

SENATE SELECT COMMITTEE LAND AND HOUSING AFFORDABILITY

For the Senate of Parliament of Australia

Submitted by:

THE URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (WA)



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31st March 2008

Mr John Hawkins
Committee Secretary
Senate Select Committee on Housing Affordability in Australia
Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600

Via email: housing.sen@aph.gov.au

Dear Mr Hawkins

UDIA (WA) is pleased to make this submission to the Senate Select Committee on Housing Affordability in Australia. You may be aware that Western Australia is the least affordable state in Australia with affordability declining from 80% of detached houses being affordable in 2001 to only 13% being affordable in 2006 (UDIA/Matusik Affordability Measure, June 2007). During this period the median price of a detached house in WA grew by 258% and now requires an income multiple of 6.2 to be affordable, almost twice that required in 2001.

This submission highlights three main issues that are impacting on declining affordability in WA:

- Land and housing supply issues;
- The complexity of the land development process; and
- Increasing government taxes and charges including land tax, stamp duty, GST and developer contributions.

We anticipate that you will find this submission informative and we look forward to the Senate Committee hearing on 8th April in Perth.

Yours sincerely

A handwritten signature in black ink, which appears to read 'Debra Goostrey', is positioned below the text 'Yours sincerely'.

Debra Goostrey
Chief Executive Officer



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Executive Summary

The Urban Development Institute of Australia (WA Division) is the key representative body of the land development industry in Western Australia. This document states the views of the Institute members and UDIA's policy position in relation to the Terms of Reference for the *Senate Select Committee on Housing Affordability*, being carried out by the Senate of the Parliament of Australia.

UDIA has had serious concerns about declining housing affordability in Western Australia for some years and has worked with our members, the State Government and other industry bodies to try to alleviate pressure on first home buyers in particular. Unfortunately, declining affordability is being experienced by increasing numbers of households in this state, paradoxically when the economy is booming and average household incomes are increasing.

This submission examines the reasons for declining affordability in Western Australia, in particular the impact of taxes and charges; achieving an adequate supply of 'development ready' land through the approvals process, and the complexity of the approvals process. The submission also details industry and government strategies that have been utilised in Western Australia to improve housing affordability.

The key summary points follow.

Term of Reference 1

- That the WA State government acknowledge the contribution of the private sector to the rental market through tax incentives to encourage the private sector development and ownership of rental properties.
- That the State and Federal Governments introduce incentives to private sector landlords who charge below market rent, thus increasing the supply of affordable rentals to the market.
- Immediate introduction of the Developer Concession on Land Tax to ensure smooth supply of land to the market throughout the year. This would have a positive impact on housing affordability by ensuring an adequate supply of development ready land at all times thus reducing the potential for the low supply/high cost ratio.
- That Local Governments consider the impacts on housing affordability of additional requirements they may be considering before they apply them.



- That GST is not charged on Stamp Duty
- That Land Tax thresholds continue to be reviewed to avoid bracket creep.

Term of Reference 2

- That government works with industry to ensure an adequate supply of 'development ready' land be provided to the market to avoid a shortage of supply that inevitably increases the cost of land and housing and impacts on affordability;
- Consideration of tax or other incentives to encourage building rather speculation on lots.
- That the approvals process be simplified to avoid long delays that add significant costs to the land development process.

Term of Reference 3

- That the WA State government continue the First Start Scheme to low income households;
- That joint ventures between the private sector and DHW and the four Redevelopment Authorities continue to facilitate the delivery of affordable and innovative product to the market and continue to achieve sustainable planning outcomes;
- That LandCorp redefines its role in the provision of land and housing to the market with a focus on:
 - land release that ensures an adequate supply of affordable land for housing to meet demand in peak periods
 - Joint ventures with the private sector
 - A prohibition on purchasing en-globo land in the open market, other than in certain circumstances (for example, to facilitate development in regional areas where no private sector competition exists)

Term of Reference 4

- That the issue of affordable living is understood by all levels of government when discussing options for affordable housing.
- That the need for infrastructure is understood by all levels of government and that the provision of an affordable 'product' is accompanied by the infrastructure to ensure an economically sustainable and affordable 'lifestyle' for households into the future;
- That all levels of government understand that long term affordability and sustainability for householders relies on access to fast and efficient public transport;
- That the Department for Planning and Infrastructure be adequately resourced to prepare household and dwelling forecasts based on the 2006 Census;

- That the forecasts include demand side data so that the forecasts are a clear indicator of the future demand for land housing in Western Australia;
- That improved reporting mechanisms be implemented between Landgate and Department for Planning and Infrastructure in order that land and housing data is comprehensive, current and conclusive;
- That the imperative for government departments is to ensure the validity, currency and accuracy of their spatial data sets;
- That interdepartmental communication and data sharing be facilitated in order to maximise the potential of Landgate to provide a one-stop-shop for all spatial data in Western Australia.
- That the benefit to affordability of a user pays approach to infrastructure provision vs up front payment is considered by government.
- That provision of public transport on the urban fringe gains higher priority.
- That the coordination of critical infrastructure is improved to ensure that all approvals are in place well ahead of urban development.
- That sustainability innovations such as 3rd pipe are supported upfront through clear approvals processes to de-risk initiatives by developers.

Term of Reference 5

- The broad principles and recommendations for accountable, timely and integrated approvals outlined in the Keating Report which have been applied to the mining and resources sector should be applied to major urban land development projects so that major land development approvals are prioritised, assessment and policy responses coordinated across government and timelines monitored. Communication with the proponent and a solutions based approach to problems should underlie the assessment process for these projects;
- Duplication should be removed in all assessment procedures and timelines applied where they are currently absent, particularly for structure plans and environmental assessments and conditions;
- Develop a formal procedure for the referral of major development projects to DEC and the EPA at outline development plan/structure planning phase of the planning and development process. This would enable consideration and resolution of major/strategic issues early in the development process with detailed design issues considered at subdivision phase;
- The Western Australian Planning Commission must play a more visible and accountable role in supporting a whole of government, timely and integrated approvals process for urban land development. In particular, the Commission needs to be more rigorous in vetting the appropriateness, practicality and cost benefit of conditions recommended by state referral such as the Department of Environment and Conservation and Local Government.



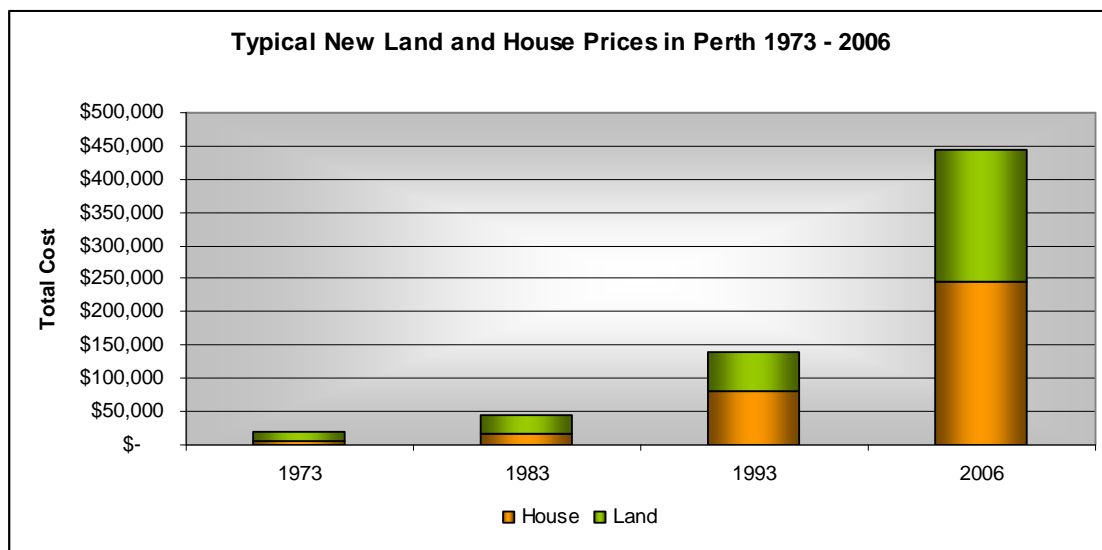
- That triple bottom line assessment be standard practice and all contributing factors are given equal consideration and weighting. The tendency for environmental factors to have precedence over other considerations should be reassessed.
- That clarity of the level of detail that is required at structure planning level is provided.

