

Transcript

Title: Densification and future decision-making for housing

Event: MTalks November Speakeasy

Year: 2019

Audio/video for this transcript available from: <http://commons.swinburne.edu.au>



Andi Nygaard

So my name is Andi Nygaard. I am part of the Centre for Urban Transitions at Swinburne, and I'm interested in housing markets, and in urban developments, and this topic, Densification and Future Decision-Making-- focused on a decision-making element of that more so than the pros and cons of densification, but that will come into the mix as well. I'll start off with a little introduction. Nicholas Gruen has already been introduced a couple of times today, so I'm going to jump over you.

Nicholas Gruen

- Who needs no introduction.

Andi Nygaard

[CHUCKLES] So he needs no further introduction. Stephen Glackin is my colleague at the Centre for Urban Transitions. Has done a lot of work on Greening the Greyfields and some of the practical sides of how we can get some densification going. And another colleague Trevor Kollmann, and he's at the Centre for Transformative Innovation-- CTI. An excellent urban economist and a man of my own heart. And Mark Burry, who also you will be familiar with already.

All right. So I'm going to start with my proposition, and you have to kind of take a couple of leaps of faith here. We all have to take leaps of faith when it comes to the future. But I'm going to start by saying that if densification is part of a solution to climate impact and to population growth, then shouldn't everybody be living more densely? And if everybody should be living more densely, how do we go about doing that? So we need to be giving positive reasons to do so.

And I'm going to qualify this proposition by saying that most cities-- not just in Australia, but certainly in developing worlds-- are facing a number of major challenges in terms of their urban transitions. One is Climate change and the environmental footprint. And this is a challenge, really, that potentially is both fundamental and transformative. Secondly, population growth. More people requires more of absolutely everything, including housing, roads, all of the infrastructure that support us, pubs-- like the Sloth Bar. We have the owner of the Sloth Bar here.

Stephen Glackin

Thanks for the plug.

[LAUGHTER]

Andi Nygaard

But then we need to do this in a just and equitable manner as well-- so just cities. We need to deal with the issues of climate change and population growth in a fair and equitable manner. So the way

out of this is very complex, it's very uncertain, and, above all, it's not at all clear that the way we go about making decisions in our cities today is actually providing a way forward and out.

So into this mix comes residential densification. It's sometimes held up as a smart way of moving forward. It avoids the urban sprawl, which then might reduce traffic. It might reduce the environmental footprint of our cities. We can use it as a means to provide more environmentally-friendly stock-- so housing stock.

We can use it as a means to get rid of some of the less environmentally-friendly housing that we have. You might even want to call them climate-hostile housing. And we can provide more living space on less land. So these are all good things, if you will, but there's lots of opposition. There's lots of opposition for lots of good reasons, there's lots of opposition for bad reasons as well.

One of the, to me, disturbing things about the opposition to densification is that it is benefiting insiders. So those who already have housing and land are benefiting from the opposition to densification. So they benefit from increases in property values and in land values that sit below climate-hostile housing, if you will.

Outsiders, people like myself who have moved to Melbourne-- so we are migrants-- and people who are setting up households for the first time, they're moving out of their parents' home and trying to buy somewhere-- so new residents to the city-- these are the people who are carrying the costs. They are the ones who have to live in what is often poorly-designed, small and poxy apartments, and paying very high prices for doing so.

So there are pros and cons to this, but I suppose it leaves us with two aspects when it comes to decision-making. One is the individual, and one is societal. And from the individual's perspective, you might say, how are individuals to be given positive reasons to take up denser forms of living that benefit society as a whole? So individuals have to choose to live in more denser forms of housing. Sometimes they have no choice, but there's clearly some people who take a choice on behalf of society.

And the second one is society. How do neighbourhoods in society go about shaping the rules in such a way that costs and benefits from densification are distributed more equitably, i.e. that it's not just migrants or newly setting up households that are paying the price for this. Right. So that's my preamble. Those are the two big questions, and I'm going to open it up to the panellists maybe to respond initially to each of these.

Nicholas Gruen

OK. Thanks, Andi. So Andi and I had a bit of a chat about this a day or so ago. And now I'm going to ambush him with a whole bunch of things that I've thought about since. But I did give him a bit of warning just in the break. So what I was thinking about in the last session was this, that we're talking about the future of Melbourne, we're talking about urban planning.

And to invoke a cliché greatly loved by politicians, there is an elephant in the room which has not been mentioned today. And that is house prices that have gone from about three times annual earnings in or around about the '80s, I think, to what must be about seven or eight times annual earnings now in Sydney their nine times annual earnings.

