UDIA State Reports on Housing Affordability

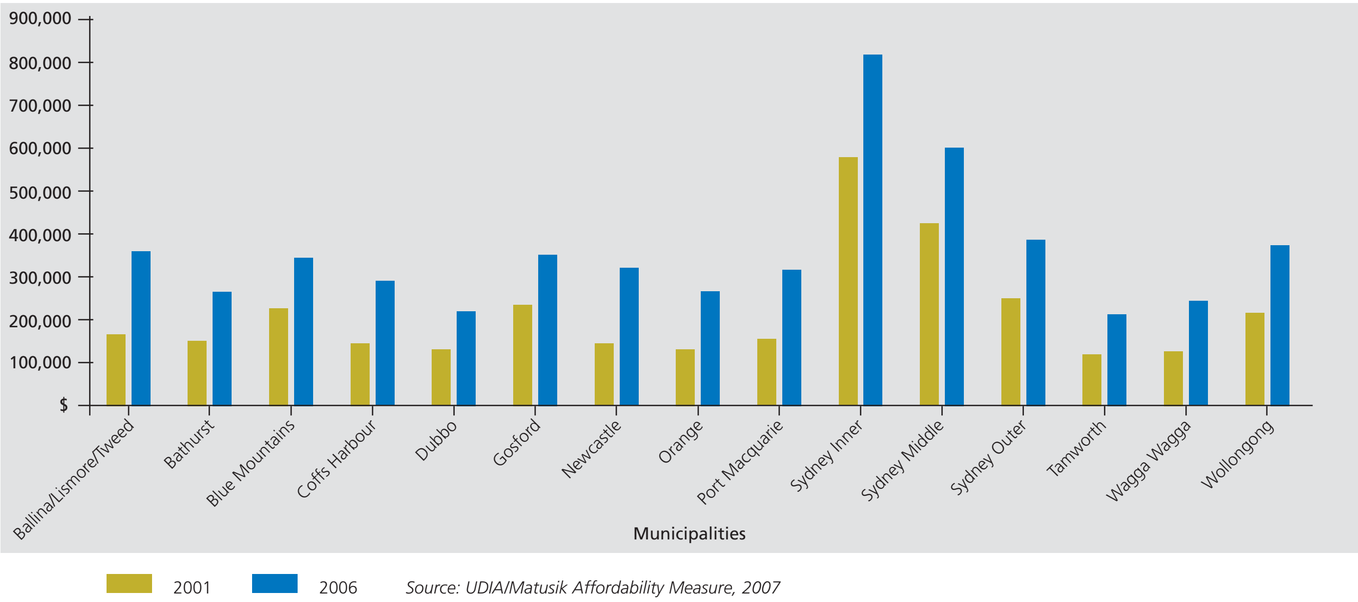
The following reports on the housing affordability situation in the Australian states were prepared by the UDIA state branches in New South Wales, Victoria, Queensland, Western Australia and South Australia. The UDIA is a member-based organisation with strong state organisations and with broad policy coordination provided at a national level.

UDIA policy and recommendations such as those at the start of this report have been prepared in consultation with the state divisions of UDIA and, as with all UDIA policies, have been influenced and directed by practitioners from all professions and segments of the development industry.

New South Wales

Figure 19

NSW Median Detached House Prices ($)



Source: UDIA/Matusik Affordability Measure, 2007

A. Overall state situation

Housing affordability in New South Wales

The above graph (Figure 19) shows the median detached house prices in a number of locations across New South Wales for 2001 and 2006 and the substantial increase in prices that occurred in the period.

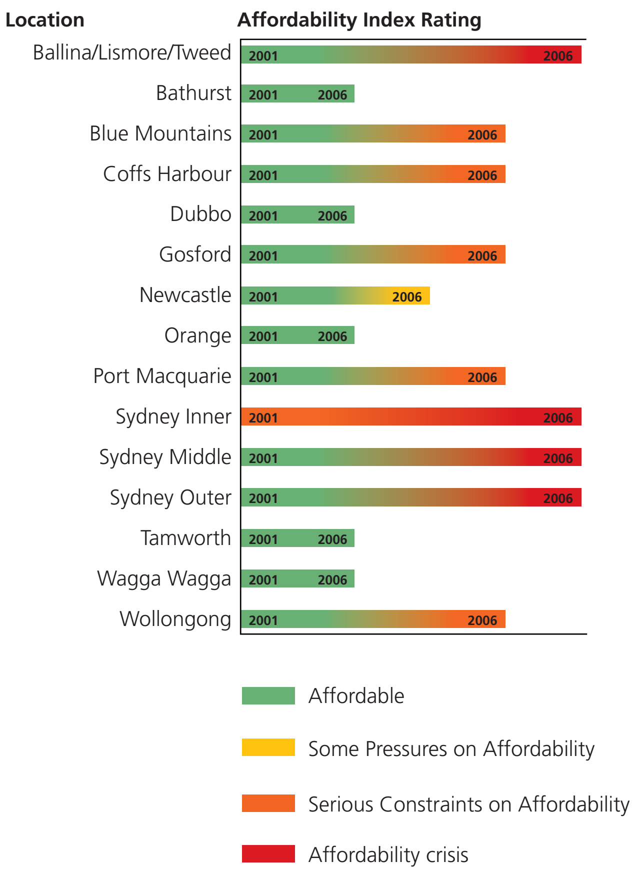
The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout New South Wales and is graphically displayed in the adjacent diagram (Figure 20).

New South Wales is home to more than one-third of Australia's population with Sydney in particular resident to over 4.1 million people. New South Wales presents a relatively complex picture on housing affordability and often leads Australia in housing challenges.

Sydney has the unenviable status as Australia's least affordable city with mortgage repayments 40 per cent higher than the national median and rents 31 per cent more, while incomes in the city are only 12 per cent higher than the national median.

Figure 20

New South Wales



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

Figure 21

Median Rent, Loan Repayments, Household Income: NSW, Sydney, Australia

	NSW	Sydney	Australia
Median Weekly Rent	$210	$250	$190
Median Monthly Loan Repayments	$1517	$1800	$1300
Median Weekly Household Income	$1036	$1154	$1027

Source: 2006 Census (ABS), 2007

Figure 22

Median Rent, Loan Repayments, Household Income: Capital Cities

	Sydney	Melbourne	Brisbane	Adelaide	Perth
Median weekly rent	$250	$200	$220	$165	$180
Median monthly loan repayments	$1800	$1300	$1300	$1083	$1300
Median weekly household income	$1154	$1079	$1111	$924	$1086

Source: 2006 Census (ABS), 2007

From the 2006 Census Sydney's median home loan repayment reached $1800 a month, 42 per cent more than in the 2001 Census and 77 per cent higher than in 1996. The median weekly rent in Sydney has risen by 50 per cent in the decade to $250 a week (see Figures 21 and 22 above).

New South Wales residents in general also continue to pay higher rents and have the highest median mortgage repayments in Australia. Given the current shortfalls in dwelling supply and decreasing rental vacancy rate, this trend is likely to continue.

Economic and market trends

Economically New South Wales has been significantly underperforming against the rest of Australia and this has impacted quite significantly on urban development markets and investment within the state. Housing production in the state has fallen dramatically in the last five years from a high of 49,590 dwellings starts in 2002 to 31,240 in 2006.[47]

This level of production is approximately 8,000 dwellings below the underlying demand of 40,000 new houses per annum and has had negative implications for both the economy and housing affordability. This continual undersupply has led to an estimated shortage of supply of 30,000 dwellings.[48] This shortage in new dwellings supply is also putting increased pressure on the rental market, where vacancy rates have fallen from 3.8 per cent to 1.4 per cent in the past three years, and a significant building shortfall in 2007 is expected to force vacancy rates to thirty year lows, below 1 per cent by the end of 2007.[49]

Urban development currently contributes approximately $15 billion worth of activity to the state economy each year, while construction and property and business services combined account for around 20 per cent of New South Wales employment.[50] UDIA NSW estimates that the underproduction of housing is costing around $4 billion to the New South Wales economy annually and contributing to unfavourable economic and social outcomes.

In the decade from 1996, population in New South Wales grew 9 per cent, more than two percentage points below the national average and more than 50 per cent less than Queensland. Despite population growth in the last decade below the national average on a percentage basis, New South Wales still grew by an average 47,601 persons per year over the five years to 2006.

Sydney

The influence of Sydney in the supply of housing in New South Wales, Australia, and on many other fronts should not be understated. It is also a leading indicator of cultural changes within Australia. "Sydney is the epicentre of tectonic shifts in the Australian social landscape, with an increasingly diverse ethnic and religious mix, an ageing population, a continuing decline in the traditional family unit and big changes in the way we live and house ourselves".[51]

47 *HIA Economics Group, 2007;* **48** *AV Jennings, 2006;* **49** *Economics@ANZ, ANZ Housing Snapshot 2007;* **50** *Policy Agenda, UDIA NSW, 2007;* **51** *Sydney Morning Herald, "Good or Bad? Sydney is the mover and shaker", 2007.*

Many locals and the media rationalise Sydney to be a victim of is own success. Sydney as a dynamic financial and creative centre creates considerable demand and attracts a proportionally high number of talented and comparatively affluent workplace participants. The 2006 Census median weekly household income levels, however, reveal a more humble heartland. There is also a commonly held belief that the city's status as a global competitor automatically dictates low housing affordability akin with places such as Tokyo, London, New York and San Francisco. However, Sydney's context is different and low affordability need not be the case.

UDIA NSW acknowledges that this may require a change in perceptions by first homebuyers such that a large house may no longer be a realistic option as a first home for many buyers. Nevertheless, it should not preclude access to the housing market. UDIA NSW believes that home ownership in NSW and especially Sydney should be a reality for everyone.

B. Contributing factors

UDIA NSW has identified the following key causal factors of declining housing affordability:

- Constrained dwelling supply;
- Inequitable infrastructure provision and funding;
- Excessive government taxes and charges;
- Inefficient governance and inadequate planning; and
- Consumption issues.

This section discusses factors that are considered to have impacted development and driven the affordability crisis.

Constrained dwelling supply

In the mid 1990s the New South Wales Government adopted a largely ideologically driven and widely contentious policy experiment with urban consolidation. Pursuant to this policy objective, the supply of greenfield land was constrained and price signals established to deter fringe development.

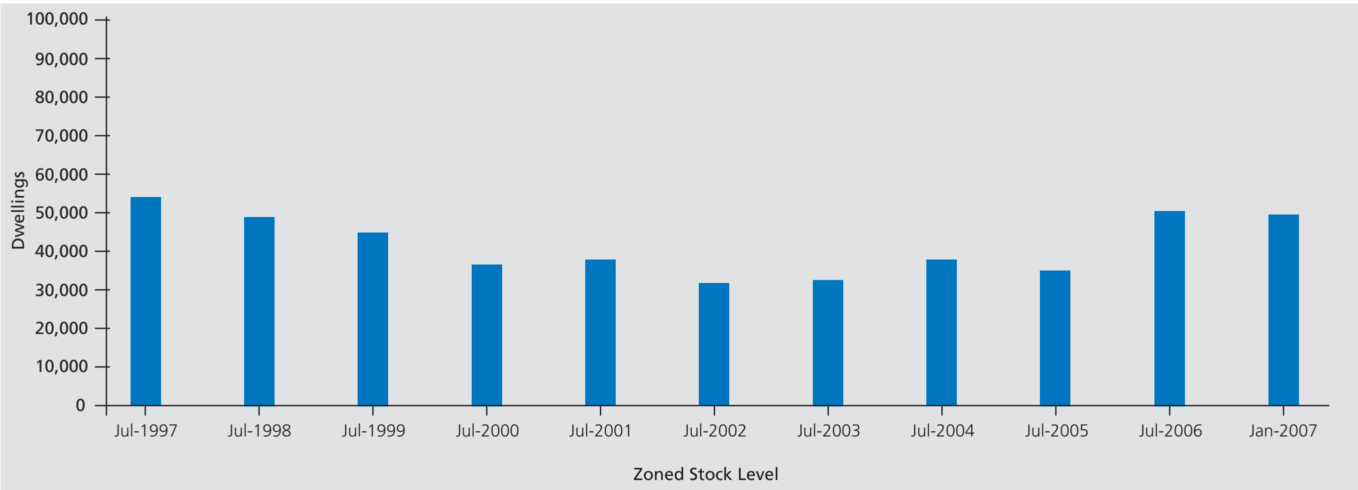
The policy has had an unprecedented impact. Today nine new dwellings are being constructed in Sydney's existing urban footprint for every new dwelling on the fringe. The policy, however, has exacerbated the decline in housing affordability as infill dwelling production alone has not proved capable of satisfying the underlying demand.

Figure 23 below demonstrates the tightening of Sydney's supply of greenfield land by the New South Wales Government.

Traditional economic theory of demand and supply suggests a direct causality between dwelling supply and price inflation. The shortage of land supply in Sydney, in a high demand market, has contributed toward a price escalation. HIA (2006) reported that the price of land in Sydney has increased by 330 per cent between 1993 and 2006.

The lack of housing supply has led to dramatic price escalation in Sydney and New South Wales. Figure 24 shows that house building costs have remained remarkably consistent over the

Figure 23
MDP Zoned Stock Levels 1997 - 2007



Source: NSW Metropolitan Development Program, 2007

30 year period whereas land has increased markedly so that it now represents almost 80 per cent of the cost of buying a house and land package.

Demand for land on the urban fringe in Sydney is driven principally by the population in the west, and the preference for detached housing on individual lots. The supply of land to this market has been constrained yet underlying demand remains for around 8,000 detached housing lots per annum.

A review of the Metropolitan Development Program (MDP) 2007[52] identified that of the 32,825 dwelling potential identified in the MDP, only 3,281 dwellings were forecast to actually be available in 2007. A range of factors were identified as contributing to this inadequate land supply including planning approval delays, delays in infrastructure provision, high raw land costs, and development levies.

The establishment of the Growth Centres Commission and a commitment by the New South Wales Government to increase zoned and serviced stocks on Sydney's fringe and in the regions may assist to alleviate housing affordability in Western Sydney and regional New South Wales. However, the problem for those areas is increasingly an issue of servicing charges and vendor expectations.

Sydney is a large and complex system and the release of more fringe land cannot alone solve housing affordability across the entire city. Any solution needs to look more broadly at dwelling production issues and the diversity of supply.

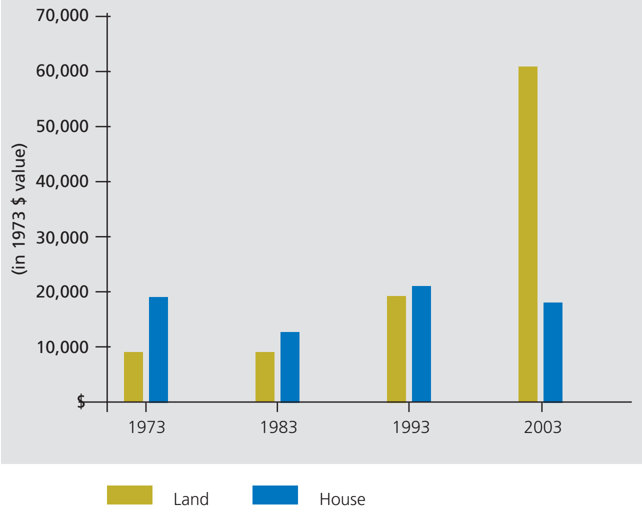
Sydney can be described as a city of cities. There is strong disparity between housing markets in east and west Sydney which presents essentially two different cities and a further challenge to addressing housing affordability. House prices in eastern Sydney are less able to be affected by fringe land supply given its land locked character. At the same time there are limited infill opportunities and a premium is being paid for properties with good amenity and access to the harbour.

