

Productivity Commission

Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments

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INTRODUCTION

Save Our Suburbs expresses its appreciation of the Productivity Commission's Issues Paper on *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*. Land planning has significant long term impacts on the economic condition and general well-being of the population.

The Commission has been asked to benchmark how the states and territories' planning and zoning systems impact on competition (including unjustifiable restrictions on competition) and the overall efficiency and effectiveness of the functioning of cities. Included are social and environmental impacts and liveability.

Save Our Suburbs (NSW) Inc is a non-profit and non-aligned group of residents, opposing forced rezoning and over-development of city suburbs and promoting sustainable living to protect the planet. The organization supports residents in their struggle to save cities from overcrowding, traffic congestion, high housing cost, pollution and loss of bushland and heritage resulting from ill-considered planning impositions and supports whole of nation development.. The organization is active in endeavouring to persuade State Governments to effect beneficial changes to planning policies.

The population of Australia has passed the 22 million mark and is growing at 2.1 per cent per annum. States are responsible for infrastructure development whereas it is the Federal Government that controls immigration. This invites a mismatch of infrastructure to population. The development of the country as a whole is being adversely affected.

To minimise expenditure from current revenue on infrastructure the states see highly prescriptive planning policies based on higher population densities as the solution to housing this population increase. These policies take little account of peoples' preferences. This practice conforms with current planning ideology. Such policies are variously euphemistically termed "smart growth", "urban consolidation" or more recently "urban renewal". They are characterised by highly restrictive land regulation.

These high-density policies are proving to have deleterious effects on the cost of housing, on people and the environment. The general public has not yet comprehended how tight the link is between such restrictive planning policies and the increasing prevalence of these community problems.

The Federal Government is becoming increasingly concerned about the impact that increasing housing cost will have on the economy¹. An important turning point was reached at a meeting on 22 April 2010 of the Council of Australian Governments (COAG), which endorsed a new housing supply and affordability agenda². A Housing Supply and Affordability Reform Working Party will report to COAG on the housing supply pipeline.

The proponents of current restrictive planning policies have provided no evidence that these policies will be beneficial. In this submission factors relating to planning policies are discussed and a proposal for the basis of a better system of planning advocated.

EXECUTIVE SUMMARY

Competition in Australian states is unjustifiably restricted by state land planning policies that have become increasingly focussed on minimising current expenditure to the detriment of future sustainability and on an ideological agenda that is bereft of evidential substantiation. These policies are imposed on unwilling communities. There is also a lack of coordination between state and federal governments. The result will have long-term adverse consequences.

In this submission the effects of these planning doctrines are discussed in the following areas:

Cost. The restriction of land supply in the face of an increasing population has resulted in the cost of housing becoming extremely high by world standards. This submission documents the extent of housing unaffordability and clearly shows that current planning policies are the cause.

Housing choice. Australians mostly prefer to live in single-residential dwellings yet current planning policies impose a much larger proportion of high-density than is warranted by people's preferences. Current planning policies reduce housing choice.

Environmental sustainability. Greenhouse gas emissions per person are greatest in high-density areas. It is noted that in most situations density has little or no effect on transport greenhouse gas emissions and in any event transport comprises only a small component of the average person's emissions. Current planning policies will adversely affect attempts by individuals to locally collect naturally available energy and water.

Health. Mental health is adversely affected by high-density living. Vehicle emissions, which are in greater concentration in high-density areas, are a significant cause of mortality. High-density generally provides a poor environment in which to bring up children.

Uneven population distribution. These policies further exacerbate the uneven distribution of population in Australia.

Within reasonable limits land regulation should be responsive to community needs and maximise opportunities to cater for these needs.

Coordination between jurisdictions should be improved to optimise national development for the long term.

The effectiveness and functioning of Australian cities and towns are being detrimentally impacted by current planning policies. Infrastructure is being not funded in a coordinated manner or for optimal long term benefit. The policies are not evidence based. There has to be a better approach.

1. COST

1.1 Prescriptive land policies

Planning policies of Australian State Governments to house an increasing population concentrate on increasing population densities instead of increasing areas of settlement. This is in spite of the fact that only some 0.3% of Australia's land surface is urbanized. In the face of an ever increasing demand for housing, state governments have restricted the release of land for urban development. This is the foundation for policies that force higher densities onto communities that oppose this type of living. Thirteen percent of voters tend to associate the disagreeable effects of high density with an increasing population and seventy two percent of voters think Australia does not need more people ³.

The Australian strategy of high-density has two components. The first component is to artificially strangle the land supply. Residential land release in Sydney, for example, has been reduced from an historic average of 10,000 lots per year to less than 2,000, thereby radically reducing the number of dwellings available from greenfield sites.

The second component of the high-density strategy "encourages" local government to zone for high-density. In New South Wales each municipal council is required to submit a rezoning plan that increases population density to government satisfaction; otherwise that municipality is adversely impacted and the council's planning powers are undemocratically taken away. These tactics force high-density onto communities originally designed for low densities.

These prescriptive policies result in an increase in median residential lot prices. As economics teaches, scarcity raises prices. This relationship is illustrated in Figure 1 on page 26 of the Planning Commission's Issues Paper which illustrates the increase in median prices in sympathy with this land release restriction.

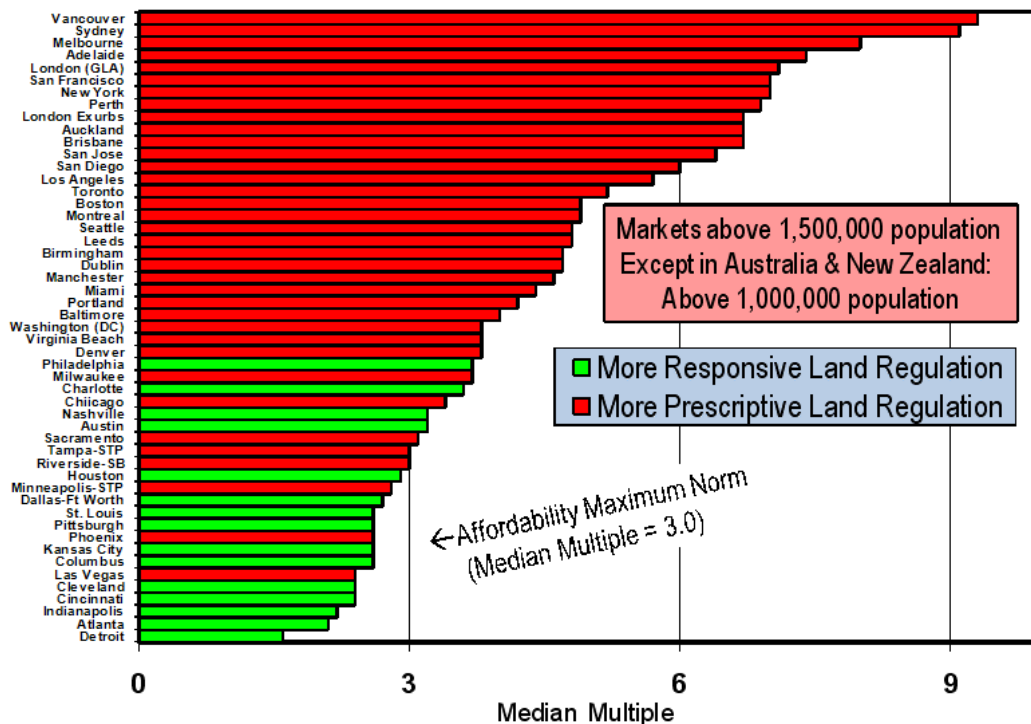
The *6th Annual Demographia International Housing Affordability Survey*⁴ reveals how unaffordable houses in Australia's capital cities have become. Of the cities in the six countries surveyed, Sydney is second only to Vancouver as the most unaffordable. While measures of affordability vary, there can be no doubt that housing in Australia has become unaffordable. Since 1977, during which period the New South Wales population increased by 38%⁵, the proportion of greenfields land release sites decreased from an annual average of 20% of dwelling production to 5%⁶.

