Residential Development Council
PROPERTY COUNCIL

Boulevard of Broken Dreams

The future of housing affordability in Australia

January 2007

The **Voice** of Leadership

PROPERTY COUNCIL
of Australia

A discussion paper on the issues behind worsening housing affordability in Australia, prepared by the Residential Development Council.

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Contents

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1. Executive Summary

- Almost every available measure of housing affordability shows **a worsening problem** in Australia. Typically, Australian families now devote more than 30% of their household income to housing costs - past the point of what has traditionally been called 'affordable'. On other international measures, Australia is now among the least affordable places in the world to buy a home.

- As affordability worsens, the prospects are not healthy for a growing nation **which will demand 4.6 million new dwellings between 2001 and 2031.** The question of how people will afford to live in these dwellings is one of considerable concern.

- **Limited land supply, induced by restrictive land release policies of state and local governments, is a significant driver of rising housing costs.** The cost of land is accelerating ahead of the cost of construction and if current land release policies do not change, Australia faces a serious shortfall of land supply relative to demand, commencing 2010 and worsening rapidly from there.

- **Government related taxes, fees, levies, charges and compliance costs are also adding enormously to the cost of new housing.** These government related costs have increased by typically between $50,000 and $100,000 (even more in NSW) in the last five years alone. These costs now represent around a quarter to a third of the cost of a new house and land package - often more than the cost of the land on which the house sits.

- Apart from the GST, **state and local infrastructure levies applied to new home buyers under a 'user pays' argument are adding significantly to the combined weight of government taxes and compliance.** These are now levied at a rate far in excess of the actual cost of essential housing infrastructure generated by new home buyers. In Sydney, total levies now amount to more than $68,000 when the cost of 'direct' or essential infrastructure (water and sewerage connections) is less than $2,000 - the difference being used to fund community-wide infrastructure from public parks to public transport to libraries, museums or child care centres: infrastructure which the entire community enjoys. New home buyers - whether in infill locations in home units or in growth corridors in detached houses - are in effect paying the most for community-wide retrofits and upgrades and the rate at which they're being forced to pay is spiralling dangerously out of control.

- **Environmental compliance costs, while politically attractive, have also added to the cost of new housing for little measurable ecological benefit.** These costs in NSW now add around $14,000 to the cost of a new home and can add more than $25,000 to the cost of a new home unit. New housing accounts for only 2% of the total housing stock, but is bearing close to 100% of the compliance burden. Further, the total stock of housing in Australia contributes only 9% of greenhouse emissions to the total.

- **Systems of development assessment nationally are dysfunctional: applications are taking longer (up to three years in some parts of the country) and are increasingly complex, expensive, and subject to unpredictable and undisciplined political intervention (NIMBYism).** Research shows that three in four Australians support the de-politicisation of development assessment and the introduction of third party assessment panels - a move strongly resisted by local government in many jurisdictions. Other development assessment reforms outlined in the 10 principles of the Development Assessment Forum (DAF) have 'in principle' support of all State Planning Ministers but largely remain the subject of inaction (with the notable exceptions of South Australia and ACT).

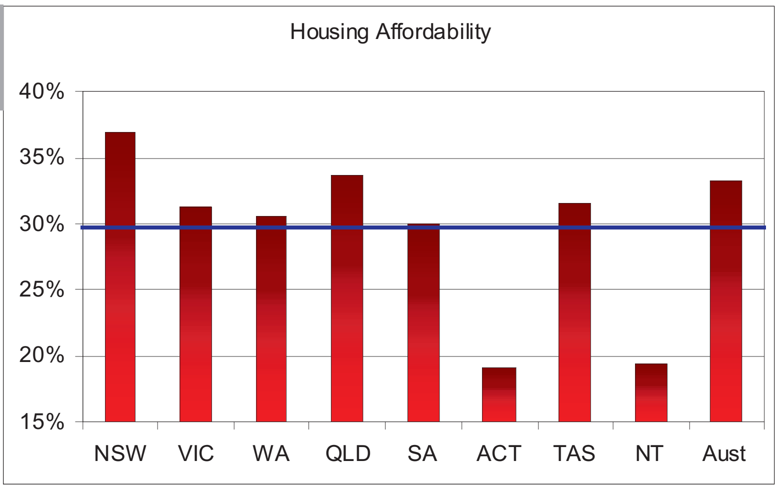
- **Current approaches to the taxation and regulation of new housing have created a generational divide almost without comparison in the history of this country,** whereby the purchaser of a $1.8 million home in leafy Mosman (NSW) pays a fraction of the taxes and compliance costs paid by a young family buying a new home in outer north west Sydney. This is a story being repeated around Australia.
- If the warning signs are misread or ignored, governments of all persuasions and at all levels will consign future generations of Australians to an uncertain future which most likely means that home ownership will be well beyond the reach of any but the wealthy.
- The remedies for the worsening housing affordability situation are relatively simple: fix the systems of development assessment; move away from heavily prescriptive and regulated restrictions on land supply so that competition is created in the market and pressure on land prices is relieved; and decrease the tax and regulatory burden on new housing by moving from 'user pays' infrastructure levies to public debt for urban public infrastructure.

2. Trends in affordability

Housing affordability, however it's measured and whoever does the measuring, is reaching crisis proportions in this country.

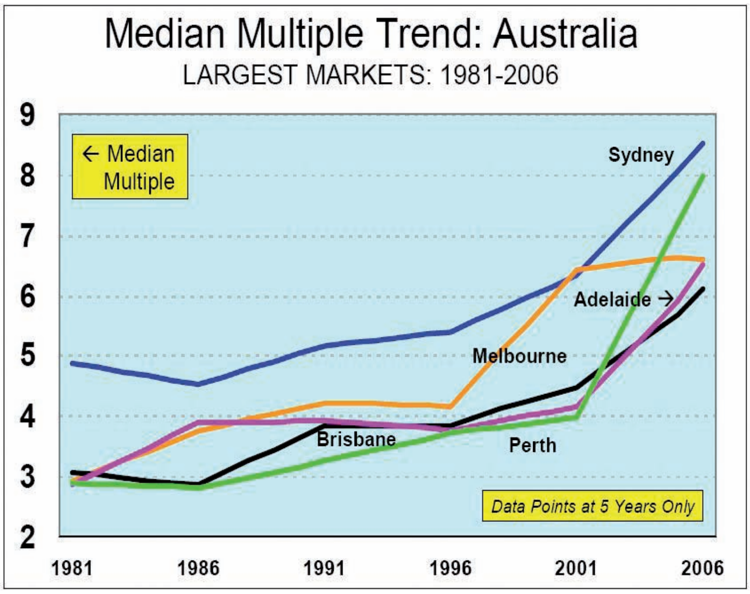
The trend is confirmed through various independent measures of housing affordability. The generally accepted definition of affordable housing is that housing costs should not exceed 30% of household income. That benchmark, for many Australians, was breached several years ago.

Percentage of household income needed to service typical monthly mortgage, 2006. Source: REIA.



Another measure of housing costs is to plot the median house price as a multiple of median household incomes. This was done by the Wendell Cox consultancy in their study 'Demographia: 3rd Annual Demographia International Housing Affordability Survey' released 2007.

The research shows a clear trend: housing typically cost three to four times median household incomes for much of the last 25 years. However, this began to accelerate rapidly from around 1996 and especially since 2001. As this submission will show, there are clear public policy reasons for this rapid escalation. Housing costs are now typically six times median family incomes, and over eight times median family incomes in Sydney.



Source: 3nd Annual Demographia International Housing Affordability Survey: 2007

On a global scale, this means Sydney is among the world's least affordable housing markets - ranked #7 on the world scale. Sadly, the Australian cities of Sydney, Hobart, Melbourne and Perth now all feature in the 'top 25' of the world's least affordable cities.

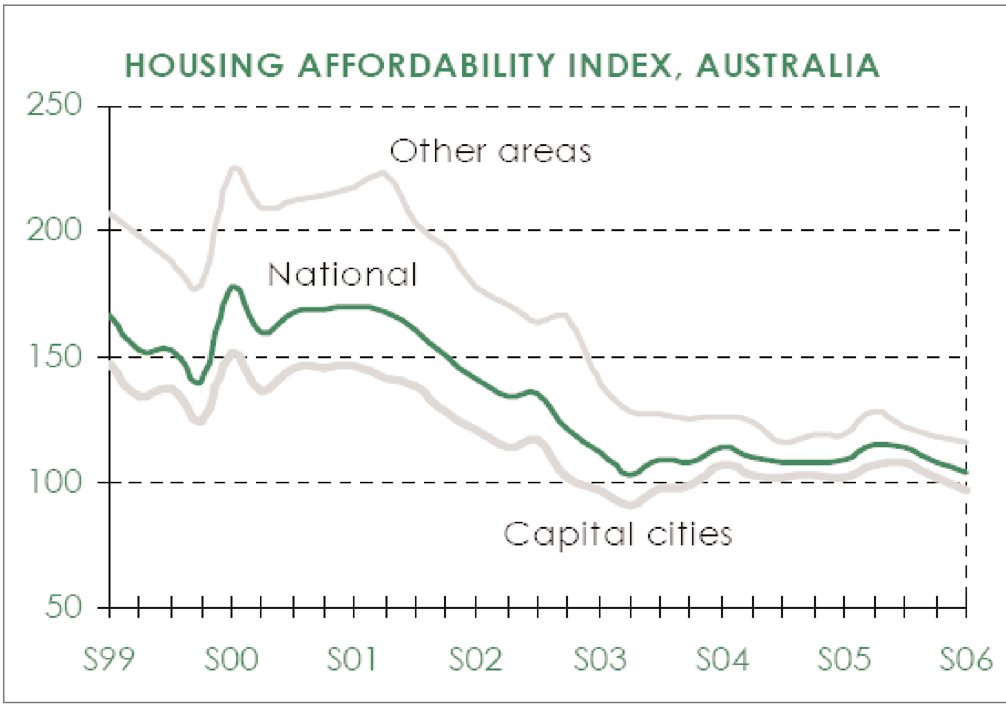
Source: 3rd Annual Demographia International Housing Affordability Survey: 2007

