

INTRODUCTION

Population Growth and Demand for Housing

Population growth is, for dynamic and attractive city regions, a given. Such growth cannot be prevented and is difficult to modify. Alternatively, the costs of any effective action may be disproportionate or unacceptable. Population growth must be accommodated, preferably in a way that is of neutral social, economic and environmental impact on the host region, and hopefully of positive value. Nevertheless, communities occupying parts of growing regions may still successfully employ mechanisms to limit or stifle local population growth. Commonly used mechanisms are restrictions and prohibitions on development to allow growth to be accommodated locally. The consequences of the employment of such mechanisms is the principal concern of this submission. However some framework issues and trends will firstly be identified.

This submission mostly uses NSW and Sydney as reference points. Around 40% of immigrants into Australia settle in the Sydney region, driving Sydney's annual population growth rate of around 1.4% (ABS), which is above the annual growth rate for Australia (1.2% in 2002) and NSW (1.0% in 2002). Sydney is expected to grow by 1 million people between 2001 and 2021 (5.1 m) and a further 1 million by 2051 (6.1m) (ABS). This growth can have both positive and negative consequences but the view of a significant proportion of the residents of Sydney and other parts of NSW is that growth of the Sydney Region has overwhelmingly unwanted impacts. These impacts are in turn widely perceived as a consequence of growth due to immigration, rather than social or economic change and natural growth. The NSW Government, which generally reflects these views, also cites a lack of Federal Government interest in or efforts to address the demands arising from growth in Sydney. The Federal Government's immigration policies past and present are regarded as the source of pressures on Sydney's housing and infrastructure.

Whether these views reflect an accurate appreciation of the net benefits of immigration and growth in Sydney, or whether the Federal Government's immigration policies deserve scrutiny is not a concern of this submission. What is important however, is that Sydney and its wider region are manifesting serious signs of inadequate and unsatisfactory responses to both population growth and housing demand. Anti-growth and anti-immigration sentiment underlie but do not cause these responses. Meeting the demands of population growth in terms of land and housing supply and investment in infrastructure are seen by many in this climate however, as beyond the State's fiscal and environmental capacity and priorities. This has implications for the way growth demands are managed, but with consequences that affect not only incoming population, but the region and its population in total.

Government Role

Under the Australian system for directing and managing growth within the physical environment, State and Local Governments hold the primary powers over land use and services. State and Local Governments are responsible for planning, regulating and

controlling – mostly exercised to a highly detailed degree - where, when, what and how physical change and growth occurs. State and local government authorities can elect to provide clear, comprehensive plans and requirements whereby they anticipate and respond to demand with adequate land, infrastructure and services; or they can exercise their monopoly powers in these key areas with inadequate, unclear, unresponsive, and/or overly-restrictive plans and administrative procedures.

State and local authorities can use their extensive powers to support and facilitate growth and change, or to frustrate and discourage it, and in so doing affect a far wider circle of influence than just the area they are operating in at the time. They can direct skills and resources to manage growth so the results are functionally and aesthetically satisfying, or they can starve growth planning and management with potentially chaotic results. It is clear there are many ways that planning and regulatory processes can, intentionally or otherwise, prevent an adequate and appropriate supply of housing and urban services and increase housing costs.

While the main influences over where and how housing will be provided, and how much, are with state and local governments, the Federal Government still has significant ability to affect outcomes. For example through COAG, Commonwealth-State Agreements, and other fiscal measures, the Federal Government can and does influence the performance of state and local governments. The same kinds of influence could be used to facilitate efficient housing markets and sustainable communities providing affordable housing.

Government and the Housing Market

This submission will discuss the three principal components of the housing market today as it operates in NSW: housing supply, housing demand, and government interventions in the supply process. It is notable that there is a wealth of data, trend and other information relating to the demand for housing, as part of the national census and various other official data collections – there is no doubt we have a wealth of material to examine in determining the factors that influence housing demand. The factors that influence supply of housing are less well known. While regular data collections are published on the amount of housing constructed, there is little information on what influences changes in the volume and nature of supply, or which might suggest different interpretations of construction activity numbers. It is time that much more was known about the dynamics affecting the supply of housing. This would bring into analysis the part played by government regulation in housing supply.