As a consequence of the resultant land shortage the land component in the price of a house in Sydney has increased from 32% in 1977 to 60% in 2002⁷ and to an estimated 70% today.

The Demographia Survey portrays a widespread relationship between high housing cost and overly restrictive planning. The depiction below shows housing cost as years of family income needed to purchase a house. The representation is somewhat complicated during the year depicted by the

collapse of the housing bubble in some prescriptive jurisdictions resulting in a substantial reduction of previous high prices.

Housing Affordability & Land Regulation LARGER INTERNATIONAL METROPOLITAN MARKETS



(median house price divided by gross annual median household income).

It is apparent that housing costs are higher in jurisdictions with prescriptive land regulation.

The alternative to less restrictive land use regulation is responsive land use regulation (also called "traditional" regulation). This allows development to respond to the market as reflected in the preferences of people and businesses (and subject to reasonable environmental and health regulation).

A comparison of Sydney, Melbourne, Dallas-Fort Worth and Atlanta starkly illustrates the effect of prescriptive land restriction policies. These cities had equivalent populations in the early 1980s. The population growth of the latter two have since exceeded that of the Australian cities, yet their housing costs today are almost one third of that of the Australian cities. See the Appendix 1 "Land use regulation" authored by Wendell Cox of Demographia which discusses this and resulting aspects.

1.2 House Price Volatility

Prescriptive land restriction policies create a scarcity of land, artificially raise the price of housing, and make the housing market more volatile (such as by increasing the exposure of the market to risky mortgage debt). This can lead to chaotic “boom and bust” cycles in housing markets. They convert what would have otherwise been modest price bubbles into extreme price bubbles.

In the United States, when excessively liberal mortgage loan policies were implemented, metropolitan areas that had adopted prescriptive land use policies lacked the resilient land markets that would have allowed the greater demand to be accommodated without inordinate increases in house prices. These price increases were unprecedented and led to the intensive mortgage losses that precipitated the international financial crisis⁸ and the mortgage stress that results.

This is noted by Glaeser and Gyourko, who summarize the findings of a number of studies:

Recent research also indicates that house prices are more volatile, not just higher, in tightly regulated markets.

...price bubbles are more likely to form in tightly regulated places, because the inelastic supply conditions that are created in part from strict local land-use regulation are an important factor in supporting ever larger price increases whenever demand is increasing⁹.

Finally, they note that housing bubbles generally do not occur in responsive markets.

It is more difficult for house prices to become too disconnected from their fundamental production costs in lightly regulated markets because significant new supply quickly dampens prices, thereby busting any illusions market participants might have about the potential for ever larger price increases.¹⁰

There is general agreement among world economists that prescriptive land use regulation is associated with higher house prices. See the attached assessments from leading economists by Wendell Cox of Demographia (Appendix 2). This includes:

- Reserve Bank of Australia Governor Glenn Stevens told a parliamentary committee that “An increase in state government zoning regulations is a significant factor driving up the cost of housing.” He also noted the increase in local and state government levies on new developments as a driver of higher housing prices¹¹.
- Former Reserve Bank of New Zealand Governor Donald Brash wrote that *the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land*¹².
- Anthony Richards, head of the Economic Analysis Department of the Reserve Bank of Australia recently said that: *...supply-side factors*

*should have a much greater influence on prices towards the fringes of cities, where land is less scarce and accounts for a smaller proportion of the total dwelling price. In principle, the price of housing there should be close to its marginal cost, determined as the sum of the cost of new housing construction, land development costs, and the cost of raw land*¹³. In fact, in prescriptive markets this is no longer the case.

1.3 Impact On Economic Growth

The shortage of land resulting from prescriptive policies adversely affects commerce and industry. Higher housing costs result in higher rentals or mortgage costs. Workers have to make ends meet and so businesses have to pay higher wages. Additionally employers have to pay for higher commercial rentals.

Sydney has the most highly prescriptive land regulation in Australia. Here the cost of industrial land is some 70% greater than in the other Australian capital cities¹⁴. Recently there have been a number of well publicised instances of industries closing their factories in Sydney and moving to Victoria¹⁵.

Adverse economic impacts are also indicated by population movements. During the year ended December 2009, 0.2 per cent of the New South Wales population moved to other Australian states. By contrast the State of Queensland, gained 0.3 per cent. Total population growth (consisting of net immigration, natural increase and net interstate movement) in the states of Victoria, Queensland and Western Australia was 2.13, 2.44 and 2.65 per cent respectively. By contrast New South Wales grew a desultory 1.64 per cent.¹⁶

1.4 Infrastructure

High-density advocates claim that such planning improves services and reduces infrastructure costs.

Policies that skimp on infrastructure spending by overloading existing infrastructure are likely to prove the most costly in the long term. The original infrastructure would have been designed for the original housing density. Adding more people must overload infrastructure. In the long term it must be more cost effective to lay out infrastructure in greenfield sites using mass production techniques in common trenches than to augment existing services by digging up roads crisscrossed with undocumented cables and pipes and interface with outdated technology.

When costs of infill compared to greenfield site development are compared, it seems the costs of bringing the standard of infrastructure back to the level of service people enjoyed before high-density infill into communities was imposed are not taken into account (such as in the Australian study released last summer)¹⁷. It is one thing to compare the direct costs of proximally servicing additional infill by adding onto existing infrastructure, it is quite another to include the costs of bringing trunk infrastructure, for example transport infrastructure, up to the appropriate level to prevent increased congestion.

Since the onset of the imposition of high-density policies in Sydney roads, rail and bus services, water and electricity supply have visibly deteriorated. Newspaper articles repeatedly cite these as the main reasons for the current unpopularity of the New South Wales Government.

With regard to charges for services, there is no evidence that charges in high-density areas are less than in low-density areas – if anything the converse seems true. The New South Wales Energy and Water Ombudsman has now reported a record number of complaints and more households seeking help to pay their bills¹⁸. The report¹⁹ from the Independent Pricing and Regulatory Tribunal reveals from 2008 to 2012 the charges for Sydney domestic water and sewage services will be increased by 31%.

1.5 Cost of construction

The type of dwelling significantly affects the cost of construction. The average cost of building a new unit per square metre is twice that of building a house²⁰.

This extra cost is exacerbated by unnecessary waste as viable single-residential dwellings are demolished to make way for unit blocks forced into communities. The embodied energy remaining in the useful life of the single-residential buildings being demolished is unnecessarily destroyed.

This tendency is aggravated further by the fact that the embodied energy per apartment dweller in the replacing dwellings is more than for those in new single-residential as is mentioned below.

2. HOUSING CHOICE

To optimise the liveability of a city the choice of housing available to the community should be maximised according to user preferences (within financial and environmental limitations). Current planning policies reduce housing choice.

A number of surveys and reports indicate people's preferences. The inference from a study on apartment life²¹ is that half of the current apartment-living households in Sydney and Melbourne would prefer to live in single-residential dwellings. This equates to only about *ten percent* of all those in occupied dwellings in the two cities wishing to live in apartments.

A housing preference survey²² sent out with rate notices by Ku-ring-gai Council in Sydney reveals a similar result. Of people wishing to ultimately move to another dwelling type only *five percent* indicated a preference for a multi-storey unit.

A new report by the Australian Housing and Research Institute states "Older home owners expressed an overwhelming preference for *remaining in their own homes*" (author's italics)²³.

A report on apartment living concludes : "amongst the general population, apartment living has not become a more desirable option"²⁴.

There can be little doubt that most people do not wish to live in high-density. However, in order to implement its high-density policy, the New South Wales Government intends to force this lifestyle²⁵ onto reluctant communities²⁶. It plans 460,000 extra dwellings within the existing footprint of Sydney by 2031 and apparently intends that ultimately 50% of dwellings in the city will be high-density in stark contrast to the figure of 5% - 20% that choose that lifestyle.