25 Most Unaffordable Housing Markets							
#	Nation	Market	Median Multiple	#	Nation	Market	Median Multiple
1	United States	Los Angeles-Orange County, CA	11.4	14	United States	Miami-West Palm Beach, FL	7.6
2	United States	San Diego, CA	10.5	14	United States	Modesto, CA	7.6
3	United States	Honolulu, HI	10.3	16	United Kingdom	Cardiff	7.5
4	United States	San Francisco, CA	10.1	17	United Kingdom	Bristol	7.3
5	United States	Ventura County, CA	9.4	18	United States	Fresno, CA	7.2
6	United States	Stockton, CA	8.6	18	United States	New York, NY-NJ,-CT-PA	7.2
7	Australia	Sydney	8.5	20	Australia	Hobart	7.0
8	United States	San Jose, CA	8.4	21	New Zealand	Auckland	6.9
9	United Kingdom	London (GLA)	8.3	21	United Kingdom	London Exurbs	6.9
10	United Kingdom	Bournemouth-Dorset	8.2	23	Australia	Melbourne	6.6
11	Australia	Perth	8.0	23	United States	Sacramento, CA	6.6
12	United States	Riverside-San Bernardino, CA	7.9	23	United States	Sarasota, FL	6.6
13	Canada	Vancouver	7.7	23	Canada	Victoria	6.6

An alternate measure of affordability is provided by the HIA-Commonwealth Bank housing affordability index for Australia.

In it's December, 2006 survey, released late January 2007, the index fell to its lowest on record since 1984, with an average Australian first home buyer now needing in excess of 30 per cent of their disposable income to service minimum monthly payments on a new mortgage.

HIA's Executive Director of Housing and Economics, Mr Simon Tennent, said that it is patently obvious that the correction in housing markets and subsequent improvement in affordability predicted 2 years ago is way off the mark. "The case for a rethink on housing affordability and a targeted all-of-government approach to address the problem has never been more compelling," he said.



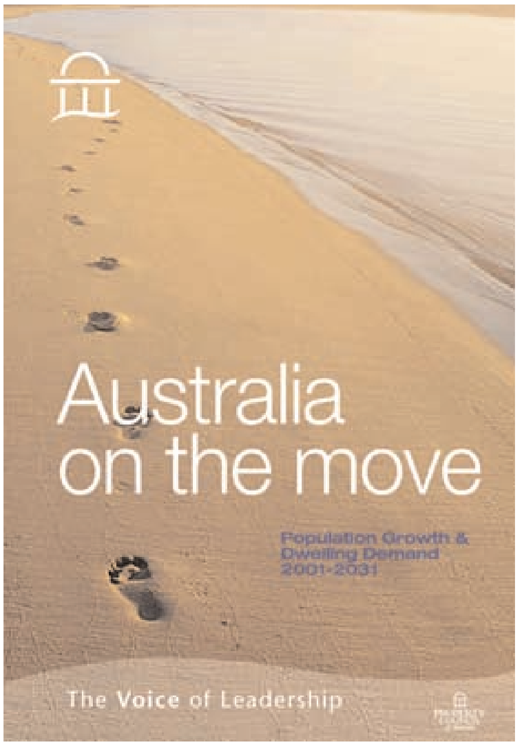
Source: HIA Commonwealth Bank report, October 2006.

The affordability problem is therefore not in dispute, nor is the relatively rapid escalation of this problem nationwide, particularly in the past five years.

3. Housing demand in the future

In 2005, the Residential Development Council commissioned KPMG Demographer Bernard Salt to examine, in detail, demand projections for all major markets throughout Australia to the period 2031.

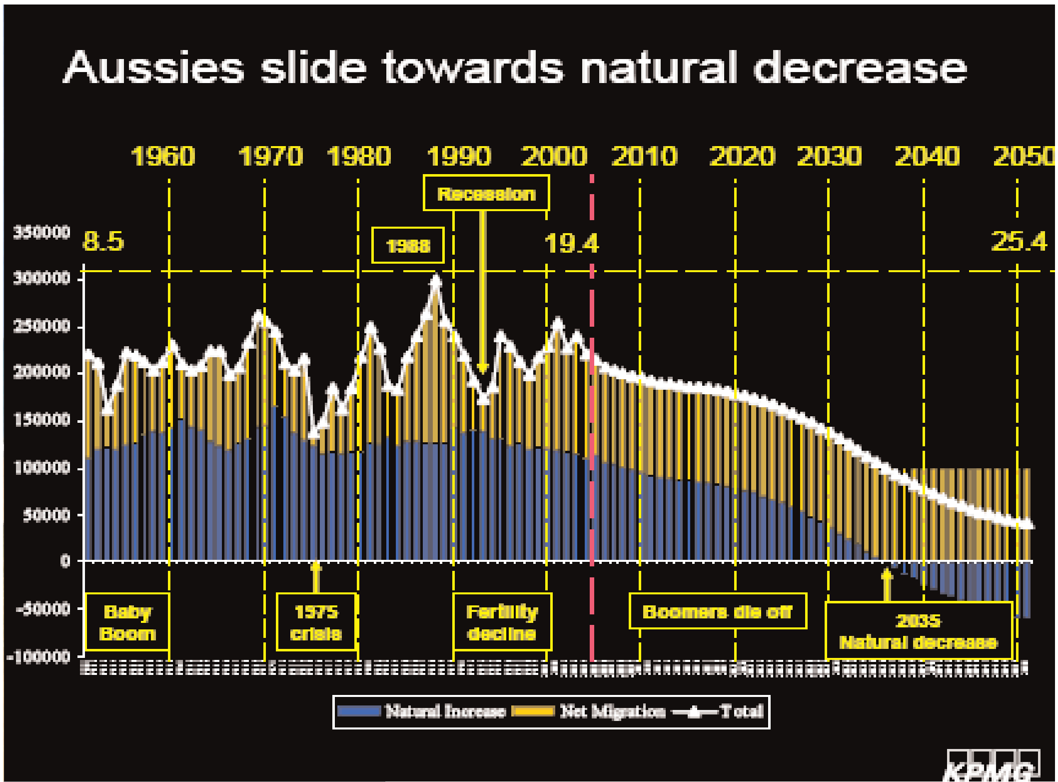
That report - "Australia on the Move" - broke new ground in forecasts of population and household demand by regional areas.



Among the key findings contained in its 56 pages were:

- Australia will require 4.6 million new dwellings between 2001 and 2031 (a 40% increase on current stock) to house a 29% increase in population (forecast to reach 24.99 million by 2031)
- Rapidly shrinking household size is the primary factor driving housing demand to 2031, by which time average household size in Australia will have fallen to 2.38 persons per household from the 2.74 recorded in the 2001 Census. In 1981, the same figure was 3.2 persons per household. In other words, for every 1000 person population increase in 1981, we generated demand for 312 new dwellings. By 2031, the same 1000 person increase will generate demand for 420 dwellings. This dynamic has important public policy implications.
- By 2031, 40% of the housing stock will have been created in the preceding 30 years.
- The largest markets for net new dwelling demand in Australia to 2031 will remain the capital cities and established growth centres: Sydney (676,000), Melbourne (636,000), Brisbane (489,000), Perth (360,000), Gold Coast/Tweed (214,000), Sunshine Coast (131,000), Adelaide (113,000), Newcastle (79,000), Mandurah (62,000) and Canberra (56,000).
- From around the year 2020, the mortality of ageing baby boomers will push the rate of natural population growth into the negative: from this point, only immigration will maintain population growth in Australia.
- The push for greater housing density is at odds with all demographic trends. In 1981, 78% of all dwellings in Australia were detached (ie stand alone) dwellings. By 2001 this figure was 75% and by 2031 this figure will remain at 71%. Bearing in mind that 40% of all housing stock in existence by 2031 will have been built in the previous 30 year period, it is clear that despite falling household sizes, the detached dwelling will remain the preferred dwelling type.

- Even in our most urbanised city (Sydney) only 37% of dwelling stock in 2001 was attached (ie apartment or townhouse style). By 2031 this will have risen to 43%. By way of comparison, the average of the largest 30 cities in the USA in 2000 was 48% in attached housing.
- The report notes that there is no national strategy for housing and population settlement. In the absence of such a policy, the report asks what might happen to the Australian economy which has geared itself to new dwelling demand of 142,000 per annum over the last decade when demand drops by a third to 109,000 dwellings per annum in the 2020's.



Source: Australia on the Move, 2005.

4. Land supply

Australia is not short of habitable land. Restrictions on the supply of land are not a product of geography or even climate: they are a product of public policy.

Public policy which seeks to restrict the unrestrained growth of 'cookie cutter' suburban housing emerged in the late 1980's onwards. The determination to limit suburban growth grew more pronounced as governments became increasingly less willing to fund new urban infrastructure associated with growth. Public policy now typically seeks to contain growth within existing urban footprints, citing the need for more efficient use of existing infrastructure (through higher density) and attempting to prescribe this outcome by creating urban land boundaries around major population centres.

This practice has had a particularly dramatic effect on the price of englobo land, and has fuelled rapid increases in housing prices - especially in the past five years - as supplies of available expansion land dries up or the prices become uneconomical.

4.1 Land Supply: Domestic evidence

4.1.1 "Australian Broad Hectare Land Supply Study", due for release early 2007. Prepared by Macroplan for the Residential Development Council of Australia.

