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Committee Secretary
Senate Select Committee on Housing Affordability in Australia
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam,

Submission to the Senate Select Committee on Housing Affordability in Australia

Thank you for the opportunity to make a submission to the Senate Select Committee on Housing Affordability.

The Planning Institute of Australia (PIA) is the professional association representing urban and regional planners and related professions in Australia and overseas. PIA has around 4500 members with PIA divisions operating in each state and territory in Australia. Around half our members work in local government, 30% for the private sector and the remainder in State and Commonwealth Government and universities.

The current lack of affordable housing in the Australian housing market has a significant impact on the lives of many Australians. Addressing under-supply is a critical issue if we are to ensure that we are able to adequately and affordably house our communities as Australia continues to grow and develop.

The PIA commends the Australian Government for appointing a Housing Minister and taking a leadership role in these issues. PIA also commends the Government for seeking to build a cooperative relationship with state, territory and local governments to address housing affordability and devise joint implementation plans by establishing a new COAG Housing Working Group in December 2007.

The most significant statistic is that 'housing stress' (according to NATSEM, the National Centre for Social and Economic Modelling, 2008) now affects over 1 million low and middle income families and singles in Australia. These households are spending more than 30 per cent of their income on mortgage repayments or rent.

The significant decline in housing affordability over the past decade now affects home purchasers and renters not only in our cities, but also those living in our regional and remote communities. Regional hot spots can in a number of instances be linked to pricing pressures connected to tourism and resources booms, while others reflect a general upward lift in pricing driven by the under-supply of housing in our cities leading to sea change or tree change communities becoming increasingly desirable and by investors seeking new opportunities to purchase.

In addition, the rental community is impacted by the rising cost of housing and an undersupplied market. Rental vacancy rates in our cities are as low as 2% (Real Estate Institute of Australia, 2008). Public housing stock has declined over the past couple of decades with governments reducing public housing funding and struggling to maintain ageing housing stock. This has led to the rental market becoming increasingly dependent on the private rental market (which is underpinned to a large extent by negatively geared investors) and which is also under-supplied. Levels of housing stress within the rental community are at all time highs.

While this inquiry focuses on home owners, the rental market is also significantly affected by the decline in affordability, and should perhaps be captured in the Committee's terms of reference. PIA also notes that the particular housing affordability issues facing indigenous Australians (urban, rural and remote) have also not been captured by the terms of reference. Housing the homeless requires public policy attention, but is also, PIA notes, not in scope for this Inquiry.

The planning profession aims to facilitate sound development outcomes on behalf of the communities and clients it serves. While planners play a critical role in the supply, design and location of housing, it is by no means a lone role. Public sector planners work in partnership with elected representatives and other key decision makers in terms of designing and facilitating housing outcomes. High quality housing outcomes (beyond single dwellings) depend on highly integrated and effectively coordinated inputs from a range of public and private sector contributors stretching well beyond the planning profession.

Planners do, however, play a number of important roles, for example, in terms of:

- Identification of and planning for new "greenfield", growth area housing development and determining appropriate physical and social infrastructure
- Identification of and planning for infill housing development around activity nodes and public transport corridors and related infrastructure planning
- Identification of "brownfields" sites suitable for re-development and related infrastructure planning
- Working with developers on the design and approval of master planned communities and housing developments
- Resourcing and managing the development assessment process for housing estates, small developments and individual dwellings
- Formulation of strategic development plans and housing policy frameworks for local government/communities

- Design and inclusion in development plans of specific policy settings to facilitate affordable housing such as inclusionary zoning, density bonuses, and/or development specific requirements
- Formulation and management of legislation, regulation and policy that influence housing and development across all three spheres of government
- Advice on specific housing-related issues such as housing and infrastructure needs for an ageing population
- Regulation and policy to encourage energy and water efficient housing
- Coordination of land supply and associated infrastructure to support housing development and the creation of communities including working with other professionals and government agencies (in terms of funding, community and education services, transport integration, etc)

The Planning Institute of Australia recognises the influence planning and related development decisions (across all three spheres of government) can have on housing affordability. Wherever possible, PIA is keen to work with governments and stakeholders in the built environment to ensure that housing is appropriate for each community and that it is sustainable and affordable.

The Planning Institute appreciates the opportunity to make this submission to the Senate's Inquiry into Housing Affordability. Please find attached to this letter, our specific responses to the Senate Committee's identified barriers to housing affordability.

Attached to this submission is the PIA National Position Statement on Housing Affordability and a submission made in 2003 to the Productivity Commission on the Affordability of First Home Ownership – many of the issues raised at that time remain relevant.

If you have any further queries on the submission please contact Liz de Chastel, National Policy Manager on telephone 02 6262 5933.

Yours sincerely

Di Jay
Chief Executive Officer
31 March 2008

Enc.
PIA Affordable Housing Position Statement
PIA Submission to the Productivity Commission "Inquiry into Affordability of First Home Ownership 2003"

RESPONSE TO ISSUES RAISED BY THE INQUIRY

a) **the taxes and levies imposed by state and territory governments**

Housing development is subject to a variety of Commonwealth, State and local government taxes and levies, from the GST to stamp duties. The planning process also imposes some levies on housing development through administrative fees and through contributions through towards shared infrastructure - ranging from water or sewerage connections to open space or car parking. Each of the Australian States and Territories differ in their approaches to infrastructure contributions, including the types of payments and the ways in which contributions are collected.

International evidence suggests that such contributions (often called ' impact fees' in the United States and 'planning obligations' in the United Kingdom have marginal if any impact on house prices which are determined by the market, not on the actual costs of housing production (Gurran, N, Milligan, V, Baker, D, Beth Bugg, L 2007, International Practice in Planning for Affordable Housing, AHURI Positioning Paper Series, Melbourne). Nevertheless, systems for development contribution must be clear and transparent, and the contributions collected should be in proportion to the scale of development and its impact on the need for services within the locality.

Taxes and levies imposed by state and territory governments vary in terms of purpose and scale. Land taxes, stamp duties and other taxes in some instances are passed through to assist in the funding of development-related activity (such as infrastructure provision), but in many instances are incorporated into consolidated state or territory revenue. PIA considers that the complex array of taxes and levies, how and when they are imposed or levied, the rationale for each tax and levy and the degree of dependency of states and territories on those revenue for development-related or other outlays requires thorough investigation and a separate public inquiry. The lack of clarity and transparency makes it difficult to assess in the Australian context whether they are an upward driver of production housing cost.

PIA recommends that the Productivity Commission be charged with investigating the full and disparate array of taxes and levies related to land, housing and development imposed by states and territories as a matter of urgency given the potential nexus between these taxes and levies, housing affordability and productivity. PIA considers that a rationalised national system of taxes and levies agreed between states, territories and local government, should be developed to ensure simplicity and transparency across jurisdictions for both developers and purchasers of property. These taxes and levies should not be used as a means of supplementing consolidated revenue, but to the greatest extent possible, be directly attributable to development-related expenditures. Local government also levies taxes and charges on developers and these should be considered as part of this recommended inquiry.

Infrastructure is critical for the proper functioning of communities. Infrastructure includes both soft (social and community) as well as hard infrastructure. The use of infrastructure charges by state/territory and local governments provides a powerful tool to guide, assist in the funding of and to improve the quality of development outcomes. These have become an increasingly common feature of contemporary development as community needs and expectations have expanded. At the same time as community expectations of provided and supported hard and community infrastructure have increased, local governments' capacity (or preparedness) to fund such infrastructure, has at best remained static or in many instances, has in real terms declined (Rates and Taxes: A Fair Share for Responsible Government, House of Representatives Standing Committee on Economics, Finance and Public Administration, October 2003).

Furthermore, there has been an ever increasing view (by governments) that the costs of development including the provision of infrastructure should be passed through to the developer or 'user'. This has led increasingly to developer taxes and levies being imposed to assist in meeting these costs and to ensuring that community infrastructure can be provided in parallel with housing development proceeding. Infrastructure in past generations often lagged development or was staged and not always completed in parallel with development. Increasingly, community expectations are such that a high level of community amenity and hard infrastructure provision will be provided at the point of land release and/or when housing is available on a site.

This 'user pays' model results in infrastructure costs being passed through from government to the developer and then passed on to the consumer, ultimately affecting housing affordability. While it can be argued that those who enjoy the utility of the infrastructure should pay for it, this model ignores the 'inter-generational' benefits of infrastructure investment over two, three or four generations beyond the initial purchaser. The benefit of the model is that the existing 'rate base' and other revenue sources within individual communities make it untenable for infrastructure development to be funded in any other way.

Infrastructure charging is a funding mechanism, not a planning instrument, but the planning system is a convenient means through which to impose these charges. Such charges are often incorrectly characterised by developers as 'planning charges'. This economic model has therefore impacted adversely on the reputation of planning systems and the planning profession. In fact they are a tax or levy imposed by local or state governments with planning regulation or a policy as the vehicle. Infrastructure charging shifts costs to the developer rather than imposing them directly on the housing purchaser. However, the consumer is likely to ultimately bear the costs as they will be passed through by the developer increasing the unit cost of each dwelling in the community (unless affordability requirements are also imposed). PIA is aware that in this way, the planning system is seen as responsible for increased house/land prices when the issues are considerably more complex and involve a range of upstream decision makers.

Infrastructure needs to be in place in a timely way to meet community expectations without creating inequities between new and older communities. Infrastructure also needs to be sustainable in order to minimise future costs to the community and the nation. Ongoing maintenance costs to the community also need to be considered.

There are at least three types of infrastructure charges used for land development:

- user pays (developer charges)
- betterment tax (for up-zoning of land) and
- bring forward costs (developer charge) for major infrastructure that is funded out of sequence with growth strategies/budgets.

The most frequent area of contention is the user pays or developer contribution charges.

Developer contributions for new developments including for housing are applied across Australia, though under different state and territory planning regimes, requiring different levels of contribution. Developer contributions include physical infrastructure (such as local storm water and local roads) and in some cases social infrastructure (such as land for schools, recreation areas). In most cases there has to be a clear nexus between the infrastructure and the proposed development.

PIA is aware that in some cases developer contributions have not been applied equitably or the money collected has been used for alternative purposes. Instances of inappropriately applied or high developer charges have resulted in justifiable complaints from the development industry (eg a levy for library books). These instances are a distraction from ensuring that an appropriate cost-sharing model is put in place that sees developers and consumers bearing an appropriate 'user' share of the cost of development while ensuring that the community at large also makes an appropriate contribution through public funds for the intergenerational benefits of development.

Many local communities have a backlog of community infrastructure plans which are unfunded and relate to demand for both new and for the maintenance of existing infrastructure. The lack of investment in large and small scale infrastructure over the past two decades (refer property council work) has been responsible for this general decline. PIA commends the incoming Federal government for seeking to take a leading role in partnership with COAG for addressing this decline including through the establishment of Infrastructure Australia.

As large scale development is largely undertaken by a number of national and multi-national firms (companies with interests in several state/territory planning jurisdictions), ideally there should be a consistent model of developer contributions imposed around the country. A national model should be developed through COAG. Benchmarking should be undertaken to determine an appropriate level of infrastructure for the purposes of developer contributions as well as to establish a suitable standard of infrastructure to which developers should be required to contribute. This will ensure transparency and avoid the imposition of unfair contributions. The relative capacity of local governments to meet the cost of infrastructure provision will need to be taken into account in the design of any shared funding model. Developers will need to meet any costs beyond those considered to be a reasonable baseline. By keeping infrastructure costs and thereby developer contributions to a reasonable level can be expected to assist in improving overall housing affordability.

Betterment taxes are imposed in some jurisdictions to recognise the uplift in value that results from a developer being able to take advantage of a rezoning to housing, for example, from other uses. This is a means of ensuring the public cost of up zoning of land is not simply passed through to the developer, but is shared by the community at large. It is not clear whether, where this model is in place (such as in the ACT) that the revenue is quarantined to assist with infrastructure costs (within the rezoned area or in other areas in need of infrastructure investment) or simply an injection into consolidated revenue. Betterment taxes are likely to be passed on by the developer to the consumer increasing the cost/affordability of housing. Alternatively, the argument for the betterment tax is that developer would otherwise capture the full benefit of the rezoning of land to a higher use which would otherwise remain in the public realm or other use, without reaping a public benefit.

The bringing forward of infrastructure costs results in a cost to governments out of sequence with budgets and plans. In order for this to occur, a negotiation with the developer/s may result in the marginal cost of that bring forward being borne by the developer. This is presumably passed on to the consumer rather than shared inter-generationally. However, this is a means of increasing or bringing forward supply without the cost being borne by the public purse.

