



RESIDENTIAL DEVELOPMENT COUNCIL

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Submission to the Senate Select Committee on HOUSING AFFORDABILITY IN AUSTRALIA

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

Dear Mr Hawkins

The Property Council of Australia welcomes the opportunity to provide this submission to the Senate Select Committee Inquiry into Housing Affordability in Australia.

The Property Council is strongly supportive of measures being undertaken by the Government to address the issues of housing affordability facing the current marketplace. Home ownership is an important milestone in the lives of Australians and believes the current generation of home buyers face an inequitable situation as the cost of the owning a home has significantly increased due to escalating developer taxes and charges, land supply constriction and an ineffectual planning regime across the states and territories.

The Property Council believes that involvement from all levels of government is essential in securing the future of Australians to access affordable housing. We believe government led initiatives which seek to improve the supply of affordable housing, such as: the National Rental Affordability Scheme; the Housing Affordability Fund, the creation of a National Housing Supply Research Council and the expedition of planning processes to ensure land release will help provide a much needed response to the affordability issue.

We look forward to working with the Committee to help support the implementation of solutions which will tackle this current and very real problem facing the Australian community.

Yours sincerely

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AFFORDABLE HOUSING IN AUSTRALIA

The great Australian dream of home ownership is now out of reach for many Australians. Indeed, it will remain but a dream for many more if the current housing “crunch” continues unabated.

Almost every available measure of housing affordability shows a worsening problem in Australia. Typically, Australian families now devote more than 30% of their household income to housing costs - past the point of what has traditionally been called 'affordable'. On other international measures, Australia is now among the least affordable places in the world to buy a home.

It is an economic and social reality that the provision of affordable home ownership and affordable rental accommodation is essential to actively maintain the social fabric of our residential communities. Across its many forms, the provision on housing is the cornerstone of identity, connectivity with society and offers security through a sense of place.

As affordability worsens, the prospects are not healthy for a growing nation which will demand 4.6 million new dwellings between 2001 and 2031. The question of how people will afford to live in these dwellings is one of considerable concern.

In our view the affordability of housing in Australia is an issue which requires a renewed direction and leadership from the Commonwealth Government and strongly demonstrated national co-ordination of strategic planning and policy implementation between the three levels of government.

The Property Council of Australia is strongly supportive of the renewed focus of the issue of housing and home ownership and welcomes the recent announcements on the National Supply Research Council, the National Rental Affordability Scheme, the Housing Affordability Fund (including support for the implementation of eDa), and the development of the First Home Savers Accounts.

CAUSES OF THE AFFORDABILITY CRISIS

There are a range of factors that have lead to the current housing affordability problem. The compounded impact of these factors is that the current housing affordability problem requires a set of policy solutions and response from each action from each level of government.

Primary factors impacting housing affordability are:

- Land supply;
- Shifting demographics;
- Taxes and infrastructure charges;
- Metropolitan and regional planning strategies; and
- Development assessment processes.

1.1 Land Supply

A major issue impacting affordability is the increasing gap between the supply and demand of housing in Australia.

Restrictions on the supply of land are not a product of geography or even climate: they are a product of public policy. Public policy which has had the most impact has been those policies which have sought to restrict the growth of suburban housing which emerged in the late 1980's onwards.

As the determination to limit suburban growth grew more pronounced, governments became increasingly less willing to fund new urban infrastructure associated with these areas.

Public policy now typically seeks to contain growth within existing urban footprints. The rationale cited is the need for more efficient use of existing infrastructure (through higher density alone). This is than prescribed in policy decisions through the creation of urban land boundaries around major population centres.

This practice has had a particularly dramatic effect on the price of englobo land, and has fuelled rapid increases in housing prices - especially in the past five years - as supplies of available expansion land dries up or the prices become uneconomical.

The identification and estimation of land supply has been a process which has been undertaken through a fractured approach by the states and territories. Of most significant concern has been the overestimation of land supply particularly with the lack of recognition of environmental and other overlays, overestimations of potential densities and approval related time delays which have led much of the current undersupply across the states.

The recent announcement to create a National Housing Supply Research Council with the primary responsibility of monitoring land supply could significantly improve the collection of more accurate data which in conjunction with the responsiveness of states could ensure land supply forecasts and releases are linked to strategic plans and more appropriate targets.

However, currently these land supply constraints are continuing to significantly impact housing affordability nationally.

1.2 Demographic Trends

In 2005, the Residential Development Council commissioned KPMG Demographer Bernard Salt to examine, in detail, demand projections for all major markets throughout Australia to the period 2031. That report - "Australia on the Move" provided forecasts of population and household demand by regional areas.

