



Planning for growth

December 2022



Committee
for
Sydney

Overview

Sydney has not kept up with its housing needs, in terms of both affordable housing and overall supply.

As a result, housing has become far more expensive than it could be.

Over the past year, the Committee has published proposals on social and affordable housing:

- The problem of affordability
- Bringing affordable housing to scale.

This paper looks at the supply and market rate side of the problem.

Increasing the supply of housing is not the entire answer to housing affordability.

Interest rates, tax and many other policy levers are also at play.

But supply is part of the answer, too.

This paper shows new supply is needed, building on a long series of research that makes the same point.^{1, 2, 3, 4}

We seek to simplify the numbers and explain the process of housing supply.

We then propose a better system for understanding how much housing supply Sydney needs to develop.

1. [Housing affordability Report to the Premier 2017](#)
2. [Rebooting the Economy White Paper](#),
3. [2021-22 NSW Intergenerational Report](#)
4. [State of the Nation's Housing 2021-22](#)



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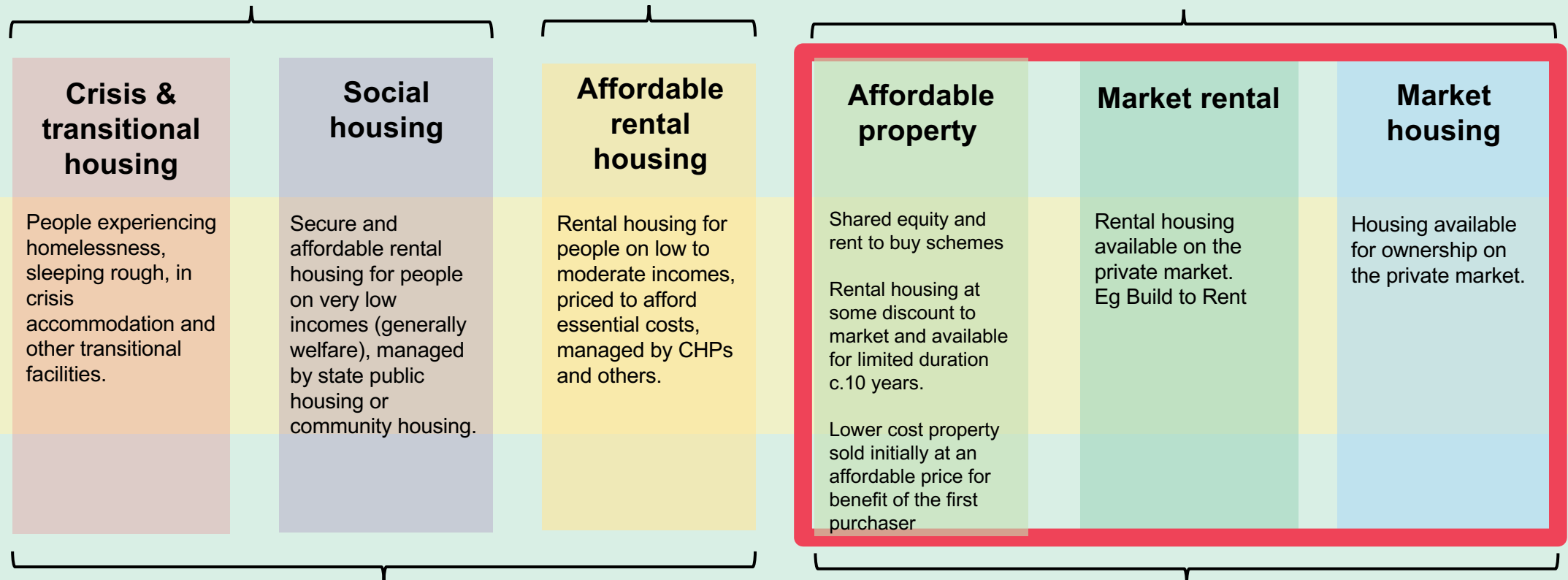
Housing continuum

= focus of this paper

Provided by government and community sector

Community housing

Market housing



Require public subsidy – to increase availability means increasing public subsidy.

Produced by market developers – increasing availability means planning system increasing supply of buildable sites.

1. Housing affordability and supply

Just over 20 years ago, the average cost to buy a house in Sydney was about five times greater than the average income in Australia.

By 2021, the average cost of a house in Sydney had risen to 14 times greater than the average income.^{5, 6, 7}

The cost to rent a house has also risen faster than income.

