

Chapter 5

The challenge of housing supply

5.1 Put simply, the sharp increase in house prices in Australia reflects the fact that the supply of housing has been unable to keep pace with strong demand. Housing affordability cannot be adequately addressed without increasing the supply of housing.

5.2 This chapter examines the current shortfall in housing supply in Australia, and the problems and challenges facing developers and local and state governments in addressing this shortfall. In so doing, it emphasises the need for the future housing supply to be integrated into high-quality urban environments and to reflect home buyers' and communities' needs.

Projected supply of new housing in Australia

5.3 The table below is based on data from the Housing Industry Association. It shows that new housing starts are expected to increase from 151 640 in 2006–07 to a little over 154 000 in both 2007–08 and 2008–09.¹ Thereafter, the HIA forecasts strong growth in housing starts based on an anticipated reduction in interest rates in 2009–10, the influence of national housing policies to address low affordability and continued pent-up demand for housing. As the last column shows, however, the HIA estimates that Australia needs to be building around 170 000 new dwellings each year just to keep up with increases in demand. HIA notes that its forecasts for underlying demand are minimum estimates, a point that seems to be supported by the FaHCSIA forecasts shown in Chart 3.15.

Table 5.1: HIA estimates of supply and demand

	Housing new starts ('000)	Underlying demand ('000)
2006–07	151.6	167.4
2007–08	154.3	169.9
2008–09	154.1	172.5
2009–10	163.2	175.2
2010–11	172.3	n/a

Source: Housing Industry Association, *National Outlook March Quarter 2008*, March 2008, p. A-14. The underlying demand figures are minimum estimates based on available population information.

1 'Housing starts' refers to the number of new dwellings.

Improving data on the supply problem

5.4 One of the new federal government's first policy commitments on housing was to establish the National Housing Supply Council to address the collection of reliable data and forecasting. This body is responsible for gathering information on both demand and supply side factors to guide governments and developers on how many houses are needed, of what type and in which locations. It will also be tasked with providing advice to government on a 20 year horizon on factors affecting the supply of housing. This will include the effects of an ageing population, internal and overseas migration, family separation, skill shortages and planning delays.² The Council will publish an annual State of Supply report to assess the adequacy of construction and land supply. The first of these reports will be released in January 2009.

5.5 As with the issue of housing data in general, there is currently inadequate data on land supply, land release and land that has been released but is not being developed. Mr Neil Savery, National President of the Planning Institute of Australia (PIA), told the committee:

PIA agrees that planning delays result in holding costs, which are then likely to be passed on by developers and will then impact on housing affordability. However, the extent of development assessment delays and their impact cannot be measured with any confidence, particularly at the national level, due to the lack of publicly available, consistent, timely data. Publishing and benchmarking would improve understanding of the underlying issues and causes in order that they can be addressed, and that could be undertaken by the National Housing Supply Council.³

5.6 The committee acknowledges the federal government's recent \$30 million initiative to establish an electronic development assessment system to track planning processes. This system will inform the three tiers of government, as well as developers and the community, where and why undue planning delays are occurring. It remains to be seen as to whether providing this information actually leads to faster planning decisions, given the shortage of planners discussed later.

Audit of excess government lands

5.7 The federal government is currently in the final stages of an audit of surplus government land available for housing. It has requested that the states and territories undertake a similar process. The land audit is being coordinated by the Department of Finance and Deregulation through a Council of Australian Governments working group, chaired by the Minister for Housing. FaHCSIA told the committee that the

2 Ms P Winzar, FaHCSIA, *Committee Hansard*, 1 April 2008, p. 3.

3 Mr N Savery, *Committee Hansard*, 1 April 2008, p. 59.

Commonwealth should have 'a fairly comprehensive assessment' of the states and territories' surplus land 'by about mid year' (2008).⁴

Supply-side problems and challenges

5.8 This section looks at the supply-side problems and challenges that developers, local councils and state governments face in delivering affordable housing options that suit the lifestyle needs of Australian households. It identifies three particular challenges: the need for developers and councils to establish a high quality urban environment with supporting infrastructure; clear and efficient state government planning processes; and an adequate and skilled construction workforce. The issue of housing diversity will be addressed in Chapter 6 while the funding of infrastructure is the subject of Chapter 7.

The need for adequate infrastructure

5.9 There is broad consensus that more new dwellings need to be built to improve housing affordability in Australia. There is some conjecture, however, as to whether limited or artificially constrained land supply has been the main driver of higher house prices, and whether the main solution is to release more land. Australia's capitals—with the exception of Canberra—all have the geographic constraint of coastline; many are also restricted by mountains, river systems and National Parks.⁵ There are significant 'greenfield' options on the fringes of the capitals which state and local governments could access. Is the solution to housing affordability simply to build more houses in these areas?

5.10 In a 2006 book titled *The Tragedy of Planning*, Dr Alan Moran, a Director at the Institute of Public Affairs, took aim at what he saw as the self-interest of state governments, planners and homeowners:

Planning systems...in place across all major Australian urban areas...invariably...reduce the quantity of land that is available to conversion into housing...the existence of the housing land shortage creates an unfortunate vested interest among existing house owners to maintain it. Disconcertingly, State governments may have an interest in ensuring high land prices since this inflates their property-specific taxes.⁶

5.11 Dr Moran told the committee that the recent surge in house prices in Australia is 'overwhelmingly' the result of land restrictions. He argued that:

The basic driver of affordability is this increase that we have created in terms of the scarcity value of the land itself, which adds \$100,000 to \$300,000 to the price of a house...The key thing is to actually release more

4 Ms P Winzar, FaHCSIA, *Committee Hansard*, 1 April 2008, p. 5.

5 See Birrell and Healy (2003, pp 43–56).

6 Moran (2006, p. 4).

land, and that will drive down the price... There is really no shortage of land supply. There is a massive oversupply... of rural land, which sells for peanuts... Governments generally have been constricting the amount of land that is available for housing...⁷

5.12 Other witnesses, however, argued that the housing affordability challenge is more complex and nuanced than simply releasing more land. They argued new land releases need to be supported by adequate investment in infrastructure, services and employment opportunities. It must also reflect households' demand for different types of housing. A supply-side response cannot ignore demand.