The key population trends identified that:

- Australia will require 4.6 million new dwellings between 2001 and 2031 (a 40% increase on current stock) to house a 29% increase in population (forecast to reach 24.99 million by 2031)
- Rapidly shrinking household size is the primary factor driving housing demand to 2031, by which time average household size in Australia will have fallen to 2.38 persons per household from the 2.74 recorded in the 2001 Census.
- By 2031, 40% of the housing stock will have been created in the preceding 30 years.
- The largest markets for net new dwelling demand in Australia to 2031 will remain the capital cities and established growth centres: Sydney (676,000), Melbourne (636,000), Brisbane (489,000), Perth (360,000), Gold Coast/Tweed (214,000), Sunshine Coast (131,000), Adelaide (113,000), Newcastle (79,000), Mandurah (62,000) and Canberra (56,000).

In our view, demographic and other forecasting data should be the baseline for any strategic planning process. The Property Council believes it is essential that this research data be collected and utilised to shape the future management of population growth. We are strongly supportive of the government, through the National Research Housing Supply Council, collect ongoing data to support these planning processes.

1.3 Taxes and Infrastructure Charges

Over the last twenty years, we have seen a substantial rise in demand from state and local governments for the costs of any infrastructure associated with residential development to be met by the residents living in new apartments or houses, where a developer has supplied that stock to the market.

This is at odds with the approach which has applied to previous generations of new home owners: the direct costs of infrastructure associated with their housing choice (ie the connection of water, sewerage and essential services) was an element of the ownership cost, but all other costs (road upgrades, public transport services, council libraries, upgrades to water storage and treatment, etc) were paid for by the general community, either through state taxes or council rates.

In 2006, prepared by consultants Urbis JHD for the RD, the study undertook a review of the collective impact of all government-related taxes, fees, charges and compliance costs on the price of new homes and new home units.

The report showed that the combined costs of government taxes, charges, levies and regulatory compliance (at all levels of government) is the second highest element of the cost of new housing, second only to the cost of physical construction, and more than the cost of the land.

The Urbis study found that these costs now typically account for anywhere from around a quarter to one third of the cost of a new house and land package created in a development estate (modelled on a 100 lot subdivision), and from roughly one fifth to almost a third of the cost of a new home unit in a 50 unit development.

Of most concern in the report's findings was the rate at which these charges had grown in just the previous five years. Dollar increases of \$50,000 to \$100,000 per new home in the last five years were not uncommon.

Excluding the compliance costs, the research proves that the huge decrease in for affordability has been substantially driven by massive increase in taxes. The taxes alone levied by all levels of government have had a significant bearing on the rising cost of new housing.

Of particular note, is GST which is only levied on new homes and the income is repatriated to state governments, which continue to levy a range of taxes on new housing, and some in addition levy their own infrastructure charges. Local governments too are increasingly levying a variety of infrastructure-related charges on new housing.

In the last 11 years, total infrastructure charges for houses and home units have significantly increased in each capital city, far outstripping the average growth in construction costs. In addition to these charges, infrastructure charges are a separate component cost to the residential development contributions already imposed on property developers by the State and Federal Government through stamp duty, land tax and GST.

These imposts has been due in part to the increases in local government responsibility for infrastructure and service delivery which has not been matched by any significant increase in funding and training for local governments from the State and Federal Governments.

1.4 Metro and Regional Strategic Planning

The major urban centres in Australia will continue to grow in terms of population and dwellings in the future with dwellings growing at a faster rate than population due to changing demographics and relationship tenure. A common approach to strategic urban planning across Australia's major cities has been the introduction of urban growth boundaries and to set Infill and Greenfield dwelling targets within these boundaries.

Initiating policies to encourage greater infill development of higher density dwellings does not ensure the implementation of such policies. There are numerous barriers to infill development that extend well beyond local government planning legislation.

As an increasingly significant proportion of Australia's growing population are anticipated to reside in these areas of urban infill, the Residential Development Council commissioned a study to review the barriers to these infill targets being fulfilled. The study reviewed these barriers in each of Australia's largest cities in

light of their infill dwelling targets has provided identified implications for the likelihood of achieving these targets and potential alternative options to house future populations in these cities.

Key barriers to infill dwelling development include:

- Commerciality of infill development. It may not always be financially feasible for a developer to develop infill sites. Typically infill sites have high land costs and the construction costs for medium and high density dwellings are significantly higher than for detached dwellings. Demolition costs may also need to be included in development costs.
- Availability of sites. Securing sites of a suitable size, in an appropriate location, and for a feasible price can also be very difficult. If a row of detached houses is required to redevelop an area on a suitable scale it can be extremely difficult to persuade home owners to sell their dwellings. Such sites might also compete for higher and better uses as retail developments or commercial developments.
- Community opposition. Higher density dwellings are frequently opposed by direct neighbours and the broader community. Governments, rightly take these impacts into consideration when determining planning approval for infill developments.
- Market Preference. The type of dwelling developed in any area needs to meet the expectations of the market – the buyer's preference. An oversupply of product or the delivery of the wrong type of product may mean an infill development is not accepted by the market and remains partially vacant.

