

City of Sydney Southern Employment Lands

Affordable Rental Housing Needs Analysis 2014

1 Introduction

The *City of Sydney Employment Lands Strategy 2014* (the Strategy) introduces a new approach to zoning in the southern employment lands. The extent of the southern employment lands and the zoning proposed by the Strategy is shown at Figure 1.

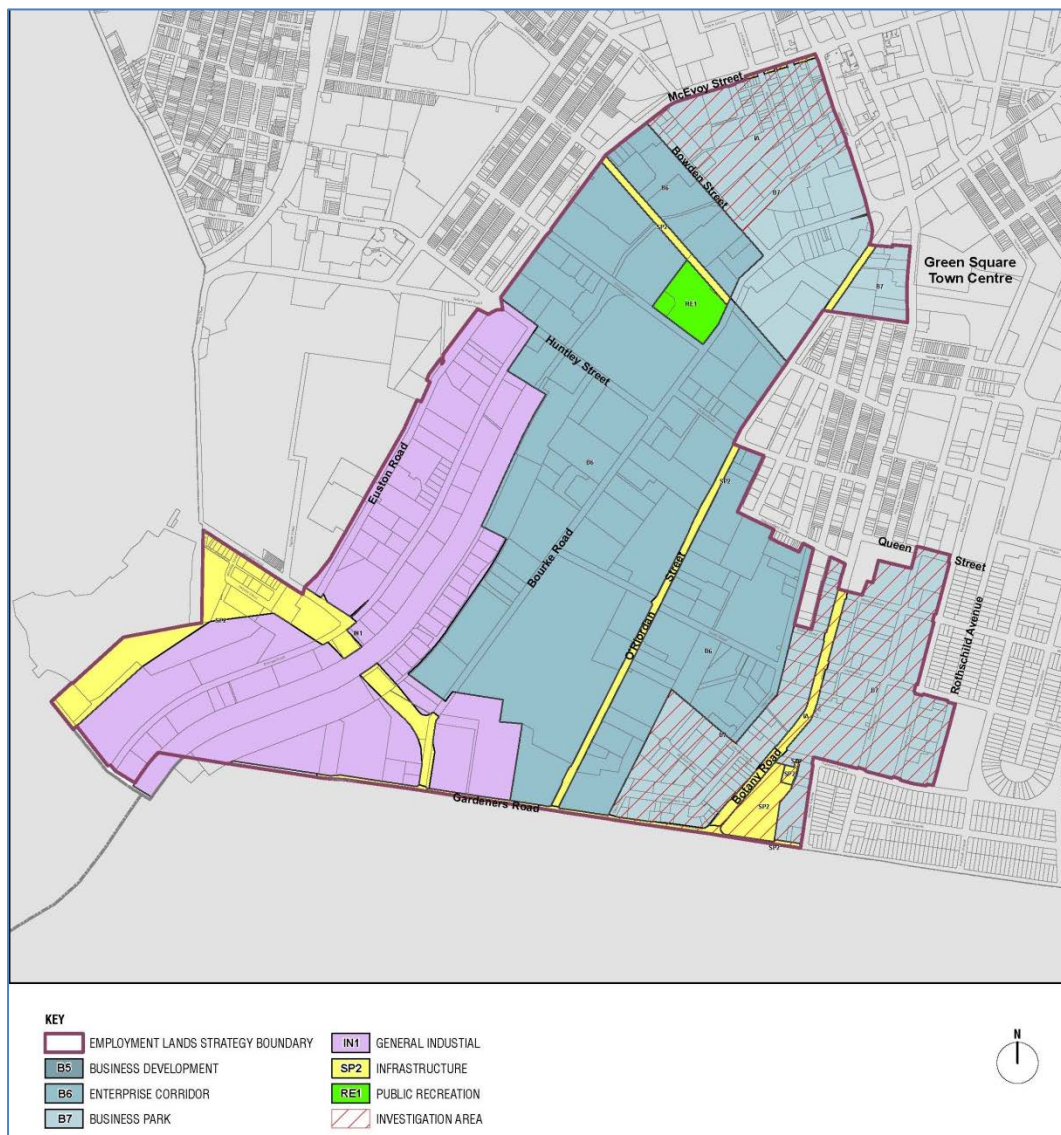


Figure 1: Southern employment lands and proposed zoning

Currently much of the southern employment lands are zoned for industrial purposes, generally permitting only uses that are industrial in nature. The Strategy is to enable a more flexible approach to employment generating uses by permitting a wider range of activities, such as commercial offices, retail and so on.