5.13 This point was well made by Mr Scott Chamberlain of the Housing Industry Association. Asked whether the housing affordability problem stemmed from high house prices or simply an inability to get the land and resources to build, he argued that while land supply is constrained:

You have to be careful. It is not just land; you are talking about affordable communities. So you cannot just sell a block of land; it has to be tied into a community to be attractive.⁸

5.14 The point was put starkly by the Victorian Division of the Planning Institute of Australia:

There will probably be people who will come and say, 'It's all about land supply. We just need to unbridle the supply of land and that will solve this problem.' I think that will just create a bigger problem and the next Senate inquiry we will have will be about poor health in outer communities and children living for a shorter time than their parents.⁹

5.15 Chapter 3 noted that there is an estimated 30 000 annual shortfall between the number of new dwellings built nationally and the potential (population-based) demand for new housing. The committee asked Professor Burke his view on the importance of new housing supply being affordable, as opposed to simply providing the stock and 'letting the market sort it out'. He responded:

The latter is called the filtering theory and I think that has now been discredited. It does not actually filter right down to provide adequate supply at the bottom end of the market. So you do have to explicitly recognise, in various forms of policy instruments, that you have to get properties on the ground at an affordable level.¹⁰

5.16 Professor Burke told the committee that his supply-side strategy is to increase the stock of affordable housing in high-cost areas while also improving the amenity in

7 Dr A Moran, *Committee Hansard*, 23 April 2008, pp 63, 66 and 68.

8 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 99.

9 Mr S Worn, *Committee Hansard*, 23 April 2008, p. 57.

10 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 27.

low-cost areas so that more people want to move into these areas. He argued that greenfield developments would be more attractive to prospective buyers as a result.¹¹ He offered pointed criticism of the 'release more land' argument':

That is not the solution. You cannot resolve complex problems with simple, one-dimensional solutions. We just have to look at where we are at the moment. Releasing land in these outer urban areas is not the problem. The problem now is the attraction of land in the inner and middle suburbs of our cities because of the high amenity that they offer vis-a-vis the outer urban areas and, I think, a growing perception of the long-term problems of petrol prices and the lack of public transport in these areas. Releasing land in these areas is going to do nothing to alleviate the intensity of demand in those areas where the house prices are the greatest. You can release another 10,000 allotments out here and I would guarantee that it would not make a bit of difference to the bulk of house prices anywhere in the middle and inner ring of Melbourne. And it would not solve problems about the lack of amenity, public transport and the impending issues around petrol prices—in other words, the liveability of these areas. That is why in our paper we suggested that another way of tackling the affordability problem is to improve the quality of amenity in affordable areas.¹²

5.17 The issue of how the costs of providing essential infrastructure are met, including local government rates, developer levies, and investments by state and federal governments is discussed in more detail in paragraphs 5.47–5.59.

5.18 Mr Adam Farrar, Executive Director of the New South Wales Federation of Housing Associations, also argued that increasing land supply was not in itself the solution to housing affordability. He told the committee:

It is probably not true to simplistically say that the amount of land release by state governments or indeed the planning system is going to make the difference in that regard. After all, we do have land release which is not being taken up. The state government in New South Wales has quite robust targets for land release and intends to pursue those. Those alone are not sufficient. One of the major reasons for that is location. Housing affordability is not just about the price of the house, it is about the cost of using that house. As you will be well aware, locate housing—even if it is affordable—on the outskirts away from employment, away from any other services, then in effect you have simply shifted the cost from the price of the house to the price of transport and usually to the price of time taken in travel.¹³

11 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 23.

12 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 23.

13 Mr A Farrar, *Committee Hansard*, 2 April 2008, pp 4–5.

Transport

5.19 Professor Julian Disney, Director of the Social Justice Research Centre at the University of New South Wales, insisted that housing costs cannot be looked at in isolation from transport costs and transport time. The long distances and times that many people face going to and from work have implications not only for them but for the economy:

If you take someone who is living now on, say, the Central Coast north of Sydney and they are working in the central part of Sydney, they will be spending two to three working days a week travelling. That is an enormous cost to them and their families, but it is also bad for the economy.¹⁴

5.20 Transport has been argued to be an important determinant of the size of cities. Some urban historians refer to the 'Marchetti constant'; that people in cities on average spend no more than half an hour each way in commuting to work.¹⁵ So for most of history, there were only 'walking cities', about 5 kilometres across. From 1850–1950 'transit cities' emerged, spreading 20–30 kilometres and clustered along tram and train lines. Since the 1950s 'automobile cities' have emerged, spreading 50 kilometres in all directions. An implication drawn from this analysis is that the larger Australian cities are reaching limits to their expansion and if oil price rises start to reduce the feasibility of commuting by car, unless public transport is improved, development on the fringes will stall.¹⁶

5.21 This point was also made by Mr Michael Papageorgiou, Acting Manager of City Planning and Sustainability at Brisbane City Council. He told the committee Brisbane faced a 'real challenge' in terms of ensuring that workers had access to efficient transport links:

If Brisbane gets priced out of the key worker market, then all our new key workers for these new jobs will have to come in from surrounding suburbs. If the transport system is very efficient that might not be a problem, but we are already having transport problems, especially public transport problems, at the moment. The studies suggest that there is a 45-minute work travel threshold and that after that people start to make different decisions in large numbers. It also suggests that it is not just a planning exercise of rezoning land in other cities and sending the jobs there. If we do not leverage off the concentrations that they are talking about, we will end up with fewer jobs for the region; that is the forecast. So council's objective from its current planning strategies is to make sure we have enough affordable housing

14 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 28.

15 The idea was proposed by Marchetti (1994). The WA Government refer to 30 minutes travelling as 'the established critical threshold'; *Submission 87*. Interesting accounts of the importance placed on restricting commuting times in planning the expansion of housing are given in Stretton (2005, chapter 5) on Adelaide and Reader (2004, chapter 18) on Stockholm.

