



# **Inquiry into First Home Ownership**

**UDIA (Qld)**

**Response to**

**Productivity Commission**

**October 2003**



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## INTRODUCTION

The Urban Development Institute of Australia (Queensland) (UDIA(Qld)) commends the Commonwealth Government for its initiative in referring the issue of affordability and availability of housing for first home buyers to the Productivity Commission. In doing so the Government has recognised that home ownership continues to be very highly valued by the citizens of Australia and that housing is a key ingredient of social and family stability. It also represents one of the most significant investments made by the majority of Australians today.

In this context the guidance given to the Commission in respect of the inquiry is broad, requiring the Commission to identify and analyse all components of the cost and price of housing (including new and existing housing) for those endeavouring to become first home owners. The Inquiry is also charged with the responsibility of identifying mechanisms to improve the efficiency of the supply of housing and associated infrastructure, and to identify any impediments to first home ownership and assess the feasibility and implications of reducing or removing such impediments.

The breadth of this inquiry is particularly welcomed by UDIA (Qld) as it will bring attention to a number of inefficiencies and impediments in the operation of the Australian marketplace particularly as they apply to first home owners. Identification and remediation of such inefficiencies and impediments will however not only benefit this segment of the market but all who participate in home ownership. For this reason, among others, this Inquiry is of vital importance to the Australian economy and to the Development Industry.

This submission will address the three key cost drivers associated with the provision of land for development for both residential accommodation and apartment living. They are: --

- The cost of raw material to the industry (developable land);
- The costs of regulatory compliance; and
- The costs of direct outlays including fees and charges, stamp duty, and infrastructure or headworks charges.

These costs will be explored in the context of the Commission's Terms of Reference rather than being dealt with singularly.

This submission will also focus on the key requirements for providing market efficiency in a modern economy in the context of the development industry. In essence, greater levels of certainty and predictability are essential for the efficient and effective operation of the housing and development markets. Some detail will be provided with respect to the significance of this industry to the Australian economy and to employment and the transformation of the

development industry into a sophisticated and integral component of financial markets.

Finally, this response will not deal, in substance, with matters relating to the costs of raw materials for the built form as to do so would be an unnecessary duplication of the work which has been undertaken to date and which will be undertaken in the future by other Industry Associations.

## **THE CONTRIBUTION OF THE DEVELOPMENT INDUSTRY TO THE AUSTRALIAN ECONOMY.**

Research has been undertaken by UDIA (Qld) to ascertain the extent to which the development industry contributes to the Queensland economy. Appended to this submission (Appendix 1) are copies of the reports which were prepared for the Institute by Ernst and Young in 2002 and 2003.

In summary, the findings of the reports were that Queensland is Australia's growth state. With more than 430,000 people migrating to Queensland in the past ten years and an estimated 350,000 new homes and units required to meet housing demand over the next ten years, it is clear just how vital the development industry is to the economy of the State.

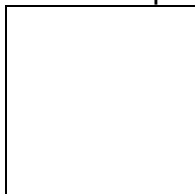
Approximately 220,000 Queenslanders – or 15 per cent of our state's workforce – owe their livelihoods, at least in part, to the development industry. The fourth largest contributor to Gross State Product, the fifth largest industry generator of employment, and a total turnover of over \$25 billion throughout Queensland, demonstrates the enormity of the development industry's contribution to our state, to our community and to Queensland families.

With contribution greater than even the Retail, Health, Transport, Agriculture, Education and Hospitality industries to Gross State Product in 2001/2002, the development industry holds a unique and pivotal position in the Queensland economy.

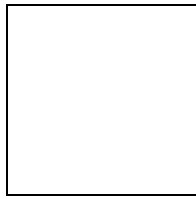
When there is a downturn or slump in development and construction, it has an enormously negative impact on the state economy and on our communities. Equally, when the development industry is buoyant, the economy is vibrant and all share in the benefits.

The Development Industry is as diverse as it is significant in its contribution to Queensland's economy.

