SUBMISSION BY THE

Housing Industry Association

to the

Select Committee on Housing Affordability

Barriers to home ownership in Australia

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Comments are addressed to:
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HIA welcomes the opportunity to respond to the Senate Select Committee on Housing Affordability and report on the barriers to home ownership in Australia. The following submission responds to the specific terms of reference outlined and provides commentary on other issues HIA contends have eroded housing affordability. The report is predicated on the fundamental barrier to home ownership that being, the decline in housing affordability.

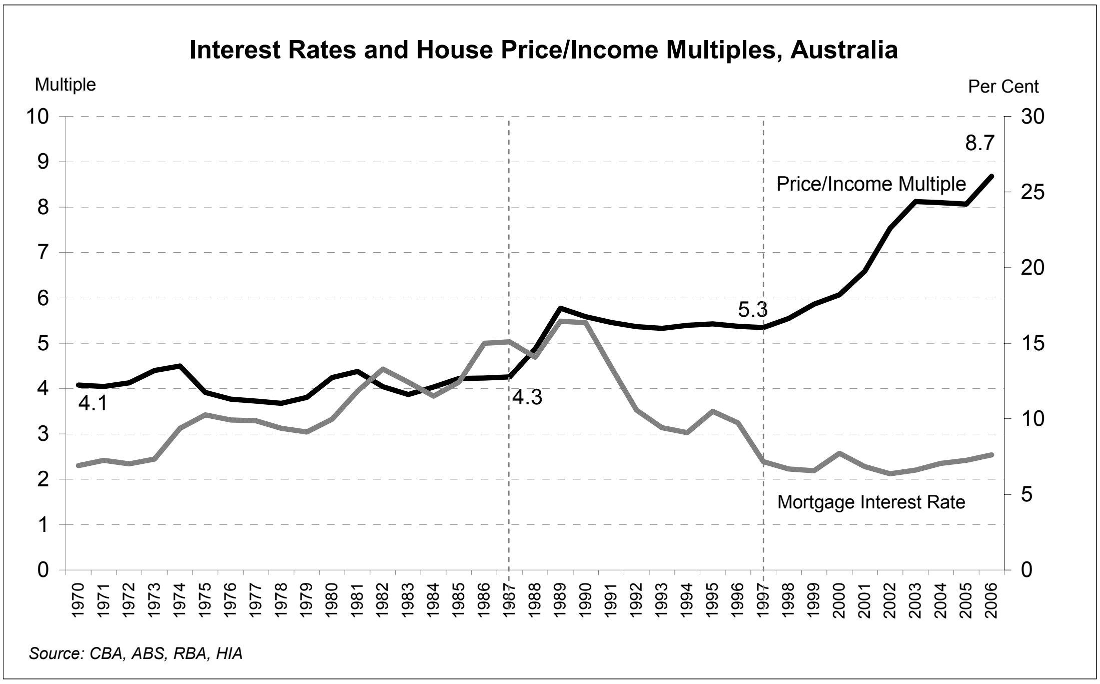
It is noted that the Committee has not sought commentary or advice in respect to role of local government. For the purposes of a more comprehensive assessment it is considered essential that local government regulation and taxes and levies be considered. Comments in respect to the above have been included to assist the Senate Select Committee.

Introduction

Housing affordability continues to decline, with interest rates and house prices again on the rise and demand for housing clearly outstripping supply, there is unlikely to be any real improvement in the short term.

The latest report from the Commonwealth Bank and the Housing Industry Association (HIA) shows that housing affordability fell by 1.7 per cent in the December 2007 quarter, reflecting an interest rate rise in November and double-digit growth in established house prices over the quarter. The Index measures average household disposable income divided by the minimum household disposable income required to purchase the typical first home. Housing affordability conditions in the December quarter were the lowest since the series began in 1984.

Today, one in every two first home buyers faces mortgage stress, and the house-price-to-income ratio is now approaching 9.0 compared to 5.3 in 1997[1] [2] [3] .



[1] House prices based on unpublished Commonwealth Bank of Australia house price series, income based on ABS, Average Weekly Earnings, Aug 2006, total earnings.
[2] Mortgage interest rate refers to the RBA's Standard Variable rate averaged over the year.
[3] Mortgage stress based on the ABS Survey of Income and Housing 2005/06 with an adjustment for recent interest rate rises.

The decline in housing affordability, once considered part of a cyclical trend that would correct itself over time, has become a full-blown epidemic.

How to measure the decline in housing affordability?

Housing stress, as defined by the Australian Bureau of Statistics, is where a household is committing 30 per cent or more of gross income on either mortgage or rent payments. This is a measure accepted by the housing industry but is in no way created or invented by the industry.

