



Government of South Australia

**Submission to the Productivity Commission
Inquiry into First Home Ownership**

October 2003

SOUTH AUSTRALIAN GOVERNMENT SUBMISSION TO THE PRODUCTIVITY COMMISSION INQUIRY INTO FIRST HOME OWNERSHIP

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1. Overview

The timing of the Productivity Commission Inquiry coincides with a number of reviews currently underway in South Australia with respect to a range of matters related to housing markets and associated issues. A State Housing Plan is being developed, which is considering a broad range of issues including social housing, planning, land supply and urban regeneration, alternative financing, homelessness and private rental markets. Strategies to reduce homelessness are also being developed through the South Australian Government's Social Inclusion Unit. There is also a review underway of the Metropolitan Planning Strategy and consideration of mechanisms to encourage greater private sector supply of affordable housing.

The submission from the Government of South Australia provides the Productivity Commission with analysis and information pertaining to the housing market in this State including trends in the housing market, taxation issues, land supply and demand, planning and infrastructure. The focus of the analysis provided in the submission is not restricted to the strong property market cycle of recent years, but also attempts to draw out some of the medium term developments.

While there may be some policy issues which arise in response to the cyclical nature of residential property markets, it is important for the Productivity Commission to abstract from cyclical trends and consider the medium to longer-term factors impinging on housing affordability, and accessibility.

The residential property market in Adelaide has experienced similarly strong price and activity growth to that occurring in other capital cities over the past three years. However, over the past decade and a half Adelaide has tended to experience slower growth in house prices than other capital cities. The relative price of housing remains much lower than in the Eastern State capitals, and to a greater extent than the relative differential in incomes. Accordingly, home purchase affordability (as measured by housing costs to income), while deteriorating in recent years because of the strong growth in prices, remains relatively more favourable in Adelaide.

Notwithstanding these trends, there is evidence of housing affordability problems. Alongside the concerns regarding the sustainability of current levels of household debt and potential exposure to increasing interest rates for existing home purchasers, over the medium term there has been a declining home ownership rate for those in younger age groups (25-44) and among those in the bottom two income quintiles. To some extent, these trends may reflect lifestyle choices and other factors which differentiate the current first homebuyer cohort from their predecessors (such as Higher Education Contribution Scheme debts). They may however also be indicative of growing inequality in home ownership opportunities.

The Productivity Commission should seek to explore the drivers of reducing home ownership rates among certain segments of the community, including the extent to which they reflect broader trends in inequality in income and wealth in the community.

The decline in home ownership rates among lower income groups has resulted in a greater reliance on private rental tenures for such groups, particularly those in the

second income quintile who have been impacted by the tighter access rules associated with public housing. While Adelaide also generally tends to have lower private rents than other capital cities the magnitude of these differences are not as large as they are for house prices. Low income groups in private rental tend to have relatively high levels of housing stress as measured by the proportion of housing costs to income. The lack of affordability, limited choice and instability within the private rental market exacerbate issues associated with inequality, disadvantage and social exclusion. Affordability constraints limit future opportunities for capital formation to support entry into home ownership.

In examining opportunities for assisting first homebuyers, the South Australian Government supports reference being made to a substantially broader grouping of individuals and families requiring assistance to improve their housing circumstances and affordability. In particular, consideration should be directed to the level of diversity within the community and the dynamic changes that occur in individual circumstance and over time. Home purchase activity is related not only to issues of direct affordability, but is also associated with an individual's history of being able to secure appropriate housing to sustain community and economic engagement and develop necessary financial and social capital.

The Productivity Commission should not restrict its focus in the Inquiry solely to home ownership issues but should also seek to consider broader housing affordability issues including rental tenures. The Commission should consider the interaction between ownership and rental including the extent to which affordability issues in private rental markets impact on access to home ownership.

Since the introduction of the Commonwealth State Housing Agreement (CSHA) in 1945, successive Commonwealth and State governments have recognised the limitations of housing markets and sought to influence the availability of housing to members of the community on low to moderate incomes.

The last decade has seen a shift in the balance of Commonwealth policy away from supply strategies, such as the direct provision of social rental housing, towards demand based subsidies such as Commonwealth Rent Assistance and the First Home Owners Scheme. The erosion of social housing as a producer of lower cost housing has not been effectively replaced by the private sector.

Increasing house prices places further pressure on social housing programs that are facing escalating demand and growing complexity within a context of reduced funds. This is not sustainable and requires the attention of multiple tiers of government (Local, State and Commonwealth) and coordination across portfolio areas (planning, service delivery, standards, and regulation).

The Productivity Commission should consider the overall role of Commonwealth, State and local governments in influencing housing outcomes and the appropriateness of an integrated approach to "housing policy".

Significant Commonwealth Government resources (both direct expenditures and tax expenditures) are directed at supporting housing ownership both for owner-occupiers (capital gains tax exemptions, First Home Owners Grant) and investors (negative gearing). These assistance measures are not targeted to those with greatest levels of

need. **The Productivity Commission should consider whether the original policy rationale for the First Home Owners Grant should remain a permanent objective of Government policy or whether there is a stronger policy rationale for a more targeted approach.**

Land scarcity is an important medium to longer term factor impacting on the cost of housing. Adelaide has in place a Metropolitan Urban Boundary. There is strong bipartisan and community support for the urban containment boundary for the following reasons:

- the protection of vital productive agricultural/viticultural/horticultural land on the northern and southern plains at the metropolitan fringe;
- to improve the efficiency and utilisation of previous investment in existing infrastructure; and
- to promote the redevelopment and regeneration of existing areas of disadvantage and need by upgrading unsuitable or old housing stock.

There is an adequate short to medium term supply of land for building in Adelaide. Any impact of a limit to the amount of land available for urban development in Adelaide is not expected to occur in the short to medium term and beyond this period the Government is expected to have in place strategies to assist in the delivery of affordable housing. The Government is working with the industry to identify development opportunities within the existing footprint of the metropolitan area, whether that be through surplus State and local government assets, demolition and resubdivisions, higher residential densities or providing housing products that better suit the changing demographic profile of the community. There is ample time for these opportunities to be investigated and for industry to adapt to the new policy environment.

Details are provided in the body of the Submission regarding taxes, fees and charges imposed on housing by the State Government and local councils in South Australia.

Charges by councils and utilities in the main are fees for access to physical services and connections. Developers of land divisions are also required to provide public open space or make a cash payment per additional lot in lieu of provision of open space. It is understood, however, that the housing industry is concerned that some jurisdictions load social development/infrastructure levies onto new land developments rather than drawing on annual rate revenue to fund infrastructure. **Developers are generally critical of the charges for connections to infrastructure, but in South Australia, developer charges are limited to roads, drainage, water supply, power and sewerage, and in urban areas the full cost of supply is generally not charged. Thus, State and local government continue to subsidise fringe development. This compares with New South Wales where developer charges fund the provision of a wide range of physical and human services.**

There are differing views as to whether infrastructure requirements associated with fringe development should be subsidised. Infrastructure requirements must be funded and the key question is whether costs should be met by the marginal user or spread across other infrastructure users or taxpayers. The latter model creates considerable financial pressures on Government agencies and the availability of funding can create timing difficulties in adequately servicing new developments within appropriate timeframes. There is also an argument that developers should be exposed to the full

cost of extension of services so that the costs are accordingly borne by those who have necessitated it, thus sending the correct price signals to the market. On the other hand, loading all infrastructure costs onto new developments may put further pressure on fringe house/land prices and affordability, impacting mainly on first home buyers and low income earners seeking lower cost housing on the urban fringe.

The Productivity Commission should consider the appropriate funding arrangements for infrastructure requirements associated with housing, the incidence effects of alternative funding models and the most efficient mechanisms for addressing the affordability issues which arise from these alternative models.

On average, across most jurisdictions, stamp duty amounts to between 3% and 3½% of the sale price of a residential property. The impact is lower for first home buyers reflecting explicit concessions, the lower property values on average for first home buyers and the application of duty to the land component only of house and land packages.

Stamp duty is likely to be capitalised into house values resulting in lower property values than would apply in the absence of stamp duty. Stamp duty relief would thus provide a capital gain to existing homeowners with little or no impact on overall housing affordability, or that of first homebuyers.

It should be noted that the land development and building industries have a limited capacity to respond immediately to an unexpected surge in demand. One of the reasons for the present boom was the increase in the First Home Owners Grant to \$14,000 for new homebuyers. This policy change was unexpected, and the industry was not prepared for the sudden increase in demand that arose from it. Accompanying the increase in demand from first-home buyers was an increase in demand from investors. Low interest rates gave purchasers the ability to bid much higher prices. The limited capacity to produce additional housing units for this market has contributed to the increase in prices that has occurred, and in particular has negated the value of the First Home Owners Grant. It is very difficult for an industry to operate at the highest levels of efficiency in an environment where demand can change so unexpectedly. This difficulty extends to planning authorities and utilities. The Productivity Commission should consider whether it is in the public interest to introduce changes in Commonwealth Government policy that will result in sudden changes in demand and adverse impacts on prices because of a lack of capacity to respond immediately to the increase in demand generated by the policy change.

2. Housing Trends in South Australia

Price Trends

Adelaide has experienced strong growth in residential property prices over the past 3 years, which have been comparable to those experienced (on average) nationally. The recent growth in house prices in Adelaide has, however, followed a period during much of the 1990's when residential property price growth "underperformed" relative to other States according to the established house price indexes compiled by the Australian Bureau of Statistics (ABS). While Adelaide established house prices have grown by 11½% per annum in real terms (relative to CPI) over the past three years, over the past decade and a half real growth has averaged around 2% per annum. This compares with an average annual real growth rate of 4.6% nationally.

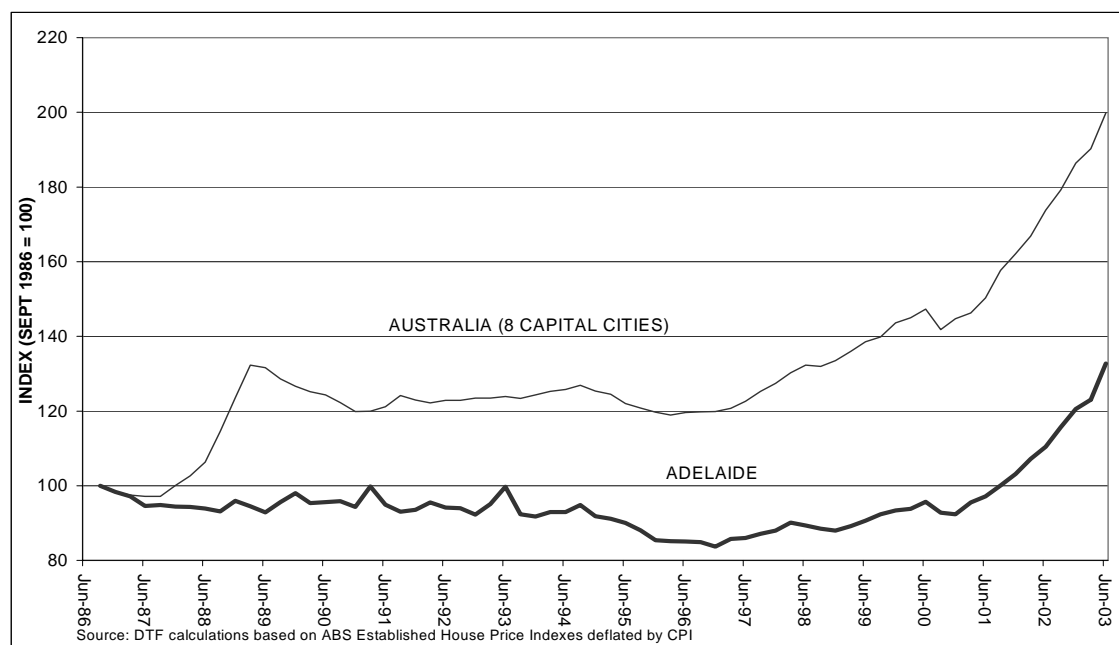
Real Average Annual Growth in Established House Prices^(a)

June 1987 to June 2000		June 2000 to June 2003		June 1987 to June 2003	
Adelaide	National Average	Adelaide	National Average	Adelaide	National Average
0.1%	3.3%	11.5%	10.7%	2.1%	4.6%

Source: DTF calculations based on data sourced from ABS Cat Nos 6401.0 and 6416.0

(a) Real growth measured as nominal growth deflated by growth in the Consumer Price Index.

Real Established House Prices

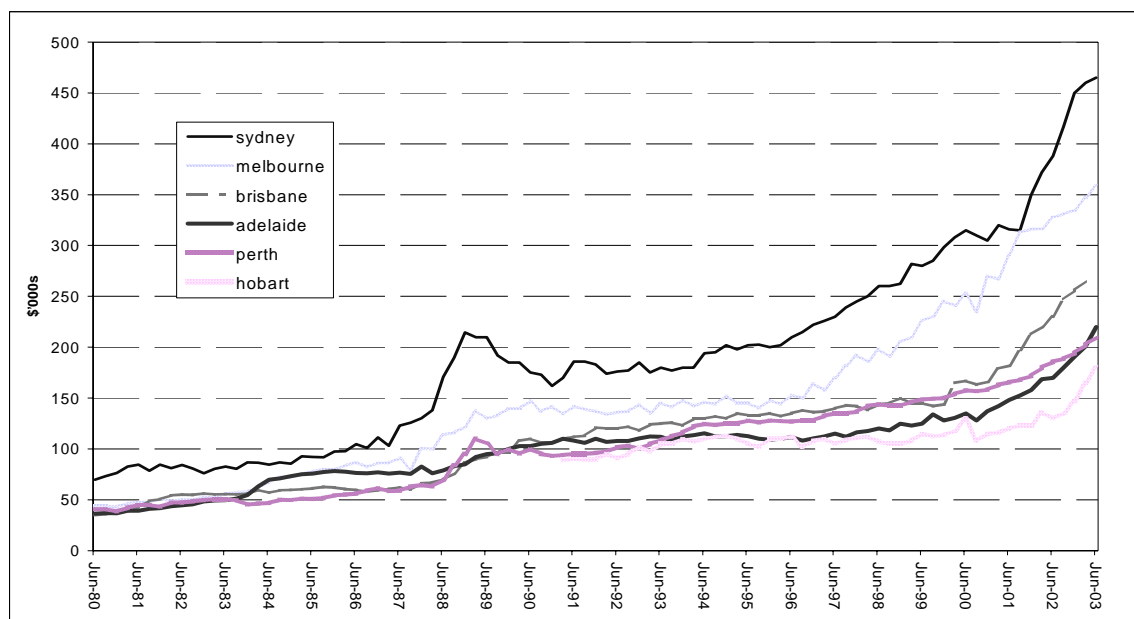


The increase in established house prices also reflects the fact that these are detached dwellings. In established areas with little or no remaining land, the supply of detached houses on lots with the same size cannot be significantly increased. Instead, additional supply will mostly be on smaller sites and take the form of detached courtyard or villa houses on much smaller lots (typically less than 400 square metres) or other types of dwellings. Since new supply in established suburban areas is generally small compared to the turnover of existing established houses, significant

price rises occur when there is sufficient demand and buyers have access to a quantity of funds, which permits higher bids.

The Real Estate Institute of Australia also produces data on median established house prices. There have been steep price rises in all capital cities the past 3 years, particularly in Sydney and Melbourne. Although strong price growth was also experienced in Adelaide, the median established house price remains significantly lower than in Sydney and Melbourne. Adelaide's median house price for the June 2003 quarter was 53% lower than Sydney's, 39% lower than Melbourne's and 17% lower than Brisbane's.

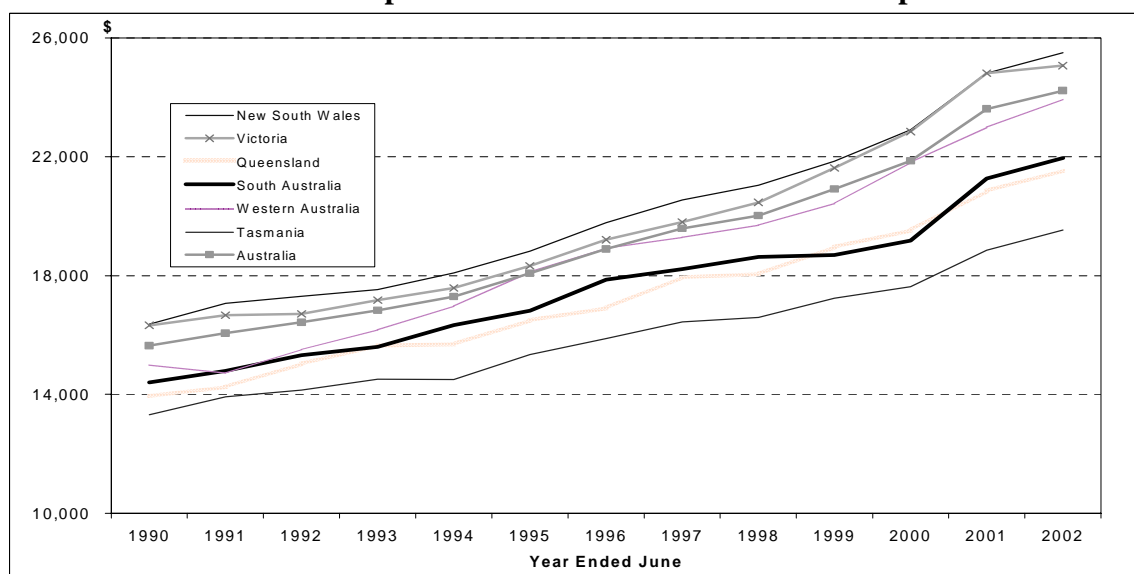
REIA, Median Established House Prices



Source: Real Estate Institute of Australia

Although Adelaide has lower median house prices compared to most other State capitals, South Australia has historically had lower average income levels than the national average.

Gross Household Disposable Income Per Head of Mean Population



Source: ABS Cat. No. 5220.0

In the 2001-02 financial year, SA's household disposable income (HDI) per head of mean population was \$21,961, 9.3% lower than the national average of \$24,226. HDI per capita in South Australia was 14% lower than NSW and 12% lower than Victoria in 2001-02. These differentials are not as large as the differences in established house prices.

In its Issues Paper, the Productivity Commission has queried why different parts of Australia (capital cities and regions) experienced different trends in housing prices. Such differences would reflect a number of demand and supply side influences. Adelaide, relative to the eastern state capitals, has generally lower rates of population growth placing less pressure on the supply of land. Regions of relatively greater levels of land scarcity are also likely to be more attractive to investors due to the potential for higher returns. Relative levels of growth in income and wealth are likely to also be important demand side factors – Adelaide's strong recent growth in house prices, in contrast to the experience of the 1990's, coincides with a period of relatively strong economic and employment growth. In the two years to June 2003, South Australian employment grew by 4.0% compared with 3.6% nationally despite an annual population growth rate around 0.7 of a percentage point lower than the national average.

The growth in established house prices has predominantly reflected the increase in land values. While project home prices have grown by more than general (CPI) inflation over the past three years, this would largely reflect the differential impact of indirect tax reform on the cost of housing, and over the past 15 years there has been minimal real growth in project home prices compared with the increase in established house prices.

Real Average Annual Growth in Project Home Prices^(a)

June 1987 to June 2000		June 2000 to June 2003	
Adelaide	National Average	Adelaide	National Average
0.0%	0.7%	2.3%	2.4%

Source: DTF calculations based on data sourced from ABS Cat Nos 6401.0 and 6416.0

(a) Real growth measured as nominal growth deflated by growth in the Consumer Price Index

Real Established House and Project Home Prices - Adelaide



The Issues Paper also queries whether housing price movements have been confined to particular market segments. The South Australian Valuer-General provides median house prices by Local Government Areas in South Australia based on sales data (see Table over). Over the 1999-2003 period, strong price rises were experienced in metropolitan Adelaide for all types of housing including houses (up 69%), home units (up 70%) and maisonettes (up 100%). In rural areas of South Australia, the price increases have not been as high, but have still been strong on average (up 51% for houses and 49% for units).

Trends by LGA indicate that the strong growth experienced over the past 3-4 years has been consistent across the metropolitan area. Apart from the above average increases experienced in coastal suburbs, there was also above (metropolitan) average price increases in the outer suburbs, although the increases were from a comparatively lower base (price), and it may be argued that the price of housing in these areas were somewhat undervalued prior to the most recent price rises. Nonetheless the price increases have been just as large, if not larger, in the north and north western areas of Adelaide which have relatively high levels of socio-economic disadvantage, as they have been in more affluent inner southern and eastern areas.