Now, I want to suggest to you that house prices at those levels are a high road to oligarchy. Because in Melbourne today, you can't really own much of a house if you don't inherit money, and that takes us back to the Bel-Air Park in Paris at the turn of the century, the Gilded Age in New York in the '20s, and the 1890s.

And if that's what we want, well, that's-- and if you look at our politics, it's getting more and more like that. And it's getting more and more like that all around the world. There is one place where it's not getting like that. And in fact, the politics of this place is also moving to the left, not that I want to-- at least speaking roughly from the centre, I don't want to necessarily say that being left is better than being right. Certainly, I think being left is better than being what the right have become.

And that's Texas. And Texas has a very different form of land zoning. I don't know enough about it other than to use it as a provocation, but they use things called development rights a lot more. So they are much more wary of imposing obstacles on people developing their block. And if you want to impose an obstacle on your neighbour developing their block, you buy development rights off them, and then people can bid for those development rights.

And guess what. When I last looked, which was a year or two ago, house prices in Houston, Dallas, Austin are three times annual earnings. So that's my first point. My second point follows a general proposition offered by Lord Atkin towards the end of the 19th century, where he said that he-- a British statesman, and he recommended rowing is the perfect preparation for public life because it enables you to go in one direction while you face in the other.

[LAUGHTER]

And the densification agenda, if you-- and I think Andi has kind of suggested that this is the big challenge. The densification agenda is an agenda by elites embraced by elites. And I like the idea of densification. Don't get me wrong, I love what we've made of our inner cities. I live in the inner city. I live in Port Melbourne. So I love all that, but I'm prepared-- but if I am getting that at the cost of oligarchy, count me out.

And one of the things about the densification agenda is that it is an agenda cooked up by the elites, and then externalized on to outsiders. Because the people who live in the inner city, the people who live in Brighton, they've got no plans to identify their block. They want densification to happen-- they want other people to duck to densify. So that's a big thing.

I'll give you a third provocation from me which is actually at some tension to these other two ones, which is that the one thing that I kind of think we shouldn't ignore about what we could say is the selfishness of the people of Brighton who are politically mobilized to prevent densification-- the one thing that I think is worth really keeping in mind there is this.

As you become richer, as my father, who is also an economist, said to me-- I'm a second generation economist. Can you imagine anything more dismal than a dismal scientist? As my father, an economist, said to me, if we are rational beings, the law of diminishing returns applies to money--

[HORN HONKING]

Gives you some idea of how important this point is. The law of diminishing marginal returns applies to money. What's the law of diminishing marginal returns? The law of diminishing marginal returns is that my first cappuccino today was worth more than my second cappuccino today, and diminishing returns set in fairly quickly. And that's true of money as well.

As we make more money, money should be less important to us, but the great paradox of modern life is that it, I think, has quite palpably become more important to us. And one of the things that the people in Brighton-- I don't know why I'm picking on Brighton, but there you are-- one of the-- they can cope.

One of the lessons that we can observe when we observe people in Brighton saying, I don't want to densify, is they don't want to monetize their quality of life. They could make more money by densifying

and they say, no, that's not what I want to do. So that is a piece of social rationality that is also worth trying to keep in mind. Thanks.

Andi Nygaard

[INAUDIBLE] a response to that [INAUDIBLE].

Stephen Glackin

Oh. OK. So the political reality is that richer people have more of a thing called neighbourhood residential zones, which means you can't go very dense. So there's a direct correlation between being rich and having a lot of NRZs. For example, Boroondara has the most NRZs in Melbourne.

And then as it is a neighbourhood residential zone, meaning that you can't really subdivide that much, and you have to sit on your large lot of land, which is basically exactly what you were saying. Yeah, you can't build up. Now, the practical realities are that the urban growth boundary in Melbourne's been growing every year for the last god knows how many years-- keep putting boundaries on it. They keep changing it.

An area that is currently swamped is going to be the effectively the next Parramatta of Melbourne, which is down around-- can't remember the name of it-- just there out the West there. Sorry, halfway to Geelong. The city's sprawling-- lots of land in Australia. It's going to keep sprawling.

Another thing that's happening is individuals are starting to carve up the land, and they're doing it in according to the law. Law is currently saying that, in most areas in Australia, you can subdivide. You can put maybe two houses on there, maybe three if you're lucky. This has been done really and effectively and again in agreement with yourself. Legislation is effectively stopping people from doing anything bigger than they are currently allowed.