The *City of Sydney Southern Employment Lands Affordable Rental Housing Needs Analysis* (this report) is to establish the need for affordable rental housing that will result from the Strategy.

2 What is affordable housing

Affordable housing refers to 'reasonable' housing costs in relation to income. A common benchmark is that affordable housing is housing that does not absorb more than 30 per cent of a very low, low or moderate income household's gross income. Affordable housing is not social housing. It can be private or publicly owned, but available at a price that is less than 30 per cent of household income.

Affordable rental housing is dwellings for rental which are affordable to very low, low and moderate income households. These households typically comprise key workers such as childcare workers, cleaners and bus drivers. Because of the cost of private accommodation in the City, it is unlikely that 'affordable rental housing' will be delivered by the market. Moreover, any 'affordable' accommodation will not necessarily be accessed by very low, low or moderate income households.

To ensure an adequate amount of affordable rental housing that is available for target income groups, in the context of the City affordable rental housing is to be managed by Community Housing Providers (CHPs).

In the case of the City's existing affordable rental housing programmes at Ultimo/Pymont and the Green Square Urban Renewal Area (Green Square), affordable housing units are owned by a recommended CHP¹. The CHP then rents the units to eligible households at less than 30 per cent of household income, or less than market rate. Households may need to meet other criteria, such as demonstrating a local connection to the area.

3 The City of Sydney's affordable housing targets

The City's *Sustainable Sydney 2030 Vision* and the *Affordable Rental Housing Strategy (2009-2014)* establish an ambitious target for the City that in 2030, 7.5 per cent of housing will be social housing and 7.5 per cent of housing will be affordable housing.

Currently, housing supply in the City comprises 9.8 per cent social housing and 0.7 per cent affordable housing.

4 Why is affordable housing important?

4.1 Socio-economic impacts

Rising land and property prices, driven by a range of factors including population growth, constrained land supply and Commonwealth fiscal policy, have resulted in declining housing affordability across the City. This is expected to have increasingly detrimental impacts on its socio-economic diversity.

Gentrification of inner city neighbourhoods has exacerbated relative inequality among those who can and cannot afford housing. In these areas, the market is becoming virtually inaccessible to those on very low to moderate incomes. This issue also has a dimension of generational inequality, as younger people (typically first home buyers) are increasingly priced out of the market.

¹ City West Housing is currently the only CHP identified to deliver affordable housing through the City's programs

This trend is coupled with inadequate new supply of social and affordable housing in the inner city, both of which are necessary to mitigate market affordability impacts in maintaining accessibility of inner city housing to socio-economically diverse communities. There is a growing disconnect between affluent households able to afford private market housing and highly socio-economically disadvantaged households living in inner city public housing estates.

The majority of households on low to moderate incomes who are remaining in the city are increasingly now living in housing stress or crisis in the private market – spending more than 30 per cent, to 50 per cent, of their gross income on rental costs.

Areas of housing stress in the City are shown in Figure 2. This highlights concentrations of housing stress.

