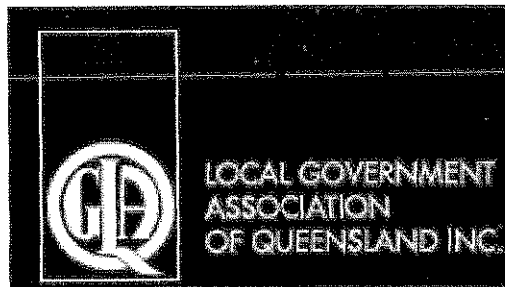


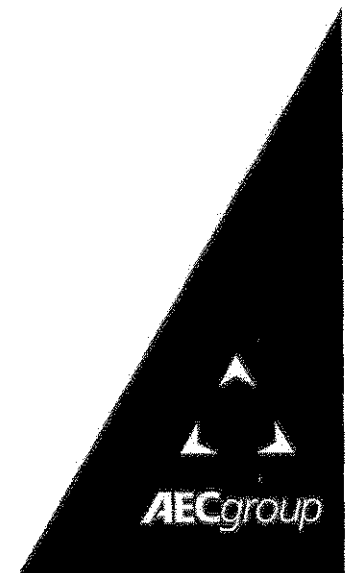


# Assessment of the Factors Influencing Housing Affordability in Queensland

Final



ECONOMICS > FINANCE > MARKET RESEARCH > PROPERTY ADVISORY  
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## Executive Summary

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The claim by the Queensland development industry that government planning policy, particularly land release, approvals processes and taxes and charges, is largely responsible for the increase in house and land prices in Queensland and the decline in housing affordability is unproven.

The sharp increases in residential property prices in Queensland and Australia more broadly has been the focus of a large amount of industry and government research. The leading and most comprehensive research was undertaken by the Productivity Commission (2004) in its inquiry into First Home Ownership in Australia. With regard to the development industry's claims, the Inquiry concluded:

- Much of the increase in housing prices during the recent boom can be explained by 'market fundamentals', especially cheaper and more available housing finance and higher incomes. If sustained, these changes will have brought about a structural shift up in prices;
- Recent price increases have been mainly due to the surge in demand in established areas, and therefore improvements to land release policies or planning approvals processes could not have greatly alleviated them;
- Increased taxes such as the GST and stamp duty have played only a minor direct role in recent house price growth, although it is noted government needs to consider how best to reduce its reliance on stamp duties;
- While infrastructure charges, like other costs of housing, have increased over time, they cannot explain the surge in house prices since the mid-1990s; and
- While recent interest rate rises and further price increases in some markets may lead to further declines in affordability in the short term, a more subdued housing market and continued income growth should in due course make it easier for prospective home buyers to enter the market.

These findings rebuke all of the issues being campaigned by Queensland's development industry against government's land use planning policy.

Added to this, analysis of lot approvals and production trends by Councils in Queensland relative to developer demand and take-up clearly demonstrates that enough land is being provided to the market. Across Queensland as a whole, the rate of production of lots by developers has been 30% below the rate of Council approvals. In South East Queensland, developer production was 25% less than the rate of approvals, confirming adequate land is being made available to the development industry. Added to this, the rate of production of lots by developers was below the rate of consumption (as measured by dwelling commencements) indicating developers have not kept pace with demand despite having the government planning approvals to do so.

It is also noted that during the housing boom over the past four years – the period when housing affordability pressures have been most acute – the development industry's key players in Queensland (based on five listed property companies in Queensland with residential development as a core business) have recorded significant financial growth, including a doubling in market capitalisation and an average return on investment of 20%. These results confirm developers have not absorbed any of the cost increases and have continued to pass them directly to end users to maintain their economic returns and increase their net profit on what is a much larger revenue base due to the higher prices. On this note, research indicates there are a number of innovative approaches being implemented across other parts of Australia by property developers to address housing affordability issues that could be implemented in Queensland, including delivery of more affordable housing through lower developer margins.



It is clear the industry campaign against government land use policy and taxes is being led solely by peak development industry representative bodies. An analysis of media announcements and official reports to market by major residential property developers in Queensland revealing no statements regarding the issues being campaigned.

A final critical finding is that the research prepared for the development industry's inquiry, which is used to completely underpin its arguments against government's land use planning policy, is in dispute, particularly calculations regarding the percentage shares of final house and land costs and the percentage growth in land costs and government charges. The figures do not add up and provide further question marks over the development industry's assertions.

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# 1. Introduction

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## 1.1 Background

House prices across Australia have risen significantly in the past 3-5 years. Queensland, in particular, has recorded some of the most significant and sustained growth in house prices. Recent reports and announcements by the development industry's representative bodies, led by the Urban Development Institute of Australia (UDIA), have suggested that restricted land release, inefficient approvals processes and excessive charges by government are leading causes of the land and housing price growth and the pressures on housing affordability.

## 1.2 Purpose of Study

This study, entitled *Assessment of the Factors Influencing Housing Affordability in Queensland*, has been prepared to independently assess the drivers of housing price increases and pressure on housing affordability in Queensland on behalf of the Local Government Association of Queensland (LGAQ). The study also reports on the financial performance of key residential property developers in Queensland and their public communications regarding government land planning policy.

## 1.3 Report Structure

**Chapter 1 – Introduction:** Background, purpose of the study, report structure, abbreviations and disclaimer.

**Chapter 2 – Development Industry Concerns:** Overview of the development industry's concerns regarding housing affordability and the influence of government's land planning policy, approvals processes and infrastructure charges.