Overview of Housing Affordability in Western Australia

Housing affordability is felt most keenly in newly developing fringe suburbs of Perth, in the mortgage belt where households are particularly sensitive to interest rate rises, where there is poor transport infrastructure and therefore households allocate a large proportion of their budget to transport, and where government taxes and charges on land development are paid by purchasers.

The cost of land has assumed a significantly higher proportion of the overall costs of home ownership over recent years, as illustrated in Figure 1. There are many factors that underpin this: increasing regulation and resulting delays; demand on occasion outstripping supply; and constraints on land being developed, in particular environmental constraints.

Figure 1: Changing House and Land Costs Perth 1973 – 2006 (\$)



Source: HIA Economics Group Research Note, December 2006

Figure 1 shows the distribution of costs for typical new house and land prices in Perth from 1973 to 2006. The most striking feature of the graph is the significant growth of the cost of land which had a price increase of multiples of 37.8 compared to a 16.5 price multiple for the house component.¹ What are hidden in the land cost are the government fees and charges which grew by 34 per cent between 2000 and 2005 alone for greenfields development.² The Reserve Bank has argued that

¹ HIA Economics Group Research Note, December 2006.

² UrbisJHD, Residential Development Cost Benchmarking Study, 2006.

the cost of land on the fringe of cities could be a disincentive to building new housing there, and in the medium term could also be increasing the price structure of the existing housing stock.³

The UDIA/Matusik Affordability Measure (June 2007) indicates that between 2001 and 2006 housing affordability has declined right across the Perth Metropolitan Area (Table 1).

Table 1: Detached House Sales in WA 2001 – 2006

Municipalities	2001 % Affordable	Affordability Rating	2006 % Affordable	Affordability Rating
Perth Inner	54%	Affordable	3%	Unaffordable
Perth Middle	66%	Affordable	6%	Unaffordable
Perth Outer	90%	Affordable	8%	Unaffordable

Source: Matusik Property Insights, RPData, ATO and RBA, June 2007

While increases in the fringe can be attributed to imposts on land development as described above, increases in Inner and Middle areas are historically attributed to greater competition for desirable, more favourable locations, access to water views, the CBD and transport.

As the value of land rises in Inner and Middle areas there is an incentive to increase the intensity of its use, for example by building town houses and apartments. These are still an affordable option across the Perth Metropolitan Area (Table 2). As more Inner and Middle areas are redeveloped for medium and high density housing, it is incumbent on both State and Local governments to facilitate development by upgrading essential infrastructure as required and ensure a smooth path for approvals for more intense uses.

Table 2: Attached House Sales in WA 2001 – 2006

Municipalities	2001 % Affordable	Affordability Rating	2006 % Affordable	Affordability Rating
Perth Inner	90%	Affordable	54%	Affordable
Perth Middle	97%	Affordable	63%	Affordable
Perth Outer	98%	Affordable	65%	Affordable

Source: Matusik Property Insights, RPData, ATO and RBA, June 2007

³ Anthony Richards, *Address to 2008 Economic and Social Outlook Conference*, The Melbourne Institute, 27 March 2008

Term of Reference 1

Taxes and levies imposed by State and Territory governments

Key words: land tax, impact on affordability, threshold creep, en globo value of land, concession on land tax

Government taxes, charges and levies are 'direct' charges imposed by Local Government and other Government bodies, including GST, stamp duty on the purchase of land, levies, public open space (POS) contributions and land tax.

UDIA believes that the urban development and housing industries in Australia are considered soft targets by state governments looking to increase revenue through taxation and this has had direct, negative impacts on housing affordability in the state. In Western Australia alone these costs currently contribute to approximately 20% of land development cost in Perth and have contributed to exponential increases in house prices in recent years. Table 3 indicates taxes paid by the land development and residential construction industry in WA in 2005/06.

Table 3: Total taxes land development and residential construction industry in WA 2005/06⁴

TOTAL TAXES - Land Development and Residential Construction Industry in WA	
	\$M
GST	600
PAYE	190
Stamp Duty	119
Payroll Tax	40
Land Tax	*
MRIT	*
TOTAL	948

Source: *Economic Impact Study, UDIA (WA), July 2007*

* A total estimated \$319.9M in Land Tax and \$54M in Metropolitan Region Improvement Tax was collected by the State Government in 2005/06. UDIA is unable to quantify the exact proportion attributable to the Land Development and Residential Construction Industry in WA.



Goods and Services Tax (GST) and State Taxes

The Goods and Services Tax (GST) is a broad based consumption tax imposed by federal government and collected by the Australian Taxation Office. GST is charged on the sale of property, including vacant land. Sales of developed lots for 2005/2006 are estimated to have generated approximately \$203M net in GST revenue from Western Australia.

One of the major objectives of the GST was to replace a number of other taxes such as State payroll tax and stamp duty. Stamp duty and payroll tax currently account for approximately 20% of all tax flowing to the State Government from activities in land development and residential construction industries.

The policy of applying stamp duty to GST-inclusive instruments is unfair and inequitable as it represents a tax on a tax and is a matter of concern for UDIA.

UDIA believes that this policy of imposing a tax on a tax does not provide any real benefit to the State. It reduces housing affordability, is discriminatory in the tax treatment of acquisitions of new and existing properties and is seen as a cynical opportunity to double-tax.

In addition, GST has contributed to increased ongoing fees and charges for home owners, with GST being included in the calculation of gross rental values of properties in some local authority areas, increasing local authority rates. UDIA does not support this practice as it erodes housing affordability for marginal income groups attempting to enter the housing market.

Land Tax

UDIA has serious concerns about the impact of land tax on new home buyers. Affordability is impacted in two ways:

- Threshold creep
- Impact on supply

Threshold creep

In Western Australia, land taxes have increased by \$51 million each year since 2001 while the top rate of land tax has been increased by 25%. Whilst thresholds were significantly adjusted in the 2007/08 state budget, they have still not kept up with the 47% increase in prices experienced in the previous period. Land tax on englobo land for developers is significant and will have an increasing impact on the cost of land in the State as valuations rise.

Impact on Supply

Developers manage their subdivision program around 30 June in order to minimise their land tax liability which in turn has an impact on the 'smooth' supply of land to market. Land tax is calculated on the aggregate unimproved value of land owned at midnight on 30 June. The developer is

charged land tax based on the en globo value of the land if titles have not been issued or the value of the developed lots if titles have been issued.

To minimise the land tax bill, developers will accelerate their development programs to ensure titles are issued in April so that sales to purchasers can be completed and settled in May/June, or alternatively they will delay completing the subdivision and applying for titles until July/August.

This behaviour has a number of flow on effects to the wider market which UDIA argues could be rectified if a concession on Land Tax was reintroduced. In May 1996 a Developers Concession was introduced to ensure that titled lots were treated as en globo land when calculating the aggregate value of land owned. This Concession was later abolished in 2003 as part of the Business Tax Review. UDIA supports the reintroduction of a concession on Land Tax that will ensure developed land is treated as en globo land when determining its value.

Land Tax discourages developers from undertaking optimally efficient subdivisions of land due to the impact on timing. The current situation penalises developers who carry stocks of land to meet future / anticipated market needs and creates an annual supply shortage around June each year.

Case Study

To give an indication of the contribution that land development has on land tax and MRIT, the additional tax on sub-divided land is approximately 388% greater than for en-globo land prior to sub-division approval.

- *Developer purchases 10 ha en globo land for \$7.5 million*
- *Receives approvals for subdivision into 100 lots*
- *Once development complete: each lot worth \$250,000*
- *Developer now holds land worth \$25 million*
- *Land tax on en globo land: **\$152,267***
- *Land tax on aggregated value of completed lots: **\$589,767***

The case study illustrates how land tax is a disincentive to the developer to hold on to titled land prior to June 30th. Land tax on the aggregated value of completed lots results in 'lumpy' supply and increased costs to the purchaser.

