URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

An industry report into affordable home ownership in Australia

Urban Development Institute of Australia
NATIONAL

Incorporating the UDIA/Matusik Affordability Measure 2007

Major sponsors: Devine Limited, Think Brick Australia, UrbanPacific

Table of Contents

Foreword

Almost 12 months ago I expressed the opinion that affordability of home ownership in Australia would become a major issue in the 2007 federal election. Regrettably, for home purchasers that prediction appears to have been correct with the issue now being on the agendas of both the federal government and the federal opposition. Indeed, the social dimensions of the problem of affordability are profound, with increased pressure being placed on public housing, social housing, homelessness and those families and individuals in rental markets.

The issue is also prominent at the state level of politics with strategies being released by state governments in an attempt to deal with particular state-based aspects of what is now acknowledged to be an emerging affordability crisis.

In raising the Institute's concerns, I have followed the lead of state presidents and state councils of the Urban Development Institute of Australia (UDIA) who have been in the vanguard of those raising concerns for at least the last four years. Those in the industry who are most aware of the scope and extent of the problem have been best placed to identify this as an issue and have done so at all levels of politics throughout the country.

This development industry report was commissioned by the National Council of the UDIA in early 2007. Its purposes are threefold. They are:

- To more accurately identify the scope of the problem of declining affordability of home ownership in a national context;
- To identify and comment on the current status of affordability and its causes in each state and territory which has a UDIA presence; and
- To identify problems and make recommendations to address those problems that are of national significance and require federal, state and local government intervention.

The recommendations made in this report have been developed through an extensive process that has involved research and analysis of a broad range of solutions put forward by UDIA members, regional branches, state councils and the Institute's professional staff. They have been tested at state council level and then subjected to the most rigorous review at national council level before being unanimously accepted by state and national councils. As such, they represent the professional views and advice of the key industry leaders of Australia's property development, property management and housing industry – an industry that, in direct and indirect contributions, represents 20 per cent of the national economy.

There will be assertions, from those whose personal interests or whose value systems are challenged, that this report is a self-serving document produced solely for the benefit of the industry. I acknowledge this as a potential complication. However, the debate must be on the merits of the recommendations, their validity and likelihood of success and not merely from where they arose.

The industry is acutely aware that whatever happens as a consequence of this debate the undersupply of housing in Australia will not be turned around overnight. In all likelihood affordability levels will continue to decline for the next two to three years until accelerated supply of dwellings for ownership and rental returns the market to equilibrium and shortages are eradicated or otherwise addressed in key markets.

This is a complex and contemporary problem that calls for strong leadership and cooperation from all levels of Australian government and the implementation of bold and decisive action.

Grant Dennis
B.B.A (USA), FDIA, MAICD

National President
Urban Development Institute of Australia

August 2007

Executive Summary

This report has been prepared by the UDIA as a contribution to the debate on solutions to address the housing affordability crisis in Australia today.

Commencing with an analysis of housing affordability and the importance of home ownership, this report analyses affordability using the UDIA/Matusik Affordability Measure developed by UDIA Queensland and Matusik Property Insights in 2006.

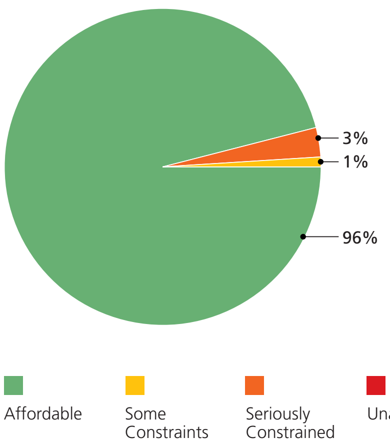
Research was undertaken across 70 designated population centres in Australia with centres being categorised as being either affordable, having some constraints, being seriously constrained or unaffordable on the basis of the capacity of households on average incomes to purchase specified percentages of the housing sold in their local area. Those centres where there is a capacity to purchase between 31 and 50 per cent, between 16 and 30 per cent and less than 15 per cent respectively during a specified period were considered as having some constraints, being seriously constrained, and unaffordable respectively. Markets were considered affordable where those on average incomes can purchase more than half of the houses in a centre. Data was analysed for calendar years 2001 and 2006.

This research has confirmed the validity of concerns about affordability and added a further dimension to the affordability indices used in Australia.

The following charts (Figures 1 and 2) show the general transformation across Australia for the 70 centres studied from affordable in 2001 to a situation where there is a lack of affordability in 2006.

Figure 1

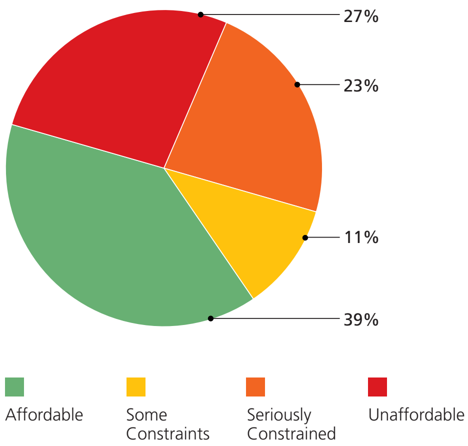
2001 – National Detached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordability Measure, 2007

Figure 2

2006 – National Detached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordability Measure, 2007

The heat maps (Figure 3) identify the current situation in each state based on the performance of centres in those states.

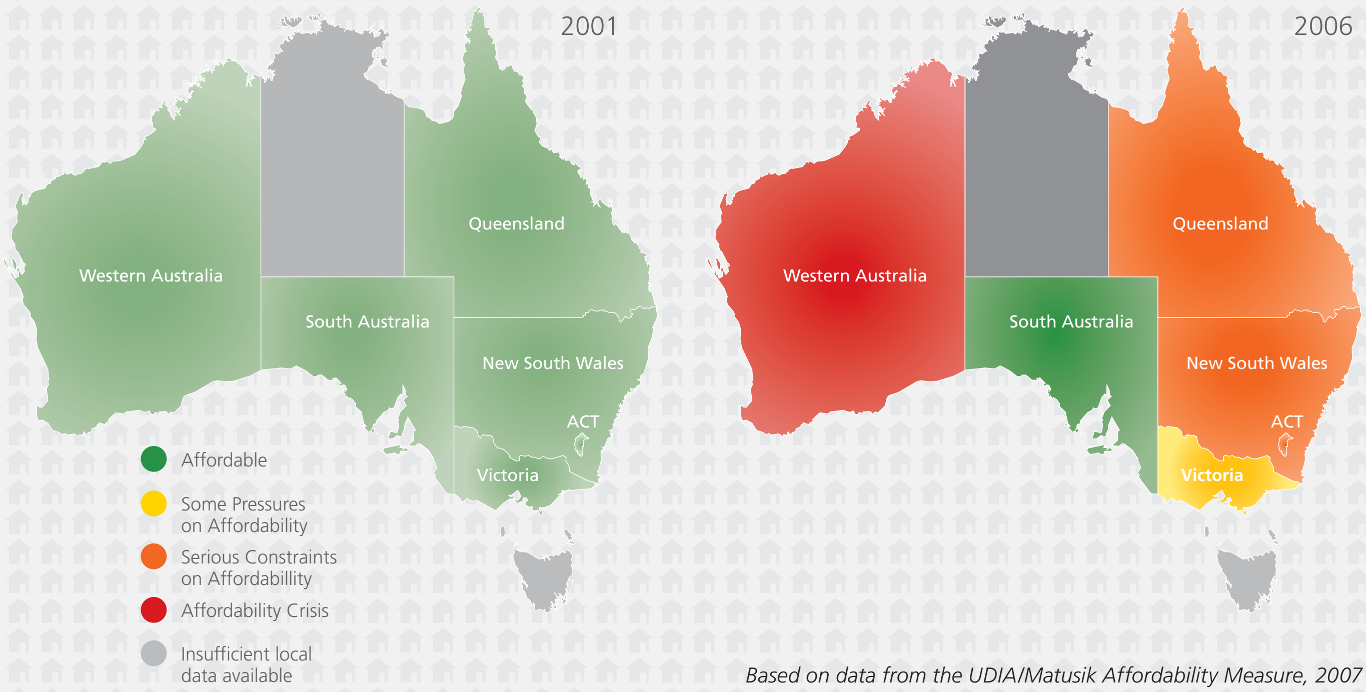
This report also examines the current situation in each mainland Australian state and the Australian Capital Territory from the perspective of each state branch. It also details strategies recommended by UDIA state branches to address diminishing levels of affordability.

Subsequently, the report identifies the issue of housing affordability as being one of national significance and requiring coordinated national, state and local government actions to address it.

The UDIA has analysed a broad range of options that would improve affordability if implemented. This report makes a series of recommendations that have arisen out of those options and these are detailed in the report.

In summary, the view of UDIA is that there is an overwhelming need for the development and implementation of strategies and plans to deliver joint national/state initiatives to improve housing affordability in Australia.

Figure 3
National UDIA/Matusik Affordability Measure Comparison 2001/2006



Based on data from the UDIA/Matusik Affordability Measure, 2007

Recommendations

1. The federal government should liaise with state and local governments to ensure the development of national growth management strategies that underpin state and local authority growth management strategies and which deliver coordinated plans for new and emerging communities particularly with respect to the provision of major infrastructure, such as transport, employment and government services.

2. The federal government, in conjunction with state and local governments should establish a Ministerial Council on Housing Affordability, that includes industry representation.

