



27 November 2019

The NSW Productivity Commissioner  
[ProductivityFeedback@treasury.nsw.gov.au](mailto:ProductivityFeedback@treasury.nsw.gov.au)

Dear Sir,

**NSW PRODUCTIVITY COMMISSION DISCUSSION PAPER - KICKSTARTING THE PRODUCTIVITY CONVERSATION**

## **INTRODUCTION**

City West Housing (CWH) appreciates the opportunity to provide input into the NSW Productivity Commission's Discussion Paper: *Kickstarting the Productivity Conversation* (The Discussion Paper). We are pleased to note that improving housing choice and affordability is a key focus of the Discussion Paper, with a number of potential reform areas identified to support the Treasurer's Productivity Priority of 'Making housing more affordable'.

CWH has extensive experience delivering and managing affordable housing in NSW, particularly in areas of high demand such as the City of Sydney local government area (LGA). Since its inception in 1994, CWH has successfully partnered with the all levels of Government to realise its vision of providing 'quality, affordable rental housing to support low to moderate income households to live and work in the Sydney area'.<sup>1</sup>

CWH's initial focus was the development and delivery affordable rental housing as part of a mixed residential community in the Ultimo/Pymont area for people on very low to moderate incomes. As a result of its initial success, CWH expanded its operations to Green Square and now owns and manages affordable rental housing across the City of Sydney LGA. Today, CWH is a Tier 1 registered community housing provider (CHP) that will be managing close to 900 affordable rental properties it has developed and owns in the City's LGA. by early 2020.

The Council for Economic Development of Australia estimates that our nation requires around 20,000 extra affordable rental dwellings each year. This need is especially urgent in high-cost housing markets like Sydney, where a recent study found that Sydney lost close to 20% of its essential services workers – including emergency workers, teachers and nurses, in the ten years to 2016.<sup>2</sup>

This submission provides a brief description of CWH's operation and scope, including its history of successfully delivering and managing affordable housing to meet the needs of very low to moderate income households, including a range of essential workers. It sets out the challenges faced by CWH in delivering more cost-effective and high-quality affordable housing, and makes a number of recommendations on how improvements to the planning and regulatory system could allow for the more efficient and innovative delivery of affordable housing that meets the specific needs of NSW's diverse population, and in turn lead to positive productivity outcomes.

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<sup>1</sup> City West Housing, *Annual Report* (2018)

<sup>2</sup> Ibid

We welcome the opportunity to participate in the Productivity Commission's consultation process and look forward to providing further input and insights as the Commission refines its priority areas and policy options as part of the Productivity Green Paper.

## ABOUT CITY WEST HOUSING

In 1994, the NSW Government established CWH as an independent not for profit housing provider. The initial focus was on developing and delivering affordable rental housing as part of a mixed residential community in the Ultimo/Pymont area for people on very low to moderate incomes. As a result of its initial success, CWH expanded its operations to Green Square and now owns and manages affordable rental housing across the City of Sydney. Today CWH is a Tier 1 registered CHP with strong development capability and a commitment to service delivery.

One of CWH's unique characteristics is that we invest in housing for the long-term. We both develop and manage affordable housing, meaning that we have an interest in designing and developing housing that is high-quality, sustainable, and meets resident needs. For example, we look to minimise water and electricity use in our designs through capturing and re-using rainwater and using insulation and passive ventilation.

Our ongoing investment in the areas in which we operate, and the support we provide to our residents across a range of income groups to help them access the benefits of living close to jobs, supports, and other amenities, helps us contribute to inclusive communities and the functioning of our city. Our vision is *'to provide quality, affordable rental housing to support very low to moderate income households to live and work in the Sydney area'*.<sup>3</sup>

This year CWH commenced two new developments in the City of Sydney LGA - in Glebe and Harold Park - which will bring the number of affordable rental apartments we own and manage to 897 by the end of 2019. In terms of our future growth plans, CWH's project development pipeline will see us nearly double our affordable rental housing apartment numbers over the next ten years. With other new development projects awaiting approval and more planned land acquisitions, we are on track to deliver a pipeline of more than 400 additional apartments (over and above the 174 under construction) over a five year period, housing some 1,000 new residents.