Recommended Action:

That the Productivity Commission be charged with investigating the full array of taxes and levies related to land, housing and development imposed by states and territories as a matter of urgency given the potential nexus between these taxes and levies, housing affordability and productivity.

There be a consistent model of developer contributions imposed around the country. A national model should be developed through COAG. Benchmarking should be undertaken to determine an appropriate level of infrastructure for the purposes of developer contributions as well as to establish a suitable standard of infrastructure to which developers should be required to contribute. Through COAG, state, territory and local governments work with the Commonwealth, and consult with the developer community, to establish a national approach to infrastructure charges.

b) the rate of release of new land by state and territory governments

Land needs to be released at the right time and in the right location to support and sustain economic growth and to assist in ensuring that appropriate, accessible and affordable housing is supplied to the market in a timely way. Land release also needs to be staged to ensure that growth is managed in a way that maximises sustainability (economic, social and environmental) and minimises public and private cost.

It is essential that Governments properly monitor land supply, demographic change and the housing market to ensure an adequate supply of suitable land is available for development in the short, medium and long term. Regular public reporting on this data on a national basis should be undertaken to better inform all three spheres of government, industry and the community. This information is fundamental in order to facilitate timely release by both the public and private sector of suitable land and as a tool for planning related infrastructure budgeting and rollout.

Independent land supply monitoring authorities exist in some states, but the data collected and the analysis is not comparable across jurisdictions and there are gaps in the data available. This data also needs to be able to be linked to new housing starts and projections in order to ensure that land and housing supply are matched and meeting demand. Improvement in the quality and timeliness of this data is, in PIA's view an appropriate role for the Australian Government's recently announced National Housing Supply Council. PIA sees it as critical that this body take an active national role in ensuring that data exists to support the management of land release and to ensure that supply will match demand. The Council should also monitor and publish on a regular basis a suitable nationally agreed housing affordability index (similar to that produced by the Housing Industry Association and the Commonwealth Bank) and a residential construction indicator (such as that produced under the auspices of the Australian Construction Industry Forum (ACIF)). It is therefore vital in appointing the Council that the Australian Government include representatives with planning and land management expertise.

Land release needs to be appropriate to meet the demands of the community (urban and regional) for a range of lifestyles and housing types. Release on the fringe areas of cities and towns will provide for new housing stock in traditional settings. With demand being high for land in close proximity to the city and activity centres, it is also vital for land releases and redevelopment opportunities to be made available in the inner and middle ring areas. Infill and consolidation also provides for containing growth which is more sustainable and allows cities and developers to capitalise on existing infrastructure.

Land suitable for development is not in endless supply. Release of new areas for development is not as easy, even on the fringes of our major cities as is often perceived to be the case. Land is often held in private hands, may be valuable from an agricultural/food bowl perspective, or is remote from ready access to services such as water, energy and cost effective extensions to transport systems or for the provision of appropriate community services.

In addition, the arguments for containing growth are well researched and directly linked to creating a more sustainable future. Compact cities (Newton 1997, p.2000) are fuel efficient and result in less transport fuel consumption, but the benefits of compact development versus sprawl are still the subject of debate, including in terms of housing affordability.

The Australian Government's State of the Environment Report (2006) refers to a range of research which indicates that a "Higher densities of urban development are associated with:

- reductions in per capita demand for land (Rees 1996, p.2)
- reductions in the rate of loss of biodiversity as a result of lower rates of conversion of green space to residential land use
- reductions in levels of operating energy in housing by approximately half (Miller and Ambrose 2005); also significant reductions in lifecycle energy use and greenhouse gas emissions are also observed (Newton et al. 2000)
- reductions in water consumption due to less outdoor water use (gardens and swimming pools)
- reductions in the volumes of building materials consumed (medium density housing has two thirds the material intensity of detached single family housing) (Delimann et al. 2001)
- reductions in solid and municipal waste generation (Matsunaga and Themelis 2002)
- improved human health as a result of decreased car use and greater pedestrian activity (Sturm and Cohen 2003)
- reductions in the amounts of energy consumed and greenhouse gas emitted in travel (Newton 1997; Newman and Kenworthy 1999)."

These benefits cannot be ignored in the economic debate around sprawl versus density from a housing affordability perspective. It should also be noted that a number of the environmental benefits of density ultimately have a positive impact on the 'whole of life' affordability of the dwelling to the consumer. Density capitalises on existing infrastructure, uses less materials per dwelling, (potentially reducing cost price) and then reduces the cost over time to the consumer/home owner of the dwelling through lower energy and water use and reduced transport costs.

When developing on the urban fringe and in new areas within designated growth boundaries, there is evidence to suggest that "master planned communities are seen to offer the greatest prospect for achieving more sustainable residential development" (Delfin Lend Lease 2002). At the neighbourhood scale, developers are able to 'plan in' and share more widely amongst the home owning community the costs of provision of infrastructure (hard and soft) and address environmental factors (through grey water and energy efficiency measures) and provide a variety of housing types to meet the needs of a wider range of housing consumers. Together with mechanisms such as inclusionary zoning or affordability targets there scale provides greater opportunities for governments and planners to work with developers on producing better, more affordable housing solutions.

In releasing land, particularly for new development in growth areas, but also in areas in the middle and inner rings of our cities designated for higher density, renewal or urban consolidation, Commonwealth, state and local governments need to ensure land release is accompanied by provision of appropriate and timely infrastructure such as public transport, shops, schools and recreation areas. An integrated plan for providing this infrastructure in a timely way is critical if costs are to be effectively managed in the public sector and not be passed through to the development community and the consumers of dwellings in new sites impacting affordability.

The South East Queensland planning process provides a strong example of leading practice in this regard. The Queensland government aligned infrastructure planning and budgeting with proposed development for the region minimising the need for out of sequence expenditure and ensuring that an integrated outcome was achieved. Agencies beyond planning and treasury were also engaged in development plans ensuring that education facilities, health care facilities and community services were being extended into new growth areas in a timely and efficient way.

Strategic planning at the local level is critically important in terms of facilitating appropriate housing suitable to the needs of that community. In some instances housing is rarely or only cursorily mentioned which indicates that there is little guidance being provided to the developer community. In such cases, the community is not driving housing outcomes or seeking to match them with local socio-economic or demographic factors. In South Australia through programs such as the Better Development Plans (BDP) project, the state government has worked with local governments on a process of improving local Development Plans and then placing them on the web to aid transparency and developer/community awareness.

Land release and transport plans also need to be aligned so that growth is managed in a way that does not increase congestion or ignore the vital transport links for a community to function effectively. The congestion and air quality issues in our cities also need to be considered as our metropolitan centres expand in scale.

Where land release is being effectively managed and made available in the market in a timely way, mechanisms can be introduced rationally through planning process or in development approval and conditions to assist in the provision of affordable housing such as:

- Inclusionary Zoning – Inclusionary zoning in planning schemes requires that affordable housing is constructed within new housing developments. This is in response to some traditional zoning that can exclude affordable housing from being constructed. Whilst the planning regulations may support provision of affordable housing, there is also a requirement to ensure the dwelling is maintained as affordable, through housing cooperatives or alternative management structures. Otherwise the dwelling can be on sold at market prices, negating the original intention of providing a long term supply of affordable housing.

- Affordable Housing Targets - As part of inclusionary zoning, local and state governments can mandate that a percentage of new housing development has to be available for affordable housing. This is generally around a minimum of 10% of the housing proposed, but may be higher depending on housing stress and the housing needs of the local area.

- Variety of housing design - A variety of housing sizes and designs, such as homes built on small lots can provide a range of housing prices in a location. Developments or localities that only offer the one style of housing, such as four bedroom homes or 2 bedroom units, do not offer the home purchaser a range of prices and home purchase options.

Recommended Action:

That the National Housing Supply Council being introduced by the Australian Government be charged with producing nationally comparable data on land release and new housing starts in each state, territory and local government area to ensure that data is published and transparent; and be charged with analysing the data supplied to assess whether in their opinion, supply in the short, medium and long term will match demand.

Land releases should include an appropriate balance of land on the fringe of cities and towns (for master-planned and other new housing development) as well as infill and redevelopment sites to facilitate urban consolidation. A variety of housing types should be encouraged, including affordable housing (if necessary through zoning, targets or other mechanisms appropriate to local circumstances), to ensure that development is meeting market demand.

Land released for housing development should be accompanied by an appropriate minimum level of physical and social infrastructure, whether privately or publicly funded, to ensure that communities are functional and socially cohesive.

c) **proposed assistance for first home owners by state, territory and the commonwealth governments and their effectiveness in the absence of increased supply**

Data produced by Treasury and the ABS indicates that the current gap between dwelling completions and demand exceeds 30,000 (2006-07). In this kind of environment, traditional first home owners schemes are of limited assistance. Schemes such as the Commonwealth First Home Owners Scheme which provides cash deposit funds direct to housing consumers will, in an undersupplied market, further fuel demand and increasing upward pressure on price. As such schemes do not address supply at all, it is unlikely to have any real effect on affordability or access to first home buyers. In fact, these schemes are likely to exacerbate the problem of access and affordability.

By contrast the Australian Government's proposed new First Home Saver Accounts, if matched with other policy settings to improve supply over the short to medium term, may have the desired effect of providing incentives for aspiring home owners to save a deposit while the market catches up. This however, does assume that the problem of an under-supplied market will be addressed before these purchases come onto the market. If not, the impact will be the same as for the current First Home Owners Scheme outlined above. New buyers (some 3 to 4 years on) will ideally be seeking housing when new land and housing stock is coming onto the market and the gap between supply and demand is reducing.

The issues underlying lack of supply need to be better understood and more directly addressed. Lack of timely, suitable land release is one factor, but the lack of skills and capacity within the building and construction sector and in the related professions, engineering and planning in particular, is also a key factor limiting supply. Improving sector productivity may also indirectly impact supply and affordability. The dire shortage of professional planners and skilled planning administrators is discussed further in section (d) of this Submission.

The National Housing Supply Council may have a role to play in tracking skills over time and assessing the impact of actions taken to address skills shortages on housing supply and in ameliorating housing affordability. The Council may also be charged with assessing the effectiveness of strategies employed to address those shortages over time by the Commonwealth, states, industry and the professions.

The Australian Construction Industry Forum (ACIF), of which PIA is a member, is promoting two international models for adoption in Australia, to (a) improve sector performance and to (b) better forecast to meet future skills and capacity demands. Respectively, they are the UK Constructing Excellence model (for improving sector productivity) and the Canadian Construction Industry Council's skills and capacity forecasting tool.

Recommended Action:

The National Housing Supply Council be charged with tracking the skills and capacity in the building and construction sector, including professional skills such as engineering and planning and related administrators. That the Council also be charged with assessing the effectiveness of strategies employed to address those shortages over time.

d) the role of all levels of government in facilitating affordable home ownership

PIA supports a coordinated effort from governments at all levels to work collectively to address and respond adequately to housing affordability. As a consequence, PIA commends the Australian Government for appointing a Housing Minister and taking a leadership role in housing affordability. PIA also commends the Government for seeking to address housing affordability and devise joint implementation plans through a new COAG Housing Working Group in December 2007.

The establishment of the COAG Working Group should support the sound work of the Joint Meeting of Housing, Local Government and Planning Ministers which in August 2005 established a Framework for National Action on Affordable Housing. This Framework identified a number of affordable housing delivery and management successes as well as the parallel supporting policy parameters needed to put them in place.

Provision of affordable housing though planning mechanisms alone is limited without broader policy support, which is why all levels of government need to co-ordinate their objectives and actions to improve housing affordability.

In terms of relevant planning responsibilities related to the provision of housing, each level of government plays an important role. Some of the planning responsibilities related to housing are outlined below:

- **Commonwealth Government** – Providing leadership, co-ordination and funding to promote efficient housing policy; audits of excess Commonwealth land; migration policies affecting settlement patterns; development and management of housing by the Defence Housing Authority, first home owner schemes, taxation incentives.

- **State/Territory Governments** – Responsible for planning legislation and state policies; overseeing metropolitan plans that set frameworks for future growth;: implementing planning legislation and state/territory policies; development of state/territory government land; establishment of land development authorities; delivery and co-ordination of major infrastructure; approving local government planning strategies, assessing and approving some state/territory significant development.

- **Local Governments** – Responsible for developing strategies for the local area, in accordance with state and metropolitan strategies; provision of local infrastructure; enforcing local planning strategies; consultation with local community, stakeholders and developers, assessing and approving development.

