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Submission to the hearing of the Australian Federal Senate Select Committee on Housing Affordability

Ballina Shire Council, 15 April 2008.

1 Executive Summary

In summary this submission makes the following key points:

- Ballina Shire, like many areas in Australia is currently experience an acute level of housing stress, with first home buyers largely priced out of the housing market;
- Ballina Shire Council recognises that changing household needs, due to aging population and smaller household types, will present an ongoing challenge to the availability of affordable appropriate housing in the future;
- Ballina Shire Council is in the process of preparing a Housing Affordability Strategy, which will look at a range of policy options, however Council's ability to respond to the challenge is constrained by a lack of resources;
- Ballina Shire's situation demonstrates that the issue of housing supply is more than just the availability of zoned land. Despite a large reserve of urban zoned land, land supply remains an issue in Ballina Shire. Factors affecting local land supply include:
 - delays in obtaining development consent due to State Government 'streamlining' measures;
 - disputes between landholder/developers;
 - opportunities to exploit market advantage (monopoly position);
 - timelines inherent in the development process; and
 - delays relating to the financial arrangements of developers or to changes in land ownership.
- Any measures that are introduced by higher levels of government, in relation to developer contributions for urban infrastructure, will need to be sympathetic to councils' needs for a secure funding source for local infrastructure, to allow development processes to advance in a logical and timely manner.

2 Introduction

Housing affordability is a complex issue with a range of causes. This submission will focus, however, on those issues and observations that may be relevant to the committee's consideration that may be gleaned from a

local government perspective and in the context of coastal regional New South Wales.

3 Demographic trends in Ballina Shire

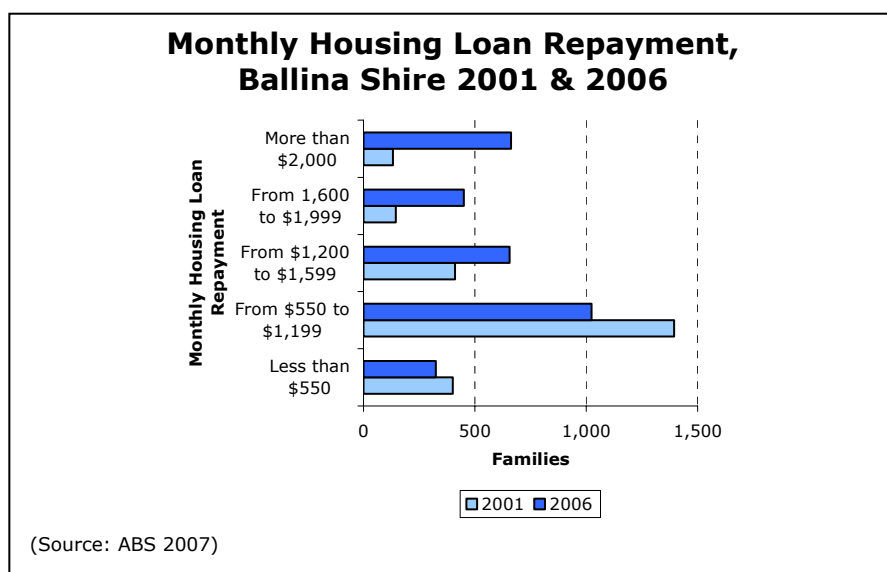
The following summarises key demographic facts about Ballina Shire (LGA) relevant to the committee's deliberations:

- LGA population of 40,265 in 2006, increase from 38,158 in 2001;
- Population growth of 2,107 (approx) people between 2001 and 2006;
- Household growth greater in lone person households and couple families without children relative to couple families with children (the traditional nuclear family);
- The majority of population growth during the 2001 and 2006 period occurred in the over 50 years old age groups;
- Declines occurred in the under 15 year age group and the 30-49 year old age group between 2001 and 2006;
- Overall the population continues to age with the median age increasing from 41 years old in 2001 to 43 years old in 2006;
- In 2006 the LGA's median weekly household income was \$779, compared with \$1,027 for Australia as a whole;
- Between 2001 and 2006 the number of households that fully owned their dwellings fell from 6,535 to 6,166 (a 5.6% decline);
- Between 2001 and 2006 the number of households in the process of purchasing their dwelling increased from 2,941 to 3,907 (a 32.8% increase).