Today, the average annual cost of renting a house in Sydney is equivalent to 25% of the average income in Australia, compared to only 19% 20 years ago.⁸

Housing costs have become perhaps the single biggest problem that Sydney faces, threatening the ideal of a fair go for all.

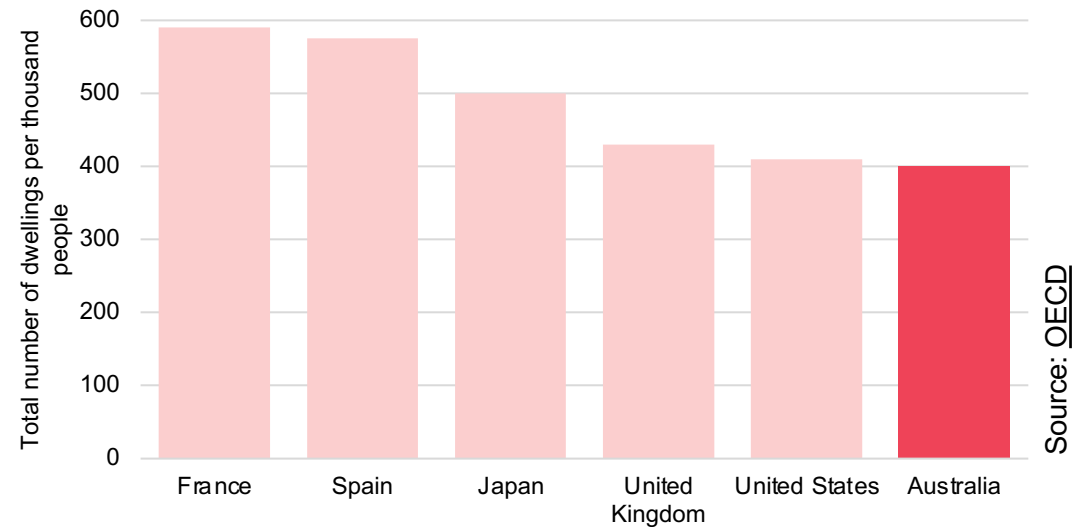
Unaffordability of houses also drags on economic productivity, as workers struggle to find suitable housing in locations close to their employment.

As a result, Sydney suffers.

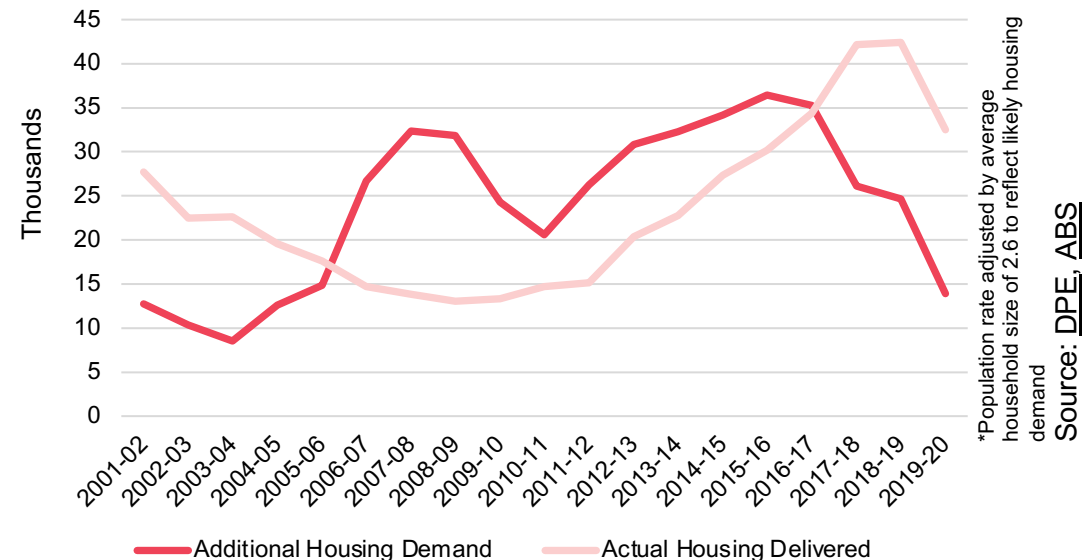
In some cases, people depart to more affordable locations, including Melbourne, Brisbane and Perth. Students are forced to remain living with parents rather than near their place of study.

