Preserving Our Heritage
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Submission by The Hunters Hill Trust to the Productivity Commission Inquiry into Housing Supply & Regulation

1.0 Introduction

Housing performs a number of functions, not all of which are recognised by economic theory. It provides shelter, is a respite from work, a hub for family, a place for leisure and relaxation, desirable because it is close to communities of interest and can, for some, be a status symbol.

Not all types and locations of housing are interchangeable for these purposes. People do not always act in rational ways when they select where to live and what to live in.

The current downturn in property prices might suggest that investment purely for capital gain may moderate in the short term but there will always be a range of reasons influencing housing choice with price being only one of them.

The focus of this Productivity Commission Report, housing regulation, ignores by necessity a range of other factors that may have more impact on demand and supply of housing. Interest rates, taxation settings, rates of household formation and average household size, construction methods, construction supply chains, the trend to ever larger detached housing, the number of empty houses, short term and holiday rentals being some of the other factors.

The building of new apartments in Sydney is now only financially viable close to the coast. High land costs and construction costs of $3,000 per sqm for detached housing and $9,000 per sqm for apartments means that developers are building luxury apartments within this band to maintain their margins.

It remains to be seen whether economic theory is right and people with more means will move out of lower cost housing, freeing it up for others or whether the current spate of construction will result in a glut of very expensive and large apartments.

Recent evidence from NSW suggests that the Low and Mid Rise (LMR) Housing Policy is already being called a failure with most development applications in areas zoned for LMR being for extensions, renovations or knockdown/rebuilds of detached housing.

Land use planning and particularly whether land in heritage areas might be better used is a particularly narrow lens with which to view the demand and supply problem. The Hunters Hill Trust argues that heritage areas have a value beyond buildings or as an

alternate site for apartments. If Governments unwind the protections of decades and allow the type of development envisaged in the Productivity Report, they need to be entirely sure that their assumptions are correct, that the problem they are trying to solve cannot be resolved in any other way and that the proposed solution will be valued by the community more highly than the status quo.

2.0 Housing Supply & demand

In theory, land (housing) should respond (increase) when demand increases. So, to optimise the supply of housing, barriers must be removed to allow the market to respond to people's needs and choices.

Regulatory factors such as faster approvals and freeing up land that isn't currently zoned for new housing are thought to dramatically improve supply so that more houses can be built more cheaply and more quickly. But these factors come at a cost which the community may not be prepared to bear.

When it comes to discussing home prices, if prices are rising "too fast", and/or are at historically high levels, the distinctly Australian phrase may be uttered: "we'll all be 'rooned'. And if home prices are falling or are regarded as falling 'too fast', then the same phrase may be used.

In other words, people will seemingly never be happy no matter what home prices are doing. It also suggests that housing doesn't always operate in ways that make sense to economists.

3.0 Market failure

There is ample evidence that housing markets don't operate like other commodities.

In aggregate terms, supply may equal demand. And there is a truck load of factors influencing demand and supply with many of these factors operating at the same time. Disentangling these factors and/or determining the weight of the key factors is complicated.

Of course there isn't just one housing "market", but many. Recent reports show older apartments have not experienced the stratospheric price rises that are typically reported for detached housing in that same location. Some buyers value heritage and are unwilling to consider new luxury housing at the same price point. Housing options are a series of trade-offs.

People don't act as rationally as theory would suggest. Economists may deride the fact that supply and demand don't always produce true price outcomes in line with theory. While economists can attempt cost/benefit analysis on the impact of heritage regulations on the housing market, in theoretical terms, making real-world estimates are much harder to apply. Because an implicit 'love/hate factor' can be applied to the type of home, neighbourhood or suburb.

Housing is rare amongst asset classes – there are significant emotive elements involved. More so if it is the family home, but the emotive elements also affect investment property. Australians are more at risk in using 'the heart to rule the head', for example to set home price valuations, than they would be for any other investment or asset.

Supply responds to demand with a lag. It takes several years from concept to 'turn key', a situation that the Productivity Commission is trying to address. Housing is fixed and is durable, with the resulting product often having a lifespan of between 50 and 100 years. As a commodity it doesn't respond flexibly when circumstances or fashions change. Except for rare circumstances you can't move it to where it's needed.

A fundamental complication is the inter-temporal nature of housing demand. Key influences on housing are constantly changing.