3. The Ministerial Council on Housing Affordability should have oversight of the development and implementation of appropriate mechanisms to ensure that:

   - An independent Housing Affordability Authority (HAA) such as the United Kingdom's National Housing and Planning Advice Unit is established to provide economic modelling and advice to all relevant levels of government on the impact of planning and other legislation and planning schemes on housing affordability;

   - Monitoring and reporting of housing affordability is undertaken under an agreed methodology by the HAA;

   - Targets for the affordability of home ownership are set at appropriate levels for all relevant Australian markets;

   - State-based land release programs ensure ample greenfield, infill and re-development land supply is available to meet demand requirements to achieve the agreed affordability targets; and

   - Oversight and immediate review of planning and development legislation and processes occurs in order to improve the efficiency and effectiveness of residential property development in Australia.

4. The development of federal policies and funding schemes should take place to reduce the reliance of state and local governments on upfront levies, taxes and charges, (including stamp duty and land tax), particularly for the provision of infrastructure, and taxation incentives to encourage dwelling supply. Specifically, federal government expenditure on urban infrastructure should be substantially increased at least consistent with population growth.

5. The implementation of coordinated strategies at federal, state and local levels should occur to ensure adequate numbers of appropriately skilled employees are available for the residential property sector.

6. Funded programs should be developed to restore affordability and intergenerational equity for first home purchasers of existing and new residential dwellings in addition or complementary to the existing First Home Owners Scheme.

National Housing Affordability

"The present situation of declining housing affordability is contrary to the vision for Australia as a prosperous place where people can enjoy an enviable lifestyle and 'the great Australian dream'."

1. Overview of national housing affordability

The goal of owning one's own home is a widely held aspiration in our society. To some it signifies security, to others perhaps an economic legacy, and to others the cornerstone of societal stability, morale or even national pride. The realistic possibility of home ownership is often conceptually linked to a level of satisfaction with lifestyle and financial security and the hope of young generations that they can have a secure and prosperous future and live their personal version of the great Australian dream. The potential for younger generations to be 'priced out' of home ownership, poses some serious questions about the future of our society and the issue of intergenerational equity.

Regardless of whether or not people own their own home, it is imperative that people have access to decent accommodation at a price they can afford. This should allow people to live near employment and, ideally, the opportunity to live in a community of their choice. Rental accommodation, whether for financial, personal choice or other reasons, plays an important role in the delivery of appropriate and affordable housing.

Others have also considered the benefits high levels of home ownership and the availability of affordable housing can have on social issues,[1] such as homelessness, and the demand for government services. The role of affordable housing in enabling key workers to locate close to employment is also frequently discussed.

As well as social effects, housing affordability also plays a significant role in the economic prosperity of the nation. Declining housing affordability can have a double negative effect on the economy. It can reduce the activity of the development industry - a significant contributor to the economy - providing over 20 per cent of gross domestic product (GDP),[2] contributing over $860 billion to GDP in the 2004-5 financial year,[3] and incorporating over 1,000,000 housing related businesses.[4] A lack of housing affordability can also reduce the incentives for growth and investment more broadly. While there are many factors considered in business location and investment decisions, raising the cost of living in some major centres, and the cost of business through related increases in the costs of commercial and industrial developments and locations, risks discouraging investment and employment growth.

The present situation of declining housing affordability is contrary to the vision for Australia as a prosperous place where people can enjoy an enviable lifestyle and 'the great Australian dream'.

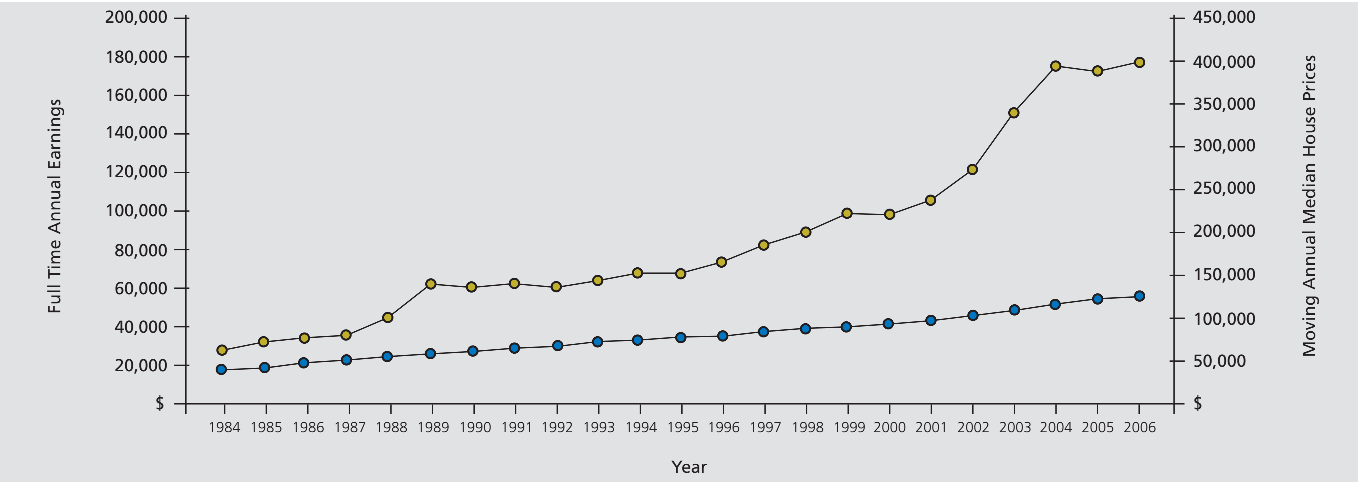
Overview of issues

While there is often discussion of housing cycles and indeed evidence of such trends, there are also strong indicators that house prices are much higher in Australia now, compared to people's ability to pay, than over the previous decades. Figure 4, on the following page, charts the increase in house prices as well as the increase in earnings, both in nominal terms. The data shows that between 1984 and 2006 house prices have risen by approximately 493 per cent,[5] while earnings have risen by approximately 183 per cent.[6] Over this time period (22 years) house prices have risen to almost six times their prices in 1984 while earnings have not even trebled.

1*See for example, Mullins, Patrick and Western, John, (2001) "Examining the links between housing and nine key socio cultural factors", Australian Housing and Urban Research Institute Queensland Research Centre November 2001 ISBN: 1 877005 13 4 (project) ISBN: 1 877005 14 2 (final report) http://www.ahuri.edu.au/publications/projects/p20004;* **2***Based on Australian Bureau of Statistics (ABS) and Reserve Bank of Australia data;* **3***Reserve Bank of Australia (RBA) August 2005 Statement on Monetary Policy;* **4***ABS, Australian Industry 2005-06;* **5***Based on REIA data;* **6***Based on ABS data series A594404K*

Figure 4

National House Prices and Earnings ($)



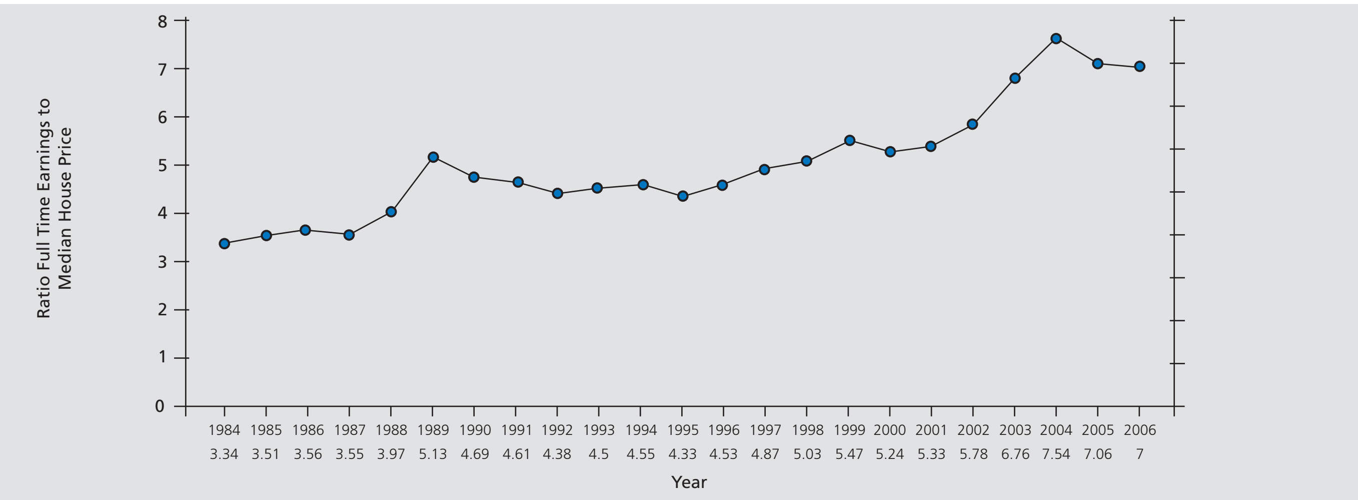
Moving Annual Median House Price

National Full Time Annual Earnings

Based on ABS and REIA data

Figure 5

National Income Multiple



Income Multiple

Based on ABS and REIA data

Although there are a number of indicators of housing affordability, they are fundamentally based on the relationship of ratios of housing costs to income. Some include specific costs related to housing such as council rates and mortgage servicing or other assumptions of capacity to pay. However, to clearly see how house prices have risen compared to incomes, a simple multiple is often calculated (i.e. the factor by which house prices compare to incomes).

The ratio of property prices to annual income is a relatively simple means of exploring changes in affordability over a period of time. It gives a quick indication of how house prices have changed compared to one of the most fundamental determinants of people's purchasing power – their income. It is also interesting due to the correlation between individual earnings and other economic indicators.