If the same sub-division approval were given on the 1st of July, the developer would have 12 months to sub-divide and sell a significant proportion of lots and reduce the tax burden calculated at June 30th the following year. This approval timing difference creates a significant incentive to achieve sub-division approval in July or shortly after.

Stamp Duty

Stamp duty is an inequitable tax that directly hinders the ability of home buyers to enter the property market and acts as a disincentive to economic growth in the state.

In recent years growth in the value of property has resulted in state governments receiving windfall annual revenue of over \$450 million from stamp duty at the cost of home buyers. Stamp duty from land sales is estimated at \$102M (2005/06), adjusted for first home buyers. Median house prices have increased by 490% since 1982 and the stamp duty payable on a median priced house has increased by 1,270% in the same period of time.

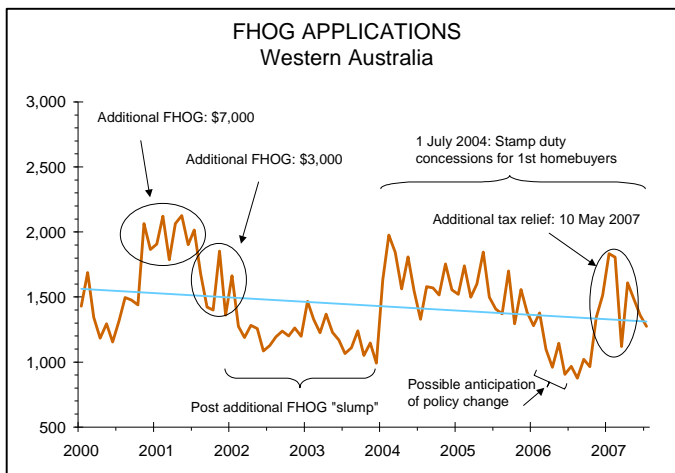


Figure 2: First Home Owner Grant Applications

In July 2007 the WA government announced cuts to stamp duty for first home buyers, with the changes saving \$20,700 for a first home buyer when purchasing a \$500,000 property. This provided a stimulus to the market place which can be seen in Figure 2.

More recently, the WA government announced a stamp duty reduction of 5% from 1st July 2008, however the impact on affordability will be minimal as it translates to a saving of \$1,000 on a median priced home of \$470,000.⁵

The government could encourage investors with tax incentives to grow housing stock for the rental market which is also suffering the effects of declining affordability. Reductions in stamp duty would encourage more private investors to purchase properties for the rental market which would increase the supply of available properties and help stabilise rents.

Developer Levies, Contributions and Servicing Costs

Developers are increasingly required to pay for the provision of public infrastructure as part of development projects. Direct servicing costs (earthworks and retaining walls, landscaping (estate), storm water drainage, sewerage, water, underground power installation, roadworks and associated professional fees etc) already contribute approximately 40% of the total cost of land development and the requirement for developers to fund public infrastructure, recreation and community facilities and community services is increasing. This type of cost has been the largest contributor to the increase in the cost of developing urban land over the last ten years. This also results in inequities

⁵ Real Estate Institute of Western Australia, www.reiwa.com.au, last accessed 24.03.08



with the overall fiscal system: New home buyers pay for services which, for the majority of consumers, are financed out of federal, state and Local Government revenue and are forced to pay taxes and municipal rates according to normal schedules. New home buyers are therefore disadvantaged.

In 2006, UDIA partnered with Western Australian Local Government Association (WALGA) and the Department for Planning and Infrastructure (DPI) to formulate an approach to levies for community infrastructure which were applied more equitably, that were consistent across all Local Governments and gave developers certainty as to the scope of their contributions. A report, *Contributions to Community Infrastructure* was released in late 2006.

The process outlined in the report ensures that developers know exactly where their money is being spent and exactly how the costs have been calculated based on the demonstrated need for the infrastructure and the connection between the new development and the demand created.

Councils will be required to develop infrastructure plans which identify funding sources from Federal, State and their own existing rate payer base. Community Infrastructure Contributions from developers will only be charged where there is a clear link to the new development. This will ensure that there is a transparent and accountable way of calculating community infrastructure contributions in WA to avoid the kinds of exorbitant developer levies that are charged in states such as New South Wales.

UDIA strongly believes that the government should use the already high level of revenue directly obtained from the development industry to pay for the provision of essential services rather than penalising new homebuyers at the expense of housing affordability.

UDIA also believes that the government should encourage and recognise initiatives to develop more sustainable urban developments and the benefits they provide for the broader community. These benefits have a direct impact for the community in the form of infrastructure and service cost reduction. UDIA believes that these benefits should be formally recognised through tax concessions, reduced infrastructure contributions and payment for certain services (for example, provision of land).

Recommendations

- That the WA State government acknowledge the contribution of the private sector to the rental market through tax incentives to encourage the private sector development and ownership of rental properties.
- That the State and Federal Governments introduce incentives to private sector landlords who charge below market rent, thus increasing the supply of affordable rentals to the market.
- Immediate introduction of the Developer Concession on Land Tax to ensure smooth supply of land to the market throughout the year. This would have a positive impact on housing affordability by ensuring an adequate supply of development ready land at all times thus reducing the potential for the low supply/high cost ratio.



- That Local Governments consider the impacts on housing affordability of additional requirements they may be considering before they apply them.
- That GST is not charged on Stamp Duty
- That Land Tax thresholds continue to be reviewed to avoid bracket creep.

Term of Reference 2

The rate of release of new land by state and territory governments

Key words: strong population growth, supply and demand, complex approvals process, increased costs

The economic boom in Western Australia is having significant impacts on population growth with about 800 people moving to WA every week. Government estimates are WA will require 40,000 newcomers each year for at least the next decade to meet the demand for labour and will require 500,000 new homes in the Perth and Peel regions alone in the next 30 – 40 years.⁶ The strong level of growth has tested the market's capacity to meet this unprecedented demand for new housing and in recent years has led to supply issues that have contributed to declining housing affordability.

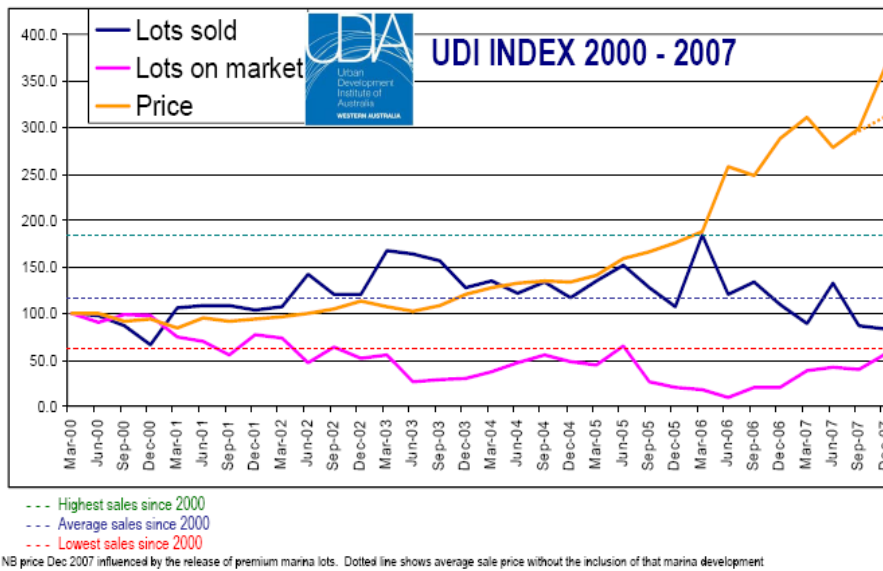
The issue of land supply in WA is not about the release of new land, the concern is getting zoned land 'development ready' through the **approvals process and the time it takes to get approvals**. The Perth Metro Area has 16,100 ha of undeveloped Urban/Urban Deferred zoned land. While demand has slowed in recent months, UDIA and the government are concerned that there will not be enough approved land ready to cope with latent demand when the next wave comes through.