4 Housing Affordability in Ballina Shire

Ballina Shire, like much of Australia, is currently facing a challenge in housing affordability, particularly for first homebuyers who, as a result of increasing housing costs and relatively stable household incomes are less able to enter the housing market. Key facts include the following:

- The median house price in Ballina Shire increased from \$178,000 in 2001 to \$369,000 in 2006, an increase of 107% over 5 years¹.
- Housing costs have risen substantially between 2001 and 2006, with high rates of 'housing stress' being apparent throughout the LGA;
- The jump in monthly housing loan repayments between 2001 and 2006 is shown on the following graph.



- The following table identifies the number and percentages of very low, low and moderate incomes households who are in home purchase stress².

Household income group	Households in home purchase stress	% of household income group
Very low income	184	79 %
Low income	310	62 %
Moderate	322	40 %

- The following table shows the proportion of the housing stock that is considered "affordable" for very low to moderate income households, in Ballina Shire³.

Proportion of housing stock affordable for households on:	June Qtr 2005	June Qtr 2006	June Qtr 2007
very low incomes	0 %	0 %	0 %
low incomes	1 %	0 %	0 %
moderate incomes	15 %	10 %	11 %

Ballina Shire Council sees the impact of poor housing affordability as not limited to those individuals and families who are unable to access housing, as it may potentially have broader impacts on the local economy. High house prices can threaten the health of the local economy, due to the potential for high housing costs to affect spending on other goods and services.

A lack of affordable housing may also impact on the local labour supply, particularly for 'key workers'. For Ballina Shire 'key workers' include those in the service industries (such as retail and hospitality trades), construction and health sectors. These essential sectors traditionally have low to moderate level wages, making it difficult for some workers to access affordable housing.

There is a real possibility, therefore, that high housing costs may lead to labour shortages as families and individuals become less able or willing to pay the higher house prices required to live in the region. This situation may well worsen with the ageing of the population as the demand for several 'key worker' groups increases in the future (particularly in the health sector), while the overall demand for housing increases at the same time, due to the much anticipated mass migration of relatively wealthy retirees to the region.

A related issue is that of the appropriateness of the existing dwelling stock to accommodate the changing needs of our community. Population projections for Ballina Shire suggest a significant aging of the population will occur along with a major shift in household types, including a significant increase in the number of lone person households and couple families without children. Both of these trends are likely to have major implications for the adequacy of existing dwelling forms and types to meet future housing needs⁴.

5 Council's role in housing affordability

A fundamental role for Council exists in encouraging developers to provide a greater diversity of dwelling types into residential developments. In Ballina Shire's case consideration may also need to be given to the potential for intensification of residential development in existing urban areas in proximity to commercial and community services and facilities. It is acknowledged, however, that emerging concerns regarding climate change may present additional challenges in this regard.

Other more innovative options are also being considered such as encouraging adaptable housing, that is housing for which the initial design of the building allows the structure of the dwelling to change over time, with minor internal renovations. This may involve allowing the structure of the dwelling to change, relatively easily, from a four-bedroom family home, to two two-bedroom units (and possibly back again) as the needs of the community, and the occupants of the dwelling, change over time. This requires forethought in the design of the building, with regard to access, plumbing, wiring, bedrooms, storage areas, private open space and convertible spaces (for additional kitchens and bathrooms).

The potential benefits associated with adaptable housing include cost savings (thereby increasing the opportunities for low income earners to enter the market) and flexibility for private rentals, reduced environmental impact from construction (and the use of resources) and flexibility in meeting the

community's future housing needs. Adaptable housing can also avoid the over-occupancy of dwellings, allowing existing residents to stay/age in place, whilst downscaling the amount of space needed and providing an additional source of income through rental of the additional unit.

However even these ideas need a strong level of coordination and leadership between government and industry that is currently beyond the resources of individual local councils.

More broadly, Ballina Shire Council is in the process of preparing a 'Housing Affordability Strategy' which will consider a range of policy options relevant to Council's capacities, governance roles and financial responsibilities, including those options discussed above. Given the extent to which housing affordability is affected by macro-level factors, however, the Select Committee's report on housing affordability and the Federal Government's response to it will be eagerly awaited.