16 Professor P Newman, *Submission 2*, p. 3.

within our boundaries so that some of those key workers can live in Brisbane and not have to commute.¹⁷

5.1 The problem of long commuting times—and the need to prioritise transport infrastructure—has been accentuated by changes in working patterns. Professor Disney told the committee that among those on high incomes, the demand for good housing locations (that are close to work) has greatly increased given the trend toward more part-time and insecure work and the entry of women into the paid workforce. As a result, many of those on lower incomes have been forced to live further away from their work. Professor Disney has identified public transport as the top infrastructure priority to assist with housing affordability.¹⁸ The issue of the importance of the costs of travel and access to social services and community infrastructure is also addressed in the context of decentralisation and regional development policies in chapter 11.

Land and housing supply challenges in western Sydney and south-east Melbourne

5.22 The following section looks at the dimensions of the land supply and housing challenge in western Sydney and south-west Melbourne. The committee received evidence from local councils and community groups (among others) in both these regions. Both areas have large reserves of land and have the common challenge of linking new residential housing to adequate infrastructure and services and a quality urban environment.

Western Sydney

5.23 The committee heard from several witnesses that in western Sydney, the key issue is not the supply or the release of land but the inadequacy of infrastructure. In its submission to this inquiry, the Western Sydney Regional Organisation of Councils (WSROC) argued that poor public transport, limited employment opportunities and scarce community services have eroded the 'real' affordability of housing in Greater Western Sydney.¹⁹ WSROC argued that the planning of housing developments in metropolitan Sydney has not been properly coordinated with the planning of supporting infrastructure. Mrs Sharon Fingland, Assistant Director of WSROC, noted that:

One of the problems has been that, to a certain extent, there has been development happening all over Sydney, on numerous development fronts, all requiring infrastructure to support it but with no sensible development program in terms of wheeling out the infrastructure to support that. In the absence of that, it is a very expensive way of undertaking development.²⁰

17 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p. 20.

18 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 28.

19 Western Sydney Regional Organisation of Councils, *Submission 31*, p. 2.

20 Mrs S Fingland, *Committee Hansard*, 3 April 2008, p. 20.

5.24 The committee received evidence from the Campbelltown City Council that there are significant opportunities to expand housing supply in both greenfield and infill areas. Again, the housing affordability problem in Campbelltown relates not to the supply of land but the type of housing. The Council told the committee:

The issue that we have identified is that we have a significant supply of existing zone housing opportunities in greenfield release areas, brownfield sites throughout our holistic residential areas and, in particular, the high-density zoned areas around the major town centre of Campbelltown-Macarthur and Ingleburn. The zoning is in place, the land is in place, but the market is not taking up that opportunity—even though there is really good access to lots of facilities and services that exist and that are planned to exist in the future...I would take the view that the paradigm that usually is spoken about by the development industry—that housing affordability is significantly influenced by the release of land, or limits on the supply of zoned land—is not a strong point to be made in the Campbelltown submarket. We think it is the case that those opportunities exist but they are not being taken up.²¹

5.25 Mr Paul Tosi, the General Manager of Campbelltown City Council, mentioned two significant zoned opportunities in Campbelltown. To the north, there is the Glenfield estate of roughly one thousand lots where prices range from \$350 000 to \$420 000. Mr Tosi noted that these developments had sold well. On the other hand, at Macarthur Gardens near Macarthur Railway Station, a development of a similar number of lots selling for between \$490 000 and \$600 000 is 'really struggling' to sell.²²

5.26 The committee received a submission along similar lines from Ms Julie Burke, a Campbelltown City Councillor. Ms Burke recalled instances of seniors being unable to find a one-bedroom unit and unable to purchase a two bedroom unit. She noted that housing supply in Campbelltown is also unsuited to first home buyers, who are priced out of the large market for 'quite grand residences'.²³

5.27 The same point was made by Professor Bill Randolph, Director of the City Future Research Centre at the University of New South Wales. He told the committee that what the developers want to develop in south-west Sydney is more expensive than what the market will bear. The real issue in western Sydney, he argued, relates to the lack of housing demand: 'there is potential supply but nobody is building that supply because the demand is not there'.²⁴ Accordingly, Professor Randolph feared that:

Calls for releasing land on the fringe in Western Sydney will, to my mind, only exacerbate that problem, because we have a failure of demand in

21 Mr J Lawrence, *Committee Hansard*, 3 April 2008, p. 27.

22 Mr P Tosi, *Committee Hansard*, 3 April 2008, p. 29.

23 Ms J Burke, *Submission 63*, p. 1.

24 Professor B Randolph, *Committee Hansard*, 2 April 2008, p. 43.

Western Sydney, not a failure of supply. If you look at the figures, that is quite clearly what is happening. If you were to release more land, it would only drive house prices lower, which would be even more of a deterrent to the development industry to develop.²⁵

South-east Melbourne

5.28 These problems of unsuitable land supply, planning and development are not unique to western Sydney. In Narre Warren, 35 kilometres south-east of Melbourne's central business district, the challenge of aligning development with infrastructure is much the same as in Campbelltown.²⁶ Mr Liam Hodgetts, the City of Casey Council's Manager of Strategic Development, told the committee that while land supply is a crucial ingredient to help address the housing affordability issue:

...just as crucial is that the land must be well located and well serviced with supporting jobs, public transport and social and community infrastructure. In most cases on the urban fringe this infrastructure is provided by developer contributions. In this context, well-located, high-density infill development in the inner suburbs of our city is just as crucial an ingredient to housing affordability.²⁷

5.29 Mr Hodgetts noted that the Council has developed several growth area plans and development contribution charges 'which seek to synergise the development fronts with the required infrastructure'.²⁸ Still, he acknowledged that in a fast-paced growth area like Casey, the planning system has occasionally been unable to keep up with infrastructure needs, which has resulted in some funding shortfalls for infrastructure. The Council has recently established a comprehensive greenfield master planning model. Developers are bringing forward their contributions to release land more quickly and assist them to save on holding costs associated with the acquisition of the land.