It is the contention of this submission that the application by state and local government authorities of planning and regulatory powers over the supply of new housing, has emerged in the last decade as the principal cause of housing becoming less affordable through price increases across the Sydney Region. In Sydney in 2003, *new* housing has, for the first time in fifty years, become unaffordable for first homebuyers. The relevant government interventions comprise of:

- planning decisions - failure and delay in make land available for needed urban and housing development, in both new greenfield and renewal areas

- assessment and approval requirements and associated uncertainty (risk), costs, and delay
- availability and efficiency of, and up-front charges levied toward the capital cost of public infrastructure to service development.

In concluding its submission, UDIA argues that only the full commitment of Federal and State Government, preferably also Local Government, can bring about the scope of reforms to achieve the desired and necessary outcomes for housing affordability. The submission does not propose at this time a specific program of reform. There are many earlier reviews that have identified necessary changes and advocated reform programs. The Development Assessment Forum was established following a review commissioned by the Federal Government in 1997 (The Bell Report) and continues, although with very limited resources and powers, to pursue a reform program. The NSW Government has newly embarked on a review and reform program.

It would be worthwhile to consolidate the reviews of the last decade or more and determine why they and their widely endorsed reform programs have not resulted in better outcomes for housing affordability in Australia's major urban regions. Indeed, it is clear that problems and costs continue to increase and affordability to decline.

A tangible commitment by Federal and State Governments – equal to the size of the system reform challenge – to a housing affordability goal, through leading reform, is the essential first step to regaining housing affordability. Local Government co-operation should be a high priority.

HOUSING AFFORDABILITY

Housing affordability is a wide concept so it is useful to start with a goal which locates housing affordability in a contemporary context. This goal might be described as:

Provision of affordable housing in sustainable communities, to people from all occupations, income levels, age groups and social strata – fundamental to this is a range of housing types and locational choices that meet their diverse needs and is secure, affordable and accessible to urban services, amenities and employment.

It follows that 'housing' has social and economic, or productive value, though this has yet to be properly recognised and quantified. This is despite the fact that a *lack* of suitable, adequate and affordable housing is widely understood to have *negative* social and productive value. Addressing this oversight would be a worthwhile task for this Inquiry.

Providing Affordable Housing

The supply of affordable housing (as the key component within a subset of sustainable communities) is determined on three interacting fronts:

- Supply-side factors (inputs of land, materials, production finance, human skills, management and initiative)
- Demand-side factors (household growth, purchaser finance, social and economic motivation)
- Government interventions, predominantly on the supply side (as planning and regulatory mechanisms, provision of infrastructure and services).

SUPPLY FACTORS

Land: The amount of land capable of being developed within and near urban areas of Australia is substantial. Even the most populated urban regions have significant land that in theory could be developed, redeveloped or the development density increased. Even omitting land not suitable for development for environmental or servicing cost reasons, there is still potentially a supply of land to meet demand for urban growth for many years. Actual supply is however, constrained in a number of ways by government policy and actions (discussed below).

Materials: The current demand for construction materials is below capacity.

Finance: Since deregulation of financial markets during the 1980s and with Australia's continued strong economic performance and outlook, finance for sound urban housing development projects is obtainable.

Human skills: Australia has a good supply of skilled and semi-skilled labour and professional talent to produce urban development and the desire and capacity to expand the pool of skills and talent, provided there are increased opportunities to grow production from current levels.

Management and Initiative: Creative expertise and initiative is an enduring driver in urban development activity but which today is too often tied up in non-creative regulatory processes. It could readily be energized and its growth fostered with a more encouraging environment for development.

DEMAND FACTORS

Household growth: Australia and particularly its major capital city regions have experienced a long period of robust population growth. Most of Sydney's net growth is now due to overseas immigration. The Sydney statistical division contains around 62% of the population

of NSW (ABS) but there is also strong growth and housing demand in most NSW coastal regions and some inland centres are also experiencing solid growth. In periods of economic downturn, new household growth may slow and be deferred to subsequent cycles. The expectation that the accumulated underlying demand has been absorbed over the last six or so years of a generally robust housing market, is defied by the continuing strength of demand. There is some explanation in household growth rates which maintain their upward trend over more than twenty years.