With this disparity in what is desired and what is being imposed there can be no doubt that housing choice is being reduced.

3. ENVIRONMENTAL SUSTAINABILITY

3.1 Greenhouse gas emissions.

Advocates of high-density policies maintain these policies save energy and reduce greenhouse gas emissions. Available evidence demonstrates the reverse to be the case.

A comprehensive study of per capita emissions based on household consumption of all products and services appears in the Australian Conservation Foundation's *Consumption Atlas*²⁷. Unexpectedly, this analysis indicates that greenhouse gas emissions of those living in high-density areas are greater than for those living in low-density areas. An analysis of the data²⁸ shows that the average carbon dioxide equivalent emission of the high-density core areas of Australian cities is 27.9 tonnes per person per year whereas that for the low-density outer areas is 17.5 tonnes per person.

3.1.1 Emission sources.

Food and goods purchased account for most of the emissions and this amounts to more for wealthier inner-city dwellers.

Surprisingly, transport emissions amount to very little of an average person's emissions (only 10.5%), household electricity and heating fuel being about twice as much at 20.0%²⁹. It should also be noted that the emissions from household dwelling construction and renovations at 11.8% are greater than emissions for transport. It is clear that transport, so heavily emphasised by high-density advocates, is responsible for only a small fraction of household emissions.

Interestingly, using regression analysis to attempt to isolate variables influencing household emissions, the paper on which the Australian Conservation Foundation data is based³⁰ finds that density, as an isolated variable, has practically no effect on total energy requirements. The paper also finds that density has little effect on the per person energy requirement for mobility and automotive fuel consumption.

Another study which solely measures direct household energy consumption³¹ (thus excluding the effect of purchases) found that annual greenhouse gas emissions from this source in high-rise equated to 5.4 tonnes CO₂ per person per year whereas that for detached housing was only 2.9 tonnes. So even when excluding purchases associated with wealth, high-rise still comes out worst.

The explanation for these findings probably partly arises from lower occupancy rates in high-rise compared to single-residential (as revealed in the above-mentioned studies) and the use of elevators, clothes dryers, air-conditioners and common lighted areas such as parking garages and foyers. Most studies do not include this latter important element, simply because they are based upon consumer bills which do not include common consumption.

In addition there is the greater energy per resident required to construct high-rise.

3.1.2 Embodied energy

An additional consideration is the energy embodied in a dwelling structure. A study³² finds that the total of transport, building operational and building embodied annual greenhouse gas emissions per person for city apartments is 10 tonnes whereas that for outer suburban dwellers is 7.3 tonnes – once again more for apartments.

3.1.3 Future considerations

Looking towards the future, if we are to reduce our urban energy and water footprint by individually collecting localised solar energy and rainwater it appears reasonable that this will only be practical for dwellings that have a large roof area per inhabitant. Low density is more suitable for collecting dispersed sources of energy and water.

3.1.4 Greenhouse gas emission conclusion

It can be concluded that in the Australian situation there is no environmental emission evidence that justifies forcing people to live in high-density - if anything the reverse seems to be the case.

3.2 Transport and urban form

3.2.1 Facts relating to transport

As mentioned above, transport comprises only a minor portion of household emissions. Additionally, the energy difference between the use of public and private transport modes is surprising small.

Greenhouse gas emissions per passenger kilometre for the Sydney rail network, transporting around 500,000 passengers each day, is 105 grams³³. The figure for automobiles in Australia, assuming an average seat occupancy of 1.3, averages 155 grams and it is much less for modern fuel-efficient vehicles that emit a mere 70 grams. It needs to also be considered that direct point to point travel distances by personal transport are frequently less than that for equivalent public transport journeys, so further reducing the energy difference.

High-density imposed on communities hardly reduces per person travel intensity at all. A Melbourne study³⁴ shows that people living in newly converted dense areas did not use public transport to any greater extent and there was little or no change in their percentage of car use.

Developers recognise that units without parking are not saleable. In Melbourne medium density housing projects located near commercial or transit centres invariably include one or two parking places per dwelling³⁵. The initial developers of a 5.7ha site near Sydney Central Station abandoned

their proposed development of the huge multi-unit project mainly because authorities insisted that a maximum limit of 60% of the units could be allocated parking³⁶. This abandonment was in spite of the fact that the site could not be in a better location for public transport, being adjacent to the central railway station and major bus routes that radiate out from the locality.

Eighty percent of journeys undertaken are not work related. For many journeys (including travelling to locations outside the city centre, attending children's sport and recreational activities, transporting pets and visiting friends), public transport is unsuitable or even forbidden such as for bulky goods or pets, as well as being too inconvenient and time-consuming to be of practical benefit.

3.2.2 No evidence of successful examples

3.2.2.1 Centres policy

The latest trend in high-density policies is to impose high-density around suburban shopping centres. It is assumed that additional employers will be attracted to the area and travel to work for those living there will be reduced.

It seems unlikely that commerce and industry that have fled from central business districts due to congestion and high land cost will be attracted to high-density residential areas where the same disadvantages will apply. No successful example of such a conversion has been provided.

The Markelius Plan for Stockholm of the 1950's is the only major example of such an attempt known to the writer. High-density residential and employment centres were established like beads on a string around transport nodes. However the nexus between residential location and jobs did not eventuate. By 1965, only 24% of the residents of one of the centres, Vallingby worked locally; 76 % commuted out. Most jobs were fueled by in-commuters, while the residents went out. Farsta, another centre, did even worse: Only 15% of residents worked locally, 85% commuted out. Eventually those residents in the medium- and high-rise rental apartments who could afford to moved out. They have been replaced by migrants and social welfare recipients.³⁷

The writer suggests there is a fundamental reason for such failures. A great city evolves as a result of the large diversified pool of labour, jobs and facilities it provides. It develops multiple attractors such as distinctive work opportunities, specialist supplies, schools of choice, universities, unique sports, entertainment and friends to visit. Only a tiny fraction of this variety can be located within each envisaged centres. As it is, current city layouts locate a certain proportion of destinations such as local shops and child-care facilities close to residential precincts and it is not clear how high-density centres will make much difference.

3.2.2.2 High-density and travel emissions

New York is frequently quoted by high-density advocates as a successful example of this mode of living. But New York City (local government area or

municipality) does not provide a model to be followed of density allowing the predominant use of transit. New York City includes the special case of Manhattan, where there is the aggregation of many unique entities such as head offices that are best located near each other.

What is more, New York City cannot be considered an independent entity that could be excised from the larger New York urban area, as the areas are interdependent. On its own it cannot realistically be used as a model.

It is interesting to note that journey to work travel times do not seem to decrease as density increases. Looking at New York and some examples of large cities of different density there is no indication that these times are less in dense cities.

| DENSITY & JOURNEY TO WORK TIMES: EXAMPLES | | | | |
|---|---------------|--|---|--|
| URBAN AREA (Agglomeration) | Population | Density (Population per Square Kilometre) | Average Journey to Work Travel Time (Minutes) | |
| Atlanta | 3,500,000 | 689 | 30.4 | |
| <i>References</i> | 3 | 3 | 2 | |
| New York | 17,800,000 | 2,050 | 34.8 | |
| <i>References</i> | 3 | 3 | 2 | |
| New York City | 8,008,000 | 10,116 | 39.0 | |
| <i>References</i> | 3 | 3 | 5 | |
| New York Inner Suburbs | Not Available | | 28.8 | |
| <i>References</i> | | | 5 | |
| New York Outer Suburbs | Not Available | | 24.8 | |
| <i>References</i> | | | 5 | |
| Los Angeles | 11,789,000 | 2,729 | 28.5 | |
| <i>References</i> | 3 | 3 | 2 | |
| Osaka-Kobe-Kyoto | 17,250,000 | 6,350 | 36.2 | |
| <i>References</i> | 1 | 1 | 4 | |
| Tokyo-Yokohama | 34,250,000 | 4,350 | 45.9 | |
| <i>References</i> | 1 | 1 | 4 | |
| Sydney | 3,641,000 | 2,050 | 34 | |
| <i>References</i> | 1 | 1 | 6 | |
| Melbourne | 3,372,000 | 1,550 | Not Available | |
| <i>References</i> | 1 | 1 | | |
| References | | | | |
| 1. Demographia World Urban Areas & Population Projections: Apr 09 | | | | |
| 2. American Community Survey of the US Census Bureau: 2008 | | | | |

3. US Census 2000
4. Japan Bureau of Statistics 2008
5. American Community Survey of the US Census Bureau: 2006
6. NSW Household Travel Survey for 2007

It should be noted that of the four cities discussed in Appendix 1, journey to work times in denser Sydney is 35 minutes whereas in the less dense cities of Dallas-Fort Worth and Atlanta, although having larger populations, the journey to work times are 29 and 25 minutes respectively.³⁸

3.2.3 Dispersion/Decentralisation

Public transport is only good for travelling to a central location. A modern trend is for cities to decentralise.