A wide range of planning tools to promote affordable housing should be made available to and be utilised by planning authorities to suit local conditions. Planning mechanisms such as requiring social impact assessments for new developments that could threaten existing affordable housing supply, is appropriate in areas where significant urban renewal is occurring[i]. Ensuring appropriate zoned residential land, such as mixed use areas allows flexibility to promote affordable housing. Promoting increased density and nodding of development around activity centres as a means of improving sustainability and affordability (including the ‘whole of life’ costs to low and middle income earning residents). Other mechanisms such as inclusionary zoning can promote new sources of affordable housing within new developments and encourage the private sector to invest in affordable housing. Co-ordination of planning measures across all levels of government will assist the retention of affordable housing stock (in the public, private or not-for-profit sectors), in support of and supported by broader housing policy.

PIA considers that a broad socio-economic mix is a vital attribute of sustainable development. PIA further believes that this legitimises the use of planning mechanisms to require the provision of affordable housing in areas that would otherwise suffer a deficit in the social dimension of environmental sustainability. Further affordable housing spread broadly across metropolitan areas is critical to ensure that low to middle income earning essential workers are able to live affordably and in close proximity to where they are needed (eg child care workers, educators, nursing assistants).

For the above reasons, PIA endorses approaches that support co-ordination across governments given the nexus between activities at the national, state/territory and local government level.

Recommended Action:

Ensure all planning activities related to addressing housing affordability that require a national approach are coordinated through COAG and its Housing Affordability Working Group.

e) **the effect on the market of government intervention in the housing sector including planning and industrial relations laws**

Planning legislation is an important tool that state governments use to guide local government action and to manage development. PIA acknowledges the current debate around delays in the planning system and in meeting statutory turn around times in assessing development proposals.

PIA supports a streamlined development assessment system that is adequately resourced and operates within sound planning policy frameworks. PIA as a member of the Development Assessment Forum (DAF) supports the leading practices model developed by the Forum (of which PIA is a member) and supported by all jurisdictions and industry groups. This model includes support for professional determination of most applications; track based assessment, including exempt and complying and merit or performance based tracks; limits on third party appeals; and Development Assessment Panels to ensure that decisions are open and transparent. For details of the Development Assessment Forum Leading Practice model go to http://www.daf.gov.au/reports_documents/leading_practice.aspx .

In addition to planning reform the current planning profession skill shortages and the shortage of qualified planning assistants that exist in many local, state and territory governments are impeding the turnaround timeframes within the development assessment process. In PIA's 2004 National Inquiry into Planning Education and Employment a vacancy rate in planning positions of around 16% to 20% was established through a survey of employers. Details of the findings of this inquiry can be found at http://www.planning.org.au/index.php?option=com_content&task=view&id=133&Itemid=116

The National Inquiry made recommendations to address the full range of employment, workplace and professional development issues facing the planning profession including the following recommendations to improve the supply of planners:

- Increase overseas immigration opportunities (PIA to become an assessing agency after getting planning onto the Commonwealth's list of professions in demand
- Increase the number of under-graduate and post-graduate planning places in universities

- Support rural students and other special target groups including through cadetships and studentships
- Recognise the role of planning assistants and work with the vocational education sector to ensure that Certificate IV courses are producing development assessment ready trainees
- Encourage the pooling of professional planners in rural and regional Australia and promote rural/regional planning experience at universities

The retention and attraction of planning professionals was also identified as a key factor for addressing planner under-supply. Recommendations of the Inquiry included:

- Working with local government associations to develop a code of behaviour to guide the relationship between elected representatives, developers and planners
- Set up a telephone help-line to assist planners facing professional ethical dilemmas
- Encourage compulsory training (eg statutory obligations, planning systems and governance, and ethics) for elected representatives involved in development assessment
- Support the Development Assessment Forum in improving the planning system through adoption of the Leading Practice Model

The Inquiry also resulted in recommendations for improving planner professionalism including:

- Introduce compulsory professional development and improve and coordinate the delivery of professional development opportunities (achieved through the introduction of the PIA Certified Practicing Planner scheme but can be enhanced by promotion of it as a mark of quality to employers, industry and the community)
- Match skill gaps with appropriate training programs (this has been achieved through the development of the PIA Planning Practice Program)
- Bring together planning educators and practitioners to work on ensuring that planners are ‘practice ready’ particularly in terms of development assessment
- Accredit individual planners (this has been achieved through the Certified Practicing Planner scheme mentioned above)
- PIA to upgrade its support services to members (a partnership with Ethi-Call run by the St James Ethics Centre is one example of action taken)

In early 2008 the Planning Institute of Australia (SA) released the findings of an extensive survey into the resourcing of development assessment teams in the State’s Councils http://www.planning.org.au/index.php?option=com_content&task=blogcategory&id=68&Itemid=61

The report highlights that ongoing increases in development activity combined with the increased complexity of planning policy has placed tremendous pressure on development assessment (DA) staff resulting in a high turnover of staff and delays in the development approval process. As the earlier National Inquiry conducted by PIA also demonstrated, this issue is not specific to South Australia but is a reflection of the situation facing the planning profession across Australia in metropolitan as well as regional locations. The study demonstrates that there is significant “churn” within the profession which is disruptive to the planning system and efficient and effective management of development proposals through the assessment process. Key findings include:

- 36% of DA planning positions fell vacant during the year.
- 48% of DA planners have been employed by their current Council for 2 years or less.
- 48% of staff movement is between Councils.
- 22% of the vacancies are created by planners leaving the development assessment system altogether and moving to other roles such as strategic or policy planning
- Current shortfall of 27 planners (20%) and 74 support staff (67%) across 42 of the State's 68 Councils.

Importantly, this report also identified that around 70% of development assessment activities currently being undertaken by trained professionals could be undertaken by para-professionals. This was not quantified in the earlier National Inquiry and demonstrates that promotion of the vocational employment opportunities available in planning and of Certificate IV training for potential planning assistants can be stepped up with appropriate resourcing.

PIA within its limited resources has actively participated in activities to increase planners supply and retention. With additional resources, PIA could further address skills shortages through:

- Encouraging extra places offered for training of para-professionals through TAFE and the assisting in the design of appropriate Certificate IV courses for currency and suitability for employment in a development assessment context;
- Introduction of traineeships, cadetships and studentships;
- Facilitating an increase in the flow of skilled overseas trained planners to Australia by planners being recognised on the Migration Occupation in Demand List and PIA becoming an Assessing Agency
- Encouragement of flexible working conditions such as working from home, part-time work, especially to attract women back into the planning workforce in state and local government
- Promotion of planning as a career and promotion of Certified Practicing Planners as a an indicator of professional capability
- Other recommendations of the Inquiries as outlined above

While anecdotally and through the Inquiries outlined above, the stress in the planning workplace is understood and it is accepted that this adversely impacts development assessment turnaround times. The development industry claims that "planning delays place a huge cost burden on the development of new homes. Some estimate that the time taken to get approvals can contribute to up to 15 per cent to the total cost of releasing home and land packages." (Making Housing Affordable Again, Australian Government, 2008).

PIA agrees that planning delays result in 'holding costs' which are then likely to be passed on by developers and then impact housing affordability. However, the extent of development assessment delays and their impact cannot be measured with any confidence (particularly at the national level) due to the lack of publicly available, consistent, timely data. Publishing and benchmarking would improve understanding of the underlying issues and causes in order that they can be addressed and could be undertaken by the National Housing Supply Council.

PIA understands that the Local Government and Planning Ministers Council which met on 27 March agreed in connection with discussion of the recent e-DA funding decision of the

Commonwealth, that data on development assessment timeframes should be collected and reported.

This data will allow all three spheres of government, developers and the community to better understand where undue delays are occurring and why in order to devise appropriate policy/practice solutions and openly test their effectiveness over time eg e-DA, increasing exempt and complying development, or introduction of the DAF Leading Practice Model. It would also facilitate the targeting of financial or other incentives for the adoption of best practice, the cutting of red tape or to improve productivity.

In terms of incentives, PIA commends the Australian Government for providing, through the Housing Affordability Fund $30m to support electronic development assessment (e-DA). This early action will support improving development assessment efficiency.

Beyond the supply issues already discussed, delays in development assessment can be caused by a range of other factors including:

- referrals to state/territory/Commonwealth government agencies as required by legislation/regulation
- undertaking of environmental or social impact statements as required by local development plans or governments for certain types or scale of development
- requests for additional supporting data from the proponent (which may be required but has not been supplied)

Recommended Action:

Encourage adoption of the Development Assessment Forum leading Practice Model as the basis for planning reform in all jurisdictions.

Assist PIA to work with governments, employers and educators to implement key strategies to address the shortage and retention of qualified professional and planning support staff.

A national approach be developed to reporting development assessment timeframes using consistent data by the National Housing Supply Council.

f) **the role of financial institutions in home lending**

PIA does not purport to be an expert on the role of financial institutions in home lending. However, the financing of affordable housing is an issue which extends well beyond the role of financial institutions in lending, into a wide range of potential mechanisms and partnerships for financing of the provision of affordable housing.

PIA is generally supportive of the Call for Action issued by the National Affordable Housing Summit group in 2004 which sought to maximise investment by governments, financial institutions and other private investors and non-profit organisations in the full spectrum of affordable housing across Australia through a revamping and revitalisation of the Commonwealth State Housing Agreement (CSHA) on its expiry in 2008 and the inclusion of national affordability indicators, goals and contributory targets. Building on the NARI (National Affordable Rental Incentive) developed by the Summit group, the Australian Government has announced that it will introduce a National Rental Affordability Scheme to stimulate supply of up to 100,000 new affordable rental properties across Australia.

Tax incentives are to be used to create a new class of institutional investors in affordable rental housing for low and middle income earners. Incentives will be provided Commonwealth/state financial incentives every year over a 10 year window. This should spur the development of new affordable housing organisations and innovative partnerships between financiers, developers, private investors and the not-for-profit sector.

Without these sorts of initiatives to encourage innovation there is little incentive, while demand for all types of housing is strong, for the private sector to be involved in financing affordable housing. PIA supports initiatives to attract more private and not-for–profit investment in affordable housing provision to encourage growth of partnerships which until now have in Australia remained a small sector unable to assist in meeting current demand[ii].

Barriers to such investment have included low returns and high management costs which have deterred financial institutions (eg. superannuation trusts) from investing as such housing has been see as high risk, low return. The National Rental Affordabiliy Scheme will assist in encouraging a market response.

The Australian housing market is strongly influenced by the Australian taxation system with a range of tax subsidies incorporated into the system to encourage home ownership and investment in rental housing. Unfortunately, the tax system most benefits those who are under the least financial pressure.

The National Shelter Policy Platform 2007 proposes the following actions to assist investment in Affordable Housing and these proposals are supported by PIA:

- A full review of the impact of the tax system on housing affordability, aimed at developing reforms that will improve access to housing by low income households.

In addition National Shelter propose the development of financing and investment strategies at a national level that can attract institutional investment into affordable housing, with options including the creation of a national housing bond, the introduction of tax credits to finance affordable housing, and the introduction of a National Affordable Rental Incentive scheme as outlined above (National Shelter Policy Platform 2007, Australian Housing – A Fair Share, National Shelter).

Shared equity arrangements supported by financial institutions is another mechanism which could be explored and encouraged to support affordable housing for low and middle income earners.

Recommended Action:

The Australian Government encourage innovation in the housing sector including through new financing mechanisms and partnerships such as those envisaged by the NARI.

The Australian Government revamp and revitalise the Commonwealth State Housing Agreement to ensure that it facilitates affordable housing outcomes in line with the recommendations of the National Housing Affordability Summit Call for Action.

The Australian Government undertake a review of the Australian taxation system to identify reforms that will improve access to housing by low income households.

g) **the contribution of home ownership to retirement incomes**

Again this is an area in which PIA does not profess to have a great deal of expertise. However, Australia's ageing population presents a significant challenge in relation to the provision of appropriate, affordable housing. Low density urban development is not always appropriate for an ageing population and the planning system can assist with incenting a variety housing designs appropriately located near transport, shopping and medical facilities to support ageing in place.

National Position Statement

Affordable Housing

Statement 5 | July 2007

Planning Institute Australia

PIA POSITION

Housing Affordability is a major social and economic problem confronting all levels of government, the community and the private sector. With housing affordability only worsening, it is essential that innovative affordable housing projects and strategies are pursued by both the government and non-government sector. The affordability crisis cannot be solved by land release alone, but requires implementation of a range of solutions that will strengthen the long-term supply of affordable housing.