5.30 Unlike in western Sydney, the City of Casey faces 'very steady demand' for housing and the prospect of a shortage of available land. Mr Hodgetts noted that the Council is currently developing about 2300 lots annually, which it has done for the past six years. He argued that at the current rate of development and demand, 'we are running out of land'.²⁹ He also noted that the supply pressures are greater in Casey than in the west and north-west of Melbourne where the other four growth corridors are located. Asked whether there is currently a local housing supply problem in Casey, Mr Hodgetts responded:

25 Professor B Randolph, *Committee Hansard*, 2 April 2008, p. 40.

26 Narre Warren is a suburb within the City of Casey. The City has 30 suburbs which also include Cranbourne and Fountain Gate.

27 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, p. 4.

28 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, p. 4.

29 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, p. 7.

...there is a concern that the forward supply of zoned residential land—because there is clearly a lot of lead-up to get the houses on the ground—is in short supply. That is why we are working with the Growth Areas Authority recently established by the state government, who are co-partnering us in one of those development areas, which is the land east of the existing area...for approximately 8,000 to 10,000 people. That has been effectively fast-tracked, along with land on the western side of Cranbourne, for residential zoning.³⁰

5.31 It is also notable that the type of housing supply in Casey seems better matched to demand than in the Campbelltown area, where supply does not seem to have met the growing demand for different housing types. In Casey, demand and supply of housing both remain focussed on large three or four bedroom houses on a fairly large block. However, Mr Hodgetts did note that high prices of these houses may have been a factor in strong sales over the past two or three years of smaller blocks: 10 by 30 metres with one storey, three bedroom homes with a single garage.

5.32 Dr Bob Birrell, Director of the Centre for Population and Urban Research at Monash University, strongly doubted that people on urban fringes would want a 300 square metre block. He did suggest, however, that smaller blocks would be more acceptable if developers incorporated more open space into their design:

...if you move out to Casey, you are looking for a sense of open space. You do not want to be cheek by jowl with neighbours—that is what people are trying to avoid, and they will avoid it wherever possible. What I was suggesting was that it is possible to have a reasonably good design of estates with small blocks if you use the open space available creatively so that people are not caught in a situation that we see in some of the earlier estates here, where all they can see in their immediate environs are more small houses with cars everywhere and no canopy trees. It requires a more centralised control over the development process to get developers to get big estates so they can integrate open space with the smaller lots. In those terms I think it can be done in a more acceptable way. But at the present time there is no requirement that this be put in place.³¹

5.33 Mr Hodgetts noted opportunities for higher density housing around principal 'activity centres', consistent with the intent of the *Melbourne 2030* plan (see below). He drew the committee's attention to the Cranbourne East growth area where the Council plans to house 3,000 people. He did concede that high density planning can suffer from 'substantial community resistance' but expressed strong support for a model where people can live, work and play within a tightly defined area.³² This, he argued, was not only consistent with the goal of more affordable housing (the land

30 Mr L Hodgetts, *Proof Committee Hansard*, 24 April 2008, p. 7.

31 Dr B Birrell, *Proof Committee Hansard*, 24 April 2008, p. 32.

32 Mr L Hodgetts, *Proof Committee Hansard*, 24 April 2008, p. 4.

sizes are smaller), but also with the challenge of developing infrastructure that binds communities over the longer term.³³

Melbourne 2030, Adelaide and Urban Growth Boundaries

5.34 One of the key planning decisions in a major city's development is to strike a balance between greenfield development and urban infill. Some state governments have opted to limit the outward residential expansion of their capital cities by imposing an urban growth boundary. New residential developments are concentrated around targeted urban infill areas.

5.35 This was the Victorian government's intent in 2002 when it released its *Melbourne 2030* urban blueprint. The plan stated:

The main thrust is to continue to protect the liveability of the established areas and to increasingly concentrate major change in strategic redevelopment sites such as activity centres and underdeveloped land. While a good supply of land for development will be maintained in growth areas, over time there will be a shift away from growth on the fringe of the city. This will help prevent urban expansion into surrounding rural land.³⁴

5.36 Some witnesses remain enthusiastic about the idea behind *Melbourne 2030*. The Victorian Division of the Planning Institute of Australia told the committee that an urban growth boundary limits urban sprawl and improves housing affordability by creating quality urban environments. The Division urged faster action on all areas of the *Melbourne 2030* plan to 'create sustainable places because that is what the community now wants'.³⁵

5.37 Others are not convinced that higher density planning and an urban growth boundary will work. In 2004, the Productivity Commission noted:

...to the extent that an urban growth boundary is intended to constrain development, it is *inevitable* that it will have some effect on land prices. For this not to be so, people would need to be indifferent to housing type and location, and the supply of dwellings would need to be just as readily expanded from established urban areas.³⁶

5.38 In his submission to the inquiry, Professor Patrick Troy noted that this 'densification strategy':

33 Mr L Hodgetts referred to the term 'magnet infrastructure': 'infrastructure that will really make the community last and survive in sustainable terms and for generational change'. *Proof Committee Hansard*, 24 April 2008, p. 5.

34 Department of Sustainability and Environment, 'Melbourne 2030: Planning for sustainable growth', Victorian government, <http://www.dse.vic.gov.au/melbourne2030online/> (accessed 12 May 2008).

35 Mr S Worn, *Committee Hansard*, 23 April 2008, p. 61.

36 Productivity Commission (2004, p. 134).

...was adopted often because state governments found that their reduced circumstances meant that, in spite of the development charges for infrastructure on fringe lands, they were short of capital for infrastructure services. They were encouraged to the view that densifying suburbs would reduce the demand for infrastructure investment. The view turned into a mirage.³⁷

5.39 Indeed, six years after its introduction, *Melbourne 2030* was the focus of a state government review. It found that while *Melbourne 2030* has not failed, nor has it been fully implemented.³⁸ The auditors urged the state government to ensure that sufficient resources are allocated to the plan and to engage communities in decisions on the application of the new residential zones. On the Urban Growth Boundary, the review recommended no alteration for 'at least the next five years' and a 'clear and transparent process' for future reviews of the boundary.³⁹

5.40 One reason for the review of *Melbourne 2030* has been market trends over the past five or six years. Developers have not identified significant demand for urban infill; house prices in most inner Melbourne suburbs are prohibitive for first home buyers; and roughly 60 per cent of the growth in households has been locating in outer suburbia. As Mr Tony Powell AO noted in his submission:

...'Melbourne 2030'...envisages 60-70% of new housing being located in existing suburban areas with the remainder occurring in designated outer-metropolitan 'greenfields' locations...In fact 61% of new housing completions are in the metropolitan fringe...and there is scant new infrastructure, either state or local government...⁴⁰

5.41 The other major reason is that Melbourne's population is increasing at a rate significantly faster than was projected in *Melbourne 2030*. The plan anticipated the city's population to increase from 3.5 million residents in 2001 to 4.5 million in 2030. However, Dr Bob Birrell and Dr Ernest Healy from the Centre for Population and Urban Research at Monash University project that Melbourne's population will increase to 5.1 million by 2031. The increase is based on higher fertility rates and immigration levels (than those projected by the state government in 2001). Dr Birrell and Dr Healy urge the state government in its review of *Melbourne 2030* to 'take account of changes to Melbourne's demographic setting'.⁴¹

37 Professor P Troy, *Submission 11*, p. 4.

38 Professor Rob Moodie, Mr David Whitney, Mr Michael Wright QC and Dr Ann McAfee, *Melbourne 2030, Audit Expert Group Report*, March 2008, p. 7.

39 Professor Rob Moodie, Mr David Whitney, Mr Michael Wright QC and Dr Ann McAfee, *Melbourne 2030, Audit Expert Group Report*, March 2008, p. 67.

40 Mr T Powell AO, *Submission 79 (Attachment)*, p. 3. Mr Powell is a former Director of the National Capital Planning Authority (1974–1985).

41 Birrell and Healy (2008, p. 1).

5.42 Dr Birrell told the committee that the Victorian government has 'decided essentially to ditch the core idea of Melbourne 2030'.⁴² Instead of a compact city design based on development around designated activity centres, the government has opted to make the urban growth boundary flexible. Melbourne has a distinct advantage (over Sydney) in having 'literally boundless plains to spare' with no geographical constraints to the west, the north or the south-east corridor.

5.43 Dr Birrell noted that in recent years the Victorian government has been extending greenfield land to accommodate Melbourne's urban development. In 2005, the state government rezoned an additional 4500 hectares of land for urban development within the urban growth boundary. It imposes very low developer levies—compared to Sydney—which keeps the cost of developed land 'in the \$100,000 to \$150,000 range'. Dr Birrell also told the committee that the Victorian government has been assisting local councils to increase the rate at which zoned land within the urban growth boundary is released.⁴³

5.44 The committee is aware of a similar situation in Adelaide. In 2002, the South Australian government established an urban growth boundary to prioritise residential development in established suburbs with significant infrastructure outlays, and to protect premium rural land from development. In December 2007, the state government announced it planned to rezone more than 2000 hectares for residential development outside the 2002 growth boundary. The state minister for urban development explained the 2007 decision in terms of planning for the 'medium to longer-term'.⁴⁴

5.45 Nonetheless, the South Australian Division of the Urban Development Institute of Australia (UDIA) foresaw ongoing challenges for developers and councils in Adelaide to balance greenfield development with urban infill, while improving housing affordability:

...putting an urban growth boundary in place without creating the infill opportunities to compensate has created increased demand and forced prices up. The Adelaide City Council has produced some good examples of affordable housing in the city, but they are on quite a small scale; whereas most of our inner urban and CBD housing has been at the upper end of the market with prices starting at \$500,000 to \$600,000 for a dwelling, not in the affordable range at all. Our concern would be that, if you are putting in place an urban growth boundary, you need a process to review and update it from time to time, but your policies that would allow and support infill need changing at the same time.⁴⁵

42 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 29.

43 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 29.

44 The Hon. Paul Holloway, 'A New Urban Boundary for Adelaide', *Press Release*, 20 December 2007.

45 Mr P Jackson, *Proof Committee Hansard*, 28 April 2008, p. 13.

5.46 In the current circumstances related to housing affordability and development pressures, the committee believes there is merit in the curtailment of residential development to within specified areas. New growth would ideally be concentrated in areas where infrastructure can provide for and attract new residents. If large amounts of fringe urban land are released without adequate attention to environmental impact, infrastructure needs and social impacts there is significant potential for greater social problems, as evidence to the committee has indicated.⁴⁶ However, in setting this boundary, state governments must work more closely with local councils and community groups to ensure that the broad objective and specific proposals for higher density urban infill are supported. They must be aware of the potential for changes in population forecasts to place pressure on these limits. As discussed further in Chapter 11, they must recognise opportunities to expand regional areas to relieve pressure from the capital cities particularly given the enormous potential for regional growth in Australia.

Planning problems

5.47 The committee recognises the importance of efficient and effective planning processes and the influence they can have on improving housing affordability. It is aware that most Australian state and territorial governments have undertaken reviews and reforms of their planning systems and land release programmes in recent years. While it is too early to gauge the impact of these initiatives, the committee notes that high costs, long delays and complexity continue to be a problem in many jurisdictions.

5.48 The committee heard from several witnesses that problems of delay in land release are most acute in New South Wales. Mr Harnisch from Master Builders Australia observed that while similar land release problems are being reported around Australia, 'what we are hearing from the industry is that New South Wales seems to be the most difficult state'.⁴⁷ Professor Robert Stimson, Convenor of the ARC Research Network in Spatially Integrated Social Science, opined that the New South Wales government has 'probably' done more than any other in Australia to restrict the opportunities for urban growth on the urban fringe. This he attributed to state government planning views and legislation, which, 'quite frankly, are ideologically based and do not have any sound economic or social basis'.⁴⁸

5.49 Not surprisingly, developers in New South Wales also reserve strong criticism for the state's planning system. Mr Ross Blancato, the President of the New South Wales Division of the UDIA and a developer for Australand, told the committee that given the current cost structure and planning regulations, 'the risk of investment in New South Wales has gone beyond what is really tenable'.⁴⁹

46 See Dr N Gurran, *Submission 47*, p. 2.

47 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 26.