In Australia, the migrant population inflow soared after covid creating excess demand for the available stock of homes. It takes 'around a year' for the offshore gates to close and for housing demand to ease. Additional homes take years to complete even when fast tracked. That demand must go somewhere because everyone needs somewhere to live. And once the extra homes are built, the demand for homes may have been filled elsewhere.

On the demand side of the housing market, the net annual growth of inbound migration peaked at 2.4% in calendar year 2023, boosting demand for housing stock. In response the Government committed to build an extra 1.2 million homes by 2030. At the same time the regulatory and market forces in the housing market have changed (or are in the process of changing). Now the Government is attempting to stem the tide of temporary migration which will have an impact on reducing demand for additional housing just as some of the measures that could impact on supply are about to kick in.

With prices rising, the market doesn't clear efficiently at the 'correct' or sustainable level. A buyer may believe that if she doesn't purchase one of the few homes on the market, she will be effectively 'locked out'. In other words, the 'animal spirits' take over the market, the fear being that high prices delay purchases (perhaps forever).

Now we are experiencing a slump in house prices, perhaps even a 'correction'. There is no foolproof way of predicting how long this will last or whether it will impact on housing affordability. Remarkably prices at the lower end of the market are resilient while those at the top end are feeling the most impact. Balance, if achieved across the majority of housing markets, mainly occurs for a fleeting period of time

4.0 Case Study: Hunters Hill – the dangers of simplification

Hunters Hill Municipality is the smallest local government area in NSW with a population of just under 14,000 within an area of just under 6 square kilometres.

Hunters Hill is an example of an area where the whole is more than the sum of its parts. It was Australia's first garden suburb, recognised as a municipality since 1861, and includes three heritage conservation areas as well as a number of large heritage items outside of conservation areas. The distinctive nature of Hunters Hill is not just because it contains heritage buildings. It also has large gardens, heritage trees and substantial tree cover, sandstone walls, harmonious streetscapes, bushland and water surrounds and other features that are highly prized by residents and visitors alike.

Existing homeowners pay a premium to live in Hunters Hill. Part of this premium is related to its location, surrounded by water and relatively close to the city but much of it is related to the attractiveness of the area. The entry price to Hunters Hill is not

available to everyone who can afford an apartment in other areas of Sydney, but even when more apartments are constructed (as they inevitably will be in parts of the municipality because of NSW Government changes in planning policies), apartments will still be unaffordable for most people.

The removal of heritage conservation zones would reduce the value of remaining homes as they could now be surrounded by apartment buildings rather than the sympathetic elements listed above.

Before the restrictions that cover heritage conservation areas were applied apartment buildings were constructed piecemeal on land formerly occupied by heritage houses. Residents fought bitterly to maintain the heritage of the area and won. Few, then or now, consider that building more homes justified the lasting damage to the area.

Judging the worth of HCAs can only be done in hindsight. How to estimate, for example, the value of the Rocks in Sydney as opposed to the plans of the Sydney Cove Redevelopment Authority to tear down historic warehouses and cottages and build office towers.

5.0 Cost-benefit analysis in housing: Quantifying the unquantifiable.

The Productivity Commission makes the assumption that heritage conservation areas and heritage buildings are much the same thing. This position argues that if you remove heritage conservation areas and just assess specific, individual heritage buildings for their merit, there will be no major losses in terms of aesthetics, cultural significance, environment etc. and the gains in additional housing will be substantial.

The importance of context for historic areas like Hunters Hill matters in making it a desirable place to live. The attraction of heritage neighbourhoods is that they collectively represent an aesthetic that is valued because of the relationships of each of the elements to the others, that is, the sandstone walls complement the gardens and the houses and the surrounding views.

Some observers think that a cost-benefit analysis should be completed for individual historic buildings and that some parts of heritage conservation areas should be sacrificed to create more housing. But this is a strange tool to use when so many factors are not amenable to being converted to monetary values. The Hunters Hill Trust considers that the results of any cost benefit analysis is likely to be flawed whether it applies to heritage conservation areas or heritage buildings because of this.

There are many factors that influence the price of housing and removing heritage conservation areas will not affect any of the others which are arguably more important such as a sufficiently large, skilled and flexible construction workforce, interest rates, changing tax laws.

A cost-benefit analysis may suggest that there is a cost to existing regulation on heritage property.

Arguably the level of stamp duty, the National Construction Code and the imbalance of lack of specialised labour supply for heritage have a far greater influence in lifting valuations of heritage properties. But the real problem is assigning accurate, dollar values on aesthetics.