PIA calls for the following actions to address Housing Affordability:

- **The Australian Government to continue taking a leadership role in advocating affordable housing policies as part of an intergovernmental agreement in support of sustainable cities and communities for example, the National Action Framework for Affordable Housing.**
- **Governments at all levels and the private sector to work together to find and implement innovative ways of financing, delivering and managing affordable housing.**
- **Increase of Public and Private sector investment in the supply and management of affordable housing including public housing and community managed housing, including low interest loan schemes.**
- **Additional government intervention to expand and support community and not-for-profit housing providers.**
- **Introduce measures in the tax system that encourages private investment and allows access to housing by lower income households.**
- **Provision of housing choice, in both dwelling type, size and its location, in particular close to urban infrastructure and community services.**
- **Governments to ensure the appropriate release of land that integrates good planning principles and avoids urban sprawl development. Where there is new urban land release, future development to include affordable housing targets such as 10%.**

- **Ensure that there is an increase in housing stock at the low-cost end of the housing and private rental market, and a strategy for homelessness is developed.**

- **Provide a broader objective for affordable housing provision which includes the provision of public and social housing, as well as affordable housing encouraged by government, for rental households and purchase options for low to middle income earners.**

- **All jurisdictions to review and, if necessary, amend their planning and development control legislation to confirm that social mix, made possible by the availability of affordable housing, is a valued attribute of sustainability which must be addressed in the formulation of planning schemes and the determination of development applications.**

POLICY PRINCIPLES

Households spending more than 30% of their income on housing are defined as being in "housing stress". With almost 1.2 million Australian households spending more than 30% of their income on rent or mortgage payments, and over 400,000 paying over 50% of their income on housing, a significant proportion of Australians are in "housing stress" or "extreme housing stress"[1]. Affordable housing has become a broader problem affecting not only the disadvantaged and lower income households, but includes first-home buyers, single, ageing and middle income households. If not addressed the shortage of affordable housing may lead to:

- Displacement, social isolation and/or welfare dependency
- Disproportionate travel times and costs – for lower income households
- Economic hardship leading to disharmony in communities
- Housing prices being a determinant of where people choose to live resulting in skill shortages where the market out-prices workers.

The lack of affordable housing has a significant impact on the lives of many Australians and PIA recognises the influence planning decisions can have on housing affordability. Planning Policies cover a spectrum of issues that impact housing affordability, from identifying suitable land, ensuring efficient release of land, encouraging energy efficient design, supporting appropriate design and location and in some cases requiring developers to provide a proportion of affordable housing.

PIA believes that social mix is a vital attribute of sustainable development. PIA further believes that this legitimizes the use of planning mechanisms to require the provision of affordable housing in areas that would otherwise suffer a deficit in the social dimension of environmental sustainability.

POLICY PRINCIPLES *(cont)*

A wide range of planning tools to promote affordable housing should be made available to planning authorities to suit local conditions. Planning mechanisms such as requiring social impact assessments for new developments that could threaten existing affordable housing supply, is appropriate in areas where significant urban renewal is occurring[2]. Ensuring appropriate zoned residential land, such as mixed use areas allows flexibility to promote affordable housing. Other mechanisms such as inclusionary zoning can promote new sources of affordable housing within new developments and encourage the private sector to invest in affordable housing. Co-ordination of planning measures across all levels of government will assist the retention of affordable housing stock, in support of and supported by broader housing policy.

To facilitate the provision of a wide array of planning tools to promote social mix and affordable housing, PIA calls upon all States and Territories to modernise their planning laws to affirm that social and cultural attributes are legitimate 'planning matters' in the formulation of development control policies and assessment processes. Such modernisation of planning laws is necessary to put the application of tools like Inclusionary Zoning for affordable housing beyond doubt.

Planning policies are the responsibility of state and local governments, but it is the responsibility of the commonwealth to provide clear policy direction in order to ensure a nationally cohesive approach to affordable housing provision.

While demand for all types of housing remains strong there is limited incentive for the private sector to be involved in financing affordable housing. PIA supports the increase of government policy that encourages assistance for existing Affordable Housing Providers, and initiatives to attract more private investment in affordable housing provision. Attempts have been made to attract more private investors to increase the supply of affordable housing in Australia however it has remained a small sector that is not sufficient to meet the current demand[3]. Without additional financial assistance, Not-for-Profit housing providers need to be large enough to achieve economies of scale to be financially viable. There are significant barriers, such as low returns, high management costs etc, that deter private sector investment in affordable housing, especially from the financial institutions (eg. Superannuation trusts). PIA believes the government needs to work with the private sector to determine appropriate tools that will encourage private sector involvement.

The Australian housing market is strongly influenced by the Australian Tax System, with a range of tax subsidies incorporated into the system to encourage home ownership and investment in rental housing. Unfortunately, regarding housing, the tax system mostly benefits those who are under the least financial pressure. The National Shelter Policy Platform 2007 proposes the following actions in the tax system to assist investment in Affordable Housing.

POLICY PRINCIPLES *(cont)*

PIA supports their proposal to,

1. A full review of the impact of the tax system on housing affordability, aimed at developing reforms that will improve access to housing by low income households.

2. The development of financing and investment strategies at a national level that can attract institutional investment into affordable housing, with options including the creation of a national housing bond, the introduction of tax credits to finance affordable housing, and the introduction of a National Affordable Rental Incentive scheme[4].

Conclusion

PIA supports a co-ordinated effort from Governments at all levels working collectively to address and respond adequately to housing affordability. PIA notes it is necessary to improve co-ordination between levels of government and a need to develop an overall policy position towards housing. Provision of Affordable Housing through planning mechanisms alone is limited without broader policy support, which is why all levels of government need to co-ordinate their responsibilities and objectives to improve housing affordability.

PIA ACTION

PIA will continue to lobby the Commonwealth, State and local governments to ensure that affordable housing is a national policy priority that involves a range of solutions.

In addition to the lobbying role, PIA with funding or partnering support seeks to take an active role in the research and development of planning policy to address affordable housing needs, strategies and mechanisms for application nationally.

Subject to suitable resources being available, issues to be researched and developed could include:

- Investigate and promote innovative provision of affordable housing in Australia and overseas

- Work with the Federal Government to investigate tax incentives, involvement of superannuation schemes, national affordable housing targets and other incentives to increase the availability of affordable housing

PIA ACTION *(cont)*

- Develop national guidelines on affordable housing strategies, actions and targets to be implemented through planning provisions, which can be incorporated by members in the development of strategic and statutory planning documents

- Work with the Federal Government and others to develop indicative/sample guidelines that illustrate a range of quality affordable housing principles to assist and guide the development industry.

THIS POSITION STATEMENT DERIVES FROM:

PIA Liveable Communities (2004)

Related References

[1]Judith Yates and Michelle Gabriel, "Housing Affordability in Australia", research paper, Australian Housing and Urban Research Institute, February 2006, pp. 42-43.
[2]NSW Department of Housing, "Planning Mechanisms for Affordable Housing", 2007, Centre for Affordable Housing.
[3]Kate Fagan, Nicole Gurran, Vivienne Milligan and Peter Phibbs, "Not for profit affordable housing – the Australian Experience", research & policy bulletin, Australian Housing and Urban Research Institute, February 2005, pp. 1-2.
[4]National Shelter Policy Platform 2007 , Australian Housing – A Fair Share, National Shelter.

PIA Planning Institute Australia

Inquiry into Affordability of First Home Ownership

Submission to the Productivity Commission

From the Planning Institute of Australia

October 2003

Contents

1. Introduction

The Planning Institute of Australia (PIA) appreciates the opportunity to make this submission to the Productivity Commission inquiry. We also appreciate the Commission's invitation to attend a roundtable on the issues on 23 September, and the opportunity to meet with Commission members on 1 October.

This submission addresses several issues which have been raised before the Inquiry, especially relating to the influence of planning matters on housing prices. We also consider some implications of the recent "stop start" housing industry on our members, and recommend that the Commission consider some policy mechanisms to smooth the impact of extreme volatility in the housing market. Such volatility has been a major factor behind the trends in affordability for first home buyers – and also has much wider implications for the economy.

The central argument of this submission is that the boom in house prices (up 50% in the last three years) is largely due to a rapid expansion in lending for housing, especially for investment. Key contributing factors are:

- The long term drop in interest rates
- Changes to capital gains tax rules in 1999

A lesser role may have been played by the Federal Government's First Home Owner scheme.

The submission notes concerns expressed by developers about delays in the planning process. While it disputes that these are a major cause of cost increases, it argues that such delays are likely in a housing market boom such as seen recently.

The current boom is causing broader problems that just for first home buyer affordability – overload on the planning system, and potential impacts on the general economy when the bubble bursts are just two. As the primary driver of all these is the housing investment finance boom, the submission recommends that the Productivity Commission investigate policy mechanisms to smooth impacts.

2. Planning Issues

The Commission's Issues paper refers (p16-17) to a number of impacts that planning policy and practice can have on housing affordability. In subsequent discussions, two issues in particular have been raised by the development industry:

- The impact of planning policies constraining urban growth, such as around Sydney and in the new Melbourne 2030 policy.
- The impact of delays in planning approval, increasing costs for developers.

2.1 Liveable Communities

The Issues Paper raises a number of questions about the impacts of planning controls on housing affordability. The following section acknowledges that such controls can have some cost impact. However, it is important to discuss such cost impacts alongside the goals of the policy.

To draw an analogy – tough measures to limit drink driving may increase demand for taxis – and hence lead to increases in the value of taxi licences. A simple increase in value does not negate the social goals of the policy.

The Planning Institute of Australia has developed a National Policy[1] around the concept of liveable communities, believing that

> "settlement and land use patterns can have a significant impact on a host of national aspirations for the environment, the economy and communities" (p1)

The Policy raises a number of Priority National issues

a. Australia's ecological integrity
b. Metropolitan/country issues
c. Competitive Australian cities in a global economy
d. Inequality and social exclusion
e. Affordable housing
f. Greenhouse
g. Healthy cities and regions

Considerable debate exists on these issues – and the Institute is keen to encourage this debate. We also acknowledge that the Commission's terms of reference for this Inquiry are already broad – and a full treatment of these additional issues would require considerable extra scope!

[1] Planning Institute of Australia *PIA Policy – Liveable Communities: A National Agenda* October 2000

Nonetheless, the Institute believes it is important that any costs associated with planning policies are not treated in isolation, but are considered alongside the goals of those policies. The next two sections discuss this point with respect to urban growth boundaries and sustainability.

2.2 Constraints on Urban Growth

The Issues Paper asks whether government policies may be holding back the release of new "green-fields" land on the urban fringe, and hence driving up costs.

Constraints on urban growth into greenfields areas have received publicity in both Sydney and Melbourne.

Unusual scenes accompanied land sales in Camden, in Sydney's south west, on 11 October[2]:

> The sleeping rough, the nervous excitement and the camaraderie of strangers in a line they could easily be mad fans queuing for the best seats at a show. Only here the price of admission is about $300,000 and for some the wait has been longer than a week.
>
> For almost a fortnight they have been arriving, sleeping in cars or in hastily bought tents, braving all weathers for the chance to grab a piece of freshly released land at Harrington Park, near Camden. . .
>
> Harpak's [the developer] managing director, said the company was slightly uncomfortable with the notion of queuing for land, but "as the demand has increased, we try to sell in the fairest way we can". For those who do not have time to camp out, a ballot is held for the remaining blocks, in which names are drawn from a barrel. The company avoids auctions because they tend to attract investors rather than families.

In Melbourne, a few days earlier, *The Age* reported[3] claims that the cost of undeveloped land in outer suburban Casey has increased from $200,000 to $400,000 a hectare since last October, when the Government announced an urban growth boundary in its Melbourne 2030 document.

However, the article cited a range of opinions on the extent to which the planning control is responsible:

- "the researchers acknowledge that the boundary is only one factor in rising land prices: Professor Birrell said the Government's desire to have a compact city, green wedges and affordable housing was "simply not attainable"."

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[2] Sean Nicholls, Lisa Pryor and Matt Wade "They're lined up on the blocks in the great land rush sprint" *Sydney Morning Herald*, 11/10/2003, p21

[3] James Button "Land costs soaring on city's fringe" *The Age*, 7/10/03, p1

- "according to Gerrard Ellis, general manager of real estate group Oliver Hume, the boundary was responsible for a 20 per cent rise in land prices across Melbourne, with the trend sharper in the south-east"
- "Geoff Underwood, executive director of the Urban Development Institute of Australia, said the land price rises were linked to some urgent buying by companies trying to get a foothold within the boundary."
- Michael Buxton, associate professor of environment and planning at RMIT, said that far from being a scarcity, there was "a massive amount of land available for development in Melbourne, unlike in Sydney"
- " Planning Minister Mary Delahunty played down the significance of the boundary, saying that other factors, such as low interest rates, flexible lending policies and the first-home-buyers' grant, were central to rising house and land prices in the past five years. "These increases have occurred all around Australia, and no one else has an urban growth boundary," she said.

