City Limits:
Urban economic development
and its policy implications

John Daley, CEO, Grattan Institute
Presentation to Auckland Conversations
1 September 2015
City limits

Australia’s economy is increasingly dominated by services produced in cities

Australian cities are nearing their limits

Planning policy needs to adjust to changing patterns of work

Tax policy should encourage rather than discourage home ownership
City limits

Australia’s economy is increasingly dominated by services produced in cities
• Services are growing much faster than other sectors
• Big cities now dominate the economy
• More jobs are concentrated in the centre of big cities, while new housing is primarily at the edge

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Tax policy should encourage rather than discourage home ownership
People are consuming more services

Share of total nominal household expenditure

Source: ABS5206 table 8
Notes: Excludes “rents and dwelling costs” and “other goods and services”. Based on seasonally adjusted current prices data
Consequently, more people are working in services

Per cent of workforce, Australia

Sources:
2. 1984-2012: ABS6291.0.44.003, table 4
Note: 1981-1983 are interpolated using 1980 and 1984 data
Manufacturing has steadily declined in Australia, “leading” international trends.

Per cent GDP

Value-added (current prices)

Export volume

Grattan Institute, *The mining boom*
Australia’s economy is dominated by its big cities

Australian economic activity, 2011-12
Per cent of State total

Grattan Institute, Mapping Australia’s economy
Some context: Auckland is a mid-size "Australasian city"

Population, millions

<table>
<thead>
<tr>
<th>City</th>
<th>2015</th>
<th>2031 (estimate)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sydney</td>
<td>5</td>
<td>5.1</td>
</tr>
<tr>
<td>Melbourne</td>
<td>4.4</td>
<td>4.6</td>
</tr>
<tr>
<td>Brisbane</td>
<td>2.8</td>
<td>3.0</td>
</tr>
<tr>
<td>Perth</td>
<td>1.7</td>
<td>2.0</td>
</tr>
<tr>
<td>Adelaide</td>
<td>1.2</td>
<td>1.4</td>
</tr>
<tr>
<td>Auckland</td>
<td>1.1</td>
<td>1.3</td>
</tr>
</tbody>
</table>

Infrastructure Australia, *Australian Infrastructure Audit*, Auckland City Council, *Unitary Plan*
Economic activity is most intense in inner cities

Economic activity by location, 2011-12, Melbourne

- CBD: $39.1b
- Southbank: $6.5b
- Docklands: $8.2b
- Dandenong: $5.9b

Height of bar indicates total economic activity
Bar not shown for economic activity less than $1 billion
Economic output per hour is highest towards the centre

Economic activity per working hour, 2011-12, Sydney

Grattan Institute, Mapping Australia’s Economy
City limits

Australia’s economy is increasingly dominated by services produced in cities

**Australian cities are nearing their limits**

- Big cities are dividing geographically
  - Inner cities have much better education levels, access to jobs, high incomes
  - The divide is increasing, particularly disadvantaging women
- Many people want to make different housing choices
- Home ownership is falling for all ages under 55, particularly those on low incomes

Planning policy needs to adjust to changing patterns of work

Tax policy should encourage rather than discourage home ownership
Most new jobs are towards the centre, while most new homes are on the edge

Employment and population growth, 5 largest Australian cities, 2006-11

Jobs per resident, 5 largest Australian cities, 2011

Grattan Institute, City Limits
Inner suburbs have much high levels of tertiary education

Tertiary education levels by suburb, Brisbane 2011

Grattan Institute, Productive Cities
Most Brisbane residents have good access to jobs by car...

Percentage of Brisbane jobs that can be reached in 45 minutes by car

Grattan Institute, *Mapping Australia’s Economy*
... but Sydney shows how there can be real problems

Percentage of jobs that can be reached in 45 minutes by car

Grattan Institute, *Mapping Australia’s Economy*
... and public transport leaves many of Melbourne’s outer suburbs under-served

Percentage of Melbourne jobs that can be reached in 60 minutes by public transport

Residents living in the darkest shaded suburbs can reach more than half the jobs within a 60 minute public transport trip. In the lightest shaded areas, residents can access fewer than one in ten of those jobs.
Women in poorly-connected areas face more difficult compromises

Differences in male and female workforce participation by suburb, Sydney 2011

[Color-coded map showing workforce participation rates by suburb]
Poor access to job leads to poor social outcomes

Percentage of disaffected youth, Perth, 2011
The divide between people and jobs has big consequences

In outer suburbs people earn lower incomes on average, and are more likely to be employed on casual basis.

Harder for women caring for children in outer areas to participate in the workforce.