Housing prices in broadest terms generally fall as a function of their distance from the harbour and CBD but are also driven by access to other employment and entertainment areas. The disparity in housing prices between inner, middle and outer Sydney is particularly pronounced and the Productivity Commission in 2004 revealed that in Sydney between 1994 and 2002, the real median house price five kilometres from the city increased by more than 100 per cent, while at 40 kilometres it increased by less than 50 per cent. There is also evidence that this past higher demand for inner city living is being exacerbated by the aspirations of Generation Y which continues to value access and amenity above space.

[52] *HIA 2007.*

Figure 24

House and Land Costs Sydney 1973 – 2003 ($)



Source: Policy Exchange, 2005

Sydney requires a more sophisticated approach to addressing housing affordability beyond simply releasing more fringe land. The application of significant infrastructure in more suburban areas could attract home seekers to these less pressured locations and more needs to be done to facilitate an ample and diverse supply of infill opportunities across the city. However, measures such as rental assistance or a living allowance may be more appropriate to ensure that people such as nurses and teachers are not confined to distant suburbs. The London Nurses Living Allowance provides a suitable example of a measure that should be investigated to ensure greater access to housing in the east for lower income earners.

Inequitable infrastructure provision and funding

A considerable proportion of total urban infrastructure costs in Sydney are now being funded through levies. This is having a significant impact on housing affordability.

A State Infrastructure Contribution (SIC) has been applied to growth areas for assets such as hospitals, rail lines and schools. The Growth Centres in western Sydney are expected to provide 160,000 dwellings over 25 years and are now subject to a levy of $485,000 per hectare for residential land that has been imposed to provide for 75 per cent of the cost of significant infrastructure at a total cost of approximately $7.8 billion.

It is anticipated that this practice will be extended throughout New South Wales and recently Wollongong has implemented a 1 per cent state infrastructure levy on construction costs in the city centre. Industry has serious reservations regarding any expansion of SICs without the necessary governance structures and appropriate transparency and accountability being applied to the process.

These levies are in addition to existing local government charges referred to as Section 94 developer contributions. These charges are often in excess of $50,000 per lot and are broadly levied to pay for local infrastructure such as open space, community facilities, parking, libraries, landscaping and childcare centres.

The reality is that developers must make a return to their shareholders, remain viable and be competitive with other investments such as shares. While this applies to all industries the development industry experience is that the cost of the levies is not being addressed by lower development site expectations by vendors given the tightly regulated land supply market. The possibility of full levy transfer to the homebuyer in Sydney is also limited as prices have risen so far that there is an effective affordability ceiling.

UDIA NSW undertook a survey of new residents in recent developments to gauge their views on these charges. The study revealed a wide lack of understanding about developer contributions amongst consumers. When asked to prioritise facilities, homebuyers valued roads and parks above other facilities and were willing to pay a premium for their timely delivery but when presented with the Section 94 contribution, they expressed surprise at the scale of the charges. There is a fair degree of community spirit in their responses but the homebuyers' motives are not entirely altruistic. The subtext of the responses is that when presented with the s94 contribution, they express surprise at the scale of the charges but on reflection accept that they could afford it. This premium creates the perception of exclusivity. Furthermore, the contributions fund community facilities which enhance the value of the neighbourhood and their asset.[53]

The quantum of the levies is partially a product of greater aspirations and government standards. Prior to the 1970's many subdivisions were lucky to get a footpath and improved facilities were developed from government borrowings and taxes paid over time. Today buyers expect, and regulation requires, a range of high quality community assets delivered immediately and payment is also required up front. In a market under pressure and as depressed as presently in New South Wales, levies are proving to be a powerful impediment to the further supply of new dwellings.

In many cases once development feasibilities have taken account of the suite of levies and charges applied to the land, the residual value, or the amount the development can afford to pay the vendor, is below the value of the existing use, which in most cases on the urban fringe is an agricultural use. Accordingly vendors are withholding their land from the market, further constraining supply.

In the last 10 years infrastructure charges per lot for new housing developments has increased by $56,167 or 466 per cent in Sydney.[54] This increase is directly attributable to the SIC and Section 94 charges. Yet similar charges are not being imposed in established areas in Sydney where the government is required to invest in infrastructure (e.g. Royal North Shore Hospital, Epping to Chatswood rail link). The current user pays model applied in New South Wales has both serious locational and intergenerational inequities.

Levies are also a significant impediment to dwelling supply in urban renewal areas. Often appropriate sites for urban renewal require significant forward investment to lift the area's amenity and improve attractiveness. Levies, such as Section 94, work against this urban renewal starting. They expose developers to high levels of risk, and levies, when committing to development in an area of low amenity well before any sales can been achieved.

This is counterintuitive and contrary to world's best practice. To improve housing affordability requires dwelling supply to meet demand. This cannot occur if there are serious disincentives to investment and real impediments to supply such as levies.

Excessive government taxes and charges

The increased and expanded infrastructure levies are being imposed at a time when governments are also the beneficiary of a growing property tax base, via the GST (which only applies to new housing), stamp duty and council rates revenues because of the rising costs of housing.[55]

"Indirect taxes on new land and housing have increased much faster than general inflation over the last decade. By way of example, the consumer price index has increased by 25 per cent in the past 10 years, whilst taxes on new housing and land development have increased by more than 300 per cent."[56]

UDIA NSW offers the following illustration of the collective impact of taxes and charges on housing affordability. A practical financial ceiling for a first homebuyer in Sydney may be around $300,000 to $350,000 (requiring a combined household income around $90,000 per annum). Should such a new house and land package be available to meet this ceiling (which it is not), Figure 25 provides a breakdown of the charges which would be applied to such a new home by all three tiers of Government.

53 *"Not all just houses, home buyer preferences and developer contributions in new release areas in Sydney", UDIA NSW and University of Western Sydney, 2006;* **54** *UrbisJHD;* **55** *UrbisJHD;* **56** *HIA, "Restoring Housing Affordability: The Housing Industry's Perspective", 2003.*

Figure 25

Quantum of Taxes and Charges on House and Land Packages

Charges ($)	
$2,000	Stamp Duty (Developer)
$17,000	Stamp Duty (Sale)
$33,000	State Infrastructure Contribution
$40,000	S94 Contribution
$12,000	Sydney Water Charges
$35,000	GST
$139,000	**Total**

Source: UDIA NSW, 2007

The taxes and charges would account for around 40 per cent of the cost of the house and land package. However, in practice after the charges and basic development costs, no funds would remain for payment to a vendor for the undeveloped land or as a profit to the developer. Clearly the collective impact of the taxes and charges is excluding first homebuyers as participants in the market.

The GST is applied by the Commonwealth to the land development process at various stages and redistributed to the states as revenue. The imposition of the GST in development means that the New South Wales State Government is effectively double dipping on the development process.

UDIA NSW contends that a more equitable process of the collection and distribution of the GST is required to help alleviate the housing affordability issue in New South Wales. The GST collected from the urban development process should be applied to assist regional and state infrastructure provision.

Inefficient governance and inadequate planning

Decision making delays are detrimental to housing affordability. Urban development viability is affected by, and sensitive to, holding costs. This is primarily due to the interest on loans to complete the project. Experience has shown apartment production has been particularly affected by delays, as has urban renewal in regional cities such as Wollongong, Liverpool and Newcastle and other medium to high density residential construction projects.

The Department of Local Government's Comparative Information on Local Government Councils 2004/05 documents a sustained failure of many Sydney Metropolitan Councils to determine development applications within the 40 days prescribed under Environmental Planning and Assessment Act 1979. The report records that development groups 1, 2 and 3 which cover most urban renewal activity, have a mean time to determine applications of 74 days.

The highest recorded mean time elapsed for determination was 119 days. These figures are necessarily misleading as they skew the real results for major projects. A majority of development applications counted are for minor projects such carports and renovations. It is the major proposals representing significant investment and risk that are much more likely to suffer protracted delays.

UDIA NSW recognises that urban renewal projects may be controversial at the local level. Nevertheless, if a council's Local Environmental Plan and strategic policies indicate support for such development then the development assessment process should reflect that with practice and yield consents in a timely manner.

The New South Wales Minister for Planning recently observed that New South Wales typically determines 120,000 development applications per year while Victoria assesses 50,000 development applications in the same period. The UDIA NSW contends too many minor matters are being dealt with in the assessment process and further development types should be designated as exempt and complying development. Similarly referrals are causing inordinate delays with the planning process impacted by the competing agendas of government agencies.

An increased focus on strategic planning particularly at the local level is required to improve development certainty. Prompt decision making would then assist in improving dwelling supply by relieving impediments such as excessive holding costs and therein improving housing affordability.

Consumption issues

Australia has just completed the fifteenth year of continuous economic expansion brought about by generally low interest rates and strong global performance. However this growth has not been evenly spread across Australia. The New South Wales economy has been significantly under performing in comparison to the rest of Australia, and has been in danger of recession.

New South Wales building approvals have taken a severe downturn, recently below 1,500 per month, down over 40 per cent from the peak in 2002. Current estimates are a shortage of supply of 30,000 dwellings. This decrease in new dwellings supply is putting increased pressure on the rental market, which has plummeted to record lows of 1.5 per cent vacancies and is expected to continue down.

Consumers are having direct impacts on the market through their lifestyle choices and shifting expectations. The strong capital gains experienced in home ownership have led to expectations of sustained growth in housing prices and inertia amongst existing home owners who do not want the value of their asset to decrease.

The challenge for decision makers is therefore to increase accessibility for home ownership without compromising existing house prices. This is particularly important within the context of record high household debt. Any dramatic fall in housing prices would further expose the vulnerable in society to repossession in the event of mortgage default.

C. UDIA approach

Recommendations

The UDIA NSW has made the following recommendations to address housing affordability:

1. Dwelling supply

- Provide for a market-led continuous dwelling supply on both the urban fringe and existing centres.
- Investigate mechanisms for rental or income assistance in high amenity, high property value areas to ensure housing and employment access for lower income workers providing essential services.

2. Planning

- Support the preparation and implementation of comprehensive planning strategies that provide certainty to where, how and what costs are applicable for future development.
- Government regulations, processes and implementation need to be streamlined to reduce time and costs.
- The financial impact on housing affordability should be considered before any new government regulation or policy is introduced. This may be in the form of a regulatory impact assessment.
- Consideration should be given to a single agency being tasked with the responsibility of coordinating the whole of government to resolving the delivery of affordable and appropriate infrastructure.

3. Infrastructure

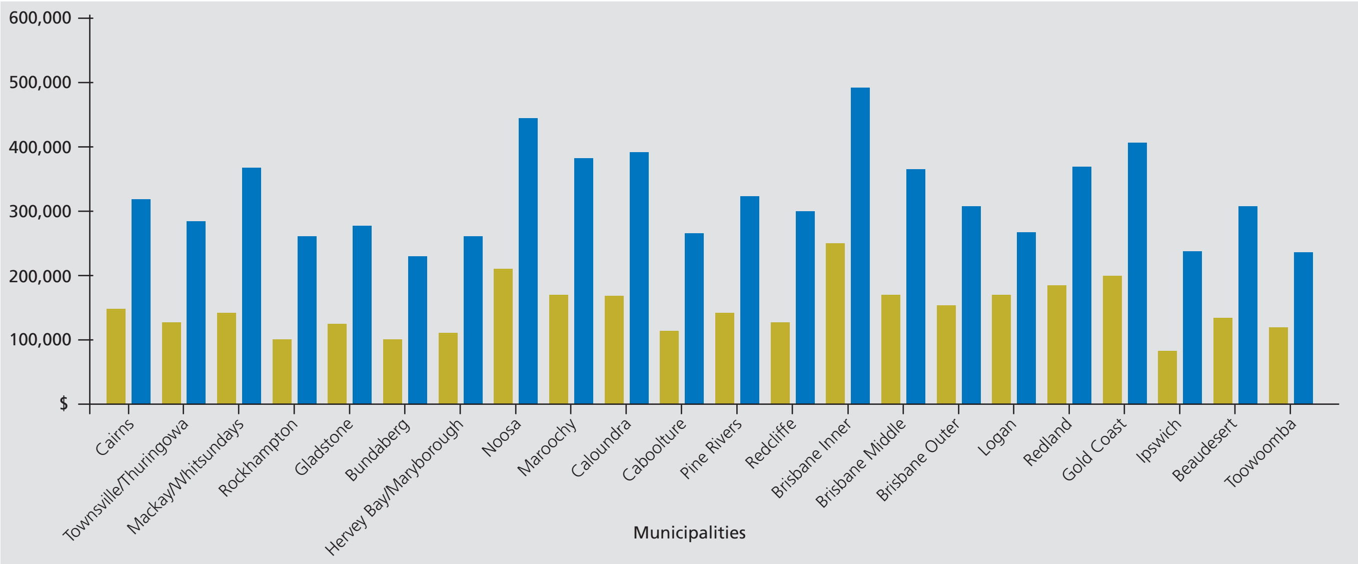
- Research be undertaken to investigate and recommend viable alternatives to developer contributions as a means of financing and delivering affordable and appropriate infrastructure.
- The New South Wales Government use public forward investment in infrastructure to create amenity and foster demand for housing in new release areas and existing centres.
- Cost benefit analysis be undertaken or regional infrastructure funded by Government taxes and charges rather than infrastructure levies.

4. Government taxes and charges

- There be no new or increases in taxes and charges on the property sector pending an assessment of the collective impact of all taxes and charges across all levels of government on housing affordability.
- Regional and trunk infrastructure should be paid for by the whole region through general taxation from GST and stamp duty.
- Where regional infrastructure is provided by a non-government entity, the provider be compensated for the full cost of provision.
- The GST revenue collected from new housing and renovation activity should be applied to fund infrastructure provision.

Queensland

Figure 26
QLD Detached Median House Prices ($)



Source: UDIA/Matusik Affordability Measure, 2007

A. Overall state situation

Housing affordability in Queensland

The above graph (Figure 26) shows the median detached house prices in a number of locations across Queensland for 2001 and 2006 and the substantial increase in prices that occurred in the period.

The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout Queensland and is graphically displayed in the following diagram (Figure 27).

Currently the average Queensland house-buying household now has an affordability gap of nearly $100,000, being the difference between what can be readily borrowed and the cost of a typical second hand suburban detached house.[57]

Figure 28 compares the growth in Brisbane house prices with data on Queensland wages since 1983. Over this period house prices have risen by a factor of 5.53, while Queensland wages have only risen by a factor of 2.88. The figures show that since about 2001 particularly, house prices have risen much more dramatically than wages.

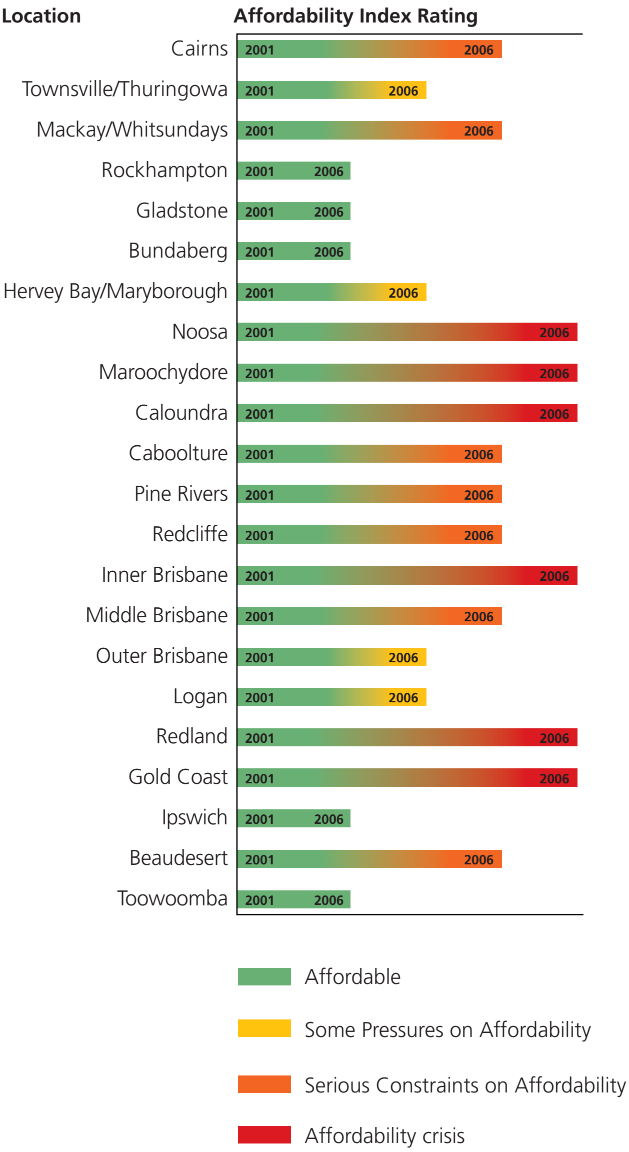
Recent Real Estate Institute of Queensland (REIQ) data shows that the median house price in Brisbane in 2006 was $327,000 while Australian Bureau of Statistics (ABS) data shows that income in Queensland was approximately $53,550. This equates to a multiple of 6.1. Indeed, as shown in Figure 29, the ratio of house prices to wages has risen to its highest level in Queensland since at least 1983, at above a factor of 6, compared to being previously stable around 3 and 4.