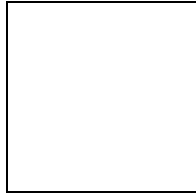
The industry includes those organisations and individuals involved in developing and operating property to meet the housing, employment and social needs of communities. The work of the development industry continues to reflect the changing environment that we live in today, and encompasses the development of:



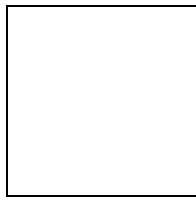
Master planned communities



Urban Renewal



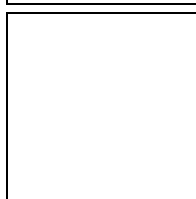
Multi-level developments



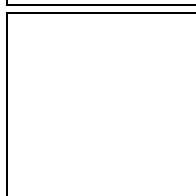
Commercial, retail and industrial development



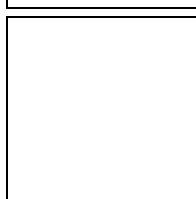
Land sub-division



Medium density development



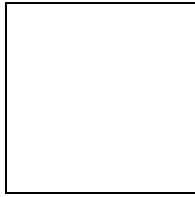
Attached and detached housing



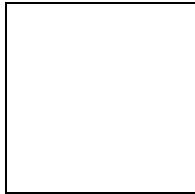
Hotels and Tourist facilities

It is not surprising then, that an industry incorporating such a diversity of developments, professionals and tasks, plays one of the most significant roles in Queensland's growth and development.

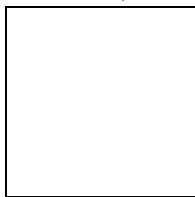
### **The Industry's Contribution to the Economy**



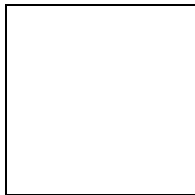
The development industry is Queensland's fourth largest contributor to Gross State Product (GSP).



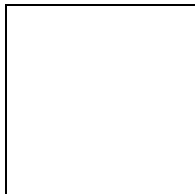
The development industry is the fifth largest industry generator of employment in the state - in combination with the property and business services sector it is the largest employer of all Queenslanders.



In the 2001/2002 financial year the development industry reached \$25.5 billion in total turnover.

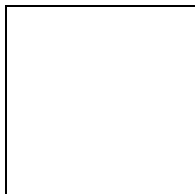


Both directly, and indirectly through flow-on benefits, the industry contributed \$18.6 billion worth of value added to Queensland's economy

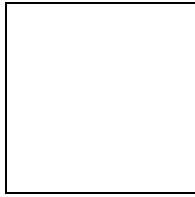


In 2001/2002 the industry provided over \$1.1 billion in revenue to Governments through direct and indirect state and federal taxes

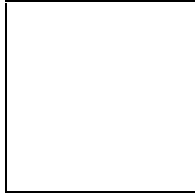
### **Jobs For Queenslanders**



The development industry employs, both directly and indirectly over 219,700 people in full time equivalent terms, or 15% of Queensland's workforce – 115,700 directly in the development industry and a further 103,900 generated from flow-on effects.



It accounts for over \$6.5 billion in wages and salaries - \$2.9 billion in direct wages and salaries and \$3.6 billion in indirect wages and salaries.



The contribution the development industry makes to employment in key industry sectors in Queensland is significant, with the wholesale and retail trade sector the largest beneficiary, generating an estimated 19,330 full time equivalent jobs, followed by finance and business services 17,700 jobs, other manufacturing 16,000 jobs, and timber and paper products 11,800 jobs.

It is to be expected that similar although not identical contributions will be made by the industry in other Australian States and in aggregate this represents a substantial contribution to the overall Australian economy.

## **IDENTIFICATION, RELEASE AND DEVELOPMENT OF LAND AND THE PROVISION OF BASIC RELATED INFRASTRUCTURE**

The fundamental requirement for the efficient operation of any sector of the economy is for there to exist the sustainable and predictable supplies of and ready provision of raw materials. Indeed, in respect of manufacturing industries, it is readily acknowledged that the three phases of operations, namely the provision of supplies or raw materials, the manufacturing process itself, and finally marketing distribution and sales of products, must be coordinated seamlessly to provide consistency of price and availability. In this context, there is no justification for there to be any difference between other manufacturing industries and the development industry.

However, no other industry in Australia at present has restrictions imposed on it with respect to the availability of raw materials as does the development



industry. Regulatory control of raw materials is almost entirely within the province of government, usually that of local authorities and state governments. Although processes vary from state to state within Australia generally the system is based on a process of land release which is effected through the development and implementation of Town/Shire/City/Local Area Plans.

Plans developed at local authority level are, in Queensland, submitted to the Department of Local Government and Planning for State interest checks and approved with or without suggested amendment.

Although, in principle, such a system is intended to provide for a coordinated regional approach to land release and the impact of such release on state government services and the provision of infrastructure this does not always occur. Indeed there are numerous overlaps between the range of services provided by local authorities and in the Queensland Government which necessitates direct involvement by state government entities in planning.