The example of New York, discussed above, is one of the most centralized large urban areas in the high income world with only Tokyo ranking higher among areas over 5 million population. In 1956 Manhattan accounted for 43% of employment in the metropolitan area. Today it only accounts for 26%³⁹.

In the past 60% of jobs in Sydney were in the CBD. This is now down to 12%.

The evidence is that the imposition of high density policies does not lead to reduced traffic congestion, lower air pollution levels and improved travel times. The reverse appears to be the case.

4. HEALTH

The increased congestion discussed above caused by high-density policies results in inefficient stop-start traffic which increases greenhouse gas emissions as a direct consequence of burning more fuel per km and increases the concentration of dangerous micro-particles from vehicle exhausts. The resulting greater traffic per area and less volume available for dispersion exacerbates this. The World Health Organization maintains that several times as many people die from these particles every year as do from traffic accidents⁴⁰.

in addition, mental health problems are of major concern. A study of over four million Swedes⁴¹ has shown that the rates for psychosis were 70% greater for the denser areas. There was also a 16% greater risk of developing depression. The paper discusses various reasons for this finding but the conclusion is compelling: "A high level of urbanisation is associated with increased risk of psychosis and depression in both men and women".

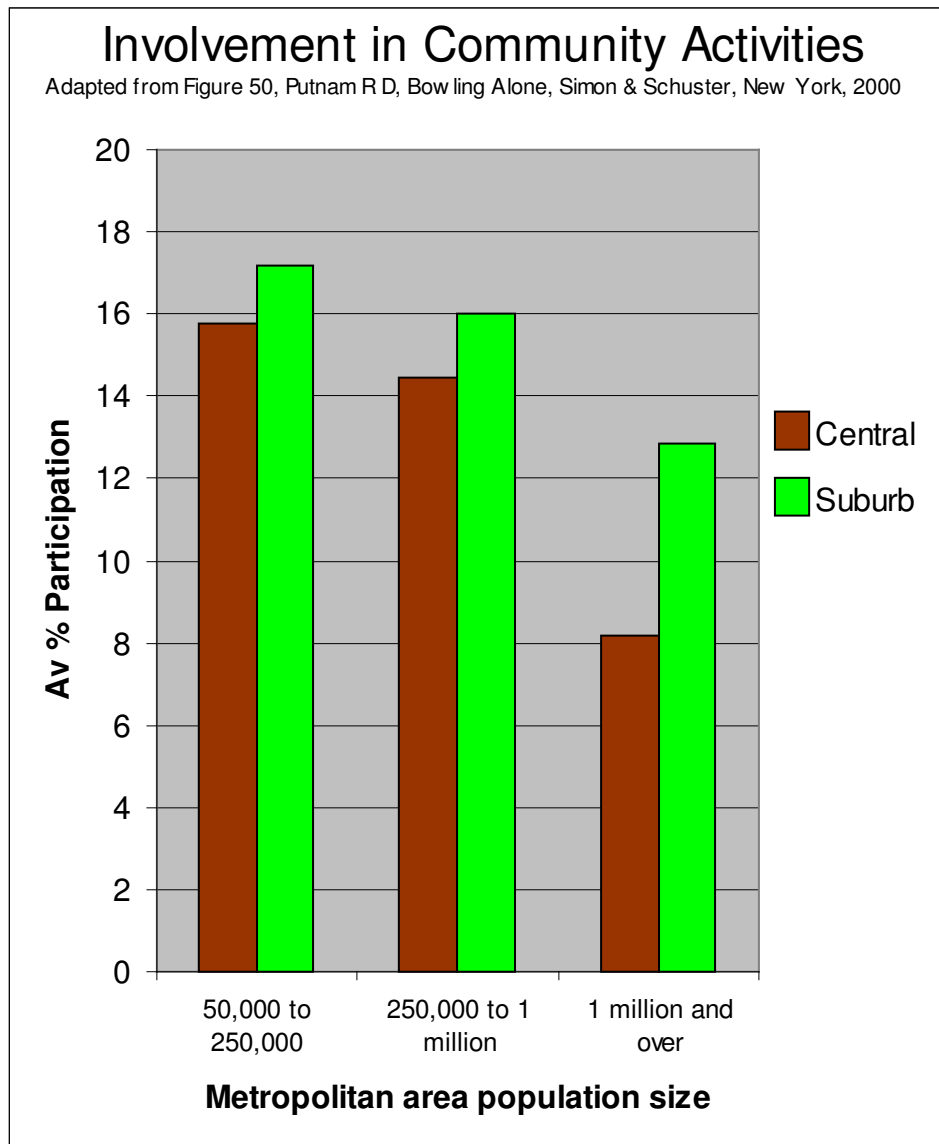
Another study of a population of 350,000 people in Holland⁴² also finds adverse mental (and other) health consequences. After allowing for demographic and socio-economic characteristics, for those living in areas with only ten percent green space, the prevalence of depression and anxiety was 32% and 26% respectively. For those with ninety percent green space the prevalence was respectively 24% and 18%, a significant difference for an increasingly serious problem.

Research also indicates that bringing up young children in apartments can have adverse consequences⁴³. Keeping children quiet emphasizes activities that are sedentary. There is a lack of safe active play space outside the home - parks and other public open space offer poor security.

There are other indirect indicators that relate to this question.

- The Australian Unity Well-being Index⁴⁴ reported that the happiest electorates have a lower population density.
- A recent study in New Zealand⁴⁵ asking people whether residents in particular areas would most like to live in that type of area, revealed that the answer was yes for 90% of rural residents, 76% for small town residents, 75% for city suburbs and only 64% for central city dwellers. Apparently as density increased, so did dissatisfaction with that type of living.
- As mentioned in Section 2 the vast majority of Australians prefer to live in single-residential dwellings.
- Social networks should also be considered. Putnam in his famous book "Bowling Alone" sums up that "suburbanisation, commuting and sprawl" have contributed to the decline in social engagement and social capital⁴⁶. However charts in this book show the opposite. The chart below aggregates Putnam's portrayal. This indicates that involvement⁴⁷ in these social activities of people in the centres of the more spacious small towns is nearly twice that in dense large cities. It is also apparent that such community involvement is greater in low-

density suburbs than in denser central city areas, especially for the larger centres.



The data therefore show, contrary to what was claimed, that as density increases, people's involvement in community activity declines.

Facts available indicate that adverse health and social consequences of high-density living are significant.

5. INFLUENCE OF PRESSURE GROUPS

In spite of only five to ten per cent of Australians wishing to live in apartments (discussed above), high-density policies result in apartments being the only type of housing available to most new entrants to the housing market. These apartments command higher prices than otherwise would be the case due to an inadequate supply of competing single-residential housing and the scarcity resulting from insufficient available sites that result from the imposition of high-density policies. This state of affairs provides the potential for apartment developers to make large profits. Such profits provide the resources for developers to make large donations to the political parties.