Household Growth Sydney SD 1981-2001

1981-86	1986-91	1991-96	1996-2001
1,065,037	1,188,802	1,328,376	1,438,394

Source: WSROC and Urban Frontiers Program, UWS
 Western Sydney Social Profile, 2002.

The rising rate of household formation is due not only to a growing population but decrease in the average household and an increase in the percentage of smaller households. This translates into an increase in the number of dwellings needed just to house the existing population. The ongoing trend to smaller households, particularly those of one or two persons which now make up more than 50% of Sydney households, is seen as a result of several factors - increasing affluence and employment, social change, and an ageing population¹.

Purchaser Finance: Homebuyers have never before had access to the amount of finance, at attractive interest rates, as they have today.² The entry of non-bank lenders to create a highly-competitive home lending market and offer an array of products has been enthusiastically received by existing and aspiring homebuyers. The ranks of residential investors have greatly expanded also with increased access to low-cost finance, and favourable tax treatment and capital growth compared at present to other forms of investment. Other factors underpinning the strong housing market are a healthy and stable economy, rising employment, and the first homebuyer grant scheme.

Social and Economic Motivations: The Australian goal of home ownership is as strong as ever (ref: var. surveys), although there is some evidence of a fall in the number purchasing in the traditional first homebuyer age groups.³ The introduction of the FHOG was both a financial and social encouragement towards home purchase. At the same time, the Australian economy is healthy and employment is growing, increasing confidence. A high percentage of new jobs are part-time, providing a second household income that has lifted the home buying prospects and borrowing capacity of some young family households.

¹ NSW Department of Planning, Address to UDIA State Conference, September 2002

² RBA Bulletin Oct 2003 "Recent Developments in Low-deposit Loans".

³ REI-NSW July 2003; ABS Cat. 2015/2001

The upward pressure on prices of increased demand from these combined influences has generated a sense of immediacy amongst prospective buyers, and additional pressure on the supply of housing – both new and existing homes and home building lots. UDIA (NSW) estimates there is an immediate need for newly developed land for 8,000–10,000 dwellings per annum in Sydney’s fringe growth areas over the next 2-3 years. Historically, Sydney has generated an annual supply of land for 7,000 – 8,000. Additional supplies will be required to meet ongoing demand, particularly for more affordable family housing, UDIA estimates that Sydney’s underlying demand is approaching 12-14,000 new housing lots per annum, based on a combination of factors including demographic change and the trend to smaller households.

THE HOUSING DEMAND AND SUPPLY MARKET

It is important to note that while demand and supply are interactive loops setting and changing the market price, they are very different in their speed of response. The demand side response may be on limited information, is driven in part by emotion and short-term aims, and is much faster than the response in terms of housing supply. Thus, rising demand in a confident rising market but where supply is plainly limited, will repeatedly press on delayed responses on the supply side, resulting in upward price movement. Additions to supply in the Sydney market account for only about 1.5%-2.0% of total stock in any year, and new listings of existing stock will not increase overall supply, except where they are accompanied by out-migration.⁴ And while there is strong building activity recorded in building activity data, an unknown percentage of new single dwelling construction in Sydney and some other high-value urban areas is one-for-one replacements.⁵

The only way then that pressure in the housing market, expressed in rising prices can be eased, is through the addition of new housing stock. However, there are factors beyond producers’ control that forestall higher levels of production. New single dwellings in new communities and medium density housing for older and disabled persons are particularly in short supply in the Sydney Region. Supplying the higher levels of new housing of all kinds that are needed to meet current and underlying levels of demand across the greater metro region and some other areas of NSW is nearly as problematic. The reasons are discussed below.

GOVERNMENT INTERVENTIONS

⁴ While out-migration from Sydney has been a measurable factor in previous upturns, eg, the mid-1980s and thereby increased supply in short time in the Sydney market, there is little evidence of a similar level of out-migration the current long period of strong price growth for housing. This is likely another factor that has kept available supply low and demand high over the period.

⁵ A number of the major project home builders in the Sydney area are now finding 80-90% of business in the ‘knock down-rebuild’ market, with the severe shortage of newly-developed lots to meet demand for new single-family homes.