Using the ABS classification of housing stress, the 2006 National Census provides a concerning assessment of its incidence. It confirmed that 90 per cent of the 1.1 million households in housing stress earn less than $75,000 per annum. These households are not racking up debt on their principal place of residence to fund other investments. While some have suggested this may be the case, the proposition is ludicrous as it ignores a number of issues not the least of which is the fact that tax advantages are not accrued from holding debt in the family home. The census collected information on the contributions made from income to mortgage payments or rent, there is no ambiguity on this point.

The victims of the housing affordability crisis according to the Census can be broken into the following groups: couples with dependents, lone persons, couples with non-dependent children and single-parent families. At the time of the census more than 550,000 households were in mortgage stress. HIA modeling has confirmed that this figure has grown to 650,000 on account of five interest rate rises, forcing more people into mortgage stress.

Rental stress is also a very severe problem with one in three private renting households (520,000 households - Census 2006) facing rental stress. The number of households in the private rental market facing severe rental stress continues to grow and HIA modeling confirms that a further 70,000 households have entered rental stress since the completion of the 2006 Census. Taking into consideration both groups (mortgage and rental stress) yields a total housing stress figure of over 1.2 million households.

Housing haves and have-nots

Housing in Australia can increasingly be characterised by reference to the housing 'haves' and 'have-nots'. House prices in Australia have grown rapidly over this decade and those who bought into the market before the boom have experienced rapid growth in their asset values. Those who have only recently purchased or who are stuck in the rent trap and unable to move into home ownership have not been so lucky. Similarly, the situation is bleak for those in public and community housing as the housing stock ages and waiting lists grow.

The table below clearly demonstrates the massive increase in the price of housing in capital cities around Australia. The Australia-wide average has increased since 2000 from $204,000 to nearly $400,000 (95 per cent increase). During the same period the average full time earnings in Australia have increased from $808 per week to $1116 (38 per cent increase).

Australia House Price Growth, Cap Cities

	2000	*2007*	*Growth*
Sydney	290	480	65%
Melbourne	183	340	85%
Brisbane	148	350	137%
Adelaide	134	300	124%
Perth	163	465	185%
Hobart	112	280	151%
Canberra	193	430	123%
Darwin	184	390	111%
Australia	204	397	95%

Source: ABS House Price Indexes, 6416.0, HIA calculations

In 2000, the monthly repayment on a loan for the median house in Australia was $1330 per month. Due to higher house prices and interest rates the monthly repayment has increased by 117 per cent to $2892 per month[4] in 2007.

Inequitable burden in meeting the cost of residential infrastructure

Strong population growth and demand for new housing have both placed increased pressure on the delivery of infrastructure. In a number of instances the delivery of this critical infrastructure has fallen to local government and state governments. Yet at the same time they have received less funding for implementation. Reduced grants and subsidies from other tiers of government together with increasing community requirements for services and facilities, has therefore seen local government look towards their own communities to raise the necessary funding.

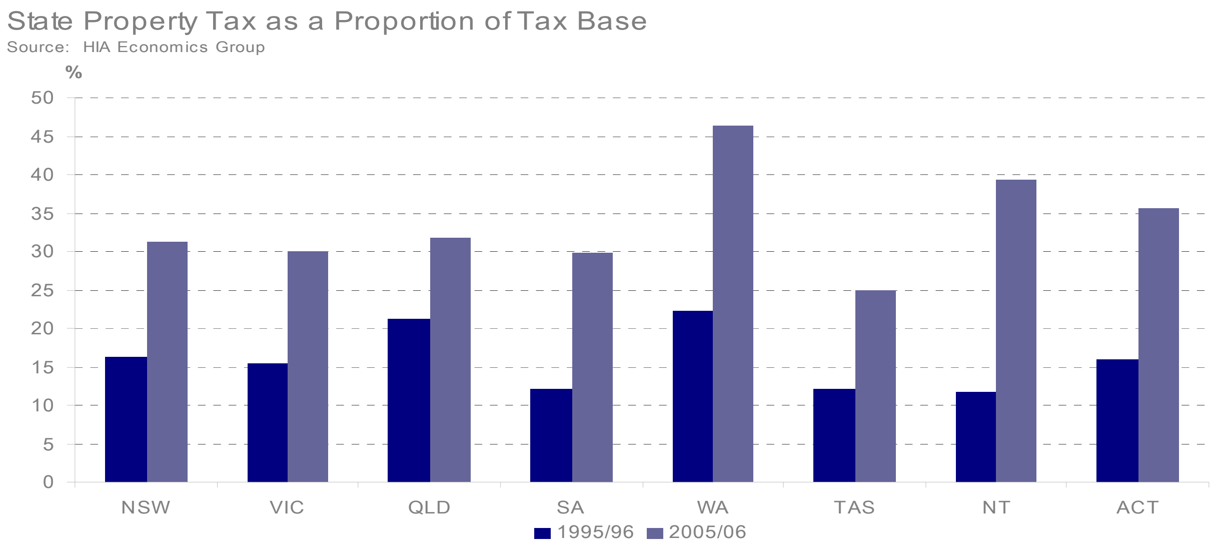
As a result highly variable property taxes and development charges on new residential development have emerged as a means of meeting infrastructure liabilities. Referred to as “other income” (which is shown in the issues paper to have increased by 14 per annum in the last decade) homebuyers are being targeted through development levies to fund many of the facilities which are accessed by the community as a whole. In previous generations broad infrastructure of this nature would have been funded through general rates or the taxation base.