A proportion of these additional residents will be lower income workers in the City of Sydney, contributing to productivity. The developments themselves also generate employment and provide a range of other flow on effects, to the spending of wages and salaries that create consumption effects to the manufacturing and supply of goods and services for construction that generate further employment and benefit the economy as a whole. Property development has well known multiplier effects with 2002 ABS data suggesting that for \$1m of extra output of construction a further \$2.9m in output would be generated in the industry as a whole, including 9 additional jobs in the construction industry alone. As affordable rental housing developed, owned and managed by not for profit community housing providers such as City West Housing is not being sold to home owners but retained for the long term there are also the jobs generated in the community housing industry to maintain these properties and manage the tenancies.

Our experience in delivering these new developments, and the challenges in securing funding and opportunities for the delivery of additional affordable housing, has informed a number of the recommendations made in this submission. This submission also draws on our long-standing experience in managing affordable housing and the demonstrated, positive social and economic outcomes that arise when Australian households on very low to moderate incomes have access to well-located, affordable and appropriately-designed accommodation.

As stated above, there are strong links between stable, well-located housing affordable housing and quantifiable economic benefits. This submission highlights these productivity gains to support the ongoing prioritisation of affordable housing supply as a key element in supporting increased productivity in NSW.

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<sup>3</sup> City West Housing, *Annual Report* (2018)