Even if house prices remained static (in nominal terms) with wage price growth at 3.2 per cent (roughly CPI) per annum it would take about 14 years before the house price to wage ratio would be returned to 4, which would still be less affordable than in the 1980s.

These house price rises have also been coupled with rising dwelling rental prices. Rent for three bedroom houses increased 19.2 per cent (to $310) in Brisbane between March 2005 and March 2007 and forecasters, such as Macquarie Bank, have predicted that further rent increases are likely.

57 *1.6 times average annual individual income drawn from ABS and Reserve Bank Bulletin - Matusik Property Insights P/L (Report of an Industry Inquiry into Affordable Home Ownership in Queensland –Stewart, B., UDIA (Qld) 2006).*

Figure 27
Queensland



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

Economic trends

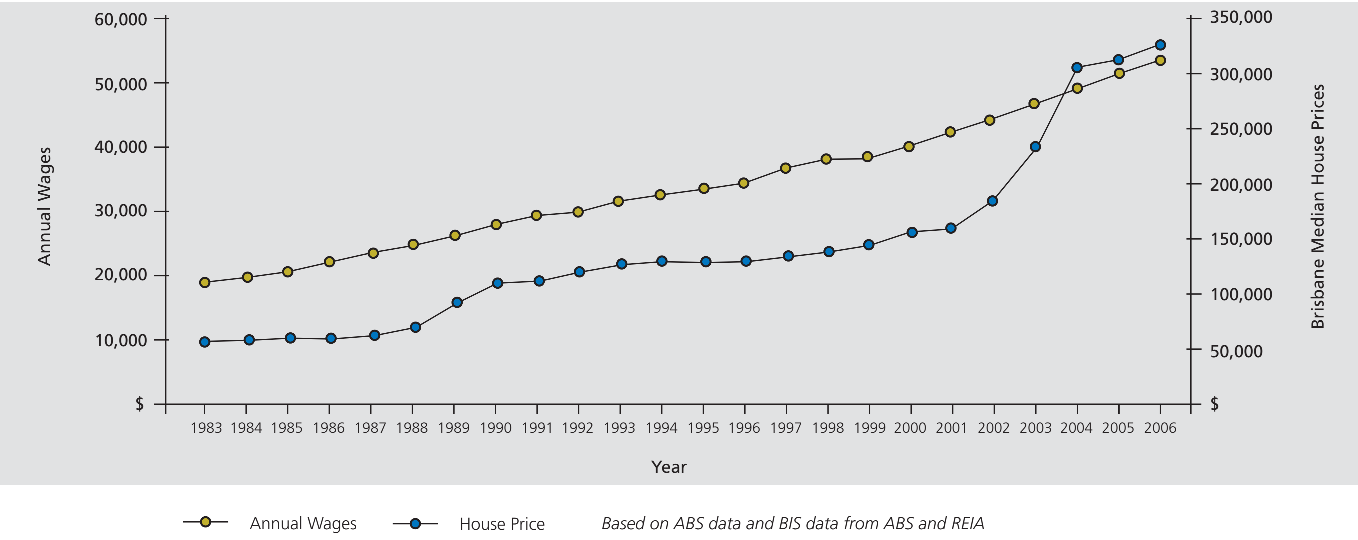
Significant background data for Queensland includes:

- The Queensland economy expanded by 3.8 per cent in 2005-06, exceeding economic growth in the rest of the nation (2.4 per cent) for the tenth consecutive year.[58]
- Queensland's trend unemployment rate declined by 0.2 percentage point in May 2007, to 3.5 per cent, a 29-year low for Queensland.[59]
- Both strong domestic demand and positive external conditions are underpinning overall economic growth in Queensland. High world prices for Queensland's commodity exports, strong household spending are modified somewhat by subdued rural exports and interstate tourism.[60]
- Business investment surged 20.1 per cent in 2005-06, and is increasingly being experienced across a range of sectors. The State government's capital works program has also contributed to economic growth particularly around transport, water, health and energy infrastructure as the State responds to strong population growth.
- Residential building approvals are trending around longer term averages with substantially greater non residential activity.
- Total building approvals (trend) in Queensland rose 13 per cent over the year to April 2007 and looking forward, notwithstanding the house price affordability ceiling,[61] the outlook for Queensland's dwelling sector remains positive, as solid incomes and population growth drive new construction activity.[62]

Mining sector activity is at cyclically high levels and is driving strong economic growth particularly in central and coastal communities of Queensland. Significant infrastructure bottlenecks have been experienced in meeting export demands. Housing demand in related areas such as Mackay, Gladstone, Townsville and neighbouring centres has boomed but response has been hampered by inadequate infrastructure, staff and local authority resources.

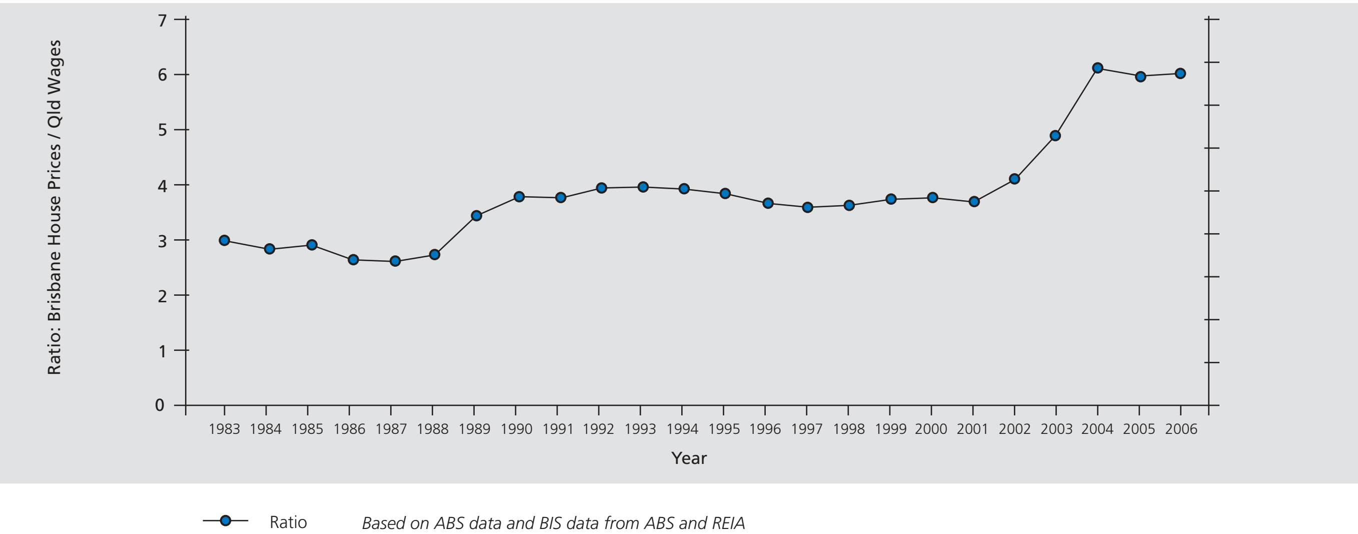
58 *Queensland Economic Review & Annual Economic Report, Office of Economic and Statistical Research, Queensland Department of Treasury;* **59** *ibid;* **60** *ibid;* **61** *Matusik;* **62** *ibid*

Figure 28
Brisbane House Prices and Queensland Wages



Based on ABS data and BIS data from ABS and REIA

Figure 29
Ratio: House Prices/Wages



Based on ABS data and BIS data from ABS and REIA

Demographic trends

In the 20 years to 2006 the population of Queensland grew by 1,416,768 and between 2004 and 2026 the population of Queensland is anticipated to grow by a further 1,695,879 with the population projected to reach 5,583,956.[63] In the year ending 30 June 2005 Queensland's share of Australian population growth was 35.8 per cent, well above its 19.6 per cent share of existing Australian population.

The largest share of the state's population growth is expected to occur in the South East Queensland region (including Brisbane, Gold Coast and Sunshine Coast) with around 75 per cent of total growth occurring in this area. The Wide Bay-Burnett region (including Hervey Bay) and Far North Queensland region (including Cairns) are expected to have second and third-highest household growth.[64] Sustained strong interstate migration from New South Wales has been a mainstay of Queensland population growth in the last decade and according to BIS Shrapnel:

63 *Queensland Government Population Projections, (medium series) 2006;* **64** *Household projections Queensland Local Government Areas 2007, Queensland Government.*

Figure 30
Queensland Total Building Approvals 2004-2006

Building		2004-05	2005-06
Dwelling Units Completed (a)	no.	39 153	38 130
New Houses	no.	27 377	23 852
New Other Residential Buildings	no.	11 682	14 179
Value of Building Work Completed	$m	11 999	13 906
New Houses	$m	5 470	5 223
New Other Residential Buildings	$m	2 228	3 436
Alterations and Additions to Residential Buildings	$m	982	1 089
Non-Residential Building	$m	3 260	4 157
Value of Work Done During Year	$m	13 292	14 920

(a) Including Conversions
Source: ABS

> "Movement of young families from New South Wales to Queensland represents the primary demographic shift, which reflects the combination of housing affordability, employment opportunities and climatic advantages available in Queensland."[65]

Queensland is also drawing an increasing share of overseas migrants numbers with these 63 per cent higher than a decade ago and heading toward an equal proportion of net population growth with interstate migration and natural increase.

ABS estimates that Queensland's resident population increased by a net 76,400 in the year to June 2006, equating to 1.9 per cent growth over the recent year, the population growth rate has however slowed from the peak of almost 89,000 in 2004-05. Recent rapid growth in Queensland house prices to high levels is possibly a significant contributor to the moderation in interstate migration to Queensland as employment growth has remained strong but Brisbane has lost some of its affordability advantage compared to other capital cities.

Slowing net interstate migration to Queensland[66] has considerable implications for the Queensland economy and government revenue. The development industry in Queensland directly accounted for 9.5 per cent of total employment in Queensland, and 9 per cent of Gross State Product[67] in 2004/05, making it the fourth largest industry generator of employment, and second largest contributor to Gross State Product. When flow on effects to other industries, such as the finance, manufacturing and retail industries are considered, the development industry in Queensland contributed to the employment of 218,300 people (FTE), $33.4 billion to gross state product, and $3.9 billion in state and federal taxes.[68]

An average 36,657 new dwellings have been approved per year in Queensland since 1998[69] and this number has been maintained. However housing development activity at this rate or greater is required to meet the demographic demand for housing. Commentators such as BIS Shrapnel and Matusik indicate as a consequence of affordability issues and supply constraints construction activity has been and is presently failing to keep pace with underlying demand. This perception is being borne out in low rental vacancies and pressure on rents, with vacancies presently more than a third below[70] the accepted balanced rate of 3.5 per cent of rental dwellings.

B. Contributing factors

UDIA (QLD) has identified the following key causal factors of declining housing affordability:

- Inadequate and/or poorly timed land supply;
- Development assessment costs; and
- Government infrastructure charges.

This section discusses factors that are considered to have impacted development and driven the affordability crisis.

Background

In 2006, An Industry Inquiry into Affordable Home Ownership in Queensland was independently conducted by Brian Stewart, Chief Executive and General Counsel, UDIA (QLD). The report of the inquiry provided a review of existing data and commissioned new reports to examine the issue and made recommendations to assist home purchasers in Queensland.

65 *BIS Shrapnel, Building Industry Prospects, March 2004;* **66** *ABS Australian Demographic Statistics 3101.0 June 2006 and also noted by Macquarie Bank;* **67** *ABS Australian Demographic Statistics 3101.0 June 2006 and also noted by Macquarie Bank;* **68** *Tourism Potential Pty Ltd (June 2006) Economic Impact of the Development Industry in Queensland, 2004/05, prepared for Urban Development Institute of Australia (Queensland);* **69** *Planning Information and Forecasting Unit, QDLGPSR, Australian Bureau of Statistics;* **70** *Queensland OESR March 2007 Vacancy Rates Survey.*

The inquiry identified serious affordability issues for home ownership and also the potential for affordability to erode further with potential for serious social and economic impacts.

In regard to contributing factors the research identified:

- That the affordability of home ownership is affected by interest rates, salaries and wages, prices, ongoing demand, construction costs, subsidies, process costs, taxes and charges and the cost of raw land suitable for future development.
- New housing has a high and increasing cost base deriving from high land prices and process costs which is increasingly pushing it out of the reach of many buyers.
- Between 2000 and 2005 there has been a large increase in the costs of developing land mainly associated with increasing taxes and charges and the increasing complexity of approval processes.
- There is currently no comprehensive and regular monitoring of urban land in Queensland suitable for the purpose of maintenance of affordability of residential land.
- Substantially increased population growth estimates for Queensland have been released with significant implications for land demand. And these changes have not been reflected in amendments to the South East Queensland Regional Plan and local planning.
- Land supply and price are related and inadvertent and deliberate restrictions on land supply can have substantial impacts on housing affordability and the economy. Specifically UrbisJHD reported:

  "The impact of an overestimation of the land supply in South East Queensland is considerable for the development industry and for the State Economy. We estimate that under certain circumstances an overestimation of the land supply of 10.0 per cent could cost the Queensland economy $280 million in Gross State Product and over 1,800 jobs per annum. It could also lead to an increase in land prices by 94 per cent from their current levels to around $389,000 by 2010."

Land supply

State government and local authorities regulate the overall supply of land in Queensland for development via the Integrated Planning Act 1997 (IPA) and local Planning Schemes made under the Act. Suitable zoning of sufficient land stocks as well as monitoring of development land supply should occur to ensure that supply is adequate to meet demand. In recent times the monitoring and response process for land supply has become more critical with the advent of rigid growth area limits and staging controls under the South East Queensland Regional Plan.

The Queensland Government has, for a number of years, undertaken Broadhectare Studies through the Planning and Infrastructure Forecasting Unit (PIFU) of the Department of Local Government and Planning. The Broadhectare Studies published by PIFU indicate the "potential" land supply in local authority areas, and these studies are then relied on by local authorities and Government for a range of planning purposes. A UDIA (QLD) examination of some Broadhectare Studies in recent years has disclosed that around 20-30 per cent of the identified land is not practically available for development as a consequence of: additional land form and environmental constraints; substantial existing land uses; effective policy constraints; existing development uptake; and ownership characteristics.

Some specific issues around current land supply measurement include:

- Additional planning overlays applied or introduced by agencies that further reduce the zoned land supply.
- High value capital improvements on properties, for example million dollar homes which reduce the prospect of sites contributing to land supply.
- Small farmlet/acreage parcels in the 1-5 hectare range that can be very difficult to develop alone or aggregate for development. These can provide suboptimal development outcomes in infrastructure coordination, connectivity and other planning and social outcomes. By way of example, the Broadhectare Report for the Redland Local Government Area has more than 66 per cent of the total identified potential land supply parcels comprised of rural residential properties of less than 2 hectares, and in Brisbane 82.5 per cent of the identified land supply parcels were less than 2 hectares in area.
- Planning controls are mismatched to development realities. This is an increasing issue as consolidation policy requires high minimum densities in some distant greenfield locations. A serious mismatch of land zoning to market expectations can effectively sideline well located land supply. A recent Redland land supply review identified a low likelihood of unit development in much of the zoned areas of the shire as residual land value was generally much below current serviced site values.[71] Reliance by local authorities on such unviable land to meet housing demand is to effectively choose to not meet the demand.