In general principle, the imposition of planning controls limiting the supply of land for development is likely to increase the cost of available land. This has been documented in some detail for the Green Belts in southern England. For example:

> such [Green Belt] land commands, in the south-east of England, around £2,500 ($4,100) an acre for farming but as much as £500,000 an acre when released for new housing around booming towns.[4]

But such land costs are only one part of the equation. The new Victorian State planning guideline *Melbourne 2030*, argues the case for

> "an urban growth boundary to better manage outward expansion. This is a tool to facilitate the achievement of a more compact city. It promotes sustainable development by directing growth to areas best able to be supplied with appropriate infrastructure and services and by protecting other valuable land from urban development pressures."[5]

Two broad policy areas give further justification for the policy:

> **Policy 2.3 - Manage the sequence of development in growth areas so that services are available from early in the life of new communities**
>
> Fragmented urban growth in the growth areas could lead to significant extra financial, environmental and social costs, if infrastructure agencies dealing with multiple development fronts are forced to invest in new capacity before the existing capacity is efficiently utilised. Proper sequencing of development will avoid these costs.
>
> New land will be released in growth areas in a timely fashion to facilitate coordinated and cost-efficient provision of local and regional infrastructure, such as roads, public

[4] *The Economist* "Belt Loosening" 22 January 1998. See also references on the UK Government planning website: http://www.odpm.gov.uk/stellent/groups/odpm_planning/documents/page/odpm_plan_607843.hcsp
[5] see http://www.dse.vic.gov.au/melbourne2030online/

transport, water supply, sewerage, drainage, local parks, schools and local health and recreational facilities.

> **Policy 2.4 - Protect the green wedges of metropolitan Melbourne from inappropriate development**
>
> The green wedges accommodate agricultural and recreational uses, as well as a variety of important functions that support Melbourne. These include major assets such as airports, sewage plants, quarries and waste disposal sites – uses that support urban activity but which cannot be located among normal urban development.
>
> "The green wedges include areas that have strong environmental and landscape value for Victorians - many of which are of State, national or even international significance. They provide important resources for recreation and tourism."

Similar arguments have been advanced for the planning controls around Sydney. In the words of one PIA member, commenting on this submission:

> "To the extent that housing has been rendered more affordable in the past through profligate use of land, the community is and will continue to pay a heavy cost in terms of the externalities of 'urban sprawl', namely car dependence, higher per capita travel demand, loss of sensitive natural environments, dispersed labour markets etc. Put another way, sound economics and good public policy demand that developers and home buyers are fully confronted with the external costs of their locational decisions, including environmental detriment. Urban Growth Boundaries are one way of 'internalising' these externalities in house prices.

In looking at the role of such planning controls, the PIA recommends that the Commission consider two key points:

- As argued here, any influence on land costs needs to be considered both in its social policy perspective, and in terms of related costs, such as those for infrastructure; and
- As is argued in detail in section 3.1 below, the influence of growth constraints on overall price rises in the last 10 years seems to have been small:
  - between 1994 and 2000, price rises were primarily a feature of Melbourne and Sydney – and Sydney's prices, despite tougher planning constraints, grew less than did Melbourne's prices in these years;
  - In the 2000 to 2003 period, the major Australian cities had similar 50% increases in house prices – whatever their differing planning constraints.

2.3 Increasing Prices, but Increasing Value

Aside from the issue of planning constraints, there have been increases in land costs in new subdivisions across Australia in the last decade.

A key part of this has been increasing value in the house and land package. This has come through elements such as improvements in infrastructure provision – and in design improvements such as energy efficiency. Both improve the long term functioning (and hence value) of the houses, but this is reflected in increased initial costs.

Again, in the words of a PIA member's response:

> "Finished lot prices (and housing prices for that matter) are now higher than they used to be in large part because the quality of the product has improved. We know, for example, that the average new house floor area is now significantly greater than what it was 2 decades ago, including within the first home buyers sub-market. The same applies to finished lot prices. Finished lots now come with not only fully constructed drainage and road infrastructure, but with highly embellished parklands, local maternal and child health centres and other community facilities, shopping centres (which are often developed ahead of threshold viable demand levels), sporting facilties and so on. These have not been forced onto communities by planners, they are now taken for granted as 'standard equipment' in growth areas by the people buying into them. Indeed, many developers voluntarily go beyond the infrastructure prescriptions of the local planning policy in order to gain a marketing edge. In the past, affordability was assisted by the fact that initial buyers gained a very rudimentary product (often without made streets) and the infrastructures were brought on at a later time and paid for through recurrent charging mechanisms (like rates). The old approach has some appeal from a policy point of view, but it is unlikely to be acceptable in the market place today.
>
> "Closely related to this, not only has the starting quality of housing in the first home buyers market in growth areas improved greatly, but the way in which infrastructure is paid for has been substantially reformed over the past 20 to 30 years from a largely 'community pays' (taxpayer funded) to user pays basis. This has been effected through development contribution plans and the commercialisation, corporatisation and privatisation of infrastructure agencies, causing them to recover costs using market based pricing strategies, rather than relying on cross-subsidies. The upshot is that buyers are more and more being required to 'pay for what they get', and this establishes some healthy price signals about the relative merits of purchasing a home on the fringe versus a home in an urban consolidation situation.
>
> "In short, the planning system and parallel policies on infrastructure funding having acted to more accurately align housing prices with the infrastructure and environmental costs of producing the housing in question.

Another PIA member concentrated on the interaction between affordability and sustainability:

> "The issues of sustainability should be integral to affordability - ie dwellings should be not only affordable now, but also in ongoing terms. . . As we move into higher standards of four and five star energy ratings, water saving devices et al within the domestic environment, the problem of up front affordability will increase. It is imperative that not only the four walls and roof, but also that the expenses for insulation, energy, water, glazing and appliances in our homes, which can vastly improve affordability over time, can be incentivised by modifications to the first home owners scheme.
>
> "Another angle to housing affordability can be seen in the health levels within our communities. Some of the worst problems in terms of health emerge from suburban design - the urban design guidelines of the 1990s such as the National Green Streets program. This was the 1990s solution to affordability - build small lots with no gardens for social activity on the fringe of cities, within estates which had narrowed streets, provided no paved walking areas, had no definable urban centres and cul de sacked the community. The net effect is no-through-ways - the car dominates this world. Walking and cycling diminish to invisibility. Human health and social capital are severely affected. Whatever solution we find for the 21st Century, we need to have sustainability as our measuring stick - social, economic and environmental. How else are we going to ensure livable communities?"

A concluding point further qualifies the impact of these measures on recent price increases. As the Issues paper notes (p18, Figure 4), the prices of established dwellings (including land value) have increased significantly more than the prices of new project homes (excluding land value). It is not just input costs that are driving the price rises. This point is returned to in section 3.1 below.

2.4 Planning processes

Another issue of concern expressed by developers to the Inquiry has been delays in planning processes. The Issues paper notes (p16) this in a query about planning processes.

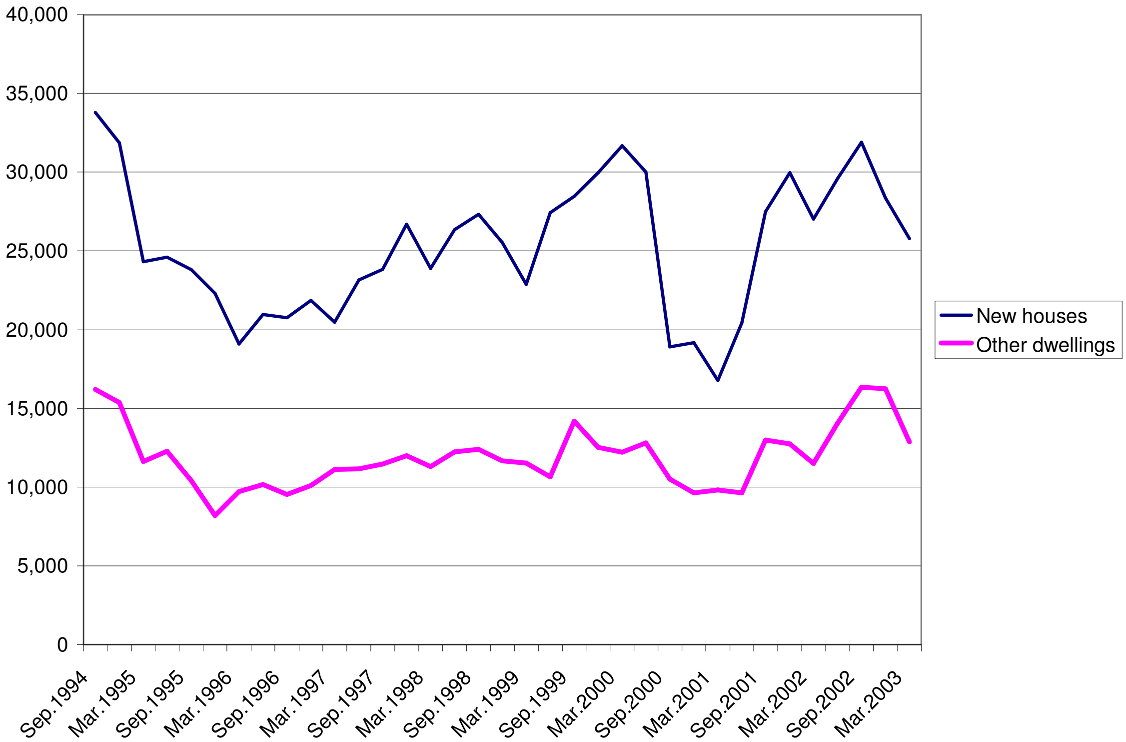
As the Issues paper notes, these controls

> "are designed to protect a host of legitimate public and private interests by ensuring that certain conditions are met before a planning permit is granted by the local council."

Complaints about planning delays seem to be cyclical. In the hothouse atmosphere of a housing boom, developers are keen to get product to market and ensure successful sales. However, such pressures in themselves create some problems for orderly processing of planning and development applications.

Graph 1 shows the "stop-start" nature of the housing industry, evidenced in quarterly new dwelling commencement figures for Australia.

Graph 1: New Dwelling Commencements, Australia, Quarterly



Source: ABS Building Activity, 8752.0

An indication of the impacts of this "stop-start" activity is given in performance indicators for planning and development services published by the Department of Local Government in New South Wales[6]. The Department published four key performance indicators in this area:

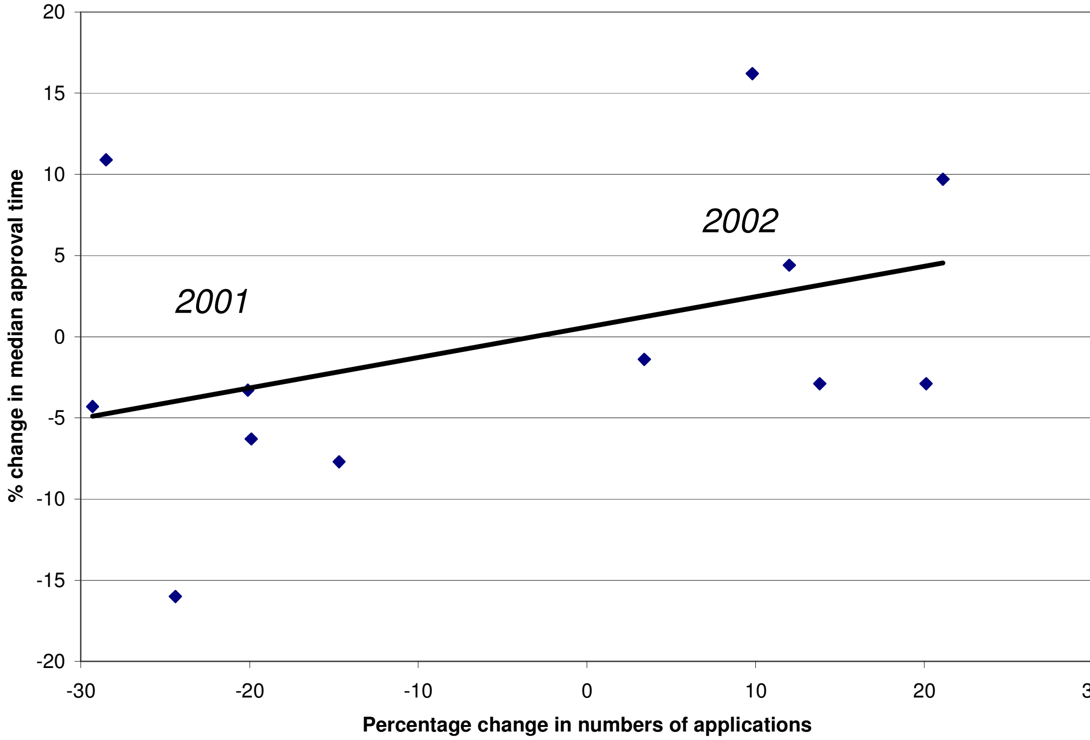
- Number of development applications determined
- Mean time in calendar days for determining development applications
- Median time in calendar days for determining development applications
- Legal expenses to total planning and development costs

For the council groups seeing the most development activity[7], Graph 2 compares the annual changes in 2000 to 2001 and in 2001 to 2002.