There is a strong correlation between the increasingly complex planning approvals system, delays and increasing costs of land and housing. The financial impact on households of the complex regulatory environment is escalating land prices as land release is delayed by infrastructure provision and environmental approvals. The land development process is addressed in more detail in Term of Reference 5.

Figure 3 illustrates the inverse relationship between land availability and cost to the market. While there was a surplus of stock to meet demand in the 1990's prices remained steady and increased only slowly each year. Once surplus stock disappeared around 2002-03, prices started to increase dramatically.

⁶ Minister for Planning and Infrastructure, *The West Australian*, 25h March 2008.

Figure 3: Relationship between price of lots sold and lots available to the market



Source: Urban Development Index June 2007

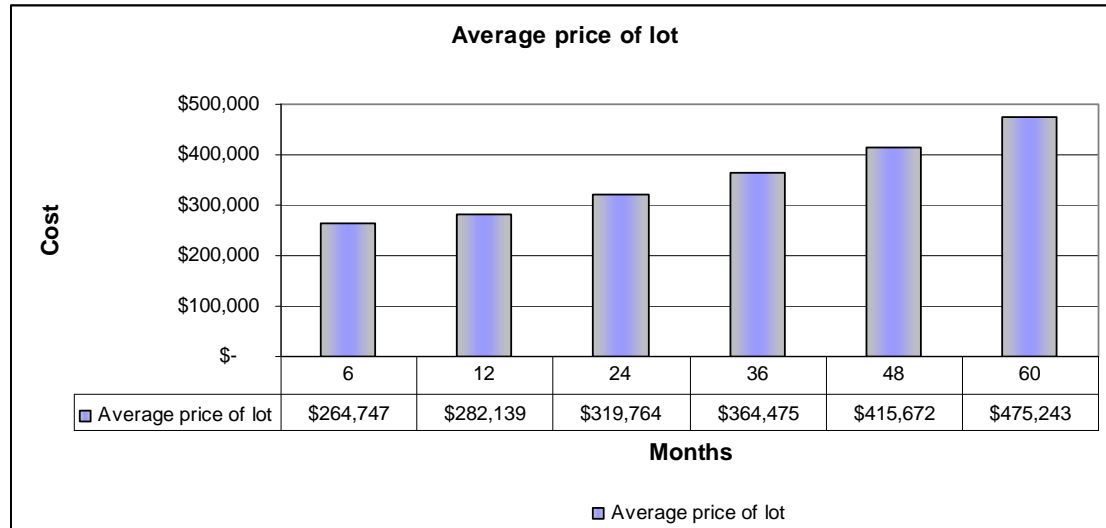
Financial analysis⁷ undertaken by UDIA to examine the impact of time delays on end lot prices for the consumer indicate:

- A one year delay would result in a 13.3% increase in the price of a lot
- A four year delay would result in a 68.4% increase in the price of a lot

The findings are represented graphically in Figure 4.

⁷ Economic Review of Land and Housing Markets in Western Australia, UDIA (WA), September 2007

Figure 4: Changes in the average price of a lot over time



Source: UDIA WA 2007

The Land Release Coordinator (Final Report, July 2007) determined that while there was an adequate pipeline of conditionally approved lots in Perth and Peel (at the time of her research), the time required to convert broad-acre land to serviced residential lots **and then to completed housing** is too lengthy and resulted in a land supply crisis which peaked in 2006 and had a serious impact on housing affordability.

The shortage of dwellings in Perth is a key concern for the industry and government and compounds the land supply issue. While the pool of vacant residential lots in Perth and Peel increased from 30,500 to 38,600 from 2004-2007, WA housing starts fell by 9.3% over 12 months to Sept 2007 to 23,474. HIA predicts further fall in starts of 11%.⁸ With an estimated demand for 500,000 homes over the next 30 – 40 years in WA, it is imperative that housing starts keep pace with developed lots and investors are encouraged, through tax or other incentives, to build a dwelling on the land which would also serve to reduce pressure on the rental market.

Recommendations:

- That government works with industry to ensure an adequate supply of 'development ready' land be provided to the market to avoid a shortage of supply that inevitably increases the cost of land and housing and impacts on affordability;
- Consideration of tax or other incentives to encourage building rather speculation on lots.
- That the approvals process be simplified to avoid long delays that add significant costs to the land development process.

⁸ Land Release Coordinator, March 2007.

Term of Reference 3

Proposed assistance for first home buyers by state, territory and Commonwealth governments and their effectiveness in the absence of increased supply

Key words: First Home Savers Account, stamp duty relief, shared equity, joint ventures, tax incentives

UDIA offers the following comments on the proposals put forward recently by Government to assist the first home buyers :

Federal Government Initiative

- First Home Savers Accounts

UDIA (WA) supports the initiative to allow first homebuyers (FHB) to salary sacrifice superannuation contributions for a home deposit. This would improve the ability and time taken for people to save a deposit. It is unlikely to overheat the market as purchasers are likely to buy as soon as they have accrued sufficient deposit.

WA State Government Initiatives

- Stamp Duty Relief for First Home Buyers

In May 2007, the WA Treasurer announced cuts to stamp duty for first home buyers. The Government has doubled the stamp duty threshold for first home buyers from \$250,000 to \$500,000 (phasing out at \$600,000) for a home and from \$150,000 to \$300,000 (phasing out at \$400,000) when buying a vacant block⁹. This represents a saving of \$20,700 for a first homebuyer when purchasing a \$500,000 property with 94% of first home buyers receiving full or partial exemption of stamp duty.

While this might mean effective savings for some, demand side strategies such as this do not necessarily result in savings or improved affordability. Buyers tend to borrow to the maximum or

⁹ Media Statement, State Budget 2007-08, Decisions for our Future, Eric Ripper Treasurer, 10th May 2007

purchase more expensive properties than they might have without the stamp duty relief, which effectively diminishes the intended benefit.

- First Start Scheme

In April 2007 the Western Australian Government introduced the First Start home loan program with an allocation of \$300 million. The program is designed to assist households on low to moderate income move from rental into home ownership through a **shared equity** scheme. Under the shared-equity scheme, eligible first homebuyers may be able to purchase or construct a home up to \$365,000, in conjunction with Keystart and the Department of Housing and Works.¹⁰

First Start is based on the Department of Housing and Works purchasing a share in the property and providing the homebuyer with a Keystart low deposit loan to purchase the remaining share. The home owner is allowed to increase their own share in the property by purchasing a percentage (no less than 5% at once) from the Government from time to time. The property is re-valued, and the percentage is purchased at the market value. The home owner is also permitted to sell the property, but the Government has the right of first refusal and is entitled to its share of any proceeds. No stamp duty is payable under the scheme. Some developers are now also promoting a shared equity approach to home purchase to encourage eligible households into the home ownership market.

The scheme was intended to assist 3,000 purchasers over three years and after the first year of operation, 1,100 First Start loans have been approved.¹¹ A long term commitment by the government is required if the shared equity scheme is move more low income households into affordable home ownership.

Other State Government housing affordability schemes include:

- Keystart low deposit loan scheme - loans to purchase 100 per cent of a property;
- Goodstart Shared Equity Scheme - a low deposit shared equity loan scheme, targeted at departmental public housing tenants and applicants for rental;
- Aboriginal Home Ownership Scheme - a low deposit shared equity loan scheme to assist Aboriginal people into home ownership;
- Access Scheme for people with disabilities - a low deposit shared equity loan scheme to assist people with disabilities into home ownership;
- Sole Parent loan Scheme - a low deposit shared equity loan scheme to assist families who have experienced relationship break down and a resulting drop in income retain the family home; and
- Restart Scheme - a low deposit loan scheme to assist families who have experienced a drop in income as a result of temporary job loss or change in job retain their family home.

¹⁰ www.keystart.com.au, last accessed 08.06.07

¹¹ Minister for Housing and Works, media statement 27 March 2008



Response of the Development Industry to Declining Housing Affordability

Prior to government action on land supply and declining housing affordability individual developers undertook measures to preclude speculators and to favour those intending to build by:

- Seeking pre-registration and ballot systems for the sale of land;
- Restricting the number of lots sold to one per customers;
- Seeking statutory declarations that the purchaser intended to build;
- Landscaping and fencing rebate systems that lapsed on resale.