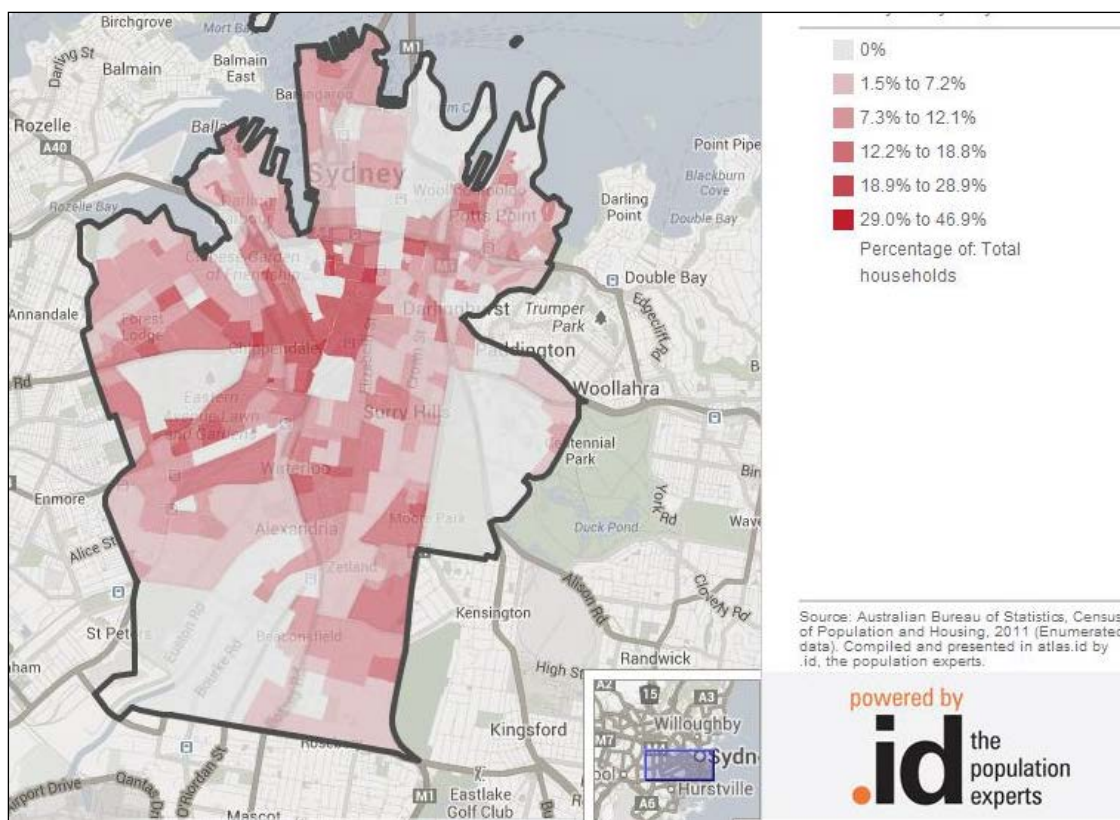


Figure 2: Distribution of households in housing stress (%) in the City of Sydney

4.2 Economic impacts on the City and NSW

Declining socio-economic diversity in the inner city associated with inadequate social and affordable housing supply has significant economic and social impacts.

The City is concerned that the growing loss of low to middle income households from inner Sydney may result in essential employment sectors finding it increasingly difficult to fill employment

vacancies and staff shifts, hampering business productivity and economic growth. This issue is a current research focus area for the City².

An estimated 47,000 key workers across the public and private sectors currently work in the City.

Public sector key workers are estimated at 24,000, comprising 6.2 per cent of the City's total workforce. This includes teachers, nurses, police, community services workers and ambulance and public transport drivers³. In terms of residents, the proportion of the City's residential workforce-aged population engaged in these key public sector occupations fell from 8.6 per cent in 2006 to 8.4 per cent in 2011.

This higher proportion of local resident workforce (8.4 per cent) in the sector over the local employment (6.2 per cent) reflects the current and traditional diversity of population in the City. But notably this differential has declined from 2.6 per cent to 2.2 per cent in just five years. This finding is aligned with anecdotal evidence that suggests that lower paid key workers are increasingly being forced out of the City, relocating to outer suburbs and commuting further distances to employment.

In terms of private sector key workers, City employers in the tourism and hospitality industries have expressed concern at the increased difficulty of attracting and retaining low income workers in hospitality occupations, particularly skilled casual workers. Other businesses more generally have identified similar problems with attracting and retaining low-income cleaning and maintenance staff or contractors. Census data indicates that the City's employment includes approximately 23,000 in these occupations (about 5.9 per cent of the City's total workforce). This figure does not include retail sales assistants nor critical IT and telecommunications support. Whilst lowly-paid, these occupational employees play a critical or key role in ensuring the overall profitability and success of City businesses.