The remainder of this submission will provide a perspective on the issue that has received perhaps the most attention from the press and others with respect to Councils' role in addressing housing affordability, namely 'land supply'.

6 Factors affecting local land supply

Ballina Council, common to local government in Australia, undertakes regular long-term strategic planning to determine local housing needs and facilitate housing provision by the market. This broad strategy is supported by more refined local strategies that address planning and urban growth issues specific to individual urban settlements.

In the case of Ballina Shire, this broad work considers potential land demands⁵ and identifies potential local land supplies. Local land supplies include the supply of undeveloped urban zoned land, assumed rates of infill development and potential future urban areas that have been identified via a broad sieve-mapping process to identify potential development sites (subject to subsequent assessments undertaken at rezoning stage).

In Ballina Shire's case, there is approximately 400 hectares of undeveloped zoned land currently available for residential development. This equates to a potential supply of 4,100 dwellings, relative to an anticipated total demand of approximately 320 dwellings per year for the Shire as a whole. When considered in combination with the development potential of existing vacant lots and potential redevelopment (at current rates) within existing urban areas this equates to approximately 20 years worth of supply at current rates of population growth.

When potential future development areas are included, that is land not currently zoned for residential development (but identified in a Growth

Strategy), there is an additional potential 4,500 dwellings (on top of the 4,100 dwellings referred to above). Thus, in the case of Ballina Shire, total potential land supplies as described above are, in theory, sufficient to accommodate the anticipated demand for residential housing for 30 or so years, at current rates of population growth. The assumption here, of course, is that land zoned for residential development is in fact developed and at a rate commensurate with demand, and that anticipated demand projections are accurate.

With regard to the second assumption it should be noted that the projections of housing demand are to a large extent subject to what might be called a 'chicken and egg bias', in that the rates of anticipated future population growth are usually based on recent growth rates, which are themselves affected by the supply of dwellings. Thus, basing future rates of land release strictly on recent rates of (possibly constrained) land release could be a self-limiting strategy. This then is a clear argument for providing an adequate 'buffer' of lands available for development to provide flexibility and allow the market to respond to higher levels of demand, which is what Ballina Shire Council attempts to provide.

Notwithstanding the theoretically "sufficient" land supply situation described above, house prices in Ballina Shire have increased substantially in the last few years. This situation is of course not peculiar to Ballina Shire, and is mirrored throughout Australia and in a number of other advanced industrialised countries around the world, including the USA, New Zealand and the UK.

The fundamental causes for this surge in house prices are not simple. A number of Australian and international studies⁶ have identified a number of demand-side factors, including population growth, rising household incomes, investor expectations, low interest rates, easier lending standards and preferential tax treatment for housing investment, as contributing factors to the rise in house prices. Supply-side factors on the other hand clearly play a role, however its function as a fundamental driver of house prices is less than certain, even though it may be attractive as a simple solution to an otherwise complex issue.

Regardless of the relative contributions of demand vs supply to the current housing affordability challenge, it is fair to say that housing construction in Australia has not responded adequately to the recently high level of demand. It is worth noting, however, that in the case of the USA, where constraints to overall supply are arguably less than in Australia, an oversupply of constructed dwellings now appears to be contributing to historic falls in house prices. This follows a period in the US of a similar historic house price boom, during which supply constraints were cited by some as a major contributing factor.

Notwithstanding, in the case of Ballina Shire, rates of urban development overall have not increased at the rates that one might expect from talk about seachange migration. Population growth rates, in Ballina Shire, have in fact declined over the past few years⁷. This suggests that land supply may indeed be a factor contributing to high land prices in Ballina Shire, at least relative to other similar coastal regions - noting of course that land supply in coastal localities that have adequate employment opportunities and services are inherently limited. Notwithstanding the debates about fundamental causes, Ballina Shire's situation may help illustrate how a number of other factors may be at work in affecting the actual supply of adequate housing opportunities in a tight demand environment, beyond a simple matter of local councils rezoning enough residential land. In Ballina Shire's case these 'other reasons' for limited land supply include the following:

- delays in obtaining development consent due to State Government 'streamlining' measures;
- disputes between landholder/developers;
- opportunities to exploit market advantage (monopoly position);
- timelines inherent in the development process; and
- delays relating to the financial arrangements of developers or to changes in land ownership.