In 2007, the Residential Development Council will release an exhaustive national study into land supply in Australia. The study, prepared by consultants Macroplan, examines in detail the forward projections of land supply and interrogates official estimates of available land – most of which are found defective (that is, most official figures over estimate available land supplies).

The report's key findings include:

- Australia's key residential land markets are in disarray. In Sydney in 2003/04, 3,500 lots were subdivided against underlying demand of 7,600 lots. This is less than half the number of lots subdivided in Perth, a city some 4 to 5 times smaller. At the same time, land is not selling in Sydney because the price is too high.

- Australia's residential land markets are not functioning effectively. The primary cause is the misapplication of urban planning and development contribution policies, which have led to distortions such as land 'withdrawal', property 'hold out', infrastructure deficiencies and higher costs for residential land buyers.

- Restricted land supply has also resulted in a net loss to the national housing market, potentially totaling $384 million, which reflects the economic cost caused by fewer housing transactions. Fewer households will benefit from access to housing, and house builders and homeowners have less revenue from fewer sales, all of which reduces overall income and welfare. This in turn leads to reduced total house building and reduced multipliers from a key sector of the Australian economy.

- Residential land undersupply is a major national issue which is now having long term affordability impacts, creating major market distortions and generating migration and inequality rather than urban consolidation. Limitations on land supply have already added just under $30,000 to the price of a block of land.

- A national understanding of land supply issues is required given the impact of non local factors, such as immigration and population settlement patterns. While there is much debate about the relative importance of demand factors versus supply factors in determining affordability, the following is clear:

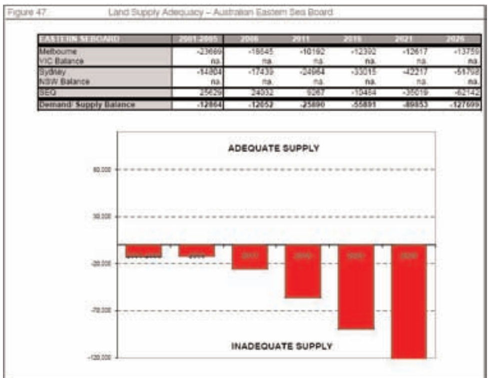
- First, there is no agreed, standard or consistent methodology for measuring the interaction between supply of and demand for housing in Australia.
  Second, even though demand plays an important role in setting housing prices, the key to achieving higher levels of affordability to Australian families is to increase the supply of stock. Consequently, reliable measures of stock flow are crucial.

- COAG should establish a standard methodology for measuring the interaction between supply and demand factors, including:
  - The difference between theoretical and effective/practical land release;
  - Differentiation between land releases based on class of supply, such as unzoned, zoned, serviced etc;
  - Underlying demand;
  - The relative impact of factors that impact on demand;
  - Forecast price points based on the interaction of demand and supply; and,

  An assessment of all locales across the country, distinguishing between inner city, metropolitan, out metro, regional, sea-change communities etc.

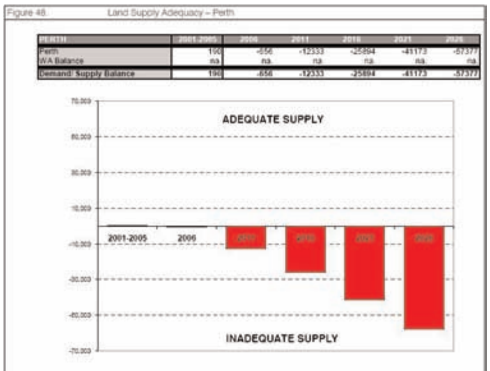
- COAG should establish a working party with private sector representation to address this issue as a matter of urgency."

Figure 47 Land Supply Adequacy – Australian Eastern Sea Board



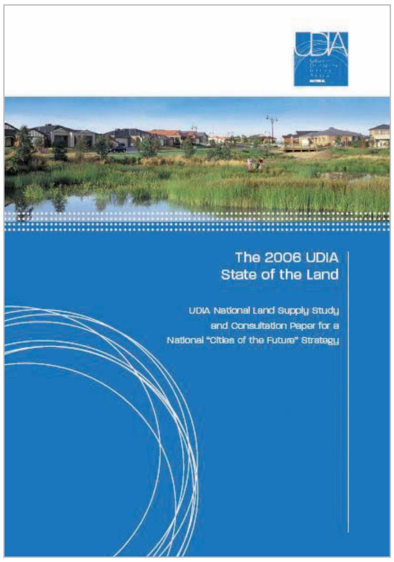
Source: MacroPlan Australia (2006)

Figure 48 Land Supply Adequacy – Perth



Source: MacroPlan Australia (2006)

4.1.2 UDIA State of the Land, 2006.



Similar conclusions were reached in the 2006 'State of the Land' report by the UDIA.

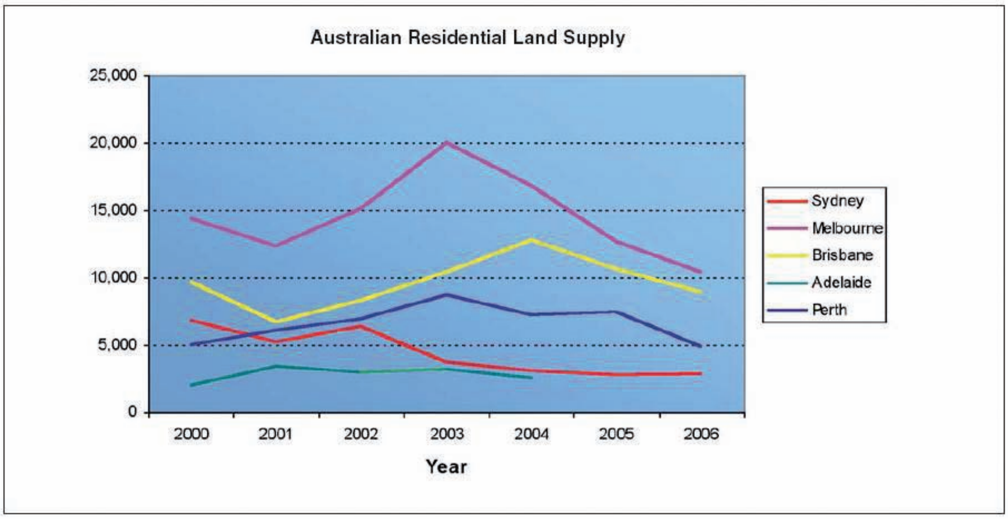
This report does not provide forward estimates of supply but it does track the changes in land supply, land prices, and average lot size over a 15 year period, and considers the trends and commonalities across five major capital cities (Adelaide, Brisbane, Melbourne, Perth and Sydney). It finds that the performance of the state capitals in matching land supply with demand is, at best, moderate, and at worst, disastrous.

Its key findings are:

- There has been a failure throughout Australian capital cities to adequately match land supply and demand and a subsequent affordability crisis has prevailed. This failure is demonstrative of the insufficient understanding of the nexus between land supply and affordability and a failure to adequately address one of the principal determinants of socio economic prosperity.

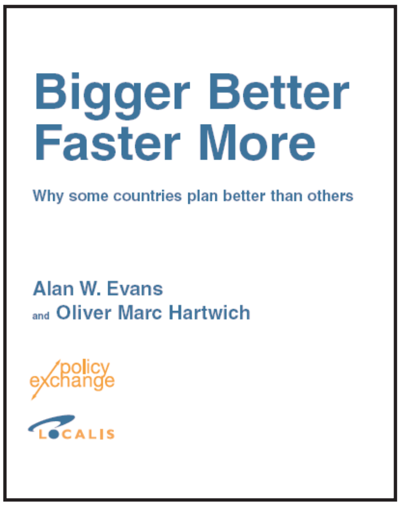
- Inhibitive state legislative and regulatory frameworks have been the principal constraint to the delivery of supply and to the provision of infrastructure. With land costs now assuming up to three quarters of the cost of a house and land package and land supply diminishing in every state over the course of this study, the linkage between land costs, supply and affordability is distinct.

- Without appropriate recognition by all three tiers of government that the increasing diversion between land supply and affordability is manifesting in a housing market that will be inaccessible for a generation of Australians, we may be witnessing the evolution of a 'rent-not-buy' model of housing at odds with the nation's tradition of home ownership. A swift and fundamental shift in policy is essential.



Source: UDIA State of the Land, 2006.

4.2 Land Supply: International evidence

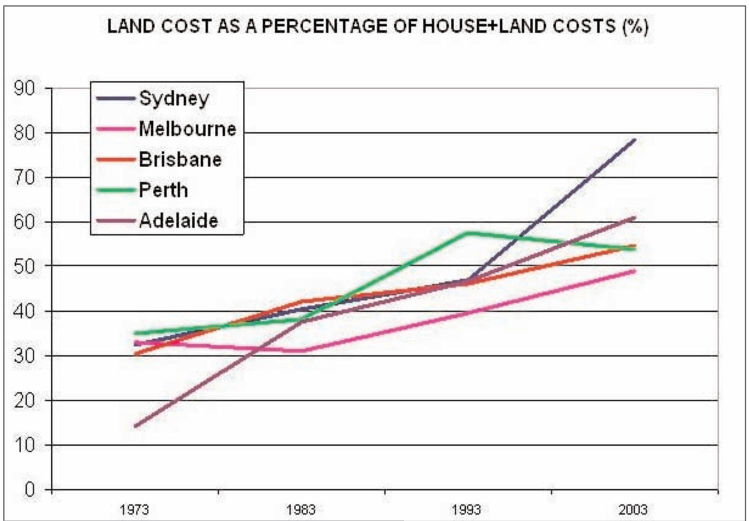


4.2.1 The Policy Exchange

The United Kingdom based Policy Exchange released a 2005 paper entitled 'Unaffordable Housing', which claimed for the UK that "By ignoring the role of supply in determining house prices, planners have created a system that has led not only to higher house prices but also a highly volatile housing market."