Median House Prices by Local Government Area

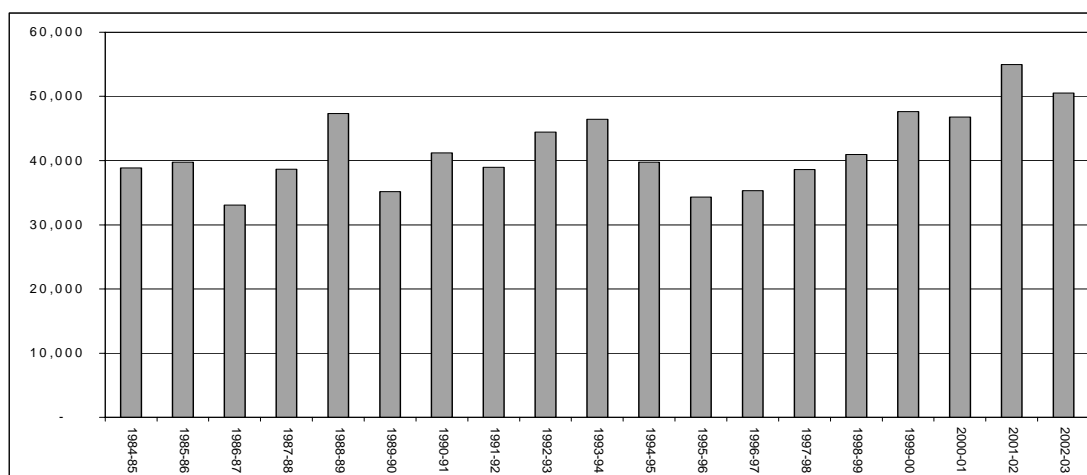
LGA	1999	2003 (year to June Qtr)	% Growth	LOCALITY
Adelaide - Houses	274,200	330,800	21%	Strong activity in medium density dwellings in the past couple of years in CBD. Adelaide City Council actively promoting inner city living.
Home units	169,100	251,000	48%	
Maisonettes	193,000	301,900	56%	
Burnside - Houses	294,945	479,639	63%	Eastern suburbs of Adelaide, 15 minutes from the City. Relative low levels of socioeconomic disadvantage as measured by SEIFA index
Holdfast Bay - Houses	193,300	378,300	96%	Suburbs situated on the metropolitan coastline, 20 minutes from the City. Includes Holdfast Shores Development and Marina.
Home units	106,000	230,000	117%	
Marion - Houses	128,400	232,400	81%	Inner Western area and includes light industrial areas
Mount Barker - Houses	117,900	195,500	66%	In the Adelaide Hills, 40 minutes from the City.
Onkaparinga 1 - Houses	90,800	179,000	97%	In the Southern suburbs, includes industrial areas, approximately 1 hour from the City.
Onkaparinga 2 - Houses	129,400	222,600	72%	
Port/Enfield 1 - Houses	110,400	229,300	108%	Includes historic Port Adelaide area, SA Government has announced redevelopment of the area. Relatively high levels of socioeconomic disadvantage as measured by SEIFA index
Home Units	83,600	153,800	84%	
Port/Enfield 2 - Houses	98,700	190,600	93%	Inner northern suburbs, 20 minutes from the city. Relatively high levels of socioeconomic disadvantage as measured by SEIFA index
Home Units	68,700	121,700	77%	
Playford 1 - Houses	83,500	145,300	74%	Northern suburbs, approximately 1 hour from the city. Includes industrial areas. Large concentration of public housing and relatively high levels of socioeconomic disadvantage as measured by SEIFA index
Playford 2 - Houses	59,200	108,100	83%	
Maisonettes	35,500	79,500	124%	
Salisbury - Houses	86,900	149,700	72%	Borders Playford LGA, approximately 50 minutes from the city. Relatively high levels of socioeconomic disadvantage as measured by SEIFA index
Home Units	66,400	116,000	75%	
Unley - Houses	243,800	400,000	64%	Inner suburb, 5-10 minutes from city centre. Relatively low levels of socioeconomic disadvantage as measured by SEIFA index
Home Units	108,200	177,500	64%	
SUMMARY - BY REGION				
Inner Metro - Houses	239,019	396,632	66%	Area within 5km of Adelaide GPO
Home units	118,300	185,400	57%	
Maisonettes	188,500	306,700	63%	
Central Metro - Houses	152,700	270,500	77%	Area within 10-20km of Adelaide GPO (includes Inner Metro)
Home units	98,800	167,800	70%	
Maisonettes	155,800	274,200	76%	
Metro Adelaide - Houses	125,700	212,300	69%	
Home units	94,100	159,700	70%	
Maisonettes	94,600	189,000	100%	
Rural - Houses	90,200	135,800	51%	
Home units	84,700	126,500	49%	
Maisonettes	40,100	50,000	25%	
SA - Houses	115,000	187,700	63%	
Home units	92,700	157,500	70%	
Maisonettes	74,800	130,300	74%	

Source: SA Valuer-General

Sales Turnover

There has been significant growth in the annual number of residential property sales in the past four years. Although the number of transactions in 2002-03 (50,500) was significantly lower than 2001-02 (almost 55,000), the current level is significantly higher than the average over the past two decades (around 41,700).

Annual Number of Residential Property Sales in South Australia



Source: SA Valuer General

Demand for Housing

The underlying demand for new housing construction is currently estimated to be around 8000 dwelling commencements per annum in South Australia, and around 6000 per annum in the Adelaide Statistical Division.

There are three key drivers of demand for housing in South Australia.

- Modest population increase of about 0.5% per annum, with most of the increase in population being in age groups over 40 years of age (South Australia has the oldest median age in Australia).
- Declining gross occupancy rate from 2.38 persons per dwelling in 1996 to 2.33 in 2001, with the decline expected to continue because of the ageing of the population, resulting in an increase in single and couple households, while the number of larger households with children is likely to be fairly static.
- Replacement of existing housing stock, with currently around 2000 dwellings per annum being lost per annum (and about 1,500 per annum in the Adelaide Statistical Division), which is expected to increase when broadacre land within 20 km of the Adelaide CBD is mostly consumed

POPULATION AND TOTAL DWELLINGS- 1996 AND 2001

Year	ERP	Total Dwellings	Gross Occupancy Rate
South Australia			
1996	1,474,253	618,672	2.38
2001	1,511,728	647,606	2.33
Adelaide Statistical Division			
1996	1,078,437	439,998	2.45
2001	1,107,986	458,928	2.41

Sources: Estimated Resident Population - Regional Population Growth (ABS Cat 3218.0)

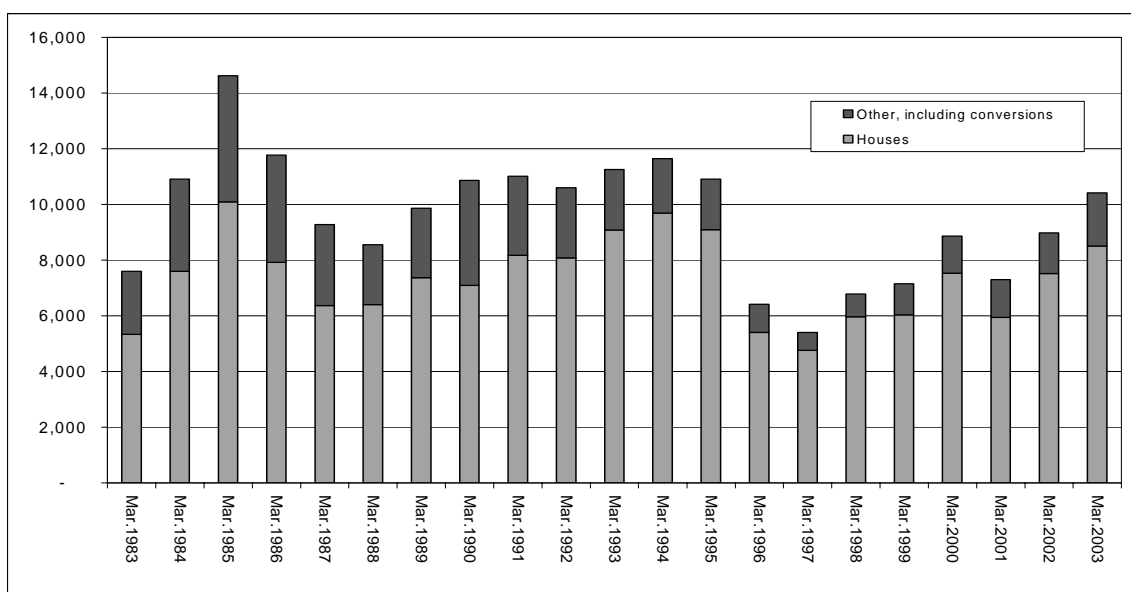
Total Dwellings - Selected Social and Housing Characteristics - Australia (ABS Cat 2015.0)

Construction Activity

Annual dwelling commencements in South Australia have been above the underlying demand of 8,000 for the past two years. Recent levels have been at their highest since 1995, but have not reached the levels of the mid-1980s and early 1990s.

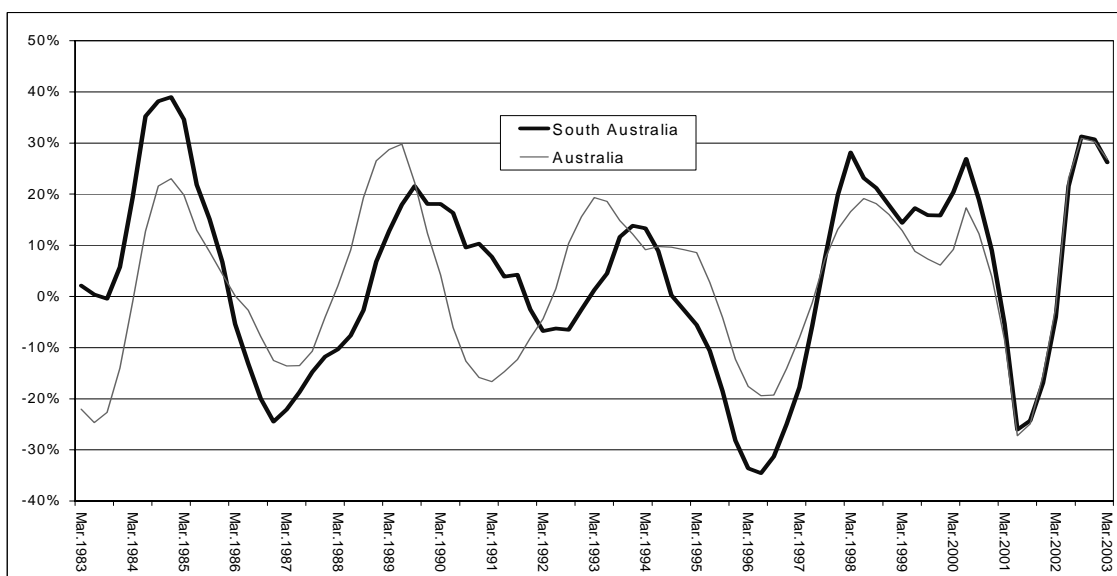
South Australia's housing cycle has broadly mirrored the national experience over the past 20 years, (although until recently South Australia had tended to be exposed to slightly larger cyclical swings than nationally). Also shown is the fall in activity prior to the introduction of the New Tax System, and the corresponding upswing since its introduction.

South Australian Dwelling Unit Commencements, Annual Total to March



Source: ABS Cat. No. 8750.0

Annual Growth in Real Value of New Residential Construction



Source ABS Cat. No. 8752.0

Distribution of Housing Construction

New housing construction is concentrated in and around the Adelaide metropolitan area, with around 69% occurring in the Adelaide Statistical Division and a further 15% occurring in the Outer Adelaide Statistical Division. The widespread decline in household size in Adelaide has resulted in population declines in some inner areas notwithstanding an increase in dwellings. The displacement of population has resulted in rapid growth in some outer suburbs. The balance of dwelling construction is widely scattered across the State. Some is associated with coastal development driven by immigration of retirees and expansion of fishing and aquaculture. The rest is associated with regional development of mining, viticulture, horticulture and forestry industries. At the same time, many dry-land farming areas and their service centres have declined in population and local housing is being abandoned. These differences in regional economies have resulted in population re-distribution that has resulted in increases in population in some localities and losses in others.

These events have resulted in a need for additional housing and investment in infrastructure in new locations at a pace that might be unexpected given the low level of population growth in South Australia.

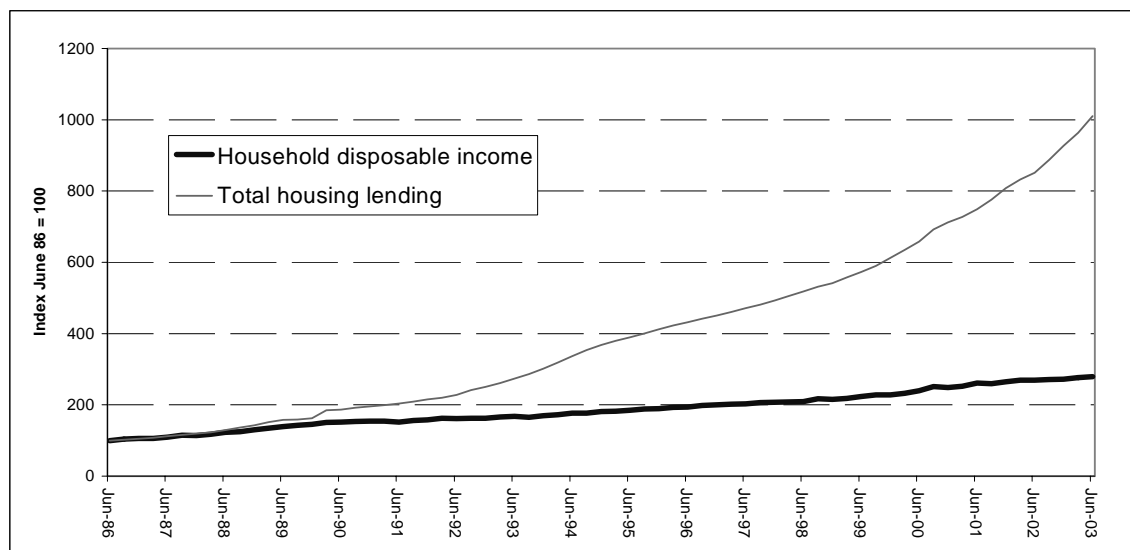
Household Borrowing Levels

Deregulation of the banking industry has resulted in the entry of foreign financial institutions and the consolidation within and across the banking and insurance sectors. This has resulted in the expansion of services these institutions provide. Further, the consolidation was facilitated by the privatisation of government-owned financial institutions, and the demutualisation of building societies and insurers. In 1990, one third of domestic assets of the banking system were controlled by 5 majority-owned government banks. Over the course of the decade, all 5 banks were either sold to the public or purchased by other banks. The building society sector also contracted over the decade with some of the larger societies converting to banks, and mergers amongst the smaller societies. Banks now represent 90% of total residential lending whereas they represented under 60% in 1986.

The major lenders now more actively encourage lending for investment purposes, by providing loans on equally favourable terms to those enjoyed by owner-occupiers and permitting the consolidation of owner-occupied and investment properties into the one mortgage.

Throughout the 1990s, the debt of the household sector has increased at an annualised rate of 14%, which is well in excess of growth in household income over that period. Income growth over the period 1990 to 2002 (as measured by Household Disposable Income from National Accounts) has grown at an annualised rate of 3.7%.

Growth in Household Disposable Income and Stock of Housing Debt



Source: RBA Money and lending Statistics and ABS national income account data (Cat No 5206.0)

According to the Reserve Bank of Australia (RBA), the ratio of household debt to disposable income in Australia has risen from a level that was low by international standards to one that is in the upper end of the range of other industrial countries. Within housing debt, borrowing for investment purposes was the fastest growing—its share of housing debt has risen from 14% in 1990 to 32% in 2003.

Average size of home mortgages, all States and Australia

\$'000s									
Quarter	NSW	Vic	Qld	SA	WA	Tas	NT	ACT	AUST
June 97	140.3	104.4	105.2	91.4	103.8	81.0	121.2	110.3	114.4
June 98	148.3	111.2	112.5	88.8	102.8	81.9	108.2	116	122.3
June 99	165.7	133.5	122.2	97.8	120.6	86.7	166.2	131.8	137.5
June 00	166.1	133.8	123.1	100.7	118.3	77.5	110.0	131.3	137.1
June 01	179.0	146.1	130.9	110.2	128.5	81.6	113.2	144.7	148.4
June 02	200.5	165.7	145.0	114.4	142.4	88.2	115.9	167.7	164.8
% chg 1997-2002	42.9	58.7	37.8	25.2	37.2	8.9	-4.4	51.6	44.1

Source: REIA, Australian Property Market Indicators, July 2001-June 2002

Although strong growth in the average size of home mortgages was experienced in all mainland States for the 5 years ending June 2002, South Australia showed the smallest increase of 25%, lower than the national average increase of 44%.

The recent surge in household borrowing levels can be viewed as both a cause and an effect of the recent housing price increases. Increased household debt has been driven to a significant extent by the decline in interest rates over the past decade, from a peak of over 16% in the late 1980's to just over 6% recently. The decline in inflation has been one important factor contributing to lower nominal interest rates. Further, the reduction in inflation impacts on the ability of new home owners to finance mortgages by ensuring that the 'front-end' load of a home loan is less severe, even though a constant real interest rate may still prevail. This effect arises because mortgage repayments are fixed for the life of the loan, whilst the income used to service this loan generally increases during this period. Under a regime of high

inflation, nominal interest rates (and therefore nominal mortgage payments) are much higher, causing loan repayments to take up a much larger share of income initially, although the faster increase in nominal wages ensures that this ratio declines more rapidly under high inflation.

The shift to a low inflation regime therefore ensures that mortgage repayments constitute a smaller portion of a borrower's initial income, thus enabling borrowers to obtain larger mortgages and consequently increasing the demand for (and price of) housing. The corollary of this is that, with most of this increased debt being directed towards purchase of housing, housing prices have risen as the greater availability of debt became capitalised into their price.

The typical income test applied by financial institutions requires that loan repayments do not exceed a specified percentage of income (for example, 30%). According to analysis conducted by the Reserve Bank, a halving of interest rates compared to the rates experienced in the early 1990s markedly increases the maximum amount a household can borrow and still face the same servicing cost (in fact, it nearly doubles).¹

Lower interest rates have not been the only driver of increased borrowing and rising prices. Strong economic growth has boosted employment and income growth, while investor demand has been strong in part reflecting the relative returns available from property investment vis-à-vis other investment choices such as equities. Indirect tax reform, and the impact of the First Home Owners Grant in its various guises, has also had distortionary impacts, and given the flat nature of the grant is likely to have differential regional impacts.

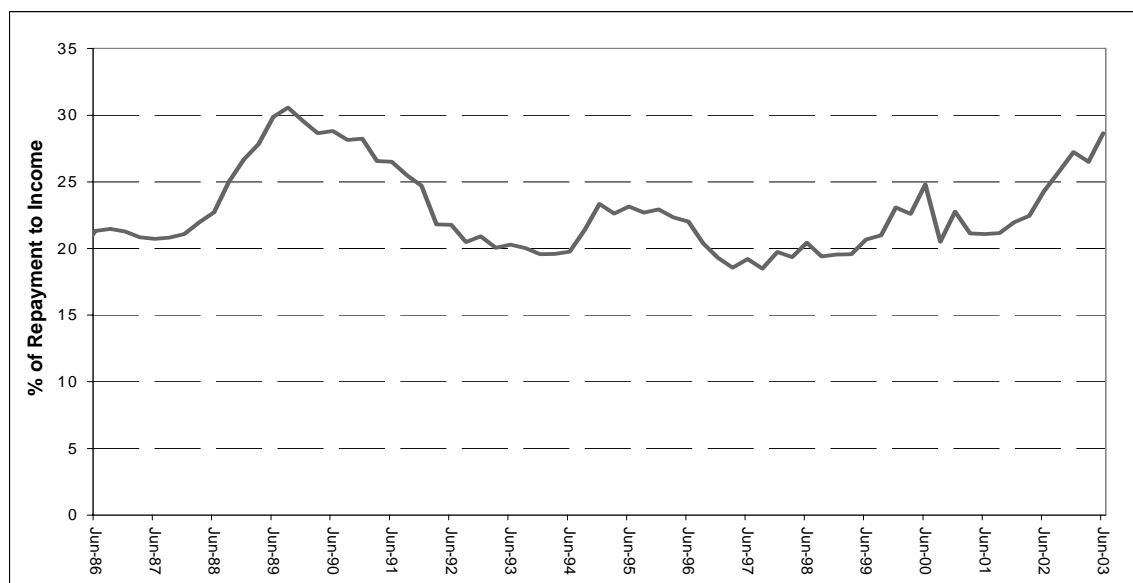
Home Ownership Affordability Trends

The Productivity Commission's Issues Paper queries the movement of affordability over time in context of present affordability levels and whether it reflects different influences to previous episodes of declining affordability. Despite the environment of lower interest rates today, data from the Housing Industry Association (HIA) shows that the affordability of home ownership, after making gains between the mid-1990s and 2000, has recently declined back to 1986 levels when interest rates were around 16%. Whereas high interest rates caused a decline in affordability in the late 1980s, the boom in house prices has caused the decline in affordability in the past couple of years, and as such the current deterioration in affordability would be more heavily impacting on first home buyers (as well as those "trading up" to higher priced/quality owner-occupied housing).