Development assessment costs

IPA provides the legislative framework for development assessment in Queensland. It is intended to provide a one stop shop for development and a streamlined assessment system and indicates a number of timeframes which are to be complied with by applicants and assessment agencies. Substantial time and effort is, however, required to obtain development approvals with substantial financial impact on housing outcomes.

71 *UrbisJHD (2007) Redland Shire Land Supply Analysis.*

Quantitative data on performance of the development assessment system is also scant and a serious deficiency for transparency by not enabling benchmarking to improve agency performance. However, a Local Government Association of Queensland report in 2006 indicated: approximately 30 per cent of all applications took longer than three months to process; average time to issue a basic acknowledgement notice was 2.3 weeks whereas IPA requires this within 2 weeks; extension to the information request stage was requested by councils for 15 per cent of applications; and an extension to the decision making period was required for 21 per cent of applications; 35 per cent of delegated applications did not meet the decision making timeframe; and 37 per cent of applications had to wait for a decision by council members while only 4 per cent of the recommendations for these applications were modified by this process.[72] UDIA (QLD) clearly believes there is room for improvement in the efficiency of the development assessment process, particularly as extensive delays often occur for larger projects, thereby impacting on a larger portion of the dwelling supply than this data might indicate.

A conservative estimate made for the Commonwealth Government in 2005 indicated that if four weeks was taken off the timelines for just 18.75 per cent of development applications in Queensland, a saving to industry and community of almost $100 million annually could be obtained.[73]

Infrastructure charges

A recent survey of UDIA (QLD) members rapidly unearthed numerous examples where infrastructure charges had recently increased both substantially and rapidly. These included a rise in water headworks charges of over 1300 per cent in four years, an increase from $6,000 to $50,000 per lot for infrastructure charges in one direct jump, an increase from around $8,000 to $47,000 in another, as well as a number of examples where infrastructure charges and other charges increased between $5,000 and $40,000 per lot during the time taken for the assessment of the development application. These results have been supported by other work by ACIL Tasman and the Property Council of Australia in recent years.

Infrastructure charges form a base part of the production cost of new serviced land and dwellings and increases are either passed on directly in increased land prices, as an increased margin in the next project or cause projects to be abandoned until the local market can receive the higher land prices. Figure 31 is a sample of current typical charges in place in South East Queensland. Charges in specific locations can vary widely and conditions of development approval can also require additional costly infrastructure items.

While some changes to charges and charging formulae were anticipated as part of the staged introduction of charging provisions under the IPA it seems that this order of exponential increases were not anticipated by either industry or government. In addition the charging methodologies have been dogged by various concerns and lack of transparency of operation.

Figure 31

Infrastructure Charges for a Detached House by Selected LGA

LGA	Total of Charges
Noosa	$21358.90
Logan	$18048.38
Maroochy	$17038.00
Brisbane	$24000.00
Gold Coast	$31540.31

Source: UDIA (QLD)

C. UDIA approach

Existing government policy

The Queensland Department of Housing identifies that the principal statement of the Queensland Government's intent for housing in sustainable communities is:

> "The Queensland Government will seek to ensure that all Queenslanders have access to safe, secure, appropriate and affordable housing, in diverse, cohesive and sustainable communities."

In practice the department struggles to address its social housing responsibilities in an era of reduced Commonwealth direct funding for the purpose.

For the wider market arguably the greatest contribution of the state in more recent times lies in its heightened understanding of the need to provide an effective legislative and policy framework for urban development and particularly the need to respond to the fundamental infrastructure requirements for this growing state.

The South East Queensland Regional Plan and Infrastructure Plan and Program was adopted in 2005 under the IPA as an agreed Queensland Government position on the future of South East Queensland, with similar plans mooted for other regions. The South East Queensland Infrastructure Plan and Program matches state infrastructure development to a Regional Plan for population, community and economic growth. This approach has seen the state government recognize the need to address large infrastructure deficiencies, timing exigencies, coordination and budgetary impacts to address the situation. While this work is of wide benefit to the community it is also a fundamental support to housing supply and its relative affordability.

[72] *LGAQ Survey of Development Application process March 2006;* [73] *Regulation Reduction Incentive Fund Application SEQ 2005.*

On 17 December 2006, the Government adopted the State Planning Policy for Housing and Residential Development and State Planning Policy 1/07 Guideline: Housing and Residential Development under IPA. The State Planning Policy aims to ensure that larger, higher growth local governments identify their community's housing needs. It also requires local governments to analyse their planning schemes, modifying them if necessary, to remove barriers and provide opportunities for housing options that respond to the identified needs.

Queensland Government August 2006 election policy

The following is an excerpt of the election policy:

> "A re-elected Beattie Government will deliver a comprehensive and innovative package of measures to ensure all Queenslanders obtain the housing they want.
>
> We will achieve this through the following initiatives:
>
> - Reduce stamp duty for Queensland first home buyers – about 75 per cent of first-home buyers will pay no stamp duty, with another 20 per cent paying less;
> - Deliver our commitment to abolish mortgage duty, charged on home buyers who take out a mortgage, in two stages by 1 January 2009;
> - Strengthen State Government powers to monitor land supply and housing affordability;
> - Streamline development approval processes to expedite land release, while preserving green space;
> - Ensure infrastructure charges on new housing estates are fair; and
> - Invest an additional $30 million to partner with councils and community housing providers to deliver innovative affordable housing solutions."

To this point the government has announced reforms to stamp duty and mortgage duty and has substantially increased funds for social housing. A review of the development approval process is in train. UDIA (QLD) anticipates that the Queensland Government will announce a comprehensive housing affordability restoration plan in the immediate future and will provide comments on the plan to the government after its release.[74]

Recommendations

The Report of An Industry Inquiry into Affordable Home Ownership in Queensland which UDIA (QLD) released in July 2006, included a seven point housing affordability restoration plan. The plan is as follows:

Housing Affordability Restoration Plan

1 To establish an independent statutory authority (to be called the "Urban Land Monitoring Authority"), whose primary responsibility will be to evaluate and report on an annual basis on land supply issues throughout Queensland;

2 To immediately undertake a comprehensive land supply evaluation by each Local Authority and then for Local Government to work co-operatively with the Urban Land Monitoring Authority to prepare a 'State-of-the-State Report' for the Queensland Government, within 12 months of the establishment of the Authority;

3. For the First Home Owners Grant to be increased to $14,000 for existing dwellings and $21,000 for new dwellings immediately;

4. For the process for planning scheme amendments as contained in the Integrated Planning Act to be immediately amended to provide for a fast-track review and change mechanism to enable land to be made available for future development within 12 months. (Utilisation of the fast-track process should be subject to a finding by the Urban Land Monitoring Authority that failure to increase land supply would have an unacceptable impact on affordability);

5. For a major review of the South East Queensland Regional Plan and South East Queensland Infrastructure Plan to be implemented immediately following the handing down of the first report of the Urban Land Monitoring Authority, to ensure that adequate land and appropriate infrastructure is provided to meet revised demand levels;

6. For a comprehensive review to be undertaken by the Queensland Government into the practice and process of infrastructure charging for new development, paying specific attention to variations in charges that occur between Local Government Areas. Further, the review should consider aspects of intergenerational equity in respect of the imposition of taxes and charges on the existing and future generations of home owners;

7. For an immediate moratorium to be implemented throughout the State on increases in infrastructure charges for two years or until the infrastructure charging review (outlined above) is concluded and anomalies and inequities addressed.

UDIA (QLD) has also promoted the expansion of infill development opportunities in existing urban areas including higher density housing forms close to services and particularly the encouragement of secondary/dual occupancy/mortgage helper/superannuation saver dwellings in other urban areas. Secondary dwellings in the form of "Fonzie flats", granny flats, studios, downstairs flats or other forms also represent an opportunity to provide more flexible and diverse accommodation types to meet the changing demographic and economic situation in Queensland.

[74] *The UDIA (QLD) response to the government's housing affordability restoration plan will be available on the Institute's website www.udiaqld.com.au.*

South Australia

A. Overall state situation

Housing affordability in South Australia

The following graph (Figure 32) shows the median detached house prices in a number of locations across South Australia for 2001 and 2006 and the substantial increase in prices that occurred in the period.

The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout South Australia and is graphically displayed in the adjacent diagram (Figure 33).

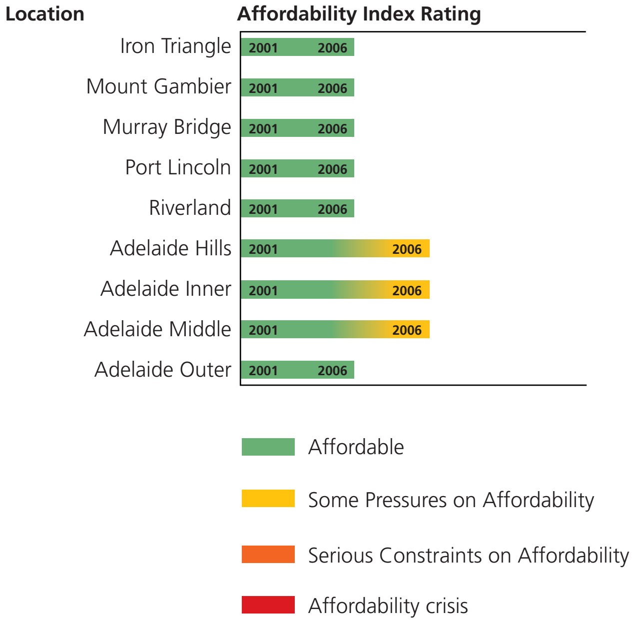
Affordability in South Australia deteriorated by 6 per cent in the year to September 2006 due to a combination of price increases and interest rate rises and at this point was at its lowest since 1991.[75]

In the December Quarter 1990, Adelaide recorded its lowest level of housing affordability with the index at 123 and at this time the median dwelling price was $105,000. In the September quarter 2006 the index stood at 127.6 and the median dwelling price was close to $300,000. The median price has exhibited an increase of 10.7 per cent per annum from 1990, but this has accelerated since 2000 during a sustained period of economic growth.

As at September 2006 affordability was 22.1 per cent below the long term average in South Australia.[76]

Figure 33

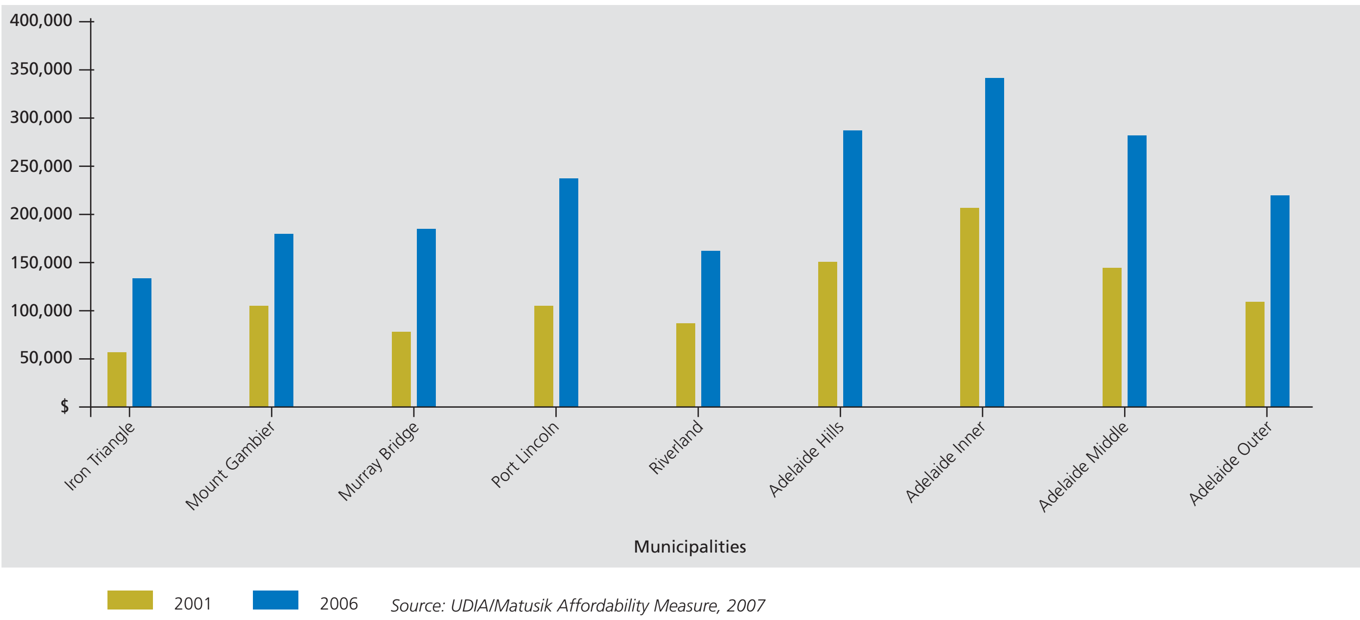
South Australia



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

Figure 32

South Australia Median Detached House Prices ($)



Source: UDIA/Matusik Affordability Measure, 2007

[75] *The HIA – Commonwealth Bank Housing Affordability Index for first home buyers;* [76] *Westpac 2007/2009.*

Urban centres and the regions

South Australia's urban centres are based on significant primacy with one major city, the Adelaide Metropolitan area, with 1,138,000 persons (June 2006), representing 73 per cent of the South Australian population. For this reason a greater part of this chapter is focussed on the Adelaide Metropolitan Area.

South Australia has a number of regional centres (Mount Gambier, Whyalla, Murray Bridge, Port Augusta, Port Pirie and the "Copper Coast" towns of Kadina/Wallaroo and Moonta with population ranging from 11,000 up to 24,000 for the largest regional centre Mount Gambier).

The Outer Metropolitan Area contains two major urban concentrations around Victor Harbour and the South Coast (23,000 persons) and Mount Barker (18,000 persons)

Economic trends

The current situation and likely trends are:

- South Australia has shown economic growth in recent times particularly with the mining sector's expansion, a rise in mineral prices and major defence contracts and activities. During the past year however the drought has had an impact while manufacturing and wine exports have suffered under a strong Australian Dollar. Nevertheless over 2005/06 the Gross State Product has risen by 2.2 per cent with State Final Demand up 2.5 per cent per annum.
- Unemployment has declined significantly from 10.6 per cent in 1996 to 6.1 per cent in 2003 to 4.8 per cent in late 2006 and 5.3 per cent in February 2007 indicating a continuing tight labour market.

Population and demographic change

The current situation and likely trends are:

- South Australia had a population of 1.554 million persons at June 2006 and a growth rate of around 0.8 per cent per annum. South Australia has experienced consistent growth in population of around 6,000 to 10,000 persons over the nine years to 2005.
- Whilst the fertility rate in South Australia has declined the total net migration has shown a positive improvement mainly due to overseas migration increases as a result of the regional visa scheme. Interstate migration still has a slight negative impact.
- South Australia's Strategic Plan has a target population for the state to be 2 million persons by 2050. This anticipates population growth rates of around 12,000 persons per annum for the next twenty five years.
- South Australia has an ageing population and under all recent population projection scenarios the absolute number and proportion of people aged 65 and over will increase substantially. Under the medium stable migration scenario the proportion of the population aged 65 and over will increase from 14.6 per cent to 29.8 per cent by 2051.[77]
- Household growth is outstripping population growth mainly because of the decline in fertility rates and ageing. In South Australia household size is projected to decrease from approximately 2.42 persons per household in 2001 to 2.15 in 2051.