So what we've been pushing for is legislative ways to allow people-- well, working within the existing statutory system to allow people to do more with their land if they do it in the right way. So we've been pushing for-- what we'd like to push for as a deregulation so that people can go denser if they have more trees, for example. But we're being held back by regulation, so we have to work within the regulation's schema. Don't even know what else to say. What am I talking about?

Andi Nygaard

Do you even see any ways that you can use the rules to perhaps incentivize people to [INAUDIBLE]?

Do you see a way that you can use the rules to incentivize people to maybe amalgamate their lots? Are there ways that you can sort of draw on people's self-interest to also provide densification?

Stephen Glackin

Well, evidence has proved that larger lots sell for more. So in a sort of a middle to suburban area, if it's reasonably close to infrastructure, you can get between 10% and 50% more if you amalgamate your land. But the current rules still apply that you can't really do a lot out there.

And perversely enough, land values have to be a certain amount before the market will allow people to-- or before the market will absorb medium or high density in an area. So this is the perverse bit. It's places like Brighton where the land values are high that would actually allow for medium to high density, where is that's not going to happen in middle Australia.

In terms of incentives, you can change the rules by removing the democratic right to a third party objections, which we are pushing for. You can't, according to the current laws, add additional heights.

All you can do is you can remove a lot of the risk for developers. But at the moment it's incredibly perverse because the areas that should be developing higher can't because of the rules that were meant to keep cities nice and green and sustainable.

The perverse aspect of that is they're pushing out into swamp lands and killing lots of koalas and whatnot. So evidence of this was me sitting down the other day actually creating laws for a municipality based on absolute nonsense data that are going to have effect upon what people do in those municipalities for the next 20 or 30 years. And it's going to effectively push more people out into swamp land that into forest. I'm helping, as an academic, create these stupid rules.

Nonsense data-- thanks, right. So I don't have access to the good stuff, and I don't have the time or the energy to really get into it. If I did, I'd probably make better rules for these guys. But to get back to what Andy was saying, in terms of incentives, it's really, really hard.

And the data issue is just the tiniest bit of it. Planning is completely political. And no one really wants change. And everyone wants to sit on their own piece of land, which really shouldn't be their land because it's all our land, really. I'm not really a Marxist, but you know what I'm saying.

[LAUGHS]

I'm sorry if that was off topic. I have too many coffees.

Andi Nygaard

Coming out of both of these answers is really that the way the system works at the moment, it's benefiting some people rather than other people. Let's put it simplistic like that. And how do you perhaps work with that? So how can you construct incentives? How can you compensate people so that the rules start working in a way that is actually in our collective interest?

If you think about this sprawling city-- I'm going to pass it on to Stephen in second-- Trevor, sorry-- and how can you make it individual decisions align better with what is the societal preferred-- preferred is the wrong word-- societal and better outcomes? All right.

Trevor Kollmann

Thank you. Yeah, I was making a just maybe a couple of quick comments about some things that have already been said. So I think just the example about Texas in general, I mean, I think one of the reasons why house prices are so low is in part that-- and you see the urban sprawl-- because a lot of the transportation system in Texas appears to be like through highways are subsidized by the rest of the US, perhaps a mechanism that calls the states some taxes.

Nicholas Gruen

Nothing, no.

I'm sure it's true, but it's trivial in the scheme of things.

Trevor Kollmann

Yeah, but a rendition I think we're also going to see-- less regulations in terms of buildings relative to Melbourne. I think the right the US example would be San Francisco in terms of its zoning regulations and how that-- and ultimately we see sort of insane prices in San Francisco relative to two incomes. And I think Melbourne is, as you were sort of saying, the inner suburbs are resisting densification to a large degree.



I mean, I think these stats that I've looked at for some of my own work. So I think more than half of land area within five kilometres of the CBD in Melbourne are under Heritage Overlays, which is also going to be another restriction to development. And I think around 80% of all residential transactions for properties, I think, are either general residential or the neighbourhood with residential zoning, which general residential is a little bit less restrictive, but still doesn't allow for-- it allows for some subdivisions like townhouses, but doesn't really allow for large heights.

So I mean, I think kind of going to Andy's point, I suppose for me-- I think I'm kind of going in and out of the mic-- I mean, I think the big question is the idea that when you have densification or a proposed high-density buildings in your area, and I think like nimbyism is quite pervasive, and I think in part because I think the local residents are really unsure about how that densification is going to really impact them personally.

So when I think for me, when we're thinking about what needs to go into tools about solving some of this, you're going to have to have something that really quantifiably impacts. I think Andy and I were talking recently about sort of this. Like the city of Melbourne has this sort of project in terms of-- they have the real simple 3D model of-- and they show all the towers that are being developed across the city.