The HIA compiles a measure of percentage of repayments to income. Nationally, after experiencing a gradual decline in the percentage of repayments to disposable income in the period 1990 to 1997 (apart from a brief rise in 1994-95), this ratio for the 8 capitals has steadily risen since. The national average percentage of repayments to disposable income was 29% in the June quarter 2003. This ratio peaked at around 30% nationally in the late 1980's.

¹ RBA Statement on Monetary Policy, August 2003

Home Loan Repayment As a Proportion of Income – National Average



Source: HIA Housing Report

The Real Estate Institute of Australia also provide data on the percentage of mortgage repayments to household disposable income. The REIA data is a better indicator at a State level as it takes into account varying income levels across jurisdictions. The percentage of family income to service the average mortgage in South Australia is the lowest of all the mainland States. The ratio is highest for NSW, followed by Victoria and Queensland. Most States experienced improvements between 1995 and 1997 before experiencing a general deterioration between 1997 and 2002.

Ratio of Family Income Needed to Meet Average Loan Repayment, %

Dec Qtr	NSW	VIC	QLD	SA	WA	TAS	AUST
1995	33.4	24.5	29.6	26.7	26.4	26.6	28.7
1996	30.0	21.7	25.0	23.5	23.2	23.0	25.2
1997	27.7	20.4	22.0	19.5	20.0	18.7	23.2
1998	28.7	20.9	22.9	19.2	20.4	19.7	24.0
1999	29.8	24.5	25.3	20.8	21.9	19.0	25.8
2000	29.5	24.4	23.9	21.5	22.1	17.7	25.3
2001	29.2	24.4	22.4	20.7	20.7	16.9	24.7
2002	31.8	27.1	25.2	23.2	22.5	18.4	26.8
Mar 03	30.9	26.1	26.3	23.2	23.6	19.4	26.9

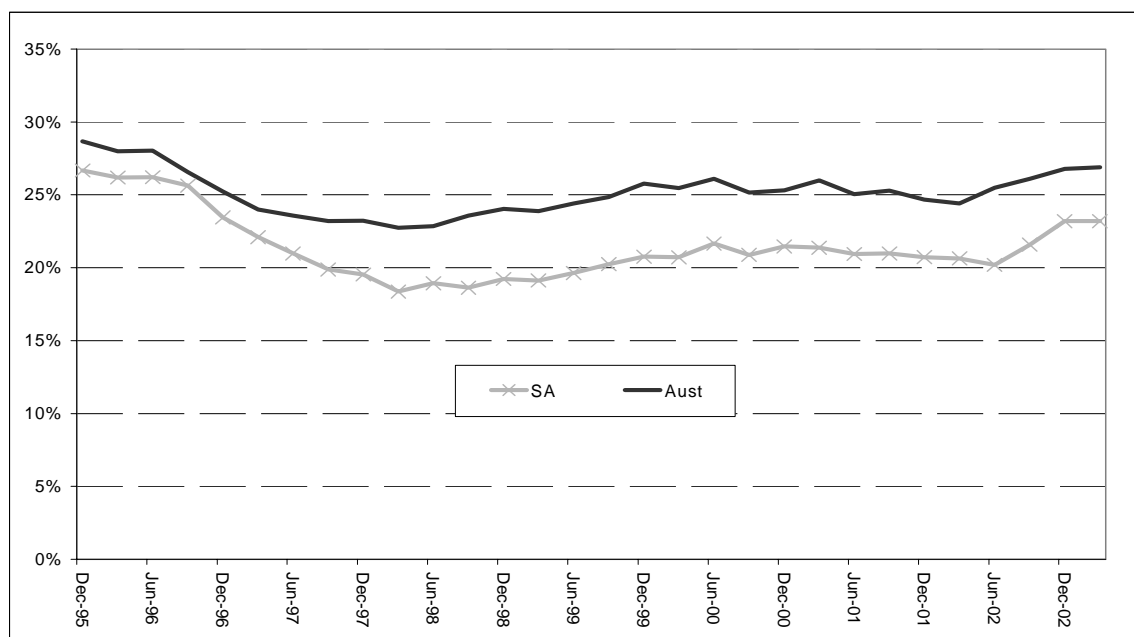
Source: REIA Australia Property Market Indicators, June 2003

The South Australian ratio had made gains in the late 1990s, before worsening by 2000 and the ratio is now just over 23%. South Australia's better than national average ratio is despite SA's lower income levels and reflects relatively lower average mortgage repayments, in turn brought about by relatively lower house prices.

The recent deterioration in housing affordability, resulting from higher prices in a low interest rate environment, when combined with the significant growth in household debt, gives rise to serious concerns regarding the impact on households if a large upward movement in interest rates occurs. The current general price inflation environment suggests that a large upward movement in interest rates is perhaps

unlikely in the short-term, although there are likely to be some highly leveraged households who may be exposed to even a modest increase.

Proportion of Income to Meet Average Loan Repayment



Source: Real Estate Institute of Australia

In its Issues Paper, the Productivity Commission queried the concept of affordability and that different measures of affordability yield different conclusions about recent trends. Affordability as measured by direct housing costs to income is only one indicator of the ability of individuals or families to access the utility provided by housing (albeit an important indicator and one that is relatively easy to measure). Access to home ownership, particularly for first homebuyers, requires an ability to accumulate sufficient capital to meet deposit requirements to access mortgage finance. For low-income earners, the accumulation of such capital may often be a larger hurdle to overcome than the debt financing costs associated with home purchase. The typical measures of housing affordability as described above are also likely to provide only a partial perspective on the true cost of housing choices. For example, urban fringe locations will offer affordable housing ownership opportunities for many first home buyers when measured by direct housing loan repayments, but will impose higher transport costs when compared with more central established suburbs reflecting differences in accessibility of employment, services and other amenities.

Trends in Home Ownership

Home ownership remains by far the most dominant form of tenure across Australia. Over time the proportion of home ownership has increased from the immediate post war era when just over 50% of all households were either owning or purchasing, to a peak in the late 1960s and early 1970s at 71%.²

Over the past decade and a half the overall rate of home ownership in South Australia has not altered much. Between the 1986 and 2001 Censuses, the rate of home

² Baum, 2 and Wulff, M "Housing Aspirations of Australian Households" Australian Housing and Urban Research Institute, February 2003

ownership by household has increased slightly from 69.6% to 70.4%. This reflects an increasing proportion of households who own their homes outright, and as at the 2001 Census over 40% of all South Australian households were in this position. However, the proportion of households who were purchasing their homes fell from 31.3% to 29.9% between the 1986 and 2001 Censuses.

The slight increase in home ownership overall in South Australia between 1986 and 2001 masks some divergent trends across the population by age and income.

The slight increase in home ownership has been concentrated in the over 55 year old age group (apart from the 15-24 age group which is a small statistical group). There have been significant declines in home ownership rates for those aged between 25 and 44, and increasing proportions of these age groups in private rental tenures. Note that the age cohort information contained in the table below is based on the age of the reference person for the household in the Census.

Between 1986 and 2001 there has also been a significant decline in home ownership for those households in the bottom two income quintiles. Home ownership rates rise with income and the disparity between upper and lower income groups in their rates of home ownership has grown over the past decade and a half. For those in the second lowest income quintile, declining rates of home ownership and reduced access to public housing reflecting tighter targeting to need have been associated with a significant increase in private rental tenures among this group.

There are substantially lower levels of home ownership among the Indigenous population (28%), which contributes to ongoing economic disadvantage. A specialised lending product has been developed by HomeStart Finance in partnership with the Aboriginal Housing Authority.

Housing Tenure by Age of Census Reference Person 1986-2001, South Australia

	1986	2001	Percentage point change
15-24			
Fully Owned	6.6%	7.0%	+0.3
Being Purchased	21.1%	21.4%	+0.2
<i>Total Ownership</i>	<i>27.8%</i>	<i>28.3%</i>	<i>+0.5</i>
Public Rental	14.5%	6.9%	-7.6
Private Rental	53.6%	59.7%	+6.1
Other/not stated	4.1%	5.1%	+1.0
Total	100.0%	100.0%	
25-34			
Fully Owned	11.3%	9.9%	-1.4
Being Purchased	49.2%	46.9%	-2.3
<i>Total Ownership</i>	<i>60.5%</i>	<i>56.9%</i>	<i>-3.6</i>
Public Rental	11.6%	6.4%	-5.2
Private Rental	24.9%	32.9%	+8.0
Other/not stated	3.0%	3.8%	+0.8
Total	100.0%	100.0%	
35-44			
Fully Owned	24.4%	22.0%	-2.4
Being Purchased	50.8%	49.2%	-1.6
<i>Total Ownership</i>	<i>75.1%</i>	<i>71.2%</i>	<i>-3.9</i>
Public Rental	9.1%	7.1%	-2.0
Private Rental	13.2%	18.6%	+5.4
Other/not stated	2.6%	3.0%	+0.4
Total	100.0%	100.0%	
45-54			
Fully Owned	45.1%	40.4%	-4.7
Being Purchased	33.4%	37.5%	+4.1
<i>Total Ownership</i>	<i>78.5%</i>	<i>77.9%</i>	<i>-0.6</i>
Public Rental	9.7%	6.8%	-2.9
Private Rental	9.1%	12.7%	+3.6
Other/not stated	2.6%	2.6%	-
Total	100.0%	100.0%	
55-64			
Fully Owned	63.1%	65.2%	+1.9
Being Purchased	16.7%	16.2%	-0.5
<i>Total Ownership</i>	<i>79.9%</i>	<i>81.4%</i>	<i>+1.5</i>
Public Rental	11.1%	7.8%	-3.3
Private Rental	6.2%	7.9%	+1.7
Other/not stated	2.9%	2.9%	-
Total	100.0%	100.0%	
65+			
Fully Owned	67.9%	72.9%	+5.0
Being Purchased	6.2%	3.4%	-2.8
<i>Total Ownership</i>	<i>74.1%</i>	<i>76.3%</i>	<i>+2.2</i>
Public Rental	12.3%	10.3%	-2.0
Private Rental	9.3%	6.3%	-3.0
Other/not stated	4.3%	7.2%	+2.9
Total	100.0%	100.0%	

Source: Unpublished ABS Census data

Housing Tenure by Household Income Quintiles 1986-2001, South Australia

	1986	2001	Percentage point change
Quintile 1			
Fully Owned	46.4%	44.0%	-2.4
Being Purchased	8.1%	7.7%	-0.4
<i>Total Ownership</i>	<i>54.4%</i>	<i>51.7%</i>	<i>-2.8</i>
Public Rental	21.5%	21.6%	+0.1
Private Rental	18.9%	19.2%	+0.3
Other/not stated	5.2%	7.5%	+2.3
Total	100.0%	100.0%	
Quintile 2			
Fully Owned	49.7%	49.5%	-0.2
Being Purchased	16.4%	14.4%	-2.0
<i>Total Ownership</i>	<i>66.1%</i>	<i>63.9%</i>	<i>-2.2</i>
Public Rental	15.2%	10.4%	-4.8
Private Rental	15.0%	20.7%	+5.7
Other/not stated	3.7%	5.0%	+1.3
Total	100.0%	100.0%	
Quintile 3			
Fully Owned	32.1%	37.4%	+5.3
Being Purchased	35.3%	32.1%	-3.2
<i>Total Ownership</i>	<i>67.4%</i>	<i>69.5%</i>	<i>+2.1</i>
Public Rental	10.5%	5.1%	-5.4
Private Rental	19.1%	21.5%	+2.4
Other/not stated	3.0%	3.9%	+0.9
Total	100.0%	100.0%	
Quintile 4			
Fully Owned	30.9%	34.1%	+3.2
Being Purchased	44.3%	44.7%	+0.4
<i>Total Ownership</i>	<i>75.2%</i>	<i>78.8%</i>	<i>+3.5</i>
Public Rental	6.8%	2.2%	-4.6
Private Rental	15.7%	16.4%	+0.7
Other/not stated	2.3%	2.7%	+0.4
Total	100.0%	100.0%	
Quintile 5			
Fully Owned	33.2%	37.7%	+4.5
Being Purchased	49.0%	48.4%	-0.6
<i>Total Ownership</i>	<i>82.2%</i>	<i>86.2%</i>	<i>+4.0</i>
Public Rental	3.2%	0.8%	-2.4
Private Rental	12.5%	11.1%	-1.4
Other/not stated	2.1%	1.9%	-0.2
Total	100.0%	100.0%	
Total			
Fully Owned	38.2%	40.5%	+2.3
Being Purchased	31.3%	29.9%	-1.4
<i>Total Ownership</i>	<i>69.5%</i>	<i>70.4%</i>	<i>+0.9</i>
Public Rental	11.1%	7.8%	-3.3
Private Rental	16.2%	17.8%	+1.6
Other/not stated	3.2%	4.1%	+0.9
Total	100.0%	100.0%	

Source: Unpublished ABS Census data

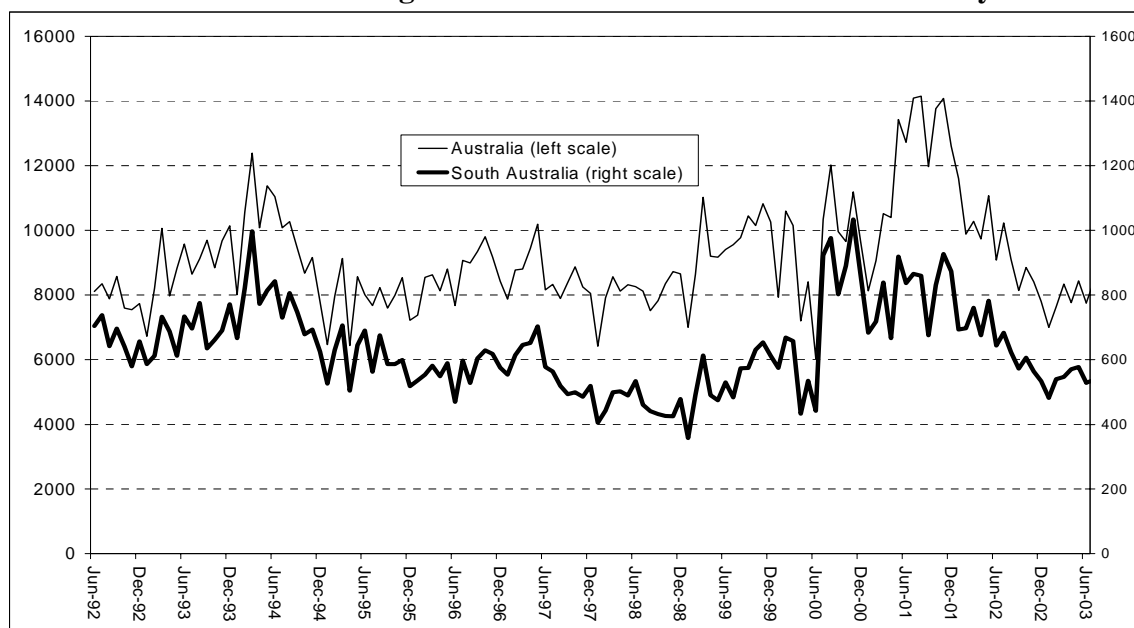
First Home Ownership

Both in South Australia and nationally there has been a downward trend in the number of housing finance commitments attributable to first homebuyers over the past 18 months. It is unclear to what extent this has been driven by affordability issues associated with the recent strong growth in house prices given that another strong influence is likely to have been the pull forward affect of the First Home Owners Grant. Despite overall population growth the medium term trend in first home buyer finance commitments has been fairly flat, which may in part reflect demographic factors as the ageing of the population produces a relatively smaller age cohort of potential first home buyers. The introduction of the First Home Owners Grant in 2000 stimulated first home buyer activity, and did so to a relatively greater degree in South Australia than nationally, reflecting the fact that the fixed dollar level of the grant had more purchasing power in South Australia than in higher priced jurisdictions.

First home purchasers present an important grouping within a broader population of individuals and households that, for a range of reasons, have not entered home ownership. This diverse group commonly occupy rental housing and have variable prospects of successfully purchasing property. The operation of lower cost segments of the private and public rental market impacts not only on the quality of life of these households but is also directly linked with critical issues of household savings and capital formation necessary for future entry into home ownership.

In considering the circumstances of first home buyers it is important to view these individuals within a broader housing market and a range of possible forms of assistance, depending on individual circumstances and preferences.

Number of New Housing Finance Commitments to First Home Buyers

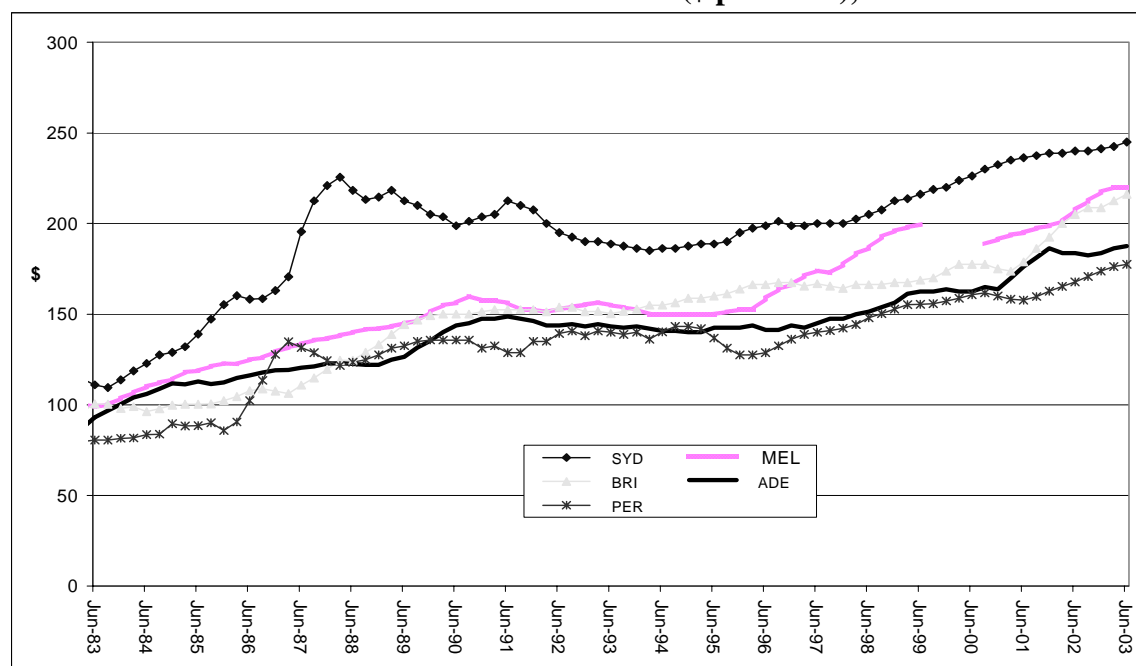


Source: ABS Cat No. 5609.0

Rental Market Trends

Median rents in Adelaide have been consistently lower than in Sydney, Melbourne and Brisbane. Currently, median rents in Adelaide are 24% lower than Sydney and 16% lower than in both Melbourne and Brisbane. These differentials are significantly less than the differences in Adelaide's established house prices relative to the Eastern State capitals. The median rent for a three bedroom house in Adelaide has risen by 19% over the past three years, although all of that increase occurred in the first 9 months after the New Tax System reforms. Since June 1997 median rents in Adelaide have grown by 52% in nominal terms compared with growth of 142% in established house prices.

