

11<sup>th</sup> March 2016

**Division Head  
Social Policy Division  
The Treasury  
Langton Crescent  
PARKES, ACT, 2600**

Dear Sir / Madam,

**SUBMISSION FOR THE AFFORDABLE HOUSING WORKING GROUP**

This Submission is in response to the Australian Government Council on Federal Financial Relations seeking public comment into the financing and structural reform models to increase the provision of affordable housing including social housing and housing in the private rental market.

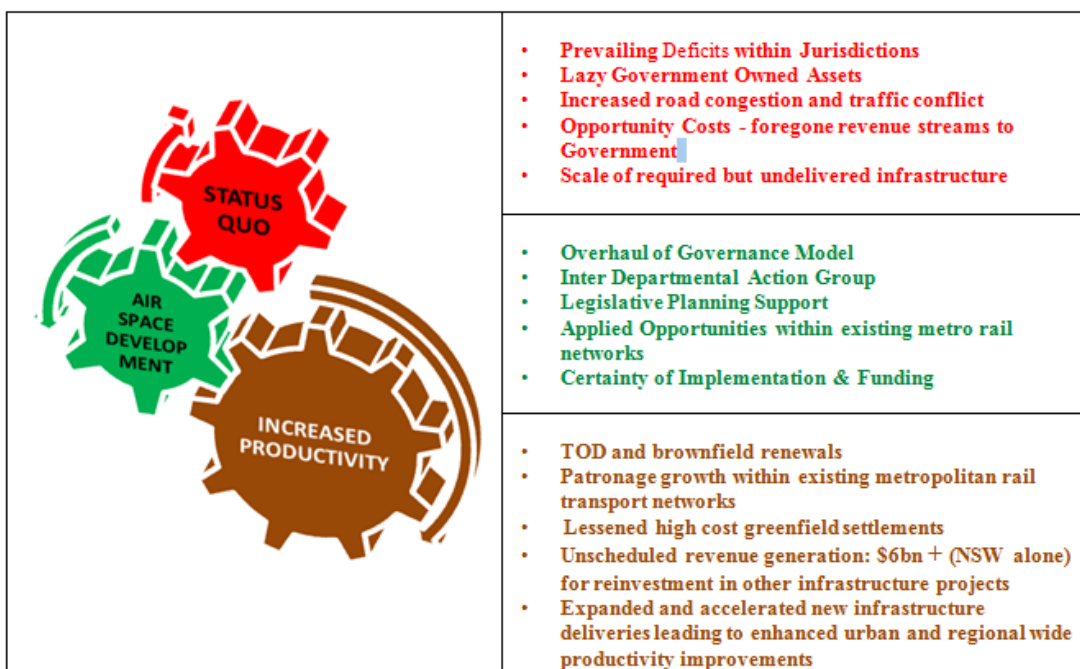
This Submission proposes the utilisation of Air Space Development (ASD) above transport infrastructure as a way of enhancing productivity improvements through the generation of more housing stock. Better utilisation of existing lazy assets enables optimum value capture, thus generating unscheduled revenue to government or works in kind or a combination of both.

**Purpose**

The purpose of this Submission is to have government acknowledge that the solution to the problem of increasing the affordable housing stock at low cost is already within its knowledge bank. Many government committees and inquiries have recognised the pathway as detailed in the Background section.

Utilising ASD is an economically and socially sound approach to generate housing stock. Such a structural reform model would provide productivity improvements, increased transport patronage and therefore education and work opportunities for the socially disadvantaged and provide more integrated and community centered developments.