Taxes and levies imposed by state and local governments

The most notable ‘intervention’ in housing markets over the past decade has been a substantial increase in the reliance of state and local governments on residential property for taxation revenue. This is a major determinant of the current housing affordability crisis.

The reliance of states and territories on stamp duty receipts and land tax as a revenue base has grown enormously in recent years. For new housing, development charges in excess of $60,000 charged by local and state governments combined with GST have added substantially to the cost of new housing and in many instances have stalled new development thus leading to further price pressures on existing housing stock.

[4] In March 2000 the standard variable rate stood at 7.3 per cent, by November 2007 the rate had risen to 8.55 per cent. Calculations assume a 10% deposit, no account is made for transaction costs such as stamp duty, legal fees and mortgage insurance.



Housing affordability has been significantly eroded as a result the state governments' shift from public borrowing to a user pays system for the development of new infrastructure. By forcing new homeowners to pay up front for the costs of new infrastructure, state governments have added significant additional costs to the price of a new home and consequently the mortgages and debt of households.

The list of charges state governments levy on new homebuyers is extensive and continually expanding. While not an exhaustive list, new home buyers are now expected to pay direct infrastructure charges for water and sewerage 'head works' upgrades and reticulation and for indirect infrastructure which includes: parkland and open space, the landscaping of streets, drainage systems, road and public transport facilities, pedestrian and cycle paths, libraries and museums, childcare facilities, public pools and recreation and entertainment facilities. Reliance on upfront development charges for infrastructure and services that used to be the responsibility of government is a consequence of insufficient state and local government funding to meet these liabilities. The failure of the federal government to make meaningful and tangible contributions in this area has exacerbated these costs, particularly in those areas experiencing infrastructure 'bottle necks'.

A crude assessment of the decline in housing affordability would look simply at the growth in these taxes and charges and from this declare that state and local governments are the cause for the decline in housing affordability. In many respects this approach or conclusion is drawn from an assessment of the symptoms rather than the actual causes.

It should be noted that state and local government expenditure obligations are growing at a much faster pace than their taxation revenues, inclusive of the GST. Many have been forced to impose higher levies, taxes and charges on residential development and other property to meet economic, community and social infrastructure requirements. This doesn't lessen the impact on the cost of housing but underlines the need for federal government involvement to share the cost of providing the infrastructure and support required for modern communities.

Raw land and need for investment in urban Australia

There has been considerable debate regarding the release of 'raw land' and housing affordability. HIA has for some time argued that the release of 'raw land' in itself will not cure housing affordability. Modern communities require essential services such as roads, water, schools, health care, parks, the list goes on. All too often the cost of providing these services are increasingly met through development charges levied on developers and builders.

Broad acre Development Costs

Government and regulatory costs for broad acre development in North West Sydney are estimated to comprise of 26 per cent of the cost of development. In Perth, it is around 15 per cent, Gold Coast around 13 per cent, Melbourne around 12 per cent and in Adelaide, around 8 per cent.

Broadacre Development Examples

Source: HIA Economics Group

	NW Sydney	Melbourne	Gold Coast	Adelaide	Perth
Land acquisition	$116,667	$50,000	$54,000	$10,938	$83,510
Standard construction costs*	$265,000	$265,000	$215,000	$167,638	$180,000
Regulatory construction costs	$19,500	$21,660	$11,550	$8,460	$18,200
Government costs	$124,281	$24,324	$30,053	$7,741	$34,478
Other costs**	$18,433	$9,000	$14,150	$5,202	$25,444
Govt and regulatory cost burden as % of total	**26%**	**12%**	**13%**	**8%**	**15%**

* Includes land preparation

**Development management costs; marketing; sales fees

There is a shortage of land, however, more importantly there is a significant shortage in the capacity of state and local government to meet the cost of providing essential services required to support new residential development. All evidence supports that new land is released in accordance with the capacity to provide essential services. Where land is being released it is increasingly the case that new home buyers are funding what used and ought to be the responsibility of governments.

The federal government has a responsibility to make a direct and tangible investment in urban Australia. This investment should not involve untied Special Purpose Payments. Rather, it should assist in augmenting the cost of residential infrastructure and improve the current planning and development assessment regimes that delay and add to the cost of new housing.