48 Professor R Stimson, *Committee Hansard*, 14 April 2008, p. 46.

49 Mr R Blancato, *Committee Hansard*, 2 April 2008, p. 61.

5.50 This view was supported by Mr Tony Powell AO. His submission noted that developer levies in New South Wales were as much as \$165 000 per median price house lot:

...which has turned out to be the 'straw that broke the camel's back' as developers have simply stopped buying land and have withdrawn from the outer-metropolitan housing market...because the overall cost of land acquisition and servicing is more than the consumer can bear.⁵⁰

5.51 In its submission, the New South Wales Division of UDIA recommended that the Commonwealth government expedite the release, rezoning and servicing of Commonwealth land with critical lead infrastructure to support the supply of new dwellings to the market.⁵¹ Mr Blancato told the committee:

We are proposing that there should be an amount of land—a forward train of land of maybe 20 years—that is released and serviced. The word 'released' is something that is very difficult to get a handle on. You will have successive governments release the same patch of land five times but not a dollar will be spent on infrastructure. When I go to my board and say, 'I want to buy this piece of land,' I have to tell them when I am going to deliver the revenue, how much it is going to cost and when I can start. If I have to say that I have to build \$10 million worth of infrastructure before I can turn my first sod on my parcel then that is going to make the acquisition of that parcel less viable. The government used to invest in it—20 years ago you would go out to a release like Blacktown and the main sewer carriers were in and the sewage treatment plant was built. You would go out there and you could develop this five-acre parcel or that five-acre parcel. You might do a little bit of a lead-in, connecting infrastructure, but it was affordable.⁵²

5.52 The Queensland Local Government Association drew the committee's attention to the complex and time consuming requirements imposed on local councils by that state's Integrated Planning Act:

The process requires applicants to submit to councils their application, with all of the related documentation. In many instances, apart from the council's consideration of the matters immediately under its control, it is required to refer to the state government and to appropriate state agencies for their consideration matters that are under their jurisdiction. The management of this process of receipt, consideration, referral and then further consideration of the assessment at a council level and assessment at a government level obviously adds time to the process. If in that process there are some deficiencies in the information received with the application, then further inquiries are made of the applicant to receive that information and then, where necessary, proceed to review what has been done to date.

50 Mr T Powell AO, *Submission 79 (Attachment)*, p. 4.

51 Urban Development Institute of Australia, New South Wales Division, *Submission 49*, p. 4.

52 Mr R Blancato, *Committee Hansard*, 2 April 2008, p. 65.

All of this, as you would appreciate, can add quite a deal of time to the process.⁵³

5.53 The South Australian Division of the Planning Institute of Australia identified the same type of process-based delays in the state's planning system:

...in some locations, in some councils or in some areas of councils and for certain types of development the process can be unnecessarily complicated, difficult and lengthy. This is often where public notification is required and where government agency referrals are required. There is also a large amount of minor type of development in the system here that is currently processed but that could be dealt with in another way, such as a track based assessment coming out of the Development Assessment Forum leading practice model. That would reduce the impact on the development system.⁵⁴

5.54 The Institute did note that the South Australian government is currently conducting a planning review aimed at relieving the pressures in the development system.⁵⁵

5.55 The Western Australian Division of the UDIA also highlighted the potential for delays in the state's planning process:

...when you come to the actual process of getting subdivision clearance you have multiple agencies involved. Each of those can end up with some delays. There is what we call 'stop the clock', where there is an issue or clarification required, the statutory timeline stops and then sometimes it is difficult to get it going again. So the delays become incredibly expensive for the industry because of the holding cost and that adds to affordability problems.⁵⁶

5.56 Similarly the Real Estate Institute of Western Australia identified:

...one of the problems with the system in Perth is the very poor interaction of the various processes that deliver land. There is a planning process, which is reasonably pure and probably not that complicated, but when it is meshed with the environmental assessment process it can cause long delays. The other issue is the complexity of the planning approval process, which can sometimes mean that a preliminary subdivision approval can attract up to 47 separate conditions that have to be met before the land is deemed able to be finally approved for subdivision.⁵⁷

53 Mr G Hoffman, *Committee Hansard*, 14 April 2008, p. 33.

54 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 33.

55 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 33.

56 Ms D Goostrey, *Committee Hansard*, 8 April 2008, p. 70.

57 Mrs A Arnold, *Committee Hansard*, 8 April 2008, p. 38.

5.57 Dr Steven Rowley, Senior Lecturer in the School of Economics and Finance at Curtin University of Technology, emphasised the need for Western Australia's planning system to be more responsive to the needs of the market. He told the committee that:

Anything that reduces the up-front cost for a developer will, or certainly should, reduce the price of the final product, because of the holding costs and the interest that they have to pay. So it should have an impact on affordability. Anything that speeds up the planning system as well will have an impact on the final price of land, and making the planning system more responsive to market signals will no doubt have an impact on affordability. How you do that is another question, but certainly in the UK we have gone through the Barker review of housing supply, and it is all about making the planning system more responsive to the market and to changes in market signals. I think that is certainly the way that Western Australia needs to go. It needs to look at streamlining the planning system, making it more responsive.⁵⁸

5.58 In Queensland, unlike in other states, local councils cannot seek developer contributions outside of the immediate area of development. According to the Queensland Division of the UDIA:

We have seen planning schemes that have almost constrained land supply, if you like, because of the inability to fund the infrastructure at a local government level. Because of that constraint, the cost of raw land has gone up, but also putting the burden of providing infrastructure onto the development community, which essentially is the new homebuyer, means that there has been a double whammy. So it has gone up at an accelerating pace.⁵⁹

5.59 The committee emphasises the need for local councils to improve the efficiency of their planning processes. In this context, it acknowledges the federal government's proposal—through the Housing Affordability Fund—whereby councils will compete for grants to cover part of their new housing infrastructure costs on the basis of their proposals to cut red tape and reform their planning process.⁶⁰ That said, the amount of money allocated to the Fund is relatively small—an average of \$100 million a year—and the breadth of its application is limited. The committee welcomes the state governments' reviews of their planning processes. It urges action to speed up the planning system and make it more responsive to the market.