Further initiatives involved developers restricting the sale of house and land packages to lower income groups by requiring evidence of income. For example, single person buyers could not earn more than \$60,000 per annum and couples could not earn more than \$85,000.

It is interesting to note that the recent sale of 32 apartments ranging from \$340,000 to \$440,000 in Cockburn, south of Perth, were **all** to local first home buyers.

Some developers offered stamp duty rebates to entice first homebuyers into the market following a market slump in response to a statement by the Treasurer that mooted future stamp duty relief. More recent initiatives include shared equity schemes as the impact of higher interest rates is felt on lower income groups. Members report that an increasing number of land purchases are 'falling over' due to non-approval of loan applications in the wake of interest rate rises.

The Role of Joint Ventures

Joint venture partnerships with the private sector are useful to government as they offer marketing and land development expertise that extends beyond government's own. Partnerships with the major development companies also offer economies of scale which are crucial to the delivery of affordable housing to the market.

Public private partnerships also promote the development of new, innovative funding structures and initiatives to increase the supply of both affordable housing and public housing in Western Australia. The Department of Housing and Works joint venture model routinely provides a ratio of 1 in 12 homes for public rental housing in each project, with the vision of integrating public housing with private ownership. Public private partnerships allow for better integration of planning for public and private housing resulting in an integrated community.

UDIA members are also supportive of the development model Redevelopment Authorities have successfully implemented, particularly their approach to achieving integrated planning outcomes and the facilitation of land development. The Redevelopment Authorities take an innovative and strategic approach to development that is frequently lacking at the Local Government level. Redevelopment Authorities achieve faster approval timeframes and applications do not require

consideration by elected members which makes innovation easier to achieve and built form outcomes to be more cutting edge. Caution is however urged as Redevelopment Authorities who fail to consider the commercial costs of innovation may run the risk of escalating prices out of reach of target markets, particularly in corridors of supposedly affordable land supply.

However, LandCorp, the State government's development arm, appears to have become a boutique developer rather than a government agency that develops affordable product to service first home buyers and lower income families.

The industry's position is that LandCorp has a larger role to play in relieving pressure on the housing market by also focusing on affordable land release. LandCorp's role as a developer of surplus government land holdings is also supported where this results in joint ventures with the private sector. However, the industry strongly objects to LandCorp competing in the open market to purchase broadacre land for development, thereby driving up the cost of the basic input (that is, en-globo land) for the entire industry.

Recommendations:

- That the WA State government continue the First Start Scheme to low income households;
- That joint ventures between the private sector and DHW and the four Redevelopment Authorities continue to facilitate the delivery of affordable and innovative product to the market and continue to achieve sustainable planning outcomes;
- That LandCorp redefines its role in the provision of land and housing to the market with a focus on:
 - land release that ensures an adequate supply of affordable land for housing to meet demand in peak periods
 - Joint ventures with the private sector
 - A prohibition on purchasing en-globo land in the open market, other than in certain circumstances (for example, to facilitate development in regional areas where no private sector competition exists)

Term of Reference 4

The role of all levels of government in facilitating affordable home ownership

Key words: access to public transport, affordable living, land component of new housing increasing, Ministerial Council on Housing and Land Supply, reliable spatial data management

Affordability is not limited to the house and land package and all levels of government need to address the broader issue of affordable living when discussing options for affordable housing. While the property industry provides a diversity of housing options for consumers in order to ensure a range of income levels and lifestyles are catered for, the provision of an affordable 'product' must be accompanied by the infrastructure to ensure an economically sustainable and affordable 'lifestyle' for a household into the future.

Impact of Infrastructure Costs on Housing Affordability on the Fringe

Professor Peter Newman from Curtin University, in a 2007 presentation to the Municipal Association of Victoria entitled *Responding to Peak Oil and Climate Change: Towards Resilient, Sustainable, Solar Cities and Regions* said that we must look at both housing costs and transport costs when planning our cities. The more spread out a city becomes - without the appropriate transport provision - the more households spend on private transportation means. Professor Newman says that for many households expenditure on transport exceeds any other item of expenditure within the household budget, including mortgage repayments.

Professor Graham Currie, Monash University, reinforced this view in his presentation to the Garnaut Review Forum on Transport, Planning and the Built Environment (February 2008). Professor Currie discussed how fringe areas in Australian cities (where the majority of low income households live) are generally poorly serviced by public transport. Low income earners are likely to spend more than 50% of their household income on owning and running cars with the average weekly running costs for a medium size car estimated at \$209.86. Improved public transport to outer areas will assist in reducing car dependency in those areas.

It is of increasing importance, both in terms of affordability and with the increasing impact of climate change, that state and federal governments ensure that land use and transport planning occur in

tandem. Encouraging the use of public transport through providing easy access and efficiency will not only reduce car use and reduce emissions it will also increase long term affordability.

Impact of Government Charges on Land Costs

This is explored extensively under Terms of Reference 1. State Government in particular must consider the role of the developer funded infrastructure which delivers and upfront cost to the purchaser, against funding over time through a user pays mechanism. Upfront funding increases the costs to the purchaser as these extra charges also attract GST, stamp duty (where applicable) and developer margin.

Interaction of Government Agencies

Government agencies need to better understand how their operations impact on housing affordability. It would significantly improve the process if professional development was provided for government employees involved in the approvals process on the development process, the cost impact of delays and the impact project feasibility and end cost to the consumer. A detailed consideration of Government Agencies and their interaction is provided under Term of Reference 5.

Lack of Coordination in Infrastructure Provision

Another key contributor to inefficiencies and delays in the delivery land to the market is the ongoing lack of coordination between government agencies in planning for future provision of serviced residential lots. The orderly supply of urban land relies on an integrated approach to infrastructure and land use planning to achieve the best possible outcomes for urban development. Unfortunately the silo approach to planning, where key agencies do not engage with each other to plan future urban growth, is prevalent. Some of the results of silo planning are:

- Water Corporation not receiving approval from DEC for the development of a planned wastewater treatment plant at East Rockingham which is jeopardising the release of 3000 lots in one of Perth's designated major growth corridors;
- Lack of integration between urban planning (DPI) and water planning (DOW) in the NE corridor. This is a major designated growth corridor in the Perth Metropolitan Area which cannot be developed without water plans in place and where no water planning has been done;
- Developers building primary schools or financing the bussing of children to the nearest schools because of a lack of planning for school facilities on the part of the Education Department;
- Lack of consistency between Local Government jurisdictions, particularly in engineering standards;
- Requirements for infrastructure such as 3rd pipe when no recognised approval process is in place. There are multiple instances in Perth where developers have

installed 3rd pipe at an approximate cost of \$3000 per lot but approval was not received so the infrastructure is immediately redundant.

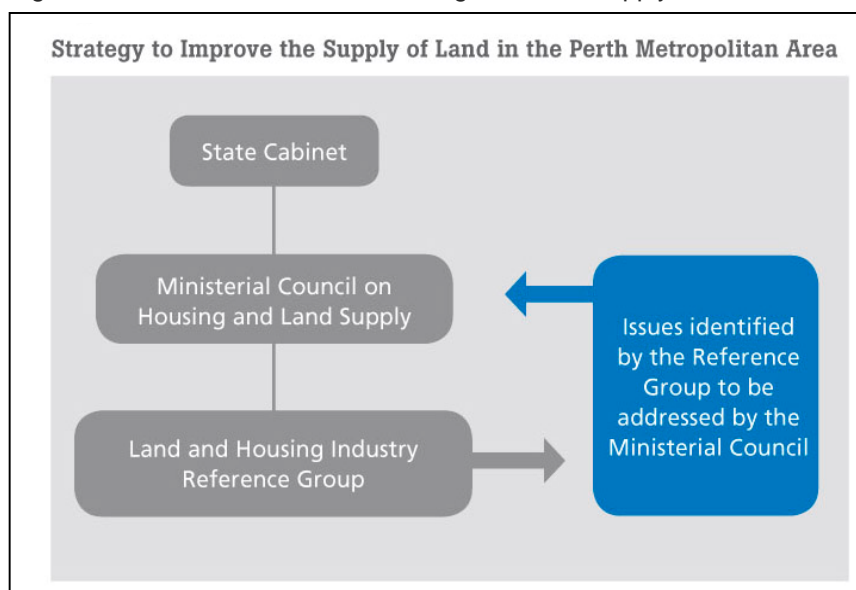
Interaction of agencies is critical to the strategic planning of sites for essential infrastructure. These sites must be identified and environmental assessments prepared well in advance of rezoning applications. In this way, the sites are secured and support the strategic urban planning process by being fully integrated with the provision of other essential infrastructure that underpins sustainable urban development. Successful outcomes rely on ongoing interagency coordination and communication.