Once again HIA stresses the need for the Senate Select Committee to identify the cause of the problem in this area rather then merely focusing on the symptoms. Specific information is requested on the release of new land and against this request the following information is provided at Attachment 1.

Development Contributions

Development contributions for new residential development levied by local and state governments are certainly having a significant effect in both raising new house/unit prices and consequently skewing the type of development. Faced with significant development contributions, statutory charges and a raft of other taxes, builders and developers are simply unable to get a basic entry-level new residential product on the market that the average first homebuyer can afford. This means that an increasing proportion of all new homes and units built in Australia are for the 'trade-up' purchaser.

The costs referred to above combined with GST, other state taxes and regulatory compliance burdens in some areas of Australia add $100,000 to $150,000 to the price of a home. Assuming the purchasing capacity of a first homebuyer is $350,000, a developer or builder is faced with a rather daunting task: how do they purchase raw land and build a new home for less than $200,000? In many instances this is simply not possible and a number of builders and developers seek to produce a housing product aimed at the upper end of the market.

Home ownership rates arguably also tell an important story. The 2006 Census data shows that home ownership rate (purchasers and outright owners) among the 25 to 34-year-old age group has fallen from 61 per cent in 1981 to less than 48 per cent in 2006[5]. Despite significant growth in labour force participation, particularly in respect to female workforce participation, rising from 43.5 per cent in 1978 to 57.5 per cent in 2007[6], housing affordability for couples and families has declined.

Federal Government assistance in restoring affordability

Without the assistance of the federal government the reliance of state and local government on taxes and other charges on residential property (particularly new residential development) looks set to continue.

Commonwealth payments to the States as per the existing Commonwealth arrangement under untied Special Purpose Payments do not provide an effective solution. There is a need for innovation in the provision of urban infrastructure matched by planning and red-tape reduction in the home building and development areas. While some local and state government planning agencies have extremely efficient systems and processes there are also some shockers. Case studies taken from surveys of HIA major builders and developer members together with assessments of the duration of development applications confirm that unnecessary delays in convoluted and complex planning systems are constraining supply and adding tens of thousands of dollars to the price of a new dwelling. These costs are totally unnecessary. They do not arise because of an objection to a particular development or because of some complicated environmental consideration, but primarily due to inefficiencies in planning and regulatory processes.

The cost of community and social infrastructure required for new residential development should not be exclusively borne by new home buyers. There is a need to review the role of government in delivering the building blocks of modern communities. Private citizens, new home buyers and governments at all levels should share these responsibilities. In addition, local and state government should streamline planning processes and ensure that an adequate land supply program compliments state government strategic plans.

A Residential Infrastructure Fund should tie Federal Government funding to the ability of local and state governments to fast track land release, improve efficiencies and commit to initiatives to cut red tape. In part this proposal has been adopted by the Federal Government through the Housing Affordability Fund (HAF). The HAF is essentially a demonstration program due to limited funding (HAF is forecasted to cost $500 million over the forward estimates).

Need for reform in Commonwealth-State financial relations

Faced with growing community service requirements and expectations local and state governments (with constrained revenue raising capacity) have increased taxes and charges on residential property, particularly new residential development.

The cost of providing social and community infrastructure and related support services falls primarily to state and local governments. State governments collect 20 per cent of all Commonwealth and State taxation revenue but make more than 40 per cent of total government expenditure. In contrast the Federal

[5] ABS 2006 Census customised tables.
[6] ABS labour Force Survey, Dec 2007

Government collects 80 per cent of total taxation revenue and is responsible for just 57 per cent of total expenditure.

There are a range of measures available to the Commonwealth Government to address declining housing affordability. Fundamentally, however, sustainable and long-term restoration of housing affordability involves reform to Commonwealth–State financial relations, now long overdue. A reformed tax distribution system is likely to involve the states and territories receiving a percentage of income tax revenue directly.

It is a long-standing principle that the level of government providing a service or function should also have direct responsibility for the expenditure of tax revenues. The complicated distribution of GST revenues and Commonwealth Special Purpose Payments has resulted in considerable inequity and inefficiency between the three tiers of government.

A revised income tax distribution model would ensure that equity is restored to the allocation of tax revenue. Such a model may see income tax revenue apportioned on the basis of labour force participation, population and economic growth. Under such arrangements state and local governments would receive income tax revenue for successfully completed functions or projects delivered. Current arrangements often involve financial supplementation in a range of areas with little and in some instances no, measurement of performance or accountability for investment in infrastructure, or any obligation to improve service delivery.

Affordable supply responses are key

HIA's policy responses to tackle affordability have stressed the need to increase the supply of affordable housing and stripping out the exorbitant statutory costs associated with new housing. In HIA's view, demand pressures on the existing housing stock is forcing established house prices up and high development charges and associated regulatory costs, taxes and charges are delaying new construction and adding tens of thousands to the cost of new residential dwellings.