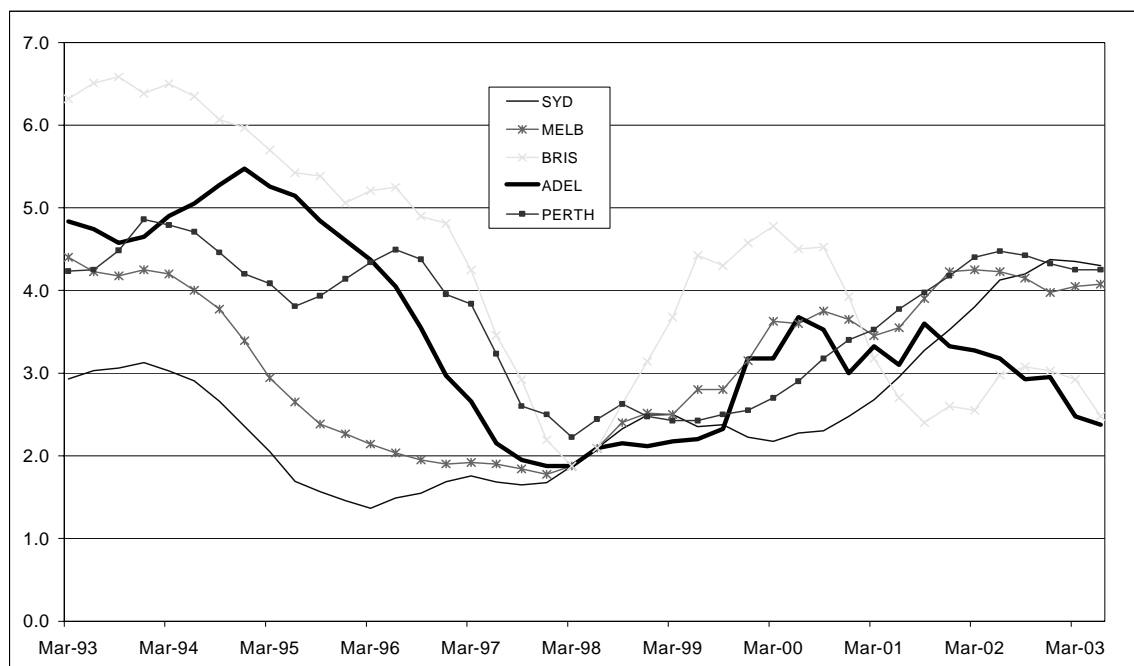
Median Rents of a 3 Bedroom House (\$ per week), MAA



Source: Real Estate Institute of Australia

Adelaide's rental vacancy rate has tightened considerably over the past decade, and has been lower than Sydney, Melbourne and Perth for past 2 years. Adelaide's annual average current vacancy rate of 2.4% is lower than Sydney (4.3%), Melbourne (4.1%) and Perth (4.3%).

Rental Vacancy Rates, Moving Annual Averages



Source: Real Estate Institute of Australia

Overall, there was a decline in the proportion of households in rental tenures in South Australia over the past decade and a half, although within this tenure there has been a significant shift away from public rental housing to private rental, reflecting the reduction in public housing stock as a result of the progressive reduction in funding for public housing under the Commonwealth-State Housing Agreements.

The likelihood that households will be in rental tenures declines with age and rising income. In private rental tenures the ABS Australian Housing Survey (1999) indicates that those in private rental markets tend to be more likely to be single parents, lone person households and groups and also tend to be much more likely to have housing costs which exceed 25% of their income. In South Australia the Australian Housing Survey records that one quarter of all households in private rental markets faced housing costs which exceeded 30% of their income, and this proportion rises to 44% for private rental households who are in the bottom two income quintiles³.

The net effect of Commonwealth housing policies on the South Australian private rental market has been a decrease in the supply of low cost rental properties in the context of continuing strong demand for such properties. This has occurred because an erosion of social housing as a provider of lower cost housing that has not been effectively replaced by the private sector. Further, there has been a more recent loss of stock in the low cost private rental market properties in a buoyant housing market.

³ It is noted, however, that there is a methodological issue with respect to these indicators of housing “stress” for those in private rental tenures, which concerns the treatment of Commonwealth Rent Assistance. The housing costs to income ratio would include CRA payment (where available) as income. Treating CRA as an offset to rental costs would tend to reduce the proportions quoted above. The respective treatments depend on whether CRA is viewed as a direct rental subsidy or a general income support measure

At the same time there appears to have been a marked change in the composition of the poorest 10 per cent of Australian households. Over the past decade, families (with children) dependent on Centrelink payments have “moved out” of this income bracket and couples and singles without children have “moved in”. Many of those moving in seem to be in low wage full-time or part-time employment. It would appear that the bottom 10% income group now contains more of the working poor without children than it did at the beginning of the 1990s. Social security dependent singles and couples without children have remained in this income bracket.⁴

This population is highly vulnerable to housing stress with increased risk of housing failure, leading accommodation in marginal housing and homelessness. This is reflected in the apparent increases in homelessness in South Australia,⁵ as well as increasing numbers of single women and young people using poor quality boarding house style accommodation.⁶

The lack of affordability, limited choice and instability within the private rental market exacerbate issues associated with inequality, disadvantage and social exclusion. Affordability constraints also limit future opportunities for capital formation to support entry into home ownership.

⁴ Harding, A and Greenwell, H (2002), Trends in Income and Expenditure Inequality in the 1980s and 1990s: A Re-examination and Further Results. National Centre for Social and Economic Modelling, Canberra.

⁵ Social Inclusion Board (2003), Current Levels and Trends of Primary Homelessness in South Australia. www.socialinclusion.sa.gov.au/pdfs/hometrends.pdf

⁶ Anderson P, Hume A, Rogers N and Stephenson T (2003), It's No Palace: Boarding Houses - the sector, its clientele and its future. Strategic Planning and Population Health Division, Department of Human Services. Adelaide.

3. Government Housing Assistance Measures and Social Policy Considerations

The issues under consideration by the Productivity Commission represent an important facet to the recent broad fundamental developments across the affordable housing system. Stable and affordable housing is of great importance to the South Australian community and adequate housing contributes to a socially just, inclusive and sustainable society. Housing is a key factor in addressing poverty and homelessness and recent studies show clear links between housing and health, social exclusion, crime and poverty.⁷

A broad set of housing assistance measures can be engaged to support households that are either unable to enter home ownership at a particular point in their life cycle or who are marginal potential buyers. Since the introduction of the Commonwealth State Housing Agreement (CSHA) in 1945, successive Commonwealth and State governments have recognised the limitations of housing markets and sought to influence the availability of housing to members of the community on low to moderate incomes.

The CSHA has supported a range of initiatives that have increased the availability and diversity of home lending and entry cost assistance products in addition to the creation of a significant social rental-housing sector. In South Australia, social housing includes public housing through the SA Housing Trust, community housing funded through the SA Community Housing Authority, and housing provided through the Aboriginal Housing Authority (see Attachment I).

The last decade has seen a shift in the balance of Commonwealth policy away from supply strategies, such as the direct provision of social rental housing, towards demand based subsidies such as Commonwealth Rent Assistance (CRA) and the First Home Owners Scheme.

CRA has not been identified as stimulating investment in the lower cost housing sector and the Industry Commission 1993⁸, and King 2002,⁹ have highlighted negative cost benefit comparisons with public housing investment.

Within this context of escalating demand for assistance, untied (CSHA) capital funding from the Commonwealth to the State of South Australia has decreased from \$103 million in 1993 to \$76 million in 2001 (in 2001 dollars), 26% in real terms. The agreement that commenced in July 2003 will further reduce funding to South Australia by an estimated \$30.7 million compared with the continuation of the previous agreement for a five-year period.

An issue of particular contention within the renegotiation of the CSHA was the Commonwealth withdrawal of GST compensation from the agreement (this

⁷ Mullins, P., Western, J., & Broadbent, B., (2001) *The Links Between Housing and Nine Socio Cultural Factors: a review of the evidence positioning paper*, Australian Housing and Urban Research Institute, Berry, M., (2001) *New Approaches to the Expanding Supply of Affordable Housing in Australia: an increasing role for the private sector*, paper presented to the National Housing Conference, Brisbane

⁸ Industry Commission (1993) *Public Housing Volume 1*.

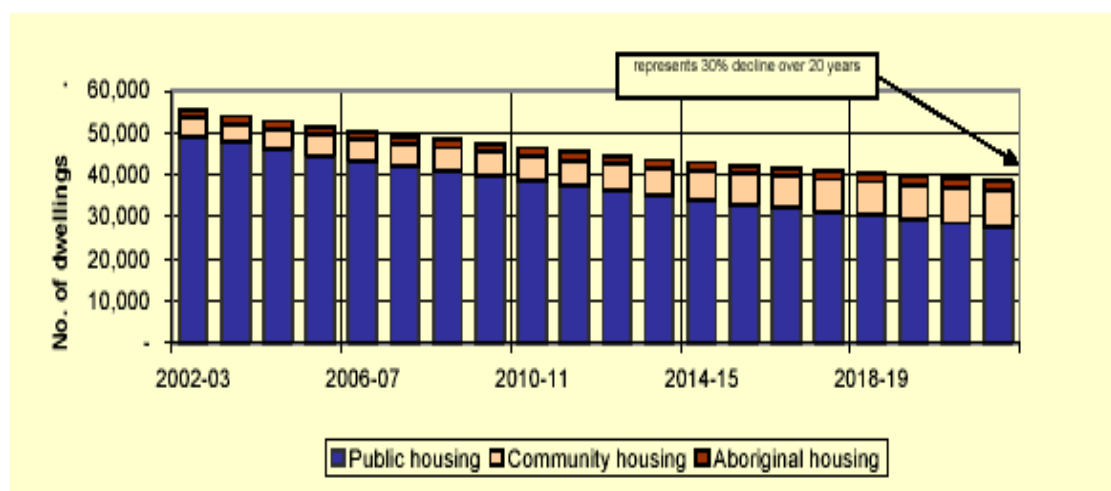
⁹ King, A., *Housing Assistance : the lifetime impacts*, Australian Housing and Urban Research Institute

compensation was provided in the previous CSHA in recognition of the input taxed nature of residential rental activity). This is in contrast to the continuation of the FHO, which has a GST compensation element. If GST compensation were to continue at the level of the previous agreement, this would provide funding of \$47.5 million over the term of the five-year agreement. This figure is an under representation of the actual impact on the capital and operational costs of housing agencies. The cost to the SA Housing Trust alone in 2002-03 was \$15 million and an estimated \$17 million in 2003-04.

In South Australia, social housing has decreased from 62,501 in 1995/96 to 55,119 in 2001/02. This level of stock reduction reflects the combined effect of declining CSHA funding, reduced rental income and higher cost associated with an ageing asset base and high support needs of tenants. Cost factors are compounded by debt repayment, a backlog of maintenance obligations, and geographic differences in demand and supply.

The following graph shows the potential for a significant decline in social rental housing stock in South Australia if there is no significant change in resource allocation and policy settings.

SA Social Housing Stock Trends



The erosion of social housing as a producer of lower cost housing has not been effectively replaced by the private sector. Commercial considerations and the lack of targeted Commonwealth taxation incentives (i.e. Negative Gearing and Capital Gains Tax) mean that there is little incentive to promote supply within the lower cost sector. A number of housing studies have drawn attention to the capacity of specifically targeted taxation measures to stimulate supply of lower cost housing¹⁰

A further market dynamic has been the ongoing gentrification of lower value areas, including areas with high concentrations of post war public housing stock. While urban renewal offers improved housing standards and general levels of community

¹⁰ Wood, G., & Forbes, M.,(2001) *Fundamental tax reform and its impacts on alternative providers of rental housing*, Australian Housing and Urban Research Institute, Berry, M., (2002), *New Approaches to expanding the supply of affordable housing in Australia: an increasing role for the private sector*, Australian Housing and Research Institute

amenity, this has generally occurred at the cost of significantly reduced levels of cheaper housing.

While innovative cost sharing arrangements have been developed between the State, Local Government and private sector partners, Commonwealth investment in the reshaping of urban communities has been limited since the abandonment of the Building Better Cities Program in the mid 1990's.

Urban renewal strategies are important as they can provide higher density living opportunities as an alternative to continued expansion of the urban fringe. This contributes to urban efficiency and sustainability outcomes and can provide additional choice for consumers. Significant evidence is emerging, however, that the locational choice of low-income homebuyers is increasingly constrained by the limited availability of lower cost housing within inner metropolitan areas of Adelaide and other metropolitan centres. The available alternatives are primarily located in outer metropolitan and peri-urban areas that commonly offer diminished access to employment, education, and community and health facilities.

In addition to rising house prices, underlying factors such as a decrease in the proportion of the community directly participating in the labour force, casualisation of jobs and ageing of the population, all place further pressure on the demand for housing assistance.

HomeStart Finance is the South Australian Government agency with the mandate of making available home financing opportunities for low-income households to assist them towards independence and stability in home ownership.

In 2001/02, 50% of HomeStart's new borrowers received government pensions as the primary source of income and:

- 87% earned less than \$37,000 (\$115,000 borrowing capacity).
- 76% earned less than \$31,000 (\$93,000 borrowing capacity)
- 51% earned less than \$22,000 (\$82,000 borrowing capacity plus a subsidised \$16,000 Advantage loan).

In 2001/02 HomeStart Finance assisted 2,650 households totalling \$164 million, with an average loan size of \$62,000. Ninety three percent of HomeStart loans are advanced to households that would not qualify for loans from the bank-lending sector.

The State Housing Planning Process being developed by the South Australian Government has identified the diversity of housing demand within the non-home owning population (see Attachment II). Furthermore, a recent inquiry by the Social Inclusion Initiative of the South Australian Government has highlighted the growing inequality of housing opportunities, with a stark finding that, at any one time, up to 7,000 South Australians could be deemed homeless.

Nationally, State and Territory Housing Ministers have recently commissioned a national Affordable Housing Project to identify Commonwealth and State policy levers capable of positively increasing the supply of affordable housing across a range of tenures.

In examining opportunities for assisting first homebuyers, the South Australian Government supports reference being made to a substantially broader grouping of individuals and families requiring assistance to improve their housing circumstances and affordability.

In particular, consideration should be directed to the level of diversity within the community and the dynamic changes that occur in individual circumstance and over time. Home purchase activity is related not only to issues of direct affordability, but is also associated with an individual's history of being able to secure appropriate housing to sustain community and economic engagement and develop necessary financial and social capital.

Increasing house prices places further pressure on social housing programs that are facing escalating demand and growing complexity within a context of reduced funds. This is not sustainable and requires the attention of multiple tiers of government (Local, State and Commonwealth).

It would be useful for the present inquiry of the Productivity Commission to consider issues associated with first homebuyers within this broader housing policy context, including the indirect tax assistance to homeowners. Yates (2003)¹¹ estimated this to be in the order of \$21 billion in 2001 and found that it provides most benefit to those households that need it least. It would provide a helpful context for examining the interaction of various market trends and provide scope for an examination of the breadth of barriers associated with achieving appropriate and affordable housing. In pursuing this approach, reference can be made to a wider set of service responses and public policy issues to facilitate the promotion of equitable housing outcomes.

¹¹ Yates, J., (2003) *A Distributional Analysis of the Impact of Indirect Housing Assistance*, Australian Housing and Urban Research Centre

4. Land Supply

Land supply available for development is measured by Planning SA in the Adelaide and Outer Adelaide Statistical Divisions. In other parts of the State, raw land supply is rarely an issue, although ease of servicing varies from place to place, and some rural localities lack the range of services expected in a large urban centre. Therefore, this submission concentrates on supply of land for housing demand in the Adelaide metropolitan area, where pressure on land supply is greater than other parts of South Australia.

In considering land supply, it is important to recognize that new dwellings in the metropolitan area are built on “land” from a wide variety of sources. These differences are important to the consideration of what measures might be pertinent to improve efficiency of the housing industry. The broad categories of source of “land” supply for new dwellings and their characteristics are summarized in the following table.

Broadacre Land Sources of Supply for Housing in the Adelaide Statistical Division

Development Type	Approx Share of Dwelling Commencements	Description	Capacity for Additional Construction
Broadacre Subdivisions	About 50%	Divisions of broadacre parcels > 0.4 Ha by private developers and Land Management Corporation joint ventures	Production running from 2000 to 3500 lots per annum compared with total supply of about 53,000 potential lots within the Metropolitan Urban Boundary
Suburban Redevelopment	About 40%	Resubdivision of existing suburban lots and demolition and replacement of existing dwellings. Mostly uses same financing and building methods as in broadacre subdivisions, but on smaller sites.	Resubdivisions are running at about 800 per annum and usually create one site for a dwelling. Demolitions are running at about 1,500 per annum (mostly detached dwellings) and result in about 1.6 new dwellings per site. Preliminary modelling suggests that an additional 60,000 dwellings approximately could be contained within existing subdivided urban areas by redevelopment of appropriately zoned properties (excluding strata and community titles dwellings) in the long term. These properties have a capital value to site value ratio of less than 1.5. Note that this estimate is likely to change as planning policies are revised and market conditions change.
Retirement Villages	About 5%	Developments comprising dozens to hundreds of individual dwelling units, often at medium to high density with shared facilities on leasehold tenure.	These developments are scattered widely and their proponents often out-bid land developers for sites because of higher yields. Lack of large sites in convenient locations is likely to result in more of these taking on a medium or high rise nature and this is already

			occurring. Providers are also building dwellings in isolated small groups or occasionally in a high rise building to overcome a lack of large sites in some localities
Apartment buildings	About 5%	New medium or high rise buildings or conversions of medium or high rise office buildings or disused industrial buildings or warehouses.	Mainly located in the city centre and adjoining inner suburbs or in specific areas adjacent to the coast. Being promoted by the City of Adelaide, where the majority are located and proposed. Heavy investor involvement but appeal limited to a niche market. Technically, there is a high capacity for additional buildings but current zonings severely limit this form of construction outside the Adelaide city CBD and frame.

Broad acre Within The Current Metropolitan Adelaide Urban Containment Boundary By Ownership and Local Government Area – Adelaide Statistical Division, 2002

Existing Broadacre - (currently zoned Residential)

Local Government Area	Company	Private	SAHT	LMC	Other Govt	Association	SGLR	Total Hectares
Adelaide	0.76	-	-	-	-	0.51	0.42	1.70
Burnside	7.70	27.51	-	-	-	-	-	35.21
Campbelltown	3.75	49.71	-	-	-	-	19.16	72.62
Charles Sturt	7.61	21.51	-	0.43	-	-	8.29	37.84
Gawler	25.59	119.23	-	-	-	8.69	15.51	169.02
Holdfast Bay	1.05	2.29	-	-	-	-	-	3.34
Marion	113.13	24.88	0.55	-	-	-	56.17	194.72
Mitcham	19.06	109.46	-	-	-	87.11	1.80	217.43
Norwood, Payneham & St Peters	0.40	1.29	0.50	-	1.07	3.21	-	6.48
Onkaparinga	372.27	401.60	7.34	360.29	0.07	5.37	6.31	1,153.24
Playford	177.61	338.28	0.43	645.03	2.90	-	3.80	1,168.04
Port Adelaide Enfield	14.09	0.46	0.99	165.15	-	-	61.27	241.96
Prospect	-	0.48	-	-	-	-	-	0.48
Salisbury	80.74	248.10	0.69	235.85	24.48	-	5.16	595.02
Tea Tree Gully	11.88	50.67	-	8.94	-	0.76	-	72.25
Unley	0.47	3.65	-	-	-	-	-	4.12
Walkerville	1.15	6.03	-	-	-	-	-	7.17
West Torrens	1.81	1.97	-	-	-	-	20.99	24.77
Total	839.06	1,407.11	10.50	1,415.69	28.52	105.66	198.87	4,005.42

Proposed Broadacre - (Land which is currently zoned Rural A, Deferred Urban or other zones and is currently proposed to become broadacre)

Local Government Area (2001)	Company	Private	SAHT	LMC	Other Govt	Association	SGLR	Total Hectares
Gawler	6.19	89.02	0.00	46.08	15.34	14.30	0.00	170.93
Onkaparinga	20.72	21.76	0.00	128.01	6.08	0.00	0.00	176.57
Tea Tree Gully	62.28	0.00	0.00	0.00	0.00	0.00	0.00	62.28
Total Proposed - ASD	89.19	110.78	0.00	174.09	21.42	14.30	0.00	409.78

Total - Existing and Proposed	928.25	1,517.89	10.50	1,589.78	49.94	119.96	198.87	4,415.20
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Source: Planning SA (unpublished data)

Notes:

- (a) This table is based on an analysis of State valuation assessments as at 30 June 2002, linked to the Digital Cadastral Database, over which zoning under the Development Act has been superimposed. The analysis takes account of the amendments to the Urban Containment Boundary gazetted in March 2003 and current proposals in Gawler and Tea Tree Gully LGA's.
- (b) Company land is owned by any kind of registered company, which in virtually all cases are land development or building companies.
- (c) Private land is held by private individuals, either solely or jointly with others but not in the form of a registered company.
- (d) SAHT is the South Australian Housing Trust.
- (e) LMC is the Land Management Corporation, both in its own right and in joint ventures with others.
- (f) Other Government is land owned by government, other than the South Australian Housing Trust or the Land Management Corporation.
- (g) Association land is owned by non-profit incorporated associations.
- (h) SGLR is State Government Land For Release that is designated for future urban uses and is deemed surplus to government requirements.
- (i) Land proposed to become Residential broadacre is subject to statutory rezoning processes.