Over the previous five years, the ruling New South Wales State Labor Party received donations from the development industry of \$9 million while the Liberal opposition party netted \$5 million⁴⁸. These donations exceeded the total contributions for all political parties over the same period from the gambling, tobacco, alcohol, hotel, pharmaceutical and armaments industries combined.

Numerous cases have been documented that show a large donation being made shortly before permission is granted for a particular development⁴⁹. In response to long-term escalating public anger the New South Wales Government in December 2009 passed legislation to prohibit donations from property developers. However the public cynically consider this will not solve the problem and that “donations” will be given in other ways.

6. PLANNING ALTERNATIVES

6.1 Decentralisation

After some two decades it is obvious that policies based on imposing higher densities in existing urban areas originally designed for lower densities have failed. There is much public dissatisfaction resulting from excessive housing costs, congestion and overloading of infrastructure. In order to have a significant impact on competition a completely new approach to planning is required.

Vigorous efforts should be made to achieve a more even spread of Australia's population where feasible. To house the increasing population resulting from Federal Government policies, development should aim at towns other than the capital cities. This should include:

1. Whole of Australia Development and repopulation of declining regions
2. A viable decentralisation policy. A mix of incentives and infrastructure provision can be used to deal with the time and distance issues raised by decentralisation. These include transport infrastructure, top class telecommunications and personal and company tax incentives.
3. The creation of satellite cities adjacent to capital cities. Each to be as autonomous as practical and linked by high-speed transport and communications. The planning for each satellite city would emphasise:
 - the creation of Green belts
 - optimal location from an environment perspective
 - good transport networks - easy walk/bike/public transport to centre and a road network designed to facilitate public transport routes
 - optimal environmental design – water reuse in city and downstream, thermal properties, power cables underground, sustainable plantings
4. Judicious expansion of capital cities . This will be better environmentally than increasing densities. The Commonwealth should liberally fund the infrastructure for these greenfields sites
5. Higher densities, where feasible, for those communities that want it.

6.2 Optimal balance between prescriptive and responsive land regulation

Within reasonable limits land regulation should be responsive to community needs and maximise the opportunities to cater for these needs. Instead of specifying land where development can take place, government authorities should specify where development cannot take place. Such specification

could be both in general and specific terms. General considerations could include, for example, prohibit development on valuable farm land, environmentally highly sensitive areas, within a certain distance from the sea shore etc.

It should be left to the private sector to initiate and develop unrestricted areas with Government taking a more passive supervisory role. The Government should ensure that properly designed user fees, markets and incentives are in place to optimise market-driven development for the long-term benefit of the wider community.

A system should be devised that enables development applications to be heard by an independent determining authority (such as the New South Wales Land and Environment Court) with submissions from the applicant, the community and planning authorities. Applicant criteria that would have to be satisfied would include financial capacity, expertise and historical performance. Developments would need to comply with statutory minimum requirements. The determining authority would have to be satisfied that the local community is in favour of the development.

In general, opposition to development by communities is likely to decrease once a system is in place in which communities have to compete with each other for development instead of having development thrust upon them.

Fixed interest bonds with some state and commonwealth participation could finance infrastructure. In the event of competing applications vying for such funds there should be a tender process with awards being determined by, for example, the minimum requirement for public funds per residential lot produced.

For greenfield developments, in conjunction with planning authorities, the developer would create an owners' association or a board of directors to develop local covenants.

The alternative strategy proposed here would have the following benefits:

- Housing will become more affordable
- There will be more housing choice
- Housing will be more family friendly
- Traffic congestion will be reduced as ultimately will journey to work travel times
- The environment will be healthier for people
- Urban areas will be environmentally more sustainable
- Democracy will be improved with communities being able to make decisions for themselves in new areas.
- The costs and benefits resulting from decisions will fall onto those who make them
- The State Government will be seen more as a rule maker instead of a case by case decision maker and will not be directly in line for criticism of every planning decision

- Neighbourhoods should be in a much better position to evolve to meet changing conditions and changing tastes or requirements of owners than areas that are governed by remote planners.

CONCLUSION: THE NEED FOR COORDINATION BETWEEN JURISDICTIONS AND FOR EVIDENCE BASED PLANNING RESPONSIVE TO COMMUNITY REQUIREMENTS

The Productivity Commission's brief encompasses the examination of the effectiveness and functioning of cities. It is necessary for the Federal Government to take some responsibility for infrastructure necessitated by its immigration policies to minimise a mismatch between population growth and infrastructure provision.

In addition it is apparent that effective functioning is countered by current prescriptive planning regimes that are driven mainly by unproven ideology and pressure groups standing to benefit financially. Planning practices currently in vogue increase overall cost, reduce housing choice, increase greenhouse gas emissions, impede travel, and adversely affect health. Liveability is adversely affected.

There should be an optimal balance between prescriptive and responsive land regulation. Within reasonable limits land regulation should be reactive to community needs and maximise opportunities to cater for these needs.

The far-reaching and inflexible effects of the implementation of planning decisions require the decision-making process to be soundly based and to be seen as soundly based. Planning should be founded on public preferences and the greater public good rather than on unproven planning doctrines coupled with the advocacy of pressure groups.

It is essential that Federal and State planning be properly coordinated and the planning process be publicly accepted as objective, transparent, democratic, uninfluenced by vested interests and motivated by overall long-term community benefit.

APPENDIX 1

Comparison of four jurisdictions and implications

Excerpt from:

6th Annual Demographia International Housing Affordability Survey

By Wendell Cox (Demographia) & Hugh Pavletich (Performance Urban Planning)

<http://www.demographia.com/dhi.pdf>

Data updates by Tony Recsei

The devastating impact of more prescriptive land use regulation (urban consolidation or compact development) policies on housing affordability can be shown by comparing four comparable metropolitan areas: severely unaffordable Sydney and Melbourne in Australia and affordable Dallas-Fort Worth and Atlanta in the United States.

In 1981, Sydney and Dallas-Fort Worth were approximately the same population. Dallas-Fort Worth has grown much faster and is now nearly 50 percent larger than Sydney. In 1981, Melbourne was larger than Atlanta. Atlanta has also grown faster and is approximately 50 percent larger than Melbourne and more than a quarter larger than Sydney (Figure 3).

Obviously, the demand for housing was greater in the much faster growing markets of Dallas-Fort Worth and Atlanta than in Sydney and Melbourne. Yet, unlike Sydney and Melbourne, house prices did not rise relative to incomes in Dallas-Fort Worth and Atlanta, because the planning systems permitted new housing to be built on cheap land on the urban fringe. In 1981, the Median Multiple in Dallas-Fort Worth was 3.5. By 2008, it had dropped to 2.7. Atlanta had a Median Multiple of 2.6 in 1981 and it remained 2.6 in 2008. These and other liberally regulated metropolitan areas experienced the housing boom, but not the housing bubble ⁵⁰

... unlike Sydney and Melbourne, house prices did not rise relative to incomes in Dallas-Fort Worth and Atlanta, because the planning systems permitted new housing to be built on cheap land on the urban fringe.

By comparison, housing affordability deteriorated in Melbourne, from a Median Multiple of 2.9 in 1981 to 8.0 in 2009. Sydney, with its earlier excessive regulation, had a Median Multiple of 4.9 in 1981, but worsened to 9.1 by 2009 (Figure 4).