The authors - Alan W. Evans, Professor of Economics and Director of the Centre for Spatial and Real Estate Economics at the University of Reading Business School, and Dr Oliver Marc Hartwich, Research Fellow at the Policy Exchange - subsequently expanded their research to cover additional parts of the world. Their subsequent paper, 'Bigger Better Faster More - Why Some Countries Plan Better than Others', confirmed their earlier view. It had this to say of the Australian market under the chapter heading 'Death of a Dream - Planners versus the Traditional Australian Home':

"Various Australian (state) governments have threatened this [Australian] dream by reducing the quantity of land released for housing and by levying homebuyers to provide infrastructure".



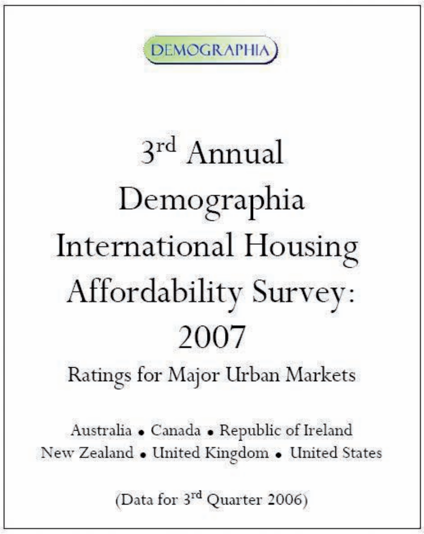
Source: The Policy Exchange, 2005.

"Both policies have had a strong upward impact on Australian house prices. In Sydney, 78% of the purchasing price is typically paid for the land, not for the house itself. So land-use planning has actually created a shortage of land - in a country with a population density of only two persons per square kilometre."

"…land is so expensive not because Australia has too little of it, but because too little of it is released as governments try to limit their infrastructure spending."

The graph is from their paper, and demonstrates the trend of rising land costs assuming a higher and higher proportion of total housing costs.

4.2.2 Demographia



DEMOGRAPHIA

3rd Annual Demographia International Housing Affordability Survey: 2007

Ratings for Major Urban Markets

Australia • Canada • Republic of Ireland
New Zealand • United Kingdom • United States

(Data for 3rd Quarter 2006)

The 3rd Annual Demographia International Housing Affordability Survey expands coverage to 159 major markets in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States. The Demographia International Housing Affordability Survey employs the "Median House Price to Median Household Income Multiple," ("Median Multiple") to rate housing affordability.

According to the report: "The most pervasive housing affordability crisis is in Australia, with an overall Median Multiple of 6.6. Affordability is only marginally better in New Zealand (6.0) Ireland (5.7), and the United Kingdom (5.5). On the other hand, the national Median Multiple in Canada is 3.2, indicating that housing is one-half as expensive relative to incomes as in Australia. The national Median Multiple in the United States is 3.7."

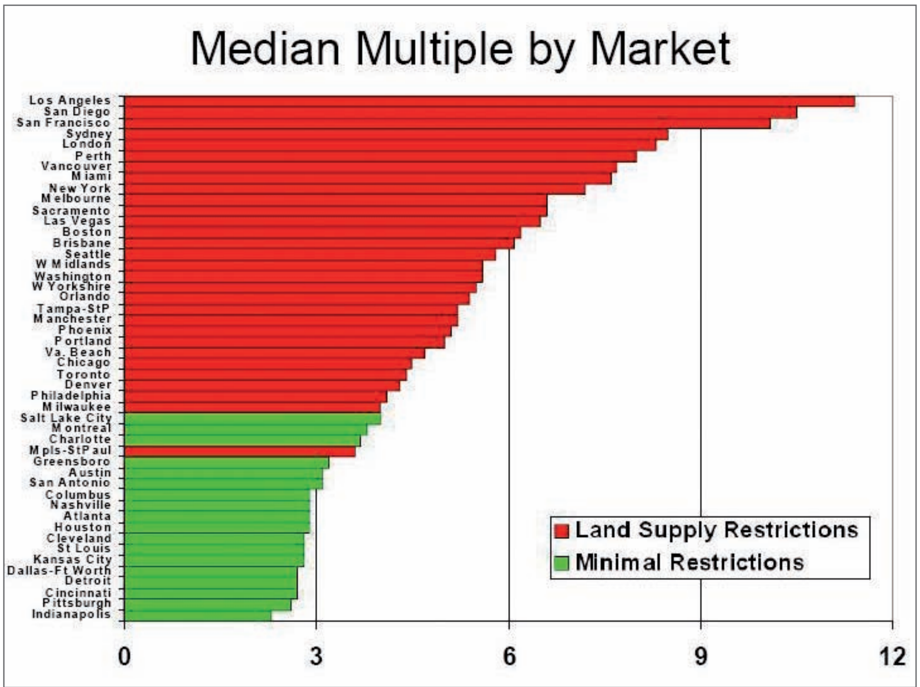
The report also argues that economic factors, such as employment and low interest rates, cannot explain the rapid growth in housing prices.

The report argues that regional land use policies more accurately explain the rapid escalation of housing prices in markets now rated 'unaffordable': "Various planning strategies have driven up the price of housing, such as land rationing (urban growth boundaries and infill requirements), extravagant

amenity requirements, excessively high infrastructure fees and approval processes that are unnecessarily lengthy and complicated. Indeed, planning permission (appropriate zoning) itself represents a significant add-on to the market value of land for residential development, represented by prices many times that of adjacent land without such permission."

"The basic problem is that, in most of the least affordable markets, residential development is permitted only in accordance with inflexible government plans, while where housing remains affordable, people's preferences tend to drive development (consistent with environmental requirements)."

The graph below plots various markets in terms of the median multiple and highlights those where land supply restrictions are in place, and those markets where there are minimal restrictions.



Source: Demographia, 2006

5. Government costs and new housing

One of the reasons governments have increasingly restricted the supply of developable land has been to curb their infrastructure spending responsibilities. A regrettable parallel policy has also developed whereby state and local governments, particularly in the past five years, are demanding that the costs of any infrastructure associated with residential development be met by the residents living in new apartments or houses, where a developer has supplied that stock to the market.

This is at odds with the approach which has applied to previous generations of new home owners: the direct costs of infrastructure associated with their housing choice (ie the connection of water, sewerage and essential services) was an element of the ownership cost, but all other costs (road upgrades, public transport services, council libraries, upgrades to water storage and treatment, etc) were paid for by the general community, either through state taxes or council rates.

A landmark study commissioned by the Residential Development Council in 2006, prepared by consultants Urbis JHD, highlighted the collective impact of all government-related taxes, fees, charges and compliance costs on the price of new homes and new home units.

The report showed that the combined costs of government taxes, charges, levies and regulatory compliance (at all levels of government) was now the second highest element of the cost of new housing, second only to the cost of physical construction, and more than the cost of the land. (Note that other studies comparing land prices to the total cost of housing would incorporate many of these government costs with the cost of land, as taxes and charges generally apply to land rather than construction. Building compliance is the general exception).

The Urbis study found that these costs now typically account for anywhere from around a quarter to one third of the cost of a new house and land package created in a development estate (modeled on a 100 lot subdivision), and from roughly one fifth to almost a third of the cost of a new home unit in a 50 unit development.

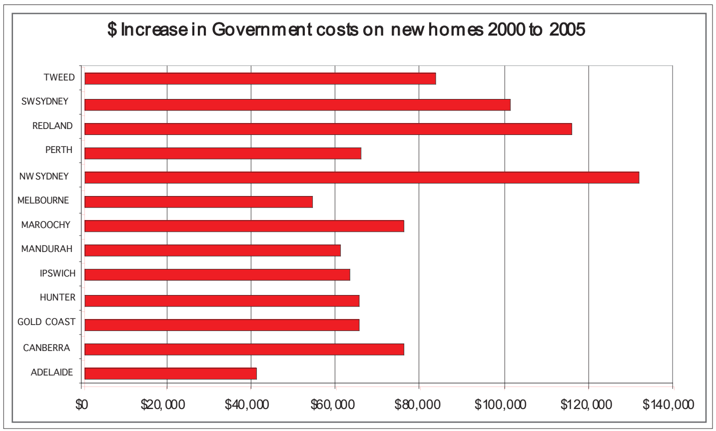
The tables below show these totals relative to the price of a new four bedroom house and land package and a typical new three bedroom home unit.

(1) Broadhectare House and Land Costs, 2005				
Area	Total Cost	Government Cost	Rank	Government
North West Sydney	$570,240	$198,670	1	34.8%
South West Sydney	$544,115	$166,481	2	30.6%
Redland	$464,225	$135,799	3	29.3%
Tweed	$465,740	$113,836	4	24.4%
Canberra	$425,550	$108,011	5	25.4%
Maroochy	$412,475	$99,316	6	24.1%
Melbourne	$366,660	$91,135	7	24.9%
Perth	$373,700	$86,109	8	23.0%
Hunter	$361,240	$85,687	9	23.7%
Gold Coast	$391,775	$84,306	10	21.5%
Mandurah	$310,700	$84,212	11	27.1%
Ipswich	$319,325	$79,448	12	24.9%
Adelaide	$248,530	$53,003	13	21.3%

Source : UrbisJHD

(2) New Home Unit Costs, 2005				
Area	Total Cost	Government Cost	Rank	Government
Sydney	$570,240	$167,258	1	29.3%
Brisbane	$422,825	$113,849	2	26.9%
Perth	$457,700	$113,414	3	24.8%
Adelaide	$432,080	$111,653	4	25.8%
Maroochy	$345,200	$95,894	5	27.8%
Gold Coast	$319,325	$87,017	6	27.3%
Melbourne	$318,960	$65,662	7	20.6%

Source Urbis JHD



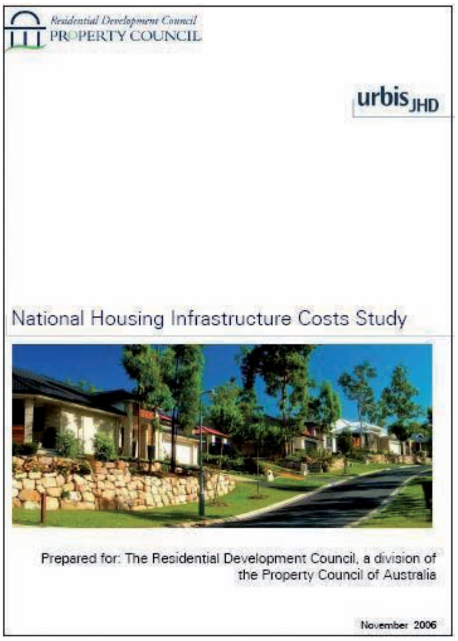
Of most concern in the report's findings was the rate at which these charges had grown in just the previous five years. Dollar increases of $50,000 to $100,000 per new home in the last five years were not uncommon. The graph below shows these increases.

