NSW Productivity Commission (2019)
Kickstarting the Productivity Conversation

This paper is the Community Housing Industry Association (CHIA) response to the discussion paper issued by the NSW Productivity Commission in October 2019.

CHIA is the industry peak for community housing providers across Australia. The industry provides one in five of Australia's social housing properties, complementing public housing. Community housing providers manage a $40 billion-plus portfolio of more than 100,000 rental properties, which are home to people who are on low and moderate incomes and who find it hard to access affordable or appropriate housing in the private market. Our 170 plus members include the largest to those with less than 100 homes. Our members provide a diverse range of housing for Aboriginal people, people with disabilities and the formerly homeless.

CHIA generally focuses its attention on issues of relevance to our national membership. While the discussion paper concerns NSW, its topic - how to support productivity growth - is one of national significance and one in which we and our members have taken close interest. Our response while short draws on research CHIA is leading and previously CHIA NSW led to examine the links between housing and productivity.

The response first considers an area that we believe has been underplayed in the paper - the link between housing and productivity. In the second part we consider the opportunities the paper outlines for housing and recommend others that NSW government (in partnership with the Commonwealth Government) could take to raise productivity.

CHIA has confined its comments to topics within its field of competency.

Understanding the Link Between Housing and Productivity

CHIA welcomed the creation of the NSW Productivity Commission and its remit to drive improvements in productivity. The SMH article (Wade 2018) written on its establishment noted that 'the new high-powered advisory body will be charged with tackling some of the state's most pressing challenges including the recent deterioration in housing affordability and cost-of-living pressures'. While our organisation and others operating in the housing and homeless sectors have long argued that unaffordable housing contributes to rising homelessness, increased rental stress, and poor social outcomes, we now have evidence that too expensive housing costs also have negative productivity consequences.

In section 8, the paper acknowledges that the benefits arising from agglomeration can threaten the anticipated productivity benefits citing 'road congestion, more crowded public transport, more intense use of public land increased pollution and greater scarcity of land' as problematic. For the reasons outlined above CHIA expected the discussion paper to also include extensive consideration of housing unaffordability and its impact on productivity.

There is a growing body of research to demonstrate the links between housing and economics and how each impacts on the other, including an AHURI commissioned scoping study '*Making connections: housing, productivity and economic development*' Maclennan et al 2015. Concerned about the housing affordability challenge in Sydney and its consequences for the growth and productivity of the metropolitan area, CHIA NSW on behalf of a partnership that has included NSW Government agencies, the private and not for profit sectors commissioned Maclennan via City Futures Research Centre (CFCR), UNSW to dig deeper into the subject.

The first of two reports 'Making Better Economic Cases for Housing Policies' suggested that housing's weighty economic role is largely ignored. Two categories of productivity impacts were identified.

Constrained Human Capital

- the mismatch between housing and jobs and resulting in poor access to jobs, lower labour participation, health impacts on performance and less labour mobility.
- high housing costs leading to lower living standards with affected households also being frequently located within specific neighbourhoods thus compounding the disadvantage. These lower living standards being manifested in poorer educational attainment, health and wellbeing outcomes.

The impact of high prices and rents on consumption, savings and investment.

The housing boom has:

- encouraged investment in lower productivity industries,
- locked up capital that has added little to growth and productivity but adds to rentier returns that constitutes a major distortion in the functioning of the economy that has both federal and state implications.
- increased instability, as rising housing wealth results in increased consumption, and this is likely to be pro-cyclical spending that raises the amplitude of metropolitan economic cycles. This will increase instability and reduce productivity.
- There is likely to be a much more significant, and negative, effect on consumption when rising housing costs capture a disproportionate share of disposable household income.

HOUSING AND PRODUCTIVITY IMPACTS

The results show significant direct, or 'first round', productivity impacts across the city:

$2.26B (NPV) in travel time savings, of which $1.129B is used for travel-to-work journeys and increases the supply of labour;

$17.57B (NPV) in human capital uplift in terms of added household incomes associated with better job choices as a result of investing in affordable housing in more accessible locations.

Indirect, or 'second-round', effects that arise from these major first round gains are also substantial and are estimated at $1.36B (NPV) for travel time savings to be available for productive work and $12.23B (NPV) gains from more efficient labour market matching.

These direct and indirect benefits are estimated to come at a cost to government of $7.27B (NPV)- the cost of investing in the required affordable housing.

In the second report 'Strengthening Economic Cases' the primary aim was to model how housing outcomes impact economic growth and productivity, with a particular focus on the Sydney metropolitan area. The productivity modelling exercise was based on an Economic Impact Assessment (EIA) which revealed strong, positive productivity effects from investing in better housing outcomes over a 40-year timescale that reduce commuting times and extend access to a wider set of labour market opportunities. The key results are outlined in the box above.

The weight of productivity gains identified suggest an economic performance impact that compares very favourably to most other infrastructure investments, including transport investments.