Figure 5 (opposite) charts the ratio between Australian Bureau of Statistics data for average full time adult earnings and moving annual median house prices (June) data from the Real Estate Institute of Australia. The scale shows the number of times larger house prices are than gross earnings (not the available income after tax or expenses). It shows that in this time period house prices have generally increased more rapidly than earnings. However, it also shows that although the income multiple increased steadily from approximately 3.5 to 5.5 between 1984 and 2002, it has risen dramatically since this time to figures in the range of 7.5 to 7.0.[7]

There may be other issues which encourage or enable people to use more of their income to purchase houses. However, it seems that these factors do not fully account for this dramatic change. For example, Westpac notes that changes in tax rates may have increased people's 'take home' pay and therefore contributed to the high demand for houses. However, it was found that this effect only increased total net pay slightly more than gross pay (i.e. by 38 per cent compared to 33 per cent between June 2000 and 2006).[8]

While household income has increased more than individual income, it did not rise at the same rate as house prices.[9] However, this does not mean that income increased to this extent in all households. Indeed, the rise in dual income households[10] in the marketplace may have also contributed to the difficulties many single income households face in regards to affordability of home ownership.

It should be noted that, like most indicators, income multiples (and variations such as median multiples, and quartile multiples) have limitations and what they actually show must be kept in mind. For example, such multiples often don't factor in the impact of changes to interest rates, although these clearly impact on the ease with which people on a particular income can buy a home. Nor do they factor in changes to taxation structures or subsidies which may impact on whether a person can afford to buy a house.

Other affordability measures offer insights into these aspects. For example, the ratio of housing payments to personal income can also offer an indication of housing stress and it is often quoted that when greater than 30 per cent of income is being expended on housing costs this can tend to represent a concerning lack of housing affordability.

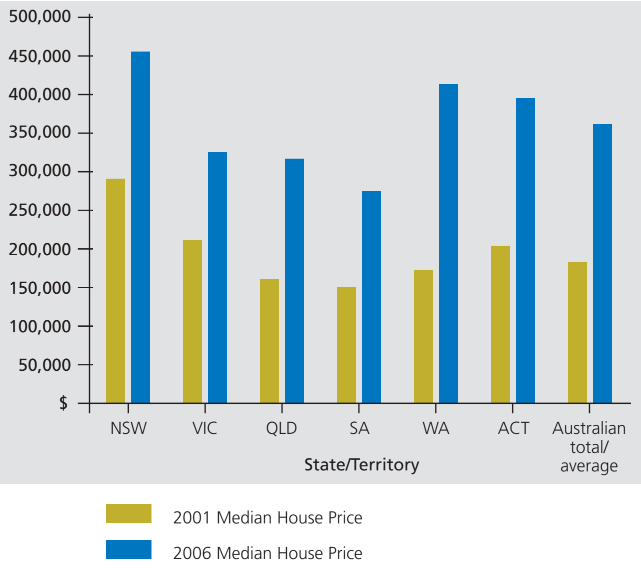
2006 Census data discloses an interesting anomaly in that while total home ownership has declined only marginally (from 66 per cent in 2001 to 65 per cent in 2006) significant changes have occurred in the level of outright ownership.[11] The rate of home ownership has declined from 41 per cent outright ownership in 1996 to 33 per cent in 2006, a significant decline from 40 per cent in 2001.[12] This data is of particular concern given that it has been recorded in the context of an ageing population.

Over the 10 years to 2006 the median monthly housing loan repayment also rose from $780 to $1300[13] (an increase of $520 (40 per cent)), 22 per cent in real terms. 2006 Census data notes that in Australia the median loan repayments were 29.2 per cent of median household income. This situation is coupled with a national decline in the marketplace of first home owners across Australia from 23 per cent in 2001-2002 to 16.6 per cent in 2007.[14] Further, the age of first home buyers increased from 27 years in 1981-1982 to 32 years in 2000-2001.[15]

7*Note this differs from the multiples quoted in the Matusik Report which are calculated from household income data.;* **8***Westpac Analysis "Residential Owner Occupier Demand… What is the Driving Force?"* **9***Data from the Australian Bureau of Statistics, 1994-5 and 2003-4 comprising gross nominal household income and house prices;* **10***ABS data from Cat. No. 6523, 1994-2001 and 2003-04;* **11***ABS, 2006 Census fact sheet "Fewer Australian homes are paid off: Census";* **12***ABS, 2006 Census fact sheet "Fewer Australian homes are paid off: Census";* **13***ABS, 2006 Census fact sheet "Fewer Australian homes are paid off: Census";* **14***ABS, "Housing Finance Data May 2007" Cat. No. 5609.0 and Australian Social Trends, 2003, Cat. No. 4102.0;* **15***ABS Survey of Income and Housing Costs Cat. No. 6541.0.30.001*

Figure 6

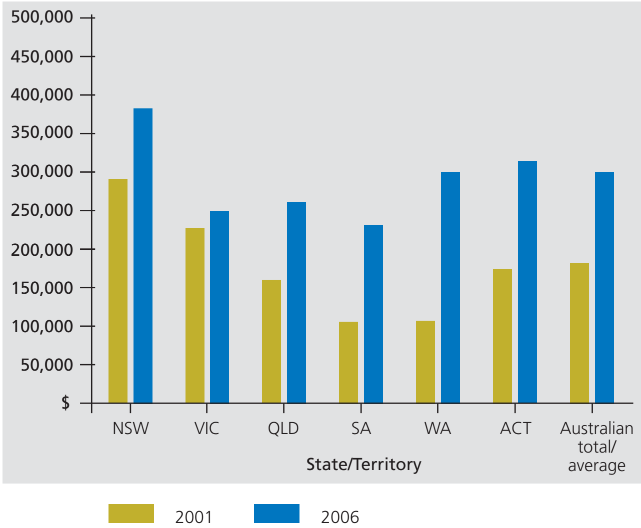
Detached Median House Prices (State & Territory) 2001-2006 ($)



Source: UDIA/Matusik Affordability Measure, 2007

Figure 7

Attached Median House Prices (State & Territory) 2001-2006 ($)



Source: UDIA/Matusik Affordability Measure, 2007

Figure 8

Detached House Sales, Median Price and Growth

State/Territory	Total Sold in 2006	Median Price in 2006	Change in $ - 2001 to 2006
New South Wales	63,755	$455,500	167%
Victoria	69,663	$322,750	158%
Queensland	70,997	$317,000	221%
South Australia	23,591	$272,500	186%
Western Australia	40,498	$415,500	258%
Australian Capital Territory	4,839	$397,750	195%
Australian Total/Average	273,343	$363,000	194%

Source: Matusik Property Insights, RPData, Australian Tax Office & the Reserve Bank of Australia, June 2007

UDIA / Matusik Affordability Measure

Following the impact of the UDIA (Qld)/Matusik Affordability Measure Report 2006, an Australia-wide report was commissioned to explore national affordability issues.

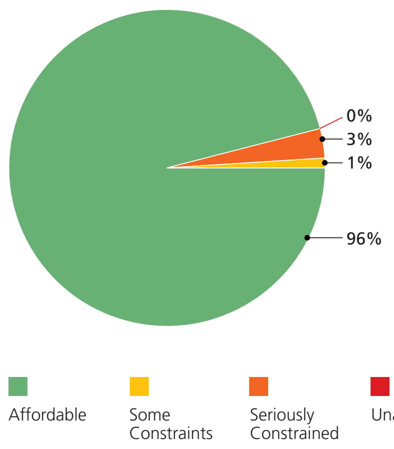
The national report on the UDIA / Matusik Affordability Measure – Australia 2007 compares house price and affordability indicators across 70 urban areas throughout Australia. In this instance it compares data from 2001 with that from 2006. Figures 6 and 7 above show the average house prices in the states and territories studied in both of those years for detached and attached housing respectively.

The distinctive increase in prices is apparent with house prices almost doubling on average in this period (see Figure 6 above). Similar trends can also be seen in the median prices of attached dwellings in Figure 7.

Figure 8 above indicates both the levels of turnover and the prices achieved for detached houses in 2006 and 2001 respectively. Given that Census data indicates that in 2006, 74.8 per cent of people lived in separate detached houses, and that the UDIA / Matusik Affordability Measure – Australia 2007 indicated that during 2006 detached house sales outnumbered attached sales over 2.3:1, the data for detached houses is presented here. However, the equivalent data for attached housing can be found in the UDIA / Matusik Affordability Measure – Australia 2007 report in Part 3 of this report.

Figure 9

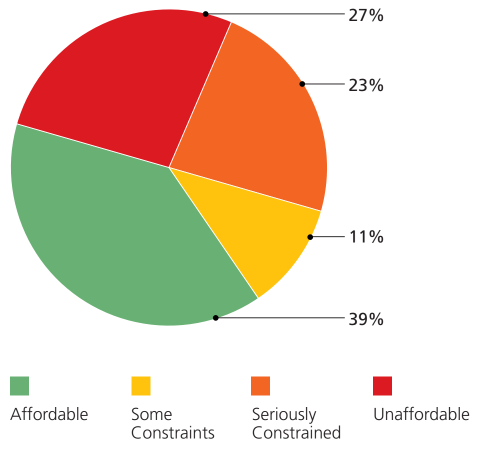
2001 – National Detached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordability Measure, 2007

Figure 10

2006 – National Detached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordabilitv Measure. 2007

The UDIA / Matusik Affordability Measure provides a more focused view on housing affordability than other indices by comparing the proportion of the houses sold in a particular region with what the population of that region could actually afford to buy. By assuming the average household was willing to spend 30 per cent of their income on repayments and had managed to save a 10 per cent deposit, the UDIA / Matusik Affordability Measure compares house prices to the size of the loan the average household would be able to service at prevailing interest rates. Thus the UDIA / Matusik Affordability Measure is able to categorise the level of affordability based on what proportion of the houses in a region the average household would be able to purchase. Where the average household can afford to buy 51 per cent or more of residences actually sold the market is categorised as "affordable". Where the average household can afford to purchase 31 per cent - 50 per cent this is defined as having "some constraints", while if the proportion is 16 per cent - 30 per cent this is categorised as "seriously constrained". Below 15 per cent is defined as "unaffordable".