Production of new residential dwellings is approximately 153,000 per annum. HIA contends that underlying demand for housing is such that an additional 25,000 dwellings over current production is required.

Underlying Demand for Housing

	Underlying demand	Housing starts	Aggregate short fall in 2009/10
2003/04	158,569	170,065	
2004/05	159,519	174,675	
2005/06	162,641	159,896	
2006/07	167,383	151,724	
2007/08	169,936	152,278	
2008/09	172,528	157,637	
2009/10	175,159	167,596	75,000

Source: ABS, HIA

Need for reforms in home loan lending

Despite low unemployment figures, sustained economic growth and high consumer confidence, personal bankruptcies went up by 17 per cent in the 2006-07 financial year. The financial strain on many Australian households from either mortgage stress or rental stress is evident across the country. There are now more than one million households in housing stress, with projections showing that this number will increase significantly during the next three years.

To combat personal bankruptcies the answer lies not in more regulation or imposing loan-to-value ratio restrictions on home loans. Suggestions that all, would-be home purchasers, should have a minimum twenty percent deposit are not only unfair, they fail to recognise that borrowers in some areas in Australia require an $80,000 deposit. Measures such as these will only widen the gap between the housing haves and housing have-nots.

Additional regulation is not the solution

Given the existing complexity and volume of paperwork involved in the home loan application process, the creation of additional regulation must be discouraged. The cost of additional regulation is likely to be passed on to the loan applicant and pose further complexity, which, for most, is already a complicated process.

To deny access to home ownership to those who have not been able to save a specified deposit is inequitable. Such proposals would unfairly discriminate against many thousands of would-be aspiring home owners.

A more equitable and effective approach would involve the provision of **independent** financial advice for new borrowers as a formal part of the loan application process. The financial counselling should provide valuable advice on saving and budgeting, fixed and variable interest rates and obligations under loan contracts.

Extension of the Australian Government Financial Literacy Program

Financial Literacy in Australia has been a concern for some time. Hence the need and establishment of the federal Financial Literacy Program. The program is a positive initiative and provides practical advice on saving, investing, managing debt and superannuation with the objective of improving financial literacy.

For most, the purchase of the family home is the biggest financial decision of one's life. Naturally, emotion is running high at the time of purchase and few new borrowers would be conversant with the terms and conditions contained within loan agreements. Securing a loan is paramount. Less important is a knowledge or understanding of financial markets. As we know, an interest rate increase of just 0.5 per cent can have a serious impact on the household budget of a first-home purchaser.

As with any investment decision, getting the right advice is essential. Financial advice should be provided to would-be home purchasers who may require more than a 90 per cent loan to enter the housing market. Similarly, financial advice should be provided as a customer service for mortgagors who throughout the term of a home loan find themselves in mortgage stress due to interest rate rises or financial complications.

Mortgage Insurance

Many prospective mortgagors have a false sense of security in respect to mortgage insurance. Mortgage insurance provides no protection for mortgagors in the event of a forced sale. The insurance provides protection exclusively for the bank or financial institution providing the loan. The mortgage insurer covers the home lender in the event of a deficiency in sale proceeds and can pursue the borrower for recovery.

HIA Mortgage Assistance Program (MAP)

Under HIA's proposed MAP, free independent advice would be provided to first-time home loan applicants seeking loans for 90 per cent or more of the house purchase price. Under this proposal, lenders would be required to sight evidence that independent financial advice had been received by the loan applicant, prior to approving a loan application. Advice would need to be relevant and applicable to the loan application that would necessarily involve advice and counseling tailored to the specific financial loan and circumstances of the applicant.

In addition, a decision by a bank or lending institution to raise interest rates on variable loans independently of the Reserve Bank would trigger a **requirement** for those lenders to offer without fee the MAP to mortgagors identified as being in mortgage stress.

Financial advice would provide important information to the applicant in relation to debt servicing obligations including the impact of interest rate rises on the household budget. Advice should also cover information on measures to offset the impact of these risks. Applicants should also receive advice on managing their personal budgets, specifically whether the loan they were seeking was practical in light of their existing base wage as well as other debt-servicing obligations.

For new loan applicants a financial planner would need to certify that qualified advice had been provided.

Funding and operation of the program

The cost of providing this service should be shared between the Federal Government, State Government and licensed financial institutions. First-time owners should not be responsible for meeting the cost of providing this service. The most appropriate means of ensuring compliance with the requirement would be referencing the obligation within a mandatory Code of Practice.

Banks and lending institutions would be responsible for the cost of providing this service to all customers who encounter mortgage stress as a consequence of a decision by a bank or lending institution to raise interest rates independently of the Reserve Bank. First-time home loan applicants would receive the advice free of charge, the cost of which would be shared equally between the Federal Government and loan provider.