But I mean, if you could sort of expand that out through the city, you sort of know how proposals might sort of impact you as a sort of an individual household. You might sort of see that maybe your privacy into your garden is not mostly going to be impacted by these mid-range developments that there's some potential in allowing maybe less than nimbyism there.

Andi Nygaard

Because there's some scope for kind of using that nimbyism, the value that some people perceive that is generated perhaps through densification and redistribute that to people who are losing. So if we think that this is better for the climate, if those who live more densely are doing everybody a service, how do we reward those people so that living densely is a desirable outcome for individuals, rather than something that you push them to doing?

Nicholas Gruen

So I mean, it seems to me at a first cut that development rights do that. So instead of saying, here's an area where you have to get very onerous agreement of it, developments will be kind of only allowed if there aren't any objections, any local objections. So just sort of trying to think about this on the fly, let's take my for-purpose, demonized suburb of Brighton.

And you say to everyone in Brighton, you now own development rights on your nearest 10 neighbours. And those development rights are then, they can sell them. So if one of your 10 neighbours wants to develop their block, they have to buy the development rights off you.

And then we're asking, what I call, a Spice Girls question, which is, tell me what you want, what you really, really want? And then we see the colour of their money. And it's amazing what money will do with values.

So that's what goes on in Texas. I don't think it does go on in San Francisco. I think it's got a lot to do with the zoning mechanisms. Anyway, I'm no expert but that's an a thought experiment that-- and then as I was thinking about it, there would be a kind of a intermediary layer because you would have to work out what areas made sense to consider as contiguous.

So you would involve the community in helping to define those areas. Yeah, but anyway, you're actually in doing this stuff. So you'd be the best person to tell me whether I'm talking nonsense.

Stephen Glackin

No, that sounds [INAUDIBLE].

Mark Burry

So in 1946, Ernest Fooks wrote a book called X-Ray the City. Anybody know about X-Ray the City? It's a book on the development of Melbourne. He was an emigre from Austria, I think, but originally from Slovakia. And he did data visualization.

He looked across Melbourne at all its aspects, and he proposed the half-hour city, polycentric, egalitarian city and laid it all out. It's a couple hundred pages. He's got emotive drawings that he did of congested Europe and said well, this is where Australia's going, so here's the plan. Not one bit of it has influenced anything that's happened in the 70 something years since-- point number one.

Point number two is he's not the first visionary. There was Cerda who was responsible for the medium-density city of Barcelona, that amazing grid with the octagonal intersections, which can't give a lecture on that right now. But it's about five good reasons for having those octagonal intersections.

I haven't met anybody yet who said that Barcelona isn't an amazing city to spend time in. And it's medium-density. And it means that there's a ironmonger. There's a fruit place. There's any number of bars within a short walk of anybody's residence.

We're looking at whether we can-- but my situation is as a family of four, we live in medium density. We live in a converted warehouse-- no garden, not even a terrace-- in the centre of Melbourne-- been there almost 20 years and survived. I think it's fantastic.

I can't understand what the problem is except that if people haven't experienced it, they don't want change. Its ultimate conservatism. You want to conserve what you know. So my view is that it's the public good.

And the planners should really be looking at what is the public good? What is it worth? And the individual rights for some family have had enjoyment of a property for a very long time-- that shouldn't be a right that could be sustained over the public good.

And I think that we really need to look at what is the advantage socially, economically, physically of living more densely in a world of diminishing resources. And it may be call-out time for those people who have been privileged to have that kind of space because it's not sustainable.

Stephen Glackin

I have all of that data. I've got every single house in Melbourne mapped, geocoded, valued. I know the value of the land. I know the value of everything. I know how many people walk past their front door. I know the foot traffic.

I know exactly where to position a new venue of any type in Melbourne. And it's all around those medium density. So I've got all that data. And this is by speaking to the smart cities there.

So I've got all the information, but I cannot get the laws to change. I can't really persuade people to start to think towards moving towards medium density because of so much backlash against it. Furthermore, I've made heaps of decision support systems for many different governments and none of them have been used. So no matter how many smart we have, all the data, all the programming, everything, that's not the issue to me. It's there that community thing you're talking about.

And as also the inertia of our planning regimes and politics. So smart cities, don't know if we're able to pull it off unless we get the political aspects in. But I'm just a junior so not really going to go there. I think I might leave it at that regarding the smarts.