It should be noted that constraints upon the percentage of homes that may be purchased is significant and that reduced affordability decreases the likelihood of being able to purchase a home that matches a household's requirements. Serious compromises in terms of dwelling condition, location or number of bedrooms may need to be made.

On the basis of this categorisation into four levels of affordability, Figures 9,10, 11 and 12 clearly depict the changes in affordability over this time for detached housing, noting that the proportion of areas where detached housing is affordable has decreased from 96 per cent in 2001 to 39 per cent by 2006.[16]

In 2006, over one quarter of the subject areas (27 per cent) were categorised unaffordable compared with none in 2001. Figures 13 and 14 show similar trends for attached housing, with a change from all the areas being affordable in 2001 to just 67 per cent in 2006.

As can be seen in Figures 15 and 16, these trends in declining affordability were consistent across the states and territories researched. Within each state and territory the affordability decline also occurred within both detached and attached housing markets.

Overall, as can be seen in the 'heat maps' (Figure 17), the decline in affordability across Australia has been striking. Whereas all the researched states and territories were affordable in 2001, there are many now where affordability is at least seriously constrained, and in respect of Western Australia, unaffordable.

The results of this review are alarming. Notwithstanding that there are corrections that take place to housing prices from time to time the clear trend is for affordability to continue declining. Affordability in Australia is generally at its worst level within the history for which data has been available.

16 *The data on number of areas affordable, as presented above for detached housing, can be found in the UDIA / Matusik Affordability Measure 2007.*

Figure 11

2001 – Detached Houses – Affordability Summary

UDIA/Matusik Affordability Measure	No urban areas	% of total urban areas
Affordable	67	96%
Some Constraints	1	1%
Serious Constrained	2	3%
Unaffordable	None	0%
Australian Total	70	100%

Source: Matusik Property Insights, RPData, Australian Tax Office & the Reserve Bank of Australia, June 2007

Figure 12

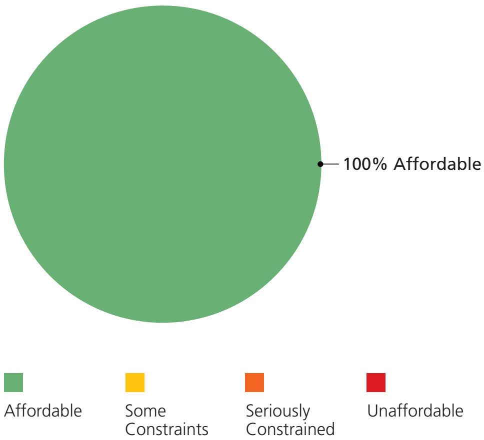
2006 – Detached Houses – Affordability Summary

UDIA/Matusik Affordability Measure	No urban areas	% of total urban areas
Affordable	27	39%
Some Constraints	8	11%
Seriously Constrained	16	23%
Unaffordable	19	27%
Australian Total	70	100%

Source: Matusik Property Insights, RPData, Australian Tax Office & the Reserve Bank of Australia, June 2007

Figure 13

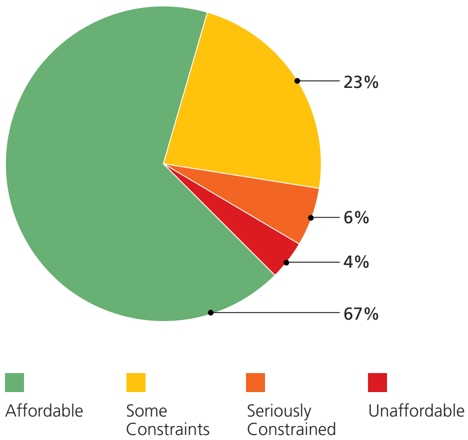
2001 – National Attached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordability Measure, 2007

Figure 14

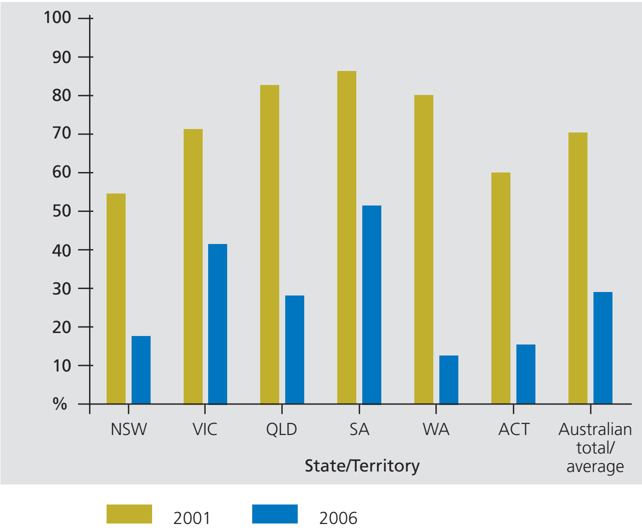
2006 – National Attached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordability Measure, 2007

Figure 15

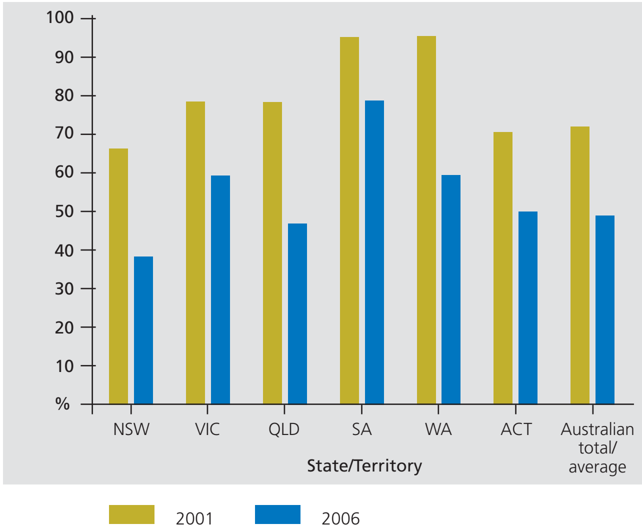
% Detached Dwellings Affordability by State/Territory



Source: UDIA/Matusik Affordability Measure, 2007

Figure 16

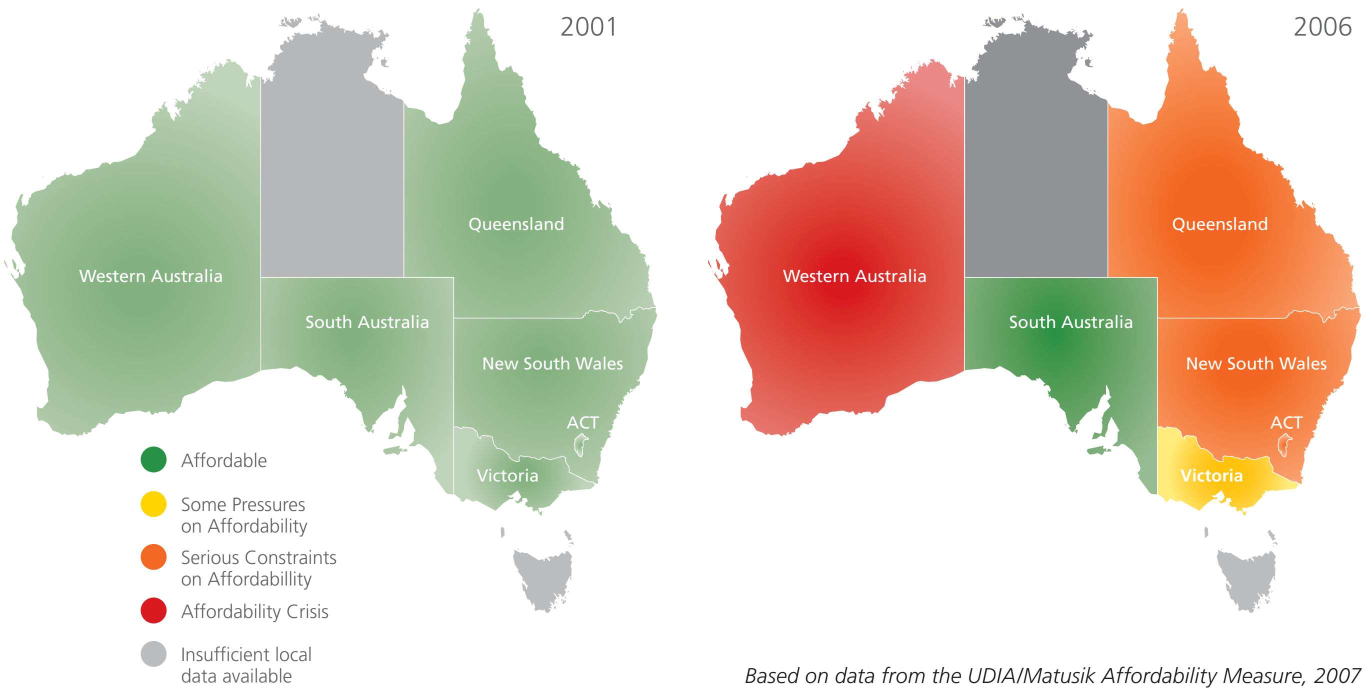
% Attached Dwellings Affordability by State & Territory: 2001-2006



Source: UDIA/Matusik Affordability Measure, 2007

Figure 17

National UDIA/Matusik Affordability Measure Comparison 2001/2006



Based on data from the UDIA/Matusik Affordability Measure, 2007

2. Current factors contributing to the lack of affordability

As an industry organisation the UDIA is well positioned to hear first hand examples of many of the factors contributing to housing affordability problems. Further, more specific details are provided in the reports of individual states and territories later in this report. Many of these are also corroborated in a range of industry, academic and government research and reports.[17] Over recent years a broad range of factors have been identified as contributing to the current situation.

