Residential Development Council
PROPERTY COUNCIL

Reasons to be fearful?

Government taxes, charges and compliance costs and their impact on housing affordability.

SUMMARY REPORT
Residential Development Costs Benchmarking Study, March 2006.

The **Voice** of Leadership

PROPERTY COUNCIL of Australia

Housing affordability is a burning issue for the Australian public and while Governments across the country express genuine concerns about the problem, this research shows that affordability is being crushed by a raft of government costs which now account for up to one third of the price of a new home or unit. Governments are now as much a part of the problem as they are of the solution.

To help identify and make transparent the situation the Residential Development Council of Australia commissioned Urbis JHD - a leading independent planning and economic consulting firm - to review the current cost structures for the development of new housing and to identify the rate a which these cost structures have escalated over the past decade. This is a summary of that report.

Government costs average 25% of new housing price

On a national average, a quarter of the money Australians pay for their new homes or units is made up of taxes and compliance costs associated with producing new housing. The figure is as high as 35% of the cost of new detached house and up to 28% of the cost of a home unit.

Rapid escalation in last five years

Of most concern is the speed at which these imposts have grown. The Urbis JHD study reveals that in the five years between 2000 and 2005, these costs have risen by:

- almost 600% in the case of Redlands in Brisbane and almost 400% in the case of Ipswich
- over 300% in Perth, Adelaide, the Gold Coast, Maroochy and the Hunter
- over 250% in the case of Mandurah and the Tweed
- Around 200% or more in the case of NW Sydney or Canberra. NW Sydney experienced the greatest dollar increase in taxes and costs of any region in Australia, at $131,758 in the period.
- Around 150% in Melbourne and the Sydney south west

Dramatic consumer impact: paying off the tax bill

These costs are now arguably adding anywhere from $360 per month up to $1,445 per month in mortgage payments (assuming that new home purchases are funded by loans of 7.25% over 25 years). By contrast, an interest rate rise of 0.25% (which would result in banner headlines across the nation) would only add $65 per month to a mortgage of $200,000.

Not fair

The costs identified in this report only deal with new housing development. However, the cost of producing new product is a major influence for the price setting of established housing. As the established house market is not taxed anywhere to near the same degree as the new housing market it means that a small section of the community are bearing an historically high share of the tax and compliance burden that benefits the whole community. This is manifestly unfair and raises the question of intergenerational inequity. No previous generation of Australian new home buyers has ever been forced to contribute so much to the cost of funding basic infrastructure, nor penalised so heavily because of inefficient and unnecessary compliance burdens.

Developers pass on these extra costs to consumers

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 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.

Time to rethink

Based on these findings, it is clear that the issue of worsening housing affordability owes much of its origin to the approaches that governments have taken in dealing with residential development around the country, particularly in recent years. If Governments are serious about fixing the problem of affordability and want to ensure that our children are able to afford decent accommodation in the future then there is a clear and urgent need for governments to rethink their policy approaches to:

- infrastructure funding and development levies
- compliance costs (red tape)
- land supply programs

(1) Broadhectare House and Land Costs, 2005

Area	Total Cost	Government Cost	Rank	Government
North West Sydney	$570,240	$198,670	1	34.8%
South West Sydney	$544,115	$166,481	2	30.6%
Redland	$464,225	$135,799	3	29.3%
Tweed	$465,740	$113,836	4	24.4%
Canberra	$425,550	$108,011	5	25.4%
Maroochy	$412,475	$99,316	6	24.1%
Melbourne	$366,660	$91,135	7	24.9%
Perth	$373,700	$86,109	8	23.0%
Hunter	$361,240	$85,687	9	23.7%
Gold Coast	$391,775	$84,306	10	21.5%
Mandurah	$310,700	$84,212	11	27.1%
Ipswich	$319,325	$79,448	12	24.9%
Adelaide	$248,530	$53,003	13	21.3%

Source : UrbisJHD

(2) New Home Unit Costs, 2005

Area	Total Cost	Government Cost	Rank	Government
Sydney	$570,240	$167,258	1	29.3%
Brisbane	$422,825	$113,849	2	26.9%
Perth	$457,700	$113,414	3	24.8%
Adelaide	$432,080	$111,653	4	25.8%
Maroochy	$345,200	$95,894	5	27.8%
Gold Coast	$319,325	$87,017	6	27.3%
Melbourne	$318,960	$65,662	7	20.6%

Source : UrbisJHD

(1) Based on hypothetical 150 lot subdivision
(2) Based on hypothetical 50 unit apartment project

Research Background

The Residential Development Council is the Property Council of Australia's residential advocacy arm, and represents the nation's leading residential development companies. Concerned at the extent to which rapidly escalating costs of development are threatening affordability, it commissioned the respected national planning, economics and property consultancy, UrbisJHD, to investigate how the combined effect of various local, state and federal taxes, levies, fees, delays and compliance burdens are adding to the price of new homes and home units.

