

INQUIRY INTO HOUSING AFFORDABILITY AND SUPPLY IN AUSTRALIA

Standing Committee on Tax and Revenue

Parliament of Australia

Submission by Tony Recsei, President of Save Our Suburbs (SOS) NSW

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1. INTRODUCTION

Save Our Suburbs (SOS) expresses appreciation for this opportunity to comment on housing affordability and supply in Australia. SOS is a non-profit and non-aligned group of residents promoting sustainable living. The organization is active in endeavouring to persuade Governments to effect beneficial changes to planning and financial policies.

The necessity of this inquiry into housing affordability underlines the seriousness of this issue. Young and underprivileged people are especially impacted and unaffordability is becoming bitterly resented.

2. PRIMARY RECOMMENDATION

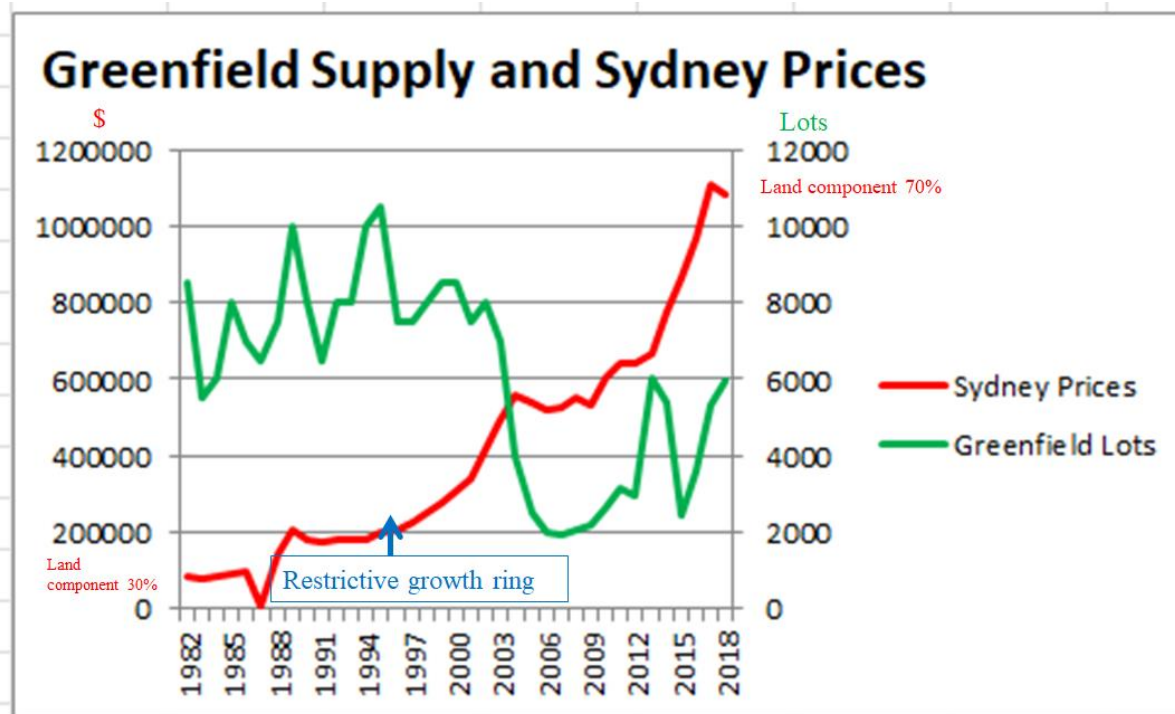
The States need to be persuaded to permit any land holder on a city periphery to subdivide land for housing that accords to market demand, subject to reasonable constraints.

3. HOUSE PRICE ESCALATION

During the last century nearly all Australians could afford to own their own home.



For most of that period Australia experienced negative gearing and concessional or no capital gains tax. House prices remained affordable throughout. From the middle of the 1990's the cost of houses began to accelerate (in spite of interest rates being relatively stable at that time)¹ as is evident for the case of Sydney in the following graph.