In no specific order these include:

- Restrictions in land supply in some markets;
- Holding charges caused by extensive delays in approving land for future sub-division and developments;
- Costs associated with the preparation of development applications;
- Undersupply of housing in a number of markets;
- Substantial increases in infrastructure charges;
- Increases in taxes and charges including the introduction of the Goods and Services Tax (GST);
- Interest rate increases;
- The ripple effect on housing markets caused by housing prices in key population centres;
- Additional requirements imposed on new home purchasers for enhanced services;
- Lack of infill sites for higher density dwellings;
- The trend toward the construction of larger houses, although this is balanced against declining lot sizes in some locations;
- Policies that restrict land supply as a means to encourage higher density and consolidation of population;
- Increased construction costs, particularly for higher density dwellings;
- Skills shortages;
- Costs of compliance with increased environmental requirements; and
- Demand pressures, which may have increased due to the accessibility of finance, growth in household incomes, or the movement between investment classes.

Not all of these factors necessarily operate at the same time, however, at present there are a substantial number of these factors operating in the majority of marketplaces throughout Australia. While dissecting the causal contributors to housing affordability can be a complex issue, there are some trends in recent years which industry experience and research have clearly exposed to have a significant and detrimental impact on affordability.

Supply issues

Concerns about land supply constraints and the subsequent ability of the industry to deliver sufficient housing product to meet housing needs are frequently raised, both in relation to particular local areas and the general ability to meet the needs of population growth and demographic changes. Several analysts have recently estimated that at current construction levels supply shortfalls are in the vicinity of 23,000 dwellings per annum,[18] and under-provision in the order of 115,000 dwellings is anticipated by 2010.[19,20] Others have estimated that land supply could already be in arrears by 18,000 lots in some individual markets and that the cumulative lot shortfall could be much worse within 10 years.[21]

Although the proportion that land costs comprise of the ultimate house cost varies considerably between locations,[22] land costs generally make up a significant portion of the cost of delivering housing. Given the general relationship between supply and prices, it is unsurprising that constrained land supply has been shown to increase land prices.[23] Hence, consolidation policies which constrain land supply inherently increase the scarcity value of land.[24] It has also been calculated that an overly optimistic forecast of land supply by as little as 10 per cent could (through the insufficient supply of land for housing) have a significant impact on jobs and the economy and also lead to an increase in land prices. For example, increases of 94 per cent from current prices have been forecast in some Queensland locations by 2010 in that circumstance.[25]

Causes for the constrained supply can be attributable to overestimation of the available land supply, overestimation of the density of housing achievable (and the resulting failure to provide sufficient land for population growth), increases in land restricted by environmental legislation, delays in achieving appropriate rezoning and geographic constraints. Sometimes the constraint is a deliberate mechanism to 'encourage' greater consolidation and density. However, the effective removal of choice is not seen as the ideal way to encourage people to live in greater density. Investments in public spaces, transport and infrastructure that might make such lifestyle choices more highly desired by a greater portion of the population might prove more palatable and achieve better outcomes.

17 *This report is not intended to be a thorough review of all such reports but to provide some background to the issues, the basis for UDIA policy development and an understanding of the issues that may be contributing to the decline in affordability as evidenced in the UDIA / Matusik Affordability Measure 2007;* **18** *For example BIS Shrapnel, Residential Land Market - Outlook For Demand And Supply, 2006-2011, using ABS data; ANZ's Saul Eslake; Matusik Property Insights; Housing Industry Association;* **19** *BIS Shrapnel, Residential Land Market - Outlook For Demand And Supply, 2006-2011, using ABS data estimates to 2011-2012 financial year;* **20** *Presentation by Saul Eslake, Chief Economist ANZ, June 2007;* **21** *See details in later sections of this report and Residential Development Council (2007) "Australia's Land Supply Crisis";* **22** *See for example UrbisJHD (2006) "Residential Development Cost Benchmarking Study", Residential Development Council;* **23** *See for example the section of this report detailing the Western Australian situation; Moran, A. (2006) The Tragedy of Planning: Losing the Great Australian Dream, Institute of Public Affairs; UDIA State of the Land report (2006), Productivity Commission (2004) Inquiry Report: First Home Ownership, No 28, March 2004; 2006 UDIA State of the Land report; UrbisJHD (2006) "The Impacts of Potential Overestimation of Land Supply", available as attachment to Stewart (2006) Report of An Industry Inquiry into Affordable Home Ownership in Queensland; UDIA, Beer, A., Kearins, B., Pieters, H., (2007) Housing Affordability and Planning in Australia: The Challenge of Policy Under Neo-liberalism, Housing Studies Vol 22, January 2007, No. 1, p 11-24 etc for an overview. UrbisJHD Redland Shire Land Supply Analysis offers local scale analysis and insights can also be gained from analysis of geographically isolated markets such as Mackay where negative rental vacancies are mirrored by rapidly escalating house and apartment prices. Examples will be evident in most states;* **24** *Beer, A., Kearins, B., Pieters, H., (2007) Housing Affordability and Planning in Australia: The Challenge of Policy Under Neo-liberalism, Housing Studies Vol 22, January 2007, No. 1, p 11-24;* **25** *UrbisJHD (2006) "The Impacts of Potential Overestimation of Land Supply", available as attachment to Stewart (2006) Report of An Industry Inquiry into Affordable Home Ownership in Queensland, UDIA.*

The accuracy of estimation of land supply and availability is of concern in some regions, particularly where this does not adequately include recognition of economic feasibility, legislative and physical constraints. This is exacerbated when the level of land supply is not amended when new constraints on land supply or achievable yield are introduced.

Although land supply is often a major contributing factor to constraints in housing supply, it is not the only cause. Policies and processes which impact on the ability to build more dwellings in infill locations as well as on zoned land can also be problematic for housing supply. Character and heritage legislation can have impacts in this regard, as can delays in building approvals for example.

It is important to realise that, particularly when supply is limited, factors which increase the costs for new dwellings also impact on the prices of existing dwellings. Fundamentally, supply of new dwellings will not be sustainable below cost price. Hence, if demand exceeds existing dwelling supply, there is little incentive for existing houses to be sold below the price of new houses (at least to the extent that new and existing buildings are like goods). Hence, although new homes only contribute a relatively small portion of the total housing pool, prices for existing houses are potentially vulnerable to price increases driven by increases in costs.

Supply shortages in one location can have an impact on other nearby locations and other Australian capital cities in Australia. Economists such as Macquarie Bank's Rod Cornish are developing and using modeling packages that attempt to quantify and predict this element among others. This research is based on the proposition that substantially higher prices in one city (brought about by restricted land supply or otherwise) can result in increased demand due to population shift to another city or region.

Delays

The 'stickiness' of supply of dwellings can also restrict supply and increase costs. A level of time delay between a developer's decision to purchase land and the completion of dwellings is somewhat inevitable due to the timeframes for approvals and construction. However, surveys of members of the development industry have indicated there are regularly further delays to this process, in some cases over ten years even in areas where development already had government and community support. The holding costs of particular developments, even for an extra year, have been shown through specific examples to quite frequently add in the vicinity of $7000, or more, to the cost of individual lots. Of course this will vary, primarily depending on land prices. This inefficiency serves no purpose. Indeed such delays substantially inhibit the industry's ability to respond to market demands.

Performance based planning systems have much to commend them and in theory, quality development, and appropriate flexibility, should be generated by such processes. However, the reality experienced has been that the aggregation of regulatory impacts on development has in many instances resulted in substantially increased costs for development as mentioned above. Where it was possible to deliver land from an unzoned state to fully completed lots on the urban fringe within 12 months some 10 years ago there is now a tendency in many parts of Australia for the process to take between two to five years. This is as a consequence of complicated planning schemes and state legislation and extensive processes required to change the underlying zoning for development, coupled with substantial delays brought about by the process of making and assessing development applications and negotiation through a myriad of development conditions. The need to ameliorate such delays and their causes was recommended by the Productivity Commission in 2004.[26] However, the delays are ongoing.

Costs and charges

During the last 30 years the role of government as provider of services such as the essential services of electricity, water and transport has been questioned under the competition policy agenda and strategies implemented to deliver higher levels of openness, accountability and competition. Government services that were seen to be subsidised, have been identified and addressed under the proposition that higher levels of competition and openess will bring down prices and provide fairer systems for tax payers. Arising out of this change, however, has been a philosophy that infrastructure provided should be paid for up-front, by the private sector, rather than through ongoing charges such as property rates.

Previously the approach was for sub-divisions to be established with minimum services and then for further services (such as regional parks and libraries) to be provided progressively by the community. To a large extent water supply and sewage treatment systems, as well as transport systems, had been supplied up-front with such services being paid off over a period of time through rates and taxes.

Bodies such as the Australian Local Government Association assert that there is a profound vertical fiscal imbalance between federal, state and local governments, as a result of different taxing powers. Consequently, this has limited the resources available to state governments and local authorities for the provision of services. To a degree this problem could have been resolved by the provision of increased rates, taxes and charges at state and local authority level, however, this was seen to be politically unacceptable in many jurisdictions.

26 *Australian Government Productivity Commission (2004) First Home Ownership Productivity Commission Inquiry report No 28, 31 March 2004.*

The federal government's introduction of the GST in 1999/2000, detrimentally impacted on the charges paid on houses but also provided a growth tax that enabled funding to be directed to state governments. However, this did not solve funding problems at local authority level. This situation may have been resolved had not the Senate amendment effectively removed the proposal for a portion of GST revenue to be provided directly to local authorities.

As a consequence, there continues to be a strong concern within local government in Australia that there is inadequate growth funding to enable them to deliver the range of services that are required. This has in turn placed pressure on local authorities to impose additional taxes and charges on new entrants to the housing market.