Industrial relations issues

5.60 The committee received no evidence that industrial disputation was an issue of concern in addressing the housing supply shortage. The Housing Industry

58 Dr S Rowley, *Committee Hansard*, 8 April 2008, p. 48.

59 Mr B Hailey, *Committee Hansard*, 14 April 2008, p. 3.

60 FaHCSIA, 'Making Housing Affordable Again', March 2008, p. 6.

Association noted reports from the Australian Building and Construction Commissioner (among others) that 'there has been a significant increase in terms of industrial harmony, a significant increase in productivity and a significant drop in construction costs'.⁶¹

5.61 The committee did receive some comment on the difficulty of the construction sector using migrant labour under the Long Stay Temporary Business Visa (subclass 457).⁶² The Housing Industry Association told the committee that:

The 457 visa program requires employers to give, I think, at least a 12-month employment guarantee. A small business that engages or hires—as distinct from employs directly—cannot avail themselves of the 457 visa program, and it is expected that we will change the structure of our industry to accommodate the institutional arrangements in the department of immigration.⁶³

5.62 Master Builders Australia noted that the construction industry is working 'very closely' with government and the immigration department to make 457 visas more flexible and more streamlined.⁶⁴

5.63 The Construction, Forestry, Mining and Energy Union argued the need for better regulation of employment agreements in the construction industry:

In the building industry we have a horrendous problem with bogus self-employed, where workers are told, 'You will only work in this workplace or for this company if you have an ABN number, and we're calling you a subcontractor, whether you are or you're not.' It is a major problem in this industry... We do not reject temporary migrant visas. They have been with us for decades. The thing is that they were quite regulated until about five or six years ago when they suddenly became heavily deregulated, which has led to a lot of abuses.⁶⁵

5.64 The broader role that migrants play in the Australian construction industry is a matter of some contention. Dr Birrell argued that:

...we are getting a very limited benefit out of the overseas migration program from the point of view of scarce construction workers. If we focussed on the 457 visa program, which requires that a job be here and that the employer designates that job and it is in construction type field, then it is a plus. But 55 per cent of the settler program in Australia is going into

61 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 31.

62 *Migration Act 1958*

63 Dr R Silverberg, *Committee Hansard*, 1 April 2008, p. 97.

64 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 23.

65 Mr J Sutton, *Proof Committee Hansard*, 24 April 2008, pp 3–4. See also Productivity Commission (2004, pp 184–5).

Sydney and Melbourne and very few of those people have construction skills.⁶⁶

The shortage of skilled tradespeople

5.65 As with many other industries in Australia's full employment economy, the construction industry is struggling to attract and retain skilled tradespeople. The committee heard from several witnesses that a lack of skilled tradespeople is of concern in the context of addressing housing affordability.

5.66 The Housing Industry Association told the committee that in 10 of its 14 trades, there is a 'critical undersupply' of labour nationwide. It added that immigration into Australia is fuelling demand at a much faster rate than it is helping the housing industry build to meet that extra demand.⁶⁷

5.67 Professor Andrew Beer told the committee that the shortage of skilled labour is a key supply constraint and that there needs to be action on a number of fronts:

...there is significant shortage of labour. We have not invested enough as a nation in supply of skilled labour for the building industry. Is it possible, for example, to reduce the apprenticeship times? Is it possible to increase retention of apprentices? Many people enter apprenticeships but they do not complete their apprenticeships and therefore they are not skilled labour in the longer term available for the housing market. Is it possible to keep people within the building industry for longer? At the moment many subcontractors fall out of the building industry after a relatively short period of time, for a whole raft of reasons. Those sorts of measures could be taken.⁶⁸

5.68 Interestingly, Master Builders Australia told the committee that in their view the skills shortage is not the principal reason why more houses are not currently being built. As Mr Harnisch observed:

I think the reason that there is underbuilding is really the fact that housing is in many cases out of reach. There is also uncertainty about where things are at. That is why the market is not reaching the underlying requirements. The issue of underbuilding is not related to the shortage of labour.⁶⁹

5.69 That said, Mr Harnisch did identify an apprehension within the construction sector about how it may cope in the future given the skills requirements of other sectors:

66 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 31.

67 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 99.

68 Professor A Beer, *Proof Committee Hansard*, 28 April 2008, p. 49.

69 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 27. The MBA submission made no mention of skills shortages as a supply constraint.

There are already concerns being expressed by builders about their capacity to secure labour to meet future housing demands. You may well say, 'Given that we are in a downturn, there should be plenty of labour around.' The reality is that state governments and this federal government have a very ambitious infrastructure investment program. And of course the resource boom is still going, which is where a lot of the trades and the skilled labour is going—so the construction industry is competing with other sectors.⁷⁰

5.70 Where this competition is on the industry's doorstep—as in Karratha—the skills shortage in housing is all the more acute. Ms Gloria Jacob, Deputy Chair of the Pilbara Area Consultative Committee, noted that there is not sufficient skilled labour for housing in Australia, 'let alone trying to bring it over here to the Pilbara, where we have no accommodation for them if they want to do building'.⁷¹ The committee also heard that the Perth construction industry had suffered some capacity constraints from the flow of workers to mining.⁷²

5.71 Mr Brett Gillan, Vice President of the Queensland Division of UDIA, noted that this year and next, the housing sector in Brisbane is likely to be in competition with building activity for civil and social infrastructure. He told the committee that 60 to 70 per cent of the overall cost of an urban infill development is the cost of construction, which makes it very difficult to deliver affordable infill projects. Mr Gillan anticipated double digit increases in construction costs next year as a result.⁷³

5.72 Mr Michael Scott, a past President of UDIA, told the committee that the Association's members are 'expressing concern' at the difficulty of finding workers. He noted that while UDIA did not have any numbers on skilled labour in the industry, there are anecdotal indications of shortages and broader concern at the industry's capacity to increase its future supply.⁷⁴

5.73 These concerns about the construction sector's future capacity were also evident in comments made by Dr Silverberg from the Housing Industry Association. Asked whether the construction industry had the skilled labour to satisfy underlying demand of 180 000 new dwellings each year, every year, his response was frank:

No, it does not. There are issues around the supply of skilled tradespeople. Of the 250,000 net permanent and long-term migration flow, about 800 people are residential construction tradespeople...The federal government has made some significant announcements in respect of housing supply

70 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 23.