  Spatially the areas exhibiting major growth in population are:

  - The "sea change" areas Victor Harbour and the South Coast as well as the Copper Coast towns and smaller communities on Yorke Peninsula;
  - The outer metropolitan areas with growth at Mount Barker and Murray Bridge; and
  - Mining growth areas (Roxby Downs) with a multiplier impact on the Upper Spencer Gulf towns of Whyalla, Port Augusta and Port Pirie.

Outlook for urban development

The most significant impacts on development will occur from:

- Major change in the northern and southern metropolitan areas of Adelaide caused by changes in the fortune of major employers and this could include a big boost from defence in the north and big potential risks from a loss of the major car industry and component manufacturers in the south. Northern Adelaide is undergoing significant economic development through transport logistics, motor car components, and the defence sector particularly the air warfare destroyer project at Osbourne and the mechanised battalion relocation to Edinburgh. Southern Adelaide is somewhat more problematic with a continuing threat of motor car industry rationalisation and isolation of this area from major developments in other parts of Adelaide;
- Any review of the Urban Growth Boundary for Metropolitan Adelaide which will lead to opportunities for greenfield housing development within extensive fringe areas;
- Significant regional development in the Spencer Gulf towns as a result of a continuing expansion in the mining sector and continuance of the sea change expansion on South Australia's coastline. Growth is expected to continue in the northern regions particularly driven by the expansion in the mining sector and the northern Spencer Gulf towns of Whyalla, Port Pirie and Port Augusta. The expansion of uranium and copper mining at Roxby Downs has potentially major multiplier impacts for the state;

[77] *SA Government Planning Strategy, August 2006.*

- Continuing impact from the drought and rationalisation of the Murray River irrigation areas which will in turn affect the Riverland towns. The drought and Murray River water supply for irrigation activities particularly in the Riverland and Murraylands has had a significant impact on the rural areas of the state and the smaller rural town communities. Some of these areas will rebound with a break in the drought but the irrigation industry will require a lengthy period of restructuring that will slow the growth in the regions; and
- Further major development in the commuter belt within the outer metropolitan Adelaide Region, particularly in places like Mount Barker.

Demand and supply issues

The current situation and likely trends are:

- Metropolitan Adelaide has captured 67.6 per cent of the state's housing construction over the past five years. The regions have the following shares of activity and growth:
  - Outer Metropolitan with up to 18 per cent share of development. Mount Barker and Victor Harbour have significant levels of growth (3 per cent population increase per annum);
  - Yorke Peninsula and the Mid North including the Copper Coast with up to 5 per cent share of state development and growth of up to 2 per cent;
  - The Murraylands including Murray Bridge with up to 4 per cent share of state development and a growth of up to 1.3 per cent; and
  - The northern areas of the state including mining communities such as Roxby Downs have shown a significant growth spurt in recent times albeit off a small population base.
- The metropolitan Adelaide area has had a demand over recent years of 6,000 to 8,000 dwellings per annum and a greenfield take up of 390 hectares per annum;
- With the state population target of 2 million persons, the metropolitan area may need to supply at least 4000 to 4500 lots per annum from the fringe broadhectares to achieve this target by 2050;
- The Adelaide land supply pipeline is estimated to contain 7 to 8 years of urban land stocks. However the time scale for moving from non urban broad hectare land to the occupation of the first dwellings on the same land averages around 13 years;
- The major supply threat is that "existing broad hectare stocks could be expected to be substantially depleted by 2016", with the "equivalent of 4000 lots only remaining at that time"[78]; and
- Metropolitan Adelaide "fringe land supplies are now at critical levels and under the optimistic growth scenario, re-zoning of land to increase supplies is required urgently. Even under the conservative growth scenario produced by Planning SA, rezoning is required as a matter of priority in order to meet typical development time lines."[79]

B. Contributing factors

UDIA SA has identified the following key causal factors of housing affordability:

- Government housing policy;
- Taxes and charges;
- Land supply;
- Urban growth boundaries and township boundaries;
- Metropolitan or regional strategies;
- Infrastructure provision;
- Environmental issues, and
- Development assessment processes.

This section discusses factors that are considered to have impacted development and driven the affordability crisis.

Government housing policy

It is considered that the state government has a responsibility to house the low income earners and special housing needs groups within our community particularly those who are impacted by significant housing stress where the household pays more than 30 per cent of income on housing cost. Traditionally South Australian market housing has been more affordable than the Australian average. "Historically the key difference has been a greater emphasis on direct government involvement in the provision of housing for both home ownership and social housing. This activity was closely integrated with wider economic and social development".[80]

This unique housing model for South Australia is now abandoned with the decline of the role of the South Australian Housing Trust (SAHT), the demise of the Commonwealth State Housing arrangement and its associated funding and the reduction of the public housing stock as property is sold to pay for new programmes. Some would argue that a stock of public housing is essential to assist affordability particularly for ownership and rental opportunities.[81] The current shortage of rental accommodation and rental costs is seen as a compounding factor for those wishing to gain access to the home market. This decline in affordability and rise in rental cost is seen as "the perfect storm situation".[82]

78*UDIA Nov 2006;* **79***UDIA Nov 2006 (page 31);* **80***Orchard L, 2006;* **81***Stretton 2005, Spoehr 2007;* **82***ABC Stateline 16/2/07.*

The state government released a Housing Plan in March 2005.[83] The Plan contained a number of initiatives, including:

- An affordable housing innovations program between the state government, private sector, not-for–profit organisations and local government to build social housing stock;
- The creation of new opportunities for home ownership through Home Start Finance including the new EquityStart loan for social housing tenants;
- Further action on the renewal and reinvigoration of neighbourhoods and acceleration of the re-development of public housing estates;
- Particular actions in relation to regional South Australia including working with the private sector and opportunities for regional communities to participate in management of community housing assets;
- Initiatives to target 10 per cent affordable housing and 5 per cent high need in all significant developments; and
- In conjunction with other states and territories and with the Commonwealth, the negotiation of the development of a new Commonwealth State Housing Agreement and national housing policy to drive the affordable housing reform agenda.

Other plans that are considered to have an impact on development of housing and land in South Australia are:

- The Strategic Infrastructure Plan for South Australia (discussed below);
- Water Proofing Adelaide Plan;
- State Natural Resources Management Plan;
- Adelaide and Mount Lofty Ranges Initial Natural Resources Management Plan; and
- South Australia's Waste Management Strategy.

Taxes and charges

Between 20 per cent and 35 per cent of the purchase price of a new house and land package in South Australia is indirect taxes. There are more than 20 different state and local government indirect taxes and levies applied to a new house and land package, such as stamp duty on land purchased by the developer, stamp duty on the purchase of a new house and land package, local council contributions and fees for community facilities, major roads drainage and public open space. The compounding impact of GST being added to taxes further adds to the overall burden.[84]

In South Australia, the key taxes and charges at the state level in the 2005/06 budget with a direct impact on house and land development costs are stamp duties (conveyancing and other duties) making 57 per cent of the total collections, land tax (private and taxpayers) 29.5 per cent, debits tax 0.5 per cent and emergency services levy 7.2 per cent. In the 2005/06 budget the total revenue from these collections was $989.9M.[85]

State taxes and charges are detrimental to other areas of subsidy and a very good example of this is the situation in South Australia where the First Home Owners Grant of $7,000 for a $300,000 house is totally nullified by stamp duty payments.

In South Australia between 1998/99 and 2005/06:

- Land taxes increased from $133M to $291M, an average of 16.9 per cent per annum;
- Municipal rates increased from $482M to $785M, an increase of 8.9 per cent per annum;
- Stamp duty on conveyances increased from $216M to $550M, an increase of 22.1 per cent per annum; and
- GST increased from $173M in 2000/01 to $361M in 2005/06, an increase of 21.7 per cent per annum.[86]

The growth of taxation in the housing/land development sector has been significant and has added to the burden of new taxes such as GST and the emergency services levy.

Land supply

In Adelaide, the share of land in new house prices doubled from 16 per cent in 1976/77 to 32 per cent in 2002. Land supply is now at a critical level in the metropolitan area with lot supply now declining and average prices increasing.

Fifty per cent of all land stocks in the metropolitan Adelaide area are controlled by state government mainly through the operations of the Land Management Corporation (LMC) (49 per cent); and the LMC controls 91 per cent of all broad hectare land that is greater than 10 hectares in size. In the metropolitan area only 13 per cent of all broad hectare land is in the hands of development companies and is therefore, subject to market conditions, immediately available.[87]

Dramatic increases in land prices have occurred in recent times particularly in 2003/04 when there was a change of 38 per cent in 12 months. "Even in 2005/06, with the market decidedly more subdued, land prices have increased by 8 per cent during the course of the year."[88]

The major growth area of the northern sector of Adelaide has little privately held greenfield stocks (8 per cent) and is therefore under significant threat from supply and upward pressure on prices. At present demand is being serviced by lots in Craigmore/Blakeview, Andrews Farm and Gawler, however prices have been on the rise. More affordable land is selling in the Paralowie/Burton area. There are currently 2389 recently finished allotments with a further 588 under construction.[89]

83*Housing Plan for South Australia, State Government, March 2005;* **84***HIA, July 2003;* **85***UDIA SA, Nov 2006;* **86***HIA Economic Group Research Notes, 2006;* **87***Planning SA, September 2005;* **88***UDIA, Nov 2006;* **89***HIA APM Land Monitor, May 2007.*

The southern sector has seen land stocks run down. Many areas are fully developed and the availability of new sites is very limited. In the outer south the present situation is more balanced as sales have been slow in Seaford Rise and Aldinga and Sellicks Beach will soon yield some 1700 lots.[90]

As mentioned above the decline of the public housing sector in South Australia has had a significant impact on affordability for the less advantaged in our community. The present operations of the SAHT also have a bearing on land re-development and dwelling supply. The SAHT Neighbourhood Redevelopment Programme should deliver additional dwellings or allotments per annum to the market from the renewal of its ageing housing estates, some of which are in highly accessible and potentially attractive parts of metropolitan Adelaide. However the random sale of housing stock to sitting tenants, funding restrictions and zoning limitations has reduced the potential opportunities of this source of supply to around 400 dwellings per annum. This is also a finite and constrained source of supply.[91]

In regional centres, particularly those undergoing significant levels of growth, land supply is restricted by infrastructure availability, particularly roads, wastewater and stormwater drainage, limited zoning for residential, larger allotment size and environmental constraints. The ability of the regional local governments to pay for infrastructure has led to demands for development local levies. All local governments in growth areas and in particular Mount Barker, Victor Harbor and Murray Bridge have recently undertaken reviews of land and infrastructure to identify new growth areas and the financial impact on the council. All of these councils will require extensive areas of new land to be zoned residential to keep up with projected demand.

Urban growth boundaries and township boundaries

The Adelaide metropolitan fringe land supply is affected by an urban growth boundary that was imposed by changes to the Development Plan in April 2002 and a range of ad hoc limitations imposed on some country towns by the Planning Strategy in April 2002.[92]

There has been no review of the boundary since 2002 despite a recommendation to do so in the original research which was prompted by the knowledge that Adelaide would face significant land shortages within ten years. As a result of the imposition of the boundary the supply of broadhectare greenfield sites is now significantly reduced and developer activity has increased in outer metropolitan townships.

Calls to review the boundary policies have led to the state government beginning an analysis of growth opportunities particularly on the Adelaide fringes and within the Outer Metropolitan Area. The results of this work and policy implications is not yet available for industry input.

Metropolitan or regional strategies

South Australia has a number of strategic and policy instruments that are considered to have an impact on affordability.

South Australia's Strategic Plan

The plan acknowledges that South Australia has had a competitive edge over the other states in regard to affordability but that the gap is narrowing. It handles affordability within the objective of "Expanding Opportunities" by two targets:

- "Increase affordable housing purchase and rental opportunities by 5 percentage points by 2014."
- "Halve the number of South Australians suffering housing stress by 2014."

Given the gravity of the current situation it is considered that affordability should be addressed far more comprehensively within the Strategic Plan.

The Planning Strategy has been a part of the state's strategic armoury and is a part of the statutory framework closely linked to the Development Plan operations of state and local government. The Planning Strategy is a requirement of the Development Act 1993 and presents the South Australian Government's guidance for policy formulation for the development of the state over the next 10 to 15 years.

The Metropolitan Development Programme is included as a part of the strategy and identifies development land in the Adelaide Metropolitan area, the sequencing of that land for development and its impact on infrastructure. It is an essential tool for an organised, managed and cost saving approach to land development.

Infrastructure provision

The Strategic Infrastructure Plan (SIP) is a recent government initiative picking up on the priority need to put significant effort into planning future infrastructure requirements.

The SIP outlines key energy, water, transport, (including public transport projects) health, education and community services projects and programmes that will have a significant bearing on the possibility of developing parts of the metropolitan area and the regions. For example, the construction of the Northern Expressway will have a significant positive impact on the value of land, its accessibility and its development in the Salisbury and Playford areas and the outer metropolitan region around Gawler, Roseworthy and Freeling. This will in turn have an opportunity to create an affordable housing supply in these new areas.

90 *HIA APM Land Monitor, May 2007;* **91** *UDIA, Nov 2006;* **92** *Boundaries for outer metropolitan townships were defined in the August 2006 Planning Strategy.*

The provision of strategic and significant infrastructure by Government can promote the supply of properly serviced land and essential community support. There is a significant short fall of infrastructure provision in certain parts of the metropolitan area and the regions and particularly in regard to the growth areas of Victor Harbor, Mount Barker, Murray Bridge where road, waste water, stormwater drainage and energy infrastructure is required. The lack of provision of this infrastructure will impact on affordability

Developer levies

South Australia, unlike Victoria, New South Wales and Queensland, does not have a system of developer contributions that is mandated by state legislation. The Development Act 1993 currently allows for contributions for open space and car parking, but contains no powers for developer contributions. It is considered this approach is part of the reason for South Australia's present relative advantage in housing affordability.

Attempts have been made by the Local Government Association to push for a form of developer contributions through legislative changes to the Development Act 1993 but this consideration has currently stalled at the state government level.

Whilst there is no mandatory system in South Australia there have been:

- Attempts by a council to re-zone land subject to arrangements with developers to pay for these infrastructure costs including implications on and off the developer's land; and
- Ad hoc pressure on developers for the funding of items of infrastructure such as stormwater provision requiring the detention of all stormwater on site so as not to impact on council's system, particular traffic access requirements and connection to a council waste water scheme.

Environmental issues

Water has become a major issue in the South Australian community and in the design of new housing areas. Requirements are being imposed for short term flood detention and in some cases wetland areas and the possibility of reuse schemes such as Aquifer Storage and Recovery. In some cases local government is requiring detailed schemes on site and if detention cannot be achieved contribution is required to be made to trunk systems.

From July 1, 2006 changed building rules in South Australia require an additional water supply for new dwellings to supplement mains water. Installing specially plumbed minimum sized rainwater tanks is seen as most common way of meeting this objective, but can add an estimated $1600 to $3000 to the cost of a new house.

Within inner areas of the city constraints from existing industrial operations requiring buffers for noise and fumes and in some cases 24/7 operations has constrained opportunities for re-development. A recent case in the middle ring suburb of Kilburn highlights this situation.

Open space is still an issue for land development and while the relatively generous 12.5 per cent requirement is still in place for land division, communities are demanding significant concessions on larger land developments in the inner area. This is evidenced by the community concern for open space in the re-development debate over Cheltenham Racecourse.

Adelaide has significant controls on water catchment areas and the Hills Face of the Mount Lofty Ranges and these sensitive zones serve to push development of the metropolitan area further to the north and south. The southern areas are also coming under more impacts from environmental and rural interfaces.