The mantra that has now been adopted by many state and local governments is that services such as water supply, sewage, storm water and transport systems and social, recreational and environmental infrastructure should be paid for up-front by new entrants (through charges to developers). This approach is totally at odds with that which has been historically followed whereby such services have largely been paid for by users over a period of time.

UDIA research has unearthed numerous examples where infrastructure charges increased both substantially and rapidly. While the extremes are often quoted (e.g. a rise in water charges of over 1300 per cent in 4 years, an increase from $6,000 to $50,000 per lot for infrastructure charges in one direct jump or a new charge being introduced of around $12,000 per lot), examples where infrastructure charges and other charges have increased between $5,000 and $40,000 per lot during the time taken for development assessment are unfortunately quite common, and in some regions charges of $100,000 per lot are also common. Indeed research by UrbisJHD indicates that in many instances the charges for indirect infrastructure (not essential to the development) substantially outweigh the costs for the direct infrastructure (e.g. water and sewerage).[27] While some increase in costs may be expected, these exponential increases were often not anticipated, by industry or indeed by state governments under whose legislative framework local authorities have acted.

Although more palatably marketed to the public as developer charges, given the operation of market forces, such charges are passed on in the marketplace to new home purchasers. Although it is intuitive that increasing cost will increase prices, the relationship between increased property prices and increased headworks and infrastructure charges in all Australian jurisdictions has been documented by the Residential Development Council.[28]

In many instances the lack of transparency and the rapid increases in such charges have not allowed these charges to be adequately considered at the time of conducting feasibility studies and purchasing land, leaving little option but to raise house and land prices. In select instances these charges have caused projects to be abandoned altogether, further constraining supply.

These charges have a direct impact on the cost of new houses, and through the impact on the market, also on established houses. Whereas historically it may have been possible to provide residential dwellings at urban fringes at prices lower than the prevailing rates for accommodation closer to employment and commercial centres, the dramatic increase in infrastructure charges has made this less realistic in many markets. This can directly elevate prices in what was traditionally the lower priced sector of the market, which can, in turn, also drive up prices in more desirable locations.

Further, increases in regulatory standards and people's expectations of higher standards of living and larger homes add to the cost of new homes. This includes improvements in dwellings and their fittings, public facilities including parks, recreation areas, transport and roads. While the former can be added directly to the cost of the dwelling, usually at the purchaser's discretion, the latter are often the subject of development infrastructure charges. Specifically, there are also costs imposed on new home purchasers as a result of changes to the Building Code and various environmental requirements, such as the recent compulsory inclusion of rainwater tanks of a minimum size in many states.

This inequity over time from these changes in policy and increases in charges creates intergenerational wealth inequities. Existing homeowners can benefit from both the subsidies and the increase in house prices, unlike first home purchasers, who simply find it more expensive to take the first step onto the property ladder.

Balancing the triple bottom line

During the last 20 to 30 years there has been a rapidly escalating awareness of the impact that human habitation has on the environment. Across Australia over recent years, and particularly the last decade, there has been a dramatic increase in government regulations and strategies aimed at environmental protection. Whole movements have become established to oppose change; save our suburbs, environmental defenders and the anti-sprawl movement are among those who have opposed development. While few would argue against the merit of environmental protection and conservation per se, and much good has come from the growth in environmental awareness and responsibility, concerns have been raised about the need for a more balanced approach.

27 *UrbisJHD (2006) "National Housing Infrastructure Costs", Residential Development Council;* **28** *UrbisJHD (2006) "National Housing Infrastructure Costs", Residential Development Council.*

Whereas environmental impacts are often required to be considered first and foremost in consideration of development projects, as noted by Barker,[29,30,31] it is important to also consider the costs to society of not developing and whether a particular location is the most appropriate for environmental conservation. The restrictions to land supply and costs added through the high levels of red tape can impact significantly on both the supply of housing and the costs of its provision. As is stated by Stewart, communities that are unaffordable can hardly be considered to be sustainable.[32]

Recent years have also seen an increase in charges for social infrastructure, which was traditionally funded through rates and broad-based taxes. There has also been interest from some governments in the idea of 'inclusionary zoning' which is effectively another charge on development whereby, in order to develop a particular project the developer must also agree to provide 'affordable housing' at a subsidised rate. Examination of such systems overseas has seen this lead to higher and higher charges,[33] thereby driving up the costs for the market-based product and leading to greater polarisation between those who can afford to purchase housing in the marketplace and those who cannot. In turn this has also led to the need for more schemes to facilitate the housing of 'key workers'. Hence such systems, while offering some relief in the short term, appear to exacerbate the problem in the longer term.

Recent economic influences

Another feature which complicates the residential development market is that Australia is experiencing a number of profound economic changes. The introduction of compulsory superannuation has, in effect, taken money out of household budgets and placed them in superannuation savings. It is interesting to note that superannuation savings have increased at the same time as outright property ownership has fallen.

An extensive transformation has also occurred in the financial services market in recent decades and this is reflected within the Australian development industry. From an industry that was largely operated by sole traders using family based structures until the mid 1970's, the development industry operating in the 21st century is one that has a different level of responsiveness to market forces as a result of many corporations now operating as publicly listed entities.

High wealth individuals may have been prepared to maintain prices whilst attempting to ride out pressure to reduce prices brought about by reduced demand. Others unable to ride out market forces and with extremely limited cash flow went into liquidation or bankruptcy. Consequently, industry structure may have contributed to the boom or bust aspect of the residential property market in some locations. The requirement for consistent long term shareholder returns by corporations places different requirements on stock- in-hand than was previously the case. There may therefore be a requirement for larger supplies of future development land.

With current demand in Australia for approximately 170,000 residences per year[34] there is an ongoing increase in supply requirements to meet demand. More research needs to be undertaken to ascertain, in detail, the implications of these changes.

3. Overview of common issues across states and territories

As can be seen in Figure 18 overleaf, a substantial decrease in affordability has occurred across all urban centres monitored, across all states. This trend was consistent in both detached and attached dwellings.

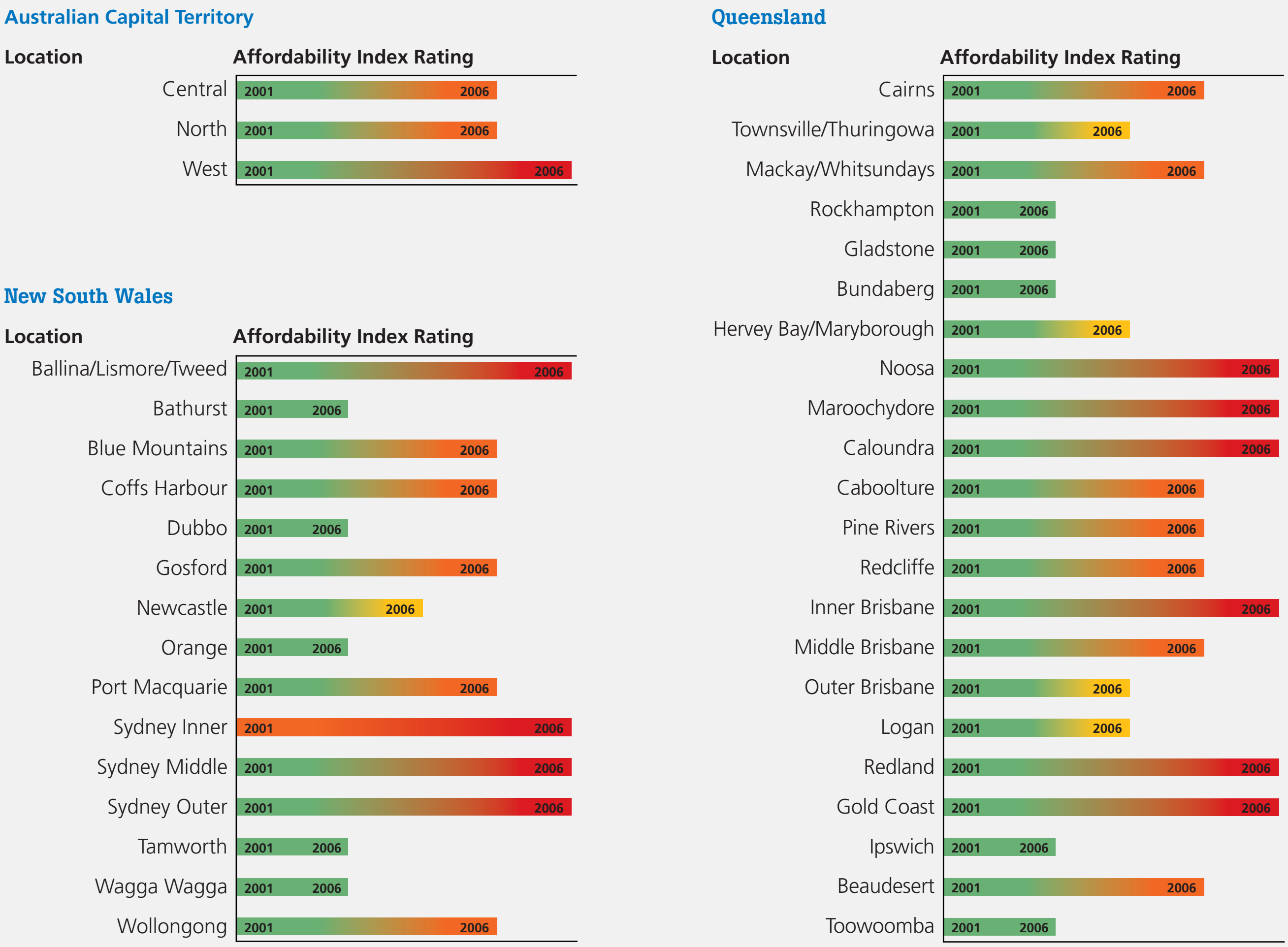
This is unsurprising. As may be seen in each of the detailed state reports, despite differences in markets and policies, to some extent each state and territory has encountered similar issues. Each has had concerns about land supply in recent years, and indeed the Western Australian report provides a useful graphical insight into this. However, there were also differences. For example, South Australia, the only state now rated affordable overall under the UDIA / Matusik Affordability Measure 2007, has not been subjected to the move towards high infrastructure charges.