71 Ms G Jacob, *Committee Hansard*, 7 April 2008, p. 54.

72 Ms D Ekelund, *Committee Hansard*, 8 April 2008, p. 5.

73 Mr B Gillan, *Committee Hansard*, 14 April 2008, p. 12.

74 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 78.

initiatives; we are going to have to have more skilled labour available if we are going to translate those policy announcements into bricks and mortar.⁷⁵

5.74 Mr Harnisch told the committee that the construction industry has been working closely with the government and the immigration department to make Section 457 visas more flexible and streamlined. He added that in the longer-term, there is a need to focus on issues of reforming training programs, and attracting and retaining skilled workers. Presently, the industry has a high dropout rate which, if not addressed, will produce a shortfall of semiskilled and skilled labour of about 40 000 people over the next five or so years.⁷⁶

5.75 In his evidence to the inquiry, Mr Savery noted PIA's proposal for the National Housing Supply Council to track skills in the construction industry over time and assess the impact of actions taken to address skills shortages in housing supply.⁷⁷ The committee agrees. The new National Housing Supply Council should establish a database which, on a state by state basis, monitors the available supply of skilled labour in the construction industry. This database should also project the construction industry's future skilled labour needs on a state by state basis.

Recommendation 5.1

5.76 The committee recommends that the proposed National Housing Supply Council develop a database of skilled labour in the construction industry across all skill sets and in all states and territories. It should be tasked with assessing the construction industry's future skilled labour needs based on projections of other industries' workforce needs and forecasts of both underlying and effective demand for housing. The Council should also record the contribution of immigration programmes to the construction workforce as well as the industry's retention rates.

The shortage of skilled planners

5.77 The committee received evidence from several witnesses that there is currently a shortage of qualified planners in many parts of Australia. Mr Savery gave the following overview of the current situation:

...the current planning profession skills shortage and the shortage of qualified planning assistants that exist in many local, state and territory governments are impeding the turnaround time frames within the development assessment process. In PIA's 2004 national inquiry into planning education and employment, a vacancy rate in planning positions of around 16 to 20 per cent was established through a survey of employers. The national inquiry made recommendations to address the full range of

75 Dr R Silverberg, *Committee Hansard*, 1 April 2008, p. 96.

76 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 23.

77 Mr N Savery, *Committee Hansard*, 1 April 2008, p. 58.

employment, workplace and professional development issues facing the planning profession, including the following recommendations to improve the supply of planners: increased overseas migration opportunities; PIA to become an assessing agency after getting planning onto the Commonwealth's list of professions in demand; increase the number of undergraduate and postgraduate planning places in universities; support rural students and other special target groups, including through cadetships and studentships; recognise the role of planning assistants and work with the vocational education sector to ensure that certificate IV courses are producing development-assessment-ready trainees; encourage the pooling of professional planners in rural and regional Australia; and promote rural and regional planning experience at universities.⁷⁸

5.78 Mr Russell from the Local Government Association of South Australia told the committee that the shortage of professional planners 'is probably the biggest issue at the moment impacting on approval times in South Australia'.⁷⁹

5.79 Mr Papageorgiou from the Brisbane City Council was asked to comment on how the planner shortage has affected the Council's work. He responded:

It has been a real problem for the last three years particularly. It looks like being a continuing problem. We are getting into more complex areas of Brisbane to develop. The assessment planner requires lots of project management skills. We have been losing our more experienced planners over time to the very buoyant development industry. That then compounds the problem of historical high levels of files to deal with. The relatively inexperienced people who are placed on it perhaps lack confidence in some of these key areas. That can lead to extended time frames.⁸⁰

5.80 Mr Hoffman from the Queensland Local Government Association told the committee that local councils have been losing a lot of their skilled staff to the development sector. In response, the Association has focused on increasing the attractiveness and the promotion of planning as a profession for school graduates and university undergraduates. It has also developed a paraprofessional planning course at a diploma level which is currently being attended by 90 local government employees.⁸¹

5.81 The Brisbane City Council's submission referred to its 'RiskSmart' program which outsources low risk planning applications to selected development consultants.

78 Mr N Savery, *Committee Hansard*, 1 April 2008, p. 59.

79 Mr Russell, *Committee Hansard*, 28 April 2008, p. 2.

80 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p. 23.

81 Mr G Hoffman, *Committee Hansard*, 14 April 2008, p. 34.

These appointed consultants can make the planning decision, although the Council retains responsibility for the paperwork and for checking the decision.⁸²

5.82 Ms Winzar from FaHCSIA noted that the shortage of skilled planners was an issue that had been raised with the department. She noted that the use of paraplayers to approve basic developments would free up qualified planners to work on larger and more complex developments:

...if you could get relatively simple things like pergolas and so on approved by paraplayers, perhaps the more skilled planners could be devoted to the larger and more complex developments. That should also speed up things.⁸³

Recommendation 5.2

5.83 **The committee recommends the establishment of a working group, chaired by the Development Assessment Forum, to review the need for classes of development to require planning approval. The focus of this working group should be to demarcate those activities that should be performed by fully qualified planners and those can be undertaken—at least initially—by less qualified 'paraplayers'.**

Conclusion

5.84 This chapter has highlighted the need for greater responsiveness of land release and housing supply to market demand. Efforts to this end should occur in a variety of contexts.

5.85 The Commonwealth government must deliver timely information on current and projected industry needs for skilled tradespeople, as well as funding (and perhaps operating) a tracking system of development assessment delays. State and local governments must simplify their planning frameworks to reduce the potential for delay in the land release and rezoning process. The Commonwealth and state governments must continually audit their available land and ensure that their planning frameworks provide timely and adequate provision of critical infrastructure in greenfield sites. In planning for urban infill, state and local governments must communicate with local communities to ensure that broad objectives and specific proposals are supported.

82 Brisbane City Council, *Submission 37*, pp 2–3. A similar idea was proposed by Master Builders Australia, *Submission 30*, pp 21–22.

83 Ms P Winzar, *Committee Hansard*, 1 April 2008, p. 5.