Direct Commonwealth Support for Infrastructure

There is clearly a need for the Federal Government to meet what is a growing requirement for community and economic urban infrastructure. Without this assistance the reliance of state and local government on taxes and other charges on residential property will continue.

Commonwealth Payments to the states as per the existing Commonwealth arrangement under untied Special Purpose Payments do not provide an effective solution. There is a need for innovation in the provision of urban infrastructure matched by planning and red tape reduction in the home building and development areas. While some local and state government planning agencies have extremely efficient systems and processes, there are also some shockers. Case studies taken from surveys of HIA major builders and developer members, together with assessments of the duration of development applications, confirm that unnecessary delays due to convoluted and complex planning systems are constraining supply and adding tens of thousands of dollars to the price of a new dwelling. These costs are totally unnecessary. They do not arise because of an objection to a particular development or because of some complicated environmental consideration, but purely due to inefficiencies in process.

The cost of the community and social infrastructure required for new residential development should not be exclusively borne by new homebuyers. There is a need to review the role of government in delivering the building blocks of modern communities. Private citizens, new homebuyers and governments at all levels should share these responsibilities. In addition, local and state government should streamline planning processes and ensure that an adequate land supply program complements state government strategic plans.

A Residential Infrastructure Fund should tie Federal Government funding to the ability of local and state governments to fast track land release, improve efficiencies and commit to initiatives to cut red tape. Funding should be competitively assessed and merit based; political pork-barreling has a long history of aiding and abetting corruption and inefficiency rather then promoting lasting benefits. This proposal recognises that a vertical fiscal imbalance in Commonwealth–State relations is real and that a bridge to equity involves a version of competition payments.

Promoting a savings culture, particularly in the current environment, is essential. The incidence of 100-plus per cent mortgages is far too common. Household debt has grown at unsustainable levels and, as a consequence, increases in interest rates and the cost of living are placing extraordinary hardship on a new group of Australians. Linking rewards for saving to home ownership is a practical way of developing a savings culture, reducing inflationary pressure and curbing reliance on 100 per cent loans.

Federal role in planning reform

Unlike building control that is regulated nationally through the Building Code of Australia, providing predictability and flexibility, the process of obtaining development approval has become much more complex, fragmented and inconsistent across the country. The myriad of planning controls erodes housing affordability and diminishes community and industry confidence in the benefits of planning systems. Planning reform supported by the Federal government could contribute significantly to reducing housing costs.

Efficient planning systems can deliver affordable outcomes by:

- reducing complexity and providing greater predictability;
- limiting who can influence the decision process once the planning rules and strategic direction have been determined;
- increasing competition in development assessment;
- ensuring transparency and reasonableness in the application of upfront development charges;
- undertaking comprehensive regional and local planning; and by
- being part of a nationally consistent approach.

Major issues in planning, infrastructure and land supply

Some of the key ‘planning system’ influences on housing affordability over the past decade include:

- a significant increase in the number of proposals that now require planning approval;
- greater opportunity for persons other than a project proponent to influence the decision making process;
- the increased complexity of assessment processes, accompanied by a plethora of planning legislation and referral or concurrence agencies;
- increased uncertainties and costs associated with diverse and layered planning systems;
- government’s continued monopoly in undertaking all development assessment work, accompanied by a shortage of skilled planning and associated staff, particularly at the local government level; and
- the rigid application of development standards that generally discourage housing mix and choice and limits the ability of the market to deliver accommodation types that suit demand.

There are a number of ways in which planning systems have a direct impact on land prices and the price of houses and apartments. These include the way in which land supply is managed, the time and cost associated with obtaining planning approval and the method of funding by which local, regional and state infrastructure is provided.

A New Approach: First Home Savers Accounts

Deposits in First Home Saver Accounts will provide an invaluable leading indicator of planned house purchasers and, if used correctly, could assist the industry, as well as state and local governments, to plan for new construction and associated infrastructure requirements. These accounts will not in themselves arrest the decline in housing affordability. What they will do is assist future homebuyers with a basic understanding of how to save and aid in curbing the blowout in debt as the only means of entering home ownership. Sufficient warning of consumer demand would allow the housing industry to plan additional supply and thus avoid price pressures on existing housing stock arising from an increase in demand. Unlike the First Home Owners Grant, First Home Saver Accounts reward 'sweat equity'. Aspiring first homebuyers will have committed to a savings plan and have a worthwhile deposit.

It is imperative that information in respect to the size and age of deposits be reported against specific locations as this information will be invaluable for industry and local and state governments in planning for future demand. Sufficient warning of consumer demand would allow the housing industry in particular to plan additional supply and thus avoid price pressures on existing housing stock arising from a potential increase in demand from first homebuyers.