Transport, transport infrastructure, water supply and environmental considerations including vegetation management and environmental protection are among the range of those issues which are jointly managed by state and local authorities. Additional overlaps occur between state and Commonwealth jurisdiction, particularly in respect of the environment through The Environmental Protection and Biodiversity Act.

Notwithstanding the complexity of this situation and the increasing level of interaction between state and local authorities, the fundamental problem which exists is the lack of consistency with respect to land release and the predictability of growth corridors. While this may not be a substantial issue in many other parts of Australia it is a fundamental difficulty in South East Queensland. Population growth in the last 20 years has had a profound impact on land availability in this region and there are substantial issues with respect to the availability of land within the jurisdiction of the Brisbane City Council.

A recent paper prepared by UDIA (Qld) entitled "Responsible Growth Management" has been submitted to the Queensland Government's Task Force on SEQ 2021. (Appendix 2.)

In essence, a lack of regional planning in high-growth areas in the past has led to inadequate provision of serviced land for subdivision for a range of areas which has directly impacted on the price and affordability of land for all purchasers including first home buyers.

The relationship between the availability of land supply and price has been the subject of numerous reviews in Australia and in other parts of the world. Reference is made in particular to the ACIL Tasman Report "**Landcost: the impact of land cost on housing affordability**" Second Edition, March 2003 which was prepared for the National Body of UDIA. (Appendix 3)

See also “ **The Impact of Zoning on Housing Affordability**” Harvard Institute of Economic Research Discussion Paper 1948 by Edward L Glaeser and Joseph Gyourko March 2002 in which the authors conclude that “The bulk of the evidence marshalled in this paper suggests that zoning, and other land use controls, are more responsible for high prices where we see them.”. (Appendix 4) Although other areas of Queensland are not as adversely affected as a consequence of limited land supply as is Brisbane, recent substantial market activity has resulted in spiralling demand for greenfield and redevelopment sites which has been reflected by substantial increases sought by vendors for such sites. The industry is able to provide numerous examples within the Queensland marketplace of such increases.

Numerous difficulties with respect to the availability of land are also currently being encountered as a result of the impact of the Vegetation Management Act (Qld) and recent restrictions on tree clearing which, although not intended to impact on the urban development industry have, in fact, done so.

As regards the provision of infrastructure, this issue will be of profound importance within the next two years in respect of both residential sites and apartment sites in Queensland. As is stated at pages 14 and 17 of the ACIL Report, "Residential infrastructure costs and government charges and fees constitute a major part of the cost of land and therefore have a significant impact on housing affordability, particularly for those on modest incomes. Further moves to charge for the full capital cost of infrastructure items upfront and reduced government provision of infrastructure will exacerbate the situation." And “the increasing trend of governments requiring developers of estates to fund the cost of community facilities and infrastructure that benefit the whole community, not just the home buyers. This includes land for public open space, landscaped public areas and so on.”

In Queensland in particular, the move towards full cost recovery from new development through infrastructure charges will add an additional \$10,000 to \$15,000 per lot for every new lot developed as a result of the implementation of infrastructure charges plans under the Integrated Planning Act. This will have a profound effect on new home buyers and will see additional cost imposed for existing dwellings.

Regardless whether there is a historical deficiency with respect to payment for infrastructure for new development the substantial increases being sought by local authorities with the full support of the Queensland Government provides yet another example of the property industry being used to generate increased tax revenue.



## **EFFICIENCY AND TRANSPARENCY OF DIFFERENT PLANNING AND APPROVAL PROCESSES FOR RESIDENTIAL LAND**

Different Planning regimes are in place throughout each Australian jurisdiction and a number of reviews are currently being undertaken with a view to streamline activities across and within state boundaries. The Development Assessment Forum is an example of one such review.

In Queensland the implementation of a revised planning structure through the Integrated Planning Act has been an exercise which has met with numerous implementation difficulties. Beyond doubt, the complexity of the legislation coupled with major difficulties associated with co-ordination between state government departments and agencies has added significantly to the cost burden of housing.

Attached to this submission (Appendix 5) are copies of papers that have been prepared for presentation at a Qld Environmental Law Association by a UDIA(Qld) member, Mr David Nicholls and Me Steve Reynolds. Their observations are considered to be representative of the views held within the development community.

