Local government and housing in the 21st century:
The City of Sydney’s approach to the supply of affordable housing

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Foreword

Local Government and Housing in Australia for the 21st Century: New Challenges, New Agendas

It is my pleasure to introduce this publication by Alan Morris and Benjamin Hanckel of the University of Technology Sydney that examines the approach taken by the City of Sydney to the supply of affordable housing. This research was undertaken as part of an ARC Linkage Project (LP150100160) on Local Government and Housing in 21st Century Australia. This paper is one of a series of documents produced by the research team as we progress through our program of work, and builds upon earlier publications in this series including Local Government and Housing in the 21st Century: A Discussion Paper (Beer et al 2017) and our earlier work, Housing and Local Government in Australia in the 21st Century (Beer, Morris and Paris 2014).
This program of work is informed by an acknowledgement of two realities: first, housing affordability remains a major challenge for many parts of Australia – urban and rural – and this crisis has been evident since 2000 (Baker et al 2016; Bentley et al 2015; Beer et al 2015; Wood and Ong 2011). There is a clear and evident need for policy reform to ensure the supply of adequate affordable housing (Demographia 2016), and while a number of options have been suggested (Berry 2003; Beer, Kearins and Pieters, 2007; Gurran and Whitehead 2011; Yates 2013) effective and politically acceptable solutions have not yet emerged. Second, it is clear that the roles undertaken by local government in the housing sphere have changed over the past two decades. Where once the overwhelming majority of local governments across Australia restricted their engagement with housing to the implementation of planning schedules, there is growing evidence of innovation and action across a broad spectrum of councils. For example, in the early 2000s the City of Salisbury in northern Adelaide experimented with leasehold tenure for housing developments on land owned by council as a way of delivering home purchase to low income groups. At the same time the City of Waverley in Sydney has maintained its own stock of rental dwellings and other councils – the Brisbane City Council, the Gold Coast Council and the City of Port Phillip have supported the establishment of housing associations. We should not forget, of course, the very active approach taken by the City of Sydney which is documented in this report. Clearly, change is happening and it is a many faceted and complex phenomenon.

This publication provides invaluable insights into developments in one – highly significant – local government in Australia. Over time, the project will add additional case studies to our portfolio, thereby adding to an evidence base of value to academic researchers, the general community, practitioners, state and Commonwealth Government practitioners, councillors and the professional staff in municipalities and shires across Australia.

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Introduction

The City of Sydney (CoS), relative to other local governments, has made some progress in the area of affordable housing. However, the affordable housing it has helped provide in the LGA remains well short of the desired target. This paper investigates the strategies used by the CoS to increase affordable housing and whether they can be replicated in other council areas. The first section briefly profiles the CoS. We then outline the housing affordability crisis in the CoS LGA. This is followed by a mapping of the strategies adopted to increase the supply of affordable housing. We conclude with two case studies of affordable housing projects that have been undertaken by the LGA – Pyrmont-Ultimo and Green Square.

Profile of the CoS

The estimated resident population of the CoS in June 2016 was 224,211 (ABS 2017). In June 2017 there were 107,680 private dwellings (private ownership and rental dwellings, social (including public) housing, affordable rental housing) and 12,976 non-private dwellings (boarding house rooms, student accommodation rooms, residential care services). (CoS 2017a). The CoS population, spread across 33 suburbs, accounts for about 4% of the greater Sydney population. Population growth in the CoS is considerable: between June 2005 and June 2015, the population grew by 30% (CoS 2017b). In contrast, Greater Sydney grew by 16.7% and NSW by 13.8% (CoS 2017b). The population is expected to grow to over 315,000 by 2036 (City of Sydney 2017a, 2017c).
The age and household profiles are noteworthy. In 2016, the median age was 32 (36 in Greater Sydney) and about half the population was aged between 18 and 34. Only 9% of households were constituted by couples with children, compared to 35% in Greater Sydney and 37% were sole person households compared with 22% in Greater Sydney (Id Community 2017).

Despite the median weekly household income ($1,915) in the CoS being higher than that of Greater Sydney ($1,745), the proportion of households that rent in the CoS is far greater. The 2016 Census indicated that 56% of households in the CoS rent their home, compared to 33% in Greater Sydney.