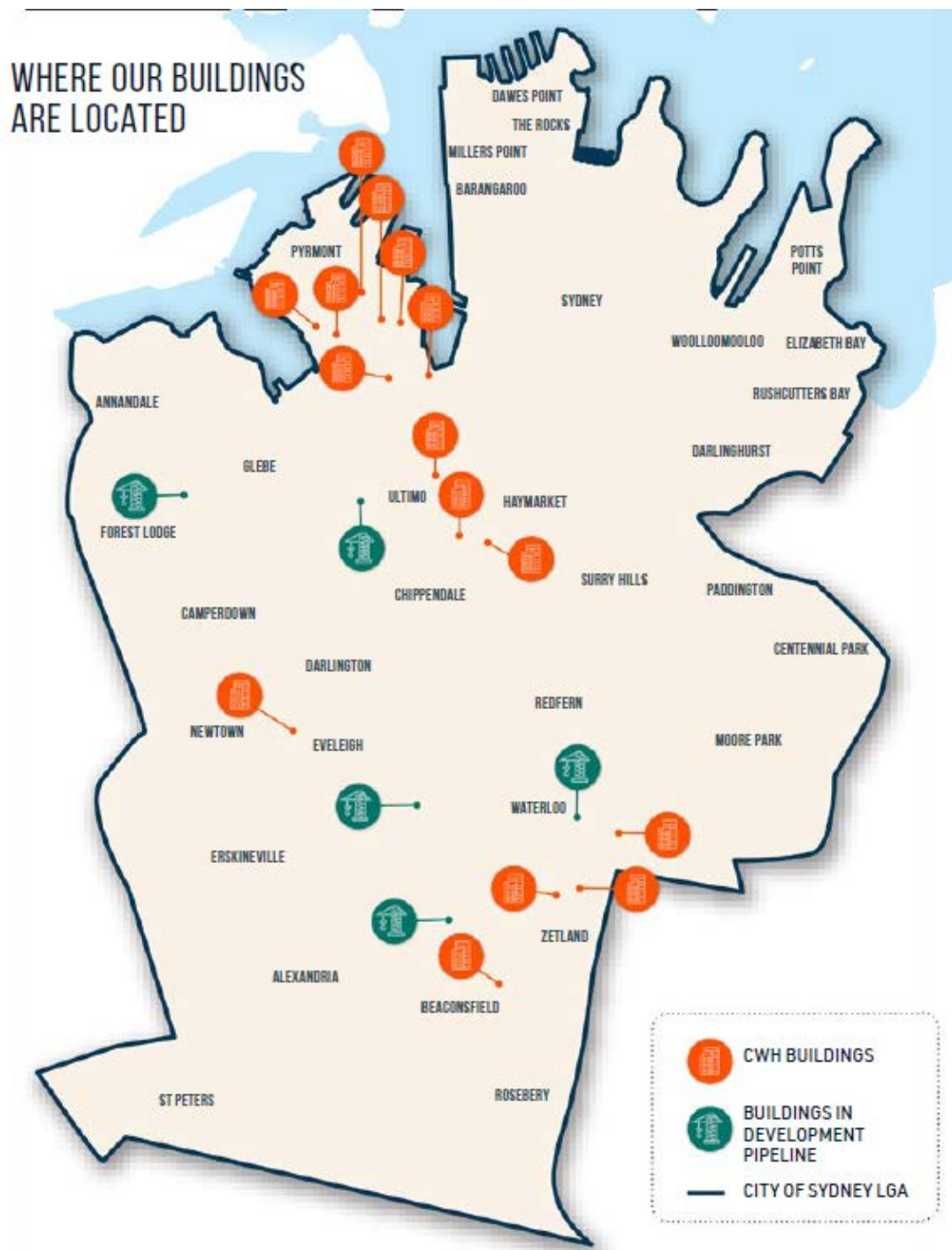


Figure 1 – CWH Existing and Planned Buildings

## WHAT DOES THE DISCUSSION PAPER SAY ON HOUSING?

The Discussion Paper frames the challenge of ‘*Providing greater housing choice to balance labour mobility with tenure security*’ to meet around the following key issues:

- *Australia has a high level of tenant mobility. In part, this reflects poor tenure security, evidenced by a high number of involuntary tenancy terminations. Evidence suggests that security of tenure can improve socioeconomic outcomes.*
- *The Build to Sell development model can be excessively cyclical.*

As part of its consultation process, the Productivity Commission has asked the following questions in relation to the above challenge:

- *Should the NSW Government level the playing field in the housing sector by supporting a more stable source of housing supply? If so, how?*
- *What is the most efficient mix of planning, regulatory and tax settings to deliver outcomes that get the balance right between tenure security and housing mobility?*

The Discussion Paper notes that cities support productivity growth through agglomeration - the productivity benefits associated with the physical proximity of businesses, workers, and consumers. However, the productivity benefits of agglomeration cannot simply be assumed. There is strong evidence that rising congestion costs associated with systemic housing shortages are reducing the productivity gains associated with agglomeration economies.<sup>4</sup> The negative impacts of high housing costs are noted in the Productivity Commission’s Discussion Paper, but not fully quantified.

The housing-agglomeration economy links are explored in detail in a recent research paper published by the City Futures Research Centre at UNSW – *Strengthening Economic Cases for Housing Policies* (February 2019), for which City West Housing was a financial contributor. The Research Paper notes that the more workers who can access jobs within 30 minutes of their home, the higher the effective supply of labour. It models a Better Housing Outcomes scenario for NSW where, over a 10-year timeframe, 125,000 affordable dwellings are delivered in well-serviced, accessible locations within 30 minutes travel time of locations with high Effective Job Densities typical of city-centre locations.

The Paper estimates an average productive travel time saving (or labour supply increase) of \$1,277 per worker per annum would be achieved under this scenario versus a business-as-usual model. Over a ten-year period, this is estimated to represent \$2.26 billion of travel time savings.<sup>5</sup>

The Paper also notes that households with greater accessibility to labour markets can access a wider range of jobs that better fit their capabilities and preferences, and the needs of the employers. Labour market participation and productivity therefore increases and is reflected in increased earnings and flow on effects through the economy. As a result, the City Future’s Research Paper estimates that delivery of 125,000 new affordable homes in accessible locations would result in \$17.57 billion worth of human capital uplift associated with better job choices over a ten-year period.<sup>6</sup>

This demonstrates the productivity benefit of providing affordable housing in close proximity to transport, services and jobs, a benefit, well understood by City West Housing which has a focus on housing not only lower income vulnerable households but low to moderate income ‘working’ households’ with a connection (typically employment) to the City of Sydney.

To be eligible for our affordable housing applicants must “Live.Work.Local”, with the Company maintaining its own waiting list. An inability to source workers to support the local economy is an issue for many Local Government Areas and in particular in higher cost housing markets, with a commensurate impact on productivity.

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<sup>4</sup> City Futures Research Centre at UNSW - *Making Better Economic Cases for Housing Policies* (2018).

