

# Millers Point and The Rocks: An alternative way forward

**Final report**

August 2014



Independent insight.



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# EXECUTIVE SUMMARY

## Introduction

SGS has undertaken an independent assessment of the NSW Government's plan to sell all 293 social housing properties in Millers Point and The Rocks. These are shown in the map below.

**FIGURE 1. SOCIAL HOUSING IN MILLERS POINT AND THE ROCKS**



Source: NSW Government, 2014

In this report, we:

- identify an alternative way forward, which aims to recognise the value of achieving social mix and sustainability, mitigate the costs of the proposed approach, and realise the most benefits for NSW society
- consider the context of housing, inequality and social mix at a metropolitan level
- assess the likely costs and benefits of the proposed approach by NSW Government against a base case of continuing the status quo.

## An alternative approach

The following section identifies the costs and benefits of the NSW Government's plan to sell all social housing in Millers Point and The Rocks from the perspective of NSW society. From this analysis, we believe there may be an alternative and sustainable approach to housing in the area, which takes a wider strategic perspective (not just that

of an individual government agency) and could have a broader application in informing an overall approach to NSW social housing stock management and disposal.

This approach could incorporate the following elements.

#### Local social housing stock

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>– Maintaining some social housing in the area where stock has low maintenance requirements</li> </ul> | <p>Some properties may be more suitable for use as social housing, such as the purpose-built Sirius development and housing on Kent Street built in the last decade. These are highly appropriate for continued use as social housing given their low maintenance costs and appropriate design, with small and accessible apartments. This also mitigates the cost of relocating the tenants of these properties.</p> |
|--|---|

#### Inner city stock replacement

- |  |  |
|--|--|
| <ul style="list-style-type: none"> <li>– Replacing all lost social housing stock, preferably within the inner city area</li> </ul> | <p>Although replacing lost social housing stock in middle ring suburbs is a more cost effective approach for the NSW Land and Housing Corporation, it is likely to have wider economic effects in terms of exacerbating the city's spatial divisions and reducing the housing available for those on lower incomes in well serviced locations, and key workers in particular who are vital to the efficient functioning of the city.</p> |
|--|--|

#### Local aged care social housing

- |   |   |
|---|---|
| <ul style="list-style-type: none"> <li>– Investing in a purpose-built facility to house elderly long-term residents of the area, for example on existing government owned land</li> </ul> | <p>Social housing for aged residents would:</p> <ul style="list-style-type: none"> <li>– contribute towards addressing the issue of the changing tenant profile of social housing tenants, more efficiently using the state's social housing stock</li> <li>– ensure a social mix in the area in terms of demographics (assuming that many of the new residents to the area will be of working age, in line with the pattern across the City of Sydney LGA)</li> <li>– result in broader economic benefits from allowing residents to age in place in a supportive and familiar community, in terms of reduced reliance on state-provided support services, avoided health costs and so on</li> <li>– maintain the important linkage between longer term social housing tenants and the local area, recognised as a significant and valuable factor in various heritage assessments of the area.</li> </ul> |
|---|---|

#### New affordable housing

- |  |   |
|--|---|
| <ul style="list-style-type: none"> <li>– Increasing provision of affordable housing in the area</li> </ul> | <p>Given the low level of 'affordable'<sup>1</sup> housing supply within the City of Sydney LGA and rising housing costs, gifting suitable housing in Millers Point and The Rocks to community housing providers for affordable housing would:</p> <ul style="list-style-type: none"> <li>– cater for lower-income workers essential to the city's functioning, potentially providing economic productivity benefits</li> <li>– ensure a more demographically mixed area, in line with the <i>Housing Act 2001</i> objective to 'encourage social mix and the integration of different housing forms in existing and new communities'</li> <li>– continue the history of Millers Point and The Rocks as providing housing for lower-income working families.</li> <li>– enable community housing providers to leverage an increased asset base to fund new development elsewhere, increasing the state's total stock of affordable housing and providing economic benefits to tenants.</li> </ul> |
|--|---|

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<sup>1</sup> According to Housing NSW, 'affordable housing is housing that is appropriate for the needs of a range of very low to moderate income households and priced so that these households are also able to meet other basic living costs such as food, clothing, transport, medical care and education. As a rule of thumb, housing is usually considered affordable if it costs less than 30% of gross household income.

### Facilitating a social mix

- Considering the area's social mix in a broader precinct planning exercise
- Providing a variety of housing types in the area would develop a community of mixed age, background and income, which has long been suggested in urban literature as beneficial. It is also in line with the Housing NSW *Conservation Management Guidelines* (2007) in terms of 'maintain[ing] a sustainable and diverse community'.

### Sale of long term leases

- Offering long leases to the market on properties that are suitable for sale
- In some cases there is a clear economic case for selling social housing in Millers Point to private buyers: for example, where the costs of upkeep are untenable for Housing NSW and heritage is affected, and of those properties with the highest potential for raising revenue that can be reinvested in the NSW social housing system (when this outweighs the strategic costs to the NSW community that may result from divestment).

Where asset sale is appropriate and in keeping with a broader precinct strategy, it would make sense to sell long term leases (with requirements for buyers of heritage buildings to undertake necessary and desirable repairs or works as a condition of purchase). This may result in some additional protection of the heritage buildings but more importantly means the NSW Government on behalf of its citizens retains the option value for how to use such properties in future.

Overall, facilitating a mixed community through providing private, affordable, social and aged care housing in a variety of forms would result in a lower upfront cash injection to Land and Housing Corporation from sales revenue. However, this may well be balanced by the impacts on NSW society as a whole, including:

- broader economic benefits of improved social mix
- reduced concentrations of disadvantage
- benefits from affordable housing provision
- reduced costs of support services for existing residents, and so on.

It is therefore considered to represent a strong basis for a long term strategy.

## Sydney context

Social and affordable housing plays an important role in providing opportunities for people on lower incomes to live in well serviced, accessible, and job-rich areas. This provides critical context for the decisions of the NSW Government in relation to social housing, including the proposal to sell assets in Millers Point and The Rocks. Facilitating a mix of residents of different backgrounds and incomes within the city has valuable benefits to society, such as economic benefits resulting from:

- enabling workers on lower incomes to locate closer to employment opportunities, allowing them to more easily improve their skills through access to a deeper jobs pool within commuting distance
- making it easier for firms in the high value inner city to fill lower paid positions, such as cleaners and childcare workers
- providing housing for 'key workers' essential to the city's functioning, such as police and nurses. Research in the UK found a strong correlation between areas with the highest house prices and the most acute teacher shortages (The Guardian 2004), while the City of Sydney expects housing affordability issues to impact particularly on the tourism and hospitality and education sectors (including the state's attractiveness for international students)
- more effectively deploying human capital, since Sydney's mismatch between the locations of cheaper housing and employment affects lower income families in particular, especially women.

These impacts on the productivity of the City of Sydney's economy can improve its global competitiveness, to the benefit of all residents of the state. There are also benefits in terms of reducing spatial disadvantage and for social justice, given that the wider metropolitan and NSW communities pay for much of inner Sydney's high level cultural, sporting, transport and public domain infrastructure.

In line with these effects, various levels of government, both in Australia and overseas, are increasingly designing policies with the aim of developing mixed communities. Achieving an improved social mix was an objective in the *NSW Housing Act 2001*, which aims to 'encourage social mix and the integration of different housing forms in existing and new communities'. Likewise, the City of Sydney's strategic plan, *Sustainable Sydney 2030* (2008), has a vision for a bold, inspirational and sustainable city for people and 'housing for a diverse population' as one of its 10 strategic directions, to ensure that the City 'continues to be welcoming and accessible for people of all walks of life'.

## Costs and benefits

SGS has considered the likely costs and benefits associated with the NSW Government's planned sale of social housing in Millers Point and The Rocks. This option case assumes that the proceeds from the sale will be re-invested in the social housing system to fund a one-to-one replacement of stock, administration costs and maintenance of the state's existing social housing properties. It further assumes that:

- the housing will be sold outright, rather than on 99-year leases
- investors or developers may redevelop multiple properties to provide a net increase in housing in the area
- the buyers or tenants of the properties will typically be those on higher incomes working in the CBD or surrounds
- the new buyers will invest more in the maintenance of their properties than would be anticipated by the NSW Government if it were to retain ownership
- there is a staged approach to the sale of stock to maximise revenue to the government
- replacement social housing stock is likely to be built in the middle ring suburbs of Sydney.

The costs and benefits of this approach are compared against a base case where all current social housing is retained but subject to ongoing low investment in maintenance. This is summarised in the table below. The aim is then to assess whether there may be an alternative approach for the area that minimises costs and maximises the potential benefits for NSW society.

Marginal effects	Summary
<b>Costs</b>	
Cost of organising and processing property sales and relocating social housing tenants	There will be one-off costs under the NSW Government's plan for relocating tenants (such as case workers and removalists) and for selling the social housing properties (such as marketing and transaction expenses).
Maintenance expenditure by existing social housing tenants and new buyers	Under the base case, the NSW Government will fund some maintenance of the social housing in Millers Point and The Rocks, and tenants may also invest in minor repairs. Under the NSW Government's plan, the amount spent by the new owners on maintenance and upkeep of their properties will be included in the appraisal, which is likely to be higher.
Costs to residents and the state from tenant relocations and community break up	The NSW Government's plan is likely to result in physical and mental health costs for relocated social housing tenants, particularly those who are elderly or with long histories in the area. There may also be higher costs for the state due to an increased need for community and health services in residents' new locations.
Health costs arising from the lack of maintenance investment in properties before sale	Under the NSW Government's plan, there is a commitment to funding no further maintenance on the social housing before it is sold. This may result in short term costs to tenants' health and wellbeing before their relocation, such as a higher rate of accidents.
Costs arising from loss of social housing stock in the inner city	Any replacement of the social housing stock sold from Millers Point and The Rocks is likely to be in middle ring suburbs, which would mean that there are fewer housing options available in the inner city for people on lower incomes in the NSW Government's plan. This could lead to a worsening spatial divide and inequality across the metro area, and lack of suitable housing for 'key workers' in particular could impact on the city's functioning and economic productivity. While no net loss in social housing (that is, one for one replacement of sold stock) was assumed for this analysis, if this were to occur, there would also be a loss of utility for social housing tenants who otherwise would have had access to housing and likely health and social costs to the state.
Loss of heritage significant aspects of Millers Point and The Rocks due to tenant relocation	Heritage assessments of the area note the importance of its social housing provision and 'living cultural landscape'. Relocating the social housing tenants may therefore be a cost to the state under the NSW Government's plan, although the base case would need to consider that the social history of the area is gradually being lost as long term residents are ageing.

Marginal effects	Summary
Potential for loss of heritage value due to no maintenance investment before properties are sold	There is a small possibility that some housing will be damaged beyond repair under the NSW Government's plan due to maintenance neglect for up to two years before their sale to private owners.
Loss of heritage value if social housing is demolished, neglected or significantly changed by private owners	Under the NSW Government's plan, an investor or developer could purchase multiple heritage properties under one title for redevelopment. Demolition or significant change of these properties may impact on the heritage character of the area. Likewise, the lack of a requirement for buyers to undertake necessary repairs and maintenance of heritage properties may lead to further worsening of their condition and heritage value, for example if they are land banked by speculative investors.
Costs to residents arising from increased building works in the area	The NSW Government's plan would likely lead to new costs to local residents from building works due to higher levels of maintenance or any redevelopment of stock. These costs might include construction noise and dust and traffic impacts.
Negative impact on NSW Government's reputation	There may be a minor impact to the state's reputation if there is a perception of uncompassionate treatment of social housing tenants in Millers Point and The Rocks, particularly those who are elderly.
<b>Benefits</b>	
Lower health costs from relocation of some tenants to more appropriate properties	Some of the Millers Point social housing properties are less suitable for their elderly tenants, for example due to steep stairs. The relocation process provides an opportunity for these tenants to move to newer and more suitable housing that meets accessibility standards, which could lead to a lower risk of accidents for these tenants.
Improved protection of heritage properties due to private ownership	There are many properties in Millers Point with high historic importance. Under the base case of continued state ownership, the limited spending on repairs and maintenance will lead to a decline in the condition of these houses with associated community costs. The NSW Government's plan of private ownership of these heritage properties may mean that more money is spent on renovations, in turn improving the houses' longevity and preserving them for future generations. This could potentially be captured in a CBA framework through a higher residual value for the stock in question or through the community's willingness to pay for heritage protection. However, there may be a risk to the properties' heritage condition under the NSW Government's plan from up to two years of no maintenance before their sale, and the lack of a schedule of compulsory works and repairs as a condition of purchase by buyers.
Benefits arising from the improved condition of NSW's social housing stock	It is assumed that at least some of the sales revenue under the NSW Government's plan will go towards property maintenance of the state's social housing stock, benefitting the tenants of properties for which the government will invest more in maintenance than would otherwise be the case under the base case (where Housing NSW is financially constrained to a greater extent).
Likely productivity benefits from change in resident profile	New private buyers living in the area under the NSW Government's plan are more likely to be employed than current social housing tenants. This could lead to benefits in terms of the economy's productivity (in that residents will have more opportunities to find jobs that match their skills, and firms will have a greater pool of available potential labour within reasonable commuting distance) and travel time and environmental savings from people being closer to their work.
Potential for significant increase in well-located housing in the area	In many cases, there are multiple social housing properties listed under one title in Millers Point and The Rocks. The NSW Government's plan of selling all stock may enable all dwellings under one title to be purchased by a single new owner for redevelopment. A redevelopment is likely to be at a higher density than the existing stock and therefore would increase the supply of much-needed housing in a well-connected and serviced area. This would lead to benefits for society such as saving land on the urban fringe, infrastructure cost savings, and labour productivity benefits (although with potential costs if the properties have heritage significance).

Note: the main justification for the NSW Government's planned sale of social housing in Millers Point and The Rocks is the sales revenue it would generate for Land and Housing Corporation. However, this would not be included in an economic appraisal as a benefit to the community of NSW as the revenue is most likely to be a transfer within the state from public to private owners.



# 1 CONTEXT

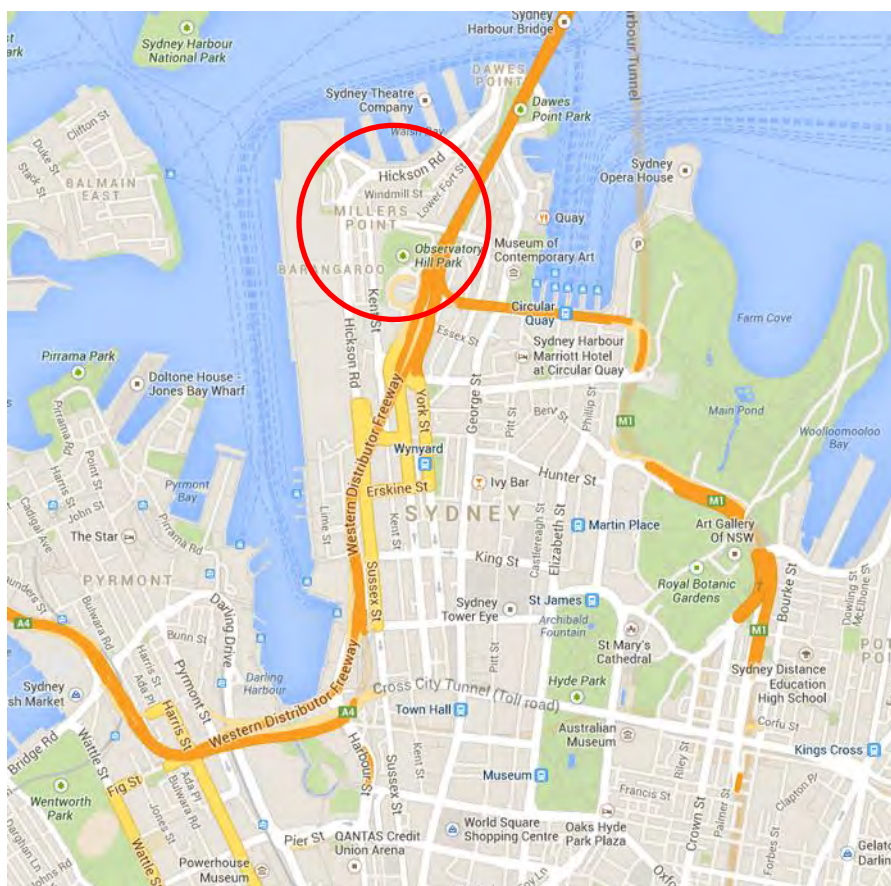
## 1.1 Introduction

In March 2014, the NSW Government announced that:

293 properties in Millers Point, Gloucester Street and the Sirius building in The Rocks will be sold, due to the high cost of maintenance, significant investment required to improve properties to an acceptable standard, and high potential sale values.

The location of the inner city suburb of Millers Point is shown in Figure 2 below.

**FIGURE 2. SYDNEY CBD AND MILLERS POINT**



Source: SGS Economics and Planning, 2014

## 1.2 This report

SGS has undertaken an independent and unbiased assessment of the NSW Government's plan to sell all social housing in Millers Point and The Rocks. In this report, we:

- consider the context of housing, inequality and social mix at a metropolitan level: chapter 2
- assess the likely costs and benefits of the proposed approach by NSW Government against a base case of continuing the status quo: chapter 3

- identify an alternative way forward, which aims to recognise the value of achieving social mix and sustainability, mitigate the costs of the proposed approach, and realise the most benefits for NSW society: chapter 4.

We have taken a balanced approach to qualitatively identifying the costs and benefits of the NSW Government's proposal, in line with guidelines for project assessment developed by NSW Treasury. We have not gone as far as quantifying these effects due to lack of information on many of the items, which would be the next step in undertaking a robust analysis.

#### **Description of a full cost benefit analysis**

The objective of cost benefit analysis (CBA), also known as economic appraisal, is to assist decision making that is consistent with 'efficiency' in the allocation of resources in areas where, for one reason or another, market forces do not guarantee an appropriate outcome. It considers the marginal costs and benefits when moving from the 'do nothing' or base case option to the project option.

The power of CBA as an analytical tool rests in two main features, namely that costs and benefits are:

- valued in terms of the claims they make on, and the gains they provide to, the triple bottom line as a whole (that is, including broader economic, social and environmental costs and benefits), so the perspective is a 'global' or society wide one rather than that of any particular individual, organisation or group.
- as far as possible, expressed in monetary terms and so are directly comparable with one another. Although we provide a framework identifying costs and benefits in this report, a full assessment would then proceed to quantify these.

SGS and others regularly apply cost benefit analysis to evaluate the economic merits of policy proposals, plans and projects. It explores whether a policy initiative or project will provide a net community benefit, taking into account that the resources deployed in implementing the initiative or project have alternative productive uses. Resource flows are expressed in real terms and social time preference is taken into account by discounting future costs and benefits to present day values.

Governments often require this technique in business case preparation, regulatory impact assessments and evaluation of strategic planning options. In NSW, applications for Treasury funding must provide a cost benefit analysis, which compares the net benefit to NSW society that would result from implementation of a particular project.