It is one the wealthiest local governments in Australia. Its revenue for the year ended 30 June 2016 (figures for the year ended 30 June 2017, were not available at the time of writing) was $679 million and its expenses were $567 million. The surplus was thus $112 million. The surplus for the year ending 30 June 2015 was $210 million (CoS 2016a). Economic activity in the council area is substantial. In the 12 years period from 2004 to 2016, the City’s economy grew by 80% or $50 billion and $26 billion worth of development was approved. Since 2004, the City has invested $1.2 billion in infrastructure and community facilities. The approximately 250 projects include libraries, playgrounds, childcare centres, pools, community spaces, cycleways and even theatres (CoS 2016b).

The housing affordability crisis in the CoS

There is no doubt that for the CoS and its residents, housing affordability is a major issue. In 2015, the Lord Mayor, Clover Moore, described the lack of affordable housing as a crisis:

> We all know that there is a housing crisis in Sydney. The problem has been growing for some years, but it’s reached a point where it can no longer be ignored and it stretches across the whole metro region (Moore 2015).

A consultation process with residents on the City’s draft Social Sustainability Policy, concluded,

> Housing affordability was raised across nearly every question and every consultation activity. Diversity in housing types, tenure of leases and the changing nature of the city with increased density all featured strongly (CoS 2016c, p 2).

A report on housing issues in the CoS concluded that it is a crisis that has a range of serious consequences:

> Sydney continues to rank highly in indices of global cities, but very poorly on housing affordability ... Sydney rental affordability ranked almost at the bottom of the list of 27 major international cities in a 2012 survey – below even London and Tokyo. The housing affordability crisis, coupled with chronic undersupply of community rental housing presents a challenge to Sydney’s sustainable growth and productivity. Workers in essential urban services must be able to live in or near the city to support urban productivity and enable the economy to thrive. Businesses must be able to attract and retain a diverse workforce. Failure to address these issues can damage Sydney’s reputation as a desirable global city, with broader economic impacts (CoS 2015a, p 9).
There is a fear that the CoS council area is in danger of becoming an enclave of high income households. Since the 1980s there has been a heightened concern about the loss of low cost rental apartments and boarding houses (see Gurran 2016). In inner-city Sydney, between March 1993 and March 2013, the median weekly rent for all properties nearly tripled from $195 to $560 (Haylen 2014). The weekly median rent for a three-bedroom dwelling in the City of Sydney council area in December 2016 was $1000 (NSW Govt 2017a). House prices have soared in the last decade. In Surry Hills, a City of Sydney neighbourhood, the median price of a house has increased from around $700,000 in March 2007 to $1,180,000 in June 2014 to $1,685,000 in August 2017. The increase in rents and house prices “is making it increasingly difficult for middle and lower income households to afford to rent or buy in or near the city” (CoS 2015a, p. 3). The strong demand for housing in the CoS is linked to population growth and the inward movement of well-paid young professionals. However, the strong demand from investors is also viewed as a crucial factor. The CoS argues that the Federal Government urgently needs to review negative gearing and the capital gains tax so as to dampen speculation in housing in the CoS and more broadly:

> Demand from local and foreign investors and high income earners, along with an historic housing shortage, is driving up the cost of renting and buying in the inner city. This is pricing many essential workers, first home buyers, and young people out of the market ... The federal government continues to support residential property market speculation through tax concessions (CoS 2015a, p 13).

Housing affordability is viewed as a major impediment to sustaining a diverse and economically productive LGA. There is a recognition that “workers essential to the city are being priced out. This includes nurses, teachers, cleaners, bus drivers, administrative, hospitality and tourism sector workers, musicians and artists.” (CoS 2015a, p 3). This extends to focusing on “Indigenous households; young family households; people who are homeless and people at risk of homelessness; and young workers and students” (CoS 2009, p 9). Affordable Housing is defined by the LGA as “reasonable’ housing costs in relation to income ... [which] can be private or publicly owned, but available at a price that is less than 30% of household income” (CoS 2012, p 25).