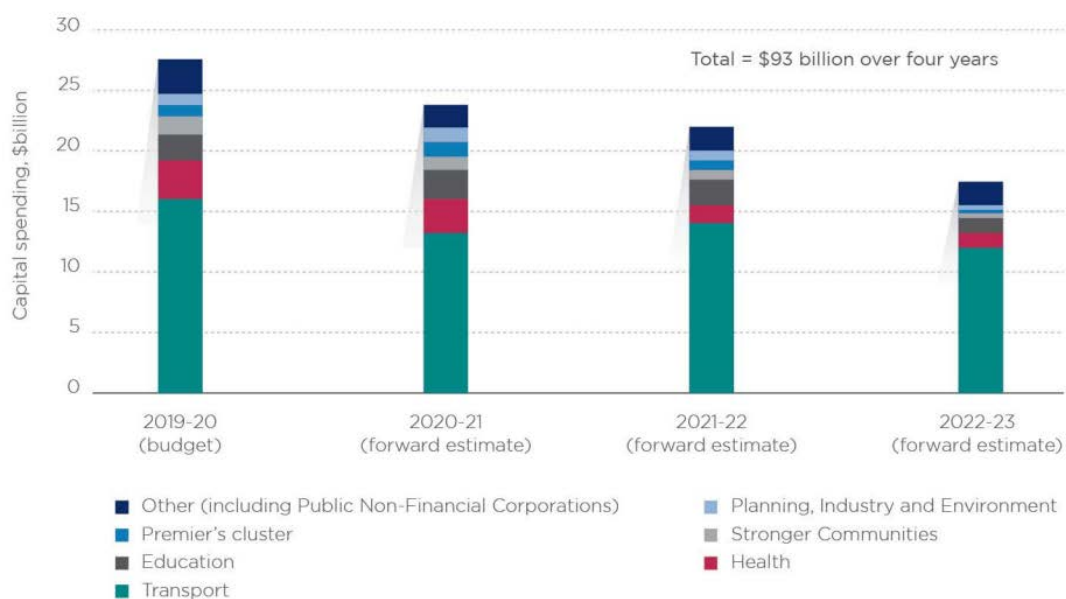
<sup>5</sup> City Futures Research Centre at UNSW – *Strengthening Economic Cases for Housing Policies* (February 2019).

<sup>6</sup> Ibid.

The Productivity Commission’s Discussion Paper notes that Sydney’s population growth means delivering affordable housing will remain an ongoing challenge. It focuses on planning regulations such as zoning controls, the building code and other design guidance including the Apartment Design Guidelines (ADG), and suggests that over-prescriptive controls in the ADG may be leading to reduced housing affordability. The Discussion Paper also highlights the inefficiencies within the development assessment process - including delays in assessment – as a key factor impacting productivity gains.

CWH strongly supports the review of the planning system to improve efficiency. A lengthy and complex development assessment process adds significant costs to affordable housing projects. A fast-tracked assessment process for affordable housing development should be explored. The review of relevant planning controls to ensure the planning system supports the delivery of high-quality affordable housing would also be of benefit. This review could go one step further and could be extended to include greater flexibility for parking requirements in areas of high public transport connectivity to minimise development costs, as well as some flexibility in design excellence requirements in particular LGAs. It is recommended that the Productivity Commission take into account the particular attributes of affordable housing and its tenant cohort in reviewing existing planning controls, and consider specific controls for affordable housing that meets the needs of its residents whilst keeping development and construction costs down.

The delivery of affordable housing also needs to be seen in a far broader regulatory context. The Discussion Paper canvasses possible Government interventions to ‘level the playing field in the housing sector’. Whilst the Paper acknowledges the role of well-located social and affordable housing as important facilitators of economic participation and social inclusion in Section 6 - *Smart ways to get more from our infrastructure* – it does not explicitly identify social and affordable housing as ‘infrastructure’ (see **Figure 2** below).