Development assessment processes

The following are considered the major concerns within the existing development assessment process:

- The need to undertake a continuing reform of the planning system in keeping with the observations of the Economic Development Board for the state which has made particular reference to local government involvement in relation to composition of Development Assessment Panels (DAP) interpretation of policy and the linkage of policy with the strategic directions of the state. Recent changes to include a broader membership on the DAP is an attempt to strengthen both the timeliness of decisions and the attitude to development;[93]
- A more comprehensive review of the overall planning system rather than a continuing "renovation" may be necessary and the Master Builders Association as well as other professional development bodies have called for a "complete reform" because of the lack of practicality, costly delays, unnecessary information requirements, inconsistencies between planning authorities, random adoption of design guidelines, lack of delegation and elected member disregard of the Act, regulations and strategic plans. It is noted that the HIA market snapshot (January 2007) illustrates an extreme level of frustration from building companies regarding the South Australian planning system with all companies interviewed expressing concerns with unnecessary lengthy delays and costs associated with the planning process at the local government level;

93 *SA Economic Development Board, May 2003.*

- The zoning of land has a major influence on the supply of land to the residential market. "The influence of zoning (and the manner of its interpretation by local councils) is significant both in yield achieved from broad hectare, infill and redevelopment sites and in the viability of even pursuing redevelopment."[94] The observation is that obtaining zoning change to increase the density of housing is difficult to achieve, particularly in locations within the inner and middle ring of Adelaide. New larger greenfield sites in the Adelaide middle suburbs have also not achieved substantial increases in density;
- The reaction by the state government to flaws in the process has taken a number of forms and in particular considerable effort has been put into the Better Development Plan Programme to identify best practice. The best practice statements have been formatted into a planning policy library to be used (on a voluntary basis) to rewrite existing development plans; and
- The state government has in recent time resorted to declaring Major Project status to some larger developments in an attempt to fast track and abrogate local planning activity. A large housing project (Buckland Park) on Adelaide's northern fringe has been dealt with in this manner. Whether this process can arrive at the best planning outcomes in the most expedient manner still remains to be seen.

C. UDIA approach

UDIA SA recognises that one of the key platforms to the success of the urban development industry is the opportunity to provide products that are accessible to purchasers at all levels and that in order to deliver improved affordability there needs to be a whole of government recognition and response to the issue.

In particular:

- Restricting land supply, failing to deliver more flexible planning policies in infill areas and the continuing imposition of ever increasing building standards and requirements (e.g. rainwater tanks, solar hot water services and occupational health and safety standards) run counter to housing affordability. These initiatives must be balanced with affordability requirements;
- Government has a critical role in the funding of affordable, special needs and welfare housing and should not seek to abrogate this responsibility to the private sector. Funding should be drawn from general revenue and should not be a direct burden on home buyers via the development process;
- Government should reduce the cost impact of planning, environmental and regulatory requirements on housing affordability;
- There needs to be Development Plan support for density increases and for housing and land products that improve yields and provide more affordable housing.[95]

Recommendations

There is no one solution to the current situation and indeed the loss of affordability has much to do with a sustained buoyant economic cycle as well as other factors. It is important, however, at times of economic pressure and to maintain economic growth that other structural changes occur to offset these forces. Therefore, the following are considered important in order to achieve some solution to the current affordability situation in South Australia:

1. Review the increasing cost of the development of land and housing resulting directly from the growing number and complexity of government requirements under particular legislation such as the Development Act, its regulations and policies;
2. Review the inefficiencies in planning approval processes at the state and local level and the number of local government jurisdictions, particularly in the metropolitan area, which deal with similar development activities in different ways. If land is zoned for a residential use then this should be allowed with the minimum impediment;
3. Review the inequitable taxation of land and housing development in comparison to other sectors assets and services and in particular the significant impact of charges and levies on land and housing development. In particular lobby the state government to reduce or abolish stamp duty;
4. Support the state government attempts to boost the provision of public housing and review administrative operations within government and investigate the best way the private sector can be involved in this process;
5. Lobby for the specific provision of infrastructure to strategic development areas in Metropolitan Adelaide and the regions through the Metropolitan Development Programme and ensure that the costs of this infrastructure are not set solely against specific residential developments such that they are passed directly to the new home buyer and thus impact on affordability;
6. That the LMC concentrates on its role to release surplus government land to the marketplace and compile fragmented parcels into developable parcels;
7. That the LMC should accelerate the release of broad hectare land in a range of market niches in the north and south of metropolitan Adelaide;
8. Review the metropolitan Adelaide Urban Growth Boundary to release new land in strategic locations on the fringe; and
9. Given the gravity of the current situation it is considered that affordability should be addressed far more comprehensively within South Australia's Strategic Plan.

94 *UDIA, Nov 2006;* **95** *UDIA, July 2006.*

Victoria

A. Overall state situation

Housing affordability in Victoria

The following graph (Figure 34) shows the median detached house prices in a number of locations across Victoria for 2001 and 2006 and the substantial increase in prices that occurred in the period.

The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout Victoria and is graphically displayed in the adjacent diagram (Figure 35).

Economic and development industry activity

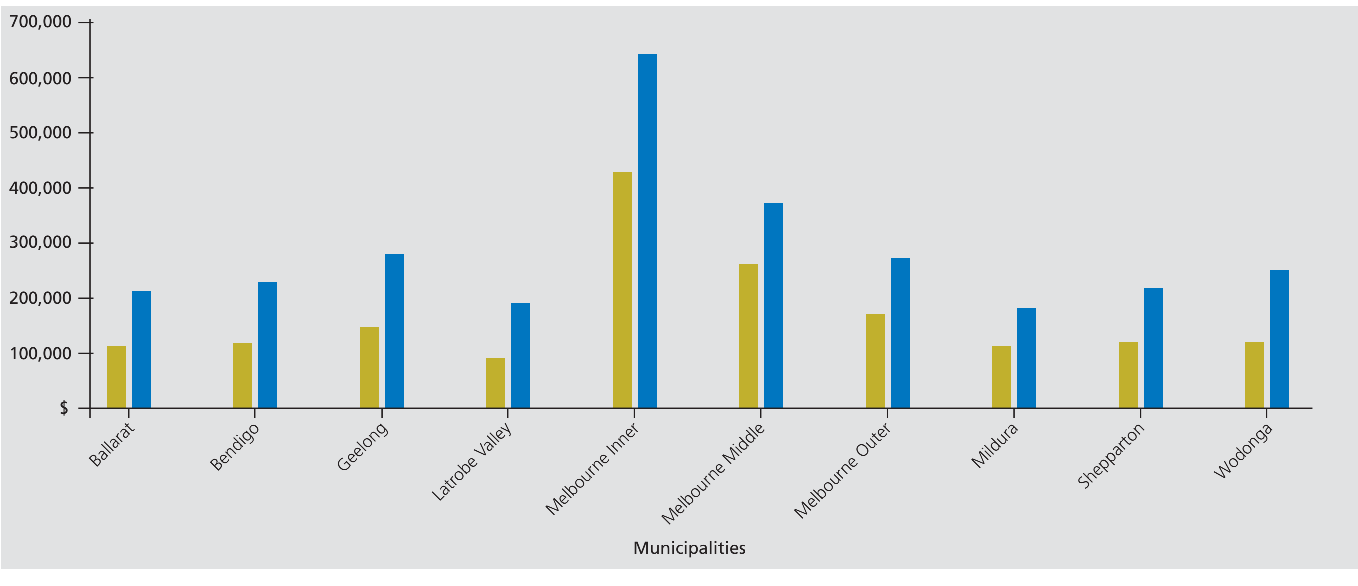
Victoria has rebounded from a period of economic difficulty in the early 1990's. With economic recovery has come increased population growth and with it a resurgence in the residential development industry.

As Figure 36 (opposite) demonstrates, Victoria lagged behind both New South Wales and Queensland during the late 1980's in the number of dwelling commencements before drifting further off the pace as the recession of the early 1990's impacted the manufacturing reliant Victorian economy more severely than elsewhere.

Figure 35
Victoria

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

Figure 34
Victoria Median Detached House Prices ($)



Source: UDIA/Matusik Affordability Measure, 2007

By the mid to late 1990's however the Victorian economy had largely recovered and since this time continues to enjoy robust economic conditions and a leading position in the nation's residential development industry.

Demand for residential dwellings in Victoria over the last decade has been fuelled by a number of factors including:

- Strong economic growth;
- A drastic reduction in net interstate migration out of Victoria (this culminated in Victoria experiencing positive net interstate migration in 1999 for the first time in over 30 years); and
- A substantial increase in the number of overseas migrants electing to live in Victoria, and Melbourne in particular.

While the recovery in the Victorian economy began in Melbourne, regional Victoria has played an important part in Victoria's renaissance with strong growth commencing in the mid to late 1990's in the larger regional cities as well as in coastal and hinterland locations with proximity to the greater Melbourne area.

Population trends

On the back of improved state economic outcomes population growth has been increasing. Victoria's population is estimated to have grown by 68,500 (1.4 per cent) in the 12 months to 30 June 2006, while Melbourne's growth at 1.3 per cent equates to 49,000 or 71.5 per cent of the total.

The strongest growth continues to occur in Melbourne's fringe growth areas and regional Victoria grew at over 1.4 per cent, with several regional cities recording growth rates of almost 2 per cent.

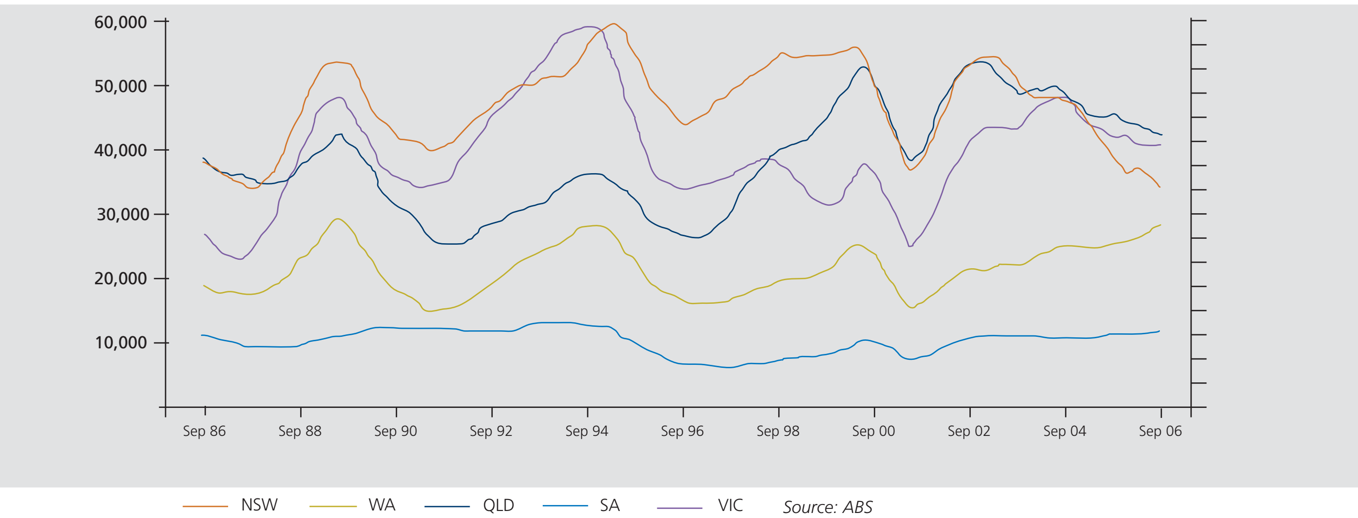
Development trends

The past two decades have seen a number of emerging trends in the way land development is undertaken and in the way built form is delivered. Such changes have been driven by a combination of consumer demand, developer and builder initiatives and by government policy. Major changes have included:

- The rise of large masterplanned communities in both greenfields areas and in major redevelopment locations;
- The emergence of lifestyle focused development;
- The inclusion of sustainability initiatives as an integral part of new communities and in the construction of new housing;
- The growth of apartment and other higher density living resulting in striking changes to Melbourne's inner city skyline;
- An increase in the number of, and level of sophistication in, retirement villages and other developments focused towards seniors living;
- A gradual, but steady, reduction in the average size of retail detached home lots to a current average of just under 600 square metres; and
- Ongoing growth in the floor area of houses and in particular the area devoted to living.

Figure 36

Number of Commencements: Moving 12 Month



Source: ABS

Affordability trend

A number of Victorians feel relatively comfortable with the present home affordability position in the state from the overall economic view point. This derives from the benefits to the state of the relatively affordable position Melbourne has compared with traditional rival Sydney and in more recent times Brisbane, Perth and Adelaide. (See Figure 37.)

- The relatively favourable landform for development around Melbourne which has facilitated a number of growth corridors and relative ease of infrastructure and building development;
- The state's historically supportive approach to urban development, including governance arrangements and 'predict and provide' approach to infrastructure provision. This has changed in respect to trunk infrastructure in more recent times but infrastructure charges remain relatively lower than other major eastern seaboard cities;
- Strong apartment development activity in recent years on the back of the creation of major inner city infill opportunities;
- The present stage of the state in the traditional building and house price cycle; and
- Despite Victoria's relative affordability to other states, the situation of home buying affordability at the level of impact on individual purchasers and those wishing to enter the market is a very much more concerning aspect. Housing affordability levels in the state are at or near record lows.

B. Contributing factors

This section discusses factors that are considered to have impacted development and driven the affordability crisis.

The causes of declining housing affordability remain numerous and complex. A number of the underlying causes are a result of government policy (often well intended), while others are a function of history or changing demographics, consumer trends and lifestyle expectations. All result in additional costs and for the most part will necessarily be passed on to the home buyer. In this respect Victoria is no different to any other state.

Underlying causes that are substantially a consequence of government policy include:

- The complexity of the planning system which adds time to the development approval process and therefore to the cost of development;
- A gradual increase in the breadth, if not the rate, of taxes, charges and levies that apply to residential development and increase the cost of undertaking development (including GST, Stamp Duties, Land Tax and developer levies);
- An overly regulated approach to land supply release; and
- The mandating of community and sustainability related initiatives into developments.

Negative tax gearing is accused of being a major cause of low affordability as it has made property an attractive and tax effective investment, and hence a driver of demand. It should be noted that this particular policy however has assisted in keeping rental vacancies in balance with demand particularly during periods of high demand. The development industry while seeking continual review and improvement of government taxation and regulatory arrangements does not advocate its removal.

Other causes of higher home prices, less influenced by direct government policy, include:

- The highly urbanised and centralised nature of Victoria's urban geography with nearly 72 per cent of Victorians living within the Melbourne Statistical Division;

Figure 37
Median House Prices March 2007

	Mar-07	Dec-06	Mar-06	3 Month % Change	12 Month % Change
Sydney	$524 926	$524 367	$521 807	0.1%	0.6%
Melbourne	$375 556	$367 999	$357 217	2.1%	5.1%
Brisbane	$362 965	$357 861	$335 921	1.4%	8.1%
Adelaide	$342 655	$336 833	$314 398	1.7%	9.0%
Canberra	$431 897	$432 686	$412 652	-0.2%	4.7%
Perth	$389 772	$503 283	$412 686	-0.9%	20.9%
Darwin	$421 236	$425 210	$362 953	-0.9%	16.1%
Hobart	$249 400	$258 445	$239 629	0.4%	4.1%

Source: REIA, 2007

- The increasingly two tiered nature of Melbourne's housing market in which house prices in the inner and middle ring of suburbs have increased substantially more than those in outer suburbs;
- The availability of relatively low cost finance which has provided a substantial pool of money; and
- The emergence of superannuated retirees with money to spend and to invest, often in housing.

In comparison to other state capitals and Sydney in particular, the Victorian Government has taken a less restrictive approach to land supply. Similarly, compared with Sydney – and to a degree several other state capitals - the lower rate of developer contributions in Victoria has not placed the same level of direct imposts on the cost of development. It is critical that Victoria retains this advantage.

The Victorian Government has recognised a direct link between land supply and the price of land and, to its credit, has been more active in ensuring an adequate supply of land is available than any of its state counterparts. A Growth Areas Authority has been created with a mandate to assist land supply flow, an urban development program aims to maintain stocks of zoned land and initiatives have been undertaken to improve development assessment processing times. The result is that, despite strong population growth, Melbourne remains significantly more affordable than Sydney and Perth, and is competitive with Brisbane and Adelaide.