### **1.3 Social housing in Millers Point and The Rocks**

In terms of the social housing stock, the NSW Government states that:

The NSW Land and Housing Corporation (LAHC) owns 206 heritage listed properties in Millers Point, 8 heritage listed properties in Gloucester Street on land owned by the Sydney Harbour Foreshore Authority (SHFA) and 79 dwellings in the 'Sirius' building<sup>2</sup> in Cumberland Street on land also owned by SHFA. Of the properties owned by LAHC in Millers Point, 121 are terrace houses with the balance being apartments, bedsits and other types of dwellings.

In 2008, under the former Labor Government, a 99-year leasehold sales program was undertaken. 29 properties were sold, generating approximately \$28 million in gross revenue. The average sale price was \$1.3m, with an average property repair cost of \$345,000 (NSW Government).

The NSW Government recently released the following breakdown of its properties:

<sup>2</sup> Sirius is a 12 storey apartment building constructed in 1980, with 79 apartments and 66 basement car spaces.

**TABLE 1. SOCIAL HOUSING BREAKDOWN**

	Properties	Tenants	Tenancies	Occupied tenancies
Millers Point	206	465	448	319
Gloucester St	8	24	16	16
Sirius	79	101	79	75
<b>Total</b>	<b>293</b>	<b>590</b>	<b>543</b>	<b>410</b>

Source: NSW Government, 2014

The currently occupied social housing is shown in Figure 3.

**FIGURE 3. SOCIAL HOUSING IN MILLERS POINT AND THE ROCKS**



Source: NSW Government, 2014

## 2 HOUSING-RELATED SOCIAL SUSTAINABILITY

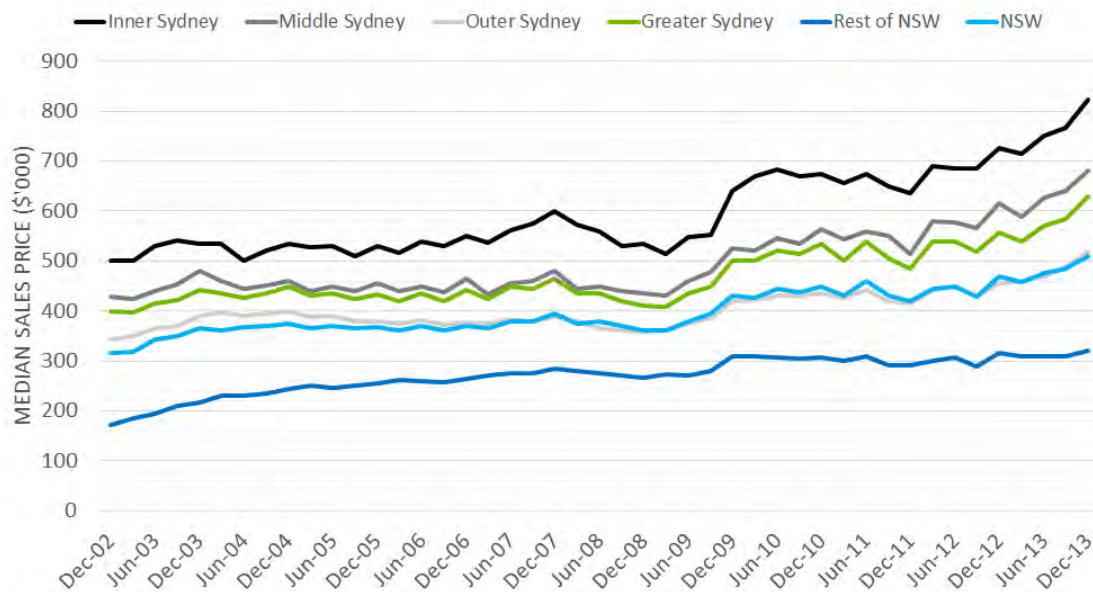
The policy decisions around the future of social housing in the inner city cannot be efficiently undertaken in a vacuum without consideration of the wider impact. This section considers the strategic context for the NSW Government's decision on Millers Point and The Rocks, in particular the trends in housing and inequality across the metropolitan area and the value of pursuing policies of social mix.

### 2.1 Housing and inequality across Sydney

#### Lower income households are being pushed from the inner areas

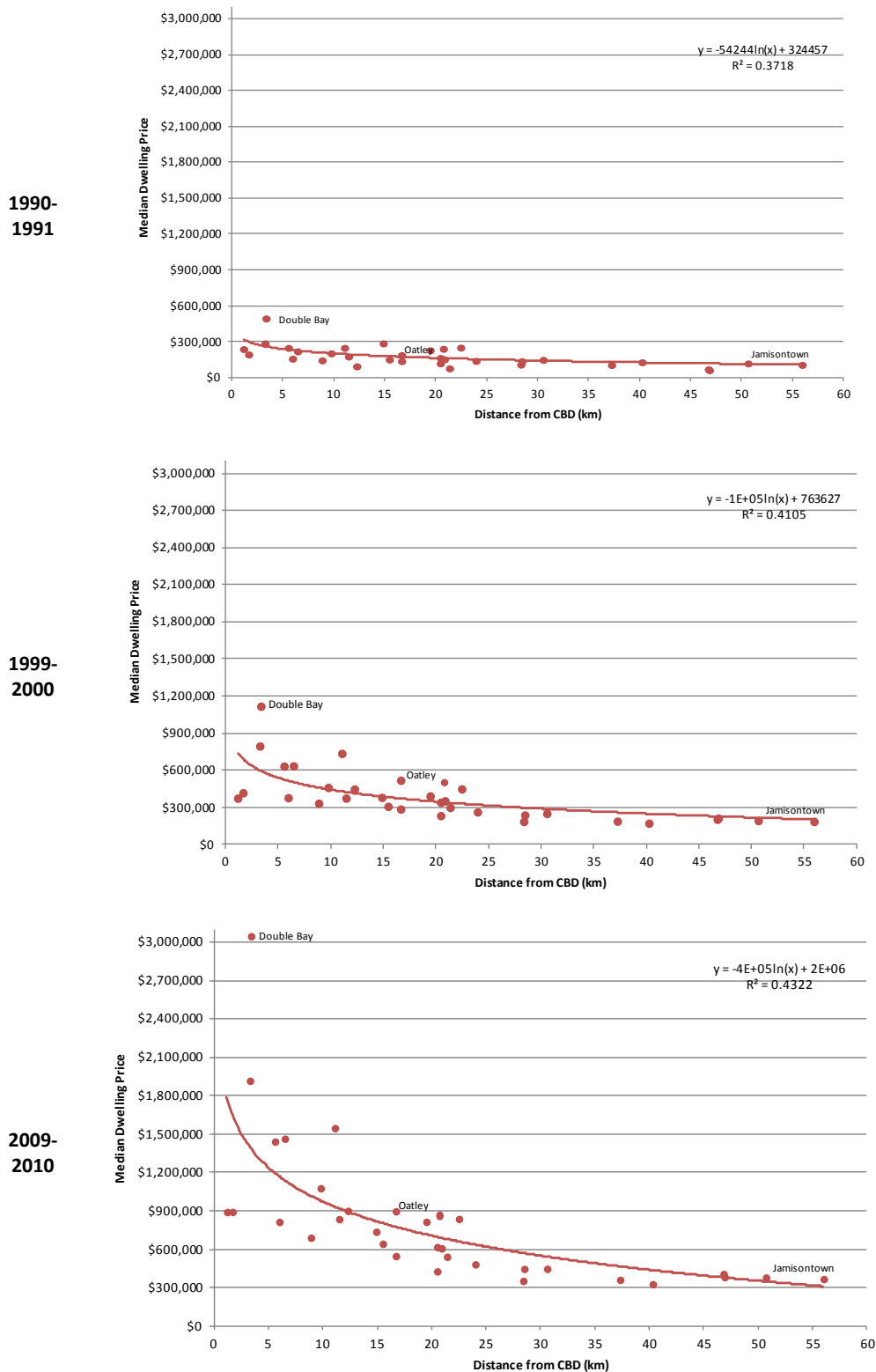
Housing affordability pressures have progressively pushed households further from the centre of Sydney, to where house prices are cheaper. Figure 4 illustrates the variance between house prices in the inner ring of Sydney compared to the middle and outer rings of Sydney and NSW from 2002 to 2013, shown again more starkly in Figure 5. The rising median prices and widening gap between housing costs in inner and outer areas of Sydney mean that the potential for lower income households to locate close to the job-rich parts of the city has declined over the past decade.

**FIGURE 4. MEDIAN SALES PRICES SYDNEY AND NSW 2002-2013**



Source: Data sourced from Housing NSW Rent and Sales Report, 2013.

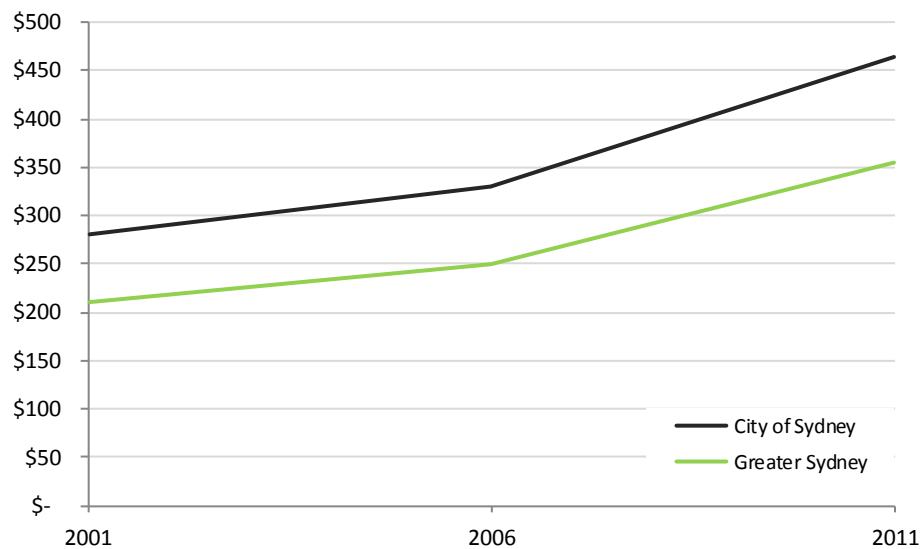
**FIGURE 5. MEDIAN DWELLING PRICE VS DISTANCE FROM CBD, METROPOLITAN SYDNEY**



Source: RP Data, 2012

Likewise, although rents have risen at around the same speed across the City of Sydney Local Government Area and the metropolitan area as a whole, as shown in Figure 6, both have been at an average annual rate higher than inflation (5.2% and 5.4% growth over 10 years and 7.1% and 7.3% over the last five years respectively). The absolute cost of rental properties means that this form of housing is also becoming increasingly unaffordable, which is likely to have the greatest impact on lower income households and push them to areas further from the centre of the city.

**FIGURE 6. RENTAL VALUES ACROSS CITY SYDNEY LGA AND GREATER SYDNEY**



Source: SGS Economics and Planning using ABS data, 2014

**Disadvantaged areas are more likely now to be further from the CBD, and in the west**

There is also inefficiency in the patterns of new housing supply that contributes to rising inequality, for example with supply of housing in the west outpacing the region's employment growth. For example, between 1996 and 2011, 51% of population growth in Sydney Greater Metropolitan Area occurred in Greater Western Sydney, compared to 38% of employment growth (as shown in Table 2).

**TABLE 2. EMPLOYMENT AND POPULATION GROWTH, 1996-2011**

	Employment					Population				
	1996	2011	1996 to 2011	1996 to 2011	Share of growth	1996	2011	1996 to 2011	1996 to 2011	Share of growth
Greater Western Sydney	517,970	622,566	104,596	20%	38%	668,677	848,635	179,958	27%	51%
Rest of Sydney	954,128	1,122,697	168,569	18%	62%	909,707	1,083,606	173,899	19%	49%
Sydney GMA	1,472,098	1,745,263	273,165	19%	100%	1,578,384	1,932,241	353,857	22%	100%

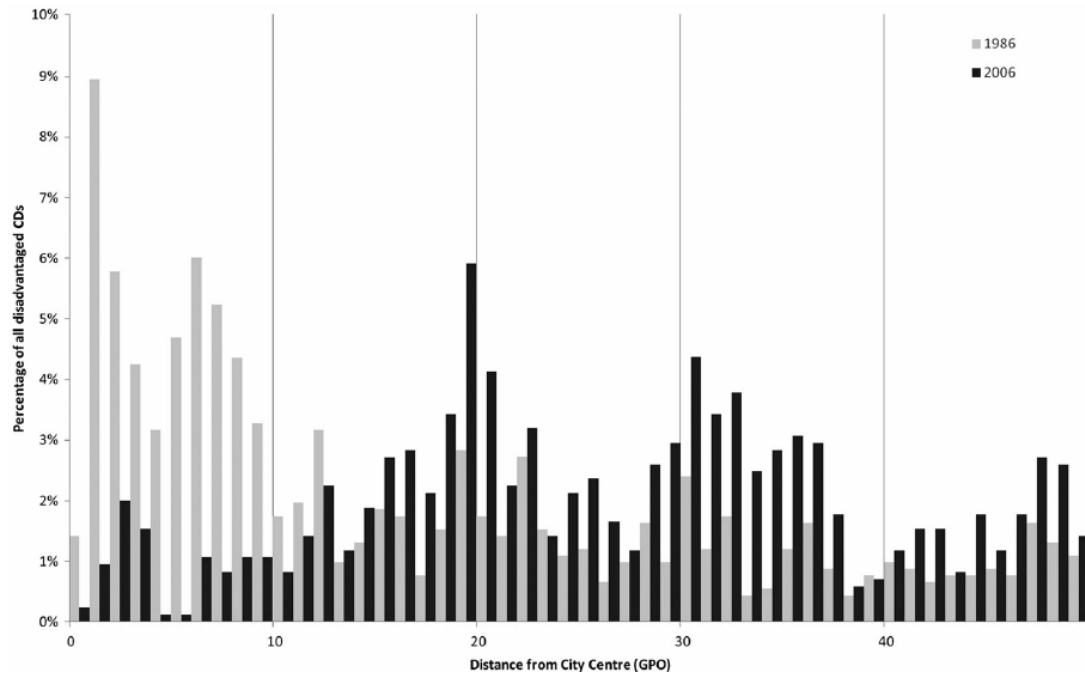
Source: SGS Economics and Planning 2014, original data sourced from ABS Census of Population and Housing, 1996, 2001, 2006 and 2011

Note: Greater Western Sydney encompasses 14 local government areas (LGAs): Auburn, Bankstown, Blacktown, Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Holroyd, Liverpool, Parramatta, Penrith, The Hills and Wollondilly. Sydney GMA refers to Sydney Greater Metropolitan Area

Geographic advantage is also heavily influenced by an area's level of accessibility, with Sydney's more disadvantaged locations having moved away from the inner city since the mid 1980s (as shown in Figure 7).

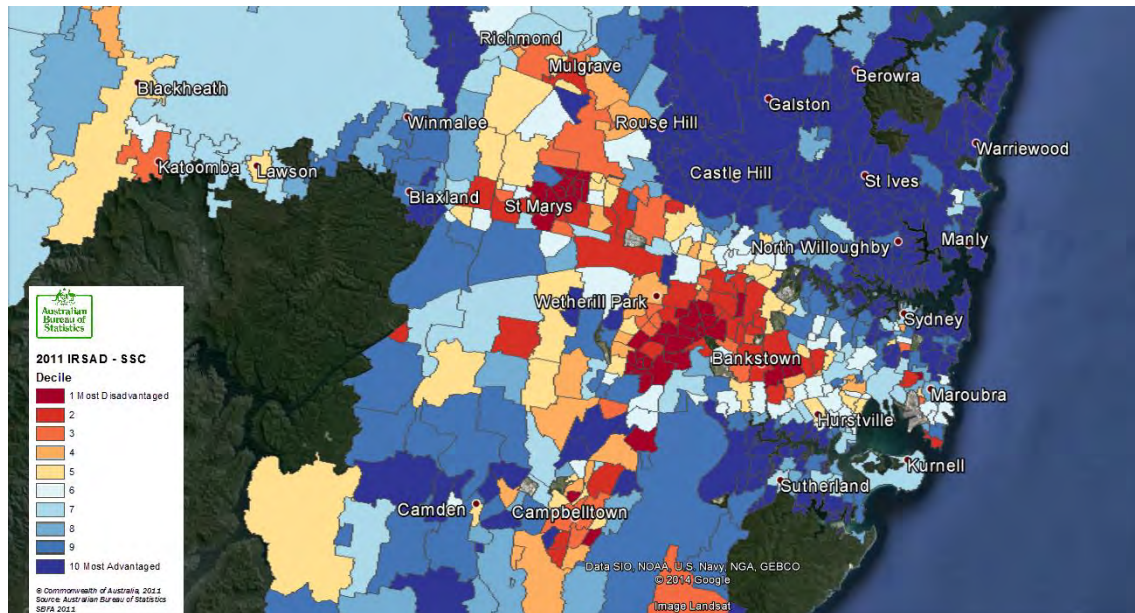


**FIGURE 7. DISADVANTAGED COLLECTOR-DISTRICTS BY DISTANCE FROM CITY CENTRE, 1986 AND 2006 (KM)**



The picture today is that Sydney's most disadvantaged residents are heavily concentrated in the south west and north west of the city, as seen in Figure 8.