Due to limitations in modelling capability these gains do not include the economic impacts arising from the housing cost burden experienced by many renters, and newer owners. The report authors estimated that the excess of rent payments over a 30% contribution averaged just under $6000 per household p/a, amounting to $1.8B p/a for NSW and absorbing an estimated $1.4B of Commonwealth rent support.

There remains much scope to develop wider and deeper insights on housing and productivity impacts, and to get to grips with how better housing outcomes affect the trajectories of the lives of individuals and the long term wealth of cities. CHIA in collaboration with CFCR and other partners is putting together a housing and productivity consortium to promote and deliver research in this area. We are holding our next meeting in Sydney on 11 December and if this of interest the NSW Productivity Commission is welcome to attend.

In summary our view, is that this evidence of housing system under-performance cannot be ignored. We recognise that later in the section the authors acknowledge that the planning system and government regulations could be adjusted to facilitate more 'affordable housing'. Our argument is that a clearer appreciation of the links between housing and productivity would do three things:

- Articulate the productivity benefits that will ensure from well-located and designed housing.
- Lead to a broader consideration of the action Government could take to alleviate housing unaffordability (acknowledging that the solutions for tackling housing unaffordability are linked to household incomes and the feasibility of a market response).
- Enable a conversation about the relative merits of investing in housing compared to other forms of infrastructure.

Planning for the Housing We Want

Section 8 as we noted earlier identifies a number of housing impacts on productivity. These are predominantly concerned with the human capital implications from larger numbers of households being accommodated in insecure private rental housing often at long distances from employment hubs. These impacts will be compounded by the high housing costs prevalent in NSW which disproportionately affect low income households.

The scale of the housing affordability challenges facing lower income households is clear. The Productivity Commission in its recent report 'Vulnerable Private Renters: Evidence and Options' drew attention to the fact that two thirds of the more than 1 million low-income households who rented in the private market in 2018 spend more than 30 per cent of their income on rent - with many spending much more than this. Furthermore, almost half of these households in rental stress are likely to remain stuck in this situation for at least five years.

CFRC estimated in its report Filling the Gap, that in 2016, there was a shortfall of over 200,000 homes in NSW affordable to households in the bottom two income quintiles. Factoring in projected household growth to 2036 the authors estimate an additional 320,000 homes will be needed to meet the needs of these lower income households.

In assessing the proposals put forward by the paper to address the negative productivity impacts outlined, CHIA agrees that enhancing tenant security by reforming rental laws and/or by restructuring the rental market in favour of institutionally-funded housing (Build to Rent) is desirable.

There may also be merit in considering modifications of building regulations to allow for smaller well-designed units, providing in the process, quality is not compromised. The unpublished study commissioned by the previous UrbanGrowth NSW from UTS researched models in Australia and internationally and should provide material on which an informed discussion can take place.

We also recognise that the transport improvements that the NSW Government has and continues to invest in will also deliver productivity benefits. However, for many lower income households the cost of transport needs to be considered in combination with rents or mortgage payments. The City of Vancouver undertook research into how housing and transport costs combined made what appeared to be lower cost housing areas very unaffordable. The study is no longer available via the web but CHIA can make material available should this be of interest.

Taken together however the proposals as outlined will do little to address the economic / productivity costs arising from housing unaffordability. Given the evidence that now exists that expensive housing has economic as well as social costs CHIA believes that the government should support the expansion of social and affordable housing in areas with good access to jobs and services.

While the report considers planning reform it is silent on inclusionary zoning although an exemplar inclusionary requirements scheme has operated in the Ultimo Pyrmont and Green Square redevelopment areas in Sydney for over 25 years and, the NSW Government has amended legislation to allow any Council in NSW to apply for permission to introduce inclusionary requirements. Mandating the development of sub-market housing where land increases in value simply from a government decision to re-zone or up-zone is a cost effective mechanism to assist in meeting affordable housing needs. Government should clear the barriers that have, until now, prevented the realisation of the inclusionary zoning framework originally proposed by the Greater Sydney Commission in 2016 but which – more than three years later – remains undelivered.

Beyond planning reform, the extent to which housing unaffordability is impacting on Sydney's economic productivity - highlighted earlier – justifies far more government intervention. This could take the form of turning the Social and Affordable Housing Fund into one that provides regular recurrent opportunities and / or providing government land via (for example) long term peppercorn leases to community housing providers to make development of low cost housing feasible.

The CFRC modelling study mentioned above demonstrates that the costs to government of investing in affordable housing are more than offset by the productivity benefits. In addition, CHIA's submission to Infrastructure Australia's 2019 Audit authored by Dr C Nygaard at Swinburne University provides evidence of the multiple ways in which the provision of secure high quality affordable rental housing can lead to less expenditure on other public services and at the same time, through better health and educational outcomes, improve productivity.

CHIA looks forward to the production of the Green Paper and to participating in further consultation.

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