The degree of predictability and certainty that was sought from the Integrated Planning Act has not been delivered. Indeed, there was an intention to substantially enhance self assessable development applications; to have certainty with respect to code assessable applications; and to have efficient and effective processes for the consideration of impact assessable applications. For a number of reasons including those stated by Mr Nicholls the tendency has been for there to be substantially fewer opportunities to proceed with self assessable applications (such applications are exempt from the payment of infrastructure charges) and the intended benefits for the remaining categories have not yet materialised.

Additionally, the industry has recently taken part in a major review of regulatory issues which impact on the development industry. A substantial Report, prepared by **URBIS** has been presented to the Red Tape Reduction Task Force which operates under the auspices of the Queensland Department of State Development. Should the Productivity Commission require a copy of the Report it could perhaps approach the Department of State Development as the document has not yet been publicly released. However attached to this submission is a copy of the UDIA (Qld) submission to the consultants and the task force. (Appendix 6)

Should there be benefit in providing more detailed comparisons of the relative merits of one Australian system against another UDIA (Qld) will willingly take part in such an exercise.

## **EFFICIENCY AND TRANSPARENCY OF TAXES, LEVIES AND CHARGES IMPOSED AT ALL STAGES OF THE HOUSING SUPPLY CHAIN**

To an extent this aspect is dealt with in the ACIL Land Cost review (See Appendix 3) in which a range of charges, fees, taxes, and levies and the manner in which they impact on affordability are explored.

More recently, research undertaken by the Housing Industry Association of Australia has highlighted the current situation in respect of a range of taxes and charges and has disclosed the cumulative effect of many of these charges.

Undoubtedly there were numerous instances of hidden subsidies associated with a range of goods and services delivered by local authorities and State governments. Essentially there is great merit in utilising methodologies such as activity based costing to fully appreciate drivers of cost. However it is industry's view that this approach at both state and local level has resulted in major changes taking place to the detriment of home buyers and at the expense of affordability. There appears to have been an endless progression of increases in costs and charges as well as the situation arising where jurisdictions have seen substantially increased revenue as a result of progressive increases in the valuations of properties.

Substantial increases in land tax revenue, stamp duty and general rates have occurred in recent years. The Institute urges the Productivity Commission to undertake comprehensive research in this regard.

Some brief examples of increased charges are as follows: --

- On a sample land development in the Redlands Shire Government Taxes and Charges rose 59% in real terms in the 10 years to 2002.
- On UDIA (Qld) figures, in 1980 Stamp Duty, Council fees, Headworks charges, rates and taxes amounted to 4.9% of the average selling price of a lot in Queensland. In 1990 this had risen to 8.6% and in 2002 around 12.9%. This is during a period when the land price rose substantially in real terms.
- This year water and sewer headworks charges for unit development in the Brisbane Council area have increased by an estimated 250%.

Research undertaken by the Productivity Commission in respect of taxes levies and charges will clearly reveal that the property development and housing industries have provided a simple and effective means for State governments and local authorities alike to substantially increase revenue in recent years. Although this process has progressively removed many hidden subsidies it has undoubtedly been at the expense of affordability.

Of fundamental concern at the present time to the Queensland Industry is the implementation of Infrastructure charges under the provisions of the

Integrated Planning Act. The Queensland development industry has been aware for some years that it is a long-term goal of the Queensland Government and local authorities to implement a system of user pays in respect of infrastructure charges. Clearly, there had been instances where there has been subsidisation in respect of Infrastructure charges by general rates. Industry support for the implementation of an activity based costing approach was provided on the basis that there would be instances where infrastructure charges may be increased and instances where there would be reductions in such charges.

The industry worked in conjunction with the Brisbane City Council to establish infrastructure charges for a greenfield development site on the outskirts of Brisbane City. While supporting, in principle, the principle and methodology utilised there were reductions negotiated due to substantially increased costs in excess of the existing structure.

Subsequently, guidelines for the calculation of infrastructure costs have been developed by the Department of Local Government and Planning but these have not yet been released to the industry.

Brisbane City Council imposed new fees and charges for infrastructure throughout Brisbane as part of the 2003/2004 Council budget. Purportedly calculated under the principles of the infrastructure charges guidelines, substantially increased charges were imposed across the city.

UDIA (Qld) has been informed that the increase (which was imposed across the city) represented only 30 percent of the proposed fee increase and that the remaining 70 percent of the increased amount would be implemented at a future time. No details have been provided at the present time as to when that is likely to occur.

The end result of this exercise will be that there is an average increase of approximately 300 percent throughout the city. The Institute has been informed that similar levels will be set for infrastructure charges by other comparable local authorities. This substantial increase will have an immediate effect on housing affordability particularly for those purchasers seeking new dwellings.