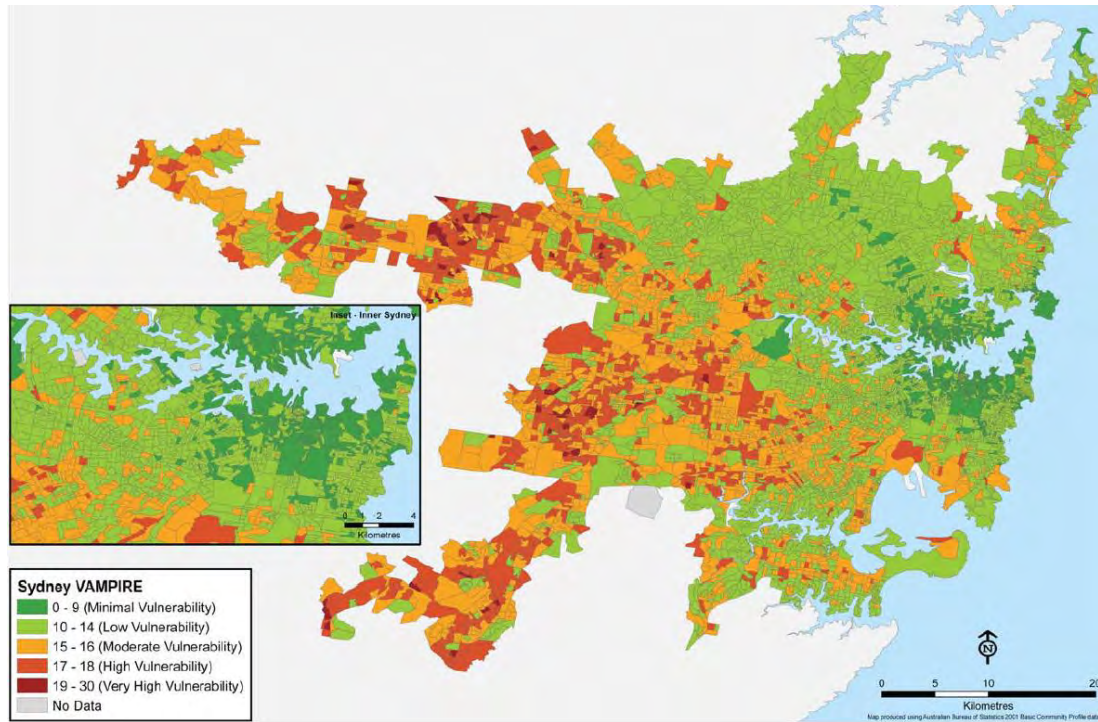
**FIGURE 8. SEIFA INDEX 2011 (SUBURB LEVEL)**



Note: The Socio-Economic Indexes for Areas (SEIFA) is a product developed by the ABS that ranks areas in Australia according to relative socio-economic advantage and disadvantage. SEIFA 2011 is based on Census 2011 data, and consists of four indexes, each focussing on a different aspect of socio-economic advantage and disadvantage and being a summary of a different subset of Census variables. The IRSAD summarises variables that indicate either relative advantage or disadvantage. This index ranks areas on a continuum from most disadvantaged to most advantaged.

These are also the areas with the greatest vulnerability to any rise in the cost of mortgages, petrol and inflation. When these prices go up, the effect is not evenly spread across the city. Rather, already disadvantaged households are impacted to a relatively greater extent. This vulnerability worsened between 2001 and 2006 (as shown in Figure 9 and Figure 10). It is reasonable to assume that this trend has continued over the past eight years.

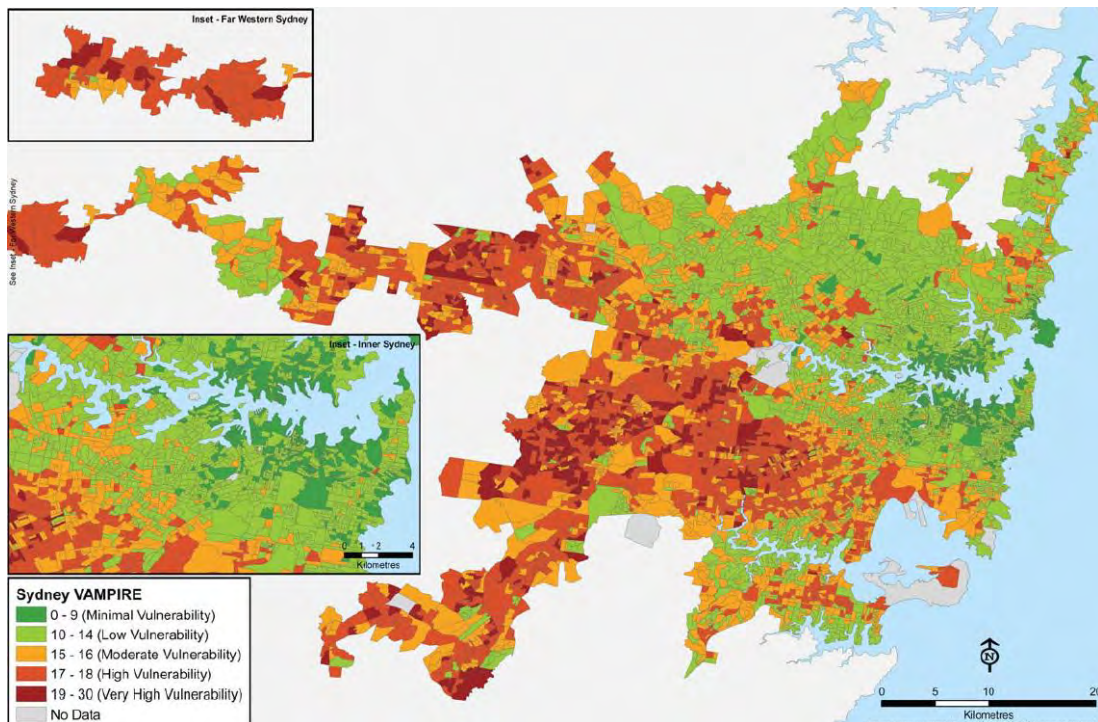
**FIGURE 9. OIL AND MORTGAGE VULNERABILITY IN SYDNEY, 2001**



Source: Dodson and Sipe, 2008

Note: VAMPIRE stands for 'Vulnerability Assessment for Mortgage, Petrol and Inflation Risks and Expenditure'

**FIGURE 10. OIL AND MORTGAGE VULNERABILITY IN SYDNEY, 2006**



Source: Dodson and Sipe, 2008

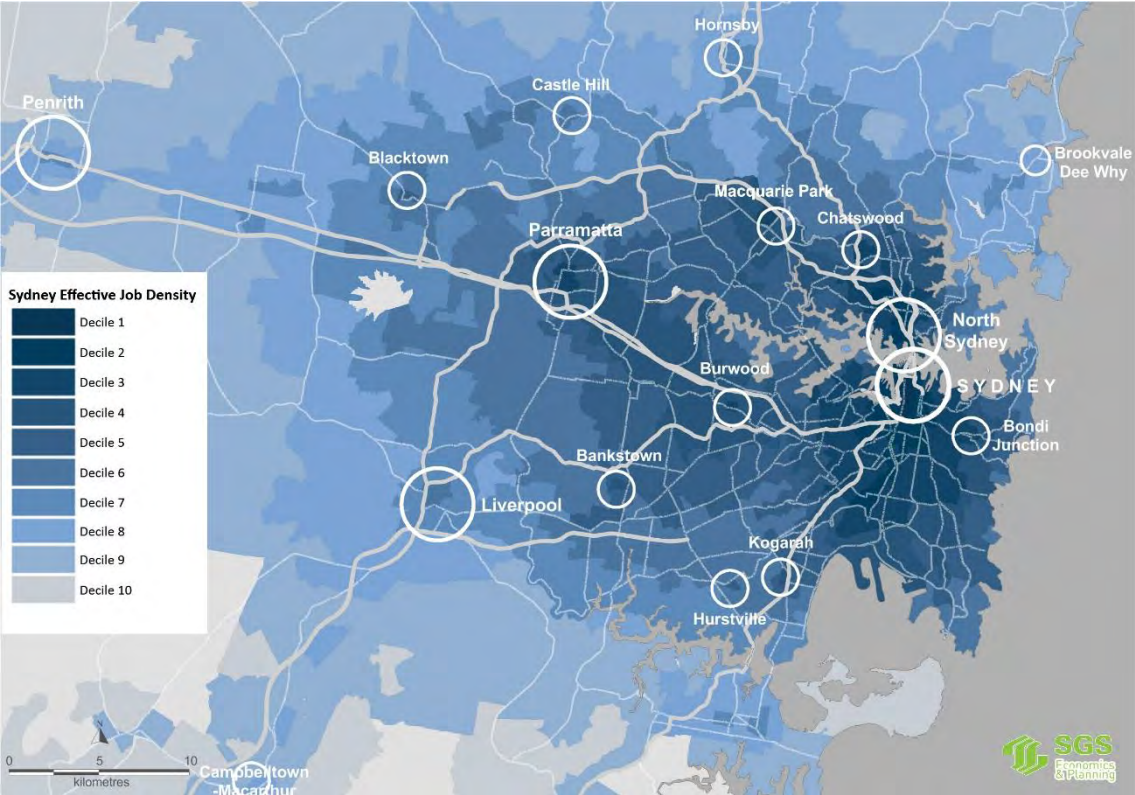
### **While the comparatively more advantaged east of the city has the best access to employment**

The inner ring of Sydney is where jobs are heavily (and increasingly) concentrated, with radial transport connections to various centres and locations elsewhere. As a result, residents who live closer to the centre of the city have access to a greater proportion of the total jobs in Sydney (as shown in Figure 11, and again in Figure 12). SGS modelling



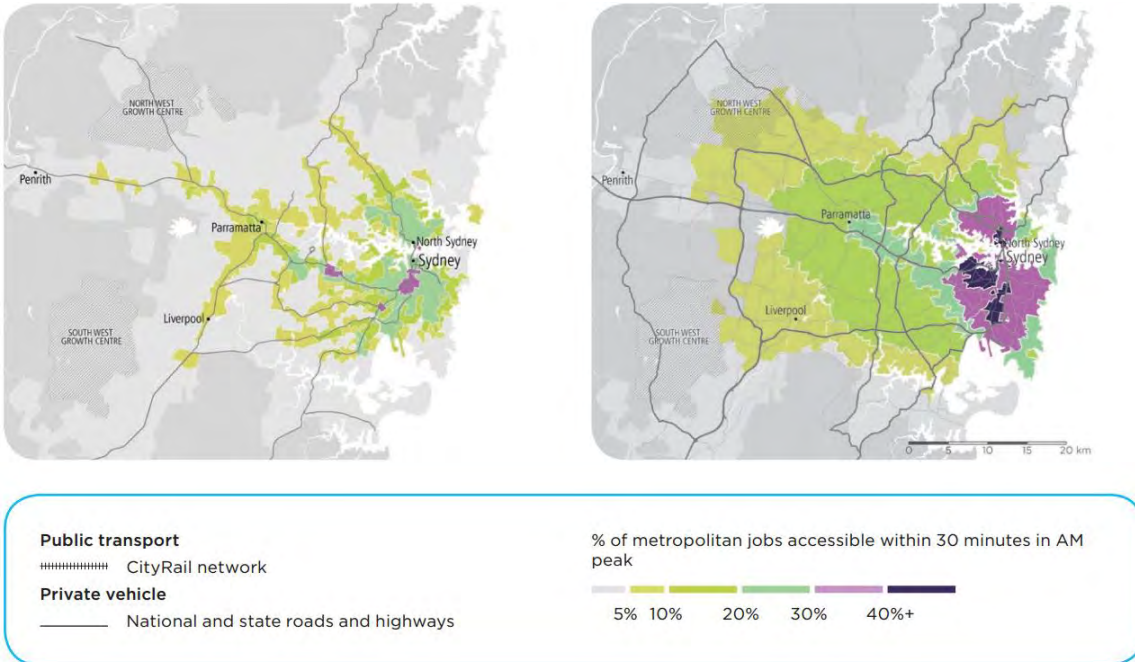
finds that CBD residents can reach around 50% of jobs across Sydney by car within 45 minutes and by public transport within 60 minutes, providing greater opportunities to find jobs that match their skills.

FIGURE 11. EFFECTIVE JOB DENSITY



Source: SGS Economics and Planning, 2014

FIGURE 12. PROPORTION OF METROPOLITAN JOBS ACCESSIBLE WITHIN 30 MINUTES BY PUBLIC TRANSPORT AND PRIVATE VEHICLE

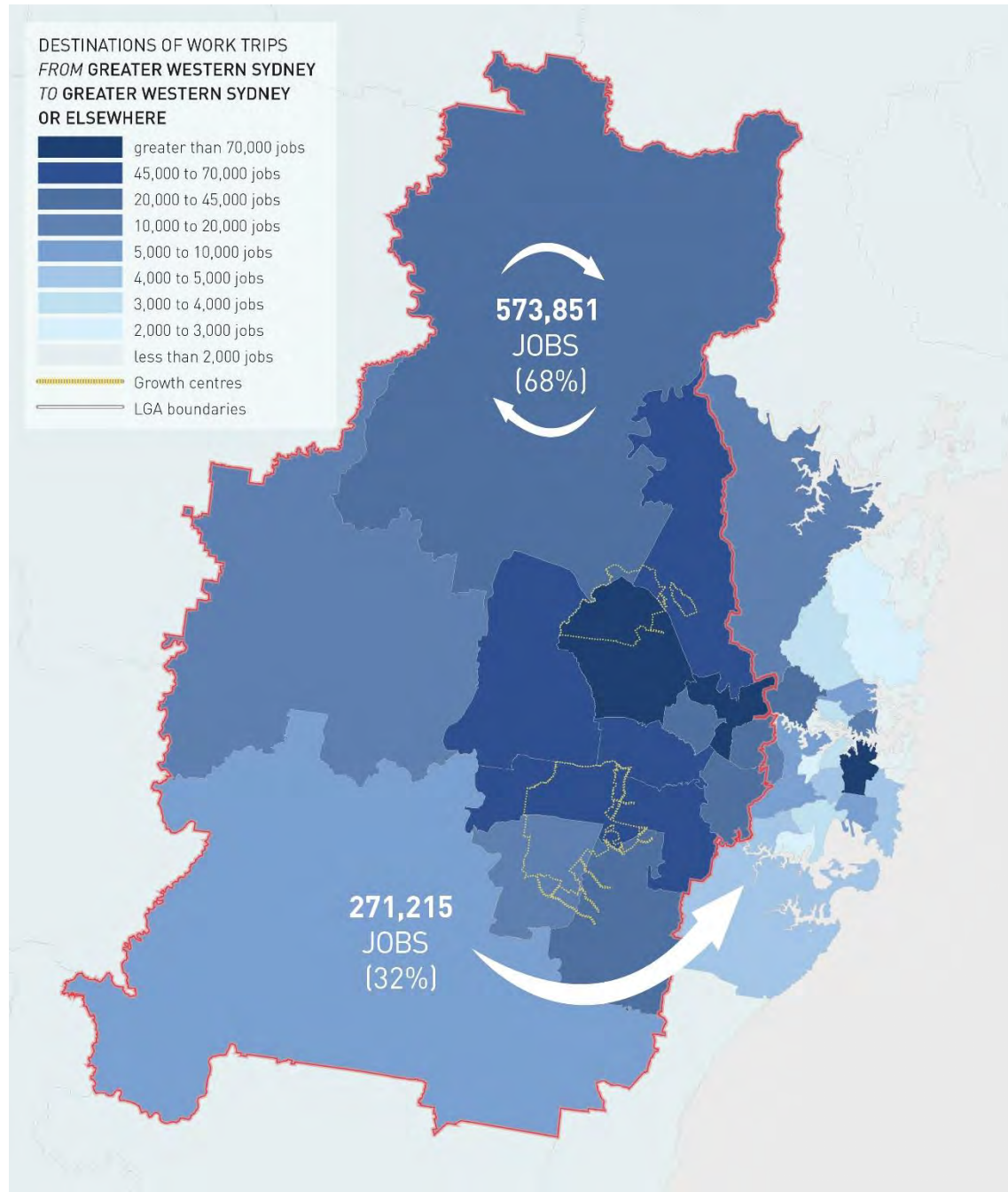


Source: Transport for NSW, 2014

**This mismatch between the locations of housing and employment affects lower income families in particular, especially women**

Many residents who live in the middle and outer rings of Sydney commute for work to the job-rich 'global arc': from Macquarie Park in the north, through North Sydney and the CBD, towards the airport. This is shown in Figure 13, in which 32% of Greater Western Sydney residents travel to areas of eastern Sydney for work, and 10% of the total workforce of Greater Western Sydney is employed in the City of Sydney LGA (over 85,000 workers).

**FIGURE 13. DESTINATION OF JOURNEY TO WORK TRIPS FROM GREATER WESTERN SYDNEY**



Source: SGS Economics and Planning, 2014, original data sourced from Bureau of Transport Statistics 2012, Journey to Work data

However, not all those who live in areas with cheaper housing and relatively fewer local employment options are able to commute long distances. Some workers leave the workforce altogether or take jobs nearer home in which their skills and training are underutilised. This worsens the patterns of disadvantage, not to mention being a clearly inefficient outcome for the city's economy as a whole in that human capital is ineffectively deployed, representing a drag on productivity.

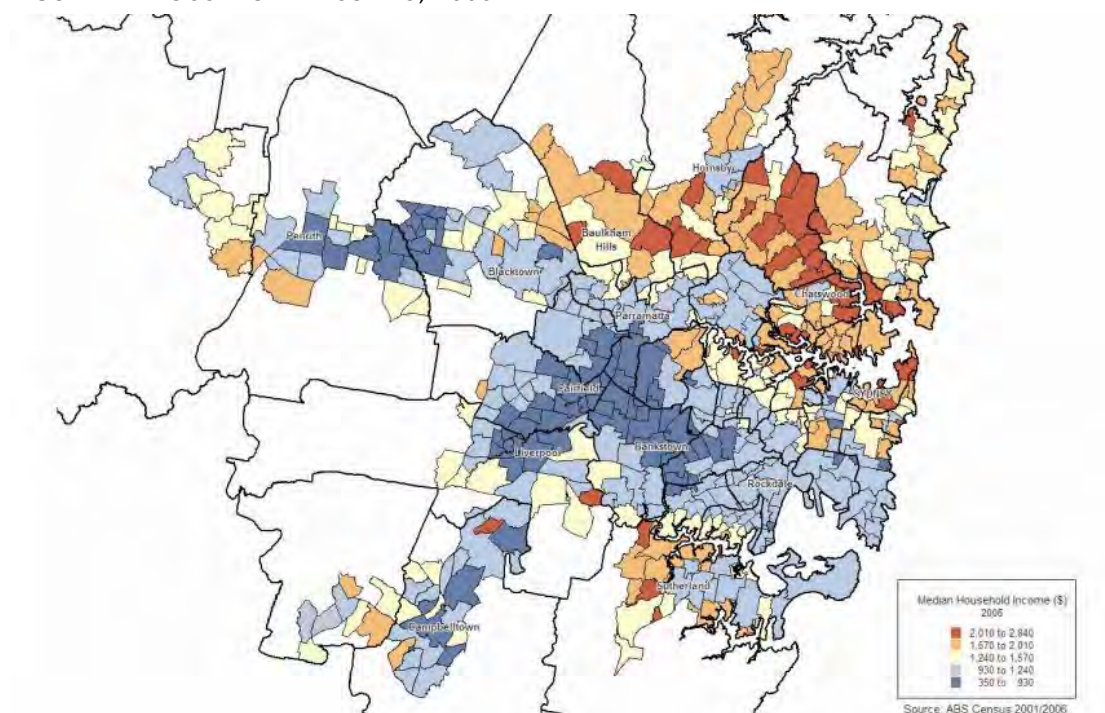
Women in particular undertake the majority of care work in Australian households and therefore are more constrained in how far or how long they can travel for employment – called ‘the spatial leash’ (Kelly et al. 2012, in Sydney Morning Herald 2014). The mismatch between the spatial distribution of jobs and housing – and especially housing that people on lower incomes can afford – can limit their choice of employment options, and has been linked to low rates of female workforce participation in western Sydney (Grattan Institute, in SMH 2014).