Positive Initiatives in Cross Government Cooperation by the WA State Government

In late 2007, Ministerial Council for Land and Housing supply was established in WA whose objective is to prioritise land and housing development and to ensure a coordinated approach across government (see Figure 5).

The Ministerial Council is informed by a reference group of industry and government representatives and includes the Land Development Coordinator. The reference group comprises representatives of the Urban Development Institute of Australia, Housing Industry Association, Property Council, Civil Construction Federation, Western Australian Local Government Association, Master Builders Association and the main government agencies involved in land supply. This structure has the potential to fast track policy improvements and other initiatives which impact on affordable land and housing supply.

Figure 5: Ministerial Council on Housing and Land Supply



Reliable Data Management to Allow Government to Facilitate Affordable Home Ownership

The reliable management of data between government agencies will help facilitate affordable home ownership through more accurate predictions of needs, market cycles and development barriers and early intervention to ameliorate major market fluctuations. The initiatives below are supporting improved data collection.

- The WA Housing Industry Forecasting Group

UDIA was recently successful in calling for the reinstatement of the WA Housing Industry Forecasting Group (HIFG) run under the auspices of the Department of Housing and Works. UDIA was concerned about the lack of current and consistent data that allowed valid conclusions to be drawn about the future demand for land and housing in Western Australia. Industry requires reliable forecasts of building activity based on demand side statistics such as population and household growth, household occupancy figures, economic growth and employment. Demand side forecasting underpins industry's ability to provide land and housing to the market to meet demand. Without reliable demand side data, it is impossible for industry to gauge whether it is meeting, exceeding or falling short of market demand.

- Data Management

An investigation by UDIA to assess future demand for housing in Perth and Peel revealed not only a lack of relevant data, it also highlighted significant discrepancies between Department for Planning and Infrastructure (DPI) targets for residential lots on the market and Landgate data on titles issued for new subdivision lots and strata lots. The scale of the variations in recorded data indicates a glaring need for improved data management between key government agencies and demonstrate the need for a change in reporting of titled lot production if the government is to reliably understand the status of lot production in relation to demand.

- Metropolitan Development Program

The Metropolitan Development Program 2005/06 to 2009/10 (WAPC, January 2006), reports WAPC intends to prepare household and dwelling forecasts after the 2006 Census, however it is UDIA's understanding that no budget has been set aside for this task and the DPI demographer is hamstrung by lack of financial capacity to undertake research. This clearly suggests that there will continue to be a lack of reliable data from the government for the foreseeable future.

- Shared Land Information Platform (SLIP)

SLIP, operated by Landgate, provides a framework to allow access to the most up to date and relevant land information data for Western Australia between government agencies. The timely availability of data facilitates affordability by reducing time delays and their consequent costs. SLIP is charged with delivering three key outcomes:

- o To simplify access to land information;

- To improve efficiency in accessing and using land information;
- To realise the goals of e-government by providing a platform to nurture the growth of integration between government agencies.

The Enabling Framework uses current internet based technologies and standards so that data can be accessed transparently as a single, integrated land information system whilst data remains within the control of custodial agencies. The SLIP program potentially has many benefits for the land development industry, particularly in the ease of access to spatial data from all government agencies that collect it. UDIA fully supports the SLIP program and is working with Landgate to educate our members on how to use it to its full potential. However, users report some significant deficiencies in the currency and reliability of data that is accessed through SLIP, for example:

- Lack of valid data on WALIS, particularly that related to DEC's wetlands database;
- Conflicting data sets, for example contour data accessed from Water Corporation is inconsistent with Landgate's contour data;
- Poor data collection and reporting by some government agencies (DPI) which impacts on the level of confidence users have in using SLIP;
- Collection of the same data by more than one agency which do not correlate. This results in duplication, additional costs and the risk of conflicting or inconsistent data sets.

SLIP is potentially a valuable tool to manage data distribution to customers from a range of government agencies; however the custodians of the data need to ensure the robustness and currency of the data if users are to have confidence in its reliability and utility. In addition, duplication of data collection by different agencies, such as the example of Water Corporation contour data described above, results in inefficiencies, loss of time, additional costs and runs the risk of inconsistencies between data sets. Should there not be just one set of contour data for the state that all government agencies access? Time efficiency and data accuracy are the key requirements of the development industry and it is incumbent on government agencies to respond to these requirements if SLIP is to have traction with industry.

Recommendations:

- That the issue of affordable living is understood by all levels of government when discussing options for affordable housing.
- That the need for infrastructure is understood by all levels of government and that the provision of an affordable 'product' is accompanied by the infrastructure to ensure an economically sustainable and affordable 'lifestyle' for households into the future;
- That all levels of government understand that long term affordability and sustainability for householders relies on access to fast and efficient public transport;
- That the Department for Planning and Infrastructure be adequately resourced to prepare household and dwelling forecasts based on the 2006 Census;



- That the forecasts include demand side data so that the forecasts are a clear indicator of the future demand for land housing in Western Australia;
- That improved reporting mechanisms be implemented between Landgate and Department for Planning and Infrastructure in order that land and housing data is comprehensive, current and conclusive;
- That the imperative for government departments is to ensure the validity, currency and accuracy of their spatial data sets;
- That interdepartmental communication and data sharing be facilitated in order to maximise the potential of Landgate to provide a one-stop-shop for all spatial data in Western Australia.
- That the benefit to affordability of a user pays approach to infrastructure provision vs up front payment is considered by government.
- That provision of public transport on the urban fringe gains higher priority.
- That the coordination of critical infrastructure is improved to ensure that all approvals are in place well ahead of urban development.
- That sustainability innovations such as 3rd pipe are supported upfront through clear approvals processes to de-risk initiatives by developers.

Term of Reference 5

The effect on the market of government intervention in the housing sector including planning laws

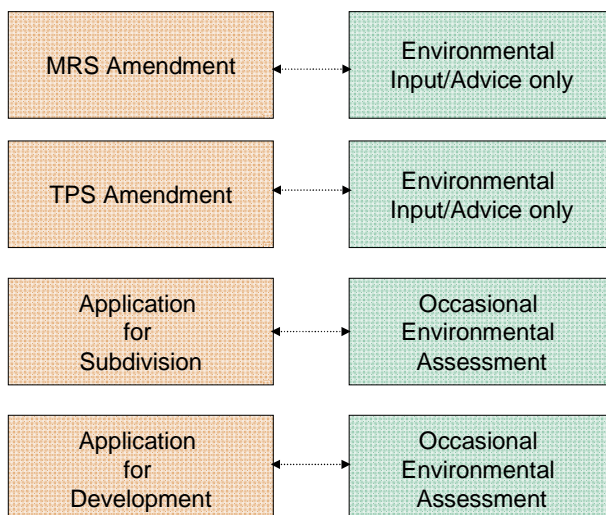
Key words: complexity, delays, escalating costs, multiple clearance agencies

This section examines the impact of the land approvals process on housing affordability and argues that a simplified system would reduce delays and concomitant costs on development.

Complexity of the Approvals System

The Western Australian planning system has become increasingly complex in recent times. Prior to the 1990's planning and environmental processes were separate, but the bringing together of the two systems as a response to uncertainty over whether zoned land could be subdivided and/or developed has resulted in a complex and unworkable system. Figure 6 illustrates the relative simplicity of the planning and environmental approvals processes prior to intervention by the Court Government in the early 1990's.