Further details of this unprecedented increase in development charges can be provided for the Commission on request. When coupled with substantial increases in development fees brought in as a result of activity based costing under the Brisbane City Council purchaser/provider model as well as increases in other fees and charges there is a compounding effect on affordability.

# **EFFICIENCY, STRUCTURE AND ROLE OF THE LAND DEVELOPMENT INDUSTRY AND ITS RELATIONSHIP WITH THE DWELLING CONSTRUCTION INDUSTRY AND HOW THIS MAY BE AFFECTED BY GOVERNMENT REGULATIONS**

Profound changes have taken place throughout the development industry in the last 20 years. Prior to that time, although there had been a number of national players, the industry was largely localised with the predominant operators being partnerships or family companies. In more recent times a national market has developed and major changes have occurred with respect to the overall structure of the industry.

There continues to be a broad range of developers operating throughout Queensland. Progressively however, publicly listed and larger privately owned corporations are moving into capital city markets as well as regional centres. Corporations of both types are undertaking development in most if not all Australian capital cities and are undertaking joint ventures with financial institutions.

Both publicly listed and private corporations appear to be progressively diversifying their activities. Many corporations undertake development opportunities across a number of fronts including the residential apartment, tourism and retirement sectors.

More recently, such corporations are diversifying their business base to include management of listed property trusts, hotel and body corporate management, management of retirement villages and nursing homes.

As a consequence, and in view of the need for publicly listed companies to maintain future streams of profit, along with the need to invest accumulated surpluses resulting from successful market activities, mid to longer term investments are being placed. This factor is also placing additional demand on land available and potentially available for future subdivision.

In areas such as South-East Queensland the combination of strong growth, the emergence of major national players, inadequate future planning for land release and a major lack of infrastructure has, in the immediate past, and will, in the immediate future have a profound effect on affordability and the capacity for first-time buyers to enter into the market.

It is this Institute's view that the development effective increases in other fees and charges industry is one of the most highly competitive industries within the Australian economy. Although there are numerous major players in the industry there are many hundreds if not thousands of developers who undertake smaller developments. Their product is placed in the market to compete against product developed by the larger players. Regional markets have a higher proportion of smaller, locally based developers although this

trend is changing with numerous examples arising of national companies also entering regional markets.

As stated earlier, the development industry is one of the most intensely regulated industries in Australia today. Not only does government directly control the extent of land supply but the entire development process is regulated by specific approval processes within local authorities and mandates contained in State legislation. More and more restrictions are being placed on the industry with respect to development and construction through to regulation of marketing and sales activities. In addition local authorities regulate minimum sizes and standards for accommodation across the spectrum.

There is considerable overlap in the marketplace between the dwelling construction industry and the development industry in that many of the larger developers undertake housing construction in their own right. There are however, numerous examples of developers who do not choose to operate within the construction industry as contractors for the erection of houses and apartments. It is Institute's view that the breadth of activities within the marketplace today does not create private monopolistic situations rather that the industry is intensely competitive and contains many more producers of product than in many other industries. In this respect there are many similarities between the Primary Industries Sector (which is similarly characterised by high levels of competition and numerous players) and the development industry.



## **EFFECT OF STANDARDS, SPECIFICATIONS, APPROVAL AND TITLE REQUIREMENTS ON COSTS AND CHOICE IN NEW DWELLING CONSTRUCTION**

In considering this element of the inquiry the Commission will no doubt be guided by submissions from other industry groups more directly associated with the construction of residential dwellings. Consequently this submission will deal with only two major aspects of this element.

In the first instance, a broad range of mechanisms exist with respect to title arrangements for dwellings. Various models are used throughout Queensland involving either title in fee simple or community title. It is industry's view that there is no lack of flexibility or more efficient method of dealing with the complex issue of titling.

Undoubtedly the imposition of standards and building codes has a profound and immediate effect on affordability. Likewise the imposition of rising building standards also have an immediate impact on affordability. As a general proposition, the industry is able to effectively work within such requirements and provide product for consumers. More specific comments can be provided to the Productivity Commission should this be required.

The Commission is also referred to the research undertaken by the Development Assessment Forum in recent years which has identified many of the complications associated with the application of different standards and processes throughout Australia.