Additionally, one common feature that has arisen is the growing level of consultation between government and industry on land supply monitoring issues and the evaluation of projected land supply under planning schemes. Industry based knowledge from astute and reliable sources is progressively being seen as essential also for infrastructure supply and scheduling strategies in the critical Sydney, Melbourne, Perth and Brisbane markets.

Involvement of both public and private sectors also has the advantage of ensuring that demand and supply side issues are fully taken into consideration and that realistic infill/greenfield/ consolidation targets are set and met.

[29] *Barker, K., (December 2003) Review of Housing Supply: Securing our Future Housing Needs Interim Report – Analysis;* [30] *Barker, K., (March 2004) Review of Housing Supply: Securing our Future Housing Needs Final Report – Recommendations;* [31] *Barker, K., (December 2006) Barker Review of Land Use Planning Final Report – Recommendations;* [32] *Stewart, J., (2002) "Building-a-crisis, Housing under-supply in England", The House Builders Federation UK;* [33] *See for example policies of the Greater London Authority;* [34] *BIS Shrapnel, Residential Land Market - Outlook For Demand And Supply, 2006-2011, using ABS data.*

Figure 18
Affordability Shift – Detached Housing Australia (2001-2006)



4. Responses in other jurisdictions

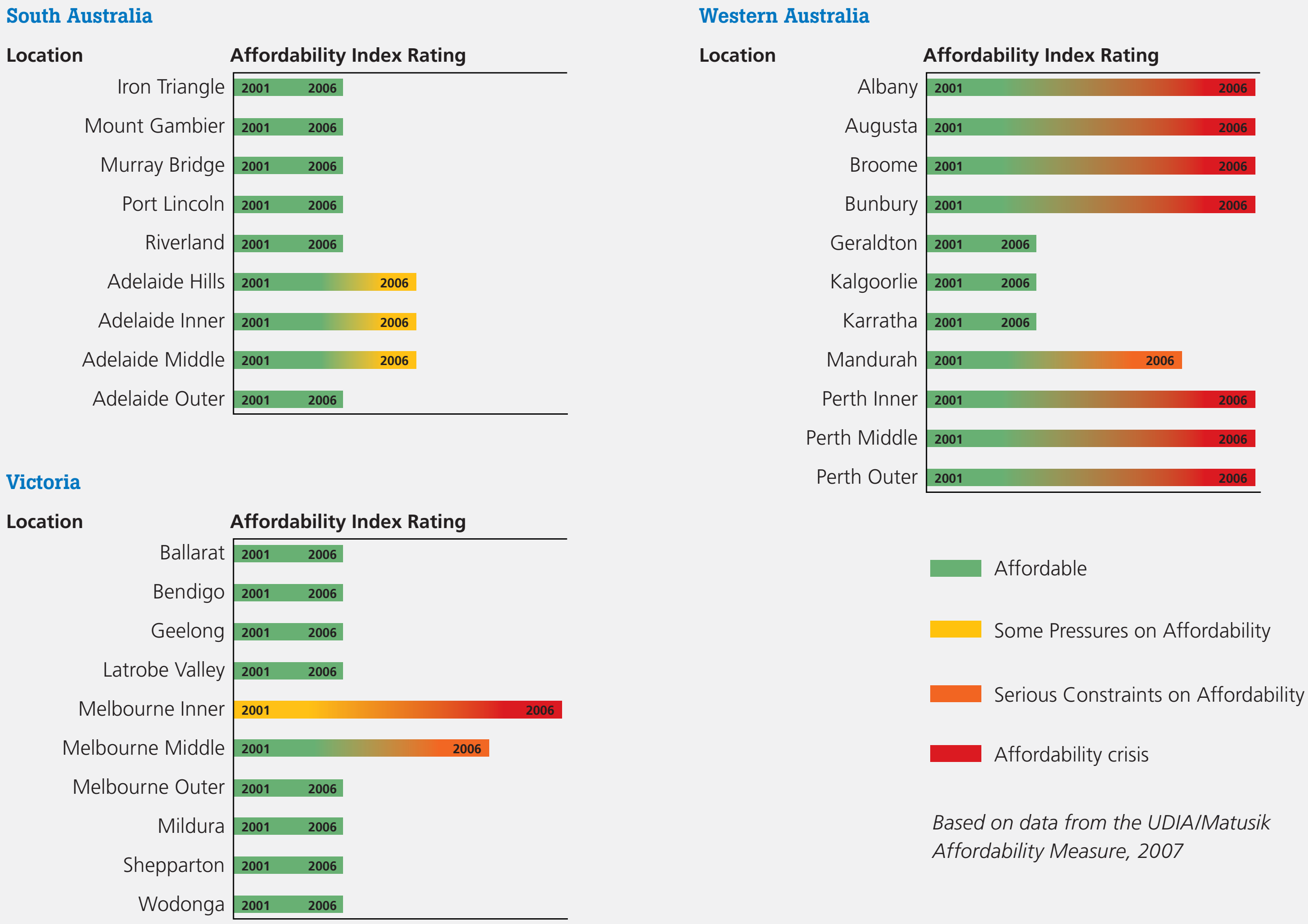
Australia's affordability crisis has arisen rapidly in recent years, and has taken many by surprise. Yet, fortunately Australia has the opportunity to address the issue before it compounds. In doing so, it would seem wise to learn from the approaches taken in other countries.

The United Kingdom is currently experiencing under supply of housing of some 200,000 units and it was believed that if not addressed the situation was likely to result in housing shortages of 1.5 million dwellings within 20 years.[35]

Research undertaken by the House Builders Federation of the United Kingdom identified this problem in 2002 and as a consequence of major public concern, the British government, under the direction of the Chancellor of the Exchequer, initiated two of the most far reaching reviews associated with residential housing that have been undertaken in any part of the world. The inquiries were conducted by Kate Barker, an economist with the Bank of England, and the first review focused on the housing market and its management by government.[36,37] The second review examined planning schemes and processes under the United Kingdom's Town and Country Planning Act.[38] The recommendations contained in Kate Barker's reports are far reaching and have substantially been endorsed and implemented by the British government.

Key recommendations included a requirement that the potential impacts on housing affordability be considered in drafting planning schemes and regulations, and that strategies be implemented to ensure sufficient land supply to achieve affordability targets. This led

35*Stewart, John (2002) "Building-a-crisis, Housing under-supply in England", The House Builders Federation UK;* **36***Barker, K., (December 2003) Review of Housing Supply: Securing our Future Housing Needs Interim Report – Analysis;* **37***Barker, K., (March 2004) Review of Housing Supply: Securing our Future Housing Needs Final Report – Recommendations;* **38***Barker, K., (December 2006) Barker Review of Land Use Planning Final Report – Recommendations.*



Based on data from the UDIA/Matusik Affordability Measure, 2007

to the establishment of the National Housing and Planning Advice Unit (NHPAU) whose primary role is to improve affordability across the housing market. It is a non-departmental public body that is directed to provide independent advice on affordability matters to the UK Government, regional and local governments and other stakeholders with an interest in the housing market. The focus of the authority covers three major areas:

"• Contributing advice on market affordability matters throughout the Regional Spatial Strategy process, including in the development, review and monitoring phases.

• Developing and delivering an affordability toolkit. This will enable forward looking econometric and statistical analysis on the impact of planned housing provision. The focus will be at national, regional and ultimately sub-regional levels.

• Building a centre of expertise and an evidence base as a resource for regional partners and other stakeholders on matters relating to housing market affordability. This will include delivery of a new programme of research."[39]

New Zealand has also experienced grossly restricted land supply, which is said to have caused an ongoing situation of undersupply in the market.[40] The New Zealand Government, acting as a result of substantial concerns raised by the development industry, the media and the public has established a Parliamentary Committee of Inquiry into affordability of home ownership. The terms of reference require the Parliamentary Committee to explore all aspects of causation of the affordability situation and to make recommendations with respect to its remediation.[41]

[39] *UK Department of Communities and Local Government (http://www.communities.gov.uk/index.asp?id=1510912);* [40] *Pavletich, H., "Restoring Housing Affordability", Submission to the New Zealand Parliament, Commerce Committee Housing Affordability Inquiry;* [41] *That review is currently under way.*

In terms of developing options and mechanisms for funding of infrastructure other than from public funds and up-front payments, developments in the United States in respect of investment in urban infrastructure by public sector pension (superannuation funds) appear worthy of further investigation. One such review is being undertaken by a joint research project of Harvard Law School and the University of Oxford under a grant from the Rockefeller and Ford Foundations.[42]

Additional research into the role of superannuation funds in Australia investing in public infrastructure would also be of benefit, as would a national review of the role of the private sector in owning what was previously categorised as public infrastructure such as water and waste management hard assets and systems.

5. Restoring housing affordability

Earlier sections of this report, together with the UDIA / Matusik Affordability Measure 2007 (as found in Part 3), have identified decreasing levels of housing affordability in Australia today. Regardless of the affordability index that is used, a common finding is that current levels of affordability are at historically low levels. Plotting the repayment to income ratio, and also the housing affordability index demonstrates that the current situation is worse than in 1989[43] when the Reserve Bank of Australia indicates that interest rates were 15.5 per cent.Given that interest rates are currently substantially lower and mortgages are substantially higher,[44] this is of great concern, particularly given the possibility of interest rate increases.