Measures to Increase the Supply of Rental Housing

There is also an urgent requirement to increase private investment in affordable rentals. Clearly, yields of four and five per cent have not been sufficient to sustain investors and in volume terms there has been a significant reduction in investment in residential property since the early 2000s. High transaction taxes, low yields and holding taxes have certainly dampened investor interest. Notwithstanding this cooling in interest, there are those who call for the abolition of negative gearing for investors. The effect of implementing such a suggestion would certainly kill any hope of increasing housing supply and send growth in rents closer to 20 per cent per annum.

The National Affordable Rental Scheme as proposed by the new Federal Government is a financial incentive package to attract private investment into affordable rental housing for lower-income households, especially from large investors. The scheme involves providing developers, investors or landlords with a financial incentive of a specified annual value (per dwelling) sufficient to attract investment in designated types of housing. The success of this scheme is predicated on increasing the supply of new affordable residential dwellings and therefore should only apply to investment that increases the volume of Australia's existing housing stock. For the tenant the scheme offers some assurances that rents will remain below market rates and an increase in availability of what is becoming a rare commodity, affordable housing.

In respect to this initiative HIA recommends that guidelines for the scheme remain flexible enough to promote innovation. Given the cost of capital the incentive from the Commonwealth and States of $6,000 and $2,000 respectively, HIA believes that rather then a strict adherence to these amounts, they should rather constitute an average contribution under the scheme. In areas of Australia's where the cost of land and development is considerable higher additional investment incentives may be required to promote interest and take-up of this initiative. HIA commends the principles behind the initiative, however, further details are required before a firm assessment can be made on the success of the initiative to increase the supply of affordable housing for the private rental market.

Skill Shortages in the Construction Industry

The residential construction industry is more vulnerable to the skill shortages prevailing in the Australian labour market than other industry sectors due to an ageing employment base and considerable unmet demand for housing. Skilled immigration and a higher intake of migrants was meant to address skills shortages but in many respects the failure to effectively target and entice skilled migrants from a building and construction background has exacerbated skill shortages.

Australia currently has a migration program the composition of which includes international students, skilled migrants, temporary and permanent migrants. The total equates to 250,000 to 260,000 migrants in 2006–07, 50 per cent of whom were students.[i] Unfortunately, Australia has only been successfully attracting approximately 2,500 migrants (annually) who have construction trade skills. Around one third of this number takes up work in residential construction. Clearly, there is a need to examine in more detail measures that target the skills sets in which Australia is experiencing shortages. Skilled migration should be delivered to ensure that economic production across sectors experiencing capacity constraints is enhanced.

HIA modeling confirms the residential construction industry requires an additional 20,000 skilled tradespeople before 2010 to meet projected demand. Given the age profile of the existing labour force and the underlying demand for housing, neither graduations from apprenticeships nor the current skilled migration program will address adequately shortages in the residential building industry. Specialist trades contribute 40 per cent to the cost of a new home. Efforts to increase the availability of skilled trades would play a vital part in ameliorating new house price pressures and improving supply.

Conclusion

The principal barrier to home ownership has been, and remains, the decline in housing affordability. Improving housing affordability does not involve a quick fix. More than 20 years of policy and investment neglect by governments have left the supply of Australia's housing stock bare. Governments at all levels are now making appropriate noises and in some instances commitments; however, there is an urgent need to invest in measures that increase the supply of affordable housing. These measures are going to necessarily involve stripping out the exorbitant 'fixed and statutory costs' imposed on housing.

HIA thanks the Senate Select Committee for the opportunity to comment and we look forward to providing further information.

Attachment 1

Observations regarding demand for raw land in each state

New South Wales

- **Sydney** has a long term target, in accordance with its metropolitan strategy, of producing 7,000 - 8,000 greenfield lots per year, yet only 2,650 lots were produced in 2006-07.
- Sydney is anticipated to grow by 1.1 million over the next 25 years (to 5.3 million), requiring an additional 640,000 dwellings. The Metro Strategy suggests that 60-70% of these new dwellings will be provided in existing urban areas and that 7,000 - 8,000 new lots will be created each year to provide for the greenfield share of new housing.
- The Metropolitan Development Program (MDP) provides a new commitment to land release; Growth Centres Commission established 2006; Precinct Acceleration Protocol introduced for growth centres; recent review of principles for infrastructure funding; several sub-regional strategies released; METRIX tool – now available to assist Councils to plan for housing targets in brownfield areas.

Queensland

- **South-east Queensland's** supplies are constant (at around 13,000 - 14,000 lots per year) but struggle to keep up with demand.
- Over the past two decades South East Queensland (SEQ) has been Australia's fastest growing region. From a population of around 2.8 million in 2006, SEQ is projected to grow to 3.4 million in 2016 and reach 4.0 million by 2026. Average population growth over the 20 years to 2026 is projected to be almost 59,000 people each year. The total number of dwellings in SEQ is expected to grow from 1.2 to 1.8 million by 2026, an increase over 600,000 dwellings.
- The SEQ Regional Plan establishes a framework for increasing the proportion of new dwellings provided through infill or redevelopment from 30 per cent in 2006 to 40 per cent of all dwellings by 2016 and 50 per cent of all dwellings between 2016 and 2026.
- 14,985 residential lots were produced in SEQ in the year to March quarter 2007. The number of lots consumed in SEQ in the March Quarter of 2007 increased by 16.6 per cent to 4,325 lots.
- The population capacity of the SEQ Regional Plan's settlement pattern is estimated to be within the range of 3.8 million to 4.2 million people and therefore supposedly provides sufficient land to accommodate the projected population. The State Government has indicated that it will review the projections every five years with an aim to ensure that at least 15 years of land supply is maintained. The promise of a formal land monitoring program on the release of the Regional Plan involving government and industry has not yet materialised. Industry concern has been expressed that around 20-30 per cent of land identified in previous broad hectare studies is not practically available for development as a consequence of existing uses and environmental constraints.

Victoria

- **Melbourne** has been a prolific producer of greenfield lots, although it has recently encountered difficulties in the city's south (and in Geelong).
- Melbourne is estimated to grow by 1 million people by 2030, or an additional 620,000 households. Melbourne 2030 sets aspirational housing targets that predict the share of new housing from greenfield sites to decline from the current 38% to 22%.
- Melbourne produces more than 10,000 greenfield lots per year. There are currently around 11,000 lots under construction across the growth areas.
- The Victorian Government's benchmark in Melbourne's designated growth areas is to have a minimum 15 year land supply of broad hectare residential land of which at least 10 years supply should be zoned to permit development.

- There is currently sufficient broad hectare land (both zoned and unzoned) to provide 15 years supply. This is down from a previous supply of over 20 years, mainly because of increased demand.
- Melbourne is now expected to reach 6.2million people by 2020, some 10 years earlier than previously expected.
- There is currently 7-8 years supply of zoned residential land in the combined areas of metropolitan Melbourne and Geelong (despite shortfalls in the south of Melbourne and in Geelong).
- The Government has declared a renewed vigour in meeting Melbourne's population and housing expectations. A new Urban Growth Zone (UGZ) was announced in March 2008. Designed to fast-track the rezoning of farm land for homes in Melbourne's growth areas, the plan is intended to accelerate development of more than 90,000 land blocks.

South Australia

- **Adelaide** South Australia's Strategic Plan 2007 sets a state population target of "2 million people by 2050", maintaining regional South Australia's share at 18 per cent. These targets represent an increase of 450,000 people state-wide over the current population of 1.55 million, including an increase in the rural and regional population of 90,000. Over the next 25 years Adelaide's population is expected to grow by 210,000.
- Adelaide's underlying demand for greenfield lots is about 3,000 per annum.
- Adelaide's total supply of metropolitan land is around 3,000 hectares (10-12 years supply), not including planned expansion of UGB or other regional centres e.g. Mt Barker. There are approximately 20,000 greenfield lots within the UGB, not including the recently announced expanded areas.
- The South Australian Government has recently decided to expand Adelaide's Urban Growth Boundary by an additional 2,000 ha.
- Both Adelaide and Melbourne have strict urban growth boundaries imposed. These can only be varied by parliamentary processes.

Western Australia

- **Perth** uncovered significant process delays in the conversion of "conditionally approved" lots to registered lots in an independent review undertaken this year. A revised Government target of delivering 21,000 lots to market this year was not met.
- Perth (including the Perth metropolitan region, Peel and the City of Mandurah and Shire of Murray) will accommodate an additional 760,000 more people by 2031, requiring an additional 370,000 homes.
- Perth's Network City Strategy proposes to contain urban growth on the fringe so that fringe development accommodates only 40 per cent of new dwellings, with the remaining 60 per cent provided in existing urban areas.
- Industry demand is roughly at 14,000 - 16,000 lots per annum (although current Government target is for 21,000 lots for Perth/Peel regions per annum.
- HIA maintains some concerns in respect to the 'joint venture' land release program utilised by the Western Australian government to release government owned raw land. This process encourages developers to add additional amenity and public services as part of their tender. Shortages in the land release program often result in developers looking to 'outbid' each other in respect to additional items for inclusion in tender documentation. Most of these additions involve additional expense and thus have a negative impact on housing affordability. Additions often include public space for parks and other recreational areas, sustainability measures, design guidelines and privately funded roads and other infrastructure to name but a few. The cost of residential land is then further exacerbated given the relative shortage of developable land released to market.