Over the last decade the affordable and social housing stock has grown within the CoS. Since 2007, the social housing stock has increased from 9397 to 9716 dwellings and the number of affordable rental housing dwellings has gone from 447 to 835 dwellings. There has also been a substantial increase in student accommodation rooms from 2,814 rooms to 9,101 across the LGA in June 2017 (CoS 2017a). The major challenge remains affordable rental housing. It is projected that by 2030 there will be at least 138,000 dwellings in the CoS, up from 98,012 in 2014. In order to achieve the affordable housing target of 7.5%, about 9,700 additional affordable rental homes will have to be built by 2030 (CoS 2015a, p 10).
City of Sydney’s policy on affordable housing

The goal of the CoS is to deliver “… a range of affordable and social housing options that reflects the diversity of ages, family relationships, socio-economic backgrounds and employment fields in the local population” (CoS 2011, pp 1-2). The CoS has committed to ensuring that “…by 2030, of all housing in the LGA 7.5% will be social housing and 7.5% will be affordable housing delivered by ‘not-for-profit’ or other providers” (CoS 2009, p 9). In absolute numbers this translates to 10,500 social housing units and 10,500 affordable homes. There is a realisation that the market will not be able to deliver affordable housing and that substantial government intervention is required:

Without provision of more affordable forms of housing, the market can be expected to continue to produce more expensive housing in the area, so that housing will only be affordable to households on relatively high incomes. Lower income households would need to move out of the area or may be prevented from finding housing in the area close to new employment opportunities (CoS 2015b, p 23).

It would appear that there is a good deal of support amongst residents for affordable housing. In the consultation process around the City’s Social Sustainability policy, an affordable housing target, diversity, inclusivity and equity were viewed as key qualities that the City of Sydney should aspire to achieve (CoS 2016c).

The CoS recognises the constraints of the policy environment in which they are working. The CoS documents discussing affordable housing frequently refer to how Federal and State Government policies limit the LGA’s capacity to address housing affordability. There is a clear realisation that “… The Commonwealth Government and the state governments … control the macro-economic and taxation policies that most affect the cost of housing” (CoS 2009, p 5). In another document, it is emphasised how “State planning laws affect the ways that local governments can supply housing” (CoS 2015a, p 9).

A key aspect of the affordable housing strategy has been to develop ongoing partnerships with government, as well as the community and for-profit sectors, which the LGA perceives as key to addressing the issue of affordable housing:

The issues influencing the provision of affordable housing cannot be addressed solely by local government. It is essential that councils develop working partnerships with the not-for-profit sector, the Commonwealth Government and NSW Government, the private sector, other councils and the financial sector in order to protect existing affordable housing and to facilitate additional affordable housing (CoS 2009, p 6).

The focus on engaging in strategic partnerships is an important part of the affordable housing strategy. For the City of Sydney this importantly extends beyond the CoS local government area:

... issues influencing housing affordability and the provision of affordable housing are regional issues and in evidence in other inner city Sydney LGAs, and that such issues may not be fully addressed in isolation from other councils (CoS 2009, p 1).
Monitoring trends and making submissions to State and Federal Government on housing issues is viewed as an important ongoing strategy:

The City advocates on key housing issues to federal and state governments, including through submissions to planning policy reviews, inquiries and state-level urban renewal master-planning processes (CoS 2015, p 10).

The CoS uses the following overlapping mechanisms to increase the supply of affordable housing – levies on developers, Voluntary Planning Agreements and selling land “at a subsidy”. These are discussed in turn.

**Developer levies**

Developer levies are the key mechanism used by the CoS to increase the number of affordable homes in the LGA. The use of an affordable housing levy is possible due to the provisions in existing legislation, such as Section 94F of the *Environmental Planning and Assessment Act 1979*, which “…allows for the collection of contributions for affordable housing” (CoS 2012, p
2). The provisions allow for either land or monetary contributions for affordable housing. At present the State Government has allowed the CoS to levy developers in only three localities – Green Square, Ultimo-Pyrmont and “Southern employment lands”. The latter refers to an area between the airport and the city that historically has been dominated by traditional manufacturing industries. Over the next 20 years it is envisaged that much of this area will be rezoned for a diverse range of businesses. The rezoning will result in an increase in the number of workers, including lower paid workers in the area, and an increase in demand for affordable housing (CoS 2015b, p 3). Over time it is expected that the levy in these three areas will yield 2,300 affordable homes. The levy has primarily been taken up by developers as a monetary contribution (CoS 2009).

New South Wales Government legislation restricts the levy to 3% of the total residential floor area of the development. The Lord Mayor has urged the State Government to extend the developer levy as a proportion and spatially, arguing that “it was a tremendous missed opportunity” that the government had not allowed the levy city-wide (see Brown 2016). Clover Moore has advocated for a 30% affordable housing target for public land and 15% for developments on private land (see Burke 2017).