Additionally, the City is concerned with the impacts of declining housing affordability on the lower income workers who are not traditionally classified as "key workers" but who are essential to the social and economic diversity and cultural vitality of the city. This includes the artists and musicians who play a vital role in the success of Sydney's cultural and community life.

These issues represent a significant risk to Sydney's economic productivity and success as a global City. Further, given Sydney's role as Australia's economic capital, this situation poses broader risks to the economic development of the state and nation. The impacts of housing affordability on international students seeking to live near Sydney's key universities, for example, represents an implicit risk to the success of Australia's \$6 billion international education export industry.

² The City has commenced research into this issue, in partnership with UNSW City Futures Research Centre, through the Australasian Housing and Urban Research Institute (AHURI).

³ These preliminary figures have been collated from the 2011 Australian Bureau of Statistics Census as part of the City's current investigations into affordable housing, utilising a definition of "key worker" comparable to that applied by the UK Government for its 2011 Key Worker initiative. UK studies suggest a similar key worker proportion result in London.

5 Affordable housing in the City of Sydney

5.1 Demand for affordable housing

Over the last decade the City has experienced significant population growth, making it the fastest growing local government area, not only in the Sydney metropolitan area, but also in NSW. Between 2001 and 2012, the City's residential population increased by almost 58,000 people, both the largest and fastest (44.7 per cent) increase amongst local government areas in the entire state⁴. Strong demand for social, public and affordable housing in the City, and in inner Sydney more broadly, is expected to continue to grow.

This is a result of a combination of demand factors adversely impacting the affordability of private market housing, including:

- strong population growth – of both residents and workforce – resulting in increasing competition for private housing, pushing up prices beyond the means of growing numbers of low to moderate income earners;
- continuing strong economic and associated employment growth in the Sydney CBD, making it a desirable location to live, and exacerbating competition for private housing – consequently pushing up prices;
- increasing demand from domestic investors for inner Sydney properties, encouraged by rising residential property prices and supported through current taxation policy; and
- increasing demand for inner Sydney properties from overseas investors, supported through current Commonwealth Government policy.

5.2 Lower income earners increasingly priced out of the market or in housing stress

The above demand factors have driven significant house price increases – a situation which is effectively excluding very low and many moderate income households from purchasing property in the inner city. According to RP Data information, Sydney recorded the strongest yearly growth across capital cities, with an annual rate of 14.5 per cent in 2013. The recent upturn in the Sydney market is being led by inner Sydney, which outperformed Sydney's overall median growth.⁵ Since late 2012, median inner Sydney dwelling prices grew by \$70,000.

The inner Sydney median dwelling price is now at a high of \$750,000. By comparison, the NSW median dwelling price is \$468,000.⁶ The inner and middle ring of Sydney is now at a considerable premium compared to other parts of NSW. The proportion of housing that is affordable for purchase for very low, low and moderate income households is extremely low. Figure 3 shows a comparison of lower income households in mortgage stress in the City compared with greater Sydney.

⁴ ABS Regional Population Growth, Australia, 2012 - Catalogue No. 3218.0

⁵ NSW Parliamentary Research Service, 2014, *House prices, ownership and affordability: trends in NSW. Briefing Paper No 1/2014*

⁶ Ibid.

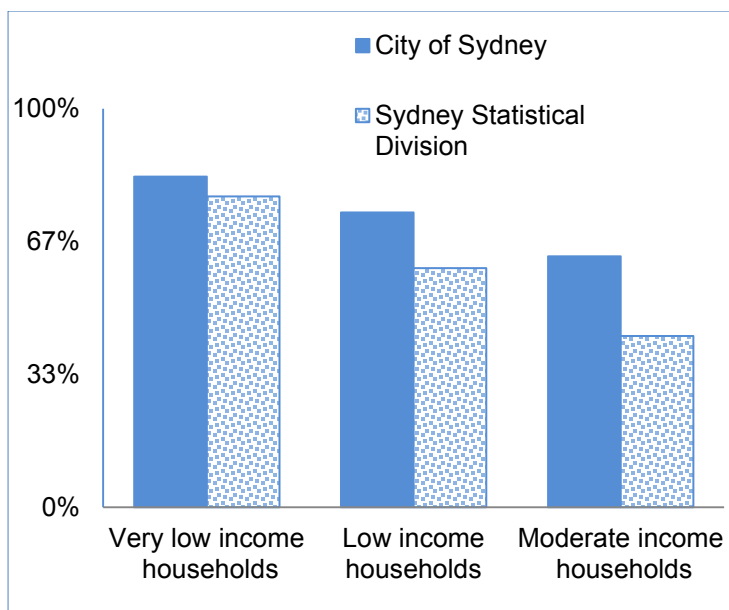


Figure 3: Distribution of households in housing stress (%) in the City of Sydney⁷