Graph 2: Changes in approval times and development approvals, NSW

[6] data is available at http://www.dlg.nsw.gov.au/dlg/dlghome/documents/comparatives/com0102_Planning.pdf

[7] The graph shows six data points for each year, for councils in inner and developed Sydney (groups 2 and 3), Sydney fringe (groups 6 and 7), major regional centers (group 5) and regional urban centers (group 4).



Source: NSW Department of Local Government, Council Performance Indicators

Consistent with the national patterns shown in Graph 1, these groups of NSW councils saw marked declines (averaging –20%) in development approval numbers in 2000/01. With this decline, most groups reduced the median time taken to grant a development approval.

The following year, 2001/02, saw a strong upswing in building activity, with the numbers of development approvals climbing some 10 to 20%. Three council groups saw slight further declines in median approval time, but others took more time to handle the approvals.

Any system has trouble coping with alternate peaks and troughs. Were the industry to follow a smoother path over time, planning authorities can adjust to that medium term work load, and it is likely that delays will be less frequent.

Other factors, beyond peaks and troughs which may be impacting planning authorities include:

- An apparent labour market shortage of qualified town and regional planners
- Complexity and layering of regulatory requirements (federal, state and local) which must be administerd and complied with at the local planning level

Substantial anecdotal evidence exists that there is a shortage in the professional planning labour market. The drivers of this are unclear and may in part be associated with the current peak of activity. However, there appear to be more substantive underlying issues which have been exposed in work done by the South Australian and Victorian governments.

Sufficient concern about this issue has been expressed by the heads of planning agencies around the nation (known as the Planning Officials Group) for state agencies to have collectively funded the Planning Institute of Australia to undertake a national Inquiry in to Planning Education and Employment. This Inquiry will draw together existing work undertaken by a range of bodies in each jurisdiction, a study to produce nationally comparable data. Submissions have been sought from universities, all levels of government, planning practitioners and industry stakeholders.

The results of this Inquiry will be available in draft form by mid-December with a final report being released in mid-February 2004. The terms of reference and a discussion paper have been released and are available on the PIA website www.planning.org.au .

Creative ways of dealing with this issue, both in educational terms – eg looking at technicians to assist qualified strategic planners – and more immediately ameliorating the shortage - eg widening the door for qualified planners wishing to migrate to Australia by increasing migration "points" for the profession - and other recommendations are likely to flow from this Inquiry.

Regulatory layering is the subject of one of the reviews currently being conducted in NSW as part of a wider examination of planning in that state initiated by Minister Knowles. The planning profession has considerable concern about the ever-increasing requirement for consultation with state and federal agencies or compliance with varied regulatory requirements before final development application approval. For instance, each state jurisdiction has legislation aimed at the protection of endangered species, local government often has requirements set out in its own regulatory framework, and Commonwealth environment law also imposes reporting and compliance in the case of endangered species.

There may well be a case for microeconomic reform of the regulatory frameworks impacting on local government planning.

There may also be a case for re-examining the positive impact of policy initiatives to improve planning processes. One example here was the LARP program which was funded by the Commonwealth and matched locally to encourage local government to review and improve planning processes. Such issues are discussed at greater length in the submission to this Inquiry from the Australian Local Government Association, which refers to various initiatives under way by State Governments to encourage improvements to both planning controls and planning approval processes. We also refer the Commission to the work of the Development Assessment Forum, and in particular its recently released "Comparative Performance Measurement and Benchmarking of Planning and Development Assessment Systems".[8]

As is demonstrated below, the recent boom in investor finance for housing has been a major contributing factor to the housing boom – both in prices and levels of activity.

[8] See http://www.daf.gov.au/whats_new.htm

3. Drivers of Housing Price Rises

As the Commission notes in its Issues Paper:

> "While the rise in housing prices has led to concerns about affordability, especially for first home buyers, the evidence on affordability is controversial" (p1)

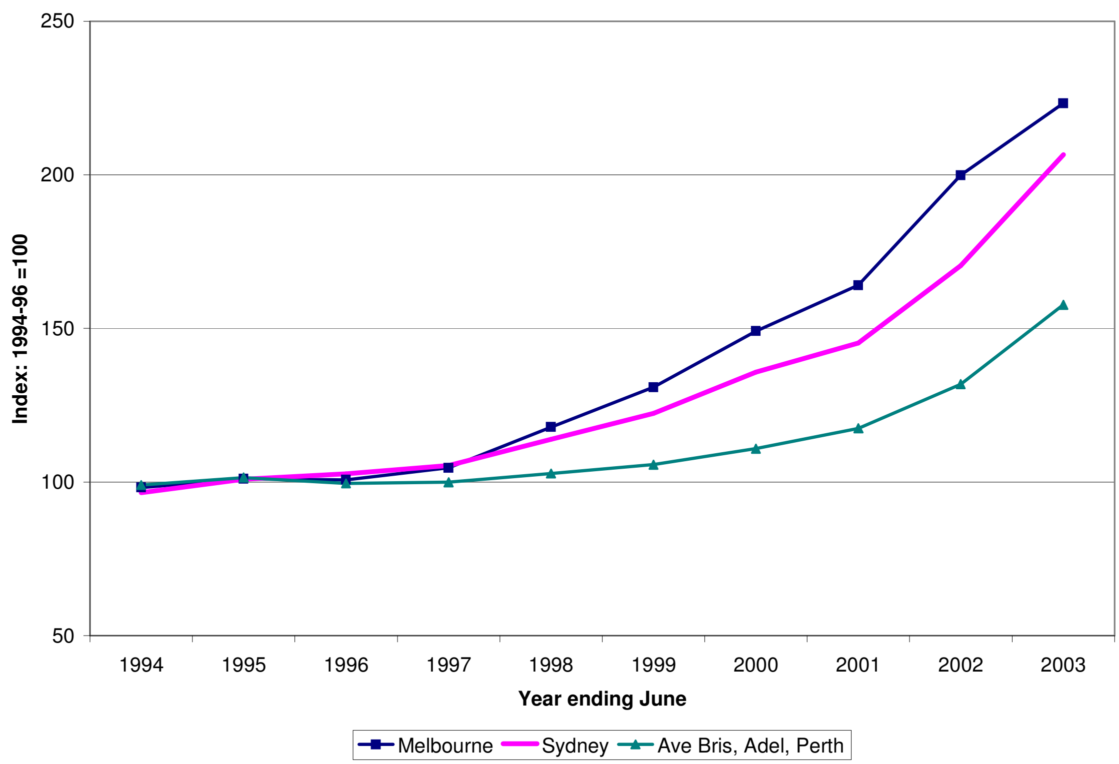
and

> "The Commission will seek to identify the key influences on recent trends in housing prices and affordability, and assess the scope for government action to lead to better market outcomes." (p2)

The previous section, in reviewing planning issues, has argued that they do not appear to have played a major role in recent house prices rises. This section discusses the trends in house prices to identify the key underlying factors.

3.1 House Prices

Graph 3:...Price Indices, Established Houses, 1994-2003



Source: ABS House Price Indexes: Eight Capital Cities (catalogue 6416.0)

Graph 3 shows movements in the ABS Indexes for established house prices from 1993/94 to 2002/03 for Melbourne, Sydney, and the average for the next three major cities (Adelaide, Brisbane and Perth – whose prices have moved in similar ways over this period)[9].

The graph shows two periods:

- From 1993/94 to 1999/2000, the story of Australian house price rises was essentially a story told in Melbourne (up 50%) and Sydney (up 35%). The other three major cities saw an increase of only 11% - similar to the rate of inflation.
- From 1999/2000 to 2002/03, the major cities have seen house price inflation of an amazingly consistent 50% (Perth was the only laggard, at 31%). It is worth noting that similar increases have also occurred in smaller centers – and, indeed, appear to have been outpaced in "Seachange" locations.

As the Commission's Issues Paper notes, a range of explanations have been advanced for these price trends – and, indeed, it is probable that a number of factors contribute to the end result. Nonetheless, the key factors in these two periods appear to be:

- From 1993/94 to 1999/2000, as evidenced by strong employment growth, economic recovery from the severe recession of the early 1990s was concentrated in Melbourne and Sydney. This, together with falling interest rates and increases in housing finance (both documented below), pushed up housing prices in the two major cities;
- From 1999/2000 to 2002/03, the consistent increases across Australia indicate the major factor was a national phenomenon. The key elements here were the sustained low interest rates since the late 1990s, and the associated rapid growth in finance for housing.

The following section discusses movements in interest rates, housing finance and prices.

[9] The graph concentrates on the major five housing markets, for ease of presentation. The Commission's Issues paper notes (p4) movements in all capital cities. While there is some volatility in price trends in the smaller capital cities, their movements are similar to the Adelaide Brisbane Perth series shown in Graph 3.

3.2 Housing Finance

Graph 4 shows the long term decline in interest rates during the 1990s.

Graph 4: Housing Interest Rates, Monthly

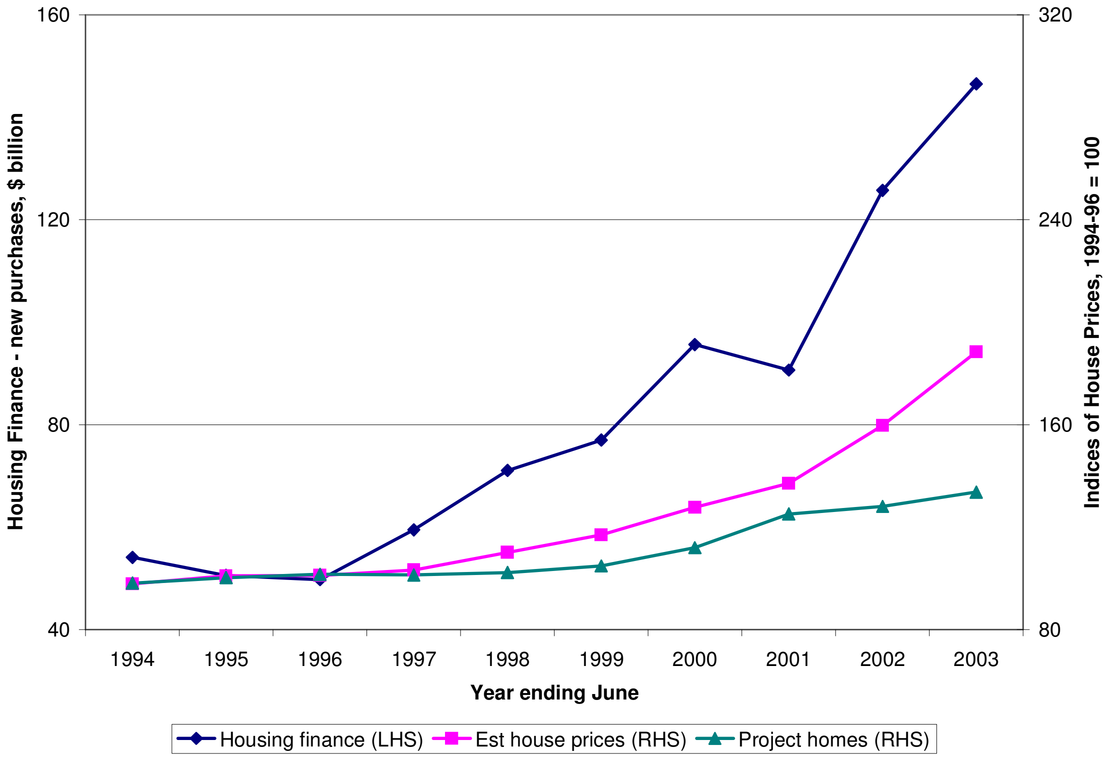
Source: Reserve Bank of Australia Standard Housing Loan Interest rate

As the Governor of the Reserve Bank of Australia argued in March this year, the main reason why the overall household debt to income ratio has risen strongly is

> "interest rates have fallen: mortgage rates halved between the second half of the 1980s and the past five years. As a result, a household which borrowed up to the point where debt servicing equalled 30 per cent of gross income (a common yardstick used by banks and other mortgage lenders) would be able to nearly double the size of the mortgage and still make the same monthly repayments as before" (p2)

This increased borrowing capacity is reflected in Graph 5.