Excluding the compliance costs, the research proves that the huge decrease in for affordability has been substantialy driven by massive increase in taxes. the taxes alone levied by all levels of government have had a significant bearing on the rising cost of new housing.

The table below identifies these costs. The GST, it should be noted, is only levied on new homes and the income is repatriated to state governments, which continue to levy a range of taxes on new housing, and some in addition levy their own infrastructure charges. Local governments too are increasingly levying a variety of infrastructure-related charges on new housing. (Note that since this report was completed, the per lot infrastructure charges in the Sydney north west corridor have been revised down to an average $35,000 per lot).

TYPE OF PRODUCT AND REGION		FEDERAL	STATE GOVERNMENT					LOCAL GOVERNMENTS		
NEW HOUSE AND LAND PACKAGES		GST	Stamp Duty Developer	Stamp Duty Purchaser	Land Tax	State Infrastructure Charges	STATE TOTAL	Infrastructure charges & Section 94	Application fee & Council Rates	LOCAL GOVT TOTAL
Sydney South West	$544,115	$47,727	$5,403	$19,115	$2,975	$17,500	$92,721	$26,000	$817	$26,817
Sydney North West	$570,240	$50,000	$6,320	$20,240	$3,471	$50,000	$130,031	$33,172	$600	$33,772
Hunter	$361,240	$31,818	$1,645	$11,240	$942	$5,000	$50,645	$10,500	$642	$11,142
Tweed	$465,740	$40,909	$4,028	$15,740	$1,594	$5,000	$67,271	$12,000	$900	$12,900
Maroochy	$412,475	$36,364	$2,212	$12,475	$1,313		$52,364	$13,000	$900	$13,900
Redland	$464,225	$40,909	$3,258	$14,225	$3,750		$62,142	$14,194	$1,682	$15,876
Ipswich	$319,325	$28,182	$1,688	$9,325	$721		$39,916	$15,107	$1,395	$16,502
Gold Coast	$391,775	$33,409	$2,380	$11,775	$1,721		$49,285	$15,333	$1,065	$16,399
Melbourne	$366,660	$31,818	$2,750	$16,660	$3,292		$54,520	$5,400	$1,017	$6,417
Canberra	$425,550	$37,273	$3,928	$15,550	$1,470		$58,221	$0	$780	$780
Adelaide	$248,530	$21,818	$582	$8,530	$650		$31,580	$1,563	$292	$1,854
Mandurah	$310,700	$27,273	$328	$10,700	$80		$38,381	$0	$1,273	$1,273
Perth	$373,700	$32,727	$4,483	$13,700	$4,548		$55,458	$0	$614	$614
NEW HOME UNIT PROJECTS										
Sydney	$570,240	$50,000	$6,860	$20,240	$4,788	$8,000	$89,888	$8,000	$3,305	$11,305
Brisbane	$422,825	$37,273	$4,350	$12,825	$3,000		$57,447	$6,250	$2,010	$8,260
Maroochy	$345,200	$30,455	$1,288	$10,200	$322		$42,264	$7,576	$712	$8,288
Gold Coast	$319,325	$28,182	$1,946	$9,325	$1,814		$41,267	$10,319	$1,279	$11,598
Melbourne	$318,960	$23,631	$5,500	$13,960	$2,726		$45,817	$5,400	$970	$6,370
Perth	$457,700	$40,386	$4,230	$17,700	$1,497		$63,813	$1,950	$3,025	$4,975
Adelaide	$432,080	$37,727	$4,671	$17,080	$3,769		$63,247	$5,794	$2,441	$8,235

5.1 Infrastructure cost-shifting


Residential Development Council
PROPERTY COUNCIL

urbis JHD

National Housing Infrastructure Costs Study

Prepared for: The Residential Development Council, a division of the Property Council of Australia

November 2006

In previous generations, infrastructure costs associated with growth have typically been funded by governments through public sector debt. Debt servicing was through broad community-wide taxes.

But as the earlier report above shows, this approach has given way to abuse of the 'user pays' philosophy, whereby those households moving into new growth areas (in the case of detached housing) or into new home units (in the case of infill) are taxed via infrastructure levies to fund the increased infrastructure needs.

This new approach is promoted by governments at state and local level as being more equitable, however:

- there is clear evidence of over charging for basic infrastructure in many jurisdictions
- there is little transparency in the manner in which infrastructure is charged
- there is no consistency from one jurisdiction to another
- there is clear evidence that general community-wide infrastructure needs (ie, beyond the demand created by a particular development) are being charged to new home buyers. In short, that new home buyers are subsidising the replacement and upgrade costs of infrastructure which, in some cases, they do not even benefit from.

To illustrate the scale of the problem, the Residential Development Council again commissioned Urbis JHD to study infrastructure charges in detail.

Their latest report, released in November 2006, draws a distinction between 'direct' infrastructure costs (ie those essential services needed for habitation of a particular dwelling) and 'indirect' infrastructure (broader, community-wide infrastructure) and the movement in these costs over time.

National Infrastructure Costs Study — Table Ex Sum
Direct and Indirect Infrastructure

Direct infrastructure	Indirect infrastructure
Water headworks upgrades	Parkland and open space
Water reticulation	Streetscape
Sewerage headworks upgrades	Drainage systems
Sewerage reticulation	Roads and public tranpsort facilities
	Pedestrian and cycle paths
	Libraries and museums
	Childcare facilities and public pools
	Recreation and entertainment facilities
	Other community infrastructure specifically identifie

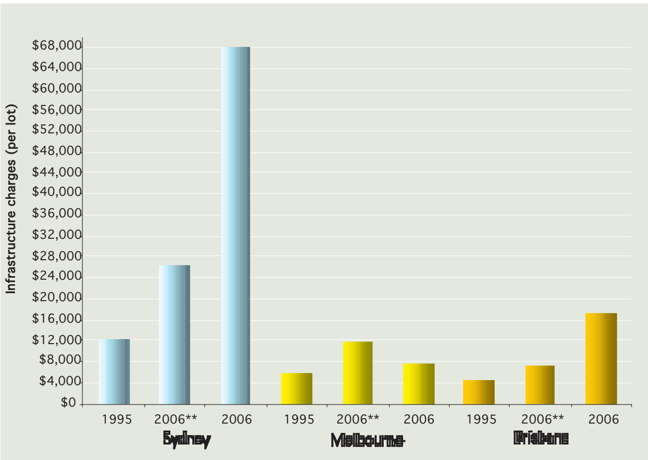
Source : UrbisJHD

Note: One off water and sewerage infrastructure costs to overcome significant site constraints are not included in this study

Among its key findings, the report noted that:

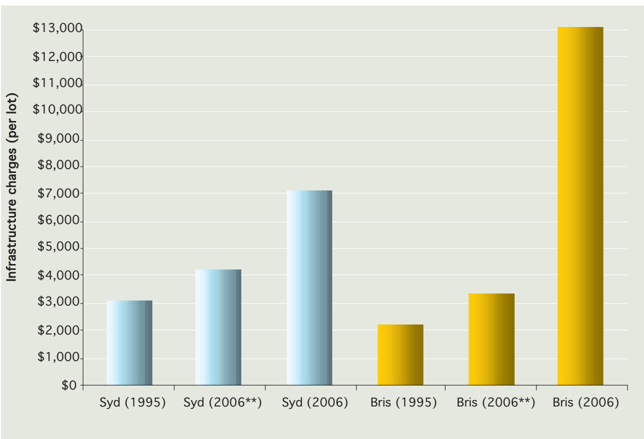
- In the last 11 years, total infrastructure charges for houses and home units have significantly increased in each capital city, far outstripping the average growth in construction costs.
- It is the significant increase in indirect infrastructure charges that emphasises the gap between the actual cost of direct infrastructure and total infrastructure charges. As a result new houses in Sydney incur total infrastructure charges of $68,233 compared to an actual direct infrastructure cost estimate of $1,752 - a difference of over $66,000 to cover a range of infrastructure that benefits the broader community (including libraries, public transport, road upgrades, and parks).
- New houses in Melbourne incur total infrastructure charges of $7,848 compared to an actual direct infrastructure cost estimate of $2,000 - a difference of almost $6,000
- New houses in Brisbane incur total infrastructure charges of $16,701 compared to an actual direct infrastructure cost estimate of $3,415 - a difference of over $13,000.
- Infrastructure charges are additional to the residential development contributions already imposed on property developers by the State and Federal Government through stamp duty, land tax and GST.
- Sydney's total infrastructure costs per detached dwelling are several times higher than any other city, and have grown faster. The total charges of $68,233 per dwelling compare to the actual per dwelling cost of essential ('direct') infrastructure of less than $2,000.
- In the case of home units, Brisbane's per unit infrastructure charge is considerably higher than Sydney. The graphs show there is no logic and no transparency to the way local authorities and state governments are now charging new home buyers for infrastructure.

