

9 October 2017

The Interim Chief Executive Officer
Newcastle City Council
PO Box 489
NEWCASTLE NSW 2300

Attention: Joanne Dunkerley

Dear Ms Dunkerley,

Compass welcomes the opportunity to provide comment on Newcastle City Council's Draft Affordable Living Plan.

Compass is a Tier 1 Community Housing Provider with 30 years' experience and deep roots in the Newcastle region and as such is particularly concerned with the ability of local residents to access adequate and affordable housing.

Compass welcomes Council's commitment to the provision of affordable living solutions in Newcastle and offers the following observations and feedback.

DEFINING AFFORDABLE HOUSING FOR BUYERS

The median sale price of detached housing in Newcastle has increased by more than 40% over the past five years alone. This is part of a broader trend that has seen property prices in Australia surge by around 140 per cent over the past 15 years, spurred on by low interest rates and the inability of supply to keep pace with heightened levels of demand driven by rapid population growth, foreign purchases, and a tax system that favours property investors over owner occupiers.

Each year Demographia publishes housing affordability data from over 400 cities across the world using a measurement called the median multiple (sometimes called the price-to-income ratio.) The median multiple is derived by dividing the median house price in a particular city by the median household income for the same area. For example, a median multiple of four means that a median priced dwelling costs four times the median household income.

Demographia's analysis suggests a median multiple of three or less is a sign of an affordable market. A median multiple of between three and five meanwhile, means the market is moderately unaffordable while a score of more than five means housing is severely unaffordable.

According to the latest Demographia report, Newcastle has a median multiple of 6.6 making it severely unaffordable and, perhaps surprisingly, more expensive than capital cities like Brisbane,

Canberra and Perth, not to mention more expensive than major international cities like Boston, Washington DC, Montreal and Manchester.

It is likely that affordability in Newcastle has declined further since the publication of the most recent Demographia report earlier this year. Based on the median house of \$560,000 as recorded by the NSW Department of Family and Community Services, and the most recent census data which indicates a median household income in the Newcastle LGA of approximately \$71,000, Newcastle's median multiple is now closer to eight.

The decline in housing affordability has a number of symptoms, the most obvious and widely reported of which are a sharp decline in home ownership rates, particularly among younger households, and an increasing level of indebtedness amongst those who have managed to enter the market. Research from the Grattan Institute indicates in the period since 1981, the level of home ownership amongst Australians aged between 25 and 44 has decreased by approximately 15 per cent. Meanwhile, data from the Reserve Bank of Australia and the ABS indicate Australia's household debt to GDP ratio has soared to 123 per cent, (the second highest in the world), while the level of household debt to disposable income is now an astonishing 193 per cent.

Declining affordability for first home buyers also has implications for the rest of the housing system. Details of these impacts, and the potential considerations for Newcastle City Council, are set out below.

DEFINING AFFORDABLE HOUSING FOR RENTERS

The housing market is a continuum, not a series of atomised components. As such it is critical to recognise the impact that high purchase prices have on the rest of the market. As affordability declines, prospective first home buyers remain in the rental market for longer. This in turn places extra pressure on lower income renters who now find themselves in competition with relatively cashed up would-be first home buyers. Those on the lowest incomes meanwhile, are increasingly forced into inappropriate or unsafe accommodation, or placed at risk of homelessness and left with little choice but to turn to the already swamped social housing system for support.

Housing affordability for renting households is generally defined as housing that costs no more than 30% of a household's gross income. Households whose housing costs exceed this threshold are said to be experiencing "housing stress".

According to ABS data, approximately 40% of all renting households in Newcastle are experiencing housing stress. Unlike purchase prices, rents are generally considered inelastic in that they are linked more closely with incomes. However over the past five years, Newcastle has been one of the few cities in Australia to see rents increase significantly faster than incomes. In the period from 2011 to 2017, median rents in Newcastle increased by approximately 25 per cent while incomes increased by just 16 per cent. The level of housing stress in the private rental market is likely exacerbated by the prolonged failure of the social housing system to keep up with demand, which has resulted in a significant number of households on very low incomes being required to obtain accommodation in the private rental market.