Graph 5: Housing Finance and House Prices



Sources: ABS Lending Finance (5671.0), House Price Indexes (6416.0)

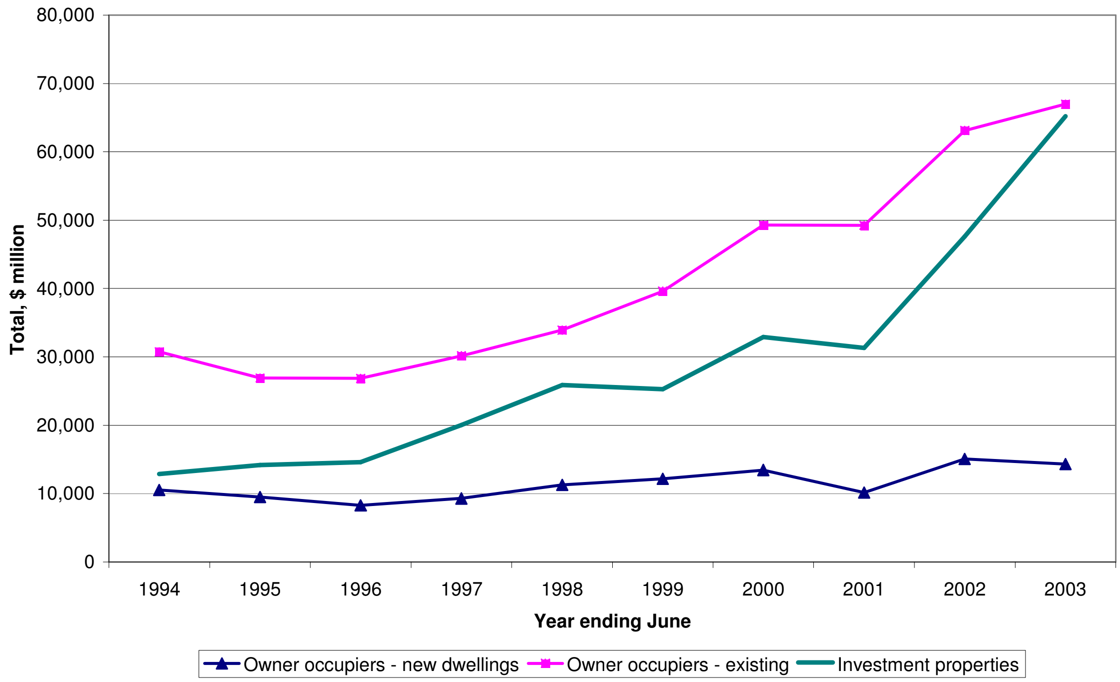
This graph compares the total finance available for house purchase with the trends in prices for existing houses and for project homes (new houses). This graph shows two key trends:

- The growth in housing finance[10] (84% 1994 to 2000, then 53% 2000 to 2003) is substantially above the growth in established house prices, suggesting that finance availability is the key factor behind prices growth;
- The growth in new house prices (excluding land, 12% 1994 to 2000, then 19% 2000 to 2003) has been well behind the growth in established house prices (including land, 28% 1994 to 2000, 47% 2000 to 2003). This indicates that the critical influence is coming from the general housing market, rather than from the cost of new housing.

A further important element is shown in the following graph, looking at the components of finance for housing.

[10] The housing finance totals used here exclude refinancing of existing loans, and finance for additions and alterations.

Graph 6: New Housing Finance



Source: ABS Housing Finance (5609.0)

Over these years:

- Finance for owner occupied new dwellings climbed from $10.5 billion in 1994 to $13.5 billion in 2000, and then grew only modestly to $14.3 billion in 2003.
- Finance for owner occupied existing dwellings grew more strongly, from $30.7 billion to $49.3 billion and then to $67 billion;
- Finance for investing in housing grew phenomenally – more than doubling from $12.8 billion in 1994 to $32.9 billion in 2000 and then doubling again to $65.2 million in 2003. Investment finance's proportion of total new finance also grew strongly, from 24% in 1994 to 45% in 2003.

3.3 Is there a Bubble?

The house price rises of the past few years have encouraged considerable comment that these price levels are unsustainable, and a crash is just around the corner.

For owner occupied housing, Age columnist Alan Kohler recently disputed this contention[11]. Using a similar argument to the reserve Bank Governor, Kohler
cited a paper by Saul Eslake, ANZ Bank chief economist:

[11] Kohler, Alan "Baby boomers looking at retirement will keep property prices high" *The Age*, 30 September 2003, Business, p2

> "The mortgage that a couple of average weekly earnings could afford, based on spending a steady 25 per cent of their gross income on loan repayments, has gone from $136,000 in 1992 to $297,000 this year. Over the same period, the median house price has gone from $141,000 to $315,000 – almost exactly the same increase. In other words, it's not a bubble – yet."

Kohler qualified this however for investment properties

> "Investment growth is more complicated and possibly more worrying. An important force behind the boom of the past five years – if not the main force – has been the panic of baby boomers as they realize they don't quite have enough retirement savings."

Kohler's (and Eslake's) point about loan repayments is disputed however by *The Economist*. The Commission's Issues Paper notes two articles in *The Economist* on the international housing price boom. The magazine returned to this issue recently[12]:

> "A survey in *The Economist* in May predicted that house prices would fall by 10% in America over the next four years, and by 20-30% in Australia, Britain, Ireland, the Netherlands and Spain. Prices have since continued to rise, so have we changed our mind? On the contrary: if house prices become more overvalued, they are even more likely to fall.

The Economist's house-price indices

House prices, % change on a year ago

	2003, latest	mid-2002
Australia	18.1	18.9
Britain	17.8	19.8
Spain	17.5	15.8
Ireland	14.7	5.2
France	10.3	8.0
Belgium	9.9*	8.1
Italy	8.8	9.5
Sweden	7.6	5.3
Canada	5.8	5.3
United States	5.6	7.2
Netherlands	2.7	6.3
Germany	-3.5*	1.6
Japan	-4.8	-4.5

*2002 Q4

Sources: Bulwien; ESRI; Japan Real Estate Institute; Ministerio de Fomento; Nationwide Building Society; Nomisma; OFHEO; Stadim; government statistics

> "Many readers reject our gloomy warnings about a more widespread fall in house prices. They argue that lower interest rates make buying a home cheaper. This increases the demand for owner-occupation and so, it is argued, justifies higher prices. [However], interest rates are not that low in real, inflation-adjusted terms. Initial interest payments may seem low in relation to income, but because inflation is also low it will not erode the real burden of debt as swiftly as it used to. So in later years mortgage payments will absorb a bigger slice of a borrower's income than when inflation was higher."

The initial Economist survey[13], comparing the extent of housing 'bubbles' in different countries did not explicitly consider one important factor – the rate of economic growth. As Australia has grown considerably faster than most other OECD countries over the past decade, significant house price rises are to be expected.

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[12] "Hot property" *The Economist* 13 September 2003, p66

[13] Survey: "Castles in Hot Air" *The Economist* 29 May 2003

If the commentators differ on the extent of a bubble in the owner occupied market, there is an emerging consensus about the investment market. In a March article, *The Economist*[14] referred to:

> "clear danger signals, notably the large number of people buying houses in the expectation of big capital gains. Those buying properties to let, rather than to live in, accounted for more than 40% of all new mortgages approved last year. In the big cities a glut of rental properties has caused an increase in vacancy rates; rents have started to fall. . . Australia's housing market could be as much a victim of irrational exuberance as America's stockmarket has been."

The existence of this investment bubble has had profound effects on the market for first home buyers – and also has some important implications for possible policy responses.

3.4 First Home Buyers

The 2002 Australian Yearbook[15] included a Feature Article – "Recent trends in construction and first home buyer finance", which noted:

> "The 38 months from January 1999 to February 2002 saw considerable movements in the trend series for construction of dwellings finance and the first home buyers component of housing finance commitments, with large swings in both series coinciding with changes in government policy concerning tax, First Home Buyers (FHBs) and dwelling construction activity."

When the New Taxation System (TNTS) was introduced in July 2000, a new First Home Owners Grant (FHOG) of $7,000 was payable to all first time buyers of a home, either new or existing. The grant was introduced to compensate for an anticipated increase in house building costs associated with the implementation of the GST.

The FHOG was foreshadowed many months in advance. As a consequence, many FHBs delayed demand for housing finance in the early months of 2000, before flooding back into the market in July 2000.

The introduction of the GST had wider effects on housing, with considerable building activity being brought forward to commence prior to July 2000. Building activity then slumped in the latter part of 2000. In response, the Federal Government on 9 March 2001 extended the FHOG to provide an additional $7,000, but only for building or purchasing a new dwelling. This announcement was not foreshadowed, and the effects of the new grant occurred from May 2001.

On 1 January 2002, the FHOG was scaled back so that a lesser amount of $3,000 was granted for new dwellings, in addition to the $7,000 available to all FHBs. This also led to some activity being brought forward into late 2001, to attract the higher level of the grant. In February 2002 both the construction and first home buyer series saw sharp falls in activity.

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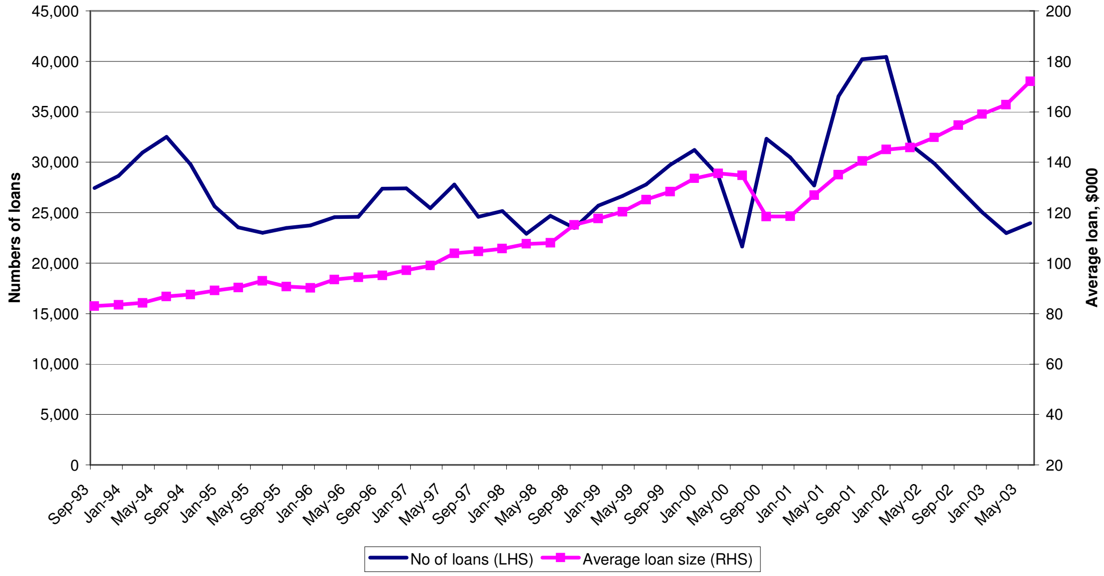
14 "Lucky Country" *The Economist* 6 March 2003
15 ABS *Yearbook Australia* (catalogue 1301.0) 2002

These swings in policy, and responses from First Home Buyers, are indicated in the following graph, showing the numbers of new loans for first home buyers, and the average value of those loans.

Graph 7: Finance for First Home Buyers, Quarterly



Source: ABS Housing Finance (5609.0)

This graph shows a fairly steady, slightly rising, trend in new loans up to early 2000. As noted above, a fall in new applications occurred as people waited for the FHOG to be introduced, and there were subsequent swings up and down in the series around the dates of policy changes. The graph also shows that the average value of new loans fell immediately after the start of the Grant, but then resumed its upward trend.