Ideally, a range of housing for people on different income levels would be available across the city, with good transport links to a variety of employment hubs. Unfortunately the pattern in Sydney tends towards the opposite outcome, with higher income households having the best access and most direct links to the most employment opportunities, and lower income households having access to fewer local job opportunities, with travel barriers to accessing job-rich areas.

#### **And spatial inequality is worsening across metro Sydney**

The figures below show that spatial inequality across metro Sydney generally increased between 2001 and 2006. Household incomes in the north and east of the city increased at much greater rates than in the more disadvantaged areas concentrated in western Sydney. It is worth noting that the low increase in weekly incomes in the City of Sydney shown between 2001 and 2006 did not persist between 2006 and 2011, with median weekly household income growth over this period of \$435 from \$1204 to \$1639.

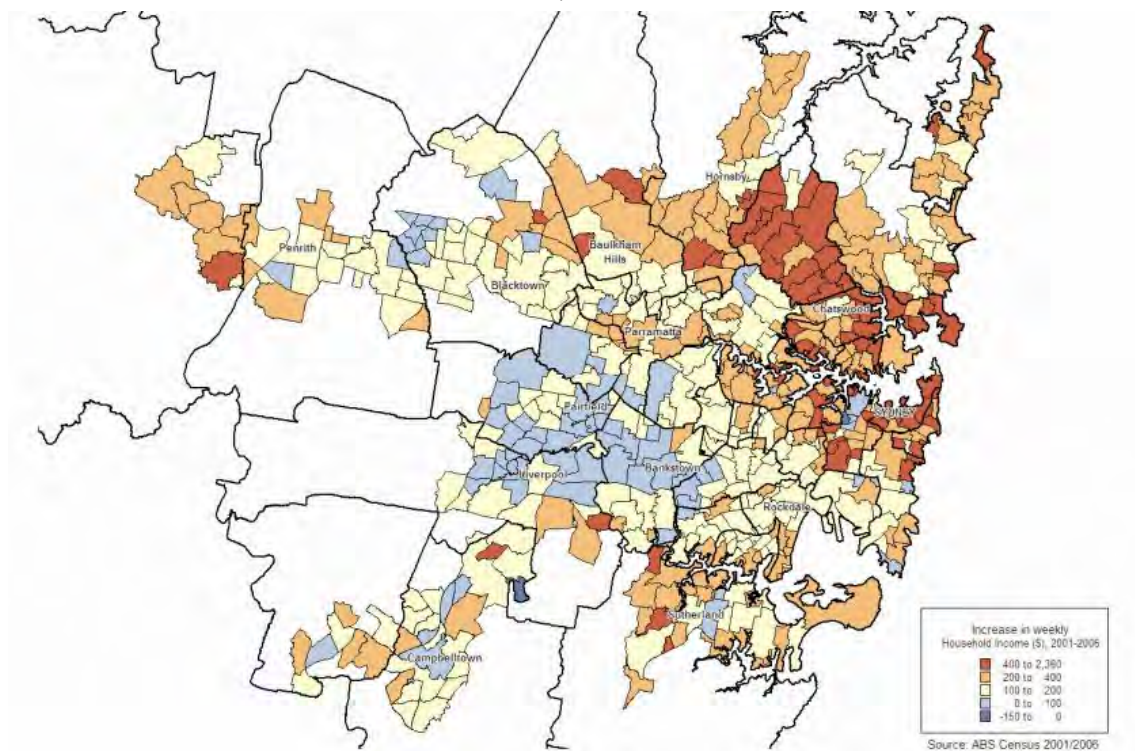
**FIGURE 14. HOUSEHOLD INCOMES, 2006**



Source: City Futures Research Centre, 2008



**FIGURE 15. CHANGE IN HOUSEHOLD INCOMES, 2001-2006**



**There is a high or moderate high need for affordable housing across much of the city**

According to Housing NSW, ‘affordable housing is housing that is appropriate for the needs of a range of very low to moderate income households and priced so that these households are also able to meet other basic living costs such as food, clothing, transport, medical care and education. As a rule of thumb, housing is usually considered affordable if it costs less than 30% of gross household income<sup>3</sup>’.

Given current Sydney median incomes of \$1444 per week (\$75,088 per annum), a scale of income categories can be defined as follows:

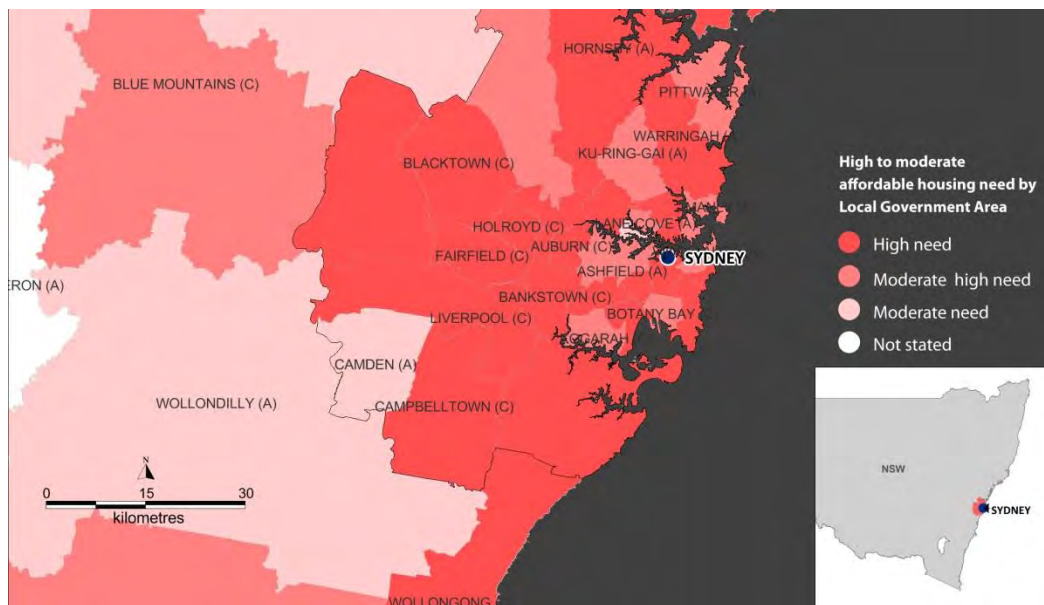
- very low income earners are those earning less than 50% of the Sydney median income; that is, \$722 per week (\$37,544 per annum). For example: retail or manufacturing workers, as well as people earning the minimum wage or who are on an aged or disability pension or other government benefit.
- low income earners are those earning between 50% and 80% of the Sydney median income; that is, \$722 to \$1155 per week (\$37,544 to \$60,070 per annum). For example: childcare workers, secretaries or cleaners.
- moderate income earners are those earning between 80% and 120% of the Sydney median income; that is, \$1155 to \$1733 per week (\$60,070 to \$90,106 per annum). For example: teachers, police or nurses, particularly if they are in earlier stages of their careers.

Typically, community housing providers supply this sort of housing using subsidies, particularly in higher priced areas. In this sense, ‘affordable housing’ can be distinguished from ‘housing affordability’ – the latter generally referring to the extent to which the general population can afford housing. The objective of planning policies that aim to stimulate supply is to address affordability, whereas particular programs involving government subsidies are utilised to provide affordable housing.

Housing NSW has identified a ‘high’ need for affordable housing across the majority of Sydney’s 43 local government areas (including within the City of Sydney LGA), with some areas of ‘moderate high’ need and only three with ‘moderate’ need. This is shown in Figure 16.

<sup>3</sup> While this figure provides a useful benchmark of housing affordability, the definition of affordability varies according to a household’s individual circumstances. Demands on the same gross income may differ significantly.

**FIGURE 16. AFFORDABLE HOUSING NEED IN SYDNEY**



Source: SGS Economics and Planning, 2014, using Housing NSW data

#### **While public housing is available for fewer new people each year in the face of rising demand**

There is little safety net for those who cannot afford the high costs of private housing. Social housing used to fill this role, but new provision is slowing and it has increasingly been available only to the highest priority tenants with significant complex needs. Existing stock is increasingly occupied by long term tenants who are less and less likely to have the capability to move out because the provision of affordably priced housing is falling<sup>4</sup>).

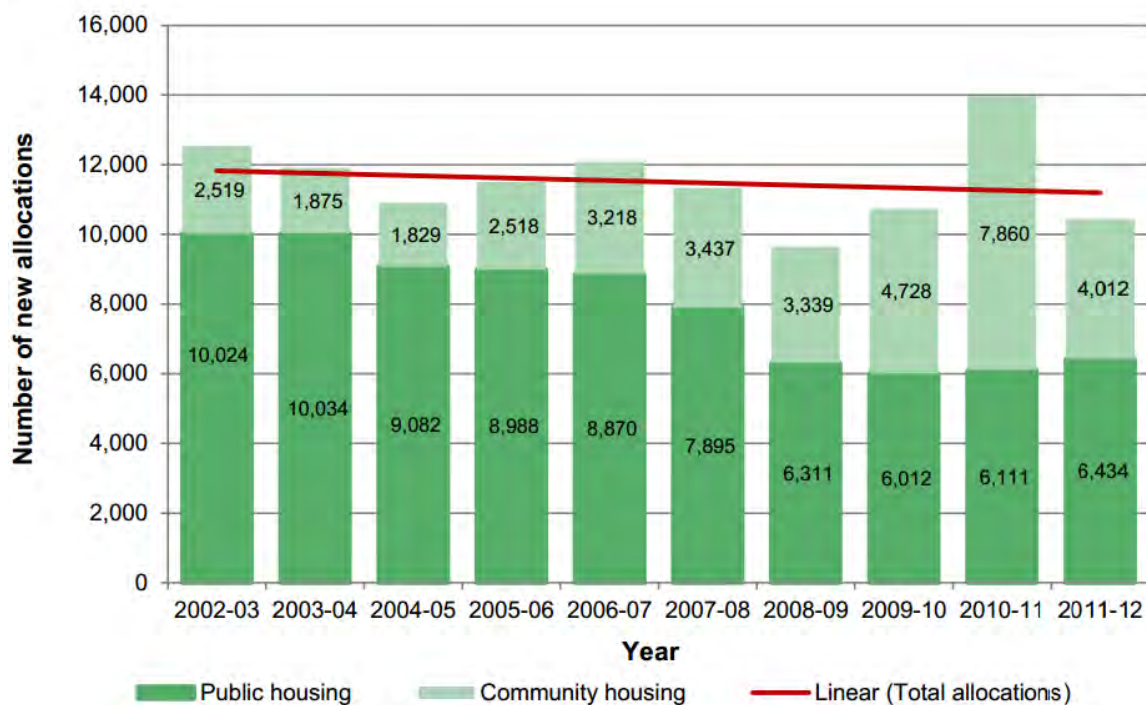
The Audit Office of NSW report into social housing (2013) noted the following, also shown in Figure 17:

Over the last decade, the overall number of public housing applicants newly housed each year has almost halved, from 10,024 in 2002-03 to 6434 in 2011-12. During this period the public housing stock fell by about 7%, partly due to transfers of management and stock to community housing providers. This transfer allowed the number of tenants moving into community housing to increase, but there is still an overall decrease in the number of tenants housed each year.

The unusually high number of new allocations in 2010-11 was as a result of the Australian Government funded economic stimulus package for social housing construction.

<sup>4</sup> Tenants on long term continuous leases make up almost 70% of all tenants, according to the Audit Office of NSW (2013).

**FIGURE 17. NEWLY HOUSED PUBLIC AND COMMUNITY HOUSING TENANTS, 2002/03 TO 2011/12**



Source: Housing NSW, 2012, in Audit Office of NSW, 2013

Note: The numbers of newly housed community housing tenants also include transfers between community housing dwellings, which may slightly inflate these numbers.

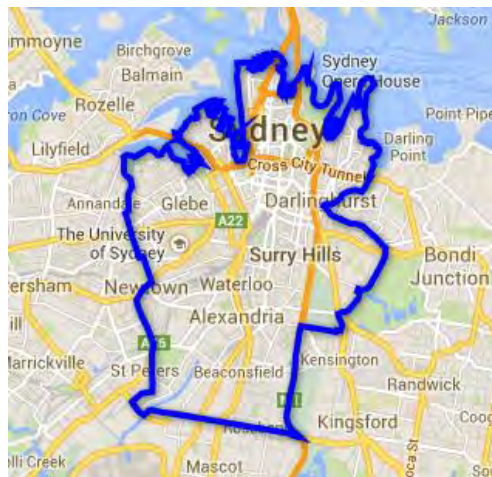
Against the backdrop of falling private affordability and declining new social housing stock and investment, the need for social housing has increased. The waiting list is currently around 55,000 households, and is projected to grow by 60% to more than 86,000 by 2016. In addition, it is estimated that there will be 132,000 households by 2016 eligible for social housing that have not applied and therefore are not on the waiting list.

Overall, Housing NSW has estimated that social housing currently meets only about 44% of need. Furthermore, the stock that is available is increasingly unsuitable for the tenant profile, in terms of house size and suitability for older tenants in particular. There are significant levels of under-occupancy – only 68% of public housing households match the size of the dwelling with approximately 30% of three or more bedroom public housing properties occupied by a single person or a couple (Audit Office of NSW 2013). This impacts on the rent revenue received by the government, calculated on the basis of household income, and therefore the ongoing viability of the system.

#### **The City of Sydney Local Government Area is increasingly becoming the preserve of high income households**

Over the last 15 years, there has been a dramatic change in the diversity of households by income in the City of Sydney Local Government Area (the boundaries of which are shown in Figure 18).

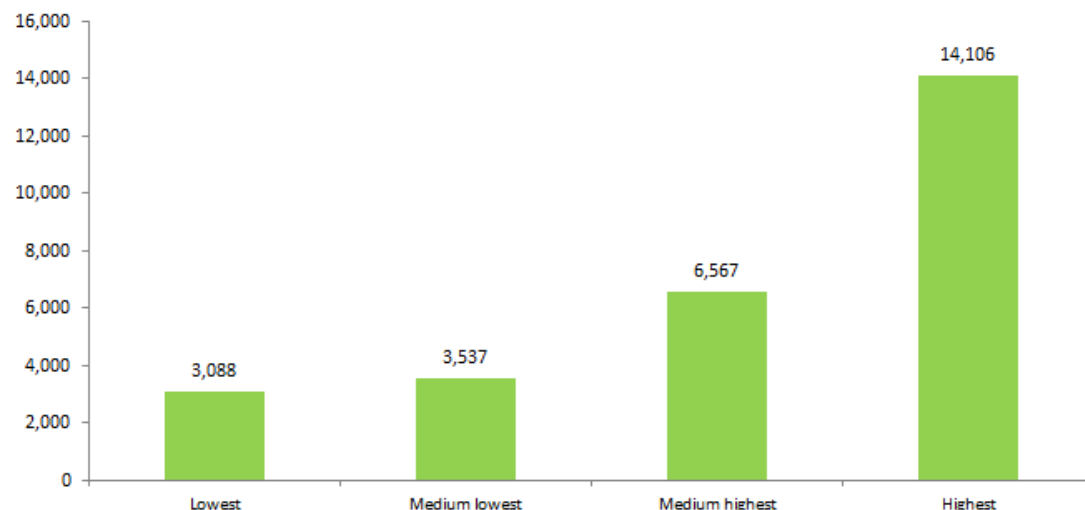
**FIGURE 18. CITY OF SYDNEY LGA**



Source: City of Sydney, 2014

ABS data show that in 1996, the distribution of household incomes in the City of Sydney closely reflected that for both Sydney as a whole and the entire state. However, despite a massive growth in the number of households in the period from 1996 to 2011 (approximately a two-thirds increase), by far the greatest proportional increase was in the number of higher income households (Figure 19).

**FIGURE 19. CHANGE IN NUMBER OF HOUSEHOLDS BY INCOME QUARTILE, 1996 TO 2011**



Source: City of Sydney, 2014

Table 3 gives the data in percentage terms. It shows below average growth for the lowest and medium-lowest quartiles, and above average growth for the medium-highest and highest quartiles. In fact, the growth in the number of highest income quartile households was almost double the average of that for all households, and 4.7 times that of the lowest income quartile households.

**TABLE 3. GROWTH IN HOUSEHOLD INCOMES BY INCOME QUARTILE, 1996-2011**

Income quartile	Cumulative income growth (%)
Lowest	26.5
Medium lowest	40.3
Medium highest	71.1
Highest	123.8
<b>Total households</b>	<b>66.5</b>

Source: ABS 2013

### Which may have implications for the economy's productivity

The results show that the income diversity of the City of Sydney's community has declined significantly, from its close approximation to the spread of incomes across the Sydney metropolitan area as a whole in 1996 to an income profile dominated by higher income earners. Relatively fewer lower income families are able to rent or purchase housing in the LGA as new incoming residents increasingly come from the higher income brackets, and a narrower demographic. Across Sydney, the pattern is of widening inequality with disadvantaged and lower income neighbourhoods and residents concentrated in the west and south west of the city.

Aside from the negative consequences for social cohesion of the spatial inequality at a metropolitan level, there may well be economic productivity effects from having workers on lower incomes in outer areas, where they have fewer opportunities to develop skills due to a shallower local jobs pool and long commutes. In the US, the economist Paul Krugman noted that:

Upward social mobility – the extent to which children manage to achieve a higher socioeconomic status than their parents – is even lower in Atlanta than it is in Detroit. A new study suggests Atlanta may just be too spread out, so that job opportunities are literally out of reach for people stranded in the wrong neighbourhoods (New York Times 2013).

In addition, firms and institutions in the inner city requiring workers have a smaller range of candidates to choose from. The City of Sydney is currently undertaking research in this area due to its concern that 'the growing loss of low to middle income households from inner Sydney may result in essential employment sectors finding it increasingly difficult to fill employment vacancies and staff shifts, hampering business productivity and economic growth' (City of Sydney 2014). This is a particular concern for 'key worker' requirements – those workers, generally on lower incomes, on whom the city depends for its efficient functioning and who provide essential community services. Research from the UK provides 'growing evidence that housing problems are a major factor in the recruitment crisis in both education and the health service' (The Guardian 2004), with a strong correlation between areas with the highest house prices and the most acute teacher shortages.

According to the City of Sydney (2014), particular sectors in inner Sydney that could be expected to suffer from lack of housing affordability closer to the centre are:

- tourism and hospitality (where employers 'have expressed concern at the increased difficulty of attracting and retaining low income workers in hospitality occupations, particularly skilled casual workers')
- education, where 'the impacts of housing affordability concerns on international students seeking to live near Sydney's key universities... represent an implicit risk to the success of Australia's \$6 billion international education export industry'.

Any negative impacts to the productivity of the City of Sydney's economy can worsen its global competitiveness, to the detriment of all residents of the state.

The risk of the City of Sydney becoming an 'exclusive' place would also have profound social justice implications, given that the wider metropolitan and NSW communities pay for much of its high level cultural, sporting, transport and public domain infrastructure.