POPULATION GROWTH & THE NEED FOR MORE QUALITY SOCIAL AND AFFORDABLE HOUSING

The affordability challenges impacting our housing system are exacerbated by population growth that is currently outpacing our ability to provide the necessary housing infrastructure. According to the NSW Department of Planning and Environment, the state's population is expected to grow by around 2.7 million people over the next 25 years. As noted in Council's Draft Affordable Living Plan, by 2036, the population of the Newcastle LGA is expected to increase by around 33,500 people to 198,350. This influx of residents is expected to necessitate the delivery of around 16,800 new dwellings. With home ownership almost certain to remain beyond the reach of average income earners, Compass believes it is critical to ensure that a sufficient proportion of this new supply is set aside for social and affordable housing.

Based on .id's community profile of the City of Newcastle, 6.3% of residents live in social housing. Assuming a comparable level of need amongst the future population, we can conservatively estimate that the city will require an additional 1059 social housing dwellings. It is important to note however, that this target does not include housing for the 1913 households currently listed on the social housing waiting list in Newcastle. Providing sufficient social housing to accommodate those currently on the waiting list, plus the proportion of the future population growth likely to require social housing, will require an additional 2972 dwellings.

Although this target may appear achievable over the timeframe involved, we should be wary of complacency as our state's recent track record on this front is not good. Over the past ten years the population of NSW swelled by more than a million people. Over the same period the state added fewer than 7000 new social housing dwellings.

The current state government has taken steps to rectify this situation under *its Future Directions for Social Housing* policy. The Social Housing Management Transfer and the Social and Affordable Housing Fund, are both commendable efforts to boost the level of supply. Under the Social and Affordable Housing Fund, for example, Compass has been granted a contract to deliver approximately 600 social and affordable dwellings across the Newcastle and Central Coast regions.

Compass is also optimistic that new *National Housing and Homelessness Agreements* announced by the federal government in this year's budget will include ambitious targets for new supply. Compass would be pleased to partner with Council on any future efforts to ensure an appropriate proportion of any new supply mandated under a new *National Housing and Homelessness Agreement* is delivered here in Newcastle.

Compass notes Council's consideration of boarding houses and caravan parks as alternative forms of affordable housing, however has reservations about their suitability for long-term accommodation. While caravan parks and boarding houses can be useful for those who do not wish to enter into a long term lease or who are unable to access the private rental market due to a poor tenancy history, Compass believes they are best considered as a short term option rather than a viable alternative to social and affordable housing. Residents in caravan parks and boarding houses generally have fewer rights, and significantly less security of tenure than tenants of social or affordable housing as they are not protected by a Residential Tenancy Agreement. Moreover, by clustering high concentrations

of low income or otherwise disadvantaged people, boarding houses and caravan parks can contribute to suboptimal social outcomes and entrench disadvantage.

A great many government policies addressing the issue of social and affordable housing include amongst their aims a desire to “transition” social housing tenants out of social housing and into the private rental market wherever possible. The current NSW Government’s *Future Directions on Social Housing Policy* refers to the targets of this objective as “the opportunity group”.

Compass is of the view that social housing tenants should be assisted to achieve a greater level of housing independence wherever they have the means and the opportunity to do so. However, this ambition must be tempered by a proper understanding of the financial and social barriers tenants face when attempting to transition to the private market.

The ability of social housing tenants to transition to the private market is also heavily impacted by their employment status and by the state of the housing market where they live. In capital cities and major regional centres like Newcastle, private rents are often double or even triple what social housing tenants pay for an equivalent property. Due to the needs based allocation system for social housing, the majority of tenants are drawn from the higher need categories on the social housing register and are therefore reliant on a government pension or benefit for their income which severely limits their options in the private rental market. Those in regional or rural areas where demand for private rentals is lower are more likely to succeed than those seeking accommodation in hot property markets like Newcastle. For instance, according to the ABS, the median household income of households living in social housing in the City of Newcastle is \$439 per week (\$22,828 per annum) and 75 per cent of social housing tenants have household incomes of less than \$42,000 per year. At the time of the 2016 Census, median private rent in Newcastle was \$340 per week. It is therefore extremely difficult for people on incomes in the range mentioned above to obtain appropriate and affordable accommodation in the private rental market unless they first gain employment which enables them to pay private rent without experiencing severe housing stress.