Greenfield Lots 1981 to 2006 From NSW Metropolitan Development Program 2007/2008 page 31
Quarterly median house prices - Real Estate Institute of Australia.

The green line illustrates that up to 1995, in the face of an increasing population, land release in the Sydney area was increasing by as much as 10,000 lots per year (right hand scale). From that date it declined to less than 2,000. This was the result of the rigorous application of high density policies, effected by deliberately reducing the rate of land release while the population continued to increase. Most land holders on the periphery were prevented from subdividing their land². There was a resultant scarcity and escalation in house prices. The land component in the price of a house rose from 30% in the 1990s to 60% in 2002³ and to the now estimated 70%.

Underprivileged and young people bear the brunt of unaffordable housing. Among the poorest 20% of households home ownership has dropped from 63% to 23%.

4. SUPPLY AND DEMAND

The basic economic law of supply and demand stipulates:

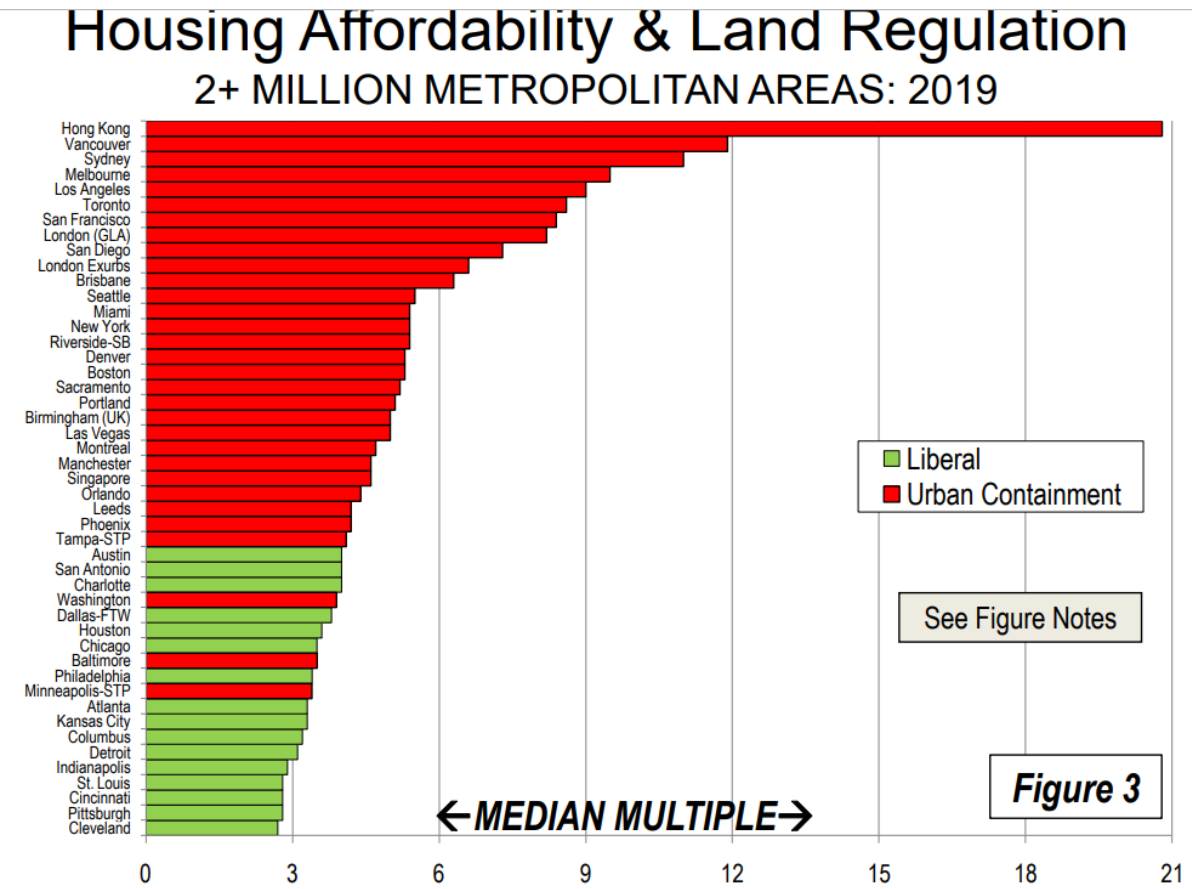
People's willingness to supply and demand a good determines the market equilibrium price.