**Chapter 3 – Government and the Housing Market:** Overview of the role of Government in the housing market, including planning and monitoring, assessments and approvals, and charges and taxes.

**Chapter 4 – Housing Prices and Affordability Trends:** Overview of the trends in housing prices and affordability in Queensland based on the most accurate data available.

**Chapter 5 – Factors Impacting Housing Affordability:** Review of the factors influencing housing affordability, including the findings of the Productivity Commission Inquiry into First Home Ownership, lot approval and production trends in Queensland, and the financial performance and market communications of the development industry.

**Chapter 6 – Key Issues and Conclusions:** Summary discussion of the influence of government's land planning policy and charges on housing affordability in Queensland.

## 1.4 Abbreviations

HIA – Housing Industry Australia  
LGAQ – Local Government Association of Queensland  
PCA – Property Council of Australia  
QMBA – Queensland Master Builders Association  
REIQ – Real Estate Institute of Queensland  
UDIA – Urban Development Institute of Australia

## 1.5 Disclaimer

Whilst all care and diligence have been exercised in the preparation of this report, the AEC Group Limited does not warrant the accuracy of the information contained within and accepts no liability for any loss or damage that may be suffered as a result of reliance on this information, whether or not there has been any error, omission or negligence on the part of the AEC Group Limited or their employees.

## 2. Development Industry Concerns

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### 2.1 An Overview of the Campaign and Key Concerns

The Queensland development industry, led by peak industry representative bodies the UDIA with support from the PCA, HIA, REIQ and QMBA, has been running an active campaign for the past two years regarding the impact of government's land planning policy on land and house prices and housing affordability pressures in Queensland.

In particular, the development industry argues that the leading causes of the housing price growth and the pressures on housing affordability in Queensland are:

- Restricted land release by local government;
- Inefficient development approvals processes by government; and
- Excessive infrastructure charges and taxes by all levels of government.

Media searches of company announcements and official reports to market by leading residential property developers in Queensland have not identified any specific references to these issues.

### 2.2 Key Findings of Research Prepared to Support the Campaign

To support its claims, the UDIA undertook an industry inquiry 'An industry inquiry into affordable home ownership in Queensland', to investigate the following issues:

- Home ownership affordability in Queensland;
- Perceived inadequate levels of land supply for future development; and
- The potential adverse impact on the Queensland economy that would result in a Sydney-style affordability crisis.

Four research reports were commissioned by the UDIA to assist with the Inquiry. One of these was the Matusik Affordability Measure (April 2006) which summarised the housing affordability situation is:

*"Across Queensland the typical second hand house now costs \$328,000, however the average Queensland household earns \$62,400 per annum and can only readily borrow \$236,000 for their principal place of residence.*

*With interest rates likely to rise during 2006; rents already rising sharply; and end property values starting to lift again, housing affordability across Queensland will erode even further, if something is not done."*<sup>1</sup>

The Matusik Affordability Measure reports that the average Queensland household can only afford to purchase 39% of the detached houses for sale across the State. Five years ago, the average household could afford to purchase 76% of the houses on sale. The research categorises only two centres (Rockhampton and Maryborough) as affordable, compared with 16 out of 20 five years ago.

The Inquiry identifies government charges, land costs and land supply monitoring as three of the main reasons for the decline in housing affordability over the past five years. The following summarises the Inquiry's key findings:

- Government charges – in 2000, government taxes and charges constituted 6.9% of the final cost of a new home. In 2005, these taxes represented 22.5%, nearly a quarter of the cost of the house;
- Land costs – land costs have increased by 85% on average across Queensland's 20 largest centres in 5 years, adding a reported \$100,000 extra to the cost of a vacant block in Brisbane. The Inquiry reports that the cost of vacant land is directly related

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<sup>1</sup> Urban Development Institute of Australia (2006) p. 1



to the availability of other vacant land in its vicinity and for this reason government should ensure enough available land is available for future growth needs; and

- Land supply monitoring – the Inquiry finds that there is no formal body charged with monitoring land supply issues in Queensland. This is reported as important given any underestimation of land supply needs can have a significant upward impact on prices.

The key conclusion of the Inquiry is:

*“With the combined effects of increases to the cost of vacant land and escalating taxes and charges on building a home, the purchase price of a new house or apartment is rapidly spiralling out of reach of the average-income family.*

*...If current trends are not urgently addressed, most single-income families and many dual-income families will be priced out of the market completely by 2010.”*

The Inquiry reports that this situation could impact the competitiveness of Queensland as a place to live and reduce Queensland Gross State Product by up to \$280 million, in turn costing Queensland 1,800 full-time jobs.

To address the housing affordability issues raised by the Inquiry, the UDIA outlines the following *Housing Affordability Restoration Plan*:

1. Establish an independent statutory authority (to be called the “Urban Land Monitoring Authority”) whose primary responsibility will be to evaluate and report on an annual basis on land supply issues throughout Queensland;
2. To immediately undertake a comprehensive land supply evaluation by each Local Authority and then for local government to work cooperatively with the Urban Land Monitoring Authority to prepare a ‘State-of-the-State Report’ for the Queensland Government, within 12 months of the establishment of the Authority;
3. For the First Home Owners Grant to be increased to \$14,000 for existing dwellings and \$21,000 for new dwellings immediately;
4. For the process for planning scheme amendments as contained in the Integrated Planning Act to be immediately amended to provide for a fast-track review and change mechanism to enable land to be made available for future development within 12 months;
5. For a major review of the South East Queensland Regional Plan and South East Queensland Infrastructure Plan to be implemented immediately following the handing down of the first report of the Urban Land Monitoring Authority, to ensure that adequate land and appropriate infrastructure is provided to meet revised demand levels;
6. For a comprehensive review to be undertaken by the Queensland Government into the practice and process of infrastructure charging for new development, paying specific attention to variations in charges that occur between Local Government Areas. Further, this review should consider aspects of intergenerational equity in respect of the imposition of taxes and charges on the existing and future generations of home owners; and
7. For an immediate moratorium to be implemented through the State on increases in infrastructure charges for two years until the infrastructure charging review is concluded and anomalies and inequities addresses.