A depiction of the relationship between status quo, ASD and productivity enhancement follows:



## Background

In November 2012, the NSW Government, having perceived the benefits of appropriate utilisation of Government owned air space, released its 'Public Inquiry Report' undertaken by the Legislative Assembly Committee for Infrastructure and Transport into the Utilisation of Rail Corridors. Due to the file size, the hyperlink is provided for access:

[http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/4B498C014907C7B9CA257ABE001B844A?open&refnavid=CO3\\_1](http://www.parliament.nsw.gov.au/prod/parlment/committee.nsf/0/4B498C014907C7B9CA257ABE001B844A?open&refnavid=CO3_1)

For context, the Director General of Transport for NSW provided input to that Inquiry as provided at [Attachment 1](#)

In this respect, it needs to be known that the NSW State Government is well aware of the need for productivity improvement and the means of funding further infrastructure (both social and economic) as further evidenced by:

1. the Government's response to the Public Inquiry Report in May 2013 – as indicated at [Attachment 2](#); and
2. the relevant elements of the NSW Government's Summary Report from the Legislative Council's Select Committee on Social, Public & Affordable Housing dated 8 Sep 2014 – as indicated at [Attachment 3](#).

## Proposal

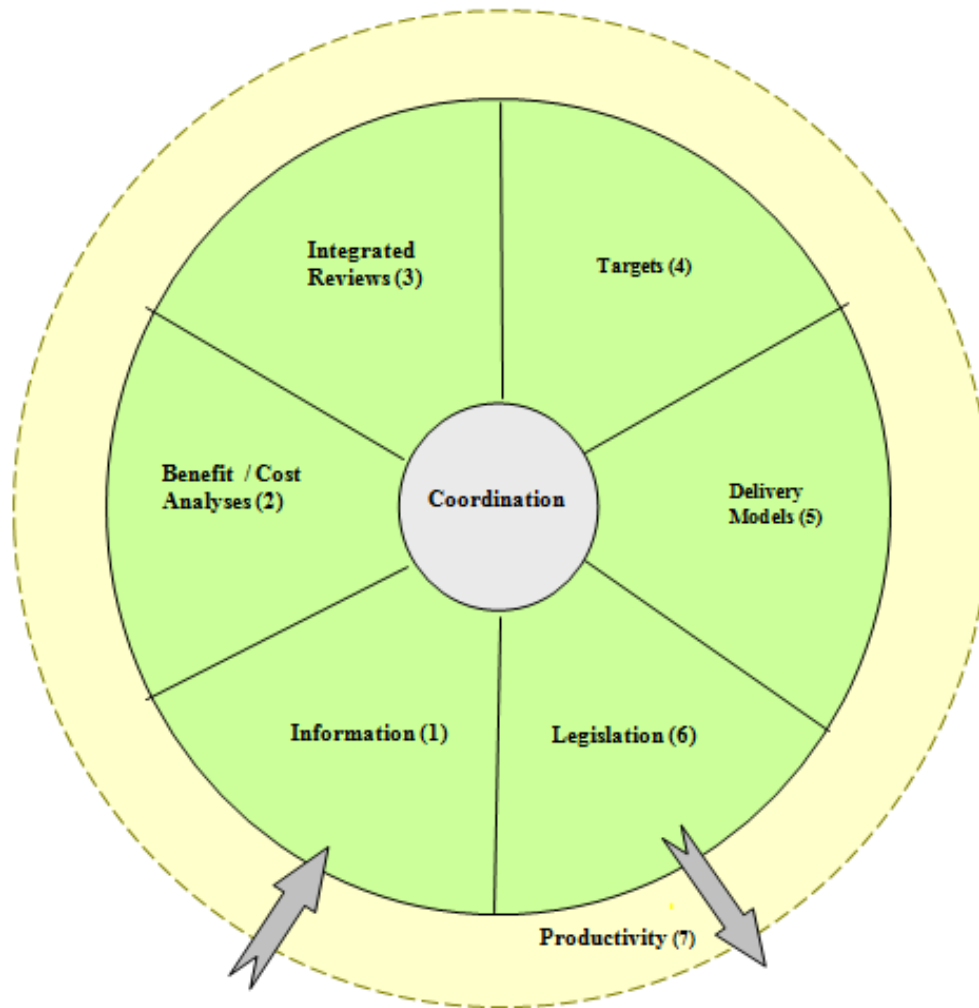
Given the findings of these State Government documents, together with:

- the Sydney metro rail network already comprising some 160 station precincts and with only 6 existing sites with ASD utilisation – reflecting a very low utilisation of the network potential - as indicated at [Attachment 4](#);
- the existing examples of successful Air Space Developments (ASDs) being: the Liverpool Street car park and the 'at grade' station precincts of Hurstville, Kogarah, North Sydney, St Leonards, Chatswood and also Federation Square in Melbourne - visuals of these sites are provided at [Attachment 5](#);
- the identified public, affordable, social housing stock shortfall for Metropolitan Sydney alone - being some 38,000 qualified Applications (representing an average of 1.9 persons per Application or approximately some 72,000 person);
- the continuing fiscal constraints faced by all jurisdictions;
- The indicative scale of value capture, in terms of both projected unscheduled revenues and additional housing stock from the application of ASD within Metro Sydney alone is provided at [Attachment 6](#); and
- the Recent Commonwealth's Productivity Commission Report and follow on Federal Asset Recycling Initiative - enabling that all jurisdictions are entitled to receive a 15% incentive, where revenues are generated from the recycling of lazy assets and redirected to new infrastructure;

it would seem most beneficial for all jurisdictions to recognise the scope and scale of available productivity improvement opportunities.

In this context, the formulation of an ASD Policy Palette may well assist in defining the progression of ASD - as a viable approach to infrastructure funding and concurrently enhance transit oriented development outcomes - as part of urban renewals and including the provision of public, social, affordable housing stock. An example of an indicative Policy Palette is provided below.

**INDICATIVE POLICY PALETTE FOR AIR SPACE DEVELOPMENT  
FOR ENHANCED PRODUCTIVITY OF STATE OWNED ASSETS**



**Notes:**

- 1 Opportunity Proposal: Transit Oriented Air Space Development Rights over Government Owned Land
- 2 Triple bottom line measures: environmental (including emission reductions), social and economic.
- 3 Mult Agency Inputs: Premiers, Treasury, Infrastructure NSW, TfNSW, DPI, MDA, Landcom, RailCorp, DECC, RMS, DoCS, DADAC/DAHC & DLG, etc.
- 4 Metro strategy (dwellings / public housing, employment, commutor car parking, child care, public transport usage, emission reductions, etc
- 5 Jurisdiction, strategy, structure, accountabilities, responsibilities, feasibilities, commercialisations, Inter Departmental Action Group ?
- 6 EP & A Act, Transport Admin Act, Growth Centres Act, Energy Efficiency Opportunities Act, Fiscal Responsibility Act, etc
- 7 Information ⇔ knowledge ⇔ value sets ⇔ productivity shift ⇔ value capture

In formulating a viable policy, the identification of relevant site criteria would lead to the identification of suitable ASD site from both an operational perspective and the broader triple bottom line drivers.

An outline of indicative site criteria applied in determining suitable ASD sites is listed below.

The likely selection criteria may include but not limited to:

### **Corridor Specific Consideration:**

The identification of multiple sites within a specific network corridor will lessen the delivery costs as the required track possession requirements can be shared between development sites.

### **Off Site:**

- site bounded by public road on at least one side or scope for the creation of a boundary road access,
- natural land level along boundaries at or ideally above corridor grade,
- opportunity to create adjoining land amalgamation(s) with private or public property or both,
- adjacent land uses not unduly affected by overshadowing affecting private amenity,
- accessible spare capacity of enabling infrastructure (pipes and wires) or scope for amplification, and
- the relationship to existing or proposed road transport interchanges, buses or light rail.

### **On Site:**

- outer distance of each node site to 300m for up and down line of station structures,
- existing station areas likely to remain development free to minimise disruption,
- scope for multi floor plates where 300m node sectors affected by existing above rail structures such as public road(s) / pedestrian bridge(s) or trunk pipeline(s),
- existing large scale commuter car parking not existing within rail access precincts,
- planned provisioning for commuter car parking can be made for another suitable node,
- over rail bridging not within node site distance unless it can be developed over,
- each node site sector not affected by diverging track junctions,
- signaling, cabling infrastructure readily repositioned / integrated with above rail structures,
- straight lines or large curves to optimize signaling sighting distances, and
- ideally good geological structures.