The facts in the previous section indicate that there are impediments affecting the supply of housing and that these increase the price. They support the statement of the Chair of the Standing Committee on Tax and Revenue (the Chair) that “there is ample evidence that points to the small effect such measures (increased subsidies and tax concessions) have on supply” and “limitations on land and restrictive planning laws as the major causes of shortages in supply”.

Efforts to equalise the cost of housing made by the States under the label of “Social Housing” disrupt the supply and demand mechanism. Over-reliance on such “affordable” schemes merely result in a portion of the community subsidising the cost of housing for the remainder and does nothing to reduce the overall cost of housing which is where the major effort to reduce the cost of housing should be directed.

5. OTHER JURISDICTIONS

The trend towards unaffordability has occurred in other jurisdictions.

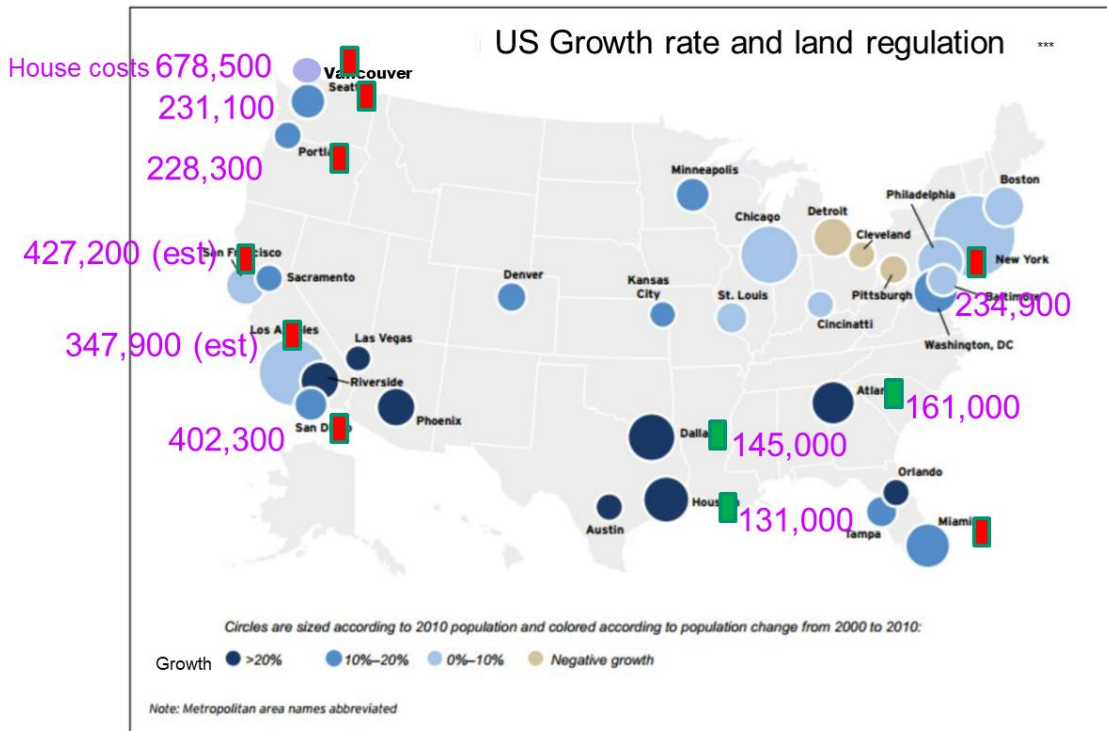


This depiction⁴ measures affordability defined as median house prices divided by gross (before tax) annual median household income, a ratio termed the “median multiple”. Of the cities shown, after Hong Kong and Vancouver, Sydney and Melbourne are the least affordable. The depiction shows that housing costs in jurisdictions with prescriptive urban containment land regulation policies (red coloured) are higher than in those with liberal less restrictive regulations (green).