The overall findings of the report indicated that conservatively there is likely to be a shortage of at least 261,000 dwellings across the major city centres. With shortfalls of 53,000 in Sydney; 60,000 in Melbourne; 17,000 in Brisbane and 131,000 in Perth against currently proposed metropolitan strategy plans.

1.5 Development Assessment Processes

The Property Council is a strongly supports the national adoption of the leading practice guide to world class development assessment.

The DAF Model was developed by the Development Assessment Forum (DAF), which includes all states, territories, local government, property sector industry associations, professional organisations and the Australian Government.

The DAF model outlines ten elements of an efficient development assessment process that will:

- depoliticise assessment;
- reduce development delays;
- increase certainty;
- clarify the community's requirements up front; and,
- reduce costs and waste.

Conclusion

In our view, solutions to restoring affordability are long term and must involve actions at federal, state and local government level. Policy solutions should be formulated which reduce taxes and charges on the industry, streamline the regulatory system to significantly improve the development assessment process and remove the constraints which limit urban growth including availability of land supply.

The Property Council supports the Australian Government's housing affordability proposals. We believe private sector involvement in refining the proposals will be critical to its success. Consequently, we submit the following action plan.

Recommendations:

Housing Affordability

- The creation of a National Housing Supply Research Council who should be responsible for establishing a standard methodology for measuring the interaction between supply and demand factors, including:
 - The difference between theoretical and effective/practical land release;
 - Differentiation between land releases based on class of supply, such as unzoned, zoned, serviced etc;
 - Underlying demand;
 - The relative impact of factors that impact on demand;
 - Forecast price points based on the interaction of demand and supply; and,
 - An assessment of all locales across the country, distinguishing between inner city, metropolitan, out metro, regional, sea-change communities etc.
- Establish short and medium term performance KPIs relevant to housing affordability and social housing.
- Establish of the government's housing affordability fund based on a competition policy model.
- The establishment of the government's national rental affordability scheme in direct consultation with industry to ensure successful implementation.
- Lower development charges by decreasing total developer costs that flow to householders by at least 50%.
- Reduce red tape through speeding up the approval of development assessment by 50%.
- Seek private sector advice on realistic options for transforming the housing sector (including social housing sector) into an investment grade asset class.

Social Housing

- Create at least 160,000 extra dwellings over a 10-year period to meet the recognised undersupply of affordable housing with appropriate funding and involvement of the private sector.
- Reduce by 20% the amount of rent paid by 50,000 families and individuals in extreme housing stress.

Land & Dwelling Supply

- The increase of available housing stock from 150,000 per annum to 180,000, which will require more green fields and infill development sites including the proposed release of commonwealth lands.
- Governments should set national, regional and local targets for housing supply and coordinate land releases and higher densities where demand is highest.

Taxes and Infrastructure Charges

- Fund future infrastructure by government borrowing, not through the planning system, where the onus eventually falls on the homebuyer.
- Maintain the existing Capital Gains Tax (CGT) and negative gearing regime will ensure that the costs of housing in the private rental market are kept at affordable levels.
- Phase out stamp duties which are a barrier to home ownership.

Strategic Planning

- Creation of national strategic planning based on demographic and forecast data supplied by the National Housing Research Supply Council.
- Synchronise infrastructure delivery to future housing needs – release a 25 year infrastructure delivery program for every major urban community in Australia.

Urban Renewal

- Establish an urban renewal program. In the first instance, scope the initiative by establishing an advisory body comprising leading urban thinkers, investors, community groups and other stakeholders, to be chaired by an eminent Australian.
- Develop a set of KPIs for community building informed by the South Australian and NSW Government action targets.
- Develop a sustainability and growth charter informed by the findings of the House of Representatives reports on *Sustainable Cities (2005)* and *Sustainability for Survival (2007)*.

- Develop a protocol that defines the relative role of *Infrastructure Australia*, the *Regional Development for a Sustainable Future* initiative and the proposed urban renewal initiative.
- Establish a standing advisory body: the Urban Renewal Commission.
- Nominate priorities for breakthrough community capacity building projects that could be included in the 2009 federal budget.

Development Assessment

- The adoption of the DAF model by state and territory governments with the full support of the federal government in its implementation through the provision of financial incentives.
- The government commitment to help fund the rollout of the eDA project across the states and territories.
- The increase in financial support for DAF and its work through the provision of funding for project staff.

Additional Research

In addition to this submission, the following Residential Development Council reports have been lodged with the committee:

- Boulevard of Broken Dreams (2007)
- Beyond Reach (2007)
- Reasons to be Fearful (2007)
- Australia's Land Supply Crisis (2006)
- Australia on the Move (2005)