## 2.3 Critique of the Research used to Support the Campaign

Overall, the Industry Inquiry and the campaign led by the UDIA with support from other development industry bodies asserts that the increase in land and housing prices in Queensland relates largely to inadequate government land planning policy and excessive taxes and charges.

However, this argument ignores the fundamentals of the housing market and what drives house price increases. In particular, the analysis contradicts a number of central findings of the Productivity Commission's Inquiry into First Home Ownership (2004). The Inquiry was undertaken in response to a request by the Hon. Peter Costello, Treasurer, regarding first home ownership trends in Australia. Some of the key findings of the inquiry were:

- Recent price increases have been mainly due to the surge in demand in established areas, and therefore improvements to land release policies or planning approvals processes could not have greatly alleviated them;
- Increased taxes such as the GST and stamp duty have played only a minor direct role in recent house price growth, although it is noted government needs to consider how best to reduce its reliance on stamp duties;
- While infrastructure charges, like other costs of bringing housing to the market, have increased over time, they cannot explain the surge in house prices since the mid-1990s;
- Much of the increase in housing prices during the recent boom can be explained by 'market fundamentals', especially cheaper and more available housing finance and higher incomes. If sustained, these changes will have brought about a structural shift up in prices; and
- While recent interest rate rises and further price increases in some markets may lead to further declines in affordability in the short term, a more subdued housing market and continued income growth should in due course make it easier for prospective home buyers to enter the market.

In addition to the above, there are also a number of ambiguous results reported in the Industry Inquiry's research, including those fundamental to its arguments regarding the contribution of government taxes and charges to increased housing prices.

A scrutiny of media announcements and official reports to market by major residential property developers active in the Queensland market also does not reveal any specific grievances with government's land planning policy or charges.

## **3. Government and the Housing Market**

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### **3.1 Overview of Government's Role**

Government plays a key role in regulating Queensland's property market, particularly the housing market. All three levels of government are involved, however the primary responsibilities for land use planning fall to local governments, of which there are 125 responsible for land use planning in Queensland.

Government's role in the housing and property market falls into three categories:

- Planning and monitoring;
- Approvals and assessments; and
- Charges and taxes.

### **3.2 Planning and Monitoring**

With regard to planning and monitoring, Queensland local governments routinely prepare strategic plans and land use planning studies to guide the formation of their Planning Schemes. These studies typically include retail, commercial, industrial and residential development strategies that measure future market demand trends relative to current land supply.

These studies are typically based on comprehensive land supply analysis. In this way Councils perform a monitoring role when assessing future planning needs. The Planning and Information Forecasting Unit (PIFU) of the Queensland Department of Local Government, Planning, Sport & Recreation, also monitor land supply through the preparation of Broadhectare Studies for select local government areas, the objective of which is to measure land supply for future residential development and its capacity to house resident population.

Council Planning Schemes are the central land use planning control mechanisms for a local government area and dictate which areas can be developed for what purposes, and the assessment processes that development applications will be subject too depending on their nature. With regards to the housing market, the Planning Schemes identify a range of areas for residential land uses (with differing densities and housing types). Many Planning Schemes have been updated and are now aligned with Queensland's Integrated Planning Act 1997.

### **3.3 Approvals and Assessments**

With regard to approvals and assessments, local government and state government agencies are involved in assessing and approving residential development applications such as subdivisions, housing projects and unit developments. These development applications are assessed relative to the objectives of the Planning Scheme, the intended use for the land parcel and the requirements of the Integrated Planning Act, including environmental issues. The timing of approvals process has improved in Queensland due to the Integrated Planning Act and improved assessment processes. The best measure of the performance of government in this respect is the rate of lot approvals across Queensland, which have been shown to outpace developer needs and take-up. These trends are analysed later in this paper.

### **3.4 Charges and Taxes**

With regard to government charges and fees, each of the three layers of government are involved in taxing either the buyer or seller of houses. The following charges apply:

- Local government – rates, infrastructure charges, application fees and other levies;
- State government – land tax and transfer duty; and
- Federal government – GST and company tax.

When Queensland's Integrated Planning Act (1997) was introduced a revised mechanism for the calculation of infrastructure charges was adopted to provide increased certainty and consistency across the State. However, there are different charging processes in many Council areas.

The issue of this paper is whether the above involvement of government (planning, approvals and charges) has been the main contributor to Queensland's increased housing prices and housing affordability issues as asserted by the development industry. The findings of the Productivity Commission Inquiry suggests that it is the nature of the housing market and its fundamentals that explain the recent sharp price growth rather than government land use planning policy or taxes and charges.