The above brief analysis shows that there is ample land available for future housing construction in the Adelaide Statistical Division in raw terms in the short to medium term.

However, there are a number of important qualifications:

- The Adelaide metropolitan area is shaped by the restrictions to development of the sea to the west and Mt Lofty Ranges to the east. The Ranges contain an 80 kilometre long continuous band of reservoir water catchments, numerous national parks and are prone to occasional but severe bush fires. As a consequence of these constraints, Adelaide is developing as a linear city which is about 80 kilometres long. At this stage of its development, most of the uncommitted residentially zoned broadacre land is situated at the far northern and far southern ends of the metropolitan area in the Cities of Playford and Onkaparinga respectively, about 30 kilometres from the CBD.
- The relative remoteness of many broadacre land locations is probably the cause of the level of demolition activity occurring in the inner and middle suburbs, and this is expected to increase as more accessible broadacre land currently under development in the Cities of Port Adelaide-Enfield, Salisbury, Tea Tree Gully, Mitcham and Marion is consumed over the next five years or so.
- The availability of broadacre land is an important issue. Most land in the Company class is the process of development or being held for future development. Similarly, land in the LMC and SGLR classes will be available for development by the private sector (either solely or via a joint LMC-private sector joint venture). Taken together, the land in the Company, LMC and SGLR classes comprises 61% of residentially zoned broadacre land. However, the availability of privately held land is uncertain because the motives of the owners vary. These holdings by private individuals constitute 35% of the residentially zoned broadacre land. The residual is owned by other government agencies (all levels of government) and associations (that is non-profit incorporated bodies), most of it is being held for a variety of future purposes, but mostly not for housing.
- The transition to greater reliance of redevelopment will eventually be re-enforced by the Metropolitan Urban Boundary, a bi-partisan policy of containing Adelaide's development to a fixed urban boundary. The policy is aimed at reducing the need for service extensions and making more intensive

use of existing infrastructure, and reducing the impact of city spread on areas of intensive horticulture and viticulture in the Northern Adelaide Plains and the Willunga Basin. The development of these areas has been supported by distribution of treated sewage effluent from several sewage treatment plants via purpose-built networks of pipes. There are plans to add storages for treated effluent so effluent produced in winter can be stored for use in summer months. Importantly, the land-based disposal of treated sewage effluent is also reducing the adverse impact of discharge of treated effluent on the marine environment. Thus, there is a symbiotic relationship between this rural land adjacent to the urban area and the urban area itself, that is, these rural areas have become a necessary part of the “infrastructure” supporting the metropolitan area, and their conversion to urban use would involve shifting both the horticulture and the distribution of effluent that occurs there.

An overview of the strategy for the development of Adelaide is included in the Metropolitan Planning Strategy, which forms an important reference for amendments to zoning and principles of development control.

Extract from Metropolitan Planning Strategy (January 2003)

Economic Activity

- Ensure infrastructure, access & land is provided to industry.
- Realise opportunities from the Adelaide/Darwin rail link & Port River Expressway.
- Encourage investment in a north west industry 'Arc of Opportunity'.
- Protect existing industry from incompatible development.
- Cluster interdependent specialised economic activities.
- Support the Adelaide City Centre & major centres including Noarlunga and Elizabeth.
- Protect areas of strategic significance for primary industry.

Arts, Heritage and Design

- Acknowledge, protect & enhance the public realm.
- Conserve heritage.
- Improve urban design.
- Implement an Urban Design Charter for Government.

Access

- Link access & employment.
- Reduce travel through urban form.
- Reduce travel demand.
- Apply intelligent transport systems.
- Improve public transport travel, corridors & services.
- Promote alternative modes of travel to cars.
- Improve freight movement in the metropolitan area.

Living

- Reduce demand for new housing areas & provide housing choice in established suburbs.
- Contain development within an Urban Growth Boundary.
- Reduce the area of future urban use.
- Link urban regeneration opportunities to community needs and investment.
- Encourage infill development sensitive to neighbourhood character and local heritage.
- Ensure living areas have access to work, services and facilities.

Natural Resources

- Conserve biodiversity.
- Protect land from contamination.
- Restore water quality in catchments.
- Encourage the re-use of stormwater.
- Reduce greenhouse emissions.
- Upgrade standards and systems for waste disposal and reduction.
- Protect and manage the coast.
- Protect the Hills Face Zone.
- Promote cleaner production and regulate industrial emissions.
- Define environment performance measures in Development Plans.

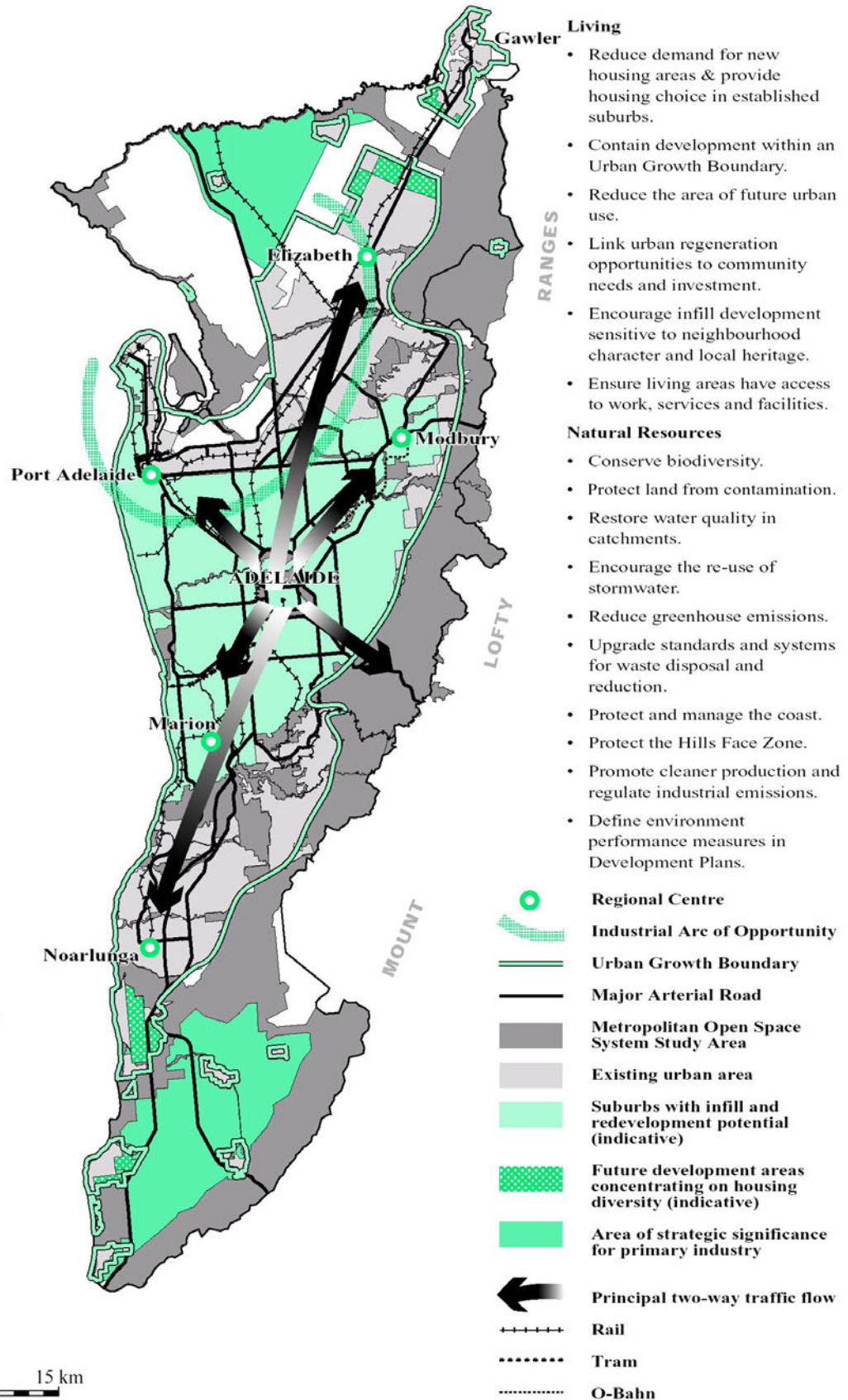


Figure 2 Summary of Planning Strategy Priorities

Land Supply Release

Zoning of Land

In the Adelaide Metropolitan area, land used for urban dwelling construction has previously been zoned for residential use, generally many years before it is actually required. However, approval for residential land division is not an automatic right. Principles of development control encourage compact extensions of existing urban areas, and planning authorities may refuse proposed divisions that do not comply with the principles of development control associated with the zone concerned. In addition to land already zoned for residential development, there are areas of land where urban development is proposed in future, but division into residential lots is not permitted. Generally, such zones restrict rural divisions to sizes that will not severely prejudice the possibility of division for urban purposes. Rural uses, which are incompatible with future urban development may also be discouraged or prohibited.

Public Land Banking

The State-owned Land Management Corporation holds about one-third of the residentially zoned broadacre land in the Adelaide Statistical Division, although the distribution is concentrated in particular local government areas (see Table above). Since the late 1970's the State Government, through LMC and its predecessor agencies, has undertaken land banking (and the subsequent staged release) with the aim of providing a continual supply of serviced and affordable land, mainly in the Northern and Southern sectors of Adelaide. This process has ensured an efficient release of land to assist in keeping land in Adelaide affordable and allowed for staged development of infrastructure and coordination of service provision.

The Land Management Corporation revises its land release program each year, and may dispose of land to private developers or develop the land through a joint venture with a selected joint venture partner. The release of land is sometimes subject to the commencement of development within a particular period of time or conditions relating to the construction of particular elements such as a collector road for a future bus route or laying internal physical services to adjoining land may be imposed.

Land banking enables very compact and orderly development and this result is very evident from inspection of maps of the metropolitan fringe where urban development on land previously owned by the State has few gaps and stops abruptly with a hard edge to rural land. Public land banking limits the intensification and increase in value of land adjacent to urban areas because the pressure to subdivide it for rural living and intensive agriculture can be resisted. This enables large land holdings to be made available for urban development at a low cost per hectare, and development staged in an efficient fashion.

Land was, and continues to be, released through a number of major joint venture developments with the private sector - in particular: Golden Grove, Seaford, Northfield and Mawson Lakes, or through the sale of major development sites to the private sector. Land release occurs in the context of the overall Metropolitan Development Plan.

Typically lands released by the LMC in the Southern and Northern sectors of Adelaide have provided around 30 percent of housing allotments sold in metropolitan

Adelaide i.e. around 1,500 allotments per annum which yield around 1,600 – 1,700 dwellings annually.

With an estimated 3,500 allotments being annually produced from broadhectare land, LMC land developments/releases contribute around 42% from this source.

The LMC's land releases over the last six years have been:

1998	108 ha
1999	81 ha
2000	114 ha
2001	125 ha
2002	83 ha
2003 (p)	<u>183 ha</u>
	694 ha averaging 116 ha p.a

(p) = year end projection

Research indicates that during 2002/03 allotment prices in the Northern and Southern sectors of Adelaide, where LMC land releases have and will continue to occur, have remained affordable in comparison to the rest of the Adelaide and Australian market.

In 2002/03:

- The average allotment price for Adelaide was \$95,000.
- In the Northern and Southern Fringe Area, 30 to 35 kms from the CBD, there were 850 allotment sales which comprised 17% of total Adelaide allotment sales:
- The median price for vacant allotments of 300 m2 to 800 m2 in these fringe areas were:

Gawler LGA	\$45,000
Munno Para LGA	\$44,000
Noarlunga LGA	\$56,000

- The median prices for established houses of 120 m2 to 220 m2 were:

Gawler LGA	\$170,000
Munno Para LGA	\$152,000
Noarlunga LGA	\$172,000

- These vacant allotment and established house prices remain affordable in this important market segment.
- Over the last ten years, the State Government's land banking and release program has been a consistent and significant land supply contributor in the abovementioned areas. Suburb examples and the median allotment prices in 2002/03 include:

Evanston Park in Gawler LGA	\$45,000
Craigmore & Blakeview in Munno Para LGA	\$46,000

Seaford Rise in Noarlunga LGA \$56,000

- These prices are closely aligned to the total LGA sale prices reflecting that 60% of sales in these suburbs were derived from land released from the State Government land bank.
- In the Inner Northern Area, 10 to 20 kms from the CBD, the State Government, through its joint venture land developments and its major land sales program, maintained an active and consistent land release program in this central area of Adelaide.
- Median allotment prices were achieved in the following suburbs associated with such land releases:

Greenwith in Tea Tree Gully LGA (joint venture)	\$85,000
Mawson Lakes in Salisbury LGA (joint venture)	\$89,000
Walkley Heights in Salisbury LGA (land sale)	\$88,000
Oakden/Northgate in Port Adelaide Enfield LGA (land sale)	\$98,000

- There were 850 allotment sales in these suburbs, which comprised 17% of total Adelaide allotment sales.
- The median prices for established houses of 120 m² to 220 m² in these suburbs were \$220,000 to \$260,000

As of September 2003 the Land Management Corporation owns 1500 ha of land for future housing consisting of: 800ha in the northern areas of Adelaide, 200ha in the central area and 500 ha in the southern area. It is currently estimated that LMC has enough land available for development for the next 12 to 15 years representing approximately 65 to 70 percent of the total land likely to be developed for housing in outer metropolitan Adelaide over this period. The rate of future development of this land will depend on market trends (especially overall demand for housing and the balance between broadacre development and redevelopment of existing areas). The Metropolitan Development Program will provide a context for a staging of land release and development.

Private Land Banking

The private sector tends to hold land needed for lot production for about two to three years (depending on demand). Much of the land currently held by developers was previously owned by the Land Management Corporation. Most of this land is under plans of division, but developers do not always proceed immediately with development following issue of approvals. Developers may hold land with approvals as a contingency in case demand increases unexpectedly. This occurred in 2001/02 with the surprise introduction of the FHOG and developers with approved land division applications were able to increase production more quickly than others.

Capacity of the Land Development and Building Industry

The competitive nature of the industry forces participants to minimize stocks and risks. Most new production is sold off the plan, rather than being marketed after construction. It is understood that financial institutions have reinforced the practice of pre-selling to reduce risk of default. The workforce and material suppliers are also

highly competitive. There is a lack of incentive to train additional skilled workers via apprenticeships because of the cost to employers. Similarly, the public sector staff involved in the processing applications for planning approvals and land titles are relatively fixed, because the work is specialized and additional spare capacity cannot be justified above "normal" workloads. Finally, service providers utilize specialized staff and consultant engineers, and use quite specialized engineering components to extend services (eg 11 KV step down transformers), which may need to be "built-to-order" from suppliers.

Besides these capacity issues, chance events such as the demise of HIH Insurance, which was an important provider of compulsory housing indemnity insurance can delay construction, resulting in backlogs that are hard to reduce during a boom because scheduling of resources to a building job becomes progressively more difficult when available resources are already heavily committed. In South Australia during the current boom, the lure of higher payments for skilled building work has been insufficient to attract enough labour to building trades.

These characteristics mean that it is difficult to immediately increase production of dwellings when demand rises unexpectedly. This is exactly what happened in South Australia during 2001/02 and the effects are continuing in 2003/04.

Planning for Urban Development

Planning for urban development takes place under both statutory and non-statutory arrangements. The Development Act is the legislation that provides the legal framework for statutory planning and control of development and building. In addition, the State Government uses a range of non-statutory approaches to assist the process of planning for urban development by the public and private sector. The Act makes development subject to the approval of the relevant planning authority, which may be the local council or the Development Assessment Commission, depending on the class of development. In the Adelaide metropolitan area, most private development applications are determined by the local council. The Development Act extends to control of building construction, including the codes of construction applying to new buildings. There is no separate Building Act. Instead, proposed development (including building work) is subject to development approval and work may commence on site after the relevant authority has issued a development approval.

For some applications, an open space contribution will be required, as specified by the Development Act. An open space contribution is required to be paid for each unit to the Development Assessment Commission in a Community Title development. In the case of land division, an open space contribution is paid for each additional lot resulting from the division, when a proposed division lacks provision of 12.5% of the developable land as public open space. The contribution is paid to the Commission in the case of divisions of twenty lots or less, and to the local council for larger divisions. The Act provides that the council may accept a mix of actual open space and a cash contribution in lieu of open space. The contributions received by the Commission are held in the Planning and Development Fund.

The current contributions per additional lot in a land division or each unit in a community title development are:

Metropolitan \$2,715

Country \$998

These charges may be varied annually by proclamation. The Act specifies that the variation must be on the basis of the movement in land values as determined by Valuer-General.

Metropolitan Adelaide is defined by proclamation by the Minister under the Development Act. Currently, it is equivalent to the Adelaide Statistical Division plus the suburb of Hewitt, which adjoins the town of Gawler.

Provision of Infrastructure to New Developments

The major infrastructure services and their characteristics are summarised in Attachment III.

Developers are generally critical of the charges for connections to infrastructure, but overlook the fact that developer charges in South Australia are limited to roads, drainage, water supply, power and sewerage, and that in urban areas the full cost of supply is generally not charged. Thus, State and local governments continue to subsidise fringe development. This compares with New South Wales where developer charges fund the provision of a wide range of physical and human services. ACIL Consulting have prepared a study¹² for the Urban Development Institute of Australia which, based on certain case studies, compares the components of house and land package prices between Sydney, Brisbane, Perth and Adelaide.

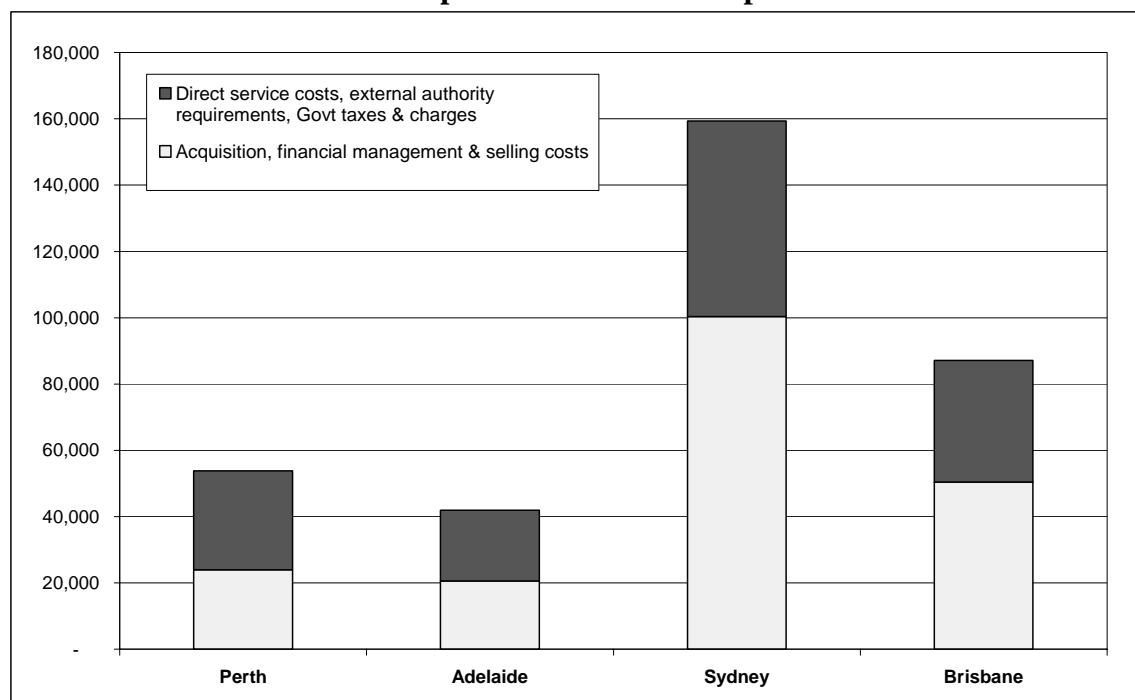
The chart over shows the lower total development and component costs in Adelaide compared to other cities such as Sydney or Brisbane. Total development costs include acquisition costs, servicing costs (such as water, sewerage, electricity, earthworks and road works), external authority requirements (development work that is not exclusively for the benefit of the land purchaser eg a major road intersection or main outfall sewer), government taxes and charges, and financial management and selling costs.