The depiction corroborates the statement by the Chair:

“The Organisation for Economic Co-operation and Development (OECD) conducted an analysis of Australia’s housing market, particular its very high ratio of housing prices to household incomes. The OECD concluded that Australia’s unusually high level of inelasticity in housing is the major driver of this ratio. This has resulted in our country (Australia) having the fourth-fastest house price growth out of the world’s advanced economies over the past 20 years.”

The relationship between housing unaffordability and restrictive land regulation is also noticeable from the following comparison of United States cities. Cities with adjacent red bar indicators feature high-density urban containment policies; those with green bars do not. House prices at the time are shown in magenta. It is apparent cities with more responsive land regulation (without restrictive policies promoting high density) have much lower house prices as well as higher population growth (depicted as intensity of disc colour).



- More responsive land regulation From Wendell Cox, 6th Annual Demographia International Housing Affordability Survey:2010
- Regulation promoting more high-density

Population Growth in Metro America since 1980: Putting the Volatile 2000s in Perspective William H. Frey Brookings Institution, Washington, March 2012
http://www.brookings.edu/~media/research/files/papers/2012/3/20%20population%20frey/0320_population_frey.pdf

Examples of current prices in liberally regulated cities in the southern United States can be ascertained by looking up [“houses for sale”](#) on the internet⁵ Such prices can be compared with current prices in Sydney where the median is now in the order of A\$1.4 million (currently equivalent to about \$US 1 million)⁶. In the third quarter of 2020 in Sydney the median multiple (as defined above) was 11.8 whereas the median multiple in Houston in 2020 was only 4.0⁴. This is an extraordinary difference and the factors associated with this difference need to be ascertained.

6. PROCEDURES EMPLOYED BY JURISDICTIONS FEATURING AFFORDABLE HOUSING

In the jurisdictions with affordable housing a key characteristic appears to be a liberal housing policy featuring the absence of restrictive (high density) land policies.

Typically the housing development mechanism in those liberal jurisdictions follows along these lines:

- Developers commence developments as self-sufficient enterprises
- Subject to reasonable regulations they propose developments in any unrestricted location, often on a city periphery (in Texas termed a “municipal utility district”)
- They create neighbourhoods with amenities that attract buyers
- They compete with each other thus ensuring desirable facilities are provided
- They establish covenants to ensure standards are preserved
- They provide roads, water, sewerage and drainage
- They finance these with tax-free bonds with repayments funded by utility usage charges
- Developments are designed so they ultimately can be connected to the adjacent city’s corresponding infrastructure

Cities based on this model feature:

- Affordable housing - typically dwellings costing one third of equivalent Sydney dwellings
- Expanding economies and population compared to the rest of the United States
- Accessibility - lower congestion levels, lower commute times and increased number of jobs accessible from home within 30 minutes⁷
- Improved environmental sustainability⁷
- Improved health, especially in relation to pandemics and mental health⁸
- Acceptability – the type of housing people want⁹

7. FACTORS DRIVING SCARCITY

For people to be able to afford a place to stay is considered a fundamental right. This right has been degraded over the last few decades, a major contributor being the high cost of land which flows from an artificial shortage. There is no fundamental reason why there should be a shortage. Australia is a continent-sized country with an urbanized area of only 0.2% of the total.

The drivers for this artificial land shortage appear two-fold.

Ideology

The assumption that high-density is environmentally superior seems to be based on intuition as no proof is provided to support this claim. Rather, as the references above show, the evidence is that this is not the case. For example, contrary to popular opinion, traffic conditions in low density cities of equivalent size are superior to those in high density cities as measured by congestion, journey times to work and the number of jobs accessible from home within 30 minutes⁷. Per person greenhouse gas equivalent emissions are less in lower densities⁷. Further, high density has adverse effects on human health⁸. Yet high-density policies are followed, frequently with religious zeal.