Voluntary Planning Agreements

A Voluntary Planning Agreement (VPA) “…is an agreement entered into by a planning authority and a developer” (NSW Govt 2017b). Under this agreement a developer can agree to fund affordable housing, which can be made through “the dedication of land, monetary contributions, construction of infrastructure [and] provision of materials for public benefit and/or use” (NSW Govt 2017b). The CoS uses such planning agreements “…to negotiate affordable housing provision through major developments” (CoS 2015a, p 9).

A VPA for a $1.1 billion development, 1250 units in Forest Lodge, a CoS area, involved the developer agreeing to supply 80 affordable rental apartments for low and moderate income earners. In addition, the CoS secured a parcel of land that was then sold to City West Housing for at a discounted price. City West Housing is planning to construct to 76 affordable housing units on the land in question (CoS 2017d). The CoS will place the money accrued from the land into a “City fund dedicated to delivering more affordable developments across the local area”. A recent example is a proposed development in Rosebery, a neighbourhood within the CoS. The CoS requested that the developer make a contribution of just under $1.1 million “for community infrastructure in the Green Square town centre, including but not limited to roads, drainage systems, utility services, parks, plazas and other public facilities …” (CoS 2015c).

Selling of Council land at a subsidised rate to community housing providers

A key strategy adopted by the CoS is to sell land at a subsidised price to community housing providers. The land is sold with the proviso that the land is used solely for affordable housing in perpetuity. In 2014, a disused hospital site was sold to City West Housing. City West built just over 100 affordable housing units on the site. More recently, the CoS sold 8,900 square metres of land in Alexandria, an inner-city suburb, to community housing providers. The major purchaser, City West Housing, plans to build 200 homes on the site. A CoS spokesperson stated, “The subsidised sale price of about $85,000 per affordable dwelling represented a significant reduction on land and housing values in the Alexandria area” (Bieby 2017).
Case studies

Pyrmont Ultimo

For much of the 19th and 20th century, Pyrmont Ultimo in the CoS LGA, was a major commercial and manufacturing area. However, the area experienced a dramatic economic contraction post World War II, more especially in the 1960s and 70s:

By the mid-1970s, the once thriving mixed-use neighbourhood had become a depressed locality. Its wool storage, steel foundries, ship-building and cold storage plants had closed down, relocated or been dramatically downscaled and the one remaining supermarket and the only pharmacy had shut their doors (Bounds and Morris 2006, p 104).

The economic decline was accompanied by a massive decline in population - from around 30,000 at the beginning of the 20th century to less than 2000 in 1981 (Matthews 1982, p 26; Fitzgerald and Golder 1994, p 111). Buildings were abandoned or shuttered and substantial blocks of land became vacant.

Pyrmont Ultimo was part of the Building Better Cities (BBC) program, established in 1991. The BBC involved significant contributions from the Federal Government and the passing of legislation by the State Government that mandated developer contributions. In 1992, the City West Development Corporation was set up. Its mandate was to sell off the government land in the area to developers. The Federal and State Governments provided $240 million for infrastructure. In 1994, the City West Affordable Housing (CWH) Program was established by the NSW Government to ensure “that the Ultimo/Pyrmont redevelopment area retained a socially diverse population representative of all income groups” (CoS 2009, p 6). The aim was to provide 600 new affordable homes in the area:

The City West Affordable Housing Program aims to ensure that households with low to moderate income continue to live and work in Ultimo-Pyrmont. The innovative program was the first step towards a partnership between the community, development industry and Government for the delivery of housing which is affordable to a cross section of socioeconomic groups (NSW Govt 2010, p 2)

Initially the scheme was designed as part of the Sydney Regional Environmental Plan No. 26 City West, which was gazetted in 1992, and amended in 1995. This enabled “contributions to be obtained from the private sector towards affordable housing” (NSW Govt. 2010, p 2). The scheme was validated in amendments made to the Environmental Planning and Assessment Act 1979, and then subsequent affordable housing provisions were included in a number of environmental planning instruments leading to the Sydney Local Environmental Plan (LEP) 2005. This legislation gave the Council the power to ensure that developers contribute an in-kind or monetary contribution. “The contribution total is calculated on the basis of the total floor area that would otherwise be required to be dedicated for affordable housing” (NSW Govt 2010). For residential purposes this is calculated as 0.8% of the total floor area. The program has provided about 450 affordable housing units to over 930 people in Ultimo-Pyrmont (CoS 2009, p 6). The population in Pyrmont Ultimo in 2015 was 22,540.
Green Square

Green Square is a $13 billion high density urban development located in the south of the CoS, five kilometres from the CBD. The CoS is investing $540 million on new infrastructure and facilities in the area. Since 1999 Green Square has been experiencing diverse changes as a result of public investment in key transport infrastructure and the Council’s rezoning of the area. The area is seeing a transition from its traditional manufacturing industries to more modern employment and residential uses. These changes combined with South Sydney’s proximity to Central Sydney have resulted in the area becoming increasingly attractive as a place to live (Green Square Affordable Housing Program 2012: 24).