### **Indicative criteria – (no specific order):**

1. Close to a transport node (rail, light rail, bus or ferry network).
2. Node currently attracting good patronage and of sufficient size to cope with or be able to be developed to accommodate additional.
3. Generally within 30mins of Cities of Sydney, CBD, North Sydney, Parramatta, Penrith, Liverpool.
4. Close to (walking distance) shopping, retail, community support facilities (reducing dependence on car).
5. Appropriate for the provision of social, public, affordable housing stock,
6. Generally in a cutting or on a hill side to enable under parking and reduce building height to acceptable urban planning limits.
7. Adjacent road accessibility.
8. Incorporates benefits to public transport passenger flows in and around each node.
9. Possibly 3 or more sites within each corridor undertaken concurrently to allow optimum track possession in parallel with alternative bus transport when trains are not operating.
10. No building over stations locations - to maintain character (heritage) of existing stations.
11. In locations which could benefit from additional community amenities incorporated into the site (transit oriented long day child care, vertical aged village, medical, dental etc.)

Given the above outlined criteria, it would seem most worthwhile for the Working Group to raise the following question for consideration by the respective jurisdictions:

In what way may each jurisdiction initiate a formal review of their lazy assets with the placement of ‘provisional zonings’ over their existing Metro rail corridors - to within a given distance (both down line & upline) of the network stations to:

- announce the measure of Government’s intent to investigate the site by site merits, within each corridor, for ASD suitability;
- draw in the relevant responsible Agencies to commit to & collaborate with the necessary coordination / interface measures of identified planning considerations, associated cost benefit analyses, and where viable, address asset recycling inputs and the follow on delivery requirements of the identified ASD project sites; and
- signal a clear element of proposed certainty to the private sector - to encourage future participation (under competitive tension arrangements) for the selection of the respective ASD rights for construction delivery?

## **Related Considerations**

### ***Recent Audit findings***

The New South Wales Auditor-General’s Report 2013 – *Performance Audit* ‘Making the best use of public housing’ established the following factors:

- There is an increasing shortfall between the supply of and demand for public housing/ affordable housing.
- There is no clear direction for managing the shortfall.
- There is a continuing funding gap in what is needed to maintain the current stock numbers and if this continues the government housing portfolio will decline in terms of dwelling numbers.
- Much of the public housing stock consists of larger properties while the greatest demand, and rising, is for smaller and accessible dwellings.

The Auditor-General’s Report recommended amongst other issues:

- Government develop a clear direction for a sustainable social housing sector that can function within the available funding.
- Government should review housing funding arrangements.

### ***Deductions***

The most important finding of that audit was the shortfall between the supply and demand for public housing. The second most important finding is that there is no clear direction for managing this shortfall.

For NSW alone, ASD is an opportunity for Metropolitan Sydney, the Illawarra and the Hunter Region to increase its housing stock. Not only will this help bridge the supply/demand gap but building above appropriate road and rail corridors and bus, rail and light rail stabling and maintenance infrastructure will improve the productivity of these economic infrastructure assets. ASD provides another strategic option and policy direction for management of the housing shortfall.

A further important finding was that future funding is going to be limited. In this respect, Government asset owners can take on the primary role and responsibility for deciding whether or not the proposed ASD infrastructure improvements provide sufficient sources of revenue to pay for underlying infrastructure and benefit public housing. This responsibility enables standard policy and procedures to be put in place to maximise public benefit and minimise cost to government as part of the management direction.

## ***Funding ASD development***

Funding and financing ASD differs from the direct sale of government owned infrastructure such as Ports or Power Generation and Distribution Systems or land. Instead of engaging teams of financial advisors whose role is to identify the capital sale value of the asset, ASD funding is about identifying both the economic and social benefits of such developments. The asset owner sets these parameters.