Urban planning orthodoxy in Australia (very much influenced by thinking in the United Kingdom) contends that it is impossible to provide sufficient infrastructure for an expanding urban area (Section 3). Yet, this has been proven wrong by the two US examples (and many others). Dallas-Fort Worth and Atlanta have grown more than the five major urban areas of Australia⁵¹ combined since 1981, both in urban footprint and in population (more than double the Australian rate). Sufficient new infrastructure was provided and taxes remained low by national standards in Dallas-Fort Worth and Atlanta. Moreover, the ability of fast-growing markets to provide transport infrastructure is illustrated by the fact that Dallas-Fort Worth and Atlanta have average work trip travel

times less than Sydney, despite having larger populations and covering more land area than Sydney⁵²

The explosion in Sydney and Melbourne housing prices can be traced to land price increases. For housing to be affordable, the land on which it is built must be affordable. This means that the development ratio (the price of the land ready for house construction to the total house and land package) must be kept at [less than 25 percent](#) for new housing on the urban fringe. The balance is the cost of house construction. While the development ratio has been kept within this maximum in Dallas-Fort Worth and Atlanta, rapidly escalating land prices in Sydney and Melbourne have driven the development ratio as high as 70 percent.

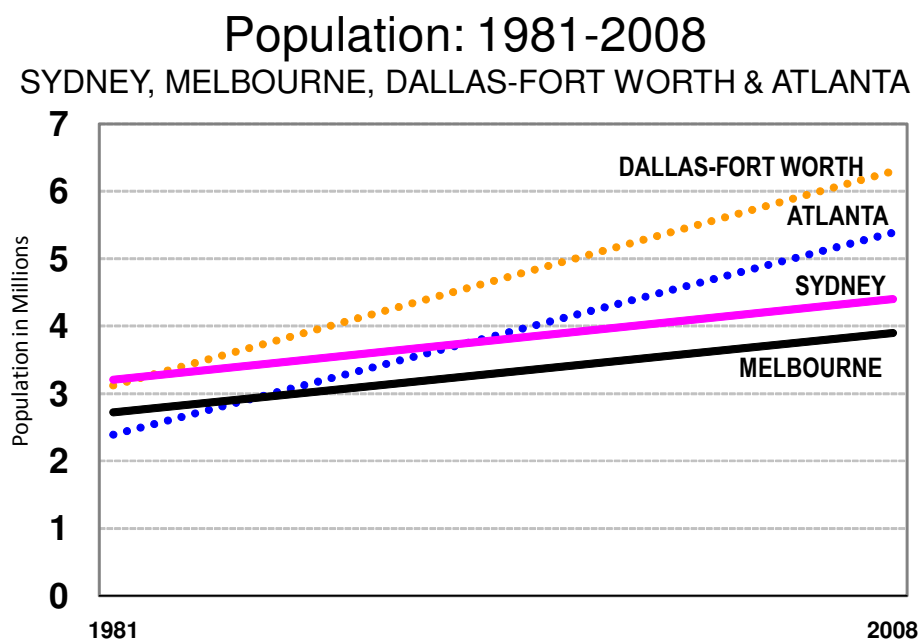


Figure 1

Housing Affordability

SYDNEY, MELBOURNE, DALLAS-FT WORTH & ATLANTA

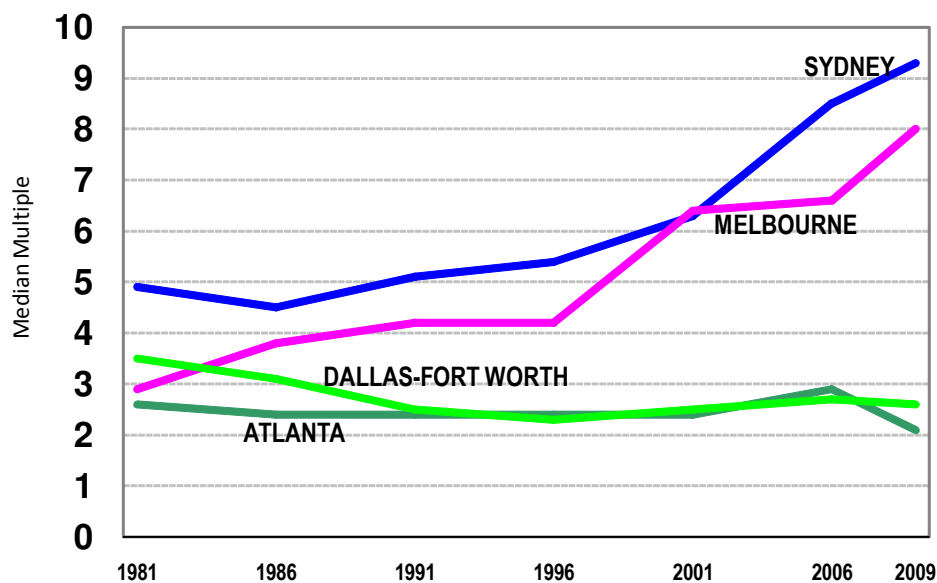


Figure 2

The extent of this increase is illustrated by Housing Industry of Australia data. Construction costs of a standardized house rose only 4 percent relative to inflation between 1973 and 2006 in the major capital cities.⁵³ The price of the land for building has risen nearly 400 percent over the same period, inflation adjusted. This indicates that 98 percent of the increased cost was in the land, not construction.

Australia: A Nation in Mortgage Stress: Various measures indicate that any households spending 30 to 35 percent or more of their gross annual income on mortgage repayments are in “mortgage stress”⁵⁴. According to the latest data, the median income households in Sydney and Melbourne with a new mortgage on a median priced house would be in mortgage stress. The extent of mortgage stress has become an issue of significant political concern in Australia. According to the National Centre for Social and Economic Modeling at the University of Canberra estimated that more than one-quarter of households with mortgages or renting were in housing stress⁵⁵ in 2008.

... in Sydney, 57 percent of gross annual income ... would be required for mortgage repayments for the median priced house

Already, in Sydney, 57 percent of gross annual income of the median income household would be required for mortgage repayments for the median priced house. The figure would be 50 percent in Melbourne. By comparison, the median income household would have median house mortgage repayments equalling under 20 percent in Atlanta and Dallas-Fort Worth (Table 7).

The difference is substantial. In Sydney, the monthly mortgage payment on a new median priced house would be over \$3,500 and more than \$3,300 in Melbourne. By comparison, in Dallas-Fort Worth, the monthly mortgage

In Sydney, the monthly mortgage payment on a new median priced house would be nearly \$3,000 and more than \$2,500 in Melbourne. By comparison, in Dallas-Fort Worth, the monthly mortgage payment on a new median priced house would be under \$800 and in Atlanta under \$700

payment on a new median priced house would be under \$800 and in Atlanta under \$700 (Figure 5) ⁵⁶

Australians pay far more for their housing than Americans, and, as a result, have less income remaining to spend on consumer goods and services for themselves and their children. It is likely that this has negative impacts on employment. Moreover, house prices relative to incomes (the Median Multiple) were generally lower in Australia than in the United States as little as two decades ago.

Thus, Australia is poised for much more housing stress. Already, the payment on a new mortgage on a median priced house would place the median income household in mortgage stress. In the longer run, this means that more than one-half of households are likely to enter mortgage distress as the normal turnover of houses continues in the years to come. Further, as the price of land is driven higher by prescriptive land use regulation, the number of renting households in housing stress can be expected to increase as well.

| Table 7 Share of Income for Mortgage: Sydney, Melbourne, Dallas-Fort Worth, Atlanta <i>(Share of Median Household Income To Pay Mortgage on Median Priced House)</i> | |
|--|-----------------------------|
| Metropolitan Area | % of Gross Annual Income |
| AUSTRALIA | |
| Sydney | 57.4% |
| Melbourne | 50.4% |
| UNITED STATES | |
| Dallas-Fort Worth | 13.4% |
| Atlanta | 16.8% |
| New mortgage in September 2009 | |