Sydney, Melbourne, and Brisbane
Housing development infrastructure charges, 1995 to 2006 — Chart EX 1



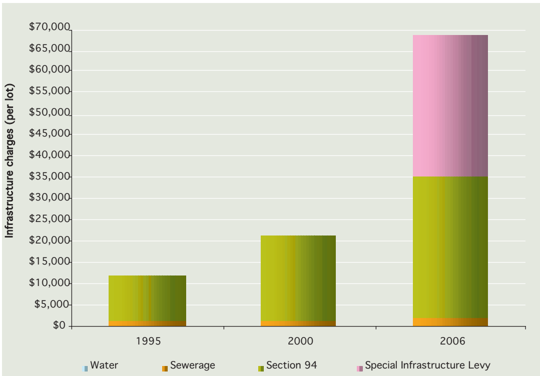
*1. 2006** referes to charges according to 1995 regime (adjusted to 2006 terms using NEC)*
2. 2006 refers to actual 2006 charges according to the relevant schedule of fees and charges
Source : UrbisJHD

Sydney and Brisbane
Home unit development infrastructure charges, 1995 to 2006 — Chart EX 2



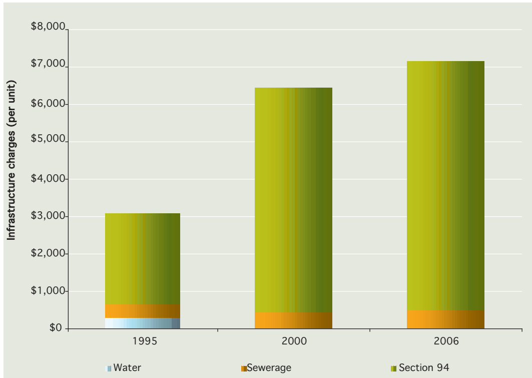
*1. 2006** referes to charges according to 1995 regime (adjusted to 2006 terms using NEC)*
2. 2006 refers to actual 2006 charges according to the relevant schedule of fees and charges
Source : UrbisJHD

Sydney - houses
Infrastructure charges, 1995 to 2006 **Chart 4.1**



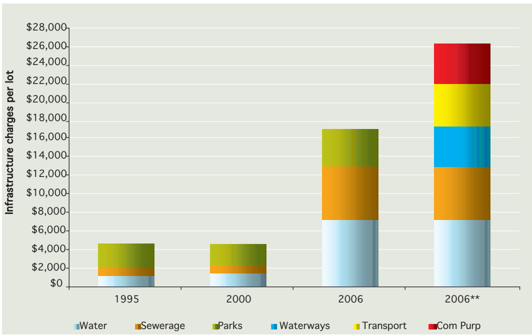
Source : Liverpool City Council; UrbisJHD

Sydney - home units
Infrastructure charges, 1995 to 2006 **Chart 4.2**



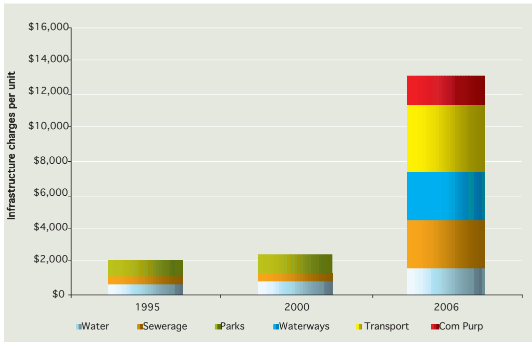
Source : Randwick City Council; UrbisJHD

Brisbane - houses
Infrastructure charges, 1995 to 2006 **Chart 3.1**



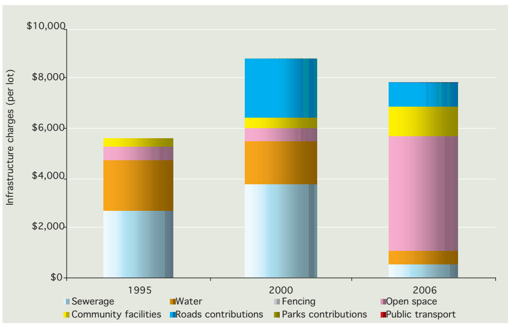
*1. 2006** reflects the inclusion of additional indirect infrastrucutre charges to the Forest Lake development*
Source : Brisbane City Council; UrbisJHD

Brisbane - home units
Infrastructure charges, 1995 to 2006 **Chart 3.2**

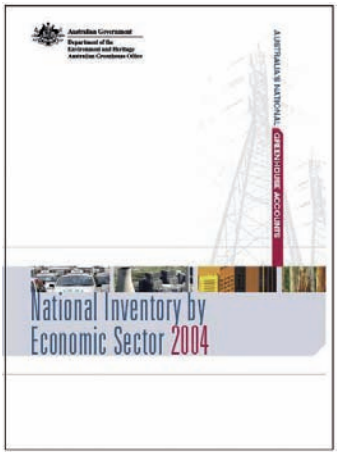


Source : Brisbane City Council; UrbisJHD

Melbourne - houses
Infrastructure charges, 1995 to 2006 **Chart 5.1**



Source : Whittlesea City Council; Yarra Valley Water; UrbisJHD



To meet demand for housing, on average 142,000 new dwellings are created each year in Australia, compared with the existing stock of 8,471,000 dwellings.

A rising concern for affordability of new dwellings is the rising compliance burden placed exclusively on new dwellings. A compelling example is in the area of environmental and energy code compliance.

According to the national greenhouse accounts released in the Australia Grennhouse Office's "National Inventory by Economic Sector 2004" (released late 2006), the total residential sector (that is, all existing dwellings, houses, flats and units) accounts for just 9% of total emissions.

FIGURE 2: Emission trends by economic sector: 1990-2004

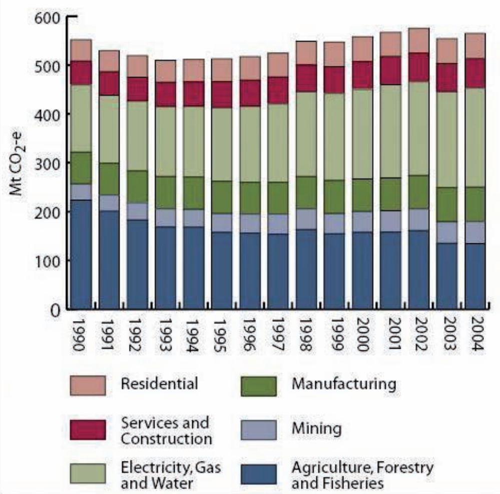


TABLE 1: Australia's Greenhouse Gas Emissions by economic sector 1990, 2004[b]

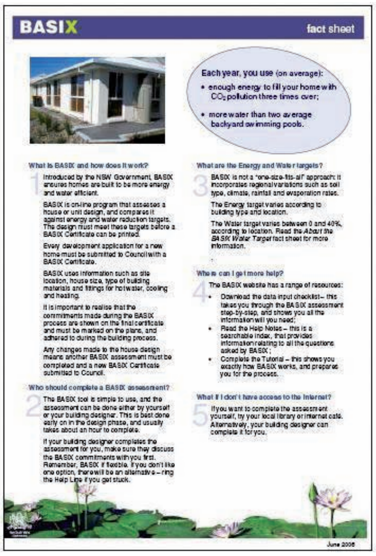
	Emissions Mt CO_2-e[a]		Change in emissions (%)
	1990	2004	1990 - 04
All Sectors	551.9	564.7	2.3
Primary Industries	**256.4**	**179.5**	**-30.0**
Agriculture, Forestry and Fisheries	223.5	134.6	-39.8
Mining	32.9	44.9	36.5
Manufacturing	**65.0**	**70.8**	**8.9**
Electricity, Gas and Water	**138.1**	**202.7**	**46.7**
Services and Construction	**48.7**	**60.0**	**23.3**
Residential	**43.8**	**51.8**	**18.3**

a) Carbon dioxide equivalent, CO_2-e.
b) estimated under the Kyoto Protocol reporting provisions.

New residential development activity each year adds approximately 1.7% of stock to the existing pool of dwellings. So it is fair to say that new dwelling activity represents a small percentage of the total residential sector, and that the total residential sector itself represents a small (9%) share of total greenhouse emissions. (Granted new housing's share increases over time – in year two, 'new' stock would represent 3.5% of all housing, and by year 10, 'new' housing might represent 17% of total housing. However, even after 10 years this would represent only 17% of an entire housing market which in totality itself only represents 9% of greenhouse emissions and which consumes, according to the ABS, only 12% of final energy consumption in Australia).

Notwithstanding the inconsequential impact of the new housing sector in any year on greenhouse or in terms of energy consumption, governments are increasing the demands for new housing to comply with higher and higher standards of energy consumption, to reduce greenhouse emissions in Australia to a level not expected of other sectors.

The impact of these compliance hurdles can be considerable. In New South Wales, the Government introduced a mandatory ratings system called 'BASIX' which applies only to new dwellings.



BASIX fact sheet

Each year, you use (on average):
- enough energy to fill your home with CO_2 pollution three times over;
- more water than two average backyard swimming pools.

What is BASIX and how does it work?

1 Introduced by the NSW Government, BASIX ensures homes are built to be more energy and water efficient.

BASIX is on-line program that assesses a house or unit design, and compares it against energy and water reduction targets. The design must meet these targets before a BASIX Certificate can be printed.

Every development application for a new home must be submitted to Council with a BASIX Certificate.