Government taxes and charges include ‘direct’ charges imposed by local government and other Government bodies—they include imposts such as stamp duty on land purchase, levies, public open space contributions and land tax. In 2002, government taxes and charges ranged from \$31,750 per block in Sydney (20% of the cost of developed land) to \$3,000 in Adelaide (17% of the cost of developed land).¹³ The main contributor to the higher costs in Sydney was developer contributions for local infrastructure (“Section 94”) and higher stamp duty and land tax because of the higher land value. Section 94 includes all costs the local authority determines in the contributions plan for the area—for example open space acquisition and embellishment, community facilities, environmental and conservation provision.

¹² ACIL Consulting “Landcost: The impact of land costs on housing affordability”, A report to the Urban Development Institute of Australia

¹³ ib id, page 9.

Total Development Costs and Components



Source: ACIL Consulting "Landcost: The impact of land costs on housing affordability", A report to the Urban Development Institute of Australia.

Developers are also critical of the South Australian Government's urban containment boundary and are lobbying for fringe expansion. **However, any debate on fringe expansion must extend to the cost of providing services beyond the containment boundary that are currently not being met by the developer.**

There are differing views as to whether infrastructure requirements associated with fringe development should be subsidised. Infrastructure requirements must be funded and the key question is whether costs should be met by the marginal user or spread across other infrastructure users or taxpayers. The latter model creates considerable financial pressures on Government agencies and the availability of funding can create timing difficulties in adequately servicing new developments within appropriate timeframes. There is also an argument that developers should be exposed to the full cost of extension of services so that the costs are accordingly borne by those who have necessitated it, thus sending the correct price signals to the market. On the other hand, loading all infrastructure costs onto new developments may put further pressure on fringe house/land prices and affordability, impacting mainly on first home buyers and low income earners seeking lower cost housing on the urban fringe.

Comparison of Infrastructure Needs Between Inner and Outer Suburban Development

Extensions of the urban area are almost entirely the product of broadacre divisions. These result in costs for augmentation of a very wide range of services, and for many of these there is no statutory mechanism for cost recovery in South Australia. The need for augmentation of services in inner areas varies according to existing capacity and intensity of new development. However, the following points are made about redevelopment of existing urban areas:

- Water Supply: The majority of water consumed by occupants of detached houses is used on gardens, so more intense low rise development (which is typical of redevelopment in Adelaide) is unlikely to result in higher consumption. However, very intense medium and high rise development may require augmentation, because the increase in households is enough to increase water consumption in the area where intense development takes place.
- Sewerage: Falling household sizes have meant that local sewerage systems (particularly gravity mains) are often running at below design capacity, but care must be taken not to exceed available capacity, because amplification of gravity mains in an existing urban area can be very expensive. Again, like water intense redevelopment may over-tax local systems.
- Stormwater: More intense development results in additional run-off unless on-site detention is enforced. On-site detention can assist considerably in delaying the need for expensive augmentation of stormwater drains. This is a particular problem in the western suburbs where the topography is virtually flat, and existing capacity is limited.
- Electricity: Consumption is largely related to the number of dwellings because of consumption on heating, cooling and other household appliances. Redevelopment directly leads to more power consumption for which additional network capacity is required. Such capacity can usually be provided in older areas by augmenting overhead power cables, subdividing 240V distribution areas and providing more step-down transformers on stobie poles in local streets. However, major augmentation such as amplification of 66KV (or higher voltage lines) is very expensive in urban areas, especially if underground installation is the only acceptable solution. An example of underground augmentation was the construction of a 275KV line from Magill sub-station in the eastern suburbs to the CBD, a distance of about 9 kilometres, to provide a major boost in electricity capacity in the city centre.
- Main Roads: Redevelopment and increased dwelling densities within existing urban areas assists in reducing the pace of fringe expansion, and thus the need to amplify and extend main roads and public transport routes. This is an important issue in Adelaide because its north-south linear shape and potentially rapid extension to the north and south will place considerable pressure on north-south arterial roads. Reduction in such fringe expansion should delay the need for augmentation of north-south road capacity, and at the same time increase utilisation of unused capacity on east-west roads within 10 Kms of the CBD.
- Public Transport: Redevelopment and increased dwelling densities have the dual effect of reducing the need for route extensions and maintaining or even increasing rider-ship on existing routes (remembering that household sizes are declining and the generally increased densities are just counteracting household decline resulting in modest increases in population). Importantly, higher populations along routes may justify an increase in frequency of service and this in itself may draw more patronage to public transport leading to less private traffic on main roads.
- Schools: Redevelopment and increased densities reduces fringe expansion and consequently the need to construct new schools in fringe locations. Again, the linear growth form of Adelaide accentuates this issue because the northern and southern fringes have the potential to extend rapidly. This pattern means that existing schools in older suburbs may be quite distant, and, even if these have capacity to take more students, parents may not accept the amount of travel

involved. This means increased pressure to provide new schools in such outer growing areas (eg Aldinga). However, declining enrolments at schools in inner and middle suburbs (resulting from the ageing of the population and gradually declining proportion of children) can be arrested through redevelopment and population increase of adjacent suburbs, allowing these schools to continue rather than close.

Measures to Improve Efficiency

This section describes a range of measures to increase the efficiency of the housing and land development industries. They are described here, rather than in the above sections, because many impact on several aspects of the land development and construction of housing.

Central Lodgement of Land Division Applications

In South Australia, central lodgement and co-ordination of land division applications with a single State authority has been a feature of the process of land development for over eighty years, except for a brief period of three years from 1982 to 1985. This arose from the 1982 Planning Act which provided for the lodgement of land division applications with local councils. However, the land development industry found this process to be inconvenient and lobbied strongly for a return to central lodgement.

Planning SA services the Development Assessment Commission, which receives and co-ordinates the processing of land division applications from lodgement to issue of Certificates of Approval to Divide (the precursor to deposit of final plans with the Land Titles Office and issue of titles).

Proposal Layer and Process Control System

Central lodgement and processing of land division applications provides Planning SA and other agencies with very efficient, comprehensive and consistent data about the location and status of all land division applications in South Australia. All applications are digitised and held in a geographic information system called the Proposal Layer. Digital data about new applications is sent to agencies such as SA Water to assist with assessment of requirements and to reduce duplication in processing tasks.

The Process Control System tracks the status of all land division applications and is used as a tool to manage the timely processing of applications as well as a source for monitoring and prediction of lot production. This data is fundamental to the small area dwelling and population system operated by Planning SA.

Electronic Lodgement of Land Division Applications

In 2002, Planning SA introduced central electronic lodgement of land division applications so that applicants could lodge applications (including plans) and pay the required fees over the internet. This facility suits the structure of the land development industry in South Australia, where a group of a dozen or so surveying companies lodge most of the applications. Applicants may still lodge applications over the counter or by post if they wish, but the major surveyors have embraced the possibilities of the system and electronic lodgement is becoming more popular.

The system also provides for electronic transfer of applications and related documents to agencies (including councils) that are involved in the assessment of land division applications. Importantly, the system enables all participants to view the detailed status of applications on-line, which reduces the inquiry load on agencies and provides instant access to such information for applicants.

Housing Industry Prospects Forum

The Housing Industry Prospects Forum is a body comprising participants from the public and private sector with an interest in the housing industry. The main purposes of the Forum are to share information about trends in the industry and prepare six-monthly reports about the current situation and prospects for the next two years. The Forum is entirely funded by subscriptions or contributions in kind from its members. The funding supports a part-time professional executive officer who also conducts research and maintains a comprehensive set of time series and other information about the South Australian housing industry. The Forum's reports are released on the web through the Land Management Corporation (<http://www.lmc.sa.gov.au>). The Forum's reports and forecasts are widely used throughout the public and private sector in South Australia.

Developer Surveys

Planning SA periodically undertakes a survey of developer intentions and compares these with forecast demand. This work is aimed at detecting gross mismatches in supply and demand and providing both the public and private sector with a warning of a need to review plans for production.

Land Monitoring Reports

Planning SA publishes quarterly statistics on various aspects of vacant supply and production.

Broadacre Land Reports

Planning SA investigates the location and ownership of residential broadacre land on an annual basis and published a comprehensive report for the Adelaide and Outer Adelaide Statistical Divisions.

Monitoring of Redevelopment

Planning SA has undertaken special studies from time to time on the location, extent and characteristics of redevelopment of existing suburbs. About twenty years ago, this was a very minor contributor to land supply, but a study using data collected for 1999 for the whole of the Adelaide Statistical Division suggested that about 30% of dwelling approvals were occurring on sites where a dwelling (usually a detached dwelling) had been demolished.

Review of Electricity Supply Charging Policy for New Subdivisions

The policy for supply of electricity to new subdivisions is currently under review by the Essential Services Commission of South Australia (ESCOSA). ESCOSA has

released a discussion paper, which advocates that there should continue to be a "beneficiary pays" principle applied to contributions for system augmentation. However, ESCOSA suggests that there needs to be a balance between this principle, a degree of "price signalling" and transparency of procedures and pricing to developers. The discussion paper is available on the ESCOSA web site (<http://www.sair.sa.gov.au>).

GRDSA Program

The Good Residential Design Program for South Australia (GRDSA) is a State Government program to encourage councils to review residential zoning and provide wider scope for different dwelling types and densities in appropriate locations. The program includes detailed assessment of existing and proposed policies using geographic information system technology to map and calculate the potential for redevelopment under existing and proposed zoning policies. By incorporating actual site and capital values of individual properties from State Government land valuation data, the assessment also provides an indication of the probability of redevelopment of location and extent of redevelopment given a set of future market conditions. The assessment also includes a calculation of the existing and potential number of dwellings on each parcel of land in the council area under existing and proposed zoning. Some local government engineers and SA Water have used this output to assess the potential impact of existing and proposed policies on drainage, water supply and sewerage infrastructure. This has provided the impetus for further detailed work by these agencies in some locations.

5. Taxation and Subsidies Impacting on First Home Ownership

As part of its inquiry into First Home Ownership, the Productivity Commission has been asked to give particular attention to the efficiency and transparency of taxes, levies and charges imposed at all stages of the housing supply chain.

The contribution of indirect taxes to housing costs received considerable publicity in the lead up to the announcement of the Productivity Commission Inquiry.

The Housing Industry Association's Report on "Restoring Housing Affordability" (released in July 2003) claimed that:

- indirect taxes on land development account for between 20 per cent and 30 per cent of the land component in detached and multi-unit housing;
- all indirect taxes (GST, stamp duty, developer infrastructure contributions, clearance fees and council fees and charges) account for about 22 per cent of the value of new housing developments ranging from 14 per cent in the Northern Territory to 25 per cent in New South Wales.

Indirect taxes on new housing were estimated by the Housing Industry Association (HIA) at \$10.8 billion of which:

- \$6.4 billion related to charges imposed on residential development by State and local governments;
- \$3.1 billion related to GST; and
- \$1.3 billion related to stamp duty on property purchases.

The indirect tax component of housing costs was significantly overstated for South Australia firstly by not allowing for the lower stamp duty payable on "house and land packages" relative to newly constructed and established homes of equivalent value; secondly, by not allowing for stamp duty concessions; and thirdly, by the application of indirect tax proportions of house value (based on 2002-03 data) to unrepresentative "house and land" values.

The average value of house and land packages implicit in the 2002-03 data used by the HIA for South Australia was \$185,000 but the indirect tax component (estimated at 16.9%) was applied to much higher house and land values of the order of \$324,000.

The HIA's estimates of land development and building charges levied by State and local governments were based on surveys of builders and developers. It is difficult to establish the reliability of these survey results given the variety of charges, differences in the scale of land developments and differences in State practices.

In the case of South Australia, developer infrastructure contributions are confined to the provision of roads, drainage, public open space, sewer and water headworks and electricity. Project specific levies are not a feature of South Australian development practices and local government rates are low compared to other jurisdictions.

The bulk of the indirect tax cost relates to charges on residential development many of which are in the nature of fees for the supply of services rather than “taxes” to the extent that they are set in keeping with the cost of supplying such services.

Indirect State taxes and charges on home purchase mainly relate to stamp duty (conveyance and mortgage duty) and Lands Titles Office fees.

One of the issues which the Productivity Commission will need to address is the effectiveness of stamp duty relief as a mechanism for improving house affordability either for home buyers generally or for first home buyers specifically.

In an environment of strong growth in property values driven by demand pressures, the most likely impact of stamp duty relief is that it will generate further upward pressure on prices as stamp duty savings are used to bid up house prices. The amount that potential home buyers can afford to pay ‘all up’ (ie, inclusive of taxes, bank fees and agents’ fees) in order to acquire a home is a major driver of house price. The provision of stamp duty relief of itself does not alter this ‘all up’ cost although it may enable higher prices to be offered and/or more valuable properties to be purchased.

Providing tax relief or increasing grants to first home buyers may be counter productive if the end result is to keep upward pressure on prices. The beneficiaries of tax relief may be the sellers not the buyers of property. This will be the outcome if assistance to home buyers is capitalised into the prices they are prepared to pay.

From a State Government perspective, even if stamp duty relief could be shown to be effective in assisting home purchase, consideration would also need to be given to the size and cost of the relief that would be required in order to make a difference. Funding sources for State tax relief are limited; government expenditure would either need to be pruned back in some areas or other taxes would need to be increased to provide States with the capacity to forgo stamp duty revenue.

Arguments that States are receiving ‘stamp duty windfalls’ are misleading. Cyclical gains by their nature are transitory; they follow extended periods of stable or declining prices and will inevitably be followed by a period of subdued price movement if not price falls.

Charges on residential development

Of the charges identified by the HIA as residential development costs, the following are applicable in South Australia:

Land development

- Application fees for land division consent, planning consent and development approval;
- Developer responsible for provision of roads, drainage, public open space, sewer, water and electricity on site with varying degrees of contributions for augmentation of infrastructure to serve the proposed development. (*refer to Appendix III for more information about the scope of these contributions*).

- Clearance fees (relating to clearance or certification of plans and specifications for engineering construction) - levied by water corporations, councils, land titles offices, electricity authorities and development assessment bodies.

Building fees

- building permit levy
- training levy
- kerb deposit
- application for building rules consent, planning consent and development approval for building work
- long service leave levy
- compulsory home indemnity insurance

Developer and council charges, in the main, are for access to utilities connections in South Australia. A principle of ‘user pays’ is appropriate so that decisions about urban development are based on the costs involved.

It is understood, however, that the housing industry is concerned that some jurisdictions load social development/infrastructure levies onto new land developments rather than drawing on annual rate revenue to fund infrastructure. South Australia is acknowledged by the housing industry as being the lowest for local government charges.

State taxes and charges on home purchase

(i) Stamp Duty on Conveyances

Key facts relating to the operation of conveyance duty in South Australia are as follows:

- a progressive rate structure applies to all property transfers;

Property value range	Marginal stamp duty rates	%
\$		
0-12,000		1.00%
12,001-30,000	\$120 plus	2.00%
30,001-50,000	\$480	3.00%
50,001-100,000	\$1,080	3.50%
100,001-200,000	\$2,830	4.00%
200,001-250,000	\$6,830	4.25%
250,001-300,000	\$8,955	4.75%
300,001-500,000	\$11,330	5.00%
over 500,000	\$21,330	5.50%

- stamp duty applies only to the land component of “house and land” packages where ownership of the land is transferred before building commences;
- a stamp duty concession applies to first homebuyers for properties valued up to \$130,000 as follows:
 - no duty is payable on first home purchases valued up to \$80,000; maximum stamp duty concession is \$2,130 on a property value of \$80,000;

- concessional duty applies to first home purchases valued between \$80,000 and \$130,000; at \$130,000 the concession reduces to zero.

The value limits for the stamp duty concession have remained unchanged since September 1992 except for a temporary increase (for the period 1 February 1997 to 31 January 1998) from \$80,000 to \$100,000 (value limit for full concession) and from \$130,000 to \$150,000 (level at which partial concession phases out).

In the case of 'house and land' packages these value limits apply to the land component only whereas for established homes the value limits apply to the sale price inclusive of land and building.

Almost three fifths of South Australian first homebuyers qualified for a stamp duty concession in the three years from 2000-01 to 2002-03, although the proportion has been falling during this period. The following table compares the number of beneficiaries of the State stamp duty concession for first home buyers with the number of First Home Owner Grant (FHOG) recipients.

	Total FHOG recipients	FHOG recipients purchasing properties valued at less than \$130,000	New home buyers in receipt of stamp duty concession on properties valued up to \$130,000	Stamp duty concession recipients as % of total FHOG recipients
2000-2001	14965	10955	9940	66.4
2001-2002	14944	9018	8893	59.5
2002-2003	8819	3880	3966	45.0
2000-01 to 2002-03	38728	23853	22799	58.9

The decline in first homebuyer numbers in 2002-03 reflects in part the cessation of additional FHOG grants for first homebuyers building a new home or purchasing a previously unoccupied new home.

The basic FHOG grant of \$7,000 was introduced on 1 July 2000 for eligible first homebuyers whether for the purchase of a new or an established property. Additional grants were subsequently made available but only for first homebuyers building a new home or purchasing a previously unoccupied new home. These additional grants were only available for a limited time as follows:

- additional \$7,000 for contracts signed between 9 March 2001 and 31 December 2001;
- additional \$3,000 for contracts signed between 1 January 2002 and 30 June 2002.

The operation of FHOG has had the effect of inflating first homebuyer activity levels in 2000-01 and 2001-02 as first home purchase decisions were brought forward.

Prior to the introduction of FHOG, the number of recipients of the first homebuyer stamp duty concession had been steadily declining, as the following table shows. In part, this reflects the lack of adjustment to the property value limits impacting on

eligibility for the concession although for most of this period there was not strong growth in property values.

	Number of recipients of first homebuyer stamp duty concession		
	Full concession	Partial concession	Total
1993-94	5233	4153	9386
1994-95	5260	3871	9131
1995-96	4135	3659	7794
1996-97	4395	3696	8091
1997-98	5647	3088	8735
1998-99	3285	3508	6793
1999-00	2812	3493	6305
Post FHOG			
2000-01	4317	5623	9940
2001-02	4331	4562	8893
2002-03	1862	2104	3966

FHOG data provides a breakdown of grant recipients purchasing (i) newly constructed homes and (ii) established homes. This shows that for the three years to 2002-03, 84 per cent of all FHOG recipients were purchasing established homes and 16 per cent were building homes.

(ii) Stamp Duty on Mortgages

Mortgage duty is a relatively small transaction cost associated with home ownership ranging from 0.25% to 0.40% of the sum secured for those jurisdictions where mortgage duty is levied.

In most jurisdictions, mortgage duty is levied at a rate of 0.4% on the sum secured. Threshold levels above which duty applies vary across jurisdictions but for most mortgage values the effective duty rate is close to 0.4%. Note that mortgage duty is not levied in the ACT or the Northern Territory and is scheduled for abolition in Victoria from 1 July 2004.

Some jurisdictions (South Australia and Western Australia) apply lower mortgage duty rates to home mortgages for owner occupation. Details are provided below:

	Mortgage duty rates	
	Owner occupied residential mortgages	Other mortgages
South Australia (a)	0.35% above \$6,000	0.45% above \$6,000
Western Australia (b)	0.25% above \$8,000	0.40% above \$5,000

(a) as from 1 October 2003

(b) Rate scale proposed for introduction in 2003-04 as part of the *Review of State Business Taxes*.

In Queensland, concessions are available for home mortgages. First home mortgages are exempt from duty on the first \$100,000 of the sum secured while for all other home mortgages the first \$70,000 of the sum secured is exempt from duty.

Comparative data on mortgage duty payable by jurisdiction and by size of mortgage is provided below.