Monthly Mortgage Payment

SYDNEY, MELBOURNE, DALLAS-FORT WORTH, ATLANTA

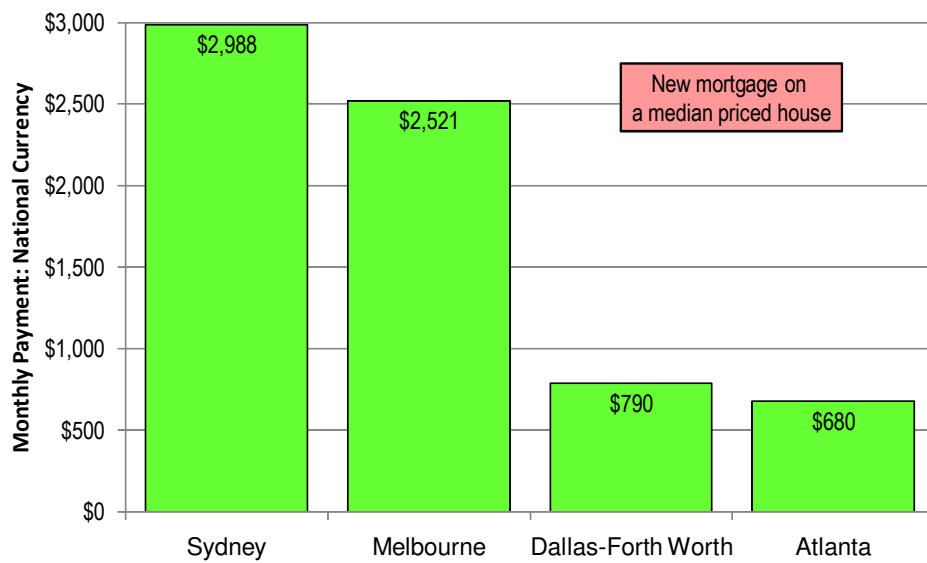


Figure 3

RECENT DEVELOPMENTS

The *Demographia International Housing Affordability Surveys* have been instrumental in stimulating public discussion of housing affordability, especially in [Australia and New Zealand](#).

Australia: As data in this report indicates, Australia has the most unaffordable housing among the six surveyed nations. A recent release by the Australian Bureau of Statistics indicates that home ownership fell from 72 percent of households to 68 percent between 1994-5 and 2007-8.⁵⁷ Over the same period, the United States, with similar demographics and demographic trends, experienced an increase from 65 percent to 68 percent.⁵⁸

There is a widely held view that the nation has a severe housing crisis, which includes a severe housing shortage.⁵⁹ Throughout Australia, house construction volumes have been declining, even while there is strong population growth (Figure 6).⁶⁰

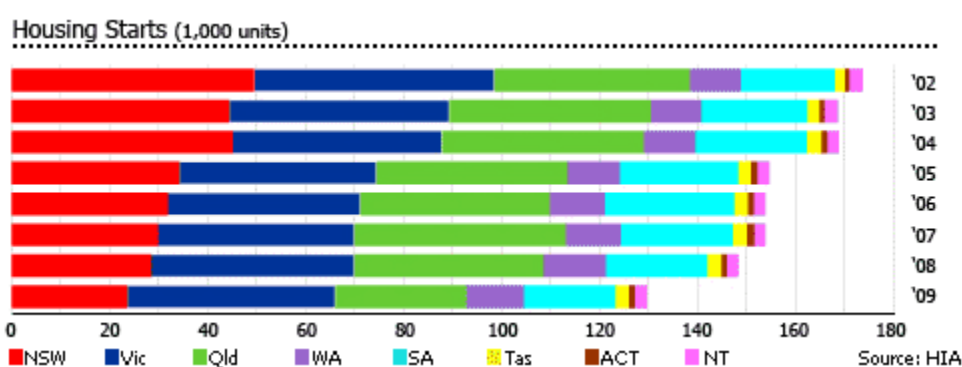


Figure 4: Housing Starts by State in Australia

The depth of the problem is indicated by the fact that a median income household would be in mortgage stress with a new mortgage on a median price house in each of Australia's major metropolitan areas (Figure 7). Further, the nearly one-third of households that rent experience higher housing costs, because the price of land is driven higher by more prescriptive land use regulation.

Mortgage Stress in Australia

NEW MORTGAGE SHARE OF GROSS MEDIAN INCOME

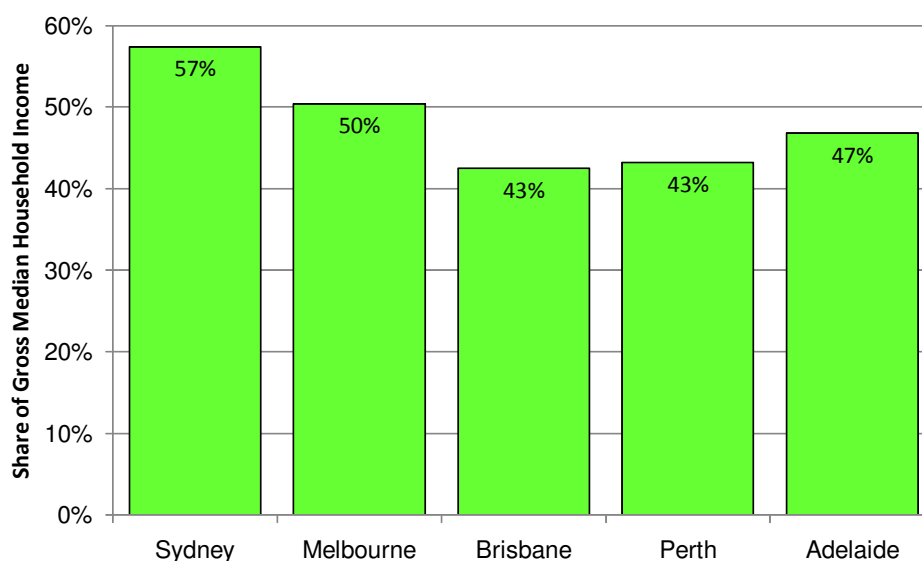


Figure 5

The political importance of housing affordability in the 2007 federal election was indicated in a Fitch Ratings analysis commissioned by *The Sydney Morning Herald*.⁶¹ Constituencies with greater mortgage stress voted particularly strongly for the winning Labor Party. Moreover, the rate of home repossessions was determined to be a better predictor of electoral margins than either high unemployment rates or lower average incomes.

Then Labor Party national secretary Tim Gartrell noted a solid movement toward his party of voters with “just above” the average mortgage repayment of \$1,400 to \$1,600 per month.⁶² A new mortgage on a median priced house is now well above this level, suggesting that the issue of housing affordability could emerge as an even more crucial political issue in the years to come (Figure 9).

The new government has indicated concern about the issue. Federal Housing Minister Tanya Plibersek has noted that “we are not building enough homes” and particularly noted the problem of land supply, saying “We still have problems in Australia with housing supply. There is no question of that”, adding: “We need to make sure that we have got enough affordable land to build on, both in green fields and in fill sites...”⁶³

Additional attention is indicated by the Council of Australian Governments, which intends to develop a national housing supply and housing affordability agenda.⁶⁴