## 2.2 Social mix

### Introduction

Various levels of government, both in Australia and overseas, are increasingly designing policies with the aim of developing mixed communities. These acknowledge the value of a social mix to the city's diversity, the vitality of its local areas, and in avoiding concentrated pockets of disadvantage. They also respond to the findings from the literature that:

- a lack of planning for diversity can lead to income segregation within urban neighbourhoods (Barnes 2012)
- a lack of affordable housing can result in locational disadvantage and social polarisation within the city
- lack of affordable and diverse housing can create displacement of low income households
- a segmented housing market can create a city which excludes some groups
- a mix of housing and household types is critical to achieving demographic diversity within the city
- letting the market create diversity is unrealistic (Fainstein 1991).



A more comprehensive review of the literature around the value of social mix in cities is detailed in the appendix.

Achieving an improved social mix was an objective in the NSW *Housing Act 2001*, which aims to 'encourage social mix and the integration of different housing forms in existing and new communities'. Likewise, the City of Sydney's strategic plan, *Sustainable Sydney 2030* (2008), has a vision for a bold, inspirational and sustainable city for people and 'housing for a diverse population' as one of its 10 strategic directions, to ensure that the City 'continues to be welcoming and accessible for people of all walks of life'.

#### **Affordable and social housing in the City of Sydney LGA**

As discussed above, the City of Sydney LGA was assessed by Housing NSW as having a high need for affordable housing as a programmed intervention, with the Social Impact Assessment prepared for Millers Point on behalf of the NSW Government noting that currently only 1% of housing stock in the City is affordable housing (that is, housing for low to moderate income households as per the NSW Affordable Housing Guidelines).

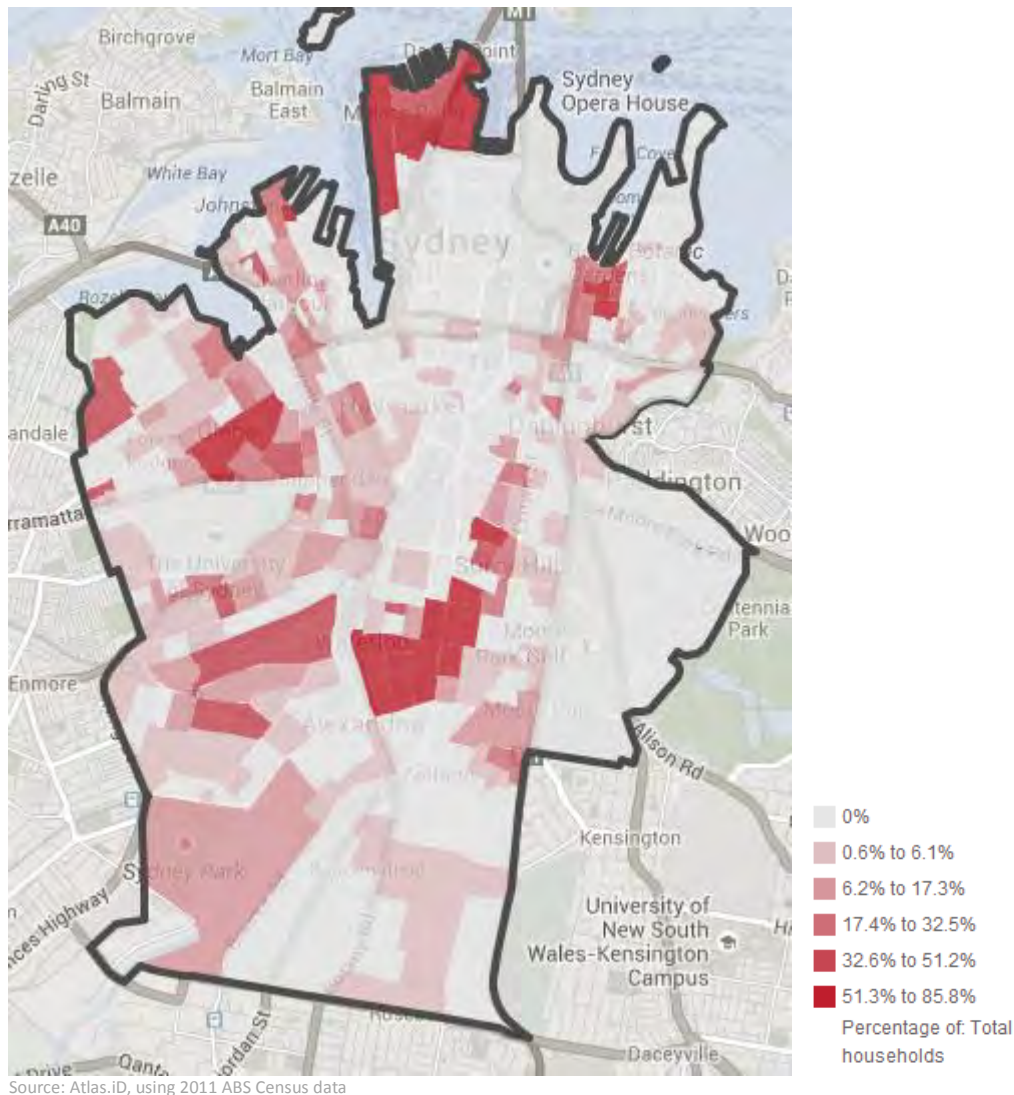
This is far below the targets set in the City of Sydney's *Sustainable Sydney 2030*, for 7.5% affordable rental housing (and 7.5% social housing) by 2030. In line with this finding, the City notes in its recent draft planning proposal for the southern industrial lands that:

lower income workers, such as cleaners, baristas, administrative clerks, healthcare workers, childcare workers, and so on are likely to experience significant difficulties in finding affordable accommodation in the inner City close to the places they work. These workers are essential for the efficient functioning of the City, both in economic terms and to maintaining a healthy, tolerant and diverse community.

In terms of social housing, the City of Sydney is currently exceeding its target of 7.5%; with 8.6% of the LGA's housing being this type. However, this proportion is likely to progressively fall given the increased private housing being provided in the LGA (with no publicised plans for a proportional increase in social housing), not to mention the effect of the proposed asset divestment in Millers Point and The Rocks by the NSW Government. The sale of Millers Point properties alone would reduce the proportion of social housing in the City from 8.6% to 8.1%, with no other change to the housing stock.

Figure 20 shows the households renting social housing as a percentage of total households. The heaviest social housing concentrations are in Millers Point and The Rocks, Redfern-Waterloo, and Glebe, where it makes up over half of the housing in some of these areas.

**FIGURE 20. CITY OF SYDNEY HOUSEHOLDS RENTING SOCIAL HOUSING**



However, in Millers Point and The Rocks in particular, this social housing concentration does not appear to be creating any particular negative effects that might sometimes be associated with social housing estates, where disadvantage can feed anti-social behaviour and higher crime rates. The diverse tenant profile and cohesive community network are likely to be important factors in this outcome. Nevertheless, given the ageing resident population and complex needs of those prioritised on the social housing waiting list, the impact of a social housing concentration may change over time and require, for example, better social support, improved policing and/or an improved social mix to ensure the community isn't adversely affected.

#### **Millers Point**

The Millers Point community, which for this sub-section excludes the tenants of the Sirius and Gloucester Road social housing due to data constraints, comprises a number of sub-groups. The Social Impact Assessment (using ABS data) identified these as being:

- long term residents who have generational connections to the working harbour
- social housing residents who have lived in the area a long time, many being older, settled tenants who feel a strong connection to the area
- social housing tenants who have more recently moved into the area, some with more complex needs
- affordable renters in properties managed by Bridge Community Housing
- residents of housing co-operatives
- private renters, including some in properties managed by Run real estate and owned by the NSW Government
- private residents who own their properties

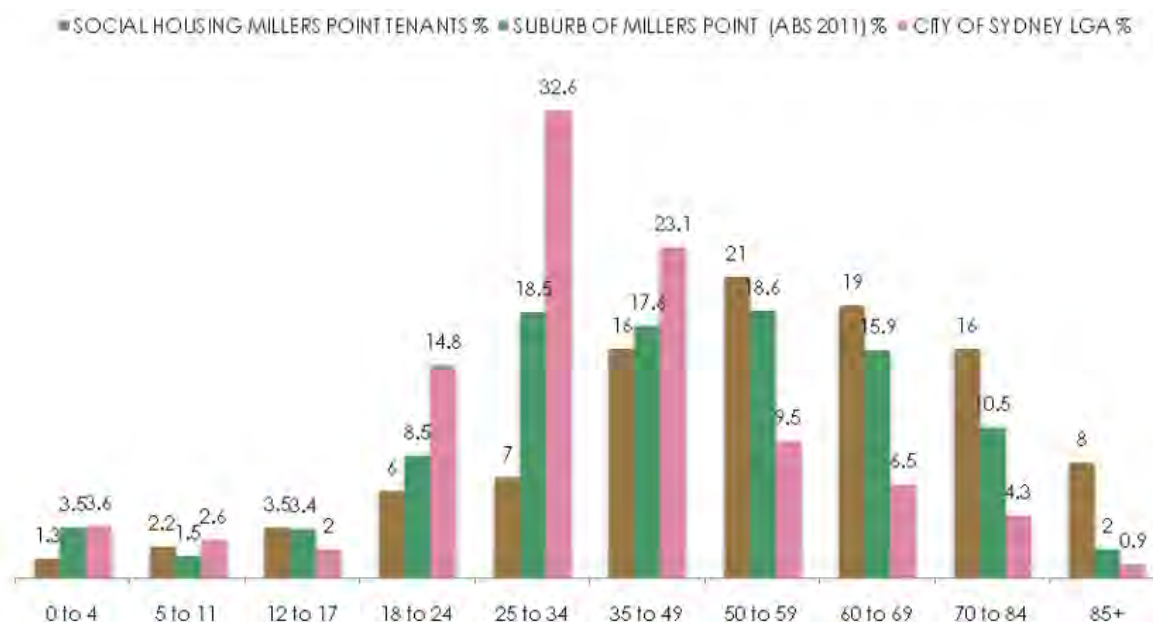
- private 99-year leaseholders.

Many of the suburb's residents are social housing tenants: there are 448 social housing tenancies in Millers Point housing 481 people, while the suburb is home to 1037 people. Properties owned by the NSW Land and Housing Corporation (LAHC) account for 83% of all dwellings/ households in the suburb of Millers Point, although these make up around 65% of all occupied dwellings (due to there being 31 fully vacant LAHC properties).

The Millers Point social housing has:

- a significantly older population than across the Millers Point suburb and City of Sydney LGA as a whole: 43% of people are aged 60 years or over, compared with 28% in the suburb of Millers Point and 12% in the City of Sydney LGA (as shown in Figure 21).
- a substantially lower proportion of working age residents, with 23% of the population aged between 25 and 49, compared to 56% in the City of Sydney LGA.
- a high proportion of single person households (occupying 57% of all occupied dwellings, versus the 34% in the City of Sydney LGA), in common with social housing across Australia.

**FIGURE 21. AGE COMPARISONS – AGE GROUPS AS A % OF TOTAL**



Source: Cred Community Planning, 2013, using internal FACS tenant data and ABS Census 2011

The area has been experiencing a declining population (of 26% between 2006 and 2011, influenced by increasing levels of social housing vacancies) and has a relative lack of diversity in household occupancy levels. In addition, further change is likely as a result of the severe shortage of social housing across the state and the allocation policy for new social housing tenants when properties become available. Many of those with highest priority for social housing placement have complex social issues, such as mental health problems or drug and alcohol dependencies.

The socio-economic profile of the surrounding area is also changing, with the Social Impact Assessment noting the development of significant medium and high-density private housing in Walsh Bay and Dawes Point and the developing residential and commercial Barangaroo precinct. It is expected that these will mainly appeal to high income buyers, with just 2.3% of Barangaroo's residential gross floor area to be provided for affordable housing.

This suggests that a potential future for Millers Point and The Rocks is of an improved social mix, with housing that addresses a variety of different needs and provides security for those households on lower and middle incomes. This would be in keeping with the area's past as 'an area of low-income working people and families' (Cred Community Planning 2013).

# 3 COSTS AND BENEFITS

## 3.1 Introduction

This section considers the likely costs and benefits associated with the NSW Government's planned sale of social housing in Millers Point and The Rocks, against a base case where all social housing is retained but subject to low investment in maintenance. The aim is then to assess whether there may be an alternative approach for the area that minimises costs and maximises the potential benefits for the society of NSW.

### The base case

The base case assumes that all social housing in Millers Point and The Rocks is kept and minimal maintenance is undertaken – as has been the case over the past few years. For simplicity it is assumed that there are no further sales of social housing in the area.

### The option case

The option case for testing is the plan announced by the NSW Government, of selling all the social housing stock in the area. In order to consider the potential costs and benefits of this approach versus the base case, we have made a number of further assumptions, namely that:

- the housing will be sold outright, rather than on 99-year leases
- due to the nature of some of the title structures in the area and the fact that the stock will be sold at once, investors or developers may purchase multiple properties and redevelop these to provide a net increase in housing in the area
- the buyers of the housing will typically be those on higher incomes, in line with the trend across the City of Sydney and given the revenues achieved in the previous sales process in 2008
- many of the buyers (or tenants, where investors purchase the properties) will work in the CBD or surrounds
- the new buyers will invest more in the maintenance of their properties than would be anticipated by the NSW Government if it were to retain ownership
- there is a staged approach to the sale of stock to maximise revenue to the government, rather than 'flooding the market' (although this may limit the extent to which economies of scale can be achieved in the sales process, for example of marketing and transaction costs, and in organising the relocations of current tenants).

In addition, it is assumed that the proceeds from the sale will be re-invested in the social housing system as announced by the NSW Government<sup>5</sup>. In the absence of any transparent mechanism for using the revenue or a discrete fund, we have assumed that there is a one-to-one replacement of stock, likely in the middle ring suburbs of Sydney given the lower costs involved in this approach. The remainder of the revenue generated from the sale is assumed to go towards administration (such as tenant relocation costs) and maintenance of existing social housing properties, noting the LAHC's expected deficit of around \$490 million in 2012-13 (increasing to \$590 million to maintain dwellings at an appropriate standard) (Audit Office of NSW 2013).

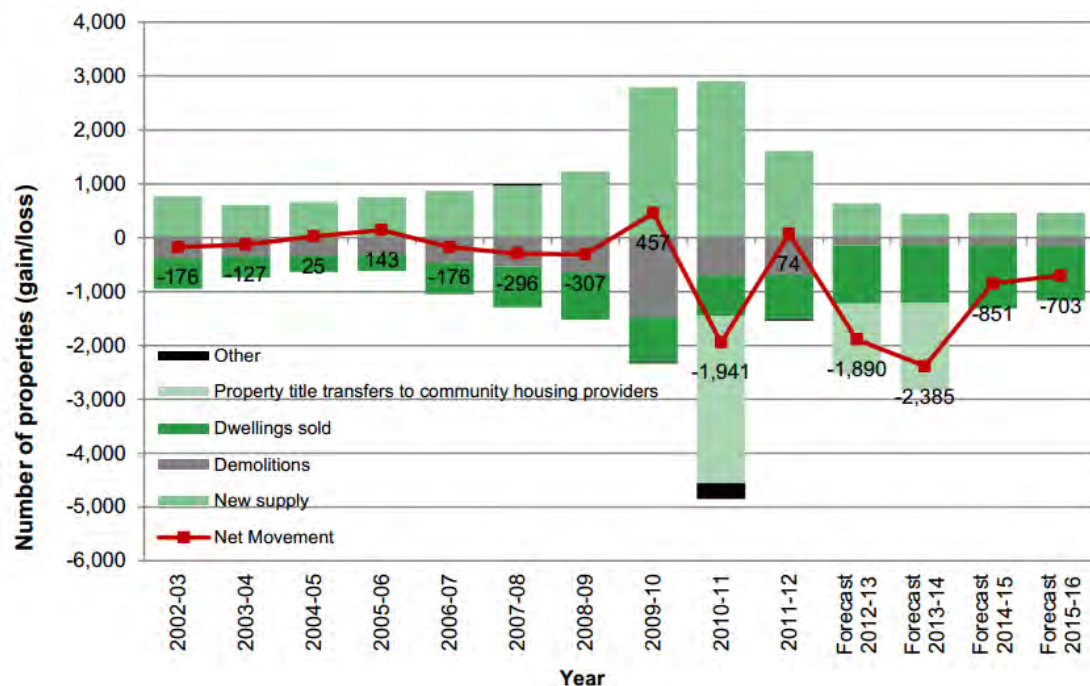
Incidentally, the assumption of no net loss of social housing stock from the NSW Government's proposal is perhaps a generous one in light of findings in the Audit Office of NSW report (2013). It noted that:

LAHC has been disposing of more properties than it has added in recent years (except during the National Economic Stimulus Building years 2009 to 2012). LAHC projects that it will be disposing of more than double the number of properties it builds over the next four years.

<sup>5</sup> The NSW Government response to the Social Impact Assessment stated that 'all proceeds from the sale of these properties will be reinvested into the priorities of a sustainable social housing system.' It additionally noted that sale of the social housing in the area 'could build about four new suitable public housing dwellings [elsewhere]' (Sydney Morning Herald 2014), although no plan has been released detailing how this will be achieved.

This is shown in Figure 22 below.

**FIGURE 22. LAHC OWNED HOUSING STOCK MOVEMENT (INCLUDING PROPERTIES MANAGED BY COMMUNITY HOUSING PROVIDERS), 2002/03 TO 2015/16**



Source: LAHC, 2013, in NSW Audit Office, 2013

Note: Excludes LAHC properties used for short-term 'crisis' accommodation.

It is worth noting at the outset that the main justification for the NSW Government's planned sale of social housing in Millers Point and The Rocks is the sales revenue it would generate for Land and Housing Corporation<sup>6</sup>. However, this would not be included in an economic appraisal as a benefit to the community of NSW as the revenue is most likely to be a transfer within the state from public to private owners.

### 3.2 Marginal costs

#### Cost of organising and processing property sales and relocating social housing tenants

There will be costs to the NSW Government incurred under the option alone from selling the social housing properties in Millers Point and The Rocks. In terms of the sales process, these would include costs for administration, marketing and communication, public relations, and transaction expenses such as lawyers and conveyancers. There would also be costs associated with relocating the existing tenants to new locations: for case workers, removalists and so on.

#### Maintenance expenditure by existing social housing tenants and new buyers

The annual marginal cost of maintenance expenditure to be captured in a cost benefit analysis would equal the amount that is likely to be spent under the option case of the NSW Government's plan, minus that likely to be spent under the base case.

<sup>6</sup> In 2008, the NSW Land and Housing Corporation undertook a 99-year leasehold sales program of 29 properties and generated approximately \$28 million in gross revenue (with an average sale price of \$1.3 million each).

Under the base case, the NSW Government is assumed to continue to fund some maintenance costs for the social housing dwellings, noting that nearly \$7 million has been spent in the last two years and that ‘the average maintenance cost for one terrace house in Millers Point is almost \$15,000 per year, compared to the normal maintenance allowance of \$3,000 to \$3,500 for public housing properties’ (NSW Government 2014).