THE SOCIAL HOUSING LANDSCAPE IN NEWCASTLE

In order to inform Council’s understanding of the current state of the social housing system in Newcastle, Compass offers the following snapshot:

- As at September 2017 there were 1913 households on the waiting list – up 15% on June 30 last year.
- There are around 4500 social housing properties in Newcastle of which Compass manages 781.
- The average waiting time for a social housing dwelling in Newcastle is 5-10 years depending on the type of property required.
- There are currently more than 60,000 households on the waiting list across NSW.

Compass’ view is that the recent spike in the waiting list is driven primarily by two factors.

Declining housing affordability:

- Since 2011 median rents in Newcastle have increased by almost 25% while household incomes have increased by just 16%. 40% of renting households in Newcastle are in housing stress. That's a higher rate of housing stress than every capital city in the country except Sydney.
- The median household income for social housing tenants in Newcastle is \$439 a week, or \$22,828 per year.
- Meanwhile, purchase prices have gone into overdrive. Over the past three years alone, house prices in Newcastle have grown at more than three times the rate of wages, and more than four times the rate of inflation.
- According to Demographia, Newcastle has a median multiple of 6.6 which means it is more expensive than capital cities like Brisbane, Canberra and Perth, not to mention more expensive than major international cities like Boston, Washington DC, Montreal and Manchester.
- Based on the most recent census data Newcastle's median multiple is probably now above 7.

Social housing numbers not keeping pace with population growth

- Over the past decade the population of NSW has increased by almost a million people. Over the same period the state added just 7000 extra social housing dwellings.

INCLUSIONARY ZONING AND THE NEED FOR GREATER FLEXIBILITY IN PLANNING

Compass welcomes Council's commitment to inclusionary zoning, requiring a percentage of floor space to be made available as affordable housing. Compass notes the commitment made by the mayor prior to the recent council elections that would see 15% of developments on private land and 25% on government land to be used for affordable housing, however Compass is also cognizant of the state legislative restrictions that currently prevent the proposal from being implemented.

We are also interested in the outcome of Council's proposed investigation into the feasibility of inserting an incentive clause in the Local Environmental Plan that would provide developers with bonus development yield in return for part of the development being set aside for affordable housing.

Compass is of the view that a greater degree of planning flexibility is preferable in the cause of delivering affordable housing, and would therefore be receptive to working in collaboration with Council on future education, and advocacy initiatives that would influence changes to state planning policies, and the standard instrument local environmental plan to make it easier for councils to implement affordable living initiatives.

NEW URBAN AGENDA

Compass is pleased to see Council's recognition of the central place the New Urban Agenda must play in government responses to the challenge of providing the basic human right of adequate and affordable housing.

Compass is deeply involved in the ongoing effort to having the New Urban Agenda effectively implemented in Australia. Our Group Managing Director Greg Budworth was part of the Australian delegation that participated in the Habitat III conference in Ecuador and has recently been re-appointed as co-chair of the United Nations Habitat Civil Society Partner Constituent Group.

In affirming Australia's commitment to the NUA, Australia's Ambassador to the United Nations Dr Gillian Bird said:

The New Urban Agenda is a truly ambitious undertaking. Its success requires the active involvement of all relevant stakeholders, from local and national governments, to the private sector, civil society, and critically, residents who live in these cities.

There are 175 clauses in the New Urban Agenda, but the following extracts are of particular relevance to local government:

11. We share a vision of cities for all, referring to the equal use and enjoyment of cities and human settlements, seeking to promote inclusivity and ensure that all inhabitants, of present and future generations, without discrimination of any kind, are able to inhabit and produce just, safe, healthy, accessible, affordable, resilient and sustainable cities and human settlements to foster prosperity and quality of life for all. We note the efforts of some national and local governments to enshrine this vision, referred to as "right to the city", in their legislation, political declarations and charters.

