



Dedicated to a better Brisbane

31 March 2008

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

Dear Sir,

Brisbane City Council Submission to the Senate Select Committee on Housing Affordability in Australia

The Senate and Committee are to be congratulated on commissioning this very important inquiry. As one of the largest Local Government Authorities in Australia, Brisbane City Council has a significant amount of practical experience and information which will assist this inquiry. This letter constitutes Council's submission to the committee.

Foremost, Council would like the Committee to take a holistic view of the many factors that contribute to the housing affordability issue. The development industry has brought significant attention to bear on the charges imposed by local government, the impacts of regulation on housing costs and the release of new land. There is no denying that these factors have a significant impact on housing affordability however there are also many other important factors which must be taken into account.

The arguments put forward by the development industry therefore do not represent the full picture nor do they accurately portray all of the issues they put forward as key factors affecting housing affordability.

Brisbane City Council contends that there is no one single solution to the housing affordability issue and that policy changes and action is required by all parties in the equation. This includes all tiers of government, the development industry, the finance industry and the many other parties who are associated with the housing sector.

In addition, it should be noted that the issue of housing affordability is critically linked to employment accessibility and labour mobility issues. Housing affordability is a symptom of lower paid workers not being able to afford suitable housing in locations where they can access a job, hence some of the debate has centred on artificially holding down market values in inner city locations. Transport networks which provide timely and effective access to employment can be an important part of the solution to housing affordability.

This submission outlines Council's view on the three key matters consistently raised by development industry as major influences on housing affordability but also puts forward for consideration other key matters for consideration.

On the three key factors portrayed by the development industry as the major causes of the housing affordability issues Council offers the following additional considerations.

Impact of infrastructure charges

There are very real costs associated with the provision of essential infrastructure to newly developing areas. Brisbane City Council has worked with the development industry to expose Council's methodology behind the calculation of charges. Council has also shared with industry information on the significant sums that Council is spending on new infrastructure to support growth. The overall outcome is that industry accepts that Council's methodology and spending on new infrastructure clearly reflects the cost of new infrastructure and that Council is not loading the costs of infrastructure for the existing population onto new development. This has also shown that Council is spending far in excess of the money it recoups on infrastructure charges on new infrastructure. Having worked with the development industry to justify the cost of infrastructure charges and having this generally accepted the argument now seems to be whether this should be an upfront charge, an ongoing charge through rates to the user or whether the ratepayer in general should subsidise new growth.

Council takes the view that the cost of providing new infrastructure should be clearly known and that this very real cost cannot continue to be subsidised by the general rate payers to the extent that it has been in the past. Council acknowledges that these charges do have an impact on housing affordability and to this extent has introduced as subsidy of 35% of infrastructure contributions for the current and next financial year. This subsidy is likely to cost Council in the order of \$50million over these two years.

Transfer of these charges to the Council rates of the new homeowner makes little impact on housing affordability as instead of paying through a mortgage the homeowner will be contributing a similar amount through their annual rates payments.

Subsidising new development infrastructure costs through city-wide general rates is considered to be an unfair impost on current ratepayers particularly in an environment where funding sources for local government are limited and ongoing pressure is being applied by ratepayers to limit increases in rates as well as to provide increased standards of service.

Impacts of Regulation

Council acknowledges that lost time in the development assessment process delays delivery of product to the market and that this can contribute to increased costs. Council has implemented processes such as "Risk Smart" which allows for fast tracking of certain low risk applications and this model is now being promoted by the Queensland Government as an appropriate model in other parts of the State.

It should be noted however that the timing for assessment of development applications is controlled by applicants as well as local governments. Many applications submitted are of a very poor standard and require additional studies to be undertaken by the applicant to ensure that the proposal is appropriate. This often includes basic issues such as risk and hazard, flooding, landslip and other crucial issues. These matters must be addressed at application stage and applicants are often responsible for considerable delays in supplying this information.

The current skills shortage also effects local governments in being able to find skilled and experienced staff. Local government are often seen as training grounds and their staffs is regularly approached to take up more lucrative positions.

A final point on the time taken in the regulatory process is that more significant planning processes and development applications require community consultation and public exhibition. This important democratic process adds timer to processes but is considered fundamental in ensuring that the urban environments that we create reflect the aspirations of the community.

Land Release

There are a number of views held within industry on this topic. There are advocates of both managed and unmanaged land supply policy which indicates there is no clear cut policy direction that would meet industry's requests.