BASIX uses information such as site location, house size, type of building materials and fittings for hot water, cooling and heating.

It is important to realise that the commitments made during the BASIX process are shown on the final certificate and must be marked on the plans, and adhered to during the building process.

Any changes made to the house design means another BASIX assessment must be completed and a new BASIX Certificate submitted to Council.

Who should complete a BASIX assessment?

2 The BASIX tool is simple to use, and the assessment can be done either by yourself or your building designer. This is best done early on in the design phase, and usually takes about an hour to complete.

If your building designer completes the assessment for you, make sure they discuss the BASIX commitments with you first. Remember, BASIX if flexible. If you don't like one option, there will be an alternative – ring the Help Line if you get stuck.

What are the Energy and Water targets?

3 BASIX is not a "one-size-fits-all" approach: it incorporates regional variations such as soil type, climate, rainfall and evaporation rates.

The Energy target varies according to building type and location.

The Water target varies between 0 and 40%, according to location. Read the *About the BASIX Water Target* fact sheet for more information.

Where can I get more help?

4 The BASIX website has a range of resources:
- Download the data input checklist – this takes you through the BASIX assessment step-by-step, and shows you all the information will you need;
- Read the Help Notes – this is a searchable index, that provides information relating to all the questions asked by BASIX;
- Complete the Tutorial – this shows you exactly how BASIX works, and prepares you for the process.

What if I don't have access to the Internet?

5 If you want to complete the assessment yourself, try your local library or internet café. Alternatively, your building designer can complete it for you.

June 2005

The BASIX guidelines aim to minimise energy and water usage in new dwellings. To comply with the guidelines, the typical detached house can cost an extra $14,000 (at the time, the NSW Government claimed the additional costs would only amount to $8,000 per dwelling) and the typical home unit anywhere from $15,000 to $25,000 extra (sometimes more).

These compliance costs make new housing more expensive and add to housing price pressures, arguably for minimal environmental gain.

The political consequences of enforcing energy and water compliance on all existing houses are considered too dramatic by most governments so are not attempted.

Thus it is only the new housing sector - responsible in any year for a very small percentage of Australia's greenhouse emissions - which bears this compliance burden.

(From October 1, 2006, BASIX will also apply to all alterations and additions valued over $100,000 in New South Wales. The West Australian Government is preparing to introduce its own version of BASIX and other states are understood to be planning similar initiatives).

While the Property Council fully supports moves to create a more sustainable built environment, the consequences of applying compliance costs to new housing, relative to the total greenhouse issue, need to be understood by policy makers.

Repeated attempts at reform of local government development assessment processes have broadly failed to deliver improvements in the time taken to assess development applications, or the complexity and increasing politicisation of development assessment.

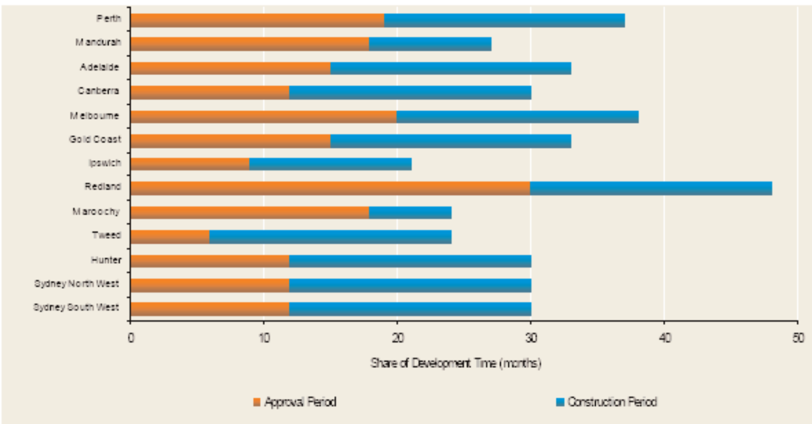
Excessive delays and rising uncertainty, combined with high compliance costs through the development assessment process, add significantly to the final costs of housing delivered in residential developments.

In the Residential Development Costs Benchmarking Study, prepared for the Residential Development Council by Urbis JHD in 2006, the length of time to gain approval for a typical 100 lot subdivision or 50 unit apartment development was shown to vary widely.

These graphs illustrate the variations between approval periods. Why, for example, can a medium density 50 unit project be approved in less than five weeks in Perth while the same project requires more than 20 weeks on the Gold Coast? And why should a broad hectare subdivision take up to 30 months in the approvals process in Queensland's Redlands Shire, but only around five weeks in the Tweed Shire?

Broadhectare Development Timing
Australia, 2005

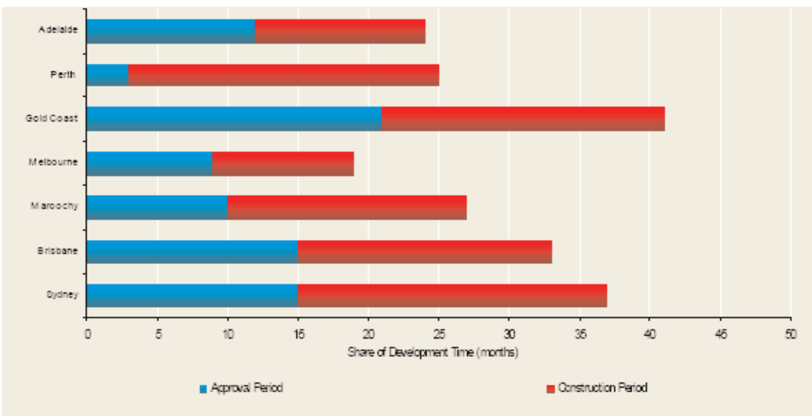
Chart 3.16



Source : UrbisJHD

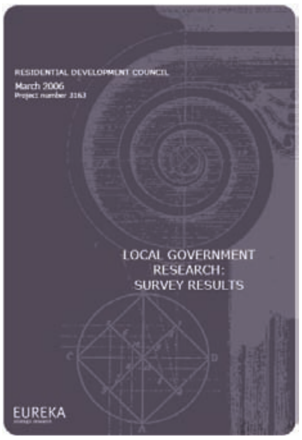
Medium Density Development Timing
Australia, 2005

Chart 3.17



Source : UrbisJHD

The uncertainty and delays add to the time cost of money. Compounded by frequently conflicting assessment schemes and huge variations in the upfront lodgement requirements of developers, the systems of development assessment, nationally, are in steady decline in most jurisdictions.

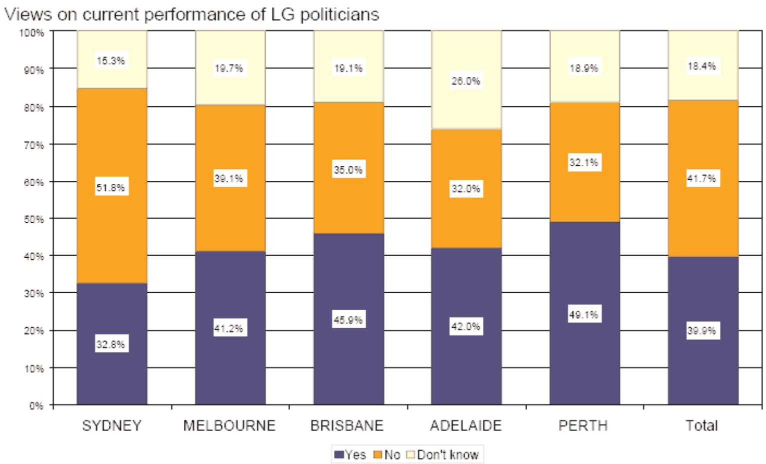


To test public confidence in the efficiency of development assessment, the Residential Development Council engaged Eureka Research in late 2005 to poll 1,100 households on the issue. The report, released early in 2006, revealed that:

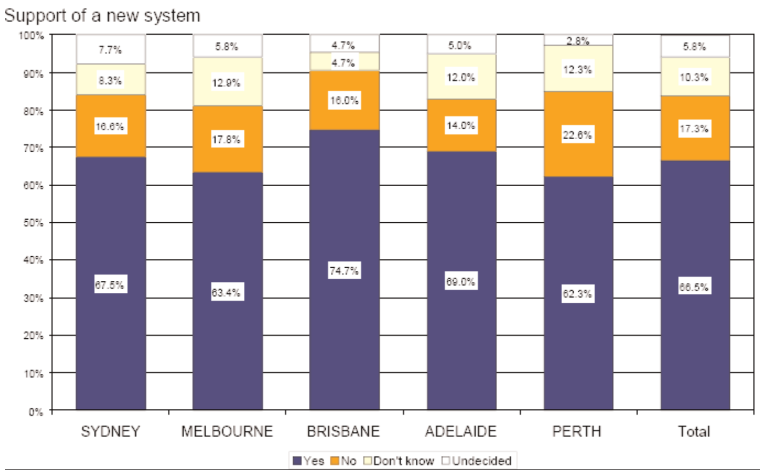
- Nowhere in Australia did half or more of the population think that local government politicians had done a good job of determining development applications in their community
- Generally more than two thirds of Australians polled believed that the politics of development assessment should be divorced from planning - and support the introduction of professional panels to consider development applications.

The introduction of professional panels to assess applications against robust town planning schemes is one means of improving governance systems and, through that, lowers development (red tape) costs and ultimately lower costs for new housing.

Question 1: We'd like you to think about Local Governments and their treatment of property development proposals in your area, from things as small as garages or decks to multi million dollar projects. In your opinion, have local government politicians done a good job of deciding what gets built and what doesn't in your community?