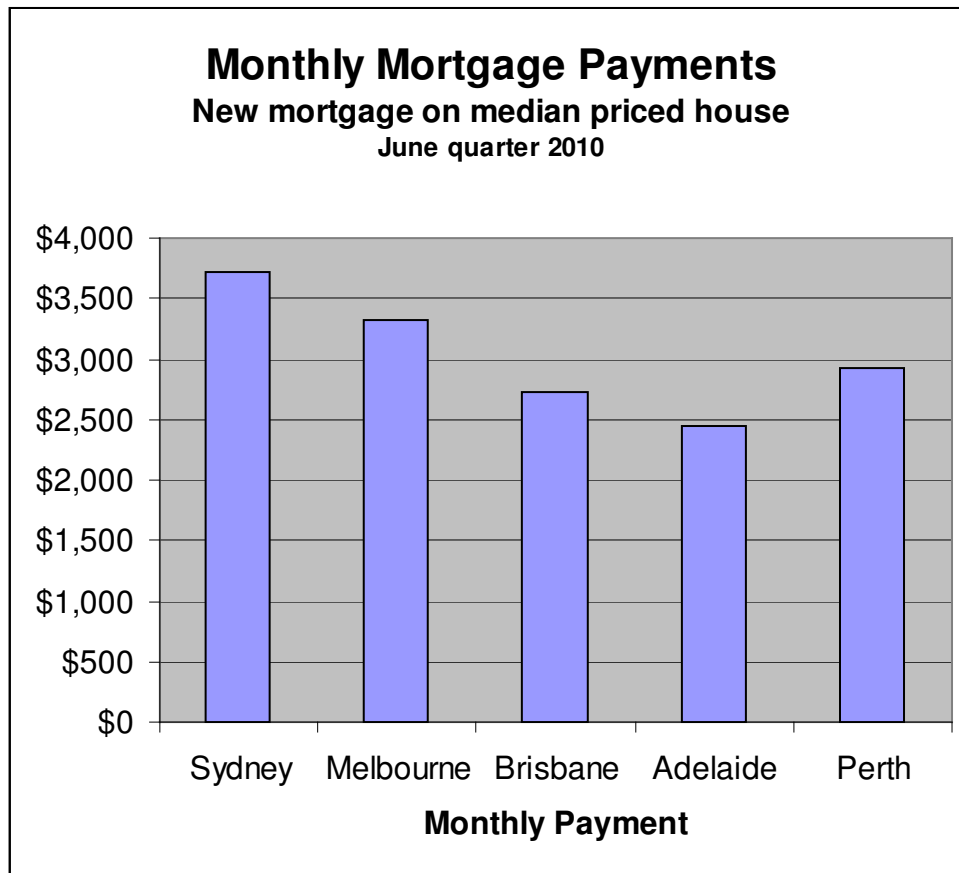


Figure 6

Housing affordability is also receiving greater attention at the state level. The government of Victoria intends to open sufficient Melbourne fringe land for 250,000 houses (and 650,000 people), which is a substantial expansion relative to previous plans.⁶⁵

There is good reason for all levels of government to be concerned. However, the concern has not been matched by improving housing affordability. The Median Multiple has continued to rise.

Westpac (Bank) Chief Economist Bill Evans noted that housing prices were rising at an annual rate of 20 percent over the past 6 months and that: “A huge chasm is opening up between the demand and supply for housing.”⁶⁶

Joe Flood at the Flinders Institute for Housing Urban and Regional Research warned of the risks of high house prices and indicated that large gains in household incomes had been “wasted” by increasing house prices and accumulating debt to unreasonable levels⁶⁷

A recent Bank West report indicated that housing affordability was deteriorating for key workers (nurses, teachers, police officers, fire fighters and ambulance workers), with [only 5 percent to 20 percent able to afford](#) the median priced house in the larger urban areas.⁶⁸ Moreover, there are predictions that house price escalation will continue.⁶⁹

The True Housing Crisis: Lack of Affordable Land: As has been noted above, the extraordinary increase in land

Australia’s plan-driven ... urban development ... takes from 6.25 to 14.5 years for residential land to be designated for development to the completion of the first houses. By comparison, the same process could as little as one year ... with demand-driven processes

costs has been the principal driver of higher house prices. The National Housing Council *State of Supply Report* indicates that Australia's plan-driven (more prescriptive regulation) urban development at the micro-scale level takes from 6.25 to 14.5 years for residential land to be designated for development to the completion of the first houses.⁷⁰ By comparison, the same process could as little as one year on the fringe of urban areas with demand-driven processes (more responsive regulation), in the United States. Further, before prescriptive regulation policies (urban consolidation) were adopted in Australia, the process tended to take from 1 to 1.5 years in what was then a demand-driven process.

The long process in a plan-driven market provides land sellers and buyers with reliable information on where development will occur and, as a result, tends to significantly raise the price of land. This virtually eliminates any supply of affordable land and makes housing affordability an unrealisable goal.

State (and even federal) authorities may claim that there is sufficient "years of supply" of land for building new houses, in dismissing calls for additional land release. "Years of supply" is a meaningless measure. Plan-driven regulation skews land prices upward, making it impossible to produce housing that is affordable, regardless of the how many years of land supply is available.

The only genuine measure of scarcity or abundance is price. The problem is that there is not a sufficient supply of affordable land, because of the market distortions created by urban consolidation.

These land price increases have been avoided in more responsively regulated markets where the process of building new housing is driven by the preferences of consumers.

APPENDIX 2

Assessments from Leading Economists

By Wendell Cox, Demographia

There is general agreement top among world economists that prescriptive land use regulation is associated with higher house prices.

- Nobel Laureate economist Paul Krugman of Princeton University and the *The New York Times* noted that the house price bubble has been limited to metropolitan areas with strong land use regulation⁷¹
- Thomas Sowell of the Hoover Institution has made similar points.⁷²
- Theo Eicher of the University of Washington produced a working paper placing much of the blame for house price escalation on land use regulation in cities around the nation.⁷³
- A United Kingdom government report by Kate Barker, formerly member of the Monetary Policy Committee of the Bank of England, blamed that nation's loss of housing affordability on its prescriptive land use policies under the Town and Country Planning Act of 1947 (The *Barker Reports*).⁷⁴
- A New Zealand government report by Arthur Grimes, Chairman of the Board of the Reserve Bank of New Zealand blamed the loss of housing affordability in the nation's largest urban area, Auckland, on prescriptive land use policies.⁷⁵
- Reserve Bank of Australia Governor Glenn Stevens told a parliamentary committee that "An increase in state government zoning regulations is a significant factor driving up the cost of housing." He also noted the increase in local and state government levies on new developments as a driver of higher housing prices.⁷⁶
- Former Reserve Bank of New Zealand Governor Donald Brash wrote that *the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land*⁷⁷
- William Fischel of Dartmouth University shows that the diversion of house prices between California and the rest of the nation from 1970 to 1990 was associated with stronger land use regulation.⁷⁸
- Research by Harvard University's Edward Glaeser the University of Pennsylvania Wharton School's Joseph Gyourko others shows a strong relationship between prescriptive land use policies and higher housing prices, noting:

*America does not uniformly face a housing affordability crisis. In the majority of places, land costs are low (or at least reasonable) and housing prices are close to (or below) the costs of new construction. In the places where housing is quite expensive, zoning restrictions appear to have created these high prices.*⁷⁹

- Glaeser et al further show that Boston's house prices had been inflated 60 percent by scarcity created by prescriptive planning that relies heavily on large lot zoning (rural zoning).⁸⁰

- Anthony Richards, head of the Economic Analysis Department of the Reserve Bank of Australia recently said that: *...supply-side factors should have a much greater influence on prices towards the fringes of cities, where land is less scarce and accounts for a smaller proportion of the total dwelling price. In principle, the price of housing there should be close to its marginal cost, determined as the sum of the cost of new housing construction, land development costs, and the cost of raw land.*¹ In fact, in prescriptive markets this is no longer the case.

- Research by Raven Saks of the Federal Reserve Board indicated that:

In places with relatively few barriers to construction, an increase in housing demand leads to a large number of new housing units and only a moderate increase in housing prices. In contrast, for an equal demand shock, places with more regulation experience a 17 percent smaller expansion of the housing stock and almost double the increase in housing prices^{m81}

- An analysis by the Federal Reserve Board of Dallas notes the association between metropolitan area house price increases in the 2000-2006 housing bubble and the presence of prescriptive land use regulation.⁸²

Demand for housing, driven by low interest rates and a growing economy, combined with supply restrictions—such as zoning laws, high permitting costs and “not in my backyard” regulations—to contribute to rapid price appreciation. ... low levels of construction in the face of strong demand contributed to significant price appreciation...

The analysis notes that in the responsive markets of Atlanta, Dallas-Fort Worth and Houston, flexibility with respect to housing supply spared those metropolitan areas the price increases that occurred in prescriptive markets.

... Atlanta, Dallas-Fort Worth and Houston “weathered the increased demand largely with new construction rather than price appreciation because of the ease of building new homes.

www.demographia.com

2010.08.03

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