## 4. Housing Prices and Affordability Trends

### 4.1 Development Industry Inquiry Research

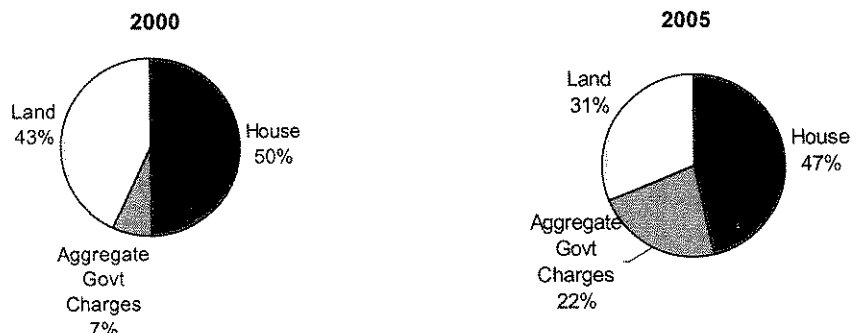
The research prepared by the development industry to support its campaign against the government regarding land release, approvals processes and charges indicates the following with regard to land and house prices, and affordability trends in Queensland.

In summary, the UDIA research reports that just 2 out of 20 areas under investigation are currently considered to have affordable housing, down from 16 out of 20 in 2000. The key findings of the development industry research regarding housing affordability were:

- Housing affordability across Queensland has eroded to the extent that the average Queensland household now has an affordability gap of nearly \$100,000, which is the difference between what they can readily borrow and the cost of a typical second hand detached suburban home.
- With interest rates likely to rise in 2006; rents again rising sharply; and end property values starting to lift again, housing affordability across Queensland is likely to erode even further.
- The average Queensland household can only afford to purchase 39% of the detached houses for sale across Queensland, compared with 76% in 2000.
- Affordability of home ownership is at a similar critical level to what it was in 1990.

The research reports rapidly escalating raw land costs and extreme jumps in taxes and charges on development have added tens of thousands of dollars to the purchase price of a new home in recent years. The research reports that in 2000, government taxes and charges constituted 6.9% of the final cost of a new home versus 22.5% in 2005 (see **Figure 4.1**). In dollar terms, government taxes and charges are estimated at \$86,000 for a typical Queensland house and land package, equating to a 405% increase.

**Figure 4.1: Breakdown of Costs, Queensland New Detached Houses and Land Package**



Source: Matusik Property Insights, UrbisJHD, UDIA (Qld)

In terms of land costs, the research reports that since 2000 the cost of vacant residential land has increased at a significant rate – increasing by 85% on average across Queensland’s 20 largest centres in 5 years (see **Table 4.1**). The research makes the claim that the cost of vacant land is directly related to the availability of other vacant land in its vicinity, and therefore, planning authorities (i.e. local government) should ensure enough land is available for future needs.

**Table 4.1: Vacant Residential Land Prices**

Location	2000	2005	Annual % increase	Total % increase	Total \$ increase
Brisbane	\$104,000	\$217,000	16%	109%	\$113,000
Gold Coast	\$109,000	\$190,000	12%	74%	\$81,000
Sunshine Coast (Maroochy)	\$89,000	\$229,000	21%	157%	\$140,000
Redland	\$69,000	\$141,000	15%	104%	\$72,000
Ipswich	\$51,000	\$130,000	21%	155%	\$79,000
Queensland Estimate	\$90,000	\$166,500	13%	85%	\$76,500

Source: Matusik Property Insights

How much reliance can be placed on the above research is questionable. For example, consider the review of the calculations set out in **Table 4.2** below. The reported percentage shares of the total final cost of house and land do not equate, when translated into dollar amounts, to the reported percentage growth over the 5-year period i.e. the figures and analysis does not add up.

For example, consider the following:

- The industry research reports 31.3% of the final cost in 2005 is accounted for by land, which equates to \$119,997. It is then reported that the land price component has increased by 85% in the 5-year period. This would mean that the land price component was \$64,863 in 2000. The research then reports that land accounted for 42.3% of the final cost in 2000, which would indicate the total final cost of the house and land in 2000 was \$153,000.
- At the same time, the industry research reports 22.5% of the final cost in 2005 is accounted for by government charges, which equates to \$86,313. It is then reported that the government charges component has increased by 405% in the 5-year period. This would mean that the government charges component was \$17,092 in 2000. The research then reports that the government charges accounted for 6.9% of the final cost in 2000, which would indicate the total final house and land cost in 2000 was \$247,000. This contradicts the figure in the first dot point above.

While the accuracy of the analysis upon which the development industry's position is based is disputed, it also indicates in its current form that house construction and purchase costs have increased at a faster rate than raw land costs, and it is this component that accounts for almost 50% of the final house and land cost.

**Table 4.2: Review of Development Industry Research Calculations**

Cost Component	2005 (% of total)	2005 (\$)	5 year growth (%)	2000 (% of total)	2000 (\$)
Land	R 31.3%	D \$119,997	R +85%	R 42.3%	D \$64,863
House	R 46.3%	R \$177,787	D 47%-149%	R 48.9%	D \$71,386-
Government charges	R 22.5%	D \$86,313	R +405%	R 6.9%	D \$17,092
<b>Total</b>	<b>100.0%</b>	<b>\$383,990</b>	<b>D 55.0%-250.4%</b>	<b>D 98.1%</b>	<b>D \$153,000-\$247,000</b>

Note: R – reported, D – derived

Source: Matusik Property Insights, AECgroup

Further clarification regarding the above analysis is required from the UDIA.

