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NSW Productivity Commission
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Re: Response to the NSW Productivity Commission Green Paper

Thank you for inviting feedback on your findings and recommendations for improving productivity in NSW as outlined in the Productivity Commission Green Paper. Our feedback relates primarily to the themes of planning, housing, and infrastructure.

As professors of urban planning and housing we recognise and support the government's commitment to continually improve the performance of the planning system. Further, recognising the serious housing affordability pressures affecting lower income earners in NSW and the estimated shortfall of over [106,000 affordable rental dwellings](#) in Sydney (2016), we endorse the government's recognition that housing is a critical component of economic productivity.

However, it is important that any recommendations for change are based on careful analysis of the evidence, sound analysis of the housing market, and a detailed understanding of the current operations of the planning system. We are concerned that the Green Paper is seriously flawed in this regard.

For instance, the Green Paper suggests that there is an overall housing shortage in a property market characterised by falling prices; it contains recommendations that are already government policy and practice; and it suggests an additional bureaucratic process that will have no impact on housing market outcomes. The sources of evidence cited in support of these findings and recommendations are dated, missing, or misconstrued.

The housing "shortage"

A fundamental proposition in the Green Paper is that there is a housing shortage in Sydney. As noted above there is certainly a shortage of rental dwellings that are affordable and available to low income earners, and well documented barriers to first home ownership which reflect significant house price inflation over the past two decades (for a fuller analysis see recent AHURI research led by [Terry Burke](#)). Housing supply is inherently "sticky", although as noted by Burke and others, the responsiveness of Australia's housing supply to demand has increased in recent years, perhaps because of

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the shift to higher density apartment developments. Nevertheless, this increase has not been sufficient to dampen price inflation, in the context of very strong demand side drivers (such as low interest rates and easy access to finance). We are surprised that the Green paper does not acknowledge the role of these pressures on housing demand.

Two pieces of evidence are cited in the Green Paper to describe Sydney's housing shortage – a NSW Treasury housing and population model and a comparison with housing supply targets set by the NSW government. These are shown in Figure 7.1. The Treasury model uses 2006 estimates of persons per dwelling to say there is a housing shortage. When we read the Technical Note to the model, it defends using the 2006 estimates based on the claim that the increase of persons per dwelling in 2011 was a one off and related to the GFC and that things would soon return to normal. However, we would argue that the 2016 data shows instead of the 2011 figure being a one-off this is part of an ongoing trend. The Green Paper seems deeply worried about this change calling it a 'concerning' trend. Given that Sydney has some of the largest dwellings in the world, wouldn't this more intensive use of expensive assets be a good thing. And given that Sydney is the most expensive housing market in the nation, is it a surprise that that trend is higher than in Brisbane?

In relation to the question of a housing shortage there is no consideration of the most obvious piece of evidence about shortage - the state of the rental market. As [ViforJ](#) has described, the clearest measure of a housing shortage is to examine the changes in rents in a housing market. In the March quarter of 2016 2 bedroom rents in Sydney were \$530 per week, whilst in the March quarter 2019 and March quarter 2020 they were \$520 per week i.e. rents have decreased (rent and sales report link). This hardly supports the thesis of a shortage. We would argue that there clearly is a shortage of affordable housing but not of total housing. A key recommendation of a market with a shortage of affordable housing might be some strategies to make affordable housing more available, for example through implementing the Government's affordable rental housing targets but these are not part of the recommendations.

In other words, while we agree that monitoring housing supply relative to population growth is important, we need evidence to understand whether the planning system or some other force – such as market trends – explains housing outcomes.

In fact, Department of Planning data suggests that planning is not operating as a binding constraint on housing development. For instance, dwelling approvals are consistently running ahead of housing completions. There were 244,535 dwelling approvals in Greater Sydney between 2015-2019 compared to 180,599 (net) dwelling completions. Net completions undercount actual dwelling production, so explain some of this discrepancy. However, some approvals exist for longer than five years in the system¹.

¹ The Department of Planning has a unit that forecasts future housing completions in NSW. They keep track of unused approvals (ie approvals where construction is not active). They counted 100,000 unused approvals at the end of 2018.