The activities of government in relation to development - the production of housing and associated urban facilities – are combined here in the non-subjective term ‘government interventions’. Government interventions as considered here cover the rules, policies and administrative procedures which impact on residential development planning, approval and production and so the interaction of supply and demand in the housing market. It is recognised that certain government interventions are necessary and desirable and many add value of an economic, social and/or environmental kind to the project and beyond.

Government interventions are directed to new development and housing. But as established housing is a near substitute for new housing, interventions in the production of new housing impact similarly if indirectly on the market for established housing through the price mechanism⁶. Interventions raise new housing costs substantially - in the first instance, by directly regulating and controlling the stages and steps in the planning and production of new housing – where and when it may be produced, the kind and form of housing, how it is provided, associated facilities and services, the supply in any location and time period; and secondly, through taxes and charges on new development:

New and rising taxes and charges on a new dwelling in Sydney today include:

- GST: \$30,000 min., \$50,000 average
- Land tax and stamp duty : \$30,000 up
- Infrastructure charges: \$75,000 and rising⁷
- Land dedications for regional conservation and riverine corridors: \$10,000+
- Additional application and incidental fees: \$2,000+

Together, these burgeoning taxes and charges increase the entry price of a house in a new community development (already includes its own facilities and services) by at least \$150,000 plus borrowing costs. Most of this increase has occurred over the last 3 years and coincides with the very rapid rate of price increases in the housing market in general, indicating that as new housing cost increases have been passed on, the price of established housing has inflated to similar new levels. Sydney is particularly affected due to supply in all but a few sub-markets being consistently below demand, for reasons discussed below.

While the Federal Government’s regulation of home lending was the dominant and highly visible government intervention in the housing market prior to deregulation, the impact of today’s interventions and other actions by state and local governments that affect the supply and cost of housing and urban development are arguably of greater impact on the price of housing in recent years. This has been during an unusually extended period when other factors have caused demand to remain strong.

⁶ REI-NSW estimates the increase in the median house price rose 25.5% in NSW and 19.8% in Sydney in the twelve months to June 2003.

⁷ Made up of \$50,000 for local facilities (section 94 levies), \$15,000 transport levy, \$10,000 W&S headworks and system capital charges.

The regulatory and procedural interventions of state and local governments in NSW are many and diverse but have become highly significant on the critical (in)efficiency measures of uncertainty, delay and added cost. Such interventions increasingly place housing producers on a series of unsignposted paths where previously travelled ground is regularly retraced, directions changed and goals undefined. Direct and indirect costs mount while risk grows at a rate that would be considered intolerable in any other field of production. It is even less defensible when the ultimate purpose is to meet an essential need for housing, including affordable housing.

Government interventions in the production of urban development have become the major factor that is making housing unaffordable and rapidly shrinking the opportunities for first homebuyers to achieve the goal of home ownership. The application of planning, regulatory and administrative mechanisms have:

- Severely restricted the supply of land for urban housing development and redevelopment;
- Limited unreasonably the development capacity of urban land, at times notwithstanding zoning provisions or state and regional planning policies;
- Resulted in excessive risk and uncertainty for suppliers of urban development and housing;
- Applied standards and requirements where the high cost and loss of development potential is not matched by the assumed benefits, particularly to the homebuyer who bears those costs;
- Greatly expanded the taxes and charges on development, ie, during the production phase and before there is any yield for either the producer or consumer (GST, stamp duty, land tax, various fees). Major charges are also levied to cover the cost of a growing infrastructure requirement where the consumer is (usually unknowingly) required to borrow at the outset to fund future long-term consumption.⁸

Land Supply and Zoning

Of greatest impact on housing prices in major urban regions such as Sydney today, is the restricted supply of land for development, redevelopment and consolidation. This is not only a matter of land identified for urban growth per se but the uncertainty and delay of bringing identified land into viable production.⁹ It is not unusual for greenfield land on the fringe to take ten years from first identification until development can commence. The housing market is well-known for volatility and risk and such long periods of uncertainty have had a profound effect on the operating environment for the development industry.