In Ballina Shire's experience State Government involvement has affected the timelines in obtaining development consent for at least one major urban growth area. Introduced ostensibly to 'streamline' development consents, it would appear the opposite has in fact occurred. The area in question (approximately 90 hectares) was rezoned in 1989 and staged subdivision occurred thereafter in a fairly straight forward manner (with approximately 230 lots created by 2000). In 2002 the State Government introduced a requirement for masterplan approval for major developments in the coastal zone under State Environmental Planning Policy No 71 - Coastal Protection, applications for which were assessed in Sydney. The developers of the land in question sought and obtained Masterplan approval, but this took 2 years and four months (Dec 2003 to March 2006) to achieve. Following this, the State Government introduced a Major Projects application process requiring further concept plan approval by the Minister⁸. The Minister is now considering the Part 3A Application (having been lodged in Feb 2008).

The majority of the property in question changed hands during the intervening period. It is noted also that further action to proceed with development could conceivably have occurred if the landholder was sufficiently motivated prior to the introduction of Part 3A. Consequently, it is eight years since the last subdivision stage was approved in this release area. This situation highlights the time implications of development proposals being determined by agencies far removed from the local level. This applies to infill development as much as new release areas, as much of Ballina Shire's future growth areas are located in the 'coastal zone', with the implication that the Minister for Planning is now the Consent Authority for

many development applications which were once the responsibility of Council.

Dispute between landholders has stalled the development of another major urban growth area in Ballina Shire. The area was rezoned for residential purposes in 2002 and comprises over 80 hectares of land in a number of separate landholdings. Disagreements have occurred over the coordination and costs associated with the delivery of essential urban infrastructure and design issues affecting the development yields of the various parties. Competition between developers could be seen, in this context, as limiting rather than facilitating development outcomes.

At the local level it is apparent that substantial profits can be made from the land development process simply through obtaining "development rights", that is by rezoning land from rural to urban or by increasing the permissible yield of urban land, without any need to actually create lots or construct dwellings. Strategic planning undertaken by councils, while necessary to achieve a logical development pattern, avoid urban sprawl and facilitate the efficient provision of infrastructure, does to some extent assist land speculators as to where to focus their efforts. By increasing the number of times the land is transferred between parties before it gets to households increases the time taken to release land to the market and ultimately increases the price paid for an allotment of land.

There is one further point we would like to make relating to ownership and incentive affects on land prices. The price of lots released onto the market will depend on a number of factors, including what the market will bear (affected by demand) and importantly at the local level by development costs, particularly the price paid to purchase the land prior to development. If the development is undertaken by the original landowner/farmer the lots may be marketed at a lower price than if the land was purchased by a land developer who must pass on the higher land cost to prospective purchasers (in order to obtain the investor's required rate of return). However with low holding costs, there may be little incentive for the farmer-developer to release lots at the "socially-optimal" rate (commensurate with demand). On this point, in rural and regional areas in particular, the total holdings of transitional rural-urban land in an area are often held by a relatively small number of landholders (whether farmers, speculators or developers), such that opportunities to exploit market advantage (monopoly or oligopoly position) may also be a factor in explaining land supply constraints. This has clearly been the case in a number of instances in Ballina Shire. Arguably, the potential to achieve real and effective competition within local land markets is inherently limited.

This then presents something of a challenge, with development more likely to proceed with fewer landholders rather than many (whose interests might conflict), however having fewer landholders may reduce competition in the marketplace than might otherwise be the case.

It is also worth noting that there are inherent limitations to the speed with which supply can respond to a surge in demand. This is demonstrated by another of Ballina Shire's major growth areas, this one emerging from "scratch" rather than as an expansion of an existing urban area. In this case there has clearly been a time lag of 2-3 years between when subdivision consent was granted and lots became available at an established rate. This lag (in this case at least) was related to the time required to undertake construction works to open up the new development area. The availability of construction workers may also be relevant in this context, affecting both the price of construction (although not significant enough to explain the recent rise in house prices) and the rate of house construction and therefore house supply.