Ownership enables government to decide whether or not the ASD infrastructure is provided, the source of revenue to pay for the infrastructure, private or public or a mix, and the concession period. This responsibility also enables standard policy and procedures to be developed to facilitate the opportunities and gain maximum public benefit.

ASD is an ideal way to tap into private sector developer innovation, initiative, inventiveness and funding. Government has the opportunity to identifying possible sites, providing a competitive and productive market to determine pricing and to take into account the broader public needs, including social, public and affordable housing. At the same time the private sector can be encouraged to put forward proposals which have mutual benefits through the identification of sites for which it can provide unique opportunities.

## ***Typical ASD benefits***

An example that identifies both the potential revenues and public housing stock from the transfer of ASD rights is addressed at **Attachment 6**.

In summary, and for the Sydney Metropolitan Area alone, the following benefits are projected:

- For a typical ASD site some 800 residential units could be generated and applying some 20% for affordable / public housing would generate some 160 dwellings ranging - studio to 3 bedroom units.
- The projected sale revenue to Government for each ASD site being some \$100 million.
- Additional revenue of some \$2 million for each ASD site could be generated from sale of retail, commercial, educational, healthcare etc., space.
- Working on assumptions outlined, the gross revenue possible within just the Sydney Metro rail corridor approximates some \$6.3 billion.

## ***Deductions***

ASD funding can be about identifying both the economic and social benefits of transport node developments. The asset owner sets these parameters and government will always be in the management seat to determine the policy and procedures for development, what is to be provided and sources of funding.

ASD is an ideal way to tap into private sector developer innovation, initiative, inventiveness and funding. When funding is limited to government, sensible alternative opportunities warrant appropriate exploration.

The private sector should be encouraged within government parameters to view ASD opportunities, noting that ASD does not need to be owned by the private sector but can be leased over a concession period (for example, a 99 year lease being comparable to freehold value).

The advantages of private sector involvement are that the private sector will:

- Endeavour to maximise land use productivity with optimum housing stock.
- Provide and encourage the social and community elements to integrate within the development.
- Overall maximise value capture of all appropriate ASD rights.

ASD is a source of untapped revenue for government as well as providing an opportunity for increasing the stock of affordable / public housing.

### ***Attracting the private sector***

Private financing will reduce the cost to government and better allocate the construction and commercial risks. The Government can support the private sector through assisting with regulation and planning and the testing of return on such contributors to the development such as the provision of affordable housing.

Government financing objectives in order to attract private participation for ASD should be about ensuring cash flow to the private developer / public infrastructure builder at competitive rates. Government can achieve this by reducing the time taken to plan, approve, construct and set up operations.

This may be done through a single Agent bank or financial institution coordinating the contributions from numerous lenders on the basis of their funding role. For example enabling infrastructure finance may be provided by a separate institution to residential and commercial development but because of their dependency may be managed through an agent bank.

An alternative model may be different agents to manage separable financing such as government funding of the underlying infrastructure build/upgrade/operation and management to the over deck (enclosing rail) construction and developer activity. Under these arrangements there would need to be a clear delineation so that either provision may proceed without dependence on the other.

### ***The role and objectives for alternative funding and financing***

The ASD objectives for funding are about identifying appropriate sites, establishing floor plate sizes, relevant plot ratio and building heights and thus floor space ratios (FSRs) and follow-on FSRm<sup>2</sup> within acceptable planning and social amenity parameters. At the same time funding objectives should ensure sufficient scope for appropriate Voluntary Planning Agreements (VPAs) and return on investment for the long term leasing of the development rights.

The first objective being to obtain from the agreement to develop, sufficient capital in the form of a down payment, to develop the underlying public infrastructure where necessary. For example the development over St Leonards' station paid for the station relocation and construction of the new station, additional to the revenues from disposal of the ASD rights for follow on developments.