This has never been attempted before on this scale, so this national research brings a unique and valuable perspective to the issue of residential development and housing costs in Australia. The Residential Development Council fully accepts that some elements of the study approach may be open to debate however, what is beyond debate is that the costs identified are now excessive and have been growing out of control in recent years.

The study covered 10 major growth areas identified in the Residential Development Council's landmark 'Australia on the Move' research document, prepared in 2005 by Bernard Salt of KPMG. They are: Sydney, Melbourne, Brisbane, Perth, Gold Coast/Tweed, Adelaide, Sunshine Coast, Newcastle, Canberra/Queanbeyan and Mandurah (WA). For the purposes of the study, the researchers examined thirteen broad hectare locations and seven medium density locations within those areas, then summarised 18 housing cost factors into five components: Land, Construction, Government, Developer's Return and 'Other'. Compliance expenses in relation to both land and construction were included in the government component (as well as consultants' fees associated with compliance).

Key Findings

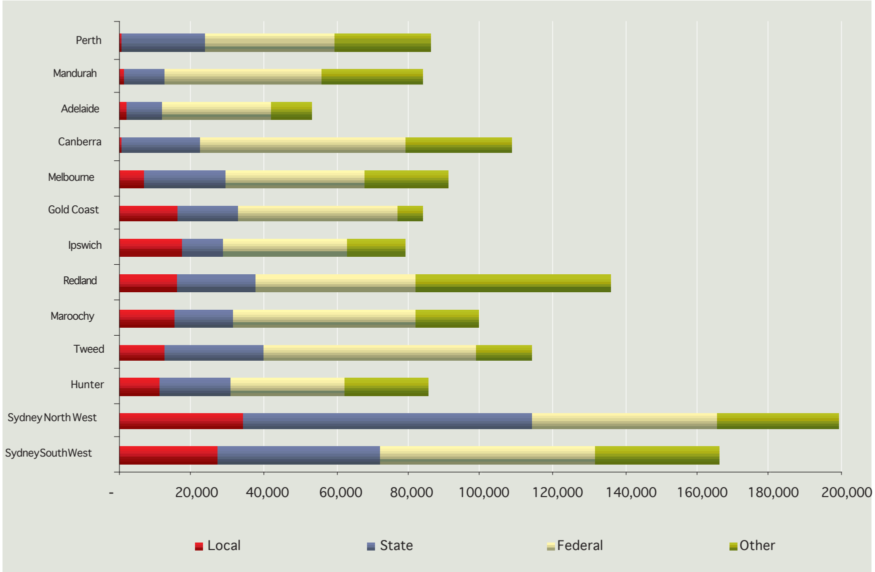
- Construction (materials and labour) is the largest cost for both detached houses and home units. For broad hectare development (house/land packages), the construction component ranged from 40.3% in Sydney's North West to 67.5% in the Hunter. Apartment/unit building costs ranged from 30.6% (in Brisbane) to 46.2% (in Melbourne) of total cost.
- Federal, State and Local Government taxes and charges are now the second largest cost faced by new home buyers. In the case of broad hectare development in Sydney's North-West, these charges represent up to 34.8%, or almost $199,000, of the price of a new house in that area. Other localities incurring high government costs include Redland (near Brisbane), Canberra and the Tweed Coast of New South Wales.
- In terms of the apartment/units, Sydney at 29.3% of the new home unit price experiences the highest cost in percentage terms and incurs the most substantial actual dollar costs ($167,528).
- The effect of government charges on housing costs varies widely from state to state for a variety of reasons. For example, State Government costs are substantial in Sydney partly as a consequence of the high land prices (which affect the levels of stamp duty and land tax to be paid) but predominantly due to local council levies (section 94 charges) and State Government imposed infrastructure levies.
- Local government costs are comparatively low in Perth, Mandurah, Canberra and Adelaide, while infrastructure charges imposed in Queensland and NSW increase that tier of government's take in those states.