With many observers expressing the opinion that interest rates are likely to rise marginally in 2008 as inflationary pressure mounts, affordability is unlikely to recover in the medium term without direct intervention. Rent increases that bring higher investment returns to owners have also been cited as potentially contributing to continuing housing price increases and thus stifling better levels of affordability.[45]

A major risk identified for restoration is an increasing gap between supply and demand for housing as a consequence of the inability of the industry to deliver the right product, at the right price and in the right place. Addressing this issue, as well as the need to provide for efficient and effective mechanisms to produce development sites, is a responsibility of state and local government under existing constitutional structures. Moreover, most, but not all, taxes and charges are state or local authority based.

This situation has frequently, and appropriately, prompted the question to be asked "what role does the Australian Federal Government have in improving housing affordability?". During the last four years, that question has been asked in the context of a number of critical aspects that include:

- Maintenance of the existing taxation structure on owner-occupied dwellings;
- Maintenance of the existing taxation treatment of investment properties;
- Maintenance of, or increasing, the level of the First Home Owners Grant; and
- Additional funding for local and state infrastructure to reduce pressure for the imposition of charges and levies on property and property development.

As noted in UDIA policy documents,[46] these aspects are strongly supported by the Institute and will continue to be of significance although they are not explored in detail in this report. Instead this report focuses its recommendations primarily on systemic supply-side solutions, which are directly relevant to the development industry, and include actions that are most likely to produce more effective long-term resolutions to the affordability problem.

Given that the Australian housing market has real and tangible "national" aspects that are of economic and social significance to the country it is believed that the affordability of home ownership is of national significance and would benefit from national coordination. Historically, home ownership has been a concern for all sides of politics at federal level. In light of current concerns about affordability, it is rightly becoming so again.

There is an overwhelming need for Australian governments to show leadership in addressing housing affordability in Australia using contemporary and forward-thinking solutions to this contemporary problem. There is arguably a need to view the problem in a different light to that which has occurred before given the parlous state of affordability today. Given also the intensive government involvement and control, at various levels, of matters that impact on housing affordability (e.g. planning, the economy, interest rates, taxes and charges) governments must also take responsibility for their role in ensuring the sustainability of communities by providing affordable accommodation in all of its forms.

In order to improve affordability it is essential to overcome a number of key problems that have been identified in this report. It is acknowledged that the vast majority of steps that need to be taken (and in some jurisdictions are being taken) are at local government and state government level. However, the temptation to use the property industry and home ownership as a tax raising mechanism remains an attractive option for cash-strapped local authorities in particular.

42 *See www.urban.ouce.ox.ac.uk;* **43** *McTaggart, D., QIC, presentation "From one cycle to the next", July 2007;* **44** *McTaggart, D., QIC, presentation "From one cycle to the next", July 2007;* **45** *For example, Michael Matusik , Matusik Property Insights;* **46** *UDIA National Policy 2007.*

Further, given the need to balance economic growth with environmental sustainability there will always be a challenge in achieving major amendments to planning legislation that result in tangible improvements to the efficiency of the industry as a whole. However, along with the current focus on environmental issues, the impact on society, through a decline in housing affordability, should also be addressed up-front and given weight in government decision-making.

It is the view of the UDIA that these challenges need to be overcome by a significantly higher level of consultation between all Australian governments. This level of cohesion, longevity and strategic direction will only be achieved by the establishment of formal inter-governmental mechanisms.

As previously mentioned, the United Kingdom Government recently initiated a comprehensive program to address the substantial undersupply of its housing markets and the lack of affordability. Some of those initiatives have been mirrored by initiatives throughout the Australian states.

Two major themes emerged from restoration strategies and were strongly embraced by the United Kingdom Government. These were the necessity for specific targets to be set for the achievement of affordability and the need for the development and refinement of independent monitoring of planning schemes to ensure that affordability is achieved and that dysfunctional relationships between regional markets did not occur thus driving up prices even in those markets that were well supplied.

The resulting National Housing and Planning Advice Unit (NHPAU) is a statutory authority established under the U.K. Department for Communities and Local Government. Its legislative charter is to "…provide independent advice on affordability matters to the Government, Regional Assemblies and other stakeholders with an interest in the housing market…", including the provision of "... advice to Regional and Local Planning Bodies about the impact of their housing provision proposals on affordability in the region…". Established in late 2006, the NHPAU is now fully staffed and released its first report in June 2007. Using comprehensive and professional modelling, the NHPAU will provide a much needed independent review of the aggregation of factors that impact on affordability within and across the various levels of government.

In economic and social terms, the minimal cost in implementing a similar approach within Australia would be negligible compared to the economic and social costs associated with further decline in housing affordability. Given the size of Australia, and the need for coordination between regions and levels of government, it is the Institute's view that such a body should be established and funded at federal level in a similar manner to that of the Australian Institute of Criminology or the Australian Bureau of Statistics, for example.

The value of such bodies to Australia is unquestioned as should be the value of a unit similar to the NHPAU when established. Such a body would necessarily be independent, thus reducing contention from disputes regarding land supply and potential yield of sites.

Further, given that planning law and land supply as well as infrastructure charging regimes are implemented under state law there is an overwhelming argument that such a body should provide regular reports to a joint Commonwealth/State Ministerial Council.

Standing Committees of Ministers are regularly convened by the Commonwealth and states to deal with specific portfolio interests such as justice, education, health and the like. In rare instances, there is a need for Ministerial Councils to be established with representatives of more than one portfolio to address matters of profound national significance. One such example in recent years is the Ministerial Council on Drug Strategy which comprised Law Enforcement, Justice and Health Ministers, while another was the Inter-Governmental Committee responsible for the establishment and monitoring of the National Crime Authority which comprised law enforcement and justice portfolios.

Housing affordability is a critical national issue that should be coordinated with leadership provided by the Commonwealth and all state governments at a ministerial forum on housing affordability. Such a body would enable much needed coordination of national, state, regional and local planning to oversee targets and to ensure better delivery and roll-out of services and infrastructure. It could also facilitate coordination for the delivery of new and developing cities, as further growth becomes restricted in major population centres. Furthermore, it could address much needed reform of planning law, to improve efficiencies and the review and implementation of recommendations such as those made by the Development Assessment Forum.

During the last 20 years there have been major changes brought about by Commonwealth/state policy on competition and on greater disclosure of the costs associated with government services. Additionally, attitudes by government and financial markets to levels of government debt and government accounting have also changed. As a consequence there has been a major shift in the imposition of infrastructure and headworks charges in many jurisdictions from the broader rate base or from state government coffers to charges imposed on development on an up-front basis. Many reports, including this one, reveal the extent of these substantial charges. Such research has also revealed that the cost of development sites in a supply-constrained but competitive market, combined with increased taxes and charges has caused considerable increases in development costs, and consequently new housing prices, throughout Australia.

In market terms, the commonly accepted industry view is that new home prices have regulated the prices of existing dwellings to a considerable degree. Consequently, cost increases on new homes have driven up existing home values substantially beyond what free market forces would otherwise have done. There is an urgent need, in the Institute's view, for funding mechanisms to be put in place to provide assistance and/or mechanisms for debt servicing for local authorities to provide much needed infrastructure works to address bottlenecks, remove some of these pressures from the residential housing market, and address intergenerational equity concerns.

Many commentators are swift to point out the impact that an increase in the First Home Owners Grant would have in inflationary terms on the housing market. However, when increases of $45,000 and $50,000 are imposed on new residential land there has been a resounding silence from most commentators regarding the inflationary effect that such an increase has on both new housing and existing housing that is situated in adjacent areas.

This report does not extensively examine the detail of solutions to address infrastructure charging, although it does raise a number of areas for further research. It also points out the gross inequity that has occurred as a consequence of these policies that are either in place in all Australian states or under active consideration.

Solutions to restore affordability will, of necessity, take a considerable period of time and involve actions at federal, state and local authority level. However, the issue of housing affordability must be tackled in earnest to avoid the deterioration in housing affordability continuing almost unabated.

6. National housing affordability restoration recommendations

The key recommendations are below.

1. The federal government should liaise with state and local governments to ensure the development of national growth management strategies that underpin state and local authority growth management strategies and which deliver coordinated plans for new and emerging communities particularly with respect to the provision of major infrastructure, such as transport, employment and government services.
2. The federal government, in conjunction with state and local governments should establish a Ministerial Council on Housing Affordability, that includes industry representation.
3. The Ministerial Council on Housing Affordability should have oversight of the development and implementation of appropriate mechanisms to ensure that:
   - An independent Housing Affordability Authority (HAA) such as the United Kingdom's National Housing and Planning Advice Unit is established to provide economic modelling and advice to all relevant levels of government on the impact of planning and other legislation and planning schemes on housing affordability;
   - Monitoring and reporting of housing affordability is undertaken under an agreed methodology by the HAA;
   - Targets for the affordability of home ownership are set at appropriate levels for all relevant Australian markets;
   - State-based land release programs ensure ample greenfield, infill and re-development land supply is available to meet demand requirements to achieve the agreed affordability targets; and
   - Oversight and immediate review of planning and development legislation and processes occurs in order to improve the efficiency and effectiveness of residential property development in Australia.
4. The development of federal policies and funding schemes should take place to reduce the reliance of state and local governments on upfront levies, taxes and charges, (including stamp duty and land tax), particularly for the provision of infrastructure, and taxation incentives to encourage dwelling supply. Specifically, federal government expenditure on urban infrastructure should be substantially increased at least consistent with population growth.
5. The implementation of coordinated strategies at federal, state and local levels should occur to ensure adequate numbers of appropriately skilled employees are available for the residential property sector.
6. Funded programs should be developed to restore affordability and intergenerational equity for first home purchasers of existing and new residential dwellings in addition or complementary to the existing First Home Owners Scheme.