Longer commutes result in:
• Higher living costs of thousands of dollars a year
• Pressure on family life
• Lower well-being
Many people want to trade off location against price and dwelling type

Desired trade-offs between location and house type - Sydney

Grattan Institute, *The housing we’d choose*
The market is supplying less medium density than people want

Comparison between preferences and availability - Sydney

2 – ‘Inner-Middle’ Zone
Shortages of:
• c.80k semi-detached dwellings
• c.80k apartments in 4 storey + buildings

3 – ‘Outer-Middle’ Zone
Shortages of:
• c.80k semi-detached dwellings
• c.80k apartments in 4 storey + buildings

4 – ‘Outer’ Zone
Shortages of:
• c.60k semi-detached dwellings
• c.60k apartments in buildings up to 3 storeys
• c.60k apartments in 4 storey + buildings

Grattan Institute, *The housing we’d choose*
Wealth is dominated by home ownership, but home ownership rates are falling

Composition of household wealth, 2010

Home ownership rate by age
Per cent

Grattan Institute, *The wealth of generations*
Home ownership rates have fallen fastest for young people on low incomes

Percentage point change in home ownership rates, 1981 to 2011

Home ownership rates have fallen fastest for young people on low incomes.
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Planning policy needs to adjust to changing patterns of work

- Planning policy results in developers failing to build people the housing they want.
- Planning policy is economic policy: middle ring medium density development is probably the largest single lever for both economic growth and social equality
- Residential tenancy policy needs to adjust to lower rates of home ownership

Tax policy should encourage rather than discourage home ownership
Renting closer to jobs is a worse option than owning in Australia

### International comparison of rental conditions

<table>
<thead>
<tr>
<th></th>
<th>Indefinite</th>
<th>2-3 years</th>
<th>6-12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Typical lease term</strong></td>
<td><img src="#" alt="Germany" /></td>
<td><img src="#" alt="France" /></td>
<td><img src="#" alt="United Kingdom" /></td>
</tr>
<tr>
<td><strong>Notice period for landlords</strong></td>
<td>3 months or more</td>
<td>2 months</td>
<td>30 days</td>
</tr>
<tr>
<td><img src="#" alt="Germany" /></td>
<td><img src="#" alt="France" /></td>
<td><img src="#" alt="United Kingdom" /></td>
<td><img src="#" alt="Australia" /></td>
</tr>
<tr>
<td><strong>Reasons lease can be terminated</strong></td>
<td>Non-payment/misconduct only</td>
<td>Landlord selling/moving in</td>
<td>Any reason with notice</td>
</tr>
<tr>
<td><img src="#" alt="France" /></td>
<td><img src="#" alt="United Kingdom" /></td>
<td><img src="#" alt="Australia" /></td>
<td></td>
</tr>
<tr>
<td><strong>Pet ownership</strong></td>
<td>Tenant entitlement</td>
<td>Subject to restrictions</td>
<td>Only with landlord’s consent</td>
</tr>
<tr>
<td><img src="#" alt="Germany" /></td>
<td><img src="#" alt="United States" /></td>
<td><img src="#" alt="Australia" /></td>
<td></td>
</tr>
<tr>
<td><strong>Minor alterations</strong> (hanging pictures, laying carpet, painting)</td>
<td>Permitted – considered normal use</td>
<td>Only with landlord’s consent</td>
<td></td>
</tr>
<tr>
<td><img src="#" alt="Germany" /></td>
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Grattan Institute, *Renovating housing policy*
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Tax policy should encourage rather than discourage home ownership
- CGT discounts and negative gearing are encouraging investors rather than occupiers
- Property taxes are a better means to raise revenue than the alternatives, and would improve housing affordability
Collective losses became large after the CGT discount was introduced

Total net rent $ 2013-14 ($bn)

More landlords are negatively gearing and average losses are growing

Limiting negative gearing in the 1980s did not appear to increase rents outside Sydney

Real change in rents, percentage change from year earlier

Source: ABS, Consumer price index, cat. no. 6401.0, table 12; see also Greg Jericho, Negative gearing: a legal tax rort for rich investors that reduces housing affordability, The Guardian, 19 March 2015.
Australia has lower property tax revenues than some comparable countries

Taxes on property and transactions, per cent of GDP

Source: OECD (2014), *Revenue statistics*, updating Grattan Institute, *Property taxes*
Conclusions

- Australia’s economy is more knowledge-intensive than ever
- City centres are vital for knowledge-intensive activity and economic growth
- Our cities have not adjusted well to these changes in the economy
- This is bad for the economy and bad for opportunity
- Housing, transport, and tax policies can support or hinder access to jobs, and choice for both employers and employees
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