Other objectives may include:

- Obtaining agreement to develop with sufficient capital in the form of a down payment, to develop the underlying public infrastructure where necessary / required.
- Private developer funding contribution to the enabling infrastructure for the operation of the public infrastructure e.g., interchanges for bus, taxi and if appropriate ferry connections.
- Private developer funding contribution from lease/rental of Long Day Child Care Centres, Health (medical and dental centres), Vertical Aged Villages, Retail and Commercial outlets associated with the development
- Private developer fund allocation or VPAs as part of the residential development as public housing space at unit construction cost excluding deck over (rail enclosing structure) development costs.

The application of long term lease of the government's ASD rights could also be applied to encourage the private sector into this market. Conceivably, the government's return is then derived from market auction to the development industry enabling up-front payment for the site together with submissions on how best the site can be developed to meet the government requirements, including development of a percentage of affordable / public housing within the residential part of each identified ASD site complex.

## Conclusions

The application of ASD utilises lazy state assets and in so doing: enhances productivity improvement in terms of the provision of much needed public, social and affordable housing stock and returning unscheduled revenue to government for redirection to other economic / social infrastructure.

The establishment of a single coordinating agency by Government, to identify ASD opportunities, prioritise them and identify possible delivery arrangements, would seem paramount. The coordinating agency ensuring all stakeholders in the ASD achieve their expectations would seem essential. This approach would encourage the private sector to utilise its initiatives, innovations and inventiveness to generate funds to Government as well as additional returns from the leasing of the available ASD rights.

The strengthening of Governance and Institutional arrangements seems paramount. As such, considered scope exists for all relevant jurisdiction being required to clearly demonstrate, in measurable terms, the extent to which their publicly owned infrastructure assets are not capable of enhance productivity improvement, such as the creation of ASD rights. Where evidence in not provided, there is scope for relevant accountabilities / incentives being withdrawn from intergovernmental transfers.

Such a consideration is more than likely to extend the reach and impact of alternative financing models being considered by the Working Group to increase the supply and availability of affordable housing accessible to employment and services and enhancing the appropriate mix of tenant cohorts.

In the event of continuing status quo, the range of assured foregone benefits is listed below could be described as the Hurt List:

1. The opportunity cost of foregone unscheduled revenue from an existing State owned lazy asset to the estimate of some \$6bn + for just Metro Sydney alone.
2. Further delay in securing many of the existing objectives within the respective jurisdiction Plans.
3. Lost opportunity to redirect revenues to other infrastructure – both economic and social projects.
4. Loss of uplift with public transport patronage.
5. Increased road congestion and commuting delays.
6. Limits the opportunity for expanding valued Transit Oriented Developments.
7. Lost opportunity to enable the rationalisation of existing aged and distant public housing for renewals or divestments to secure greater in lieu community dwelling numbers in proximity to public transport / employment opportunities.
8. Foregone opportunity to demonstrate enhancement of social justice, access and equity for public betterment.
9. Limits the opportunity to initiate further Community Housing Providers or Projects or both.
10. Extends the delay in reducing the waiting time band for existing eligible public housing Applicants.
11. Limits the opportunity to encourage property developers back into the market and construction industry stimulus.
12. Limits the opportunity to provision the presence of transit oriented long day care centre in the relevant jurisdictions.
13. Restricts the opportunity for the private sector to create wealth and grow the economy – given it is the private sector which grows the economy not the public sector.
14. Fails to foster public sector innovation to create best possible place outcomes for development by continuing to accept the perceived ‘not in my department interest’ excuses / practices.
15. Excludes the opportunity for relevant jurisdiction to participate in the Federal Asset Recycling Initiative.



Thank you for the opportunity to contribute to this long standing challenge in enabling affordable housing and please do not hesitate to contact if any clarifier(s) being sought.

Yours sincerely,



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**Attachments:**

- 1. Director General Transport Response to Public Inquiry Mar 13.**
- 2. Government Response to the Public Inquiry Report May 13.**
- 3. Summary Report by Select Committee on Social, Public and Affordable Housing Sep 14.**
- 4. Existing ASD Sites in Metro Sydney**
- 5. Visual Examples of Existing ASD over Rail Corridors**
- 6. Example of Indicative Value Capture Benefits for ASD within the Metro Sydney Rail Network.**