There is no doubt that the provision of additional residential land supplies to the marketplace will have an effect on house prices. This is predicated on the development industry releasing land in the shortest possible time rather than delaying release to maintain prices/price growth.

On significant issue with the release of new land is that the costs of extending infrastructure and services to new release areas are substantial and often borne by local government and recouped in part over time. There can be no question that the provision of basic infrastructure and services is necessary and has become a community expectation. In the absence of additional funding sources local government has a very real need and fiscal responsibility to ensure an affordable and sustainable pattern of release of new land.

While many parts of the development industry put forward arguments for the release of more land to ease the affordability crisis, they do not at the same time put forward proposals as to how the funding of services and infrastructure to these areas can be undertaken in a sustainable manner. In the absence of alternative funding sources the costs must either be met through infrastructure charges or increased rates.

Little needs to be said of the failure to provide adequate services and infrastructure to new communities. While the costs of providing this up-front is expensive, the consequences and costs of not doing so are far greater as can be evidenced in many fringe areas of our current cities.

Other matters for Consideration

Brisbane City Council also wishes to highlight the following as critical factors requiring investigation by the committee.

The land Supply pipeline

There are a number of parties who have a part to play in addressing the housing affordability issues. These parties and the roles they play indirectly or directly in the land supply pipeline are highlighted below:

- Federal Government – taxation policy on owner occupied and investment housing, urban policy and funding, e.g. Better Cities;
- Reserve Bank – interest rates;
- State – land release programs, funding, planning legislation, operation of planning systems, land tax;
- Local govt – approvals, rates, infrastructure charges;
- Financial institutions – lending policy, loan products, interest rates and profit margins;
- Original land owner – seeks to maximise profit from original land holding without having undertaken value adding to the land;
- Developers – profit margins, product types, also packages giving easy access to product, e.g. developer paying stamp duty, no deposit, move in – rent – then buy;
- Construction Industry – skills shortage, competition for materials, high number of projects – resources, infrastructure, commercial, industrial and residential development;
- Real estate Industry – commission rate;
- Media – talking up housing and driving prices;
- Investors – increased market competition for limited product;

- Current owners – seek to maintain/increase values of land they hold/ over capitalisation of owner occupied housing; and
- Buyers:
 - higher expectation for housing and services in area;
 - easy access to credit (ease of access to loan as well as ease of access to larger amounts of credit);
 - some packages providing credit of over 100% to pay for stamp duty and other on-costs; and
 - in areas such as SEQ and along QLD coast higher disposable incomes means new markets which may maximise profit but does nothing to increase affordable product.

Finance

Access to financing and finance policy play a major part in housing affordability. Points for consideration by the enquiry should include:

- The \$7K first home owners grant is generally seen as being absorbed in prices and is not means tested
- Financing – some recent articles have suggested that loan products may need to consider longer timeframes – say 40 years. Banks are moving into this sector:
 - Equity load ANZ, Westpac, CBA
 - Partner Loan, Commonwealth bank
 - Bank Equity Loan, Homeloans Limited, Risksmart
 - (www.homeloans.com.au/products/efm.aspx)
- While longer loans periods are undesirable there has been a trend worldwide with this. Post WWII many home purchasers could afford a house outright or had short home loan periods. In early 90s average loan was 25 years. Now commonly 30yrs.
- Some countries also allow borrowing against superannuation for housing purchase – Singapore
- Banks also adverse to lending on alternate housing product due to concerns about maintaining value and recouping costs in event of default/foreclosure – this effects developers as they are discouraged from trying new (and potentially more affordable) product and borrowers who may not get funding for a more affordable option.

Rental Affordability

While much of the focus on the media has been on home ownership, there is a sizeable proportion of the population who can never aspire to home ownership and as such are part of the rental market. These low income workers often perform many of the low skill jobs in our major urban areas and are therefore a crucial part of the market place.

The inquiry should ensure that this sector of the market are not ignored and that recommendations are made with respect to how the needs of this segment of the housing market are to be met.

Conclusions

Brisbane City Council is grateful for having the opportunity to present it's views and evidence to the Senate Select Committee on Housing Affordability in Australia.

Council reinforces that there is no one single or few measures that will address the issue of housing affordability in Australia. The necessary measures must come from all parties who influence the housing sector. Council also implores the Committee to look beyond the seemingly "quick fixes" espoused by some parties and to take into account the full consequences of those solutions.

Council officers would be pleased to provide more evidence and information to the Inquiry should this be considered necessary.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michael Papageorgiou', with a long, sweeping horizontal flourish extending to the right.

Michael Papageorgiou
Manager City Planning