Those who choose to stay in the City and rent are now facing significant rent rises. The inner Sydney median weekly rent for all dwellings is \$560 compared; the NSW median weekly rent is \$460.⁸ Within the City, the median weekly rent for all dwellings is \$570. This represents a 16 per cent increase from the median weekly rent for all dwelling of \$490 at 2009.

The median weekly rent for a two bedroom flat in the City is \$700.⁹ Consequently, households on very low to moderate incomes in inner Sydney, which are increasingly represented in a private rental market, are increasingly experiencing housing stress.

6 Future employment in the southern employment lands

The *City of Sydney Employment Lands Study 2012* undertaken by SGS Economics found that of the 11 land use categories that were assessed, freight and logistics occupies the highest proportion of floorspace in the southern employment lands (28 per cent), followed by office uses (17 per cent). Manufacturing was the largest industry in terms of the number of employed workers, followed by transport and storage, and wholesale trade. These are also industries in which the southern employment lands have a high level of specialisation. Wholesaling, retailing, transport and printing were the largest subcategories of employment, each accounting for more than 5 per cent of total employment.

The SGS study established that employment across the southern employment lands is projected to grow mostly in the wholesale trade and professional services sectors, with the highest decline in employment expected in the manufacturing industry. By 2036, given current trends, the sectors

⁷ Housing NSW, Local Government Housing Kit – ABS Census 2011 - Bars show percentages of households in mortgage stress by income; labels show numbers

⁸ NSW Rent and Sales Report, 2012, Greater metropolitan region, time series of median weekly rents, Mar Qtr 1990 to Dec Qtr 2012.

⁹ NSW Government, Rent and Sales Data, June Quarter 2013.

employing the most workers in the southern employment lands will be wholesale trade, transport, postal and warehousing, and professional services.

The SGS study informed a subsequent study by Hill PDA commissioned by the City, the *City of Sydney Employment Lands Economic Analysis and Opportunities Study 2013*. The Hill PDA study provides more nuanced guidance for the type of development and jobs that are likely in the southern employment lands. Based on a market appraisal of the southern employment lands and the wider Green Square Urban Renewal Area, the study found that there is:

- a shrinking role of traditional manufacturing and exodus of many businesses to industrial areas in Western Sydney where land prices and operations are cheaper;
- limited demand for traditional commercial space;
- increasing demand for adaptively reused warehouse space by ‘creative uses’ for light industry and commercial users;
- increasing land values due to scarcity/availability which puts upward pressure on rents and prices;
- strengthening demand for retail goods (including bulky goods) and services, which originates from local residents as well as from wider catchment areas; and
- continuing demand for residential uses.

The projected jobs growth in the southern employment lands resulting from the Strategy is shown at Table 1.

Proposed zone	FSR Range	Current job density / ha	Current jobs	Projected job density / ha	Projected jobs
B7 Business Park (North)	1.5 - 4:1	93	2,357	160	4,059
B7 Business Park (South)	1.5	86	3,013	140	4,893
B6 Enterprise Corridor	1.5	76	9,528	120	14,962
IN1 General Industrial	1.5	60	3,847	60	3,853
TOTAL			18,745		27,766

Table 1: Southern employment lands job projections¹⁰

As above, the Strategy implementation will result in over 9,000 new jobs to 2031, creating demand for new infrastructure and services. A proportion of these jobs will be held by very low to moderate income earners, for example administrators, delivery drivers and shopfront assistants. Moreover the jobs growth will generate additional demand for services that employ lower income workers, such as childcare, retail and transport.