Figure 6: Planning and environmental approvals process in the early 1990's



Source: UDIA WA 2007

Figures 7 and 8 illustrate the complexity of the planning and environmental approvals processes today. The system has become unworkable and gravely impacts on the capacity of developers to provide a steady supply of land to the market and at affordable rates.

Figure 7: Process for Amendment of the Metropolitan Region Scheme

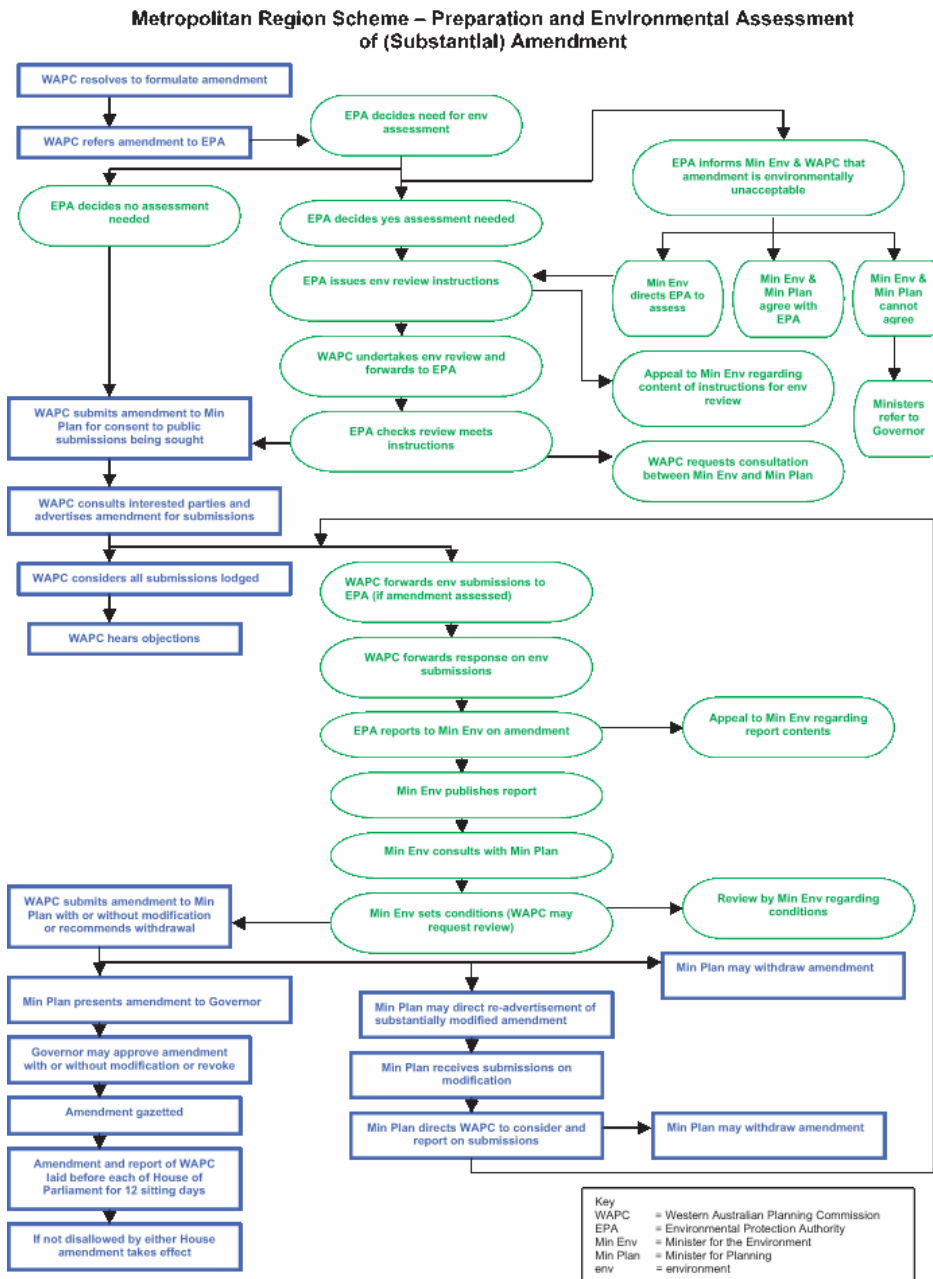
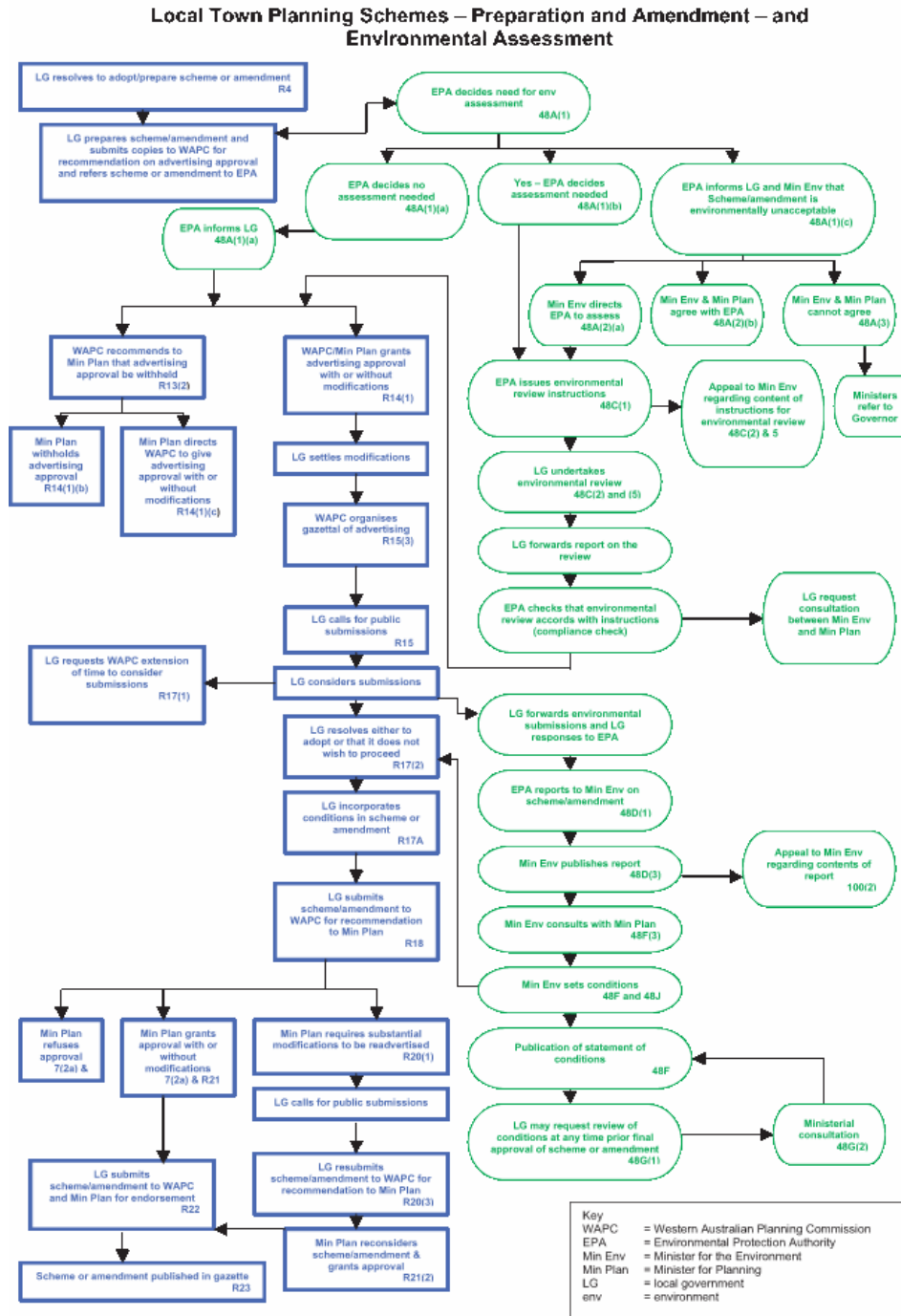


Figure 8: Preparation and Amendments of Town Planning Schemes



Source: UDIA WA 2007

The complexity of the current regulatory environment is patently not in the public interest, particularly in a context of high and sustained population growth. The financial impact on households of an increasingly complex regulatory environment has resulted in escalating land prices as land release is delayed by infrastructure provision and environmental approvals.