**Figure 2 – NSW Government Capital Expenditure (NSW Government, 2019)**

This omission fails to acknowledge the identified productivity outcomes of providing stable, affordable housing close to jobs, transport and services. The positive productivity outcomes of investing in transport infrastructure are well recognised and reflected in ongoing Government investment in this sector. However, the recent City Futures Research Centre Paper confirms that the cost/ benefit ratios for housing investments for middle and low-income households in appropriate locations is at least on a par with transport and other infrastructure investments. The Paper notes that when ‘*very long-term investments are made, such as housing and transport infrastructure, the possibility of evolutionary and emergent effects on the economy cannot be discounted*’.<sup>7</sup>

<sup>7</sup> City Futures Research Centre at UNSW – *Strengthening Economic Cases for Housing Policies* (February 2019)



It is essential that the Productivity Commission treat investment in affordable housing as infrastructure investment, and structure policies for delivery of affordable housing on this basis. This is consistent with the IPART *Review of Rent Models for Social and Affordable Housing* (2017) which recommended an implicit subsidy for social and affordable housing be implemented recognising the value of social and affordable housing as an infrastructure investment with potential economic returns. Notably, the cost to Government of delivering the Better Housing Outcomes scenario modelled in the City Futures Research Paper (i.e. 125,000 additional affordable housing dwellings over a ten-year period) was \$7.27 billion, significantly less than the quantifiable productivity gains resulting from this investment.

It is also important that the links between the provision of accessible affordable housing and the role of human capital in productivity growth be acknowledged. As previously mentioned, well-located affordable housing improves job matching between workers and employers and increases workforce participation. This is particularly important for essential services workers in the very low-to-moderate income range.

In January 2018, the University of Sydney's Urban Housing Lab published a report - *Key worker housing affordability in Sydney* – which considers the adverse impact that rising housing costs are having on the availability of key workers in the Greater Metropolitan Sydney regional, in particular inner metropolitan areas. The report notes that *'in performing their roles in education and public health and safety, key workers significantly influence the social and economic wellbeing of cities...supporting key workers to live in high values areas can have significant 'spillover' benefits for economic efficiency and productivity'*.<sup>8</sup> Efforts to support key workers to settle and remain in higher value urban locations have significant benefits that extend beyond the households who are assisted. This is because the services they perform contribute to economic productivity in ways that far exceed the remuneration of individual workers.<sup>9</sup>

In Sydney there is a growing mismatch between where key workers live and work. Although key worker jobs are situated throughout the metropolitan region, and particularly in inner Sydney, the majority of the metropolitan region's key workers reside in outer ring suburbs due to the significant costs of inner Sydney rents and house prices. The Urban Housing Lab report notes that for higher income key workers and dual income key worker households, there are a number of inner and middle ring suburbs that have a purchase unaffordability gap of just \$50,000. Market strategies and policy interventions (to help secure affordable housing opportunities within new developments) might be particularly effective in these contexts and should be explored by the Productivity Commission.

The Urban Housing Lab report examined the number of key workers as a proportion of all workers in each Sydney LGA. City of Sydney LGA had the lowest key worker population across NSW, followed by a number of other inner Sydney LGAs. This highlights the significant challenges faced by CWH in delivering sufficient affordable housing to meet the needs of very low-to-moderate income households - many of whom are key workers - in the City of Sydney LGA.

CWH's extensive experience in meeting and addressing these challenges provides it with unique insights to assist the Productivity Commission to develop and implement policies to support the delivery of additional affordable housing in the right locations to meet the needs of NSW households. CWH recommends the following policy directions be considered in formulating the recommendations in the Productivity Commission's Green Paper:

- The quantified productivity gains from providing affordable housing in the right locations be acknowledged and documented;
- Affordable (and social) housing should be clearly identified as infrastructure with associated productivity outcomes;
- Investment in affordable housing should be treated the same as investment in other forms of infrastructure including transport infrastructure;
- An implicit subsidy be provided for the provision of affordable housing which recognises the economic gains that would be generated as a result of this subsidy;

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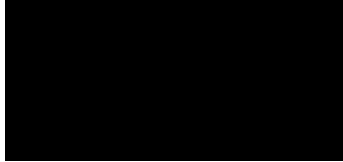
<sup>8</sup> Sydney University Urban Housing Lab - *Key worker housing affordability in Sydney* (2018)

<sup>9</sup> University of Westminster - *Estimating the value of discounted rental accommodation for London's 'squeezed' key workers* (2016)

- Market and policy strategies to improve affordability for 'essential worker' housing in middle and inner ring Sydney suburbs should be explored; and
- Opportunities to improve the development assessment and planning system, particularly for affordable housing development should be considered.

We would welcome the opportunity to participate in further consultation to support the Productivity Commission as it develops strategies to increase productivity across NSW.

Yours Sincerely



City West Housing