No discussion of town planning would be complete however without mention of the increasing complexity of the planning system and mounting requirements relating to threatened species protection, environmental health standards and urban design outcomes that have likely contributed to the time required to bring housing onto the market. What is also clear, however, is that development that does not achieve a balance with respect to its impact on the broader environment would not be acceptable to our local communities.

What the above discussion of land supply demonstrates is that local councils are constrained in the degree to which it can facilitate urban development, to accommodate anticipated population demands. Ensuring an 'adequate' supply of urban zoned land is only part of the land supply picture and a number of other factors clearly come into play in explaining the actual supply of constructed dwellings.

A final comment is warranted with respect to the 'development contributions' for essential urban infrastructure currently paid by developers, but with the costs ultimately being borne by purchasers. One must acknowledge that the additional costs associated with development contributions has likely added to the cost to 'new release' residential blocks, relative to previous generations of estates that had infrastructure subsidized by government. It is noted that a number of proposals currently put forth by both the NSW State and Federal Government are considering removing such contributions and instead providing government grants conditional on councils streamlining major developments. Whilst in theory removing the requirement for developers to pay infrastructure contributions may reduce development costs, it is not clear that these savings will be passed on to purchasers in the short-term (although it might over the longer-term), particularly during a period of high demand.

Further, it is conceivable that such proposals (if poorly implemented) may inhibit rather than facilitate urban development. The timely provision of urban infrastructure is necessary to ensure that development does not have adverse impacts on local communities or the financial position of local

councils. This means that councils may not be able, in good conscience, to rezone land or approve developments for which the provision of infrastructure is contingent on uncertain arrangements, such as obtaining grants from State and Federal Governments. Administrative delays, due to inter-governmental negotiations, may further complicate the development process.

Notwithstanding, the current arrangements for the funding of existing and future infrastructure are clearly imperfect and appear to be failing to adequately provide for local infrastructure needs⁹. To be effective, any measures that are introduced by higher levels of government, in relation to this matter, must be sympathetic to councils' need for a secure funding source for local infrastructure.

¹ NSW Department of Housing, Rents and Sales Reports, September Quarter figures.

² Note: Source Census 2006. Housing stress is defined as households incurring housing cost above 30% of their household income.

Very Low Incomes is below 50% of the Census Median Income

Low Incomes is 50% - 80% of the Census Median Income

Moderate Incomes is 80% - 120% of the Census Median Income

NSW median income for all households was applied to LGAs in Rest of NSW

³ Source: Valuers General (VG) & Rental Bond Board (RBB)

Affordability indices have been calculated for Very Low Incomes - less than 50% of Census household income, Low Incomes - 50% - 80% of Census household income and Moderate Incomes - 80% - 120% of the Census household Incomes. The income benchmarks are different for Greater Metro and Rest of NSW. Average Weekly Earnings (AWE) are used to index the household incomes. Affordable purchase. Based on sales transferred in the last 2 quarters. A property is regarded affordable if the loan repayment is less than 30% of the household incomes. The income benchmarks are different for GMR and Rest of NSW. A 30-year loan period and 10% deposit are assumed. The most recent interest rate during the last two quarters of each period is used. % of affordable purchase is reported only where 30 or more properties are sold. Please note that transfer date is used instead of contract date.

⁴ It should be noted, however, that a diversity of housing forms will be required to attract and retain the diversity of household types required to service the future population, including 'key workers' particularly in the health and service sectors.

⁵ Derived from Australian Bureau of Statistics and NSW Department of Planning population projections.

⁶ Productivity Commission, 2004. Report on First Home Ownership, 2004; Shiller, Understanding recent trends in house prices and home ownership, Jackson Hole Symposium of the US Federal Reserve Bank, 2007.

⁷

Period	1986-1991	1991-1996	1996-2001	2001-2006
Average Annual Increase (persons)	1,355	892	702	421
Annual Average % Change	5.2	2.8	1.9	1.1

⁸ Pursuant to Part 3A of the Environmental Planning and Assessment Act 1979.

⁹ Local Government and Shires Association of NSW, 2006. Are Council's Sustainable; Final Report Findings and Recommendations. Independent Inquiry into the Financial Sustainability of NSW Local Government.