15. We commit ourselves to working towards an urban paradigm shift for a New Urban Agenda that will:

(a) Readdress the way we plan, finance, develop, govern and manage cities and human settlements, recognizing sustainable urban and territorial development as essential to the achievement of sustainable development and prosperity for all;

(b) Recognize the leading role of national Governments, as appropriate, in the definition and implementation of inclusive and effective urban policies and legislation for sustainable urban development, and the equally important contributions of subnational and local governments, as well as civil society and other relevant stakeholders, in a transparent and accountable manner;

(c) Adopt sustainable, people-centred, age- and gender-responsive and integrated approaches to urban and territorial development by implementing policies, strategies, capacity development and actions at all levels, based on fundamental drivers of change, including:

(i) Developing and implementing urban policies at the appropriate level, including in local-national and multi-stakeholder partnerships, building integrated systems of cities and human settlements and promoting cooperation among all levels of government to enable the achievement of sustainable integrated urban development;

21. We urge all national, subnational and local governments, as well as all relevant stakeholders, in line with national policies and legislation, to revitalize, strengthen and create partnerships, enhancing coordination and cooperation to effectively implement the New Urban Agenda and realize our shared vision.

23. We resolve to implement the New Urban Agenda as a key instrument for enabling national, subnational and local governments and all relevant stakeholders to achieve sustainable urban development.

29. We commit ourselves to strengthening the coordination role of national, subnational and local governments, as appropriate, and their collaboration with other public entities and non-governmental organizations in the provision of social and basic services for all, including generating investments in communities that are most vulnerable to disasters and those affected by recurrent and protracted humanitarian crises. We further commit ourselves to promoting adequate services, accommodation and opportunities for decent and productive work for crisis-affected persons in urban settings and to working with local communities and local governments to identify opportunities for engaging and developing local, durable and dignified solutions while ensuring that aid also flows to affected persons and host communities to prevent regression of their development.

87. We will foster stronger coordination and cooperation among national, subnational and local governments, including through multilevel consultation mechanisms and by clearly defining the respective competences, tools and resources for each level of government.

90. We will, in line with countries' national legislation, support strengthening the capacity of subnational and local governments to implement effective local and metropolitan multilevel governance, across administrative borders, and based on functional territories, ensuring the involvement of subnational and local governments in decision-making and working to provide them with the necessary authority and resources to manage critical urban, metropolitan and territorial concerns. We will promote metropolitan governance that is inclusive and encompasses legal frameworks and reliable financing mechanisms, including sustainable debt management, as applicable. We will take measures to promote women's full and effective participation and equal rights in all fields and in leadership at all levels of decision-making, including in local governments.

91. We will support local governments in determining their own administrative and management structures, in line with national legislation and policies, as appropriate, in order to adapt to local needs. We will encourage appropriate regulatory frameworks and support to local governments in partnering with communities, civil society and the private sector to develop and manage basic services and infrastructure, ensuring that the public interest is preserved and concise goals, responsibilities and accountability mechanisms are clearly defined.

117. We will support better coordination between transport and urban and territorial planning departments, in mutual understanding of planning and policy frameworks, at the national, subnational and local levels, including through sustainable urban and metropolitan transport and mobility plans. We will support subnational and local governments in developing the necessary knowledge and capacity to implement and enforce such plans.

135. We will promote sound and transparent systems for financial transfers from national Governments to subnational and local governments based on the latter's needs, priorities, functions, mandates and performance-based incentives, as appropriate, in order to provide them with adequate, timely and predictable resources and enhance their ability to raise revenue and manage expenditures.

148. We will promote the strengthening of the capacity of national, subnational and local governments, including local government associations, as appropriate, to work with women and girls, children and youth, older persons and persons with disabilities, indigenous peoples and local communities, and those in vulnerable situations, as well as with civil society, academia and research institutions in shaping organizational and institutional governance processes, enabling them to participate effectively in decision-making about urban and territorial development.

163. We acknowledge the importance of local governments as active partners in the follow-up to and review of the New Urban Agenda at all levels and encourage them to develop, jointly with national and subnational governments, as appropriate, implementable follow-up and review mechanisms at the local level, including through relevant associations and appropriate platforms. We will consider strengthening, where appropriate, their capacity to contribute in this respect.

Compass once again wishes to thank the City of Newcastle for the opportunity to provide feedback on the Draft Affordable Living Plan and we look forward to continuing our productive relationship with Council in the years ahead.

Sincerely,

Lyndall Robertshaw
Group Chief Corporate Services Officer
Compass Housing Services