Comparative Mortgage Duty Payable by Value Range in All Jurisdictions ¹

Value of	NSW	Vic ²	Qld	WA ³		SA		Tas
				Owner	Other	Owner	Other	
				47				

mortgage				Occupation		Occupation		
\$	\$	\$	\$	\$	\$	\$	\$	\$
5,000	5	4	20	20	20	10	10	20
10,000	5	4	40	25	40	24.0	28.0	25
15,000	5	24	60	38	60	41.5	50.5	43
20,000	21	44	80	50	80	59.0	73.0	60
50,000	141	164	200	125	200	164.0	208.0	165
100,000	341	364	400	250	400	339.0	433.0	340
200,000	741	764	800	500	800	689.0	883.0	690
300,000	1,141	1,164	1,200	750	1,200	1,039.0	1,333.0	1,040
400,000	1,541	1,564	1,600	1,000	1,600	1,389.0	1,783.0	1,390
500,000	1,941	1,964	2,000	1,250	2,000	1,739.0	2,233.0	1,740
\$1 million	3,941	3,964	4,000	2,500	4,000	3,489.0	4,483.0	3,490
\$2 million	7,941	7,964	8,000	5,000	8,000	6,989.0	8,983.0	6,990
\$5 million	19,941	19,964	20,000	12,500	20,000	17,489.0	22,483.0	17,490
\$10 million	39,941	39,964	40,000	25,000	40,000	34,989.0	44,983.0	34,990

¹ Note that mortgage duty is not levied in the NT or the ACT.

² Scheduled for abolition with effect from 1 July 2004.

³ Reflects the rate scale proposed for introduction in 2003-04 as part of the *Review of State Business Taxes*.

Comparative Mortgage Duty Payable as a Percent of Mortgage Value ¹

Value of mortgage	NSW	Vic ²	Qld	WA ³		SA		Tas
				Owner	Other	Owner	Other	
				Occupation		Occupation		
\$	%	%	%	%	%	%	%	%
5,000	0.10	0.08	0.40	0.40	0.40	0.20	0.20	0.40
10,000	0.05	0.04	0.40	0.25	0.40	0.24	0.28	0.25
15,000	0.03	0.16	0.40	0.25	0.40	0.28	0.34	0.28
20,000	0.11	0.22	0.40	0.25	0.40	0.30	0.37	0.30
50,000	0.28	0.33	0.40	0.25	0.40	0.33	0.42	0.33
100,000	0.34	0.36	0.40	0.25	0.40	0.34	0.43	0.34
200,000	0.37	0.38	0.40	0.25	0.40	0.34	0.44	0.35
300,000	0.38	0.39	0.40	0.25	0.40	0.35	0.44	0.35
400,000	0.39	0.39	0.40	0.25	0.40	0.35	0.45	0.35
500,000	0.39	0.39	0.40	0.25	0.40	0.35	0.45	0.35
\$1 million	0.39	0.40	0.40	0.25	0.40	0.35	0.45	0.35
\$2 million	0.40	0.40	0.40	0.25	0.40	0.35	0.45	0.35
\$5 million	0.40	0.40	0.40	0.25	0.40	0.35	0.45	0.35
\$10 million	0.40	0.40	0.40	0.25	0.40	0.35	0.45	0.35

¹ Note that mortgage duty is not levied in the NT or the ACT.

² Scheduled for abolition with effect from 1 July 2004.

³ Reflects the rate scale proposed for introduction from 1 July 2003 as part of the *Review of State Business Taxes*.

(iii) Land Titles Office (LTO) fees

For a homebuyer standard land title fees comprise:

- registration of the transfer of title
- registration of the mortgage.

Fees for registration of title are either flat amounts for low value properties or value related for property valued in excess of \$40,000 as follows:

Value of property *	Registration of title fee
<\$5,000	\$94
<\$20,000	\$105
<\$40,000	\$117
above \$40,000	\$168 plus \$52 for every \$10,000 (or part thereof) above \$50,000

* as assessed for stamp duty purposes

As with stamp duty, if land is transferred under a house and land package in advance of building commencement the registration of title fee is calculated on the land component only.

A flat fee of \$94 applies to the registration of a mortgage.

Impact of State taxes and charges on home purchase

On average, across most jurisdictions, stamp duty amounts to between 3% and 3.5% of the sale price of residential property. The following table shows the median house price in each capital city for the March quarter 2003 and the associated stamp duty cost.

Capital city	Median house price (a)	Stamp duty payable	Average duty rate
	\$	\$	%
Sydney	460,000	16,190	3.5
Melbourne	347,000	16,480	4.7
Brisbane	265,000	3,025	1.1
Perth	202,600	7,404	3.7
Adelaide	201,000	6,873	3.4
Hobart	165,000	4,450	2.7
Canberra	265,000	8,100	3.1
Darwin	215,000	7,520	3.5

(a) Source: Real Estate Institute of Australia Market Facts (March quarter 2003)

In South Australia, the impact of stamp duty is lower for first home purchasers reflecting:

- lower property values, on average, for first homebuyers;
- the progressive nature of the conveyance duty scale with lower marginal rates applying to lower value properties;
- the availability of the stamp duty concession for first homebuyers which is targeted to lower value properties (below \$130,000); and
- first homebuyer interest in 'house and land' packages where stamp duty applies to the land component only (provided title to the land has been registered in the homebuyer's name before building commences).

Based on FHOG data, the median sales value for first home purchases in South Australia in 2002-03 was \$136,400. FHOG-based data for the last three years shows no consistent relationship between median values for new and established homes purchased by first homebuyers.

Median sale values for South Australian first home purchases			
	Established houses	Newly constructed houses	All homes
	\$	\$	\$
2000-01	96,530	106,047	101,140
2001-02	116,320	116,071	116,251
2002-03	141,516	121,442	136,429

Source: FHOOG data

The median values for established first home sales in 2002-03 are significantly lower than the Real Estate Institute's median house value for the March quarter 2003. This reflects a combination of factors including that the FHOOG data is less current, relates to first home buyers only and includes Statewide sales (whereas the Real Estate Institute data is capital city specific).

The stamp duty payable on first home median property values is provided below. For newly constructed houses, it has been assumed that the land component represents 60% of the total value. This is likely to overstate the land component and consequently the stamp duty costs for newly constructed homes. Data published by the HIA suggests that land accounted for only 32 per cent of new house prices in Adelaide in 2002 (based on a survey of builders).

South Australian property sales eligible for FHOOG			
	Median value	Stamp duty payable	Stamp duty as % of sale value
	\$	\$	%
	Established houses		
2000-01	96,530	1,293 (a)	1.3
2001-02	116,320	2,907 (a)	2.5
2002-03	141,516	4,491	3.2
	Newly constructed - land value only		
2000-01	63,628	nil (b)	nil
2001-02	69,643	nil (b)	nil
2002-03	72,865	nil (b)	nil

(a) includes partial stamp duty concession

(b) reflects full stamp duty concession because dutiable value is less than \$80,000

This analysis highlights that when assessing the impact of stamp duty it is necessary to distinguish first home purchases from other residential property sales and to distinguish first home 'house and land' packages from first home 'established house' purchases.

Similarly, the impact of Land Titles registration fees differs according to the value of the property and is lower for 'house and land' packages compared to established homes of equivalent value.

For a \$150,000 first home, stamp duty and Lands Title Office fees are estimated to account for about 1 per cent of the purchase price for a 'house and land' package and about 4 per cent of the purchase price for an established house.

First homebuyer purchase	\$150,000 'house and land' package		\$150,000 house	
	Land \$75,000 Building \$75,000	Land \$90,000 Building \$60,000	Newly constructed 'spec' home	Established
	\$	\$	\$	\$
Conveyance duty (a)	-	770	4830	4830
Mortgage duty (b)	461	461	461	461
Registration of title	324	376	688	688
Registration of mortgage	94	94	94	94
Total	879	1701	6073	6073
% of property value	0.6%	1.1%	4.0%	4.0%

(a) includes stamp duty concession where applicable

(b) assumes a mortgage value of \$135,000 (equal to 90 per cent of the total property value)

While the ratio of stamp duty and registration fees to total purchase price increases for higher valued properties – whether purchased by a first homebuyer or an existing home owner – the relative proportions remain similar to those applicable to first homebuyers.

For a \$200,000 property (equal to the median price for house sales in metropolitan Adelaide for the March quarter of 2003), stamp duty and registration fees as a proportion of the purchase price are much higher (more than double) for established and 'spec' homes relative to 'house and land' packages.

	\$200,000 'house and land' package		\$200,000 house	
	Land \$100,000 Building \$100,000 First homebuyer purchase	Land \$100,000 Building \$100,000 Existing homeowner purchase	Newly constructed 'spec' home (c)	Established (c)
	\$	\$	\$	\$
Conveyance duty (a)	1540	2830	6830	6830
Mortgage duty (b)	619	619	619	619
Registration of title	428	428	948	948
Registration of mortgage	94	94	94	94
Total	2681	3971	8491	8491
% of property value	1.3%	2.0%	4.2%	4.2%

(a) includes stamp duty concession where applicable

(b) assumes a mortgage value of \$180,000 (equal to 90 per cent of the total property value)

(c) applicable to both a first homebuyer and an existing home owner

Clearly, conveyance duty arrangements deliver a significant tax incentive in favour of 'house and land' packages.

Stamp duty relief has been proposed as a way of assisting new home buyers gain entry to the market in a climate of strong growth in property values. The provision of stamp duty relief is seen as a way of reducing the total cost of purchasing a home.

The price which a potential purchaser is prepared to pay has regard to the all up cost of the property acquisition. That all up cost includes transaction costs such as stamp duty and registration fees as well as bank charges and agents fees. Stamp duty is likely to be capitalised into house values resulting in lower property values than would apply in the absence of stamp duty.

Although the intent of a stamp duty decrease may be to reduce housing costs, a more likely outcome is that the reduction in stamp duty will be offset at least to some extent by an increase in property values as potential buyers use the saving in stamp duty to bid up house prices - particularly in overheated property markets as currently being experienced in most parts of Australia. Stamp duty relief will thus provide a one-off capital gain to existing home owners with little or no impact on overall housing affordability.

For first homebuyers, those already eligible for a full stamp duty exemption would receive no benefit from the provision of additional stamp duty relief; quite the reverse, they would be worse off because they would have no additional capacity to offset demand driven price increases made possible by increased stamp duty relief. Note also that the FHOG data referred to above suggests that purchasers of 'house and land' packages are more likely to be in this category than first home purchasers of established homes.

Only those currently eligible for a partial stamp duty concession would have additional stamp duty 'savings' to offset price increases. The question has to be asked which 'group' of first homebuyers is considered to be most in need of assistance.

Even if stamp duty relief had no stimulatory effect on housing demand, its effectiveness as an offset to escalating property prices is questionable given that median house prices have been increasing by almost 20 per cent per annum in each of the last two years whereas stamp duty and registration fee charges have been shown to account for between 1 per cent and 4 per cent of house prices (depending on whether the purchaser is a first homebuyer and depending on whether the purchase relates to a 'house and land' package or an established house).

	Median house price for Adelaide	March Qtr on preceding March Qtr
2001	\$	% change
Mar Qtr	142,000	
Jun Qtr	148,300	
Sep Qtr	152,600	
Dec Qtr	158,000	
2002		
Mar Qtr	168,500	18.7
Jun Qtr	170,000	
Sep Qtr	180,000	
Dec Qtr	190,500	
2003		
Mar Qtr	201,000	19.3

Source: *Real Estate Institute of Australia* Market Facts

The appropriateness of available policy options to assist first homebuyers will depend on the underlying causes of demand-driven increases in property values. There have been a number of contributing factors in recent experience and unravelling their relative contribution is difficult.

On the one hand, demand from first homebuyers has been encouraged by a combination of low interest rates and the availability of FHOG grants – both the ongoing \$7,000 grant and the temporary additional grants provided to first home buyers building a new home or purchasing a previously unoccupied new home. In

addition, the combination of low interest rates, appreciating property values and weak equity markets has increased investor interest in property.

The general conclusion we have come to is that stamp duty is a very limited policy tool for influencing housing demand.

The Terms of Reference for the Commission's Inquiry require that consideration be given to the 'efficiency and transparency' of taxes.

Stamp duty on property sales is a very transparent cost item in the purchase of a home. It is a discrete cost that is separately identified in purchase documentation. In addition, real estate agents and conveyancers have a duty to their clients to ensure that stamp duty costs are disclosed and paid.

In terms of 'efficiency' stamp duties rate poorly being transaction-based (ie, conveyance duty applies only to property that is transferred). They affect decisions to invest (eg, shares vs real property) and can be a deterrent to mobility and to turnover in the housing stock as household circumstances change. This can result in less than optimal use of the housing stock. The clearest example is older home owners remaining in large houses after their children have left home. The extent to which stamp duty influences the decision to invest in a first home is less apparent.

Equity issues, are also relevant to an overall assessment of property-based stamp duties. Conveyance duty may be considered to be regressive by some because it is imposed without regard to the income status of purchasers of comparably priced properties. However, the progressive rate scale applied to property transfers means that duty increases more than proportionally with property value and there will be a correlation between property value and income capacity.

It is relevant to note that land tax does not apply to the principal place of residence. Arguably, the application of conveyance duty is one way of addressing – albeit imperfectly – policy-induced narrowness in the land tax base.

Apart from the level of stamp duty, the housing industry has raised a number of other issues relating to the application of stamp duty to property transfers including that:

- a single parcel of land being prepared for residential development can attract multiple applications of stamp duty depending on the number of land transfers during development;
- stamp duty is applied to GST inclusive values;
- property value-based charges incorporate earlier round taxes and charges

To exempt from stamp duty land transfers occurring before a parcel of land is ready for sale as a developed block runs counter to the basic principle that conveyance duty applies to all property transfers. Quite apart from the precedent such an exemption would establish, there is no guarantee that the stamp duty relief would be passed on to purchasers of 'house and land' packages and not reflected in a higher developer's margin.

In relation to GST and stamp duty, the decision was taken by all jurisdictions to apply stamp duty to GST inclusive values except in cases where this resulted in a

'cascading' of stamp duty on GST, GST on stamp duty, and so on. From a revenue perspective, if States had adopted a GST exclusive basis for applying stamp duty, it would have been necessary to adjust stamp duty rates to achieve revenue neutrality between the two alternative approaches.

Criticism of the application of stamp duty to GST inclusive values is often predicated on the assumption that this will always deliver a revenue positive outcome for the States. The introduction of the GST coincided with the removal of wholesale sales tax which had previously impacted on dutiable values. The replacement of wholesale sales tax with GST had differential effects on the price of goods. The price of motor vehicles, for example, fell as a consequence of national tax reform and this impacted negatively on motor vehicle registration stamp duty.

It is unavoidable that some taxes and charges will be levied on a base that is inclusive of other taxes/charges levied earlier in the production/development chain. This is not a new issue and is not unique to stamp duty and GST.

Grant assistance for first home ownership

The First Home Owner Grant (FHOG) was originally introduced in July 2000 to offset the direct cost of GST on house construction and the indirect flow through to established house prices as relative price differentials adjusted. Its introduction was underpinned by a concern that those already owning a home at the time of the introduction of the GST would benefit from the tax-induced uplift in property values whereas new homeowners would be at a relative disadvantage in terms of their capacity to service the higher cost of home purchase.

To date, the availability of FHOG has been assumed to continue indefinitely even though there may be grounds for reviewing the ongoing use of the grant having regard to competing policy objectives including that of housing affordability for first home owners.

Eligibility for FHOG is based on whether the home being purchased is a first home, irrespective of its value. Consequently, first home purchasers of very valuable properties are entitled to apply for the grant. FHOG data for South Australia shows that 10 per cent of FHOG recipients in 2002-03 were purchasing properties valued in excess of \$240,000 (including 28 properties ranging in value from \$500,000 to \$1 million). Comparable data for previous years is provided in the table below.

Property values for top 10% of FHOG recipients	2000-01	2001-02	2002-03
New homes	>\$180,000	>\$200,000	>\$200,000
Established homes	>\$170,000	>\$200,000	>\$245,000
All homes	>\$170,000	>\$200,000	>\$235,000

The cost of providing FHOG to higher value first homebuyers (top 10%) was of the order of \$10 million in each of 2000-01 and 2001-02 and \$6 million in 2002-03.

One option available to government may be to restructure the FHOG scheme on a revenue neutral basis to target it better to first homebuyers in most need of assistance. This might require the introduction of income tests as well as value tests in an effort

to provide additional assistance to those on low incomes who are attempting to enter the property market for the first time. While targeting FHOG in this manner would result in a departure from the original policy intent of the scheme, the question arises as to whether the original objectives should now carry less weight than the desirability of directing assistance to those for whom the availability of a subsidy will actually have influence on their home ownership status. There would be significant administrative costs associated with such an approach and its effectiveness would depend on the extent of the additional assistance that could be provided relative to the overall escalation in property prices.

The question remains whether the provision of additional grant assistance, even if better targeted, would be effective in terms of improving the ability of first homebuyers firstly to gain entry to the home property market in a period of escalating prices and secondly to meet the ongoing financial obligations associated with home ownership particularly in an environment of interest rate uncertainty.

Relative importance of Commonwealth vs State taxes on housing affordability

In its Issues Paper on First Home Ownership the Productivity Commission has identified that one of the issues it will need to address is which of the taxes impacting on house ownership are of most concern in relation to housing affordability.

The answer to this question will in turn depend on the Commission's assessment of the principal factors driving escalating property prices. If, for example, investor demand is considered to be the main driver, a closer examination of tax arrangements specific to investors (eg, negative gearing and capital gains tax) may be required.

If first home buyer demand for owner occupation is the more important factor driving up prices this will point to other policy responses.

The difficulty of course is that a variety of factors conducive to an uplift in property value have been operating simultaneously. The relative importance of these factors may differ as between States and within regional property markets.

State taxes remain a relatively low proportion of property values. The provision of tax relief or additional grant assistance to first home buyers is likely to have the perverse effect of benefiting existing home owners rather than first home buyers because of the capitalisation of assistance measures into house prices.

6. Attachments

Attachment I

SA Social Housing Statistics for the 2001-02 financial year

Public Housing – SAHT

- Maintained 49,543 public housing dwellings valued at \$3.1b
- Housed 4,423 new households in need from a waiting list of 25,387
- Provided 84.9% of SAHT customers with a subsidised rent. This equates to foregone revenue of \$124.7m or 41% of the full rent chargeable to tenants (\$302.4m)
- Provided 22,181 households with financial assistance to access the private rental market
- Managed a \$400m cash flow (44% from rents, 29% Government grants, 23% sales and 4% from recovery of debt owing, interest and sundry revenue)
- Completed 149 houses and commenced 216houses for expenditure of \$18.3m
- Spent \$20.1m on upgrades and \$62.8m on Recurrent Maintenance
- Purchased 17 properties at a cost of \$2.4m
- Transferred 157 properties to SACHA and 39properties to AHA
- Sold 723 dwellings for \$41.9m.

Community Housing - (SACHA and Community Housing Organisations)

- Maintained 3,877 community housing dwellings valued at \$346.8m
- Regulated 134 Community Housing Organisations (46 housing associations - 2,322 houses), 88 housing co-operatives (1,506 houses) and 14 properties held by SACHA for allocation or redevelopment
- Housed 948 households in need from a waiting list of 2,493
- Provided 80% of community housing tenants with a subsidised rent. This equates to foregone revenue of \$6.3m or 31% of the full rent chargeable to tenants (\$19.6m)
- Managed a \$46.8m cash flow (14% from rents, 69% Government capital grants, 15% recurrent grants, 2% from other sources)
- Comhouse was established to address the major maintenance needs of the community-housing sector with 71 CHOs (1,749 houses) members as at 30 June 2002. It is based on insurance fund principles through a Commonwealth / State funding mix of \$2.5m. This investment is secured by a Floating Charge over the assets of Comhouse up to the amount paid (\$2.5m).
- Constructed 223 properties at a cost of \$24.6m
- Upgraded 231 properties at a cost of \$19.5m
- Sold 30 dwellings for \$2.9m
- Major and minor maintenance is managed by CHOs. Income received from rent is allocated
 - towards both major and minor maintenance

Aboriginal Housing – AHA

- Maintained 1,798 Aboriginal public rental housing dwellings valued at \$146.4m.
- Supported 42 Aboriginal Community Housing Organisations that own and manage 896 properties constructed on Aboriginal land
- Housed 339 Aboriginal households in need through the Rental Program from a waiting list of 1,617.
- Provided 89% of Aboriginal public rental customers with a subsidised rent. This equates to foregone revenue of \$5.2m or 42% of the full rent chargeable to tenants (\$12.4m)
- Provided 176 households with financial assistance to access the private rental market
- Managed a \$37.7m cash flow (19% from rents, 68% Government grants, 13% sundry revenue)

Rental Housing Program

- Constructed 4 new properties at a cost of \$0.5m and purchased 32 new properties at a cost of \$5.5m.
- Undertook repairs and maintenance to the value of \$4.5m and upgraded properties to the value of \$1.6m

AHA Community Housing

- Approved the upgrade of 53 & constructed 8 dwellings to the value of \$6.9m
- Provided repair and maintenance funds of \$1.0m.