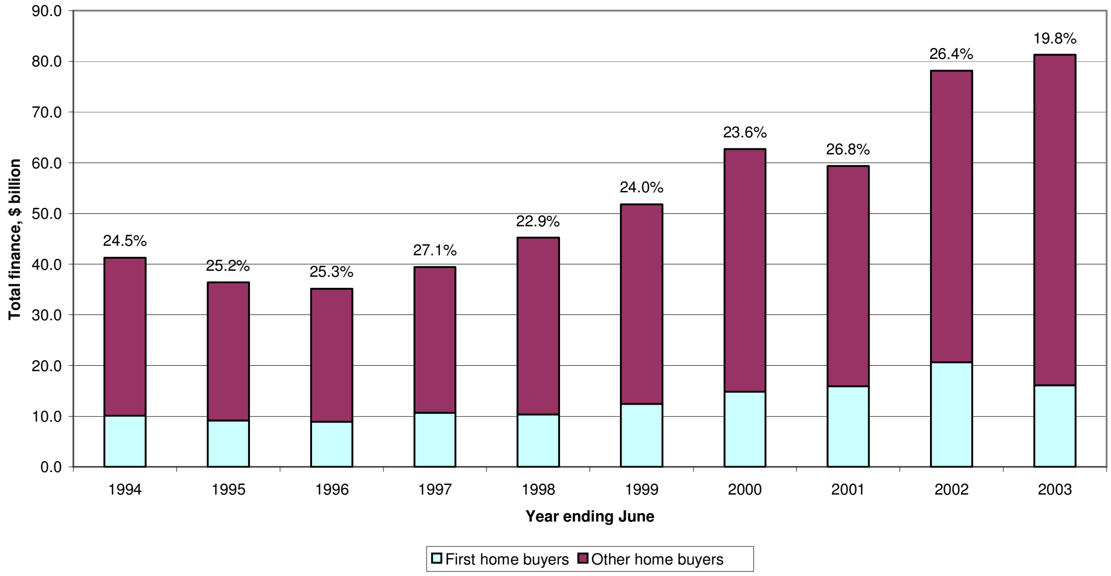
There also appears to be a logical correlation between this data and the new dwellings commencement data show in graph 1 of this submission.

The 2002 *Yearbook* noted that loans for new housing fell at the start of 2002, with the scaling back of the Grant. This fall continued in subsequent months, reaching a low point in mid 2003 – and this was doubtlessly a factor in the rising concern about affordability for first home buyers that led to the Commission's inquiry.

This trend is also apparent in the next graph, which compares finance for housing purchases[16] between first home buyers and other home buyers.

Graph 8: Home Finance: First and Other Home Buyers

[16] As above, this graph excludes refinancing of existing loans, and also excludes finance for additions and alterations.



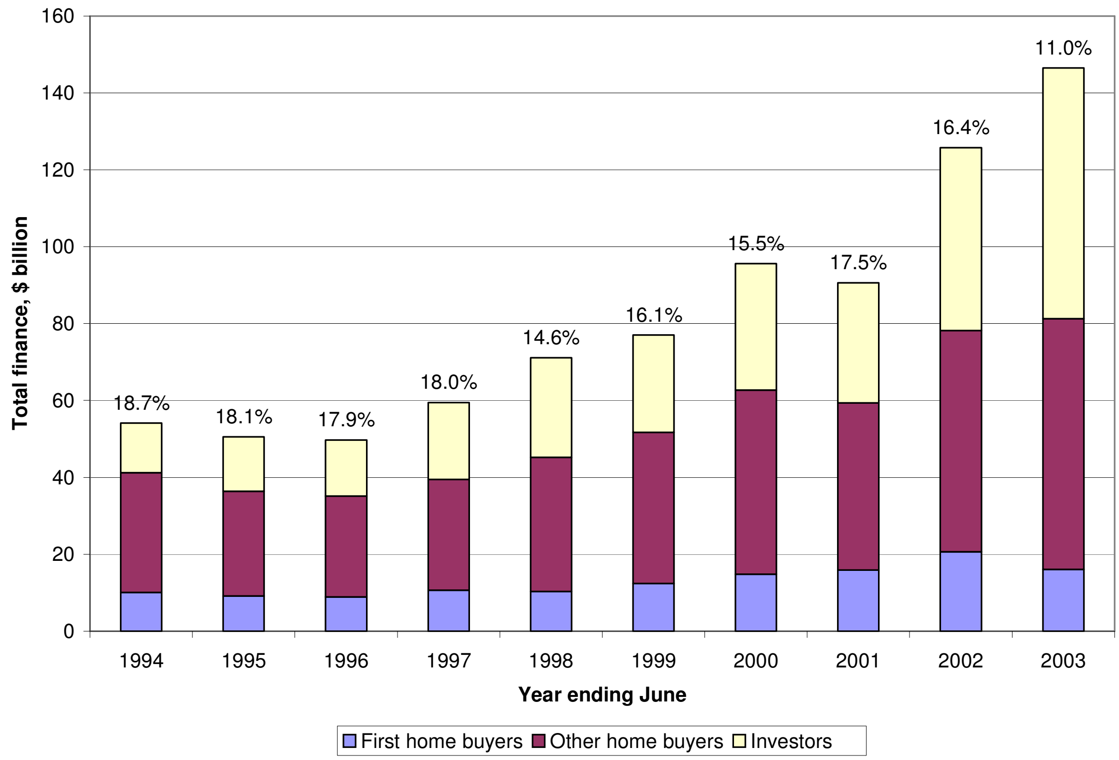
Source: ABS Housing Finance (5609.0)

The percentage figures shown on the graph are loans for first home buyers as percentages of total loans for owner-occupiers purchasing dwellings. Historically, first home buyers have received around 25% of the total loans. This figure has varied over the past few years:

- In 1999/2000, the FHB percentage fell, as FHBs waited for the introduction of the Grant, while other home buyers brought purchases forward prior to GST;
- In 2000/01, with the introduction of both GST and the FHOG, loans to FHBs climbed significantly, while the value of other loans fell. The FHB percentage consequently rose, to 27%;
- In 2001/02, loans to both FHBs and other buyers increased significantly, reflecting increasing house prices;
- In 2002/03, while loans to other buyers continued to rise, loans for FHBs fell significantly, down from $21 billion to $16 billion. The FHB proportion fell below 20% for this first time in this decade.

Both this and the previous graph showed significant drops in FHB activity in 2002/03. The key factor behind this is shown in the next graph, which includes new loans to investors as well as the above two categories.

Graph 9: Finance for Dwelling Purchase



Source: ABS Housing Finance (5609.0)

The percentages on this graph show loans to first home buyers as a proportion of total finance for dwelling purchase, including both owner-occupiers and investors:

- In the mid 1990s, the FHB proportion of total finance was about 18%;
- As the value of loans for investment increased, from 1998 onwards, the FHB share fell, with some volatility, influenced by the factors discussed above;
- However, in 2002/03 the FBH proportion slumped, from 16% to 11%.

This last pattern continued into 2003/04, as the Sydney Morning Herald noted on 11 October:

> "the number of first home-buyers taking out loans wallowed near record lows in August as surging home prices lock young buyers out of the market."[17]

The above discussion argued that loans for investment were the key factor in house price rises in the last few years. The dramatic increase in investment loans in the last year has also had impacts on other purchasers:

- Loans to non-FHB owner-occupiers have continued to rise, albeit at a slower pace than investment loans. It appears that such buyers, with equity already in the housing market, have the capacity to increase their loan size, and hence compete with investors;
- However, first home buyers, without existing equity, and apparently already stretched by the high prices, have dropped out of the market.

[17] Sean Nicholls, Lisa Pryor and Matt Wade "They're lined up on the blocks in the great land rush sprint" *Sydney Morning Herald*, 11/10/2003, p21

3.5 Possible Policy Responses

A key task in this Inquiry for the Productivity Commission is to "assess the scope for government action to lead to better market outcomes." (p2)

This submission has argued that the key factor driving the housing price increases has been the investment boom, encouraged in its turn by both sustained low interest rates and by the changes to capital gains tax introduced in 1999. That investment boom, as well as driving up prices, has to some extent crowded out first home buyers – and has also created problems for the orderly processing of planning applications, with attendant delays.

A fear frequently expressed recently is that the Reserve Bank will increase interest rates to slow down the housing investment bubble. While the Bank did not change interest rates in its mid October announcement, its 2003 conference, in Sydney on 18 and 19 August 2003, concentrated on 'Asset Prices and Monetary Policy'.[18]

Similar debates have occurred internationally over the last year, with The Economist in January[19] noting the dissenting views of the Chairman of the US Federal Reserve:

> Alan Greenspan has offered the fullest defence of why central banks should not react when asset prices climb rapidly. First, he argues, you can never tell a bubble from a more justified increase in asset prices. Second, interest rates are a blunt tool. A small rise in rates may have no effect; an increase big enough to pop an incipient bubble could cause a recession. Mr Greenspan thinks it is safer to wait for a bubble to burst by itself and then to mop up its after-effects by easing monetary policy, aggressively if need be.

The article noted further contributions about how monetary policy should respond to asset-price changes:

> "Central banks can no longer ignore surging asset prices by insisting that monetary policy should focus only on consumer-price inflation. Swings in asset prices can have big long-term consequences for inflation [and for levels of economic activity generally]"[20]

If monetary policy may be too blunt a tool with which to attack housing price bubbles, are more specific policy tools available?

The investment boom in housing is encouraged by a number of factors:

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[18] The Reserve Bank website indicates a book, containing the conference papers and discussion, will be published in late November 2003.
[19] "Still Bubbling" *The Economist* 16 January 2003
[20] The article refers to recent papers from the Bank of International Settlements (www.bis.org/publ/work114.htm); the Deputy Governor of the Bank of England (at www.bankofengland.co.uk/speeches/speech181.pdf) and the European Central Bank (at www.ecb.int/key/02/sp021205_1.pdf)

- Investors, suffering from share price falls in the past three years, seeking more security in "bricks and mortar". Movement between investment asset classes is a cyclical pattern, and debates exist over how effective policy interventions can be in this situation;
- The availability of negative gearing on housing investment. However, a simple abolition of negative gearing does not appear to be appropriate, especially in view of the adverse impact on the rental housing market in Sydney in the late 1980s when this policy was tried.
- The changes to capital gains tax rules in 1999, which mean that investors pay tax on only half the capital gain realized on eventual asset sales[21].

The Planning Institute notes that there have been considerable debates on these issues, with various suggestions to fine-tune the tax treatment of both negative gearing and capital gains. The PIA does not feel itself in a position to argue a comprehensive policy to address all the points raised in these debates. We consider however that the scope of this Inquiry gives considerable scope for the Commission to review these issues, and to develop new policy options.

At a more microeconomic level, in December this year the PIA will have available the draft outcomes of its national Inquiry into Planning Education and Employment (funded by the Planning Officials Group). Recommendations will be based on new national data on the apparent failure of the labour market (and as a feeder to that education) to meet the demand for qualified planning professionals, and may include calls for Government action.

It has also been suggested that the number and complexity of planning regulatory requirements has increased and that a programs such as LARP might be reconsidered as a basis for effecting planning process reform. The intersection and relationship between State and Australian Government regulatory compliance demands at the local level might also be considered.

4. Conclusions and Recommendations

From the analysis of this submission, the Planning Institute of Australia makes three broad conclusions, with implications for the Commission's development of policy responses.

Conclusion 1: The key driver of recent price rises (with impacts on affordability for first home buyers), is the boom in housing finance for investors. The strength of

[21] The changes to the capital gains tax rules were more complex than frequently described. The new regime of individual (non-corporate) taxpayers paying tax on half of any capital gain replaced the complicated previous regime in which taxpayers paid tax on any capital gains greater than the general rate of inflation since the purchase of the asset. In a moderate inflation environment, the two measures may produce similar outcomes. However, in the last few years, with high asset value increases, and low CPI increases, the new regime is undoubtedly more favourable to individual taxpayers than the old regime.

the boom has also had implications for timely development approval processes.

Recommendation: That the Commission develop and discuss suggestions for policy changes which will fine tune the current investment climate for housing.

Conclusion 2: Planning policies have played a relatively minor role in recent house price increases.

Recommendation: That in considering the price impacts of policy initiatives such as urban growth boundaries and energy efficient housing, the Commission also notes the policy contexts and benefits from such initiatives

Conclusion 3: That scope exists for continuous improvement in planning design and processes.

Recommendations: That the Commission:

- Note the anecdotal evidence of a shortage of qualified planners impacting the planning process, to be supplemented by the current PIA inquiry
- Develop suggestions for reforms to reduce regulatory complexity at the local planning or implementation level and/or improve local government capacity to cope
- Note initiatives to improve performance, such as in the Development Assessment Forum and in the previous LARP program.

[i] NSW Department of Housing, "Planning Mechanisms for Affordable Housing", 2007, Centre for Affordable Housing.

[ii] Kate Fagan, Nicole Gurran, Vivienne Milligan and Peter Phibbs, "Not for profit affordable housing – the Australian Experience", research & policy bulletin, Australian Housing and Urban Research Institute, February 2005, pp. 1-2.