Development Council	White	Carrie	Municipal Association of Victoria
Kelly	Kirsty	Planning Institute of Australia	Whitson	Andrew	Stockland
Khong	Daniel	VicUrban	Wisdom	Andrew	Arup
London	Geoffrey	State Government Architect, Victoria	Wood	Gavin	RMIT
Mana	Cameron	Devine	Yates	Judy	The University of Sydney
Manoski	Simon	Office of the Minister for Planning and Infrastructure, NSW	Yttrup	Brent	Burbank
Mason	Michelle	Lend Lease			

In addition to our workshop attendees, we consulted widely with industry experts, and would like to thank the following people for advising us on this report:

Surname	First name	Affiliation
Alves	Tom	Office of the State Government Architect, Victoria
Balci	Kerry	Stockland
Barlow	Michael	Urbis
Bell	Rosalind	Productivity Commission
Cotterill	Simon	Growth Areas Authority, Victoria
Dale	Harley	HIA
Donald	Owen	National Housing Supply Council
Emons	Sarah	Urbis
Glover	Rod	
Goodman	Robin	RMIT
Grollo	Lorenz	Equiset
Hampson	Keith	Sustainable Built Environment National Research Centre
Holmes	Sue	Productivity Commission
Keane	Colin	Charter Keck Kramer
Kelly	Jane	Urbis
Papeleo	Robert	Charter Keck Cramer
Purcell	Jon	Equiset
Shaw	Jason	Stockland
Taylor	Elizabeth	RMIT
Touzeau	Nicholas	Urbis
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Williams	Tim	Arup/Committee for Sydney

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