Attachment II

SA Population Groups & Housing Need

Older people

In 2001, 14% of people were aged over 65, an increase from 13.8% in 1996 and compares to national figures of 12.6% and 12.1% respectively. A significant demographic change is the ageing population, with those over 65 predicted to grow from 14% of the population in 1996 to 30 to 31% in 2051.³⁹ The proportion of the population aged 80 and over is increasing more dramatically. South Australia also has the highest proportion of all States of aged on the age pension, 68.4 percent compared with a national average of 65.5 percent (in 1999).¹⁴

Young People

In 2001, 13.2% of people were aged 15 to 24. Young people made up 31% of new applicants of the SA Housing Trust housing in 2000/01, and 26% of the overall waiting list.

People with drug and/or alcohol problems

Over 4,000 people presenting to Drug and Alcohol Services Council (DASC) or DASC funded services in 1999-2000 were considered to be in need of more stable accommodation. This includes some 1,595 clients of DASC services¹⁵ and around 2,440 people who presented to 7 of the 15 non-government organisations funded by DASC during 1999-2000.

Domestic Violence

In late 1999, a DHS survey found that of the 213,500 people who reported having experienced domestic violence approximately 7.6% contacted a housing service, with this percentage being higher for females than males¹⁶. In 2000/2001, the main reason clients sought assistance from Supported Accommodation Assistance Program agencies was for domestic violence (2,360 or more than 30% of support periods.)

Refugees

There have been 1,819 people on Temporary Protection Visas arriving in SA from March 2000 to the start of December 2001. Data from Centrelink indicates that approximately 500 adult TPV holders in SA are receiving special benefits. In addition, South Australia is receiving 580 to 600 humanitarian arrivals per year through the offshore program (i.e. visas granted in missions overseas for permanent residence.)

People with a disability

Some 67,305 people with a disability were in receipt of a disability pension as at 30 June 2000 (based on data from the Department of Family and Community Services but excludes pensions received from the Department of Veterans Affairs). Of all

³⁹ ABS (2000), *Population Projections, 1999 to 2101*, 3222.0

¹⁴ ABS (2001) Australian Social Trends, ABS cat. No. 4102.0

¹⁵ City Homeless Assessment and Support Team (CHAST) figures are not included in this summary.

¹⁶ Department of Human Services (1999), *Interpersonal Violence and Abuse Survey*, September, Department of Human Services.

people in receipt of a disability benefit, some 15,600 were considered to have a severe disability¹⁷.

People with complex mental health needs

Some 13,300-disability pension recipients were recorded as having a psychological or psychiatric disability, with this disability considered severe for 1,050. (based on the DFACS data above). The Mental Health Unit have provided expert advice and estimate through their Stable Accommodation Project that there were 4,200 people in 2001 who have complex needs including housing.

Homeless people

An ABS report on Counting the Homeless¹⁸ estimated there were around 48 homeless people per 10,000 in South Australia on Census night 1996 i.e. an estimated 6,850. Of the homeless families in Australia, the census estimated that 30% were accommodated in SAAP facilities, 30% were staying with friends or relatives, 33% were living in impoverished dwellings and 7% in boarding houses.

Recently released prisoners

There were an estimated 3,475 prisoner discharges during 2000¹⁹. Agencies such as Offenders Aid and Rehabilitation Services (OARS) and the Aboriginal Prisoners and Offenders Support Service assist former prisoners to secure accommodation and, in the case of OARS, offer their own accommodation service. In 1999/2000, over 400 men used the OARS service for 17,016 bed nights with an average stay of 42 nights. A total of 247 men were turned away, usually because at the time of applying the residence was full²⁰.

Indigenous people

Based on an analysis of 1996 Census material, approximately 12.4% of Indigenous family and group households in South Australia are living in overcrowded conditions relative to the bedroom occupancy standard²¹. In 2001/02, an estimated 14% of SAAP clients in South Australia were indigenous²². This is ten times their representation in the community. The ARHP and SAHT waiting lists included 1617 and 803 housing applications from indigenous people in 2001/02.

Culturally and linguistically diverse backgrounds

¹⁷ Department of Family and Community Services (2000) *Housing Data Set, June*

¹⁸ Chamberlain, C. (1999), *Counting the Homeless*, Australian Bureau of Statistics, Canberra

¹⁹ Office of Crime Statistics (2000), *Crime and Justice 2000*, Office of Crime Statistics, Adelaide

²⁰ OARS SA (2000), *Annual Report 1999/2000, Restorative Justice in Action*, OARS, Adelaide

²¹ Jones, R. (1999), *Indigenous Housing 1996 Census analysis*, prepared by Quantitative Evaluation and design (QED) for the Housing, Infrastructure, Health and Heritage Branch, ATSIC, Canberra

²² Australian Institute of Health and Welfare (2001), *SAAP National Data Collection, South Australia, Annual Report 2001/2002*

At the time of the 2001 Census, people who spoke a language other than English at home comprised 11.8% of the total State population.

Attachment III
Provision of Infrastructure to New Developments

Infrastructure Type	Supplier	Economic Basis	Legal Basis	Broadacre Divisions	Resubdivisions	Demolitions	Apartments/Retirement Villages
Water and sewer	SA Water Corporation (a State owned and operated corporation)	Mandatory in urban areas where a service is available. Developers meet full cost on site and contribute share of cost of any augmentation, but generally not headworks	Development Act gives SA Water broad powers to require servicing and meet its requirements. Also subject to Waterworks Act and Sewerage Act.	Developer designs and builds services to SA Water specifications.	As there are no new roads, there are generally no requirements, although on site retention may be required in some cases. Councils may refuse development if drainage is inadequate.	Services usually available, although higher capacity connection may be needed for multi unit developments.	Services usually available, although higher capacity connection may be needed for multi unit developments.
Stormwater drainage	Local Government	Mandatory in urban areas. Developers meet full cost on site and may agree to contribute to external works to overcome inadequate drainage. Main drains are built by councils with a 50% State subsidy.	Under Development Act, Council powers are mainly limited to on-site works, except that a council can require connection from the proposed development to an existing drainage system. Councils	Developer builds designs to service specifications of council concerned.	As there are no new roads, there are generally no requirements, although on site retention may be required in some cases. Councils may refuse development if drainage is inadequate.	As there are no new roads, there are generally no requirements, although on site retention may be required in some cases. Councils may refuse development if drainage is inadequate.	As there are no new roads, there are generally no requirements, although on site retention may be required in some cases. Councils may refuse development if drainage is inadequate.

Infrastructure Type	Supplier	Economic Basis	Legal Basis	Broadacre Divisions	Resubdivisions	Demolitions	Apartments/Retirement Villages
Local Roads	Local Government	Mandatory in urban areas. Developers meet full cost on site and may agree to contribute to external works.	may refuse development if drainage from the site is inadequate, Under Development Act, Council powers are mainly limited to on-site works although councils may require construction of an adequate connection to an existing roadway. Councils may refuse development if access is inadequate.	Developer builds and designs service to specifications of council concerned.	Not applicable	Not applicable	Not applicable
Electricity	ETSA Utilities (a privately owned company)	Mandatory in urban areas. Augmentation costs are charged to developer.	Development Act gives ETSA Utilities broad powers to charge for service and specify easements. Pricing subject to	Developer provides and re-instates a common trench in which ETSA Utilities builds	ETSA Utilities provides connection(s) and augmentation charges may apply.	ETSA Utilities provides connection(s) and augmentation charges may apply.	ETSA Utilities provides connection(s) and augmentation charges may apply.

Infrastructure Type	Supplier	Economic Basis	Legal Basis	Broadacre Divisions	Resubdivisions	Demolitions	Apartments/Retirement Villages
			oversight by ECOSA and currently under review. See Review of Distribution Code, Chapter 3 - Position Paper - June 2003. Councils may require underground reticulation.	service.			
Gas	Origin Energy (a privately owned company)	Optional in urban areas. Origin Energy treats new developments as an investment opportunity.	ESCOSA regulates operations in South Australia pursuant to the Gas Act 1997	Developer provides and re-instates a common trench in which Origin Energy builds service. Consumers pay for connections.	Consumers pay for connections and augmentation charges may apply.	Consumers pay for connections and augmentation charges may apply.	Consumers pay for connections and augmentation charges may apply.
Human Services, main roads, public transport and other services	Commonwealth, State and Local Government agencies	Funded from general revenue or grants from another level of government	Provided under various Acts, but no power to recover costs of augmentation	Except for joint ventures where Community	No contributions	No contributions	No contributions

Infrastructure Type	Supplier	Economic Basis	Legal Basis	Broadacre Divisions	Resubdivisions	Demolitions	Apartments/Retirement Villages
			from beneficiaries.	Trust Funds may be established to assist with funding of human services, developers do not contribute to these services.			

Notes:
 ECOSA is the Essential Services Commission of South Australia
 Refer to bibliography for more references.

Attachment IV

Fees and Charges under the Development Act

Fees and charges for processing of applications under the Development Act are standard throughout South Australia, and set out in Schedule 6 and 7 of the Development Regulations, as amended. Note that the Development Act combines control and approval of land use, land division, leases, building (including building codes), demolition, advertisements, excavations, acts that affect a declared heritage item and other acts that may be declared to be development. See the bibliography for more information about the Development Act and its scope.

The following is an excerpt from the current Development Control Regulations:

Schedule 6—Fees

1. The following fees are payable in relation to an application under Part 4 of the Act:

- | | | |
|-----|---|---|
| (1) | A Lodgement Fee | \$31.50 plus \$43.25 if the application requires a relevant authority to assess the development against the provisions of the Building Rules and the development cost exceeds \$5 000 |
| (2) | If the application requires the relevant authority to assess the development against the provisions of the relevant Development Plan, other than where the application relates— | |
| | (a) to a <i>complying development</i> under these regulations or the Development Plan; or | |
| | (b) to a proposed division of land into allotments which does not involve the performance of building work, | |
| | a Development Plan Assessment Fee of the following amount— | |
| | (c) if the development cost does not exceed \$10 000 | \$19.50 |
| | (d) if the development cost exceeds \$10 000 but does not exceed \$100 000 | \$64 |
| | (e) if the development cost exceeds \$100 000 | 0.1 per cent of the development cost up to a maximum of \$100 000 |
| (3) | If the application relates to a proposed division of land— | |
| | (a) other than where the application relates to a <i>complying development</i> under these regulations or the Development Plan, a Land Division Fee of the following amount— | |
| | (i) if the number of allotments resulting from the division is equal to or less than the number of existing allotments | \$19.50 |
| | (ii) if the number of allotments resulting from the division is greater than the number of existing allotments | \$64.00 plus \$6.25 for each allotment |

		up to a maximum of \$1 229
	and	
	(b)a Statement of Requirements Fee for the purposes of section 33(1)(c) or (d) of the Act	\$167
	and	
	(c)a Certificate of Approval Fee for the purposes of section 51 of the Act	\$64
(4)	If the application relates to a proposed development that is of a kind described as a <i>non-complying</i> development under the relevant Development Plan—in respect of the requirement for a concurrence (or concurrences) under section 35(3) of the Act (one fee)—a Non-complying Fee	\$64
(5)	If the application must be referred to a body prescribed under Schedule 8 for the purposes of section 37 of the Act—for each body to which the application must be referred—a Referral Fee	\$64
(6)	If the proposed development is a Category 2 or Category 3 development for the purposes of section 38 of the Act—a Public Notification Fee	\$64
(7)	If the proposed development is a Category 3 development for the purposes of section 38 of the Act—an Advertisement Fee	An amount determined by the relevant authority as being appropriate to cover its reasonable costs in giving public notice of the application under section 38(5)(c) of the Act
(8)	If the application requires a relevant authority to assess the development against the provisions of the Building Rules—	
	(a)in the case of a building that has a floor area	$F = 0.002 \times CI \times A \times CF$, or \$34.50, whichever is the greater
	(b)in the case of a building that does not have a floor area	$F = 0.002 \times CI \times S \times CF$, or \$34.50, whichever is the greater
	where—	
	Fis the fee (in dollars) payable under this component (unless the \$34.50 minimum applies)	
	CIis the construction index determined by the Minister from time to time and set out in the Schedule of Construction Indices published in the <i>Gazette</i>	
	Ais the prescribed floor area	
	Sis the projected area of the largest side or plane of the building	
	CFis the complexity factor	
(9)	If the application requires a relevant authority to grant consent to a development that is at variance with the Building Rules	\$97.50
(10)	If the application requires referral to the Building Rules Assessment Commission for concurrence before	

granting consent to a development that is at variance
with the performance requirements of the Building
Code \$198

For the purposes of this item:

- (a) "development cost" does not include any fit-out costs;
- (b) "allotment" does not include an allotment for road or open space requirements;
- (c) no fee is payable—
- (i) in respect of a development which is to be undertaken by a council, except where the primary reason for the proposed development is to raise revenue for the council; or
- (ii) in respect of a development which is undertaken by a State agency and assessed under section 49 of the Act, or which is excluded from the provisions of section 49 of the Act by a regulation under section 49(3);
- (d) subject to Schedule 7, a body prescribed under Schedule 8 for the purposes of section 37 of the Act may waive the whole or part of a fee due to the body under component (5), or refund any such fee (in whole or in part).

2. The following fee is payable in respect of an application for assignment of a classification to a building or a change in the classification of a building for the purposes of section 66 of the Act:

- (a) in the case of a building that has a floor area $F = 0.0016 \times CI \times A \times CF$, or \$34.50, whichever is the greater
- (b) in the case of a building that does not have a floor area $F = 0.0016 \times CI \times S \times CF$, or \$34.50, whichever is the greater

where—

F is the fee (in dollars) payable under this component (unless the \$34.50 minimum applies)

CI is the construction index determined by the Minister from time to time and set out in the Schedule of Construction Indices published in the *Gazette*

A is the prescribed floor area

S is the projected area of the largest side or plane of the building

CF is the complexity factor.

3. A fee of \$6.75 is payable in respect of an application for a certificate of occupancy.

4. A fee of \$34.50 is payable in respect of an application under regulation 76(3)(b).

The following provisions also apply for the purposes of items 1(8) and 2:

(a) the prescribed floor area is—

- (i) for the purpose of calculating the fee on an application for assessment against the provisions of the Building Rules that consists of the erection of a building or the demolition of a building—the aggregate of the floor areas of the building proposed to be erected or demolished;
- (ii) for the purpose of calculating the fee on an application for assessment against the provisions of the Building Rules where the building work consists of an alteration to a building—

(A) the aggregate of the floor areas of the rooms or compartments to be altered; or

- (B)where the alteration consists of the fixing or erection of an attachment that does not have a floor area—the floor area of the building within a distance of three metres of where the attachment is to be fixed or erected;
- (iii)for the purpose of calculating the fee on application for assignment of a classification to, or a change in the classification of, a building—the aggregate of the floor areas of the building;
- (b)the floor area of a building is to be measured over any enclosing walls and is to include the area of the floor of any fully or partly covered carport, portico, verandah, balcony, porch or other similar structure attached or to be attached to the building;
- (c)where a building is without storeys, or has a storey of a height of more than 10 metres, the floor area is to be calculated as if the building contained floors at 10 metre intervals, measured vertically;
- (d)a building is to be taken not to have any floor area if it is principally of open framework or web construction or solid construction and without any fully or partly enclosed space intended for occupation or use by persons;
- (e)the "**complexity factor**" is—
- (i)except as below—1.0;
- (ii)for building work for the erection or alteration of a building that exceeds six storeys—1.3;
- (iii)for building work for the erection or alteration of a building that contains an atrium—1.3;
- (iv)for building work for the erection or alteration of a building that contains an arcade exceeding 40 metres in length—1.3;
- (v)for building work that consists solely of the demolition of a building—0.2;
- (vi)for assignment of classification or a change in classification where no building work is proposed—0.8;
- (f)where a building is made up of parts that have different construction indices, the fee payable for the assessment of building work against the provisions of the Building Rules, the assignment of classification or a change in classification, is the aggregate of the fees calculated in accordance with this Schedule for those parts;
- (g)subject to paragraph (h), where an application for the assessment of building work against the provisions of the Building Rules incorporates an application for the assignment of a classification to, or a change in the classification of, the building, one fee is payable in respect of the applications, being whichever of the fees for those applications that is of the greater amount;
- (h)where a relevant authority consents to receive an application for approval of building work in stages, the following fees are payable:
- (i)for assignment of classification to the building—5 per cent of the fee payable for approval of the total building work;
- (ii)for approval of the siting of, excavation and filling for, and general arrangements of, the building—25 per cent of the fee payable for approval of the total building work;
- (iii)for approval of construction of the substructure—20 per cent of the fee payable for approval of the total building work;
- (iv)for approval of construction of the superstructure—the fee payable for approval of the total building work less any fees paid for stages approved within 12 months preceding the application for approval of construction of the superstructure.

5. (1) If the matter involves an application to a private certifier for an assessment of a development against the provisions of the Building Rules, a fee equal to four per cent of the fee that would apply under component (8) of item 1 if a council were the relevant authority for that assessment, exclusive of any GST component, is payable by the applicant.

(2) The fee must be paid by the applicant to the private certifier at the time of application.

(3) The fee must be held by the private certifier pending payment to the Minister under Schedule 7.

(4) Except as provided above, the fee to be paid to a private certifier will be determined by agreement between the applicant and the private certifier.

6. The following fees are payable in respect of a referral to the Building Rules Assessment Commission under section 36(2b) of the Act:

(a) for Class 1 and 10 buildings — \$307;

(b) for Class 2 to 9 buildings — \$676.

7. A fee of \$10 is prescribed for the purposes of section 57(2d) of the Act.

Schedule 7—Provisions regulating the distribution of fees between authorities

Interpretation

1. In this Schedule—

"quarter" means a three-month period commencing on any of the following days in any year:

1 January
1 April
1 July
1 October.

Distribution of fees between a council and other authorities

2. A council must, within 10 business days after the end of each quarter—

(a) pay to the Development Assessment Commission an amount equal to the sum of the following:

(i) 75 per cent of fees received by the council during that quarter under component (1) of item 1 of Schedule 6 in respect of applications for which the Development Assessment Commission is the relevant authority; and

(ii) the total of all fees received by the council during that quarter under components (2), 3(a), (5), (6) and (7) of item 1 of Schedule 6 in respect of developments for which the Development Assessment Commission is the relevant authority; and

(iii) \$57 for each amount received by the council during that quarter under component (3)(b) of item 1 of Schedule 6; and

(iv) 90 per cent of fees received by the council during that quarter under component (4) of item 1 of Schedule 6 where the council is the relevant authority; and

(v) 10 per cent of fees received by the council during that quarter under component (4) of item 1 of Schedule 6 where the Development Assessment Commission is the relevant authority; and

(vi) the total of all fees received by the council during that quarter under components (8) and (9) of item 1 of Schedule 6 in relation to applications for which the council is not the relevant

authority for the purposes of the assessment of the applications in respect of the Building Rules; and

(b) pay to any body prescribed under Schedule 8 for the purposes of section 37 of the Act 60 per cent of fees received by the council during that quarter under component (5) of item 1 of Schedule 6 on account of referrals of applications to that body under Schedule 8 where the council is the relevant authority; and

(c) pay to the Minister four per cent of fees received by the council during the quarter under component (8) of item 1 of Schedule 6, or under clause 3(a)(vi) of this Schedule, exclusive of any GST component.

Distribution of fees between the Commission and councils

3. The Development Assessment Commission must, within 10 business days after the end of each quarter—

(a) pay to a council an amount equal to the sum of the following:

(i) 75 per cent of fees received by the Development Assessment Commission during that quarter under item 1 of Schedule 6 in respect of applications that involve the division of land for which the council is the relevant authority; and

(ii) the total of all fees received by the Development Assessment Commission during that quarter under components (2), (3)(a), (5), (6) and (7) of item 1 of Schedule 6 in respect of developments for which the council is the relevant authority; and

(iii) \$110 for each amount received by the Development Assessment Commission during that quarter under component (3)(b) of item 1 of Schedule 6 in respect of developments within the area of the council; and

(iv) 90 per cent of fees received by the Development Assessment Commission during that quarter under component (4) of item 3 of Schedule 6 where the Development Assessment Commission is the relevant authority in respect of developments within the area of the council; and

(v