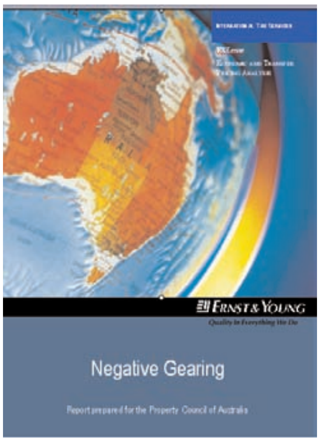


Question3: I would like you to think a possible alternative to the current system for assessing property development proposals. Would you support a new property development application system where the Local Councils set the rules and development guidelines, but the applications themselves are assessed by a separate independent panel, based on the provisions of these rules and guidelines? [IF "INDEPENDENT PANEL" QUERIED] By independent, we mean removed from political interference, like the courts. Individuals would be appointed by a state government Minister based on their independence from local councils and their understanding of development rules.



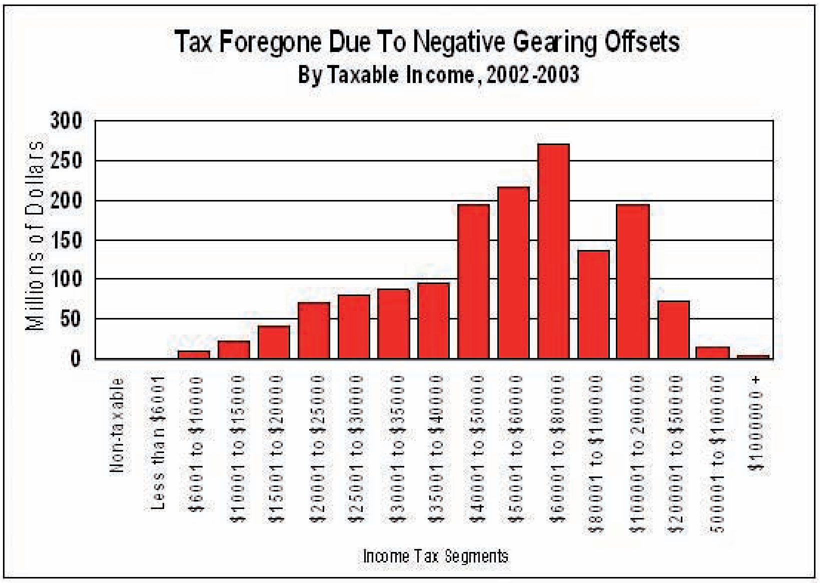
8. Tax treatment of housing

A further risk to housing affordability is posed by misguided political calls to abolish negative gearing and CGT regimes as they apply to residential property.



In a research prepared exclusively for the Property Council by Ernst & Young, and submitted to the Hendy-Warbuton Inquiry in 2006, the myth that negative gearing benefits only wealthy households is dispelled: the vast majority of Australians taking advantage of negative gearing fall into the $40,000 to $80,000 per annum tax bracket.

By encouraging investment in income producing rental housing, negative gearing also encourages private investment in rental housing stock. Without this encouragement, effective yields on most rental housing would be prohibitively low, and investors would quit the market in favour of alternate investments, unless housing rentals grew to the point where returns were positive.



In this way, negative gearing also serves to place a lid on rental pressure by increasing the stock of rental housing and taking pressure off rents. Removal of negative gearing, as occurred under the Hawke-Keating Government in the 1990s, would immediately lead to an exodus of investment in rental housing, causing both rental housing shortages and rapid rises in rents.

The decision of the Hawke Keating Government was quickly reversed, but the lessons may not have been learned: State Housing Ministers are reportedly re-examining negative gearing with the view that the tax scheme encourages excessive investment in housing, which is putting pressure on prices.

Removal of negative gearing in today's climate, especially given the much greater land shortages and higher development costs, would have an even more dramatic impact on the private rental housing market - a market which in many cities is so tight that 'rental auctions' are taking place in response to competition for rental housing.

Adding to the concerns for the future, some Members of Parliament have called for the capital gains tax free status of the family home to be abolished, as a means of reducing housing prices. These calls have thankfully gained little traction.

9. Generational fairness

As much of this discussion paper shows, the past decade has produced a seismic shift in public policy for new housing.

The limitations of land supply, the abuse of 'user pays' infrastructure levies, new taxes, rising compliance, longer delays etc are ALL applicable ONLY to new housing and are having a dramatic impact on the cost of delivering new stock to the market. These policy changes thus have a direct and profound impact on housing affordability.

This is also creating a generational divide. On one side there are those with existing homes. On the other, there are families that choose to buy a new dwelling to meet their housing needs. The inequity of the situation is illustrated with the following simple example:

Millionaires pay less

This Mosman, Sydney, residence was recently listed on realestate.com.au for sale. During its entire life cycle, it has never been asked to contribute directly via levies to the cost of the infrastructure its inhabitants enjoy. Nor has it had to comply with strict new building or environmental codes (eg BASIX). The price of the land on which it sits was not affected by land release policies which limited the supply of land. Yet it enjoys the amenity of some excellent inner city public transport systems, local schools, parks, gardens and civic facilities. Its owners simply pay council rates to enjoy these amenities.

Its sale and purchase, in 2006, is not subject to GST. This property was listed for $1,800,000. The transaction would generate approximately $84,490 in stamp duty revenue for the NSW State Government (or 4.69% of the sale price).

SUMMARY:

House price:	$1,800,000
Infrastructure levy?	No
Good urban amenity	Yes
Total taxes on transfer	$84,490
Tax (percent)	4.6%
Subject to BASIX or other compliance?	No
Compliance + red tape costs:	$0

While young families pay more

This typical housing estate in Sydney's north-west growth corridor is located over 30 kilometres from the city. A typical new four bedroom house and land package will set a young family back $570,240.

Built into that price are $163,000 worth of housing taxes - from the GST to stamp duty (developer and purchaser), land tax (developer), state infrastructure levy, council infrastructure levy and section 94 charges. Plus, the cost of the dwelling has been increased by around $14,000 to comply with BASIX alone, let alone the raft of other regulatory compliance costs, and the costs embedded through an inefficient development assessment system.

So the battler household pays over $160,000 in taxes and almost $200,000 in total taxes, charges, fees and compliance costs, which amount to almost 29% of the purchase price (in the case of taxes) and almost 35% when all government taxes, compliance costs etc are taken into account.

However, despite this very high level of costs, the immediate neighbourhood is unlikely to enjoy anything like the urban amenity enjoyed by the residents of the Mosman home.

SUMMARY:

House price:	$570,240
Infrastructure levy?	Yes
Good urban amenity	Minimal
Total taxes on transfer	$163,803
Tax (percent)	29%
Subject to BASIX or other compliance?	Yes
Compliance + red tape costs	$34,000

10. Failing to act - consequences

Housing affordability is worsening - and rapidly.

Australia is now ranked amongst the least affordable nations in the world when it comes to home ownership.

While much media and political attention is focused on the role of housing interest rates, these do not explain the very high costs of housing in Australia.

The root cause of worsening housing affordability lies squarely at the feet of various public policy settings, identified in this discussion paper.

If these policy settings continue on their present path, there is no question that housing costs will continue to spiral beyond reach of many Australians.

As this happens, dependency on rental housing will increase. Future generations of Australians will not be able to afford a home of their own, and will increasingly be consigned to rental housing - and rising rental costs.

Home ownership will be in the hands of an increasingly elite group of Australians: those wealthy enough to afford a home and those who bought into the housing market before the affordability crisis reached a tipping point.

Housing standards will fall - due to price constraints - and new homes will be built on smaller and smaller lots, with cheaper and cheaper materials to stem the tide of ever increasing government and regulatory costs.

The signs of a deepening crisis are now evident, and industry groups are united in voicing their concerns that present policy settings will only lead to a worsening problem.

Failure to act now will leave future generations of young Australians a dismal legacy of housing stress - in a country which by any other assessment should boast the highest standards of home ownership and affordability.

11. Long term structural relief: the solutions package

The problems that currently plague housing affordability were created without excessive difficulty, and can equally be remedied without excessive difficulty.

The prescription for an affordable future relies heavily on three policy fronts:

1 Improve Development Assessment

Remove the blockages and improve the governance of Australia's worsening systems of development assessment. The Development Assessment Forum – a federally funded initiative supported by all state governments – has identified a '10 Point Plan' to reform local government development assessment systems.

The plan has the 'in principle' support of State Planning Ministers. It is time to fast track the reforms.

2 Ensure adequate land supply to meet demand

Increase competition in the market for new land and move away from heavily prescriptive land use policies which punish growth. To reduce pressure on land prices, it is essential not only to ensure adequate total supply volumes, but for governments to understand the need for competition in various locations and for various types and sizes of lots demanded by Australian households.

A first step is for state governments to more closely examine their assumptions on available developable land, and to agree on a consistent methodology for monitoring land supplies.

There is a role for the COAG to harmonise the methodology of land supply research and to set standards for national assessments which highlight areas of pending shortfall – before land supply deficits emerge.

3 Fairer funding of infrastructure

The Property Council, along with numerous other leading industry bodies, has long advocated a disciplined use of public debt to fund essential infrastructure. This approach:

- Spreads the infrastructure burden across the entire community (which benefits from it)
- Spreads the burden across several generations (not just today's homebuyers) as infrastructure is generational
- Is funded at a lower economic and social cost than the alternative (forcing home buyers to pay for the debt through their mortgage)

For further information

Residential Development Council
PROPERTY COUNCIL

The Residential Development Council is a national policy division of the Property Council of Australia. The leadership of the Residential Development Council represent the most senior management of Australia's leading residential housing development companies.

The purpose of the Residential Development Council, established in 2005 at the behest of industry, is to advance understanding of issues surrounding the efficient and sustainable delivery of housing options for Australians, and to promote public policy solutions to the many challenges which threaten to undermine housing affordability.

For further information, please visit the Property Council of Australia website www.propertyoz.com.au

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