5. [ABS](#)
 6. [Domain](#)
 7. [ABS](#)
 8. [ABS](#)

Australia has a tight housing market compared to other countries
 Dwellings per thousand inhabitants (2020 or latest year available)



Population growth has outstripped housing growth
 Additional housing demand versus actual housing delivered in Sydney



2. Housing supply shortfalls

Housing delivery targets are set by the NSW Government and included in strategic plans with the intent of accommodating projected population growth.

However, actual housing delivery has failed to meet these targets for almost two decades.

This has caused an accumulated undersupply of housing in Sydney.

The pent-up demand for housing means that even if supply increases to meet targets in the short term, it will take many years for market equilibrium to return.



Undersupply of housing in Sydney

Historical and projected housing targets and housing supply



Source: Mecone, using NSW Government data



It is a key concern that the NSW government projects significant housing shortfalls until at least 2026.

The years between 2016 and 2019 were the only time in the last two decades when delivery of new housing exceeded government targets, thanks to an increase in housing development five years earlier.

The NSW Government projections for housing demand for 2025-27 respond to the pre-2019 increase in housing delivery and are based on recent government population forecasts.

We think the government projections are too low, in part because they rely on low levels of population growth in the first two years of the Covid-19 pandemic, and because they do not respond to the two decades of accumulated housing supply shortage.

Undersupply and the impact of Covid-19 border closures

The government suggests border closures and slower population growth from 2020 has allowed for 'inroads being made' into the undersupply of housing.⁹

However, given the scale of the accumulated undersupply over the last few decades, we think the real impact of temporary border closures on housing undersupply has been modest.

As Australia gets back to its more normal rate of migration and immigration, demand for housing and pressures on existing housing stock will return to pre-covid levels.

9. [NSW Treasury](#)

3. The real shortfall is even greater

We estimate Sydney had an accumulated historical undersupply of about 96,000 dwellings, as of census night 2021. This is about 50,000 greater than the amount estimated by the NSW Government.

Our estimation takes into account the reduction in average household size that comes from people showing a preference for more space and a smaller number of people making up a household.

We understand historical undersupply is not being accounted for in the setting of targets. This alone suggests housing targets need to be much higher.

Due to the historical pattern of housing delivery not meeting targets we expect this trend to continue.

If the accumulated undersupply of housing isn't factored into targets, and the forecast methodology isn't working, then housing delivery will continue to fall short of demand even if targets for delivery are met.

For housing supply to meet or exceed demand, we first need to better understand the developable capacity within the current planning system.

The capacity for housing under the current planning system is unclear

The NSW Government does not provide a single transparent database that shows how much housing capacity is available in the planning system.

Further, there is no clear guidance as to how much extra capacity needs to be created.

We believe Sydney needs to establish clear and credible planning capacity targets. These targets need to reflect the real capacity for housing within the statutory planning system at any one time.

There isn't enough capacity for the housing we need under the current planning system

Despite the geographic scale of Sydney, most of the land zoned for development has very little additional capacity for housing.

This is because it is either zoned for low densities, and already sits at its commercially highest level of value with single houses, or it is zoned for other purposes such as industrial, business or infrastructure.

In other cases, there may be additional capacity for housing identified by local councils, but the size of this capacity is often too small to be commercially feasible for development or redevelopment.

For example, if an area has a Floor Space Ratio (FSR) control of 0.7:1 and most housing already utilises an FSR of 0.5:1 then there is theoretical capacity for an additional 0.2:1 FSR. Some councils will count this FSR at a macro scale and include this as available capacity for extra housing.

The problem is housing that will never be realised is being counted at a local level as contributing to the (already modest) housing targets that have been set.

True realisable capacity for new housing must consider these real-world economic and physical limits.



Image source: – Payce

How much capacity for housing is in the current planning system

Our assessment of the underlying planning capacity in Sydney (under the current rules) estimates capacity for an additional 210,000 additional dwellings.

This assessment does not include an analysis of critical market considerations, such as the feasibility of a new dwelling actually being delivered, and is therefore likely an over-count.

Under the current housing targets this equates to around seven years supply.

Once the historical undersupply is factored in, this means there is less than four years supply remaining under current targets.

Of course, government is always in the process of doing additional planning, so this number is only a snapshot at this point in time. But it reflects where we are today.

Not all sites marked in a plan for new housing will be developed

When governments identify an area for new or additional housing in a planning document, it doesn't always result in a dwelling being constructed.

Many further things must happen after a site is zoned for housing before new dwellings can actually be built.