- The Federal GST charge from new housing development is a significant cost impost which flows back to the States. However, the States have no obligation to re-invest the GST revenues from housing into infrastructure required to support residential growth.

- At a National level, changes to the Building Code of Australia in 2004 and 2005 have had an impact on the cost of new homes because of requirements for additional sound insulation and energy efficiency. Additionally, new state regulations aimed at introducing sustainability into buildings have added to the cost of new homes in NSW, Victoria and Queensland. Whilst this is a responsible pursuit and the Industry generally supports this initiative, the extra costs are transferred directly to consumers In the form of higher new housing prices.

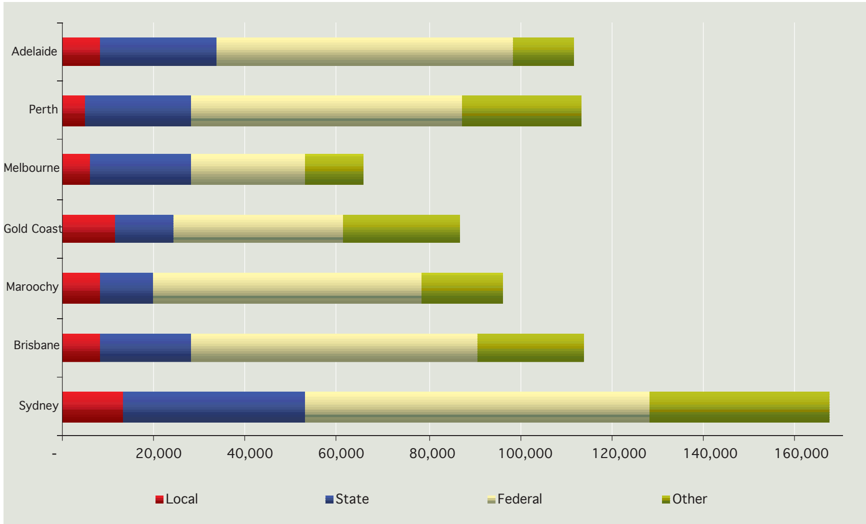
- The report also shows that the time cost of excessive delays in gaining development approval is a significant cost to the new home buyer. The paperwork, reports, audits etc. required to compile applications have skyrocketed over the past ten years and this has led to a significant blow-out in the timeframe to process applications. Holding costs (interest costs, rates, land tax etc) increase in line with the amount of time it takes to prepare and assess development approvals and therefore these place upward pressure on the sale prices to new home buyers. These costs have previously been hidden from discussions on housing affordability.

Broadhectare Total Government Charges (Per Lot) Australia, 2005



Source : UrbisJHD

Medium Density Total Government Costs (Per Lot) Australia, 2005



Source : UrbisJHD

- The findings in this research document are sure to stimulate more debate on the vagaries of the development approval process. There appears to be no logical explanation why Tweed can turn a broad hectare development approval around in six months, yet locations like Melbourne (20 months), Maroochy (18 months), Perth (19 months) and Redland (near Brisbane) at 30 months, are inexplicably slow. And why does the Gold Coast take 21 months to approve medium density residential developments, while Perth can produce a similar result in three months?

Dramatic rises since 2000

New and increased infrastructure charges, excessively complex development assessment procedures, rising compliance costs, lengthening delays, the GST and other factors have contributed to a steep rise in the tax and compliance bill for new home buyers, particularly since 2000.

In NSW, between 2000 and 2005, the total government share of broad hectare development costs rose by almost 200% to $198,670 in Sydney's North West, by 155% to $166,481 in Sydney's South West, and by over 300% to $85,687 in the Hunter region. In Queensland, the total government slice of the broad hectare development pie jumped alarmingly by almost 600% to $135,799 in the Redland Shire and by almost 400% to $79,488 in Ipswich. These increases took place in a record low inflation environment.