UDIA has been a persistent advocate over the last ten years, of alternative policies and practices to those that led, from the early 1990's to the end of 2001, to no new areas being added to Sydney's urban growth program, even as and shrinking areas of viable land for

⁸ See Applied Economics: Financing Public Infrastructure for Urban Development, A Report for UDIA-NSW, September 2003.

⁹ In 2002-3 UDIA combined with a wide range of interests to argue the urgent need for a regional growth strategy and plan for Sydney.

Sydney's future urban expansion. UDIA's comprehensive submission in July 1998 to the then Minister for Planning documented the looming residential land shortage in Sydney's growth areas (see attachment A)..

In established areas of urban NSW, insufficient land is zoned for increased density, due at least partly to a lack of understanding in state and local authorities which control rezoning, of the challenges faced by producers in assembling and securing suitable and marketable sites. This means many more sites need to be zoned for redevelopment than will be taken up in any period, or alternatively, the planning authority has to have a responsive process to deal with rezoning proposals. Additionally, the yield that can be achieved through the approval process is often far below that stated in the planning controls. This greatly affects development viability yet can only be determined after an often lengthy, costly and high-risk feasibility, pre-planning, negotiation and even application process.

Planning Approval System

Recent data that measures and costs planning, assessment and approval processes is not available, although there have been a number of studies over the last two decades for the NSW and Federal Governments and organisations such as UDIA¹⁰. Not all past studies have produced public reports but they have all identified the need for reform of a system which costs the community many \$millions and perhaps \$billions in unnecessary and unjustifiable costs, and which also represents an enormous opportunity cost in the time, skill and effort that could be more productively applied to other purposes.

A soon to be released study of the development industry in NSW¹¹ reveals that the industry's total turnover in NSW was \$36.1 billion, generated \$16.6 billion in value added, and \$5.9 billion in wages and salaries, while directly accounting for 6 per cent of total employment. There is no way of accurately estimating the employment or revenue for state and local government from development, either directly or indirectly, but it would be considerable¹². If only a minor percentage of what is invested in total by private and public sector interests in non- or low-productive work and expenses generated by unnecessary government interventions, were redirected into productive investment, it would make a substantial addition to productivity and output. It would have even greater benefit in a more efficient and more productive housing market and urban development sector overall.

Solving Housing Affordability

¹⁰ ACIL, Landcost: the impact of land costs on housing affordability, Report for UDIA, March 2003.

¹¹ Ernst & Young, Economic Impact of the Development Industry in NSW, 2001/02, Sydney, 2003. A Report Prepared for the Urban Development Institute of Australia (NSW).

¹² The NSW Department of Local Government produces an annual report "NSW LG Councils Comparative Information" from returns supplied by councils, This includes data on time taken to determine development applications.

The need for effective solutions to housing affordability is obvious as the fact of this Inquiry demonstrates. But the answers will not be found in single measures to increase the financial capacity of first or later homebuyers, or new interventions that hope to reduce the cost of housing in specified circumstances. While the supply is as constrained as it is in Sydney and other urban areas, such interventions will not have the desired effect and may only worsen affordability.

What is critically needed is concerted action to halt and reverse the trend of an ever more dysfunctional and costly system for the planning and regulation of development, importantly to reverse the damage being inflicted on housing affordability. State Governments are in most instances conscious of the need to make such systems far more responsive to today's needs. There are indications that the NSW Government is seeking ways to ensure a more certain and timely supply of land and a simpler and more reliable development approval process. The NSW Government has also committed to preparing an integrated regional strategy for Sydney and is examining better ways of financing urban infrastructure. UDIA-NSW is an active participant in these efforts.

Government interventions in housing supply through the planning and regulatory system must be reformed if housing is to be affordable, to first homebuyers, to those choosing to rent, and those seeking to relocate, throughout Australia and including its higher-priced regions. Such a goal needs the full involvement of Federal, State and Local Governments. The Federal Government can make a vital contribution at the minimum, in terms of leadership and incentives for other levels of government to set about and achieve a clear program of substantive reform and increased supply of land to meet demand for housing, in sustainable communities. Industry will continue to be a willing participant in all strategic planning and reform programs.

Note: UDIA reports not attached are available or will be available soon at www.udia-nsw.com.au or by contacting the Communications and Research Officer at UDIA NSW on 02 9868 3677.