The development funnel

Why not all potential sites yield units

Site is zoned for housing

To understand development capacity, the first question to ask is whether the land is zoned residential and how many units are allowed on the site. If its not zoned for housing a rezoning or planning proposal is needed.

Site is serviced

Does the site have water, sewers, and roads? If not, how long will it take for those enabling services to arrive?

Site is economically feasible

After all costs are factored in – construction, fees, providing missing infrastructure, etc – can the housing rent or sell for a high enough price?

Land owner willing to sell to developer

If all the above tests of viability are met, then we enter the realm of market transactions. First question: can the developer get to the site? Not all land owners want to sell.

Investors willing to provide equity

Second question: can the developer line up equity investors?

Bank willing to provide construction loan

Third question: can the developer line up the bank loan? The bank will only loan to construct if they can see the project will turn a profit.

Consent authority willing to approve project

Once a developer has the site and has a project designed, funded, and ready to go, the final question is: will the council or other consent authority say yes?

Units built

4. A better system

Two decades of housing targets not being met suggests the current system is inadequately planning for and responding to growth. So, what can we do?

Targets need to build in extra capacity

Irrespective of the ambitions of targets, strategic plans and other planning controls, not all sites marked in a plan can or will be developed.¹⁰

Planning authorities play a critical enabling role by zoning land for housing and ensuring infrastructure is in place to service development. But many sites that are theoretically available for housing will not transact. Not all sites will be economically feasible to develop. Not all landowners will sell, at least for a price that works for the development. Not all developers will be able to line up financing.

To understand how much land is really needed to be available for housing development – to keep up with population growth, and prevent the housing scarcity from getting worse – planning authorities need to understand the rates of conversion through each stage of the development funnel and adjust planning targets so there is extra planning capacity.

10. In the US, research on this question (by [Urban Footprint](#)) found that about 75% of new homes earmarked for housing in planning documents will not be developed. An independent analysis of the capacity for new housing under new state-wide plans for housing development in the US found that the planning changes, in theory, could allow for 10 million new dwellings. However once market feasibility factors were applied this was reduced to up to 2.4 million developable new homes



Image source: --Pejce



How much extra capacity needs to be built into the planning system

It has long been acknowledged that the planning capacity to deliver housing needs to far exceed the actual supply. This is because the vast majority of available land will not be available to be developed at any one time.

There are a range of hurdles that must be overcome to deliver housing on the ground that have a cumulative impact on supply. Research undertaken by NSW Treasury indicates the average property turns over every 9.7 years,¹¹ meaning a substantial supply buffer needs to be built into the housing capacities to ensure availability of development sites.

NSW once had a target of at least seven years of zoned, serviced and feasible land at any one time. Victoria has a 15-year land supply capacity target that is intended to align with its planning strategies. QLD has minimum 15-years supply of zoned land that can be serviced with lead-in infrastructure in place. It also has a minimum of four-years approved housing supply for the South East Queensland Region.

Building up housing capacity is not an immediate or cost-free exercise. It means governments need to invest more in supporting infrastructure such as water, sewer, roads and public transport while the pipeline is built up. While this is expensive, once the serviced capacity target is reached infrastructure investment can then fall back to historic norms in line with projected growth.

11. [NSW Treasury](#)

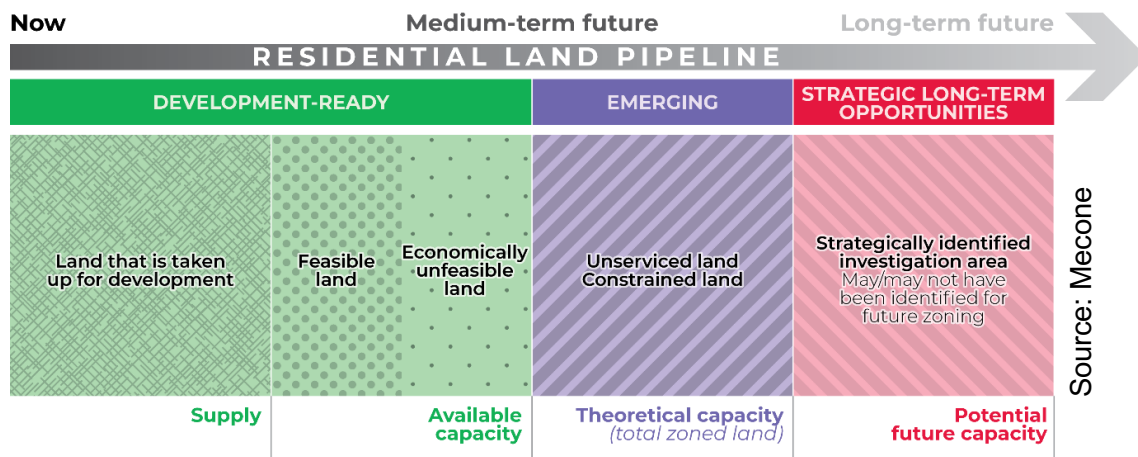
We've looked at the rates of conversion under the different stages of the development funnel, and the targets previously set in NSW and now active in other states, and we estimate that for every 10,000 units of housing needed (forecast in response to projected population growth and household formation rates), the planning system needs to have the capacity for at least 70,000-100,000 houses available to develop.