Andi Nygaard

All right, thank you. And can I maybe get Nicholas and Trevor to have to think about-- both your answers, you refer to some of the benefits of densification can create, but how some of these might have public good characteristics is that they are difficult to exclude others from using.

So if I move into a small flat, and that has some sort of climate benefit in the form of reduced carbon emissions for instance, that is not just a benefit that just falls to me, it falls to everybody in my city. And this is a common problem in that economists try to grapple with within this sort of housing space and densification. Are there mechanisms we can use to somehow capture this public good and redistribute some of the benefits?

Nicholas Gruen

Well, this goes to some comments I made earlier on. The thing about the externalities, the external benefits and costs to emissions is that they are very easily internalisable. The many externalities of a city are not externalizable.

Now, what I mean by that is that, with carbon emissions, unless there are structural issues far and away, the best thing to do is to say to people, by the way, the cost of a ton of carbon into the air right now is \$70. And if you want to be responsible for emitting it, where's your \$70? No further questions asked.

So that is the way that I would like to see the environmental externalities of densification taken into account. There are other externalities like the conviviality of a denser street, which there's no there's no fancy market way to do that. So that's where planning and so on come in more.

And also just lowering the cost of saving the \$70 a ton is also something that town planning can certainly be helpful at. But there's something a little crazy about saying to people, we want to change the size of the house that you prefer into internalize carbon emissions because that's completely unnecessary to have that degree of control over a person to satisfy oneself that if this person is emitting more than someone else, that that is an externality. If they're paying for that, then you've internalized it, and you can leave it alone.

So I think that densifying for those reasons doesn't make much sense. I think densifying for reasons of conviviality makes much more sense. Densifying for reasons of having a more democratic society also makes sense if we can find ways to densify that lower house prices rather than raise them, which is the way we're doing it at the moment.

And one final comment, which is that I've noticed a bit of a contrast because there are people here who say the one thing you wouldn't want to do about sprawl and congestion is build more freeways. I can get that because the more freeways, they fill up almost immediately. And yet we say, that the way to deal with emissions is to force people into smaller living areas and densifying and so on.

And very similar kinds of unintended consequences can follow that as well, which is that we say, well, we've got this population pressure, so we should densify. Well, guess what? You'll get more population pressure in exactly the same way that we argue that that's what freeways produce. So think about that as well.

Trevor Kollmann

OK, yeah, I suppose maybe I'll keep my comment relatively short. But I mean, I think in terms of one of the ideas in terms of redistribution is sort of this idea when we were kind of thinking about funding transportation structure projects, I think there's sort of this idea that hasn't really fully taken off. But I think it's definitely on some people's sort of interests is looking into idea about value capture and right-

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[BELL DINGS]

Am I done? Or do we have three minutes? OK, I'll definitely keep it short. So say looking at all the data that Steven has, you can fairly, relatively easily could quantify what are some of the impacts of infrastructure projects.

Some of my own work, you can sort of quantify and say, how much, to somebody who's living in an area that can't be developed. And if their neighbours also can't be developed, how much additional value are they getting from that? So that's something that's quantifiable and some work that I've done.

And it's been a little while, but the number that's popping on top of my head is right around 3% or 5% if your neighbours can't develop and so in terms of density. So I mean there's definite potential there. I'm saying if we want to go into a redistribute-- if you really want to value and live in an area that can't be densified in a city like Melbourne, maybe you should pay for that benefit.

And we have the tools to do that. It's just I guess getting the legislative capacity to do so. And I think as long-- and yeah, I hate to talk about, I guess, in terms of we want to have representative democracy. But at the same token, local councils kind of have a conflict of interest when making planning decisions. So I think it's a bit of a challenge on relying on them to making the correct decisions when we should be looking at more a comprehensive model, not just a suburb-by-suburb.

Andi Nygaard

All right, thank you very much. I might call an end to that discussion. That would have been the perfect start to a very big and interesting discussion right to the city and who makes decisions and the insiders and outsiders. But maybe you can organize a new session or panel around those lines?

Mark Burry

I didn't say it at the beginning, but the whole point of this is that this is a prototype for wicked problems that are in each of the programs so that we can start convening with Nicholas in the new year workshops where we actually start thinking about-- well, collectively, what are we going to do to get some traction, because you can't just not do stuff. And we can't just keep doing stuff on our own because it doesn't seem to work. So what are the things we're not doing that we could be doing? So this is a perfect way to finish this. We want to leave with questions, not answers.

Andi Nygaard

We leave with questions and maybe round of applause for our panellists here-- Nicholas, Steven, Trevor, and Mark.

[APPLAUSE]