¹⁰ City of Sydney Employment Lands Economic Analysis and Opportunities Study 2013 by Hill PDA

7 Options

Encouraging and providing affordable housing is a complex issue requiring a range of planning and policy solutions. 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. It is essential the City develop new and innovative approaches, make full and extensive use of mechanisms currently available and capitalise on new opportunities as they arise to provide affordable housing.

The Strategy proposes that a large proportion of the southern employment lands be rezoned from industrial to mixed business uses. For landowners, the result of this rezoning is more valuable land because it could be utilised for higher value development such as retail and offices. The higher land values emerge from the rezoning rather than from any value added by the landowner. This land value increase creates opportunities to implement affordable housing mechanisms without reducing the value of the land prior to its rezoning.

Broadly speaking, there are four planning mechanisms that can be employed to deliver affordable rental housing, including:

- Inclusionary zoning - mandatory contributions, either in-kind or monetary contribution, for all development within a defined area, for example an affordable housing levy. This approach has been very successful in achieving affordable rental housing in Green Square and in Ultimo/Pymont;
- Incentive mechanisms - density bonuses and / or planning concessions in an LEP or SEPP where development may have access to higher densities where it provides or contributes to affordable rental housing or land for affordable rental housing. This approach has been applied on a large site in Glebe where some market housing, some social housing and some affordable housing will be delivered;
- By negotiation – where a landowner seeks upzoning or increased density there may be scope to negotiate a voluntary planning agreement for some land / floor space dedication or monetary contribution for the purpose of providing affordable housing. An example of this is the rezoning of Harold Park where 1000sqm of land was dedicated to provide approximately 50 affordable rental housing; or
- Exclusive zoning – where residential development is not generally permitted, affordable rental housing may be permitted. The advantage of this approach is that affordable rental housing providers are able to purchase land cheaper than it could be purchased in a zone that permits residential development.

Each mechanism makes use of different market levers. Where possible, a combination of mechanisms can be used to maximise affordable housing opportunities.

8 Conclusion

The southern employment lands will undergo substantial change in the next 20 years. While the type of jobs that are likely to locate in the area will potentially attract higher paid workers that may be able to afford to live in close proximity without being in rental stress, a proportion of new jobs are likely to be for very low to moderate income earners. Moreover, these new workers will generate

demand for services generally staffed by lower income earners, such as childcare workers and shop assistants.

Similar to the Green Square Urban Renewal Area when it was rezoned in the late 1990s, significant redevelopment is anticipated as a result of the rezoning of the southern employment lands as proposed by the Strategy. These lands are experiencing a transition from traditional manufacturing industries to more modern employment. The rezoning will facilitate and intensify this trend.

The price of land in the southern employment lands will increase as a result of the rezoning with landowners being the beneficiaries of those increases. The increase in land value and gentrification in and around the southern employment lands will have an impact on the affordability of housing, particularly for low and moderate income earners within the City.

Redevelopment in and around the southern employment lands will continue to produce upward pressures on property values and on purchase and private rental accommodation costs, beyond the means of low to moderate income groups.

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.

Generally the value of land, particularly in the inner City, responds to its zoning and planning capacity (heights and FSRs). The proposed rezoning of the southern employment lands, which will facilitate a more intense use of the land, will result in an increase in land values.

There are a range of mechanisms to encourage affordable rental housing available to the City that may be implemented at the point of rezoning which capitalise on the land value increase. Implementing mechanism at this stage is important so that the value of the land as it is currently zoned is not impacted. This will minimise any impacts of future landowners.

9 Recommendations

A combination of mechanisms should be implemented to maximise affordable rental housing opportunities in the southern employment lands. Given the nature of the zoning proposed by the Strategy, the projected growth, future demand and market dynamics of the southern employment lands, the following mechanisms are recommended for implementation:

- Inclusionary zoning – an affordable housing contribution similar to that which operates in Green Square;
- Exclusive zoning – affordable housing permitted where it would not undermine the employment objectives of a zone and where it is adequately serviced by public transport and community facilities;
- By negotiation – where opportunities arise to provide affordable housing in conjunction with an increase in floorspace potential or ‘upzoning’, the City may negotiate a voluntary planning agreement for the purpose of providing affordable rental housing.