Financial Feasibility and Approval Delays

UDIA members advise that the more significant land release delays occur in the steps prior to clearance particularly in achieving rezoning, structure plan and subdivision approvals within reasonable timeframes. Time periods of five years from application for rezoning to final approval of subdivisions have been reported. There is a need for more strategic planning where issues that are the subject of conditions of subdivision should have been considered and resolved prior to the subdivision stage of the process. This particularly refers to major issues or 'show stoppers' such as contamination, wetland and water source protection and rare and endangered flora and fauna.

When assessing a potential new development project for acquisition, the vast majority of developers undertakes a Discounted Cash Flow (DCF) analysis and measure the project's likely returns using Internal Rate of Return (IRR) and / or Net Present Value (NPV). The DCF methodology and the IRR & NPV measures of return are both widely used in general financial practice, and are by no means exclusive to property development. IRR and NPV are both time-based measures of return – for a given fixed dollar return, both measures will be higher if the project is completed sooner, or lower if the project experiences delays. When assessing development projects for purchase, developers undertake this DCF / IRR / NPV analysis and, using their overall cost of capital (including their desired profit margin) as an input, arrive at a derived value of the opportunity to them.

Typically, potential projects are offered for sale to the open market and the developer prepared to pay the highest price is generally the successful purchaser. It follows that the developer prepared to pay the highest price is generally also the developer prepared to accept the lowest return. Target returns for typical large-scale development projects generally depend on perceived risk and estimated timeframe through the approvals process to first income; however they generally range from 16% p.a. (low perceived risk / relatively quick estimated approvals timeframe) up to 25% p.a. or more (for projects with high perceived risk and/or long estimated approvals timeframes).

The developer's feasibility analysis on purchase will necessarily contain assumptions about (among many other things) the length of approval timeframes and estimated lot selling prices. If the project experiences delays beyond those projected in the purchase feasibility, then in order to still achieve its target rate of return it follows that the developer must increase selling prices. In order to measure how time delays impact on end lot prices for the consumer,

UDIA has undertaken quantitative financial modeling of the above scenario on a hypothetical large scale development project (albeit based on a real-life example). The financial modeling includes a basic assumption by the developer that the project will require a 12 month period to achieve all required approvals and commence construction. Sensitivity analysis was then undertaken in which, holding all other assumptions constant, additional delays in the up-front planning process

were assumed of 6 months, 1, 2, 3, 4 and 5 years. End lot prices in each scenario were then increased as required restoring the IRR / NPV back to the initial target rate (i.e. to provide the same time-based return to the developer). These figures show a delay of:

- 1 year would mean an increase of 13.3% on the price of a lot;
- 4 year would mean an increase of 68.4% on the price of a lot.

Delays routinely occur throughout the approvals processes are largely attributable to:

- The need to obtain approvals from multiple agencies;
- The need to obtain approvals from non-planning agencies where approvals assume low priority which results in long timeframes;
- Inefficiencies in internal processes of some agencies, particularly DEC;
- Lack of resources (staff);
- Lack of experienced staff.

Conditions on Approvals

UDIA members report that it is not uncommon for developments to have 25 – 30 conditions placed on them by both state and Local Government agencies. This figure was significantly higher prior to the appointment of the Land Release Coordinator.

The following are examples of conditions of subdivision with the relevant agency that set the condition identified in brackets. The significant feature of these examples is that they are all strategic issues that should have been resolved in the structure planning stage of a development which occurs much earlier in the planning process than subdivision. Examples of conditions set on application and reported by developers include:

- The preparation and implementation of a storm water drainage management plan prior to the commencement of site works to the satisfaction of the Western Australian Planning Commission (DOE (now DEC), LG);
- Preparation and implementation of a Wetland Management Plan to the satisfaction of the Western Australian Planning Commission (LG, DOE (now DEC));
- Certification by the Water Corporation/Bush Fire Services that subdivision reticulation plans meet specifications and that hydrant fire fighting services will be installed to the satisfaction of the Western Australian Planning Commission (Water Corporation/Bush Fire Services);
- A visual vegetative buffer being provided along the boundary of the subject land to the satisfaction of the Western Australian Planning Commission (LG);
- Canal walls being designed and constructed to the satisfaction of the Western Australian Planning Commission (Department for Planning and Infrastructure – Coastal Asset Management) (LG);



- Arrangements being made to the satisfaction of the Western Australian Planning Commission for the management and maintenance of canals, including the nomination of a waterways manager and maintenance of the canal entrance (Department for Planning and Infrastructure).

Requirement for details too early in the process adding costs

There is a growing trend among local governments in particular to require more detail from developers at structure planning and subdivision stage which cumulatively add thousands of dollars to the cost of a block of land. Recent additional requirements at structure planning stage for example include detailed plans showing retention of significant trees including finishing levels and detailed public art responses, neither of which are appropriate levels of detail for structure plans. Consultant costs to meet these requirements add to the developers' costs which are inevitably passed on to the purchaser. This is not simply a case of the process happening out of order as changes negotiated to structure plans during the process may negate any work undertaken and it has to be repeated further down the track.

Duplication of Approvals Processes

The increasingly complex planning and approvals system is frequently complicated where duplication of conditions for subdivision approval is set by both State and Local Government. For example environmental assessments may be required by Department for Environment and Conservation (DEC) and Local Government. Indications are duplication of requirements is about to worsen as identified in the EPA's Draft Guidance Assessment No. 19: Guidance for Environmental Offsets, which advises that agencies other than EPA may also apply their own offsets using a different set of criteria and that it is up to the proponent to find out what these criteria are. It is our view that there should only be one set of rules for the application of (voluntary) environmental offsets in Western Australia and the EPA should be the guiding agency in this regard.

The current proposal from the Department of Health for Health Impact Assessment (HIA) to be a requirement of subdivision is an example of a non-planning agency without statutory timelines seeking to add another layer of policy in an area that UDIA considers is adequately addressed by existing planning regulation, guidelines and policies including Liveable Neighbourhoods, the Residential Design Codes, Environmental Impact Assessment, as well as numerous Local Government policies. There are very real concerns that the imposition of HIA could cause further delays within an already complex planning and environmental approvals process for urban development.

The development industry reports uncertainty and inconsistency in advice between government agencies with DEC identified as the most problematic agency to deal with. Particular issues arise from drainage planning and water management issues and the overlap in responsibilities between DEC and DOW. Across the industry, DOW is considered the slowest agency to deal with and approvals are routinely the last to be received. There is clearly a need for DEC and DOW to work



more closely together issuing clearances in order to expedite the approvals timeframe and for officers, particularly within DEC, to have a better understanding of the planning process.

Recommendations:

UDIA the following recommendations in response to the impact of regulations on supply of land:

- The broad principles and recommendations for accountable, timely and integrated approvals outlined in the Keating Report which have been applied to the mining and resources sector should be applied to major urban land development projects so that major land development approvals are prioritised, assessment and policy responses coordinated across government and timelines monitored. Communication with the proponent and a solutions based approach to problems should underlie the assessment process for these projects;
- Duplication should be removed in all assessment procedures and timelines applied where they are currently absent, particularly for structure plans and environmental assessments and conditions;
- Develop a formal procedure for the referral of major development projects to DEC and the EPA at outline development plan/structure planning phase of the planning and development process. This would enable consideration and resolution of major/strategic issues early in the development process with detailed design issues considered at subdivision phase;
- The Western Australian Planning Commission must play a more visible and accountable role in supporting a whole of government, timely and integrated approvals process for urban land development. In particular, the Commission needs to be more rigorous in vetting the appropriateness, practicality and cost benefit of conditions recommended by state referral such as the Department of Environment and Conservation and Local Government.
- That triple bottom line assessment be standard practice and all contributing factors are given equal consideration and weighting. The tendency for environmental factors to have precedence over other considerations should be reassessed.
- That clarity of the level of detail that is required at structure planning level is provided.