Broadhectare Government charges Australia, 1995 - 2005

Location	2005 Value	Annual change (2000 - 2005)	2000 Value	Annual change (1995 - 2000)	1995 Value	Annual change (1995 - 2005)
North West Sydney	$198,670	24%	$66,912	16%	$32,100	20%
South West Sydney	$166,481	21%	$65,251	13%	$35,303	17%
Tweed	$113,836	30%	$30,474	9%	$20,071	19%
Hunter	$85,687	33%	$20,545	11%	$12,011	22%
Maroochy	$99,316	33%	$23,614	6%	$17,815	19%
Redland	$135,799	47%	$19,872	6%	$15,100	25%
Ipswich	$79,448	37%	$16,285	4%	$13,077	20%
Gold Coast	$84,306	35%	$19,072	6%	$14,186	20%
Melbourne	$91,135	20%	$37,052	10%	$22,860	15%
Adelaide	$53,003	34%	$12,289	4%	$9,890	18%
Mandurah	$84,212	29%	$23,229	11%	$13,739	20%
Perth	$86,109	34%	$20,247	9%	$12,954	21%
Canberra	$108,011	28%	$32,047	6%	$23,616	16%

Source : UrbisJHD

Medium Density Government charges Australia, 1995 - 2005

Location	2005 Value	Annual change (2000 - 2005)	2000 Value	Annual change (1995 - 2000)	1995 Value	Annual change (1995 - 2005)
Sydney	$167,258	20%	$65,856	13%	$35,982	17%
Brisbane	$113,849	25%	$37,893	5%	$29,467	14%
Maroochy	$95,894	26%	$30,316	6%	$22,209	16%
Gold Coast	$87,017	31%	$22,791	4%	$18,779	17%
Melbourne	$65,662	21%	$25,091	12%	$14,180	17%
Perth	$113,414	33%	$27,140	6%	$20,387	19%
Adelaide	$111,653	33%	$26,865	1%	$25,417	16%

Source : UrbisJHD

A high-risk, low margin game

There is a widespread perception in the political circles and some public sector agencies that 'developers will absorb the cost' of additional imposts. This research proves how ill advised that thinking is. Developer margins have remained constant for decades and reflect the huge risks associated with this investment activity. Whilst the initial introduction of these charges is often absorbed by developers, in all instances the costs are ultimately passed on to the home buyer. This means that while Governments are initially free to push costs onto developers, they invariably always end up putting these costs directly to the public.

"Other" Government-related Costs

The study identifies that 5.4% of the total development cost of the medium density development and 6.4% of the cost of the broad hectare development was attributed to "other government-related costs".

Most of the government-related imposts categorised as "other" relate to the regulatory environment at Federal, State and Local government levels. They include the cost of complying with building regulations, together with other costs related to local regulatory regimes, as well as the cost of hiring consultants. The increasing complexity of development assessment now means that consultant reports on planning, environmental, engineering and other aspects of the proposal are becoming more and more complex and expensive. In many cases, local councils mandate that applications must be accompanied by consultancy reports.

Lengthy approval periods and frequent requests for further consultancy reports, combined with frequent court challenges, add further to the cost of delivering housing to the market.

Conclusion

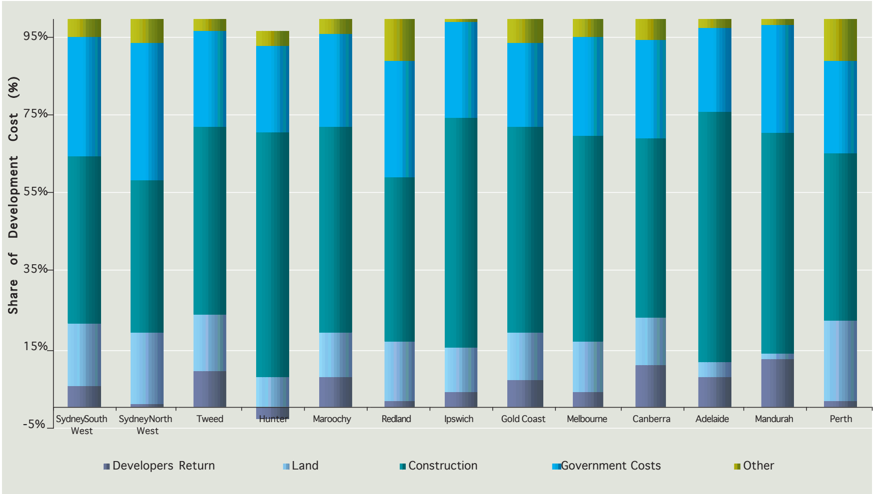
These findings overturn conventional thinking that housing prices are primarily driven by issues such as interest rates, supply and demand, and consumer confidence. With the combined impact of various government costs now the second most expensive part of the cost of developing new housing product (more costly even than the land), it is clearly time for governments around Australia to rethink their approach to housing development.

The Residential Development Council fully understands that governments find the provision of essential infrastructure for growth a real challenge. However, this study proves that the 'get the developer to pay' approach, combined with increasing and unnecessary compliance burdens and other factors, is not the answer: it only leads to worsening housing affordability.