In addition to expenditure by government, many social housing tenants in Millers Point have paid personally for necessary repairs and renovations to their properties, such as to fix leaks. The total amount likely to be spent by both the NSW Government and social housing tenants on maintenance in future would be captured as a cost under the base case.

Under the NSW Government’s plan, the new buyers of the heritage properties are likely to have to spend a large amount on renovations to compensate for the years of underinvestment in maintenance. Those who bought properties under the 99-year leasehold sales program in 2008 (for which the average sales price was \$1.3 million) apparently incurred average repair costs of \$345,000, for example (NSW Government). However, no commitment to undertaking the required repairs and maintenance of heritage properties is required as a condition of purchase, so there remains a risk that the condition of heritage properties may not be improved by private ownership.

Any expenditure by social housing tenants on maintaining the properties they live in before their relocation in the next two years would also be included here, although this is likely to be minimal given they will no longer have any security of tenure.

Incidentally, the NSW Government suggests that ‘due to underinvestment by the previous and current administrations, the repair bills to restore some properties to heritage standard are ‘as high as \$800,000’ with ‘an average cost to renovate one property of \$350,000’. It is unclear from publicly available information as to whether the maintenance burden and likely base case expenditure are higher for some types of housing in the area, such as the heritage terraces, to a greater extent than others – although given the differences in age, condition and design, this is surely the case. In particular, it’s unlikely that the maintenance costs for the 79 apartments of the purpose-built Sirius development contribute proportionately to the total. It would be desirable to disaggregate this factor in an economic appraisal in order to quantify the costs of the base case and the NSW Government’s plan more accurately.

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#### **Costs to residents and the state from tenant relocations and community break up**

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The relocation of social housing tenants from Millers Point and The Rocks over a two year period is likely to have physical and mental health costs, particularly for those who are elderly (nearly 50% of all residents are aged over 60 and 9% of tenants are over the age of 80) or with long histories in the area. Almost 20% of the social housing residents of the area have been there for more than 20 years (Cred Community Planning 2013) and some have connections to the area going back generations through the Maritime Services Board.

The Social Impact Assessment states that the possible negative health and wellbeing outcomes for older residents and those with long-term or generational connections to the area have been ‘clearly noted through engagement and other social research’. These include ‘the stress of moving, distress of losing their existing social network and local services, and anxiety of trying to build new social connections in a new area’.

In addition, independent of the personal stress of moving on these residents, there may well be higher costs for the state to incur due to an increased need for community and health services. The Millers Point community is widely regarded as being close knit – the Social Impact Assessment found that, of the residents with whom they engaged, ‘95% identified as having a deep connection with Millers Point’ and the 2003 State Heritage Register Listing for the area noted ‘a strong and loyal sense of community and solidarity’ – with anecdotal evidence suggesting that this leads to a lower reliance on community services in the area. Displacing the residents, particularly older ones who receive support from their neighbours and friends in the area, may mean they require additional support from state-funded services in their new locations.



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### **Health costs arising from the lack of maintenance investment in properties before sale**

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There may be costs to the health and wellbeing of social housing tenants when moving from the base case to the NSW Government's plan due to the commitment to funding no further housing maintenance in the latter.

In the interim period between now and their relocation, tenants living in houses that are increasingly in disrepair may incur a higher rate of accidents or health issues (such as respiratory problems from dampness) and mental health issues, with residents noting that 'increasingly... run down properties were impacting on local pride and self-esteem' (Cred Community Planning 2013).

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### **Costs arising from loss of social housing stock in the inner city**

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With no clear plans to replace the lost social housing within the inner city, the sale of properties in Millers Point and The Rocks is likely to mean that there are fewer housing options available in the area for people on lower incomes, leading to a worsening spatial divide and inequality across the metro area. This may in turn have an impact on the city's functioning and economic productivity, in that people on lower incomes will have fewer opportunities to live close to the areas best serviced by transport and with access to the most employment opportunities. This could make it more difficult for firms to find workers for lower paid positions (such as cleaners, casino workers, baristas, and nurses). The value of providing a broad range of housing options across the city and in encouraging social mix has been discussed in more detail in section 2.2. The loss of inner city social housing stock may also have a marginal impact on the future likelihood of the state's social housing tenants finding employment.

It is important to note that the displaced tenants under the NSW Government's plan have been assured equivalently good locations in terms of access to services, employment opportunities and so on, with the NSW Government stating that 'most tenants are expected to relocate to the inner city, inner west or eastern suburbs, where shops, community facilities and transport are generally good.' As such, this cost (associated with a loss of social housing stock in the inner city) would apply to the broader NSW community rather than the relocated tenants from Millers Point and The Rocks.

Incidentally, it is assumed that there is no net loss of NSW social housing stock under the NSW Government's plan for this analysis. However, if there were to be a reduction in total social housing supply across the state, this would result in a loss of utility for social housing tenants who otherwise would have had access to housing<sup>7</sup>, and potentially health and social costs for those on the waiting list as a result of their housing conditions and circumstances (whether they are homeless, in housing stress, living in overcrowded conditions and so on).

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### **Loss of heritage significant aspects of Millers Point and The Rocks due to tenant relocation**

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In relation to the heritage significance of the Millers Point social housing, the Housing NSW Conservation Management Plan notes that:

Housing NSW properties are overlaid with four protective mechanisms under the NSW Heritage Act: a Section 170 Heritage Register listing for each individual property or group, a State Heritage Register listing for each individual property or group, and two State Heritage Register precinct listings, one for the Millers Point Conservation Area and one for the Millers Point and Dawes Point Urban Village precinct. This unprecedented degree of listing, unique to Millers Point, reflects the intensity of the Heritage Council's view of the significance of Millers Point. SHR listing is the highest level of protection possible in the NSW heritage management system.

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<sup>7</sup> This could be valued by market rents in the area, which is generally assumed in cost benefit analysis to provide a proxy for the utility that housing provides.

The area was also recognised as a special area in the Sydney Local Environment Plan 2005, listed on the National Trust Register in 1978 as an Urban Conservation Area (with the Trust having listed 127 individual properties), and the subject of a major oral history project.

The social housing component is an important aspect of the area's heritage. The State Heritage Register listing stated that 'the historic, social and physical fabric of Millers Point cannot be considered as separate components, but rather as interwoven traits making up the precinct so that an unusually high and rare degree of social significance can be ascribed to this area' (leading the Advocacy Director of the National Trust to state that 'the second State Heritage listing specifically spoke about the social history and these people who are about to be evicted'). The NSW Government's Statements of Significance for Millers Point note that 'the whole place remains a living cultural landscape greatly valued by both its local residents and the people of New South Wales' – indicating that loss of the social housing under the NSW Government's plan would be a net cost to the state.

However, it is worth pointing out that the social history of the area is gradually being lost as long term residents are ageing and as new tenants without links to the area move in. This would need to be considered under the base case.

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#### **Potential for loss of heritage value due to no maintenance investment before properties are sold**

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As detailed in the benefits section above, there is a small possibility that some housing will be damaged beyond repair under the NSW Government's plan due to maintenance neglect for up to two years before their sale to private owners. If this were to occur, it would be counted as a marginal cost from moving from the base case to the option case, although in reality is likely to be insignificant in a full cost benefit analysis.

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#### **Loss of heritage value if social housing is demolished, neglected or significantly changed by private owners**

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As described in the benefits section, there is the possibility for a developer to buy all properties under one title and for a redevelopment proposal for the group of assets to be assessed under a State significant development pathway. This would demote the individual heritage listings on certain properties to being 'advisory' status only in the decision-making process.

Although there may be benefits associated with increasing housing supply in the area, the cost under the NSW Government's plan from demolition or significant change to the historic dwellings would be an impact on the heritage character of the area. National Trust staff suggested that the properties along High Street (shown in Figure 23 and constructed between 1900 and 1949) are expected to be at greatest risk of redevelopment, given their condition, harbour views and location next to Barangaroo.



**FIGURE 23. LOCATION AND TITLE STRUCTURE OF HIGH STREET PROPERTIES**



Source: Six Maps, 2014

Additionally, the Heritage Handbook provided by the NSW Government to prospective buyers of the properties in Millers Point and The Rocks confirms that there will be no requirements for buyers to undertake specific repairs and works as a condition of purchase, other than basic maintenance. This is in contrast to the requirements for the 2008 sale of properties, where buyers of long term leases were required to fund conservation works within two years and then additional works thereafter in keeping with the Conservation Management Plan schedule of works. Buyers also paid a heritage bond and were required to use approved heritage professionals to design and certify works, as well as being subject to compliance checks (Sydney Morning Herald 2014).

As a result, there is a risk under the NSW Government's plan that private buyers will not make the required investments in maintenance to preserve the houses' heritage values, or that the works undertaken are of poor quality or an inappropriate nature. This is likely to affect the heritage value of the area in the longer term.

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#### **Costs to residents arising from increased building works in the area**

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The NSW Government's plan would likely lead to new costs to local residents from building works, such as construction noise and dust, traffic impacts and so on. These would arise thanks to the assumed higher levels of maintenance expenditure on the housing stock by private owners, as well as if new housing were to be built in the area (as discussed above).

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#### **Negative impact on NSW Government's reputation**

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Some residents of Millers Point and The Rocks may choose to voluntarily relocate to social housing in other locations where it suits their circumstances or to minimise stress. However, there are others who will not want to leave, and a perception of uncompassionate treatment of these tenants may be damaging to the state's reputation on a domestic and international basis; for example, if forceful relocation of elderly tenants is undertaken and publicised.

Kim Boettcher from the Sydney-based Aged-care Rights Service has raised the relocations of social housing tenants from Millers Point and The Rocks at a United Nations aged care conference, held in New York on the 31<sup>st</sup> of July 2014. This led Edwina Lloyd (selected as the Australian Labor Party candidate for Sydney) to suggest that 'if the sale of Millers Point residences continues, it will damage the state's reputation as a modern, progressive and caring society that takes the rights of older people seriously' (Sydney Morning Herald 2014).

This could have some related impacts in terms of inward investment, tourism and so on, although the impact is likely to be at most minor, and a full economic appraisal would likely limit this to a qualitatively described effect if relevant.

### 3.3 Marginal benefits

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#### Lower health costs from relocation of some tenants to more appropriate properties

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Due to their age, some of the Millers Point properties are not BCA compliant and do not meet accessibility standards. They are therefore less suitable for elderly tenants in particular, who may face a health risk 'due to steep and narrow stairs and other trip hazards' (Cred Community Planning 2013). The relocation process provides an opportunity for these tenants to move to newer and more suitable social housing, with the NSW Government suggesting that people with mobility problems will generally be offered accommodation that has a lift or is on the ground floor. This is likely to lead to a lower risk of accidents for these tenants compared to the base case of remaining in their current properties. Again, this benefit will apply only to current tenants of housing that is inappropriate for their needs. This is not likely to include the residents of the Sirius building.

#### Improved protection of heritage properties due to private ownership

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It is vital to note at the outset that by no means all the properties proposed for sale under the NSW Government's plan are either of high heritage significance, or indeed have high maintenance requirements.

Nevertheless, although many social housing tenants in properties with high historic importance have spent money on addressing maintenance issues themselves, their capacity and motivation to do larger renovations is limited and the NSW Government's social housing maintenance budget has been clearly constrained. The state's past<sup>8</sup> and ongoing neglect of those valuable historic properties in Millers Point and The Rocks, including leaving them vacant in some cases, has no doubt had a significant impact on their condition and heritage value. Indeed, the government recognises that 'the heritage values of Millers Point terraces are diminished daily' as a result of limited spending on repairs and maintenance (Sydney Morning Herald 2014).

The levels of historical significance of properties in Millers Point and The Rocks are shown in Figure 24 below.

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<sup>8</sup> The Social Impact Assessment notes that residents interviewed as part of the Oral History Project of the area remembered 'frustrations with maintenance' following Housing NSW's acquisition of the Maritime Services Board properties in the early 1980s, while Pru Goward MP in an opinion piece for the Sydney Morning Herald noted that 'the former NSW Labor government, captured by inertia in its final years, left terrace houses in Millers Point run down and vacant'.

**FIGURE 24. LEVEL OF HISTORICAL SIGNIFICANCE**



Source: Housing NSW Conservation Management Guidelines, 2007

The base case of maintaining heritage properties as social housing, with very limited maintenance expenditure in perpetuity on occupied dwellings and none on vacant dwellings, is therefore likely to lead to 'further degradation of these heritage properties and loss of social history and pride in this significant area of NSW' (Cred Community Planning 2013). This ongoing and accelerating decline would be a significant cost to the state's community given the heritage significance of the area's housing.

Moving to the NSW Government's plan is likely to result in benefits for social housing with historic value, since sale of this stock to private buyers may mean that more money is spent on renovations, in turn improving the houses' longevity and preserving them for future generations. This could potentially be captured in a CBA framework through a higher residual value for the stock in question or through the community's willingness to pay for heritage protection. It is important to note, however, that not all properties proposed for sale have significant individual heritage value, and that this benefit will only apply to those that do. In addition, the lack of stringent controls

requiring buyers of heritage properties to invest in maintenance may mean that some houses suffer further neglect and deterioration under private ownership.

There may, however, be some nuance to consider in terms of the timing of sale of these properties. The benefit of moving from the base case to the NSW Government's plan is clearer for the vacant heritage properties, which go from having no maintenance expenditure to a reasonable assumed amount. However, the situation is less clear for the occupied heritage properties, which would have insufficient spending each year under the base case. Under the NSW Government's plan, they would have up to two years of no expenditure while retained by the state during the tenant relocation and sales period, and then a subsequent investment by the private owners in the medium and longer term<sup>9</sup>.

Nevertheless, a significant benefit overall in terms of heritage would be expected when moving from state ownership of properties with heritage value to private ownership.

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### Benefits arising from the improved condition of NSW's social housing stock

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Under the option case, sale of the social housing properties in Millers Point and The Rocks will generate significant new revenue for the NSW Government to be reinvested in the social housing system. It is assumed that some of this will go towards property maintenance of the state's social housing stock. This will benefit the tenants of properties for which the government will invest more in maintenance than would otherwise be the case under the base case (where Housing NSW is financially constrained to a greater extent). For example, there may be health benefits if issues such as damp are more promptly treated, mental health benefits from living in a property in better condition, and social benefits from neighbourhood improvements such as improved fencing and replacement of broken windows.

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### Likely productivity benefits from change in resident profile

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The NSW Government media release relating to the sale of social housing notes that 'half of all public housing tenants in Millers Point are of working age (18-59), but 94% of tenants claim Centrelink benefits as their primary source of income'. It is unclear as to whether the income data refers to tenants of Millers Point, or to tenants of the NSW social housing system more generally<sup>10</sup>. Nevertheless, it is plausible that a relatively high proportion of tenants in the area's social housing are unemployed, although the base case could consider the chances of these tenants finding future employment given the area's good access to opportunities.

There are many benefits to the existing social housing residents from living in Millers Point and The Rocks but nevertheless, buyers purchasing the houses at a market rate and living in the area are more likely to be employed than current social housing tenants. This could lead to two main benefits under the NSW Government's plan<sup>11</sup>:

- Since SGS research suggests that over half of all jobs across metropolitan Sydney are accessible within 45 minutes by car or an hour by public transport, this change in the resident profile is likely to result in productivity benefits for the economy (in that residents will have more opportunities to find jobs that match their skills, and firms will have a greater pool of available potential labour within reasonable commuting distance).

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<sup>9</sup> A heritage assessment of individual properties might be appropriate for undertaking a full economic appraisal, to assess the risk of these houses being irreparably damaged by up to two years of complete neglect under the NSW Government's plan. This would allow the framework to consider how the different treatments of maintenance over time in the base and option cases affect the heritage values.

<sup>10</sup> The implication is that it is the former, but it seems it may be a broader statement for NSW based on the Audit Office of New South Wales report, *Making the best use of public housing*, which suggested that 'At June 2011, 94% of public housing subsidised tenants received a Centrelink benefit as their main income'. It would be a coincidence if the tenant profile of the Millers Point social housing residents matched the state profile this exactly.

<sup>11</sup> The argument assumes that there's an iterative movement of resident workers as a result of the new private housing supply in the inner city. People who otherwise might have lived in, say, Leichhardt, will move into Millers Point, freeing space in Leichhardt for people who otherwise might have lived further out in Strathfield, and so on. In this way, there is an aggregate impact of particular benefits.



- Travel time savings are likely to result from people being closer to their work (not to mention possible reductions in car use and the resulting social and environmental benefits from greater opportunities to use public transport).

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#### Potential for significant increase in well-located housing in the area

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The arrangement of many of the terraced dwellings is unusual (and reflective of the area's history), in that, in many cases, there are multiple homes listed under one title. This is shown in Figure 25 below. The NSW Government's plan to sell all stock within a short timeframe may enable all dwellings under one title to be purchased by a single new owner. The buyer in turn could then redevelop these dwellings if it were argued that the buildings were too run down to be rehabilitated. Redevelopment plans would then be assessed under a State significant development pathway (in which the heritage protections for many of the buildings become just an advisory factor in the decision making rather than a requirement). The Sirius building also may be redeveloped if purchased by an investor or developer.

Such redevelopments would be expected to increase the supply of much-needed housing in a well-connected and serviced area, leading to benefits for society associated with infill development. These include saving land on the urban fringe, infrastructure cost savings, and labour productivity benefits.