High density advocates maintain that in order to preserve bushland the area of settlement in Australia should not be increased. However a degree of perspective is required in view of the amount of available area in Australia. Further, as far as sustainability is concerned, the area of a city is insignificant. Much more important is the ecological footprint which is the area required to

supply materials and energy and to absorb waste. This is determined by population size, not settled area¹⁰. It should also be borne in mind that the impact on gardens and open space being replaced with unit blocks has a severe and detrimental effect on urban plant and animal life¹¹.

Political

A second driver is that high-density planning policies result in a dwelling scarcity and higher prices. This circumstance enables developers to make large profits on apartments. Property developers now comprise by far the largest group (some 30%) of Australia's 200 richest people. Second to the mining industry they make the largest donations to both major political parties^{12 13}. Donations help fund election campaigns and in the past have helped keep the politicians who promote these policies in power. Numerous cases have been documented that show a large donation being made to a governing party shortly before permission was granted for a particular development¹⁴. Disparate legislation on political donations exists between individual States and the Commonwealth and it appears that the aims of this legislation are easily circumvented.

Politicians believe that building high-density results in increased economic activity. However, there is no reason to assume that this would not also occur for single residential dwellings.

8. RECOMMENDATIONS

Procedures employed by jurisdictions featuring affordable housing, such as described in Section 6, should be investigated and considered.

The States need to be persuaded to permit any land holder on a city periphery to subdivide land for housing that accords to market demand, subject to reasonable constraints.

Apart from specified basic minimum standards it should be the developer's prerogative to determine development characteristics such as lot size.

Effective legislation on political donations should be devised and harmonised over the whole country.

9. CONCLUSION

Available evidence confirms the statements by the Chair indicating planning policies are a major factor causing excessive housing cost. It is to be hoped that the *Housing Affordability and Supply Review* will represent the beginning of a broader appreciation of the downside of policies that result in housing unaffordability and that country co-ordinated evidence-based corrective action will result.

9. REFERENCES

¹ <https://www.rba.gov.au/statistics/historical-data.html>

² Confirmed to the author in a private discussion with the then Minister of Planning

³ HIA July 2003 “Restoring Housing Affordability”)

⁴ 2019, 2021 Demographia International Housing Affordability

⁵ https://sos-aus.org/new_docs/2021_Sept/US%20house%20adverts.pdf

⁶ Australian Financial Review, “What the national median house price can get you across Australia”, Kate Burke, Aug 13, 2021

⁷ <https://www.newgeography.com/content/006840-high-density-and-sustainability>

⁸ <https://www.newgeography.com/content/003945-health-happiness-and-density>

⁹ “The Desirable Apartment Life?” Hazel Easthope, Andrew Tice & Bill Randolph, City Futures Research Centre, University of NSW Housing and Urban Form Workshop (W05) 2009 Housing Researchers’ Conference;

“77% of Australian home owners prefer to live in a house”, Lonergan Research, Westpac.com.au/about-westpac/media/mediareleases/2020/4-july/

¹⁰ Sustainable cities report, Commonwealth Parliament, August 2005

¹¹ Conacher Travers Pty Ltd. 2000. Environmental Baseline Study for Ku-Ring-Gai Municipal Council, Local Government Area. Sydney: Ku-ring-gai Council. http://www.kmc.nsw.gov.au/resources/documents/Environmental_Baseline_Study1.pdf.

¹² <https://www.theage.com.au/national/political-donations-linked-to-developers-contractors-20080706-32n5.html>

¹³ <https://www.smh.com.au/politics/federal/competitive-advantage-call-for-curbs-as-property-sector-ramps-up-political-donations-20210126-p56wva.html>

¹⁴ <https://www.smh.com.au/national/business-park-developer-denies-donations-helped-20090311-8val.html>