In the view of development industry leaders, several things must now happen to avert a worsening problem:

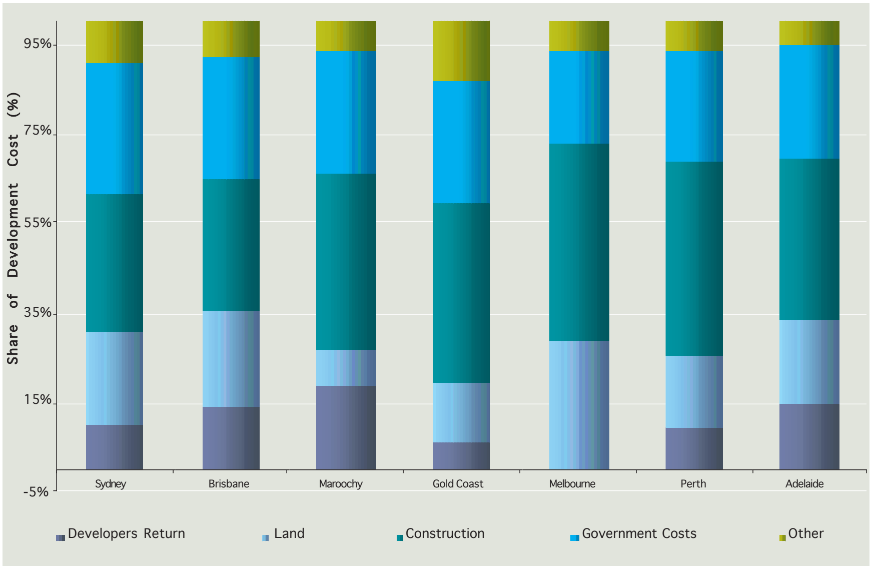
- First, governments at all levels must immediately stop adding to the cost of housing development
- Second, alternate mechanisms for funding infrastructure related to growth must be found. The Property Council has previously shown that public sector debt is a more equitable solution (“Funding Urban Public Infrastructure: Approaches Compared” prepared for the Property Council by the Allen Consulting Group, 2003).

Broardhectare Development Costs Australia, 2005



Source : UrbisJHD

Medium Density Development Costs Australia, 2005



Source : UrbisJHD

- Third, the mechanisms of development assessment must be reformed if we are to reduce the risks associated with residential development and associated costs The proposals recommended by the Federal Government's Development Assessment Forum (DAF) are a good framework to address this issue and have the support of the Property Council and the Residential Development Council and other groups.
- Fourth, the issue of artificially restricting land supply through 'urban growth boundaries' must be revisited. According to the recently released Wendell Cox Consultancy's “2nd Annual Demographia International Housing Affordability Survey: 2006” part of the reason Australia has some of the least affordable housing in the world is due to policies which introduce land supply constraints.

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About the Residential Development Council

The Residential Development Council represents Australia's leading development companies. It was established within the Property Council of Australia in mid 2005 to promote an improved understanding of the issues affecting residential development nationally, and to promote solutions on behalf of the industry and Australian community. Its leadership group consists of leading people within blue chip development companies.

This is the second major initiative of the Residential Development Council. Last year, it commissioned 'Australia on the Move' - a detailed investigation into housing demand across the country to the year 2031. This was prepared by high-profile demographer Bernard Salt, of KPMG. Further studies in key areas of interest to the development industry are underway and planned for the future.
More information: www.propertyoz.com.au

About UrbisJHD

UrbisJHD is a national urban planning and advisory firm. The firm's advice extends to investment objectives, portfolio strategies, asset management plans and tenancy requirements. Their specialist staff include property experts, valuers, town planners, urban designers, economists and consumer and social researchers. Services include market analysis and research, property portfolio reviews, asset management advice, tenant representation services and accommodation services, project coordination and project management and economic, feasibility and land use pattern analyses. More information: www.urbis.com.au

COMPLETE REPORT AVAILABLE

This is a highly condensed version of some key findings of the report. The full report, which runs to 100 pages, is available for purchase to interested parties. Proceeds of the sale are used to defray consultancy costs and to provide further scope for additional research in the future. Copies are priced at $295 inc. GST each for non members of the Property Council, $220 inc. GST for Members. Copies are strictly copyright. Unauthorised reproduction, via any means, will lead to prosecution.

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