

30 November 2010

Mr John Hawkins
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

By email: economics.sen@aph.gov.au

Dear Mr Hawkins

Re: Inquiry into competition within the Australian banking sector

The Urban Taskforce is a non-profit organisation representing Australia's most prominent property developers and equity financiers. We provide a forum for people involved in the development and planning, of the urban environment, to engage in constructive dialogue with government and the community.

Australian urban development has been stalling because of a serious reduction in the availability for finance to property developers.

In the three years since June 2007, the real (inflation-adjusted) per capita annual spend on new private housing has declined by 6.2 per cent.¹ When you break-up the figures between detached houses and higher density residential building work the numbers are starker. While the real per capita annual spend on detached housing has fallen by 3.9 per cent,² spending on apartments and townhouses has declined by 11.3 per cent.³

The difference between the numbers is easily explained. While all apartments and townhouses are built by property developers who are generally dependent on commercial mortgages from banks, the detached housing figures are heavily influenced by individuals building their own home, financed via residential construction loans. In fact this may account for about 60 per cent of the detached housing figures.⁴ As a result the 11.3 per cent decline in real per capita annual construction expenditure for new higher density homes is strongly indicative of problems faced by residential property developers over the past three years.

¹ Calculated using Australian Bureau of Statistics (ABS) data: from \$1,690 per Australian, to \$1,585. The population has increased by 6.2 per cent while the real value of overall private sector new residential building has fallen by 0.3 per cent.

² From \$1,129 per Australian, to \$1,175. The real value of overall private sector new detached housing construction has increased by 2.1 per cent.

³ From \$515 per Australian, to \$456. The real value of overall private sector new high density housing construction has fallen by 5.8 per cent.

⁴ According to ABS data, owner occupier residential construction loans were extended to 188,600 dwellings in the three years to June 2010., while work commenced on 304,700 new private sector homes.

These figures are matched in the field of non-residential construction. This sector, like higher density residential development, is carried out by businesses largely dependent on commercial mortgages. The real per capita value of private sector non-residential building work has plummeted by 13.6 per cent in the three years to June 2010.⁵

The consequences of a lack of urban development, particularly a lack of residential development, have become a matter of serious public concern. According to the most recent report from the Federal Government's National Housing Supply Council the gap between total underlying housing demand and total supply is estimated to have increased by approximately 78,800 dwellings in the year to June 2009 to a cumulative shortfall of 178,400 dwellings.⁶ Over the five years to 2014, the overall gap is projected to grow by a further 129,600 to 308,000 dwellings.⁷

As the National Housing Supply Council observed, **these projections are partly a consequence of the tightening of finance to developers that has occurred since the global financial crisis began in the second half of 2007.**⁸

Any housing undersupply, including one that is (in part) caused by a lack of bank finance, raises serious public policy concerns.

The COAG Reform Council recently highlighted the connection between the constraints on housing supply and home affordability in its recent *National Affordable Housing Agreement: Baseline performance report for 2008-09*. The Reform Council said

there is strong evidence of a disconnect between supply and demand in the housing market, resulting in a shortage of supply that has led to an increase in housing costs.⁹

According to the report, just 28 per cent of homes sold Australia-wide are affordable to moderate-income households.

The Organisation for Economic Co-operation and Development (the OECD)¹⁰ recently released a report saying that "a rising share of the population is being priced out of the [housing] market."¹¹ The report nominated "strong housing markets" as one of the "main medium-term risks" to the economy.¹² The OECD said that "[m]easures should be adopted to stimulate supply".¹³

In our view, **there is no longer a sufficiently deep or competitive market for commercial mortgages to property developers.**

The number of lending institutions competing for the business of property developers has shrunk considerably. This was facilitated, in part, by the Australian Competition and Consumer Commission's decision to authorise the takeover of BankWest and St George by members of the big four.

The remaining lenders – namely the big four - have nearly tripled their interest margin. It is now around 2.5 per cent to 3 per cent above the cash rate; it used to be less than one per cent. Previously development projects were financed with a loan amount of up to 70 per cent of a property's value - now this has been cut to around 55 per cent.

The lack of competition amongst the banks and the lack of funds available to be lent as commercial mortgages to property developers is seriously impacting on Australia's rate of urban

⁵ From \$1,080 per Australian to \$934. The real value of overall private sector non-residential building has fallen by 8.2 per cent.

⁶ Commonwealth of Australia, *National Housing Supply Council 2nd State of Supply Report* (2010) 64.

⁷ *Ibid.*

⁸ *Ibid* 62.

⁹ COAG Reform Council, *National Affordable Housing Agreement: Baseline performance report for 2008-09* (2010) xviii.

¹⁰ An international organisation representing the governments of the world's developed nations.

¹¹ OECD, *OECD Economic Surveys: Australia, Volume 2010/21 – November 2010, Supplement 3* (2010) 14.

¹² *Ibid* 12.

¹³ *Ibid* 14.

development, and in particular, our housing supply. This supply bottleneck is, in turn, creating a medium term risk to the economy. **The Federal Government needs to consider measures, such as a mandate for superannuation funds, to expand the range of institutions and pool of funds available to extend commercial mortgages to the property development sector.**

Thank you for giving us the opportunity to make a submission on this important issue.

Yours sincerely
Urban Taskforce Australia

~~Aaron Gadiel~~
Chief Executive Officer