## **THE OPERATION OF THE TOTAL HOUSING MARKET WITH SPECIFIC REFERENCE TO THE AVAILABILITY OF A RANGE OF PUBLIC AND PRIVATE HOUSING TYPES, THE DEMAND FOR HOUSING, AND THE EFFICIENCY OF USE OF THE EXISTING RESIDENTIAL HOUSING STOCK**

Given that the development and construction industries are among the most competitive in the country it follows that the overall market is one which is driven and directed by consumer demand. At times other than those when there is a major shortage of housing stock (and the market is generally in equilibrium) the industry gears itself to meet consumer requirements. Comprehensive market analysis is undertaken on a constant basis by the Institute's members and the market is ruthless with developers and builders who do not design and build with community requirements in mind.

The abovementioned aspect requires the Commission to consider specifically the operation of the market having regard to the availability of public and private housing types. It also requires consideration of the use of existing residential housing stock. In this regard two key features arise that will be dealt with in this response. Firstly, the issues of affordable rental accommodation and affordable home ownership have been prominent in Queensland in recent times. For a number of reasons there has been substantial demand for affordable rental accommodation in inner-city areas.

It is the Institute's view that, as a result of the aggregation of a number of social, economic and regulatory factors there has been a substantial reduction in the availability of low cost rental accommodation in some locations. This also has an impact on the saving capacity for first-time buyers, many of whom are unable to aggregate a deposit to purchase their own home without having access to reasonable rental accommodation at a reasonable cost.

As a result of ill-informed views expressed by a number of prominent public figures, the debate in respect of affordable rental accommodation in inner-city areas has become somewhat polarised.

Blame has been cast on the development industry for the reduction in the number of boarding houses and low-cost flats, whereas, in fact, this phenomenon is more a factor of reducing supply of well-serviced land leading to increased prices.

The social and economic factors are, in our view, inter-related and equally critical to the substance of this debate. However it must be acknowledged that there are fewer people today prepared to undertake the role of landlord in a direct sense. Although many investors have entered the market in recent years the vast majority of these operate as absentee landlords utilising the services of real estate agents and/or body corporate managers. Fewer landlords are prepared, or indeed have the skills base, to deal with the increased and complex range of tenants presently in the marketplace. As a

result of State government policy to release into the community many people who were previously housed in mental institutions, tenants with complex and multiple disabilities and mental illnesses also require rental accommodation. These complexities coupled with increased tenancy rights and anti-discrimination legislation have discouraged many people from undertaking direct boarding house and landlord roles. In their stead, additional community housing bodies have been established and are developing skills and expertise in this area.

The post-war rental market was also epitomised in inner-city areas by a strong presence of immigrant landlords who converted existing dwellings to flats and utilised property investment as a most effective form of superannuation. With a range of new aspirations and issues, others appear to be less inclined to follow the same path.

The implementation of capital gains tax has also had an impact on the viability of affordable rental accommodation. What was once an attractive investment option appears to have lost much of its attractiveness. Increasing land values brought about as a result of government action supporting urban redevelopment has also had an effect on the availability of low-cost accommodation.

In more recent days, increasing fire safety standards, substantially increased public liability insurance premiums for such facilities and increased standards for dwellings such as car parks, requirements relating to cooking, bathing, and toilet facilities have also had an impact on availability and on the desire of landlords to become involved in this sector of the market.

In the past, the provision of affordable rental accommodation was achieved by a combination of public housing and private sector rental accommodation. As a consequence of the aggregation of the above-mentioned factors the provision of low-cost rental accommodation is now a questionable investment for the private sector. It is the Institute's view that the private sector is not being effectively utilised for the provision of affordable rental accommodation and that government action continues to undermine its involvement. Attached to this submission (Appendix 8) is the current UDIA (Qld) policy on affordable home ownership and affordable rental accommodation.

Detailed within the policy are a number of initiatives which the Institute believes, if followed, will provide greater incentive for the private sector to provide solutions to this growing problem.

## **CONCLUDING REMARKS**

UDIA (Qld) is of the view that the review by the Productivity Commission can provide positive outcomes for first-time buyers and the industry by addressing the three fundamental drivers of inefficiency and excessive cost currently imposed on the market. The Development and Construction Industries in Queensland are challenged by the absence of co-ordinated regional growth management strategies and this has an immediate impact on serviced land supply and the lack of predictability of supply which causes market dysfunction. Moreover, the costs of regulatory compliance are substantial and need to be made more efficient for costs to be reduced. There is an urgent need for the commitment by government to the placement of infrastructure and a compelling need to review the aggregation of costs, fees and levies which have progressively assisted to destroy the dreams of many first-time purchasers.