## 4.2 The Findings of the Productivity Commission Inquiry

The Productivity Commission's Inquiry into First Home Ownership concluded the following regarding recent house price and affordability trends:

- *"Historically, Australian house prices have fluctuated around a rising long-term trend. The 'affordability' of home ownership has also fluctuated – not only because of variations in prices, but also in response to income growth and changes in the cost and accessibility of finance.*
- *Over the long term, house prices in Australia have been increasing faster than incomes. But the magnitude of the implied 'structural' decline in affordability is unclear. Today's dwellings are much larger and of a higher quality than those of yesteryear. Related infrastructure and community facilities are also much improved.*
- *The recent housing boom has been more prolonged, with cumulatively greater price increases than past upswings, and geographically more widespread. Also, unlike previous booms, it has not extended to commercial property.*
- *The commonly reported indexes, while not without deficiencies, collectively suggest that affordability for first home buyers has declined considerably in the past year or two. By some measures, in parts of Australia affordability is now comparable with, or if not worse than, in the late 1980s, when inflation and interest rates were very high. Among the capital cities, the decline in measured affordability is greatest in Sydney."<sup>2</sup>*

To summarise, the analysis above confirms the rapid growth in house prices in recent years in particular, although there is still an upward long-term trend in prices. The report also confirms the comparatively faster growth in prices relative to incomes has placed pressure on affordability. However, the Inquiry also reports affordability at the present time is comparable to periods of high inflation and interest rates in the late 1980s.

## 4.3 House Price Growth

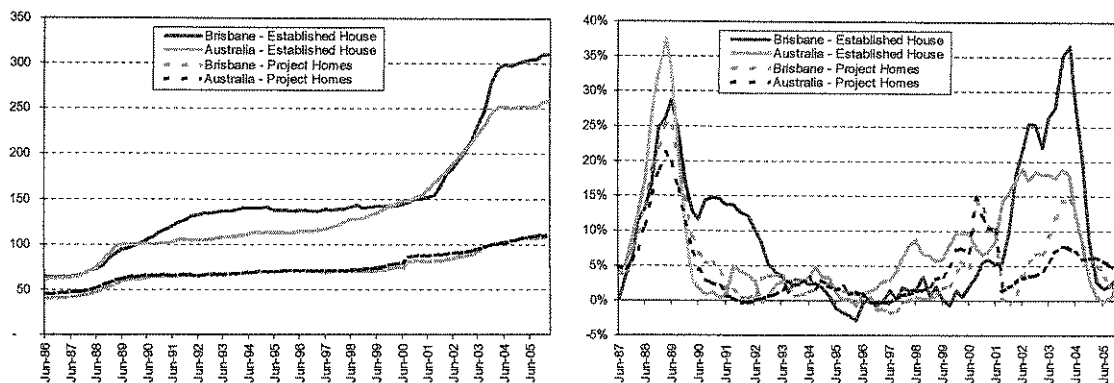
Since the mid 1980s, nominal prices for houses have almost quadrupled in Brisbane, and more than tripled across Australia's eight capital cities (see **Figure 4.2**). According to the Productivity Commission's report (2004), the rate of house price increases in Australia is relatively high. It is clear there has been significant growth since 2000-01. The graphs show there has been variations in Brisbane compared with the Australian capital city average. In Brisbane, percentage increases in established house prices reached 30-35% in 2003-04, compared with a lower 15-20% across the eight capital cities as a whole.

It is also evident that there have been a number of significant price upswings, as well as periods where house prices have fallen, particularly in real terms. Though well above long-term trends, the rate of price increase across Australia has been lower than in some previous cycles, particularly that recorded in the late 1980s. However, in Queensland, recent price growth exceeded the late 1980s period.

The recent price upswing is considered different to previous upswings in that it has been more prolonged and has occurred at a time when inflation is low, the swing has been limited to the residential property market, and it also appears that the upgrading of owner-occupier housing through the purchase of higher quality and/or better located dwellings has played a greater role than in previous booms. Another feature of the recent boom has been the sharp rise in investment by households in rental housing, along with increased foreign investment.

<sup>2</sup> Productivity Commission (2004) p. 13

**Figure 4.2: Nominal House Price Indexes (a) Index (b) Annual % change**

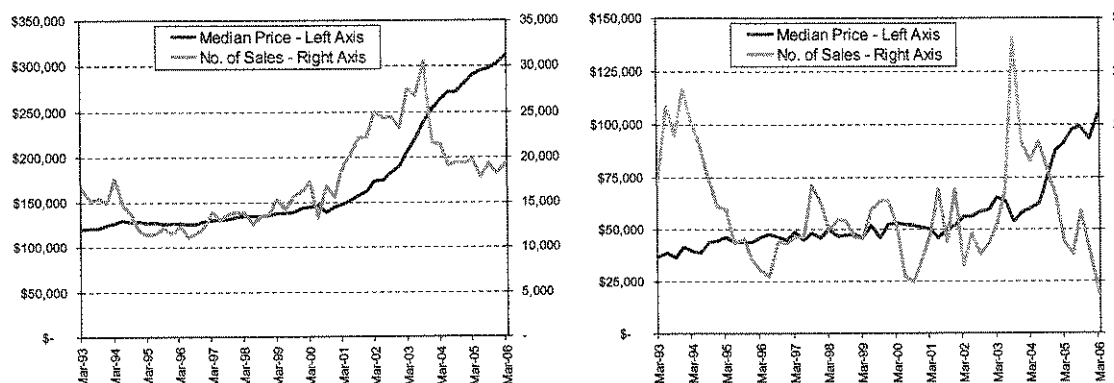


Source: ABS Cat. No. 6416.0

REIQ data also clearly indicates the rapid price growth in the Queensland residential property market over the past 13 years (see **Figure 4.3**). The data shows that there has always been a positive long-term upward trend in prices, although the rapid growth experienced in the past few years is the strongest on record since this research was first collected. The median house sale price in Queensland in the March Quarter 2006 was estimated at \$311,000, almost triple the \$120,000 in the March Quarter 1993. The figure of \$311,000 is below that quoted by the development industry (\$328,000).