C. UDIA approach

Declining housing affordability is not a problem that can, or should, be solved overnight. A solution that would trigger substantial rapid decreases in the median price of houses is not desirable from an economic or social perspective. Developing policies that will act to ease the crisis surrounding housing affordability, however, is required notwithstanding the complex interrelationships of the drivers.

Recent higher levels of population growth (which has driven residential dwelling demand) has arguably added to the problem, but delivers short term economic growth, labour shortage solutions and longer term structural benefits to the economy and society overall. The Commonwealth and Victorian Governments' pro-population growth policies should be retained.

Recommendations

UDIA (VIC) has identified a range of measures that can be undertaken to ease housing affordability in Victoria.

1. Planning

- Ruling out the introduction of inclusionary zoning. While supportive of an increase in affordable or social housing in established areas UDIA (VIC) advocates that this should be done through incentives such as relaxed height controls, dwelling yield concessions and accelerated development approvals;
- Clarification and simplification of the native vegetation guidelines;
- Streamlining of the planning scheme amendment process;
- Further simplification of the planning permit application process; and
- Adherence to strict decision timetables by all tiers of government in their approach to development assessment.

2. Government taxes

- Provision of substantial advance notice of any additional or new developer levy that may be contemplated in the future so that their impact is on the underlying price of land rather than the home buyer (it should be noted that an increase in the breadth or scale of developer charges and levies is opposed by UDIA (VIC));
- Adoption of a more equitable approach to the funding of infrastructure associated with sustainability initiatives such as broad based water recycling schemes. As such initiatives provide a broad net community benefit beyond the growth areas, infrastructure costs should be shared by the wider community;
- Further cuts and simplification to the land tax regime;
- Retention of a system of grants (and/or rebates) to first home buyers to encourage entry into the market; and
- Clarification of details (application, timing and quantum) relating to the state infrastructure levy as a matter of urgency so that developers and other stakeholders in the growth areas are provided with certainty in decision making.

3. Dwelling supply

- Maintaining, and expanding Victoria's Urban Development Program the state government's land supply monitoring tool, which informs stakeholders about the adequacy of land supply in the greater Port Phillip region;
- The retention of the state government's land supply benchmarks for Melbourne (currently cited as 15 years supply of land identified for residential development and 10 years supply of zoned land in each of Melbourne's five designated growth areas); and
- The application of the same land supply benchmarks to regional cities including Geelong, Ballarat, Bendigo, Shepparton, Mildura, Latrobe Valley, Warrnambool and Wodonga.

State Section 5:

Western Australia

A. Overall state situation

Housing affordability in Western Australia

The following graph (Figure 38) shows the median detached house prices in a number of locations across Western Australia for 2001 and 2006 and the substantial increase in prices that occurred in the period.

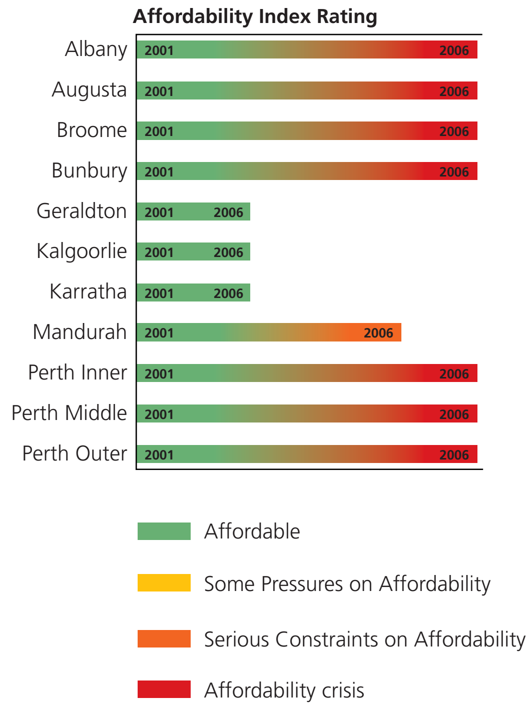
The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout Western Australia and is graphically displayed in the adjacent diagram (Figure 39).

The affordability of housing is considered to have three dimensions:

- Affordability is a measure of the ongoing cost of housing in relation to income, whether paying a mortgage or renting;
- Accessibility relates to the cost of becoming a home purchaser or securing a rental tenancy; and
- Adequacy and appropriateness which suggest that affordable housing should be adequate and/or appropriate to meet a household's requirements.

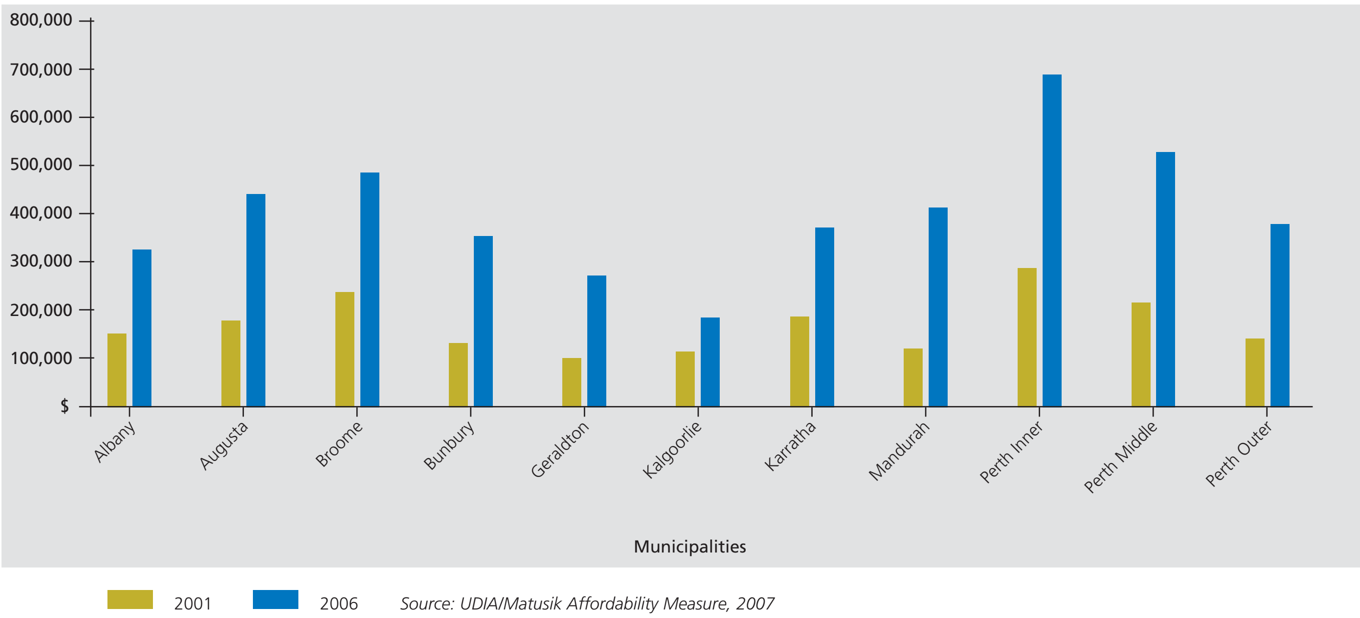
According to Shelter WA,[96] in June 2006 none of Perth's 291 metropolitan suburbs were affordable for households at the top of Q2 (median household income $59,000 pa). Over the last 12 months, the final 21 suburbs have become unaffordable.

Figure 39
Western Australia



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

Figure 38
Western Australia Median Detached House Prices ($)



Source: UDIA/Matusik Affordability Measure, 2007

[96] *www.shelterwa.org.au, last accessed 05.06.07.*

Figure 40 below indicates that the 'affordability gap', (the difference between income required to affordably purchase a house and median income) has increased exponentially since 2003. In terms of rentals, low income earners are now more likely to be the most disadvantaged due to the double impact of accelerated rents and shrinking vacancy rates.

B. Contributing factors

Declining affordability in Western Australia is largely the result of unprecedented demand for land and housing and inadequate supply. Demand has been fuelled by the migration of labour in response to activity in the resources sector and forecasts are that this is likely to continue for the next 10 – 15 years. Changing demographics are also a key contributor to demand particularly in the context of an ageing population and more single person households.

Land supply and demand

The shortage of supply in a high demand market has led to a consequent rise in land prices as evidenced in Figure 41 which shows the number of lots on the market (completed house lots) versus lots sold from 1995 to 2006 and tracks the average price of lots sold over the same period.

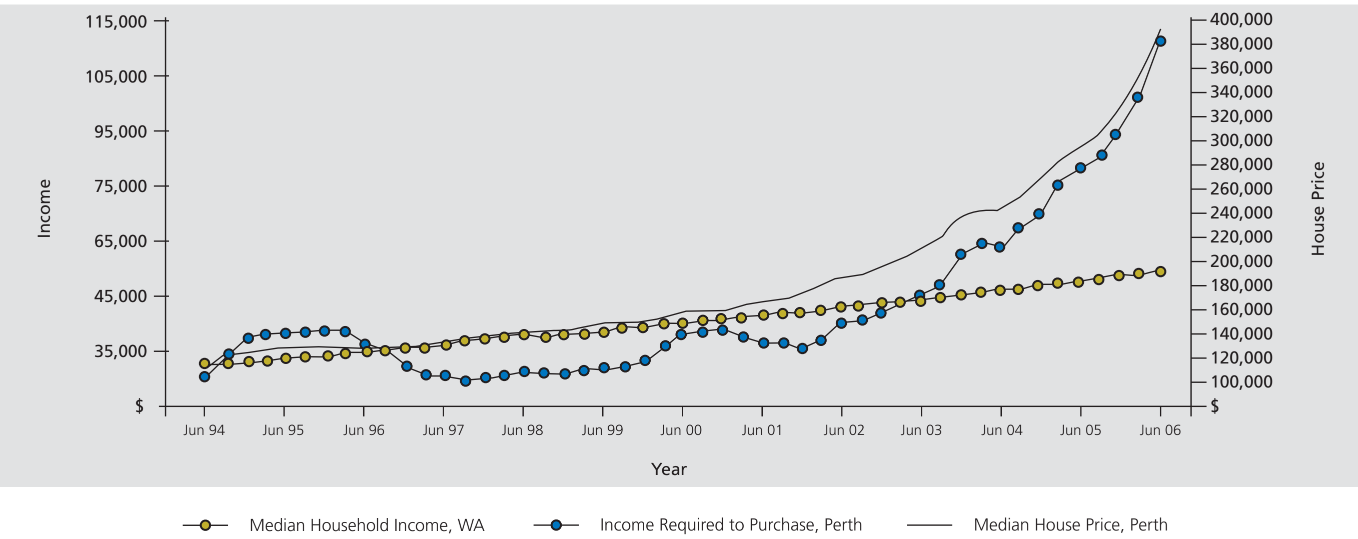
While there was a surplus of stock to meet demand in the 1990's prices remained steady and increased only slowly each year. Once surplus stock disappeared around 2002-03, in the face of strong demand and supply inelasticities, prices started to increase dramatically, and the number of available lots has continued to decline and the price continues to rise.

The figures for the Urban Development Index[97] March Quarter 2007 indicate the average price of a lot sold in Perth was $311,342 or 65 per cent higher than only 12 months earlier ($188,549). In regional areas the average price of lots sold was $251,606 an increase of 22 per cent alone since the previous quarter. Again, shortage of supply and high demand are responsible for the escalating prices.

Continued price increases have been accompanied by a decrease in lots on the market over the past decade, with the number of lots available on the WA market during 2006 less than half the historic average. In June 2006 there were only 337 lots on the market, an insufficient buffer stock to meet demand. This has served to keep prices high and has resulted in the price of land assuming a significantly higher proportion of the overall costs of home ownership.

Figure 40

House Prices, Household Income and Affordability in Perth 1996 - 2006



Source: The State of Affordable Housing in WA, 2006

97 *UDIA WA collects data of lots sold, lots on the market and lots for future release through a survey of 38 major developers. While the focus is on the Perth Metropolitan Area data is also collected for regional Western Australia.*

Figure 42 shows the distribution of costs for typical new house and land prices in Perth from 1973 to 2006. The most striking feature of the graph is the significant growth of the cost of land which had a price increase multiple of 37.8 compared to a 16.5 price increase multiple for the house component.[98] What is hidden in the land cost are government fees and charges which grew by 34 per cent between 2000 and 2005 alone for greenfields development.[99]

The imposition of these fees and charges has passed through to existing homes and has impacted most harshly on affordability for single income households, single parent families and first home buyers.

Growth in wages and house prices

Estimates show that over the last 20 years Australian median house prices have gone from four times median income to about seven times median income. In Western Australia recent figures indicate that between 2005 and 2007 median house prices have gone from 5 times median income to almost 8 times.[100]

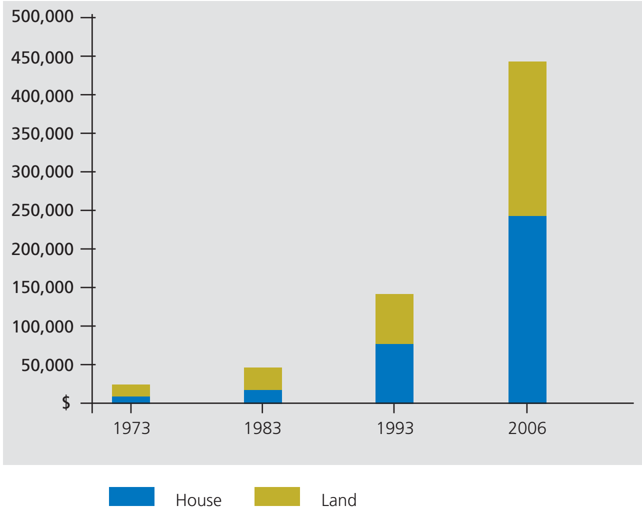
Weekly wages in Western Australia increased approximately 13 per cent between February 2005 and February 2007.[101] However, median house prices have increased by 76 per cent[102] and land has gone up by 133 per cent for the same period. As median house prices continue to rise an effective devaluation of earnings has occurred and has taken the market into new social impacts territory from high land, house and rental values.

In regional areas such as the Pilbara or the Great Southern where the local economies are driven by the resource sector, or in sea change areas such as Mandurah and Busselton, housing affordability is a challenge to economic growth as key workers are increasingly priced out of the market by high housing and rental values.

Those on low to moderate incomes, particularly seniors, people with disabilities, migrants, indigenous people and youth are being hard hit by the property boom.