To the extent that new housing supply is a problem for economic productivity in NSW, we suggest investigating other potential bottlenecks such as housing finance and large developers drip-feeding the market to maintain price pressure on their holdings, as documented in recent [research](#) published by Dr Cameron Murray in the peer reviewed Journal of Housing Economics.

Other data used in the Green Paper to substantiate the idea of Sydney's housing shortage misunderstands the nature of the city's recent population growth. For instance, one of the indicators – comparing the number of dwellings completed per 1000 people across cities – is a very coarse statistic, because the number of dwellings completed in each city will depend on the nature of population change. In a city like Sydney where much of the population growth has been based on temporary international migrants especially international students the level of growth will be different to a city like Brisbane where the growth is based much more on internal migration. A significant proportion of international students end up in special purpose student housing which isn't included in dwelling completions data.

The location of new housing supply

The Green Paper expresses concern about lower levels of new supply in Sydney's inner city. However, the role of the planning system is to provide housing opportunities for households across the income range and across the geographic areas of Sydney. One of the positive things about recent development in Sydney is that it has been demonstrably across the city (unlike Melbourne where it has been concentrated in inner city areas). This has provided more households an opportunity to downsize to an apartment in their local area.

Planning decision times

Whether or not planning is operating to constrain housing supply, we agree that an efficient system for assessing development supports productivity. However, we are unconvinced by the evidence presented that there are significant productivity gains to be achieved by a further emphasis on planning system decision times.

The data presented on the time to process development applications is hard to follow, and sources are not quoted, so we are not sure if you are using gross or net processing times (net times don't include time waiting for missing information). In any case, looking at the NSW Local Development Performance Monitor and using median net times, there has been a marginal increase by one day from 35 days to 36 days from 2015-16 to 2017-18. This increase can be explained by the increase in the proportion of development dealt with as complying development over this same period. As simpler matters (with shorter processing times) are moved out of the 'DA' stream into the complying development pathway you would expect the median time taken to process DAs would increase, because the remaining matters are more complex.



Further, whilst we should reduce processing times of DAs where possible, benchmarking against other States is only appropriate if you are comparing like with like (ie. if we are able to be sure that exactly the same types of matters are being compared). If you simply judge a planning system by the DA processing times this would provide a perverse incentive for the system not to adopt more complying development pathways because the average time for more complex assessments would appear to increase.

Infrastructure contributions

The Green Paper correctly notes the importance of an infrastructure contribution which is transparent, certain, and consistent. We would add that more careful sequencing of development in new release residential areas will make the most efficient use of existing and planned infrastructure investment.

Draft recommendations 7.1

We have provided comments on the individual actions in this recommendation

Draft recommendation 7.1

Require councils to analyse housing supply capacity and show that planning controls are consistent with the dwelling needs identified by Greater Sydney's 20-year strategic plans for 5-year, 10-year and 20-year windows.

This element simply describes current Government policy and practice.

Where a lack of capacity is identified, ensure councils revise their Local Housing Strategies and Local Strategic Planning Statements to reflect the objectives identified in the Greater Sydney strategic plans.

This is also understood to be existing practice. Further, Local Environmental Plans will not move from draft to a final instrument until the capacity in the plan matches the targets.

Ensure councils immediately update relevant planning instruments to meet 6-to-10-year housing targets and report housing completions by Local Government Areas every six months.

If there is evidence that Local Environmental Plans do not accommodate planned housing targets, we support efforts to assist their review and updating.

More efforts to collect accurate and timely housing completions data are supported, although the system of private certification means that completions data is not always submitted to councils in timely ways. The state government may be in a position to take a stronger coordinating role on housing completion data collection and reporting.

Publish annual 10-year forecasts for State-led/partnered precincts.

We support any recommendations associated with providing data on existing and planned housing and urban development.

Monitor housing forecasts and projections on a six-monthly basis. Where housing shortfalls arise, require councils to revise housing strategies and Local Strategic Planning Statements to indicate how the shortfalls will be remedied



This recommendation is difficult to understand because it is the role of the development industry to bring forward projects. Asking councils to change their plans when there is little demand for new development (eg in the next few years because of reduced migration) is just adding red tape. However, we would support any innovation designed to ensure that approved housing developments are commenced and completed in a timely way.

Further concerns about new housing development relative to population growth and need require additional support to be directed to the non-profit housing sector in the form of funding to produce residential accommodation during market downturns.

Yours sincerely,

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