**FIGURE 25. EXAMPLE SOCIAL HOUSING TITLE STRUCTURES IN MILLERS POINT AND THE ROCKS**



Source: Six Maps, 2014. L-R: Windmill Street, High Street, Dalgety Road, Sirius building

### 3.4 Summary of costs and benefits

Costs	Summary
Cost of organising and processing property sales and relocating social housing tenants	There will be one-off costs under the NSW Government's plan for relocating tenants (such as case workers and removalists) and for selling the social housing properties (such as marketing and transaction expenses).
Maintenance expenditure by existing social housing tenants and new buyers	Under the base case, the NSW Government will fund some maintenance of the social housing in Millers Point and The Rocks, and tenants may also invest in minor repairs. Under the NSW Government's plan, the amount spent by the new owners on maintenance and upkeep of their properties will be included in the appraisal, which is likely to be higher.
Costs to residents and the state from tenant relocations and community break up	The NSW Government's plan is likely to result in physical and mental health costs for relocated social housing tenants, particularly those who are elderly or with long histories in the area. There may also be higher costs for the state due to an increased need for community and health services in residents' new locations.
Health costs arising from the lack of maintenance investment in properties before sale	Under the NSW Government's plan, there is a commitment to funding no further maintenance on the social housing before it is sold. This may result in short term costs to tenants' health and wellbeing before their relocation, such as a higher rate of accidents.
Costs arising from loss of social housing stock in the inner city	Any replacement of the social housing stock sold from Millers Point and The Rocks is likely to be in middle ring suburbs, which would mean that there are fewer housing options available in the inner city for people on lower incomes in the NSW Government's plan. This could lead to a worsening spatial divide and inequality across the metro area, and lack of suitable housing for 'key workers' in particular could impact on the city's functioning and economic productivity. While no net loss in social housing (that is, one for one replacement of sold stock) was assumed for this analysis, if this were to occur, there would also be a loss of utility for social housing tenants who otherwise would have had access to housing and likely health and social costs to the state.
Loss of heritage significant aspects of Millers Point and The Rocks due to tenant relocation	Heritage assessments of the area note the importance of its social housing provision and 'living cultural landscape'. Relocating the social housing tenants may therefore be a cost to the state under the NSW Government's plan, although the base case would need to consider that the social history of the area is gradually being lost as long term residents are ageing.
Potential for loss of heritage value due to no maintenance investment before properties are sold	There is a small possibility that some housing will be damaged beyond repair under the NSW Government's plan due to maintenance neglect for up to two years before their sale to private owners.
Loss of heritage value if social housing is demolished, neglected or significantly changed by private owners	Under the NSW Government's plan, an investor or developer could purchase multiple heritage properties under one title for redevelopment. Demolition or significant change of these properties may impact on the heritage character of the area. Likewise, the lack of a requirement for buyers to undertake necessary repairs and maintenance of heritage properties may lead to further worsening of their condition and heritage value, for example if they are land banked by speculative investors.
Costs to residents arising from increased building works in the area	The NSW Government's plan would likely lead to new costs to local residents from building works due to higher levels of maintenance or any redevelopment of stock. These costs might include construction noise and dust and traffic impacts.
Negative impact on NSW Government's reputation	There may be a minor impact to the state's reputation if there is a perception of uncompassionate treatment of social housing tenants in Millers Point and The Rocks, particularly those who are elderly.

Benefits	Summary
Lower health costs from relocation of some tenants to more appropriate properties	Some of the Millers Point social housing properties are less suitable for their elderly tenants, for example due to steep stairs. The relocation process provides an opportunity for these tenants to move to newer and more suitable housing that meets accessibility standards, which could lead to a lower risk of accidents for these tenants.
Improved protection of heritage properties due to private ownership	There are many properties in Millers Point with high historic importance. Under the base case of continued state ownership, the limited spending on repairs and maintenance will lead to a decline in the condition of these houses with associated community costs. The NSW Government's plan of private ownership of these heritage properties may mean that more money is spent on renovations, in turn improving the houses' longevity and preserving them for future generations. This could potentially be captured in a CBA framework through a higher residual value for the stock in question or through the community's willingness to pay for heritage protection. However, there may be a risk to the properties' heritage condition under the NSW Government's plan from up to two years of no maintenance before their sale, and the lack of a schedule of compulsory works and repairs as a condition of purchase by buyers.
Benefits arising from the improved condition of NSW's social housing stock	It is assumed that at least some of the sales revenue under the NSW Government's plan will go towards property maintenance of the state's social housing stock, benefitting the tenants of properties for which the government will invest more in maintenance than would otherwise be the case under the base case (where Housing NSW is financially constrained to a greater extent).
Likely productivity benefits from change in resident profile	New private buyers living in the area under the NSW Government's plan are more likely to be employed than current social housing tenants. This could lead to benefits in terms of the economy's productivity (in that residents will have more opportunities to find jobs that match their skills, and firms will have a greater pool of available potential labour within reasonable commuting distance) and travel time and environmental savings from people being closer to their work.
Potential for significant increase in well-located housing in the area	In many cases, there are multiple social housing properties listed under one title in Millers Point and The Rocks. The NSW Government's plan of selling all stock may enable all dwellings under one title to be purchased by a single new owner for redevelopment. A redevelopment is likely to be at a higher density than the existing stock and therefore would increase the supply of much-needed housing in a well-connected and serviced area. This would lead to benefits for society such as saving land on the urban fringe, infrastructure cost savings, and labour productivity benefits (although with potential costs if the properties have heritage significance).

## 4 AN ALTERNATIVE APPROACH

The previous section identifies the costs and benefits of the NSW Government's plan to sell all social housing in Millers Point and The Rocks from the perspective of NSW society. From this analysis, we believe there may be an opportunity to identify an alternative and sustainable approach to housing in the area, which takes a wider strategic perspective (not just that of an individual government agency) and could have a broader application in informing an overall approach to NSW social housing stock management and disposal.

This approach could incorporate the following elements.

- **Maintaining some social housing in the area where stock has low maintenance requirements**

The proposed 'one size fits all' plan of selling all social housing in Millers Point and The Rocks is likely to lead to an inefficient outcome, given the differences in the suitability of the various properties for use as social housing. The obvious examples are the Sirius development and housing on Kent Street built in the last decade, which are highly appropriate for continued use as social housing given their low maintenance costs and appropriate design, with small and accessible apartments that align well with the household size of most of the social housing tenants in the area and the changing profile of Housing NSW's current tenant base and waiting list. The financial and welfare costs of relocating the tenants of suitable properties such as these are likely to be significant in an economic appraisal.

- **Replacing all lost social housing stock, preferably within the inner city area**

Given the long waiting list for social housing and increasing need, there would be a significant cost to NSW if sale of all social housing in Millers Point and The Rocks resulted in a net loss of total stock across the state. We have assumed for this analysis that this is not the case. Ideally, there would be a clear commitment to replace all social housing that is lost from the area in mixed tenure developments and in areas best connected to employment, transport and services.

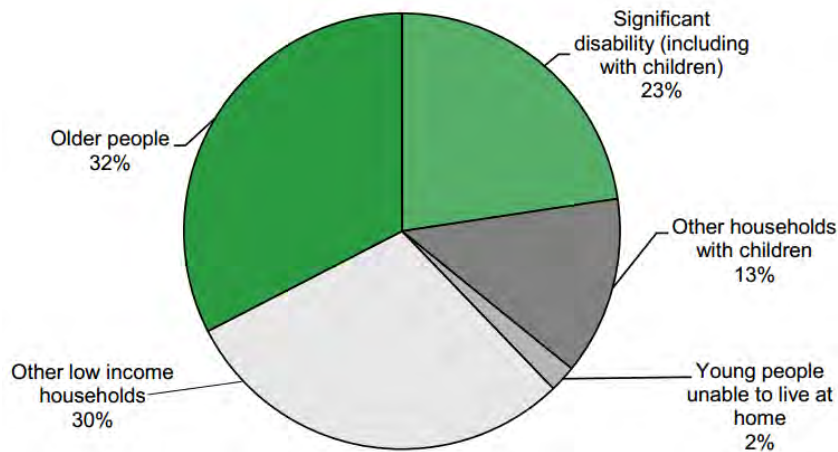
Furthermore, there would be advantages from locating most (if not all) of the replacement stock in inner city areas. Chapter 2 of this report discusses the increasing inequality across metropolitan Sydney. Although replacing lost social housing stock in middle ring suburbs is a more cost effective approach for the NSW Land and Housing Corporation, it is likely to have wider economic effects in terms of exacerbating the city's spatial divisions and reducing the housing available for those on lower incomes in well serviced locations, and key workers in particular who are vital to the efficient functioning of the city.

- **Investing in a purpose-built facility to house elderly long-term residents of the area**

As noted by the Audit Office of NSW, 'over the past decade there has been a significant increase in single person households, tenants with significant disabilities, and elderly tenants', with projections (shown in Figure 26) that by 2021 around a third of all social housing need will be from older people.



**FIGURE 26. PROJECTION OF ALL SOCIAL HOUSING NEED (2021)**



Source: Audit Office of NSW 2013, from Housing NSW March 2012 (modelled in 2008)

The current stock is unsuitable for these changing tenant needs (and is often under-occupied as a result), with 'much of the public housing stock consist[ing] of larger properties while the greatest demand (and rising) is for smaller and accessible dwellings'.

The opportunity to invest part of the proceeds from the sale of stock in Millers Point and The Rocks into construction of an accessible and purpose-built social housing complex in the area should be considered. This approach would:

- contribute towards addressing the issue of the changing tenant profile of social housing tenants, more efficiently using the state's social housing stock
- ensure a social mix in the area in terms of demographics (assuming that many of the new residents to the area will be of working age, in line with the pattern across the City of Sydney LGA)
- result in broader economic benefits from allowing residents to age in place in a supportive and familiar community, in terms of reduced reliance on state-provided support services, avoided health costs and so on
- maintain the important linkage between longer term social housing tenants and the local area, recognised as a significant and valuable factor in various heritage assessments of the area.

This could be achieved most cost effectively through use of existing government owned land, for example the site behind the Darling House aged care facility owned by RailCorp<sup>12</sup> shown in the map in Figure 27 below.

<sup>12</sup> According to the land register documented by City of Sydney (site DP124243)

**FIGURE 27. POTENTIAL SITE FOR SENIORS SOCIAL HOUSING (INSET SHOWS TITLING)**



Source: Six Maps, 2014

– **Increasing provision of affordable housing in the area**

Given the low level of affordable housing supply within the City of Sydney LGA (only 1% of housing stock is counted as 'affordable' for those on low to moderate incomes, against a target for 2030 of 7.5%), and rising housing costs and social housing constraints increasing demand, there would appear to be a case for gifting some housing in Millers Point and The Rocks to community housing providers for affordable housing.

These properties should not be those with the highest suitability for retention as social housing, or those offering the potential for the highest sales returns. They should have reasonable maintenance costs that the community housing provider can meet. This would ensure that the properties' future as affordable housing is viable and enable stock to be effectively leveraged for increasing future supply. The recommendation in the Social Impact Assessment that the NSW Government 'consider innovative models of community housing including housing cooperatives, mixed tenure housing (such as the Camperdown Project, Common Ground model), and Community Land Trusts' is also reasonable.

This approach would:

- cater for lower-income workers essential to the city's functioning, potentially providing economic productivity benefits
- ensure a more demographically mixed area, in line with the objective in the *Housing Act 2001* to 'encourage social mix and the integration of different housing forms in existing and new communities'
- continue the history of Millers Point and The Rocks as providing housing for lower-income working families.

Transferring the tenure to community housing providers outright or on long term leases (for example, of 30 years or more) would also allow them to leverage an increased asset base and thereby fund new development elsewhere, increasing the state's total stock of affordable housing and providing economic benefits to tenants.

– **Considering the area's social mix in a broader precinct planning exercise**

Neither the base case of maintaining all social housing, nor the NSW Government's plan of selling it all, could be argued as providing a good social mix in the local area. The base case has a high concentration of social housing (albeit that this is well functioning and may only raise concerns in future as the social housing tenant profile changes) and an increasingly ageing population. The NSW Government's plan is likely to lead to new higher income

residents and a demographic profile heavily skewed towards residents of working age, further homogenising the profile of the City of Sydney LGA.

The approach suggested above of providing a variety of housing types in the area would develop a community of mixed age, background and income, which has long been suggested in urban literature as beneficial. It is also in line with the Housing NSW *Conservation Management Guidelines* (2007), which stated that ‘in determining use of its buildings in Millers Point, LAHC should have regard to the community and social significance of the area to maintain a sustainable and diverse community’.

#### – Offering long leases to the market on properties that are suitable for sale

In some cases there is a clear economic case for selling social housing in Millers Point to private buyers. This includes housing, for example, where the costs of upkeep are untenable for Housing NSW and there will be heritage benefits to transferring the stock to owners with the capacity to invest in meeting maintenance needs. It also includes housing for which there is the highest potential for raising revenue that can be reinvested in the NSW social housing system, and this outweighs the strategic costs to the NSW community that may result from divestment.

Where asset sale is appropriate and in keeping with a broader precinct strategy, it would make sense to sell long term leases rather than selling outright (as when 99-year leases were sold by the previous NSW Government in 2008). This may result in some additional protection of the heritage buildings but more importantly means the NSW Government on behalf of its citizens retains the option value for how to use such properties in future.

## 4.1 The proposed approach and an alternative

Given the costs and benefits described in the previous section, it appears that there are a number of elements of the NSW Government’s plan that could be amended, at least to some extent, in order to maximise the benefits and minimise the costs to NSW society from the sale of social housing stock in Millers Point and The Rocks. These are discussed in the table below.

The NSW Government plan	An alternative approach?
1 Committing to selling HSNW stock outright in a short timeframe (although staged)	Investigate refinements around the sales staging to protect historical pockets of the area from development where appropriate, to assess where there may be opportunities to increase housing density, and to allow flexibility to sell when properties have optimal sale price to ensure financial returns to government are maximised. Consider selling long term leases to retain state ownership of assets rather than outright sales to private buyers.
2 Re-prioritising the social housing waiting list to recognise Millers Point tenants as a high priority	Provide a clear commitment to replace lost social housing stock, preferably within the inner city area, to reduce the costs to those displaced from the top of the social housing waiting list, so as not to worsen Sydney’s spatial inequality.
3 Requesting all tenants to leave in two years	Allow older residents to remain in the area if they choose, either staying in their homes where these are suitable or accommodating them in more appropriate purpose-built seniors housing in the area. This strategy would allow them to keep their social connections and community support and likely lead to lower health costs for the state. It would also increase the stock of appropriately sized smaller dwellings for an ageing population in NSW.
4 Treating all stock as the same, irrespective of the heritage value of individual properties, their age, suitability for social housing, and maintenance requirements	Investigate a more nuanced approach to the future of individual dwellings, considering their suitability for social housing and the potential for stock to be transferred to community housing providers for use as affordable housing (which is significantly underprovided, particularly in inner city areas). Developing a more refined solution is likely to require additional consultation and analysis by government, but would lead to an improved social mix and provide a diversity of housing close to jobs in the inner city (with potential productivity benefits). Introducing requirements for buyers of houses with heritage value to undertake appropriate and necessary repairs and maintenance as a condition of purchase would ensure the area’s heritage values are protected.
5 Treating all tenants as the same, irrespective of their connections to the area, age, support networks and so on	Provide suitable local accommodation for those tenants wishing to remain in the area, particularly the elderly. Almost 20% of the social housing residents of the area have been there for more than 20 years and some have connections to the area going back generations through the Maritime Services Board. The Social

The NSW Government plan	An alternative approach?
6 Providing no commitment to further maintenance	<p data-bbox="644 275 1364 405">Impact Assessment states that the possible negative health and wellbeing outcomes for residents with long-term or generational connections to the area have been ‘clearly noted through engagement and other social research’. These include ‘the stress of moving, distress of losing their existing social network and local services, and anxiety of trying to build new social connections in a new area’.</p> <p data-bbox="644 432 1364 663">The older residents of the area are likely to be most affected by the changes, with nearly 50% of all residents aged over 60 and 9% over the age of 80. The NSW Government noted that Millers Point properties are not suitable for ageing residents, and older people will therefore ‘as far as possible, be offered in their choice of locations outside Millers Point, in properties that more closely match their housing needs’, with relocation assistance by officers from Ageing, Disability and Home Care. However, the health and social costs for these residents could likely be lessened by relocations to more suitable accommodation in the local area.</p> <p data-bbox="644 689 1364 920">Investigate the individual maintenance requirements for the different social housing properties. Committing to the required maintenance for social housing in Millers Point and The Rocks would have a significant impact on the NSW Government’s ability to fund the broader social housing system, which is a clear argument in favour of sale for some of the dwellings. However, not all properties will have the same level of maintenance backlog or future requirements. The sale of properties with the highest costs should be prioritised, to allow their new owners to invest in protecting their heritage value, while those with lower costs would be well suited to stay as social housing.</p> <p data-bbox="644 947 1364 1131">Fund the required maintenance for properties from which tenants are unlikely to be relocated immediately, in order to minimise the chances of housing stock being damaged (meaning fewer heritage impacts where these are historic properties and a higher sales price for government) and the impacts on tenants’ health and wellbeing. Interest in the area might allow innovative fund-raising methods to be considered, such as crowdsourcing. There may also be volunteers willing to provide subsidised materials or labour.</p> <p data-bbox="644 1158 1364 1261">Sell vacant properties immediately if there isn’t funding available for their repair, since ongoing neglect leads to the ‘deteriorating appearance of the neighbourhood and also issues around damp, termites and other maintenance problems impacting on the other properties’ (Cred Community Planning 2013).</p>
7 Selling stock to the highest bidders	<p data-bbox="644 1288 1364 1442">Investigate options to maintain some social housing in Millers Point and The Rocks. Sale of some of the area’s social housing would bring benefits in terms of immediate one-off financial revenue for government, and likely productivity and heritage benefits thanks to the new residents to the area. However, it would appear to make sense to keep some social housing in the area, and to transfer some properties to affordable housing providers. This approach:</p> <ul data-bbox="644 1469 1364 1653" style="list-style-type: none"> <li>– allows a gentler transition for the community</li> <li>– would preserve Millers Point’s ‘social significance’ and ‘living cultural landscape’</li> <li>– maintains links to the area’s working class past</li> <li>– provides housing for people on lower incomes, including key workers, in the inner city (with potential benefits in terms of social mix and the efficient functioning of the city).</li> </ul> <p data-bbox="644 1680 1364 1834">In particular, allowing the long term residents with connections to the area to remain would minimise the loss of the social heritage aspects of the Millers Point social housing in the short term. The long term residents would not necessarily need to stay in their current properties – there may be more appropriate accommodation already in the area or that could be built from the sales revenue to house these tenants.</p>

# APPENDIX: HOUSING AND QUALITY OF LIFE

This section reviews the Australian and international evidence regarding the links between housing, social mix and community well-being, drawing on previous SGS work.

## What is social mix?

Underpinning the desire for a creative and vibrant city is the assumption that social, cultural, demographic and housing diversity are vital to achieving this goal. This is because diversity is thought to produce increased social inclusion, quality of life outcomes, and economic participation, and improved health and well-being. Indeed, orthodoxy exists that diversity is considered to be a way to achieve growth, social equity, innovation, and productivity.

This evidence has a long legacy within the urban studies and planning literatures. Much of this work stemmed from the influential writings of Jane Jacobs (1961) who argued that diversity leads to mutual support, interactions and mixed uses within urban spaces. This led to, in Jacobs' estimation, productivity gains. More contemporaneously, Richard Florida (2001) has expanded on the Jacobs approach and claims that diversity stimulates creativity.

Other researchers examining the links between economic productivity and diversity are divided. Much of the recent literature has focused on diversity as shorthand for ethnic concentrations. The thesis espoused is that concentrations of ethnic groups within cities creates diversity and encourages entrepreneurialism. Lee (2011) for example suggests that ethnically diverse cities create innovation through interaction, tourism opportunities, and entrepreneurship amongst ethnic groups.

Within urban theory, diversity has always been assumed to be a catalyst for advancement. Glaeser and Mare (2001) have argued that diversity leads to increased consumption within cities, while Fincher and Iveson (2008) have suggested that ethnic diversity can create more meaningful social exchanges within cities.

In contrast to urban theory, planning theory and practice has historically aimed to bring order to urban spaces, thus creating homogenous places, where diversity has been eroded or planned away. However, more contemporary planning and urban literature has begun to explore the value of encouraging diversity within our cities. This section examines the evidence about whether diversity can have measurable and demonstrable positive outcomes.