Figure 42

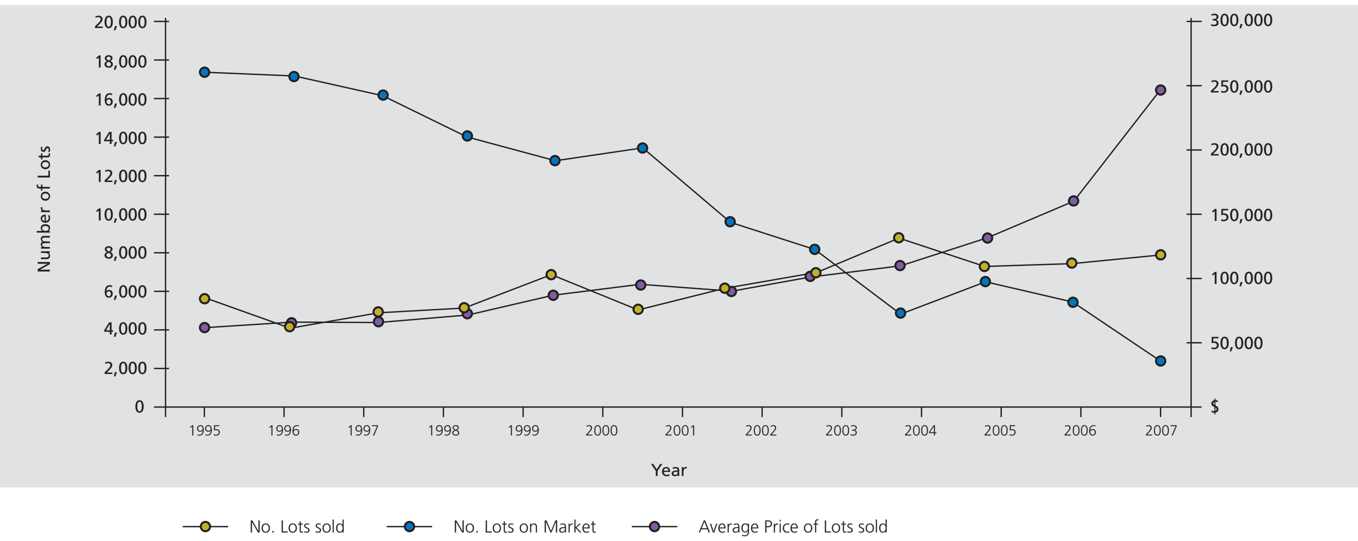
Changing House and Land Costs Perth 1973 to 2006 ($)



Source: Economics Group Research Note, (HIA), December 2006

Figure 41

Lots Sold and Lots on the Market, Western Australia



Source: Urban Development Index (UDIA WA), 2006 December

[98] *HIA, Economics Group Research Note, December 2006;* [99] *UrbisJHD, Residential Development Cost Benchmarking Study, 2006;* [100] *Real Estate Institute of WA, www.reiwa.com.au, last accessed 01.06.07;* [101] *Australian Bureau of Statistics, Western Australian Statistical Indicators, Mar 2007 (Publication 1367.5);* [102] *Real Estate Institute of WA, www.reiwa.com.au, last accessed 01.06.07.*

C. UDIA approach

UDIA WA initiatives to improve land supply

UDIA WA hosted a South West Showcase in June 2006 with the objective of bringing together state and local government and developers to discuss the direction of development in the Southwest, in a context of unprecedented demand for residential development in the region. In the wake of this event, the state government held a land supply summit with the development industry to seek to resolve the land shortage and to pinpoint the obstacles to timely development. UDIA WA made the following recommendations to the summit which industry believed would help ensure a steady supply of affordable land:

- A whole of government approach to the planning and approvals process;
- Establishment of a facility that would fast-track major subdivisions;
- For the Western Australian Planning Commission to act as custodians of an effective approval system and to improve the quality of approval documentation particularly those related to conditions of subdivision;
- Undertake an analysis of the location of 40,000 conditionally approved lots which form the 'land bank' for future development; and
- Continue to focus on initiatives to improve the approvals system such as adoption of an electronic tracking system (eLDP).

UDIA/HIA housing affordability taskforce

UDIA WA joined with HIA to establish a Housing Affordability Taskforce which, over the last 12 months, has made a number of presentations to the Premier and the Minister to address declining affordability in Western Australia. The Taskforce continued to lobby for the items mentioned above and also called for the government to establish a Ministerial Council comprised of all government departments involved in land development and approvals and for the government to make the Land Release Coordinator a permanent appointment.

Individual developers also undertook measures to preclude speculators and to favour those intending to build by:

- Seeking pre-registration and ballot systems for the sale of land;
- Restricting the number of lots sold to one per purchaser;
- Seeking statutory declarations that the purchaser intended to build; and
- Landscaping and fencing rebate systems that lapsed on resale.

Further initiatives involved some developers restricting the sale of house and land packages to lower income groups by requiring evidence of income. For example, single person buyers could not earn more than $60,000 per annum and couples could not earn more than $85,000.

Some developers have also offered stamp duty rebates to entice first home buyers back into the market after it stalled in early 2007 in response to a statement by the Treasurer that suggested stamp duty relief would be forthcoming in the state budget some months later. The lower end of the market was the area most affected by the Treasurer's statement and the withdrawal of first home buyers of affordable housing product consequently put added pressure on the rental market (which currently has a vacancy rate of less than 1 per cent in Perth) with a subsequent increase in the median rent.

Government response

Following the land supply summit, the Minister for Planning and Infrastructure appointed a Land Release Coordinator to investigate where blockages to land supply were occurring and the reasons why. UDIA WA and its members have worked cooperatively with the Land Release Coordinator over the last 10 months to expedite the research.

In April 2007, the findings of a survey carried out by the Land Release Coordinator identified multiple reasons for the shortage of land. These include:

- Construction capacity constraints, particularly a shortage of labour, machinery and materials. A shortage of locally available consultants means specialty services, eg for arterial urban water modelling, were drawing on the services of interstate offices to complete work;
- High levels of demand from both strong population growth on the back of the mining boom, and a significant proportion of investors and speculators purchasing completed lots in the market. This is demonstrated by the fact that between 2001 and 2006, the number of properties on which land tax was levied increased by 50,000. The result was lots were not being converted to housing quickly enough;
- Inefficiencies in the approvals process which relates to the large number of conditions applied to subdivisions by inexperienced, risk-averse planning and environmental officers. The application of Model Conditions is being explored; and
- Non-conversion of conditional approvals to final approvals.

Further to these findings and in direct response to the joint industry taskforce on housing affordability led by UDIA WA, the Premier recently announced a suite of undertakings to address housing affordability in Western Australia. These include the establishment of a Ministerial Council for land and housing supply, to prioritise land and housing development and to ensure a coordinated approach across government (see Figure 43).

The Ministerial Council will be informed by a reference group of industry and government representatives and will include the Land Development Coordinator.

The reference group comprises representatives of the Urban Development Institute of Australia, Housing Industry Association, Property Council, Civil Construction Federation, Western Australian Local Government Association, Master Builders Association and the main government agencies involved in land supply.

The government has committed to:

- $21.1 million over the next four years to develop an eLDP which will allow tracking of the government approvals process and ensure that relevant agencies meet timelines for subdivision approvals;
- The appointment of a Land Development Coordinator to expedite and streamline approvals for large subdivisions;
- Reducing the timelines for government planning and environmental approvals for subdivisions with the aim of reducing average timeframes from the current 10 or more months down to six months; and
- Almost $9 million over the next four years to recruit and train experienced planning staff to help accelerate approvals processes.

The Premier has committed $417 million over the next four years to increase the amount of affordable public, community and indigenous housing and to expand the bond assistance scheme.

Stamp duty relief for first home buyers

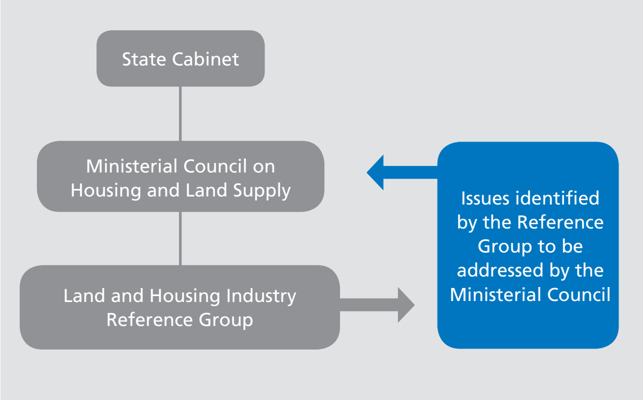
Government Initiatives

The Treasurer recently announced cuts to stamp duty for first home buyers, with the changes saving $20,700 for a first homebuyer when purchasing a $500,000 property.

In April 2007 the Western Australian Government introduced the First Start home loan program with an allocation of $300 million. The program is designed to assist households on low to moderate income move from rental into home ownership through a shared equity scheme.

Figure 43

Strategy to Improve the Supply of Land in the Perth Metropolitan Area



Source: UDIA WA, 2007

Under the shared-equity scheme, eligible first homebuyers may be able to purchase or construct a home up to $365,000, in conjunction with Keystart and the Department of Housing and Works.[103]

First Start is based on the Department of Housing and Works purchasing a share in the property and providing the homebuyer with a Keystart low deposit loan to purchase the remaining share. The home owner is allowed to increase their own share in the property by purchasing a percentage (no less than 5 per cent at once) from the government from time to time. The property is re-valued, and the percentage is purchased at the market value. The home owner is also permitted to sell the property, but the government has the right of first refusal and is entitled to its share of any proceeds. No stamp duty is payable under the scheme.

The scheme was intended to assist 3,000 purchasers over three years but it is understood that the scheme was fully subscribed within the first two months of operation and no future funding allocation has been made available to continue the scheme. The possibility of shared equity making a difference to the affordable housing crisis is therefore curtailed until the government makes a longer term commitment to the scheme.

Other State Government housing affordability schemes include:

- Keystart low deposit loan scheme - loans to purchase 100 per cent of a property;
- Goodstart Shared Equity Scheme - a low deposit shared equity loan scheme, targeted at departmental public housing tenants and applicants for rental;
- Aboriginal Home Ownership Scheme - a low deposit shared equity loan scheme to assist Aboriginal people into home ownership;

[103] *www.keystart.com.au, last accessed 08.06.07.*

- Access Scheme for people with disabilities - a low deposit shared equity loan scheme to assist people with disabilities into home ownership;
- Sole Parent Loan Scheme - a low deposit shared equity loan scheme to assist families who have experienced relationship break down and a resulting drop in income retain the family home; and
- Restart Scheme - a low deposit loan scheme to assist families who have experienced a drop in income as a result of temporary job loss or change in job retain their family home.

In 2006, the focus of UDIA WA policy was on land supply and the delivery of land to the market in an efficient and cost effective manner. The recent state government response to the UDIA WA position is considered to be as per the table below.

Recommendations

Going forward, the UDIA WA policy position will focus on the economic and structural factors impacting on housing affordability. UDIA WA is holding a Housing Affordability Summit on 17th August 2007 to determine viable strategies to halt the decline in housing affordability. It is envisaged that this forum will determine the need for:

1. Strategies to improve the supply of land and housing that is well located in terms of access to transport, services, infrastructure and employment;
2. Coordination between key government agencies in planning for future provision of serviced residential lots;
3. Integrated approach to infrastructure and land use planning to ensure strategic infrastructure in growth areas has environmental clearances prior to rezoning application; and
4. A commitment on the part of the government to:
   - Monitor and analyse economic influences and their impact on the state's housing market;
   - Report demographic trends and changes in the diversity of housing stock and housing affordability for all WA regions;
   - Identify the supply of land, and house and land values, in existing urban areas and growth areas;
   - Identify priority activity centres that can accommodate affordable housing;
   - Pursue development opportunities to stimulate low cost housing investment in activity centres such as transit oriented developments; and
   - Investigate planning tools and other mechanisms to promote and provide for increased housing diversity and housing adaptability.
5. A commitment on the part of the government to undertake research to identify:
   - Alternative building products that are acceptable to industry and government in terms of environment and cost;
   - Buyer preferences - alternative materials that are acceptable to the affordable home market;
   - Buyer preferences - dwellings with a reduced footprint that are acceptable to the affordable home market, particularly first home buyers; and
   - How behaviour can be modified so there is a better match between household size, household economy and dwelling size.
6. Industry training in the use of alternative building products.

UDIA WA will continue to petition the government for reduced taxes and charges, specifically:

- Introduction of a Land Supply Concession where land tax is payable on the en globo value of land; and
- In conjunction with local government, to develop a clear and transparent developer contribution policy to apply to community infrastructure in new developments across Western Australia.

Policy	Status
Establishment of a Ministerial Council on Land Supply	Achieved
Permanent appointment of a Land Release Coordinator	Achieved
Adoption of an electronic tracking system (eLDP)	Achieved
Whole of government approach to the planning and approvals process	Improved
Analysis of the location of 40,000 conditionally approved lots which form the 'land bank' for future development	Completed
Reduction in stamp duty (Reduced stamp duty for first home buyers only)	Partial success

Australian Capital Territory

A. Overall state situation

Housing affordability in the Australian Capital Territory

The adjacent graph (Figure 44) shows the median detached house prices in a number of locations across Canberra for 2001 and 2006 and the substantial increase in prices that occurred in the period.

The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout the ACT and is graphically displayed in the below diagram (Figure 45).

Market trends

Unlike parts of New South Wales, the Canberra residential property market is not depressed. There is solid property sales turn over and price growth in both the detached and attached housing markets, including the new release areas and in urban infill locations. This is being driven by demand through population growth and from limited supply through protracted planning processes and, until recently, a monopoly land development situation.

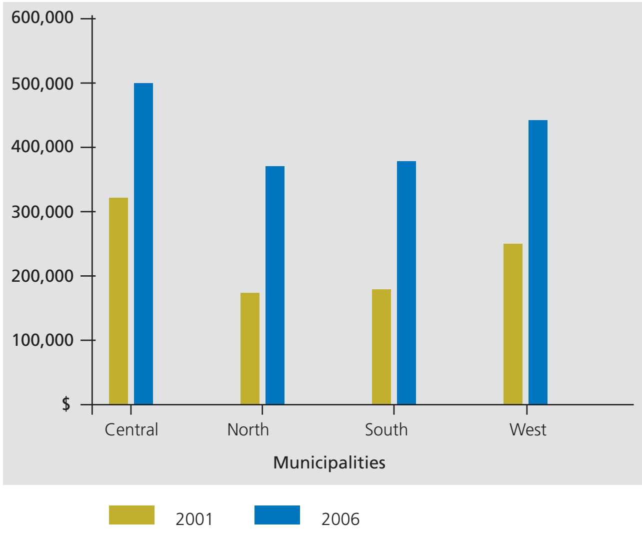
While home prices have been rising, wages growth has not kept pace and home affordability has deteriorated rapidly since 2001 and rental vacancies are at record lows. This has of course flowed on to rental costs and seriously retarded the capacity for first homebuyers to save for a deposit. Canberra is now the most expensive city in Australia in which to rent at an average of $385 a week for a detached house.[104] Without an influx of investors in rental housing, or government intervention to remedy the dwelling supply shortage, this trend will continue.

The Australian Capital Territory Government was, by its own admission, caught off guard by the increases in Commonwealth Public Service employment in the Capital over the past couple of years. While significant adjustments have now been made to the land release program these new developments will take time to obtain development consent and be constructed.

A positive step has been a move by the Australian Capital Territory Government earlier in 2007 to allow englobo land sales to private developers (only one so far) as opposed to all residential releases being undertaken by the Government's Land Development Agency. On the other hand, however, there are large projects within the Australian Capital Territory and just over the border which are privately backed and identified as being consistent with government planning strategies but are still to obtain the necessary rezoning despite years of studies and developer insistence. This is due to cross-border planning complications.

Figure 44

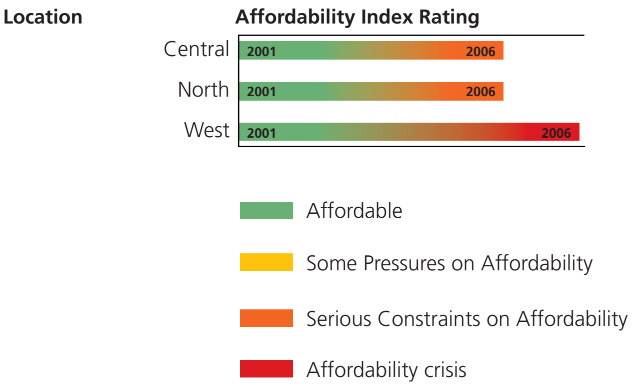
ACT Detached Median House Prices ($)



Source: UDIA/Matusik Affordability Measure, 2007

Figure 45

Australian Capital Territory



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

The Australian Capital Territory Government's Affordability Strategy is also well intended but its target of 15 per cent of homes in new estates being priced between $200,000 - $300,000 may in the end be subsidised by other houses in the developments as these prices will be difficult to achieve without reductions to raw englobo land prices, let alone allowable lot and house sizes.

The challenge for the Australian Capital Territory Government is to improve affordability for those entering the market without causing a price collapse in the wider market. Improving land supply and assessment processes and permitting changes to the mix and size of products that can be offered are all part of the steps that need to be taken.

[104] *APM, June 2007.*