This is likely to be similar to other urban LGA’s around Australia, as urban space/s that were formerly dominated by industry provide new opportunities for residential development. It was in 1999 when “the NSW Government, City West Housing and the former South Sydney Council developed the Green Square Affordable Housing Scheme” (CoS 2012, p 3). At this time the South Sydney Local Environmental Plan 1998 (‘South Sydney LEP 1998’) – Amendment No. 6 (Green Square) was established which rezoned the industrial land to allow for ‘mixed uses’, which included provisions that allowed the consent authority to collect affordable housing contributions through the development of Green Square, in order to maintain social diversity as the area undergoes renewal (CoS 2012, p 26).

Whilst later challenged and rendered invalid in late 1999, it led to the establishment of the Environmental Planning and Assessment Amendment (Affordable Housing) Act 2000 (‘the Affordable Housing Act’), which then validated the prior provisions and importantly included “the provision of affordable housing as an object of the Act” (CoS 2012, p 26) and allowed land or monetary contributions to be collected for affordable housing projects:

... the Scheme allows Council to collect contributions through the development process, either by way of dedicating affordable housing units on site, or by making a monetary contribution to the Recommended Community Housing Provider, who will provide the units on other sites in and around Green Square (CoS 2012, p 3).

City West, is crucial to this development:

The community housing sector is central to delivering affordable rental housing, but so too is the development sector that creates opportunities for new affordable housing to be delivered (CoS 2015b, p 23).

Subsequent changes to the Act have led to further rezoning, to allow for increased residential and “modern employment” space/s of work (CoS 2015b, p 23). The inclusionary zoning mechanism requires new residential developments dedicate 3 per cent of floor space to affordable housing or make a financial contribution to the same effect.

The inclusionary zoning mechanism operates on the premise that all the land in Green Square has increased in value as a result of its rezoning and public investment in infrastructure in the area. The Green Square Affordable Housing Scheme seeks to capture some of this increase in
land value for the provision of affordable housing units (CoS 2012, p 11). So far over 100 affordable rental units have been provided. The target is 330.

Conclusion

Besides developer levies, VPAs and the selling of council land at subsidised rates, the strategies that have been implemented by the CoS to enhance the supply of affordable housing in the LGA include:

- Working with all levels of government through advocacy and research, to respond to local concerns and push for relevant policy change.
- Adopting a whole of council approach to affordable housing, which includes clear strategy about how the LGA will address affordable housing in the long term, with key dedicated individuals championing these efforts.
- Building momentum for affordable housing as a key issue that needs to be responded to by all stakeholders by advocating it within the community, and collecting important data about affordable housing needs within the local area. This is a key advantage of local governments, given their position within their local communities.

Although the CoS has managed to facilitate the delivery of around 800 affordable homes over the last two decades, mainly through developer contributions, it is still way off its affordable housing target of 7.5% or 10,500 affordable homes. The analysis suggests that despite the relatively sizeable resources of the CoS and its absolute determination to increase the supply of affordable housing, its capacity to do so is severely constrained by the refusal of the State
Government to increase the inclusionary zoning/developer contributions beyond 3% and to extend the neighbourhoods in which developers can be forced to pay a levy. Noteworthy, is that the Greater Sydney Commission, the body responsible for planning Sydney's future, has recommended a 5 to 10% levy on all new developments. The Greater Sydney Commission has been charged with coordinating and aligning “the planning that will shape the future of Greater Sydney” (Great Sydney Commission 2017).

A major difficulty and impediment for the CoS has been the refusal of the State Government to increase the proportion of affordable housing on new developments on state owned land in the CoS LGA. Thus UrbanGrowth NSW, which is the NSW Government’s urban transformation agency, owns large amounts of state land in the CoS area which is it in the process of redeveloping. However, almost all of the envisaged new housing at this stage appears to be geared towards middle class households.

The conclusion is clear – if local government is to create a sizeable affordable housing sector it is vital that the State and Federal Government play a major role. Local governments, however powerful and well-resourced, do not have the capacity to do it by themselves.
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