## Defining socially mixed or diverse communities

The term diversity will be used to describe both the mix of demographic characteristics of a community and/or the mix of housing tenures and types.

Thus, a definition of diversity includes the following two components:

- demographic diversity: the assembly of households who have a range or diversity of demographic characteristics. As such, an area with low diversity is fairly homogenous (Arthurson 2010; Berube 2005, p.4).
- housing diversity: the assembly of households who have a diverse range of tenures. Tenure mix includes the balance of private and public rental housing as well as homeownership (Arthurson 2010, p.50).

In more contemporary literature the term diversity has been used to refer to ethnic or racial diversity. This is a term more widely used in the US and the UK literatures, but the use of diversity as shorthand for ethnic concentrations is very narrow and has therefore been excluded from this review.



## What are the outcomes of socially mixed or diverse communities?

To date, the evidence regarding the social outcomes of socially mixed or diverse communities is minimal. There are, however, three related literatures that provide evidence about the risks of not pursuing diversity, either in terms of housing mix and/or demographic mix. These three literatures include:

- locational disadvantage and social mix policy response
- gentrification
- social polarisation.

All of these literatures point directly to the need for a sophisticated understanding of the impacts of urban and social policy on housing affordability and its impact on diversity. The contemporary shift to planning for, or with, diversity in mind has its heritage in the locational disadvantage, gentrification and social polarisation literatures. The interest among governments around diversity has also been influenced by the impact of global migration, which has seen a growth in ethnic communities within our cities.

Typically, governments, researchers, academics and policy officials consider homogenous (and impoverished) communities to be an indicator of social isolation and decay. As such, creating communities of diversity has been a primary policy response in dealing with the negative social and housing outcomes within disadvantaged communities. Creating socially mixed or diverse communities represents a counter hypothesis to problems within cities.

### Locational disadvantage and social mix policy response

The first set of evidence that can contribute to a wider understanding of the social implications of housing is found within the locational disadvantage research. Locational disadvantage literature emerged from government concerns, both in Australia and internationally, with poverty and disadvantage within public housing estates in the 1980s and 1990s (Arthurson 1998, 2002, 2004; Darcy 2010; Randolph 2004; Randolph et al. 2010; Ruming et al. 2004).

Areas of locational disadvantage have been characterised as having high crime rates, high rates of poverty, low levels of employment, high ethnic or racial concentrations, and poor levels of health. The main policy response by governments was to undertake strategies of social mix. As such, social mix has been considered one mechanism used to disperse people living within economically and social deprived environments, and to undertake urban regeneration in areas of 'decay'.

Social mix, as undertaken by governments to address locational disadvantage, has been based on two fundamental assumptions:

- People from disadvantaged communities will benefit from living in close proximity to people of relative advantage. However, the national and international evidence has found that people in diverse communities lead separate lives and little social mixing occurs (Fauth et al. 2008, p.121).
- Choice of housing products through market-led approaches provides increased housing choices for low income households. However, Cameron (2006) suggests that the provision of diverse housing products does not necessarily benefit low income households.

While the social mix policies have shown some positive impacts, this evidence is based on taking people living in conditions of disadvantage and relocating them to more affluent areas or transforming the tenure mix within areas. To date, there is little evidence on the social outcomes of diversity within newly established areas. However, from the evidence base we can make some broad conclusions:

- Ethnic and tenure diversity can lead to tensions within communities, particularly when poorly managed (Levy et al. 2010).
- Tenure diversity can assist in the supply of affordable housing.
- Areas that are well resourced can create healthy, vibrant and connected communities. This is achieved through the creation of physically attractive environments with high levels of social inclusion and sense of belonging within the community.
- Tenure diversity can lead to demographic diversity.
- Tenure mix can be of benefit for some but can also increase social isolation and exclusion.
- Vibrant and regenerated areas can become attractive to high income groups and potentially place a location at risk of gentrification (Carpenter 2006). The solution posed by Carpenter (2006) is to ensure an appropriate supply and mix of affordable housing options exists.

## Gentrification

The second set of literature that can contribute to an understanding of the social outcomes of housing and diversity is found in the debates about gentrification. The gentrification evidence base is well established and has been widely researched both in Australia and internationally (Smith 1996; Smith and Williams 1986; Rose 1984; Beauregard 1986; Atkinson and Bridge 1986; Ley 1994).

Gentrification is commonly described as the process of residential movement into inner cities and the subsequent urban redevelopment of economically depressed areas (Randolph and Holloway 2005; Hamnett 2003). Atkinson et al. (2011) describes gentrification as the movement of higher income households into lower income neighbourhoods. In Australia, early examples of gentrification occurred in the 1970s and 1980s and were characterised as the process of transformation of inner city areas as a result of an influx of a new middle class.

The process of gentrification resulted in the forcing out of traditional working class residents. The housing transfer was from private renting to owner occupation and primarily involved an upward filtering of housing, and upgrading of old housing stock, not new housing developments.

More recent forms of gentrification occurred from the 1990s onwards and have been characterised by middle class, or upwardly mobile, groups relocating to inner city areas. This version of gentrification included renovations, but more importantly the construction of housing developments for new urban markets – renters and owner occupiers. These residents moving into the inner city were thought to be rejecting suburban values, and dominated by ‘yuppies’, bohemians, and childless couples.

The impact of this process has been an increase in house prices. Likewise, households with higher incomes have increased competition for housing resources. As a consequence gentrification has resulted in:

- decreased accessibility to affordable housing in areas of gentrification
- a lack of affordable private rental housing, specifically for those on low incomes, and the dislocation of lower income households or the ‘most vulnerable households’ (Atkinson et al. 2011, p2)
- loss of demographic and housing diversity within gentrified areas.

## Social polarisation

The final set of literature that can assist in understanding the implications of diversity and the social outcomes of housing in the city is that of social polarisation. This evidence base, like the two outlined above, is a well-developed both in Australia and internationally (Sassen 1991; Hamnett 1994; Fainstein et al. 1992; Stillwell 1995; Gibson et al. 1996; Murphy and Watson 1994). The literature also extends to understanding the implication of social stratification in cities and the spatial consequences, often referred to as socio-spatial polarisation.

Social polarisation refers to the gap of the population into the ‘have’ and ‘have nots’. This crude explanation seeks to broadly include the growing separation between the rich and the poor. This separation is also spatially manifest, meaning that within urban areas there exists locational segmentation according to incomes and wealth (Pahl 1984).

The impact of these social and spatial divisions has been a differentiation in access to affordable housing, resources and facilities, labour markets, and transport and infrastructure. These differentiations in access can, in some areas, exacerbate poverty and inequality in existing generations, but also contribute to intergenerational disadvantage.

According to Wulff and Reynolds (2010), house prices and rent levels are a main determinant of the social and spatial configuration of urban areas. The authors argue that a lack of diversity in housing (price and tenure) can make a city more polarised. The disadvantage that accrues from polarisation comes from a diminished access to services, programs and other economic functions of the city, and more importantly, it also restricts access by low income households to affordable housing in areas that are well resourced. As a result, social polarisation can result in a reduction in affordable housing and diminished diversity, both demographically and in housing.

## Measuring social mix or diversity

There are a number of indicators of diversity cited within the evidence base. For policy development purposes, diversity is divided into two types, each with different policy impulses.

Housing diversity (tenure)	Demographic diversity
<b>Tenure</b>	Age
Public housing	Birthplace
Private rental	Family type
Social or community housing	Income (type and quartile)
Home ownership	Employment
Shared equity	Education
	Household structure
<b>Housing type</b>	Rent/mortgage levels
Number of bedrooms	Gender
Apartment/Townhouse/House	

The indicators above provide some assessment of the demographic, economic and housing profiles of an area. It is important to note that these indicators do not necessarily indicate diversity, but simply a way in which diversity can be captured. The evidence base suggests that housing diversity is more likely to produce demographic diversity. A note of caution is that these measures of diversity do not provide any indicators of the level or depth of social cohesion within communities.

## Social outcomes of diversity

The evidence base does not, as yet, clearly establish a significant link between diversity and positive social outcomes. However, this may simply be a reflection of the direction of current and historical public policy which has focused on *problems* within the city (locational disadvantage, social and spatial polarisation, gentrification and displacement) rather than opportunities to optimise positive community functioning. These problems, which have been identified in the literature above, provide substantial evidence regarding the impact of government policy and planning on both households and the composition of cities. These impacts include the following:

- lack of planning for diversity can lead to income segregation within urban neighbourhoods (Barnes 2012).
- lack of affordable housing can result in locational disadvantage and social polarisation within the city.
- lack of affordable and diverse housing can create displacement of low income households.
- a segmented housing market can create a city which excludes some groups.
- a mix of housing and household types is critical to achieving demographic diversity within the city.

The evidence base provides information about the consequences of not carefully managing housing within urban environments. Likewise, Fainstein (1991) suggests that letting the market create diversity is unrealistic. She claims that it is impossible to predict or fully anticipate market tendencies, particularly as we are now operating within a global context.

## Defining and measuring community wellbeing

Wellbeing is generally understood as an individual's self-assessment or sense of their lives. This definition is inconclusive as are the methodologies used to measure wellbeing at either the individual or community level. For example, Rowley and Ong (2012) suggest that there are a number of ways to assess wellbeing – from a philosophical/normative to a macroeconomic framework. The authors suggest that a growing body of literature attempts to define and measure wellbeing through individual self-assessments of quality of life. This model of measuring wellbeing is therefore a subjective account and can include an assessment of happiness and life satisfaction.

The use of subjective accounts has been heavily critiqued in the literature, with suggestions that they are not valid measures and are unable to provide rigorous conclusions beyond the individual at a point in time. Much of the national and international evidence suggests that the use of subjective accounts can be best overcome using longitudinal data. The ABS (2001) regards longitudinal data as an important way of measuring a change in conditions over time. That is, are individuals or community measures of wellbeing getting better or worse over time?

The ABS (2001) and others (Burke and Hulse 2002; Rowley and Ong 2012; Dockery et al. 2010) have aimed to account for both the subjective and non-subjective measures of wellbeing. Burke and Hulse (2002) refer to wellbeing as non-shelter outcomes and include levels of financial stress, public housing/rental assistance levels, and workforce participation.

Rowley and Ong (2012) suggest that it is difficult to correlate indicators of diversity with wellbeing. For example, what impacts do education attainment and income levels have on wellbeing? The literature suggests that there are a range of other factors that are more influential on people's measures of wellbeing, such as family circumstances and relationships (such as partnering and divorce). Other measures of wellbeing include:

- financial wellbeing
- neighbourhood quality
- strong sense of community
- strong sense of identity
- being mentally and physically healthy
- being married and having good relationships
- being towards the top of the social ladder
- having satisfying or meaningful employment
- freedom, independence and the right to participate in political processes (Rowley and Ong 2012, p.22).

The City of Sydney developed 101 indicators and 161 measures to help track community wellbeing and sustainability, as well as progress against its *Sustainable Sydney 2030* strategies. The community wellbeing indicator framework considers social, economic, environmental, cultural and governance factors, with the data measuring wellbeing through a number of variables and including:

- healthy, safe and inclusive communities
- culturally rich and vibrant communities
- democratic and engaged communities
- dynamic, resilient local communities
- sustainable environments.

The ABS frames measures of wellbeing around a system of indicators and areas of concern, as shown below.

**TABLE 4. ABS FRAMING OF WELLBEING**

Aspects of life contributing to wellbeing	Areas of concern
Support and nurture through family and friends	Family and community
Freedom from disability and illness	Health
Realisation of personal potential through education	Education and training
Satisfying and rewarding work both economic and non-economic	Work
Command over economic resources, enabling consumption	Economic resources
Shelter, security, and privacy through housing	Housing
Personal safety and protection from crime	Crime and justice
Time for and access to cultural and leisure activities	Culture and leisure

Source: ABS, 2001

The information in the literature shows that there are a wide variety of indicators used to measure wellbeing. These measures aim to link economic and financial conditions with household demographics and health outcomes. The measures consistently used within the literature include:

- financial wellbeing
- health
- neighbourhood wellbeing
- financial stress
- housing tenure
- workforce participation
- self assessment of wellbeing.

## How do housing and social mix affect community wellbeing?

The following section further discusses the relationship between housing, social mix/diversity and community wellbeing.

## Relationship between health, wellbeing and housing

The connection between housing, health and wellbeing outcomes is not well established. As Mullins and Western (2001, p.5) suggest, while the correlation 'seems plausible, there is little direct empirical evidence to demonstrate'. The research by these authors used data from a South East Queensland Quality of Life survey which found that poor housing is directly related to:

- poor health, economic circumstances and mental health
- living in areas of high crime and poverty
- low educational attainment rates and success for children
- low levels on employment.

What these findings tell us is that poor housing and a range of poor health and wellbeing outcomes are simultaneously present. What this study and many others are unable to do is make *causal links* between poor housing and poor health and wellbeing outcomes. Waters (2001) examined the relationship between health and housing and found that:

- owner occupiers have better health outcomes. This is supported by more recent analyses by Foster et al. (2011).
- renters report poorer health status and higher rates of serious health conditions.
- overcrowded conditions are related to poor health and mental health for non-Indigenous Australians.

As such, there is a relationship between health and housing but causality has not been established.

Other mixed findings about the health, housing and wellbeing connections are that:

- areas of low income have been found to have high levels of community connection (Mullins and Western 2001; Stone and Hulse 2007).
- health outcomes may improve for people with poor health as they move into better housing. However, the magnitude of the change has been found to be small given the health status of disadvantaged households compared to the health of the general population (Mullins and Western 2001).

## What are the relationships?

AHURI has undertaken a number of projects since 2000 that seek to establish the links between housing and wellbeing. This body of evidence is the most significant body of rigorous Australian literature to date. Pibbs and Thompson (2011) outline that physical aspects of housing can be detrimental to health, and as such housing is considered one of the important determinants of health. This is due to its specific nature – it provides shelter but also access to a vast array of goods and services. These findings are aligned with those found by Waters (2001) and Foster et al. (2011) which demonstrate that tenure of housing (ownership, renting) is related to health. Stone and Hulse (2007) also found that social cohesion is improved through housing policy. For example, people with insecure tenancies are less likely to be connected to the local community or have a sense of belonging.

An AHURI project undertaken in conjunction with a range of partners found that:

- poor or precarious housing leads to poor health outcomes (the physical aspects of housing are more directly related to poor physical health outcomes)
- poor safety can lead to anxiety which impacts on mental health and wellbeing
- overcrowding can impact on mental health and wellbeing
- unstable housing (including insecure tenure and housing stress) affects mental health and wellbeing (Foster et al. 2011).

The report documented the specific links between precarious housing and health. The links between housing and wellbeing and housing and diversity are not well known and represent a gap in the evidence base. Other research, such as Dockery et al. (2010) has found links between children's development, wellbeing and housing, namely that:

- the physical structure of a house impacts on physical health
- homeownership and housing stability has positive impact on children's wellbeing, health, behaviour and academic performance
- poor neighbourhoods expose children and adolescents to health risks, poor education, poor access to services.

Dockery et al. (2010) reviewed the national and international evidence and also found that:



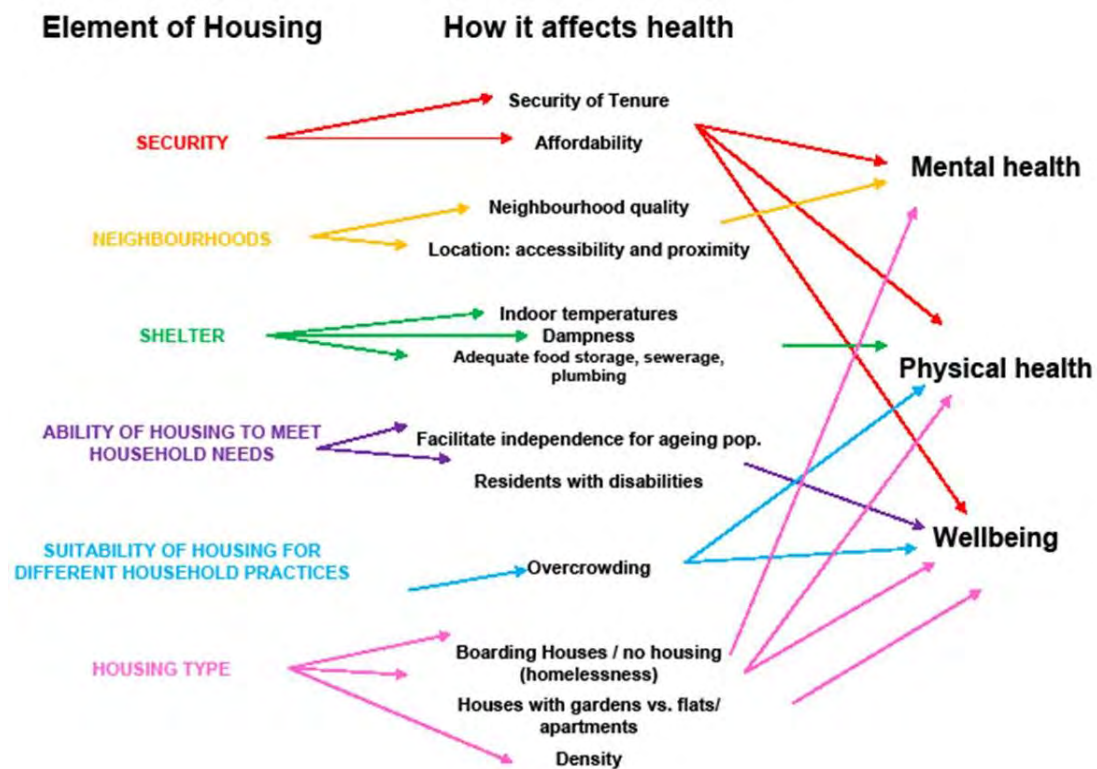
- many of the child development effects were carried into adulthood
- poor housing has different levels of impact according to children's ages. For example, respiratory illnesses related to poor physical conditions are more severe in young children. In contrast, older children are more vulnerable to the effects of neighbourhood dynamics due to the influence of peer pressure.

Dockery et al. (2010) caution that any attempt to identify causal relationships between housing, health and wellbeing outcomes is a fraught process. They argue that the data sets do not currently exist in Australia.

Marsh et al. (2000) in research from the UK found that housing deprivation leads to a greater risk of disability or severe ill-health. Furthermore, the authors found in their research that people who experienced poor housing as children were at greater risk of poor health outcomes as an adult. Those housing factors that indicated housing deprivation included lack of open space, overcrowding, and restricted access bathrooms, cooking facilities and hot water.

Other research by Saegert et al. (2003) found that improvements to the physical amenity of housing can lead to improved health. Foster et al. (2011) mapped the relationships between the elements of housing and the health effects, shown below.

**FIGURE 28. HOUSING AND HEALTH RELATIONSHIPS**



Source: Foster et al. 2011; p.11

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