That is, if you think you might need one additional house, the planning system needs to have the capacity for seven to 10 houses that are 'development ready': being zoned, serviced and unconstrained by the planning system.

Beyond this, to enable an ongoing supply of housing, a holistic approach is needed that covers emerging capacity and strategic longer-term opportunities.

Suggested residential land pipeline

Holistic and long-term approach to planning for housing capacity



Extra capacity for housing in the planning system will provide a buffer to account for planning and delivery lead times, and lags in the commercial development process of any specific site.

It will reduce risks and uncertainties that can constrain housing supply. Importantly, it would create the opportunity for new housing delivery to respond to the accumulated undersupply and pent-up demand, and ultimately drive down housing prices.

How the new extra housing capacity system should work

Our proposal is for the planning system to have at least seven to 10 years supply of 'market capacity.'

Market capacity is zoned, serviced, feasible and available capacity to develop for every new home that needs to be built to house our growing population.

In the short term, and to ensure a concerted effort to drive down the accumulated undersupply, the lower end of the range should only be applied in areas with generally higher levels of commercial viability.

The upper range should be applied to areas with questionable or known lower rates of development take-up. This approach is broadly consistent with the approach taken in other Australian jurisdictions, such as Queensland and Victoria, where the minimum benchmarks are introduced for the supply of readily developable land.

The new strategic housing capacity targets, and the growth assumptions made in setting them, should be agreed to by all levels of government. This will enable clear benchmarking, accountability and evaluation of the housing supply pipeline and assist in identifying the appropriate interventions required at different stages of the planning and development pipeline.



Image source: – Payce

We suggest Sydney’s key strategic plans, the Greater Sydney Region Plan and accompanying District Plans, contain the new planning capacity targets.

These can be partly implemented at the local government level through councils’ local housing strategies.

Most recently, it has generally been the responsibility of local government to finalise local plans and approvals that will allow for new housing. We know the journey in planning for new housing at the local level can be fraught.

Existing communities sometimes oppose extra housing, especially when the growth isn’t accompanied by an improvement or capacity upgrade to infrastructure and services. As such, councils have a challenging role in being the main implementers of housing targets while still needing to consider community views in their decision making.

We think governments need to govern for all, and that includes those that are currently unable to enter market housing, and future generations and arrivals in Sydney who will one day need a home.

This means strong leadership and incentives for growth are needed. To ensure medium and longer-term planning capacity for the housing we need now and into the future, a concerted effort will need to be made to identify future growth opportunities.

All levels of government need to support and enable planning authorities to investigate and resolve any environmental or infrastructure constraints, community issues and unlock longer term supply opportunities.

5. Recommendations

Drawing from the analysis presented in this paper, we make four recommendations that would have an impact on the supply of housing in Sydney, and ultimately the cost:

1. Develop a more transparent, robust and reliable urban development dwelling supply pipeline program.

This should be based on a common and agreed methodology and realistic assumptions.

Lead actors: Greater Cities Commission, Department of Planning and Environment

2. Establish housing capacity targets that have at least seven to 10 years of zoned, serviced, feasible and available ‘market capacity.’

This should help to ensure actual development of every new home that needs to be built. The application of ranges at the local level are to be based on commercial viability and serviceability that impact market take-up.

Lead actors: Greater Cities Commission, Department of Planning and Environment, local government authorities

3. Embed extra capacity planning targets and strategic planning responsibilities and accountabilities in strategic plans including Regional Plans, District Plans and Local Strategic Planning Statements.

Lead actors: Greater Cities Commission, Department of Planning and Environment, local government authorities

4. Support and enable government agencies to deliver efficient and effective investigation and resolution of environmental or infrastructure constraints and community issues to deliver housing supply opportunities.

Lead actors: Greater Cities Commission, Department of Planning and Environment.



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