Cost/benefit of maintaining heritage value

Cost	Benefit
Extra administration costs	Premium home price above nearby homes
Specialised labour skills	Premium home price above other suburbs
Specialised material costs	Lower environmental costs by not demolishing
Building restrictions	Boost from people visiting area / using restaurants and cafes and other forms of tourism etc
How far restrictions extend through the community	Control over owners, builders from going too far with changes and lowering price premium

If people view heritage rules as overly costly and restrictive they will just move to another town that is equally nice to live in.

6.0 The Role of Infrastructure

The Productivity Commission rightly suggests that infrastructure should precede housing density. Reports over many years have identified problems in greenfield sites when housing infrastructure lags housing development. One of the key reasons why there is a push for higher densities closer to the major cities is because there is allegedly adequate infrastructure. But recent apartment developments close to Sydney have exposed this as a fallacy. Infrastructure is ageing and requires major investment to cope with a population expansion. Higher populations in inner and middle ring suburbs require better roads, public transport such as the well-received metros in Sydney and other services.

This is impossible in many parts of Sydney including the Hunters Hill LGA. There is one road in and out of the largest heritage conservation area in Hunters Hill creating traffic jams in peak hours and school pick up times. In other parts, the municipality is used as a thoroughfare to reach growth areas around Macquarie Park and Macquarie University making it difficult for residents to leave the area during peak hour. Even where it should be possible to improve road networks, for example the major arterial access, Victoria Road, the NSW Government has shown no interest in reducing traffic and transport problems and is adding to them by increasing density either on or in streets feeding into this already congested vital link to and from the city. (As yet there is no tool to measure the cumulative impact of increasing development on busy arterial roads, and each new development is approved individually).

Although the opening of metros and major expansions of toll roads may get widespread approval and supportive headlines, there is also a substantial problem with the water and sewer networks which receive little public attention. Where there is no mass transport via heavy and light rail, buses struggle to cope with more

passengers and frequently do not stop because they are full. This is before new developments have been constructed.

While the Productivity Commission argues that infrastructure should precede development, the Reserve Bank is suggesting States should pull back their investment on large infrastructure projects because of their inflationary impact. The opposing expert opinions suggest that improving infrastructure in a timely way will be a continuing problem and limit the density that can be achieved close to cities.

Removing heritage conservation areas and opening all areas up to midrise development as suggested by the Productivity Commission will simply worsen existing problems with inadequate infrastructure.

7.0 Floor Space Ratios: What about the trees?

One of the key changes in recent planning laws is to reduce lot sizes and to allow developers to build with ever smaller setbacks. Added to this are lax requirements about soft landscaping which are sometimes ignored to achieve fashionable yet environmentally disastrous results. This results in housing that cannot support deep soil planting that is required for improving the tree canopy.

We are dismayed to read that the Productivity Commission is raising the argument to remove floor space ratios, presumably to reduce the height of more dense development. It is not clear how this can be achieved while at the same time improving the tree canopy (in the case of Hunters Hill to 40%), in order to mitigate the effects of climate change.

Removing floor space ratios and enabling development of apartments of up to three storeys in height in all parts of Hunters Hill would have a detrimental effect on the distinct character of our garden suburb and would reduce the ability to achieve tree canopy targets.

8.0 Conclusion

Housing markets are very complex and do not necessarily operate under the same rules of supply and demand as other commodities. The Productivity Commission report on housing regulation and supply has been important in delving into some of these beyond the traditional villain - interest rates - which are always either are too “high” or too “low”.

The Productivity Commission has attempted to separate the factors that influence demand and supply. But resolving the imbalance between housing demand isn’t achieved by just focussing on regulations that apply to new builds. That imbalance isn’t resolved by removal or reworking heritage conservation areas,

Removing regulation has become shorthand in today’s world for reducing costs. Some regulation beyond that required for health and safety is justified. There are risks for families, for the home building industry and for the economy as a whole if we go down the path of removing regulation that works before we understand the consequences.

Subjectivity and intangibility of estimating dollar costs abounds when it comes to housing options. It would be foolish to pretend that all the complexity of this area can

be shoehorned into a quasi-objective tool, such as a cost benefit analysis, to determine the value of land use in heritage areas.

We are partway through a market correction that may make the sacrifice of heritage areas unnecessary. It would be a pity to find that out after the history of these areas has been destroyed. We suggest Governments should hold off taking this drastic step in order to give time to examine the effectiveness of other tools in the toolkit to create more supply.

The Hunters Hill Trust

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