Over the same period, the median price of vacant land sales has also increased rapidly, increasing from \$37,000 in the start of 1993 to \$105,000 in 2006, equating to a 284% increase. The sharp growth in land prices slightly lagged the increase in house prices in the 2003 period.

**Figure 4.3: (a) House Sales in Queensland (b) Vacant Land Sales in Queensland**



Source: REIQ

### 4.4 Impacts on Housing Affordability

The recent sharp increases in house prices has seen affordability for first and other home buyers decline. A commonly cited indicator of this decline, and the one used by the Queensland development industry, is the ratio of median house price to average income. The UDIA research estimates the average ratio of sales price to household income at 5.25 for the average household in Queensland. However, the price-to-income ratio is only a partial indicator of affordability trends. In particular, it does not take into account the cost of housing finance. Reductions in interest rates have enabled households to finance much larger housing loans from a given income, and this appears to be a key drivers of Australian house prices in the past decade.

There are published indicators of housing affordability in Australia. Some relate mortgage repayments to household income. Others measure the extent of the 'deposit' gap that must be funded by home buyers, sometimes referred to as 'accessibility' indexes. All of



these indicators indicate housing affordability has declined markedly in the past few years during the most recent price upswing. The indexes produced by the Commonwealth Bank of Australia and Housing Industry Australia suggest that in parts of Australia affordability is now worse than in the late 1980s. And though the AMP-REIA and BIS Shrapnel indexes suggest affordability is still generally better than at that time, the gap is narrowing. Brisbane's affordability is ranked better than that in Sydney and Melbourne across the indexes.

## 5. Factors Impacting Housing Affordability

The increasing house prices and pressure on housing affordability has been extensively studied for the past 2-3 years in Australia. In particular, there has been significant analysis of the factors that have impacted the price growth. The Productivity Commission (2004) undertook the most significant of these studies and finds that it is market fundamentals that explain the recent price upswing rather than government planning and charges. In addition to this, analysis of residential lot approvals and production in Queensland rebukes many of the development industry's claims with regards to government's role in creating a housing affordability crisis. Analysis of the recent financials of major property companies active in Queensland also reveals their margins and profits have been maintained by on higher revenue bases, a signal that price increases have also been spurred by developer yield requirements. Additionally, no mention of government planning issues affecting housing affordability have been found in the official reports to market by residential property developers in Queensland.

### 5.1 Development Industry Inquiry Research

There are also hints of the real reasons for the housing affordability decline in Queensland in the development industry's research, which is essentially a position paper formulated on the issue of government planning and impact on housing prices.

The development industry concedes the following with regard to housing affordability in Queensland in its Inquiry Report:

*"Affordability of home ownership in the current market is unlikely to improve as a result of decreases in interest rates. Consequently, affordability can only be improved by increased salaries and wages, or by reduced prices being achieved (and this is difficult to foresee in the light of ongoing demand associated with construction costs, the provision of additional subsidies, reduction in process costs or reductions in taxes and charges."<sup>3</sup>*

Firstly, with regards to the first statement, this is not consistent with the measurement approaches of national housing affordability indexes that use interest rates to calculate mortgage repayment requirements. Nor is it consistent with the development industry's own measures of affordability gaps that use the interest rate in the calculation of what borrowing levels are available to the average household.

The development industry also claims that the process of managing affordability of home ownership in Queensland has not been actively pursued as policy by any level of government. This is incorrect with the Queensland Government endorsing its *Affordable Housing in Sustainable Communities Strategic Action Plan* in June 2001.

Overall, the statement by the development industry is a clear concession that there are a range of factors, most being market fundamentals, that have contributed to the higher house prices.

### 5.2 The Findings of the Productivity Commission Inquiry

The terms of reference for the Productivity Commission Inquiry (2004) included an analysis of all components of the cost and price of housing, including new and existing housing, for those endeavouring to become first home owners. Particular attention was paid to the following factors in relation to their affect on the cost and availability of residential land and housing in metropolitan and regional areas:

- The identification, release and development of land;
- The efficiency and transparency of planning and approval processes for land; and

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<sup>3</sup> UDIA (2006), p. 10

- The efficiency and transparency of taxes, levies and charges imposed at all stages of the housing supply chain.

Therefore, it is clear the Inquiry investigated, on a national scale, each of the same issues being campaigned by the UDIA and the development industry in Queensland.

In reference to the above, the Productivity Commission (2004) clearly reports that:

*"... variations in prices and affordability around long-term trends are an inherent feature of the housing market in Australia and other countries.*

*Moreover, while house prices have risen especially sharply in the last three years, much of the cumulative increase in prices during the recent upturn can be explained in terms of structural and normal cyclical demand pressures:*

- *Cheaper finance and growth in average household disposable income have substantially increased the purchasing power of both owner occupiers and investors in rental property.*
- *More competition amongst lenders has made it easier to obtain loans and has expanded the range of loan options available to meet the differing circumstances of individual households.*
- *The downturn in the equities markets from 2000 to early 2003, more or less coincidentally with changes to aspects of the tax regime, provided strong incentives for investors to shift into residential property.*
- *Demand has been augmented by the First Home Owners Scheme.<sup>4</sup>*

The Commission notes that some of the 'structural' demand-side drivers, such as household disposable income and population growth, will continue to put upward pressure on house prices in the future. This is the case in Queensland and acknowledged by the development industry in their research. However, the shift up in house prices associated with cheaper and more available finance may have largely run its course, and it will prove to have been a structural change if low inflation continues to support the low interest rates that have prevailed in recent years.

The following findings by the Productivity Commission are crucial to the issue at hand and must be carefully considered:

*"...over the past few years, these demand-side pressures have led both owner occupiers and investors to seek to increase their exposure to property, including through higher quality and better located houses.*

*Given the scarcity of well located land, and the inherent 'stickiness' in the supply of housing, this increase in demand would have caused land and house prices to rise, irrespective of the efficiency of supply. Nonetheless, various inefficiencies and inflexibilities in the process for bringing new land and dwellings to the market have added to house price pressures, as have other increases in the costs of housing supply.*

*However, demand-side 'fundamentals' and constraints on supply arguably do not explain all of the recent growth in demand and house prices – especially in the last couple of years. In any asset price boom, rising prices can create expectations of further price increases unrelated to market fundamentals. That is, people may expect prices to continue growing strongly simply because they have done so in the recent past. Where prices are bid up further solely on the basis of such expectations, an asset price 'bubble' is said to exist.*

*...there is a common perception that house prices in parts of Australia, or at least in particular market segments, have 'overshot' relative to fundamentals, and that this has been responsible for some of the recent decline in affordability.<sup>45</sup>*

<sup>4</sup> Productivity Commission (2004) p. 193-194

### 5.3 Residential Lot Approvals and Production Trends

Research has also been prepared regarding the role of local government and developers in the residential land development pipeline based on data prepared by the Department of Local Government, Planning, Sport and Recreation (DLGPSR) and published in the Queensland Residential Land and Dwelling Activity Monitor. The research closely examines the rate of approval of residential lots by Councils in comparison with the production of residential lots by the development industry. Residential lots include both urban residential and rural residential situations.

**Table 5.1** provides details of the approval, production and consumption of residential lots over the past five years throughout Queensland. The table reveals the following:

- In the period from 2001 to 2005, the 40 Queensland Councils included in the database approved some 137,600 residential lots;
- Over the same period, developers constructed almost 96,600 residential lots;
- In addition, a total of 13,700 lots which had been through the development approval process had their approvals lapse as a result of no development activity taking place over approximately a four year period;
- Between 2001 and 2005, the stock of residential lot approvals yet to result in a constructed lot increased from 33,771 to 69,826 (106% increase);
- Over the same period, the consumption of lots as measured by dwelling commencements totaled 115,307; and
- This amounts to 18,653 more lots consumed than were produced by developers over the period even though approval had been given for 22,298 lots more than were consumed.

**Table 5.1: Queensland Lot Approvals and Production Trends**

Year	Lots Approved by Councils	Lots Constructed by Developers	Lots Where Approvals Have Lapsed	Total Stock of Lots Approved by Councils but Not Yet Constructed	Lot Consumption (i.e. Dwelling Commencements)
2001	13,605	12,120	4,428	33,771	15,410
2002	21,011	16,451	2,759	36,338	24,749
2003	34,436	21,693	988	50,420	25,919
2004	36,427	24,272	3,250	61,020	26,785
2005	32,126	22,118	2,296	69,826	22,444
Five Year Total	137,605	96,654	13,721		115,307
Annual Average	27,521	19,331	2,744		23,061

\*Lots lapsed refers to the number of lots that receive reconfiguration approval by council, but are not sealed by the council within the prescribed period (4 years, including time extension if applicable)

Source: Queensland Residential Land and Dwelling Activity Monitor, DLGPSR

The conclusions drawn from the above analysis, mainly that enough land is being made available by government to the market, are:

- Councils are approving an adequate stock of land for residential development across Queensland. Council approval processes do not appear to be contributing to a lack of developed land coming onto the market;
- While developers have gained approvals for land development, the rate of production of lots has been significantly less (around 30% less) than the quantity for which approvals have been granted;

<sup>5</sup> Productivity Commission (2004) p. 195

- Even though approvals exist, the rate of production of lots by developers has been less than the rate of consumption over the last five years; and
- Approximately 10% of approvals given by Councils lapse because developers have not started to develop the land within an approximate four year period from gaining the approval.

As **Table 5.2** reveals, a similar situation exists in South East Queensland as for the State as a whole. While the rate of growth in the 'bank' of approvals was marginally less in South East Queensland (85% vs 106% for the State as a whole over five years), the rate of production of lots was 25% less than the number of approvals given. Similarly, the number of lots produced in SEQ was less than the consumption of lots even though Councils provided approvals in excess of the rate of consumption.

**Table 5.2: South East Queensland Lot Approvals and Production Trends**

Year	Lots Approved by Councils	Lots Constructed by Developers	Lots Where Approvals Have Lapsed	Total Stock of Lots Approved by Councils but Not Yet Constructed	Lot Consumption (i.e. Dwelling Commencements)
2001	10,875	9,946	2,869	24,725	12,108
2002	16,930	13,391	1,632	26,959	18,734
2003	23,745	17,174	604	34,653	19,764
2004	24,585	17,960	2,113	40,230	19,280
2005	21,452	14,383	1,225	45,942	15,107
Five Year Total	97,587	72,854	8,443		84,993
Annual Average	19,517	14,571	1,689		16,999

\*Lots lapsed refers to the number of lots that receive reconfiguration approval by council, but are not sealed by the council within the prescribed period (4 years, including time extension if applicable)

Source: Queensland Residential Land and Dwelling Activity Monitor, DLGPSR

## 5.4 The Financial Performance of Major Developers

An analysis has also been completed into the financials of Queensland listed property companies with residential development projects in Queensland to uncover whether their financial performance, particularly return on investment, is being eroded by the claimed issues with government land release, approvals processes and infrastructure charges. The development industry's position is that the current returns are commensurate with their development risk profiles and their capacity to absorb the extra costs has been limited.

In a recent PCA report *Reasons to be fearful: Government taxes, charges and compliance costs and their impact on housing affordability*, it is reported:

*"The economic return that developers require for delivering new housing has been consistent for many decades and reflects the risks associated with this activity. There has also been limited ability for developers to absorb these extra costs and accordingly, the additional taxes and compliance costs imposed on developers is effectively passed on to consumers."*<sup>6</sup>

Analysis of financial performance below indicates that return on investment across Queensland's five major listed property companies active in residential development (as a core business) has remained steady at around 20%, although the market capitalisation of these companies has almost doubled due to the larger revenue base from the higher land and house prices (see **Table 5.3**). These strong financial results have also been recorded by other major property developers active in the Queensland housing market but listed elsewhere in Australia.

<sup>6</sup> Property Council of Australia (2006) p. 2

**Table 5.3: Aggregated Financial Performance of Five Queensland Listed Property Companies with Residential Property Development as a Core Business**

Indicator	2003	2004	2005
Net profit after tax (\$m)	\$77.7	\$119.9	\$152.4
Total equity / market capitalisation (\$m)	\$572.4	\$732.3	\$1,010.5
Average return on equity (%)	20.5%	20.9%	19.4%

Source: Annual and Financial Reports of Five Listed Property Companies in Queensland

## 5.5 Market Communications of Major Developers

An analysis has also been undertaken of media announcements and official reports to market by major residential property developers in Queensland. The searches could not identify any statements regarding the issues being campaigned by the peak representative bodies.

## 5.6 Innovation by the Development Industry

Reviews of other property market reports and development initiatives across Australia indicate a range of new innovative techniques being used by developers to manage their development margins and deliver more affordable housing to the home buyer.

There are cases where developers are actively seeking to address the housing affordability issues using the following techniques:

- Provisions that the developer delivers the end product in affordable housing; and/or
- Provisions that a proportion of land is developed as affordable housing; and/or
- Negotiated clauses regarding return on investment or developer margin; and/or
- Joint headworks agreements to deliver lower cost land; and/or
- Joint agreements regarding land price ceilings for the end user.

## 6. Summary and Conclusions

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The claim by the Queensland development industry that government planning policy, particularly land release, approvals processes and taxes and charges, is largely responsible for the increase in house and land prices in Queensland and the decline in housing affordability is unproven.

The sharp increases in residential property prices in Queensland and Australia more broadly has been the focus of a large amount of industry and government research. The leading and most comprehensive research was undertaken by the Productivity Commission (2004) in its inquiry into First Home Ownership in Australia. With regard to the development industry's claims, the Inquiry concluded:

- Much of the increase in housing prices during the recent boom can be explained by 'market fundamentals', especially cheaper and more available housing finance and higher incomes. If sustained, these changes will have brought about a structural shift up in prices;
- Recent price increases have been mainly due to the surge in demand in established areas, and therefore improvements to land release policies or planning approvals processes could not have greatly alleviated them;
- Increased taxes such as the GST and stamp duty have played only a minor direct role in recent house price growth, although it is noted government needs to consider how best to reduce its reliance on stamp duties;
- While infrastructure charges, like other costs of housing, have increased over time, they cannot explain the surge in house prices since the mid-1990s; and
- While recent interest rate rises and further price increases in some markets may lead to further declines in affordability in the short term, a more subdued housing market and continued income growth should in due course make it easier for prospective home buyers to enter the market.

These findings rebuke all of the issues being campaigned by Queensland's development industry against government's land use planning policy.

Added to this, analysis of lot approvals and production trends by Councils in Queensland relative to developer demand and take-up clearly demonstrates that enough land is being provided to the market. Across Queensland as a whole, the rate of production of lots by developers has been 30% below the rate of Council approvals. In South East Queensland, developer production was 25% less than the rate of approvals, confirming adequate land is being made available to the development industry. Added to this, the rate of production of lots by developers was below the rate of consumption (as measured by dwelling commencements) indicating developers have not kept pace with demand despite having the government planning approvals to do so.

It is also noted that during the housing boom over the past four years – the period when housing affordability pressures have been most acute – the development industry's key players in Queensland (based on five listed property companies in Queensland with residential development as a core business) have recorded significant financial growth, including a doubling in market capitalisation and an average return on investment of 20%. These results confirm developers have not absorbed any of the cost increases and have continued to pass them directly to end users to maintain their economic returns and increase their net profit on what is a much larger revenue base due to the higher prices. On this note, research indicates there are a number of innovative approaches being implemented across other parts of Australia by property developers to address housing affordability issues that could be implemented in Queensland, including delivery of more affordable housing through lower developer margins.

It is clear the industry campaign against government land use policy and taxes is being led solely by peak development industry representative bodies. An analysis of media announcements and official reports to market by major residential property developers in Queensland revealing no statements regarding the issues being campaigned.

A final critical finding is that the research prepared for the development industry's inquiry, which is used to completely underpin its arguments against government's land use planning policy, is in dispute, particularly calculations regarding the percentage shares of final house and land costs and the percentage growth in land costs and government charges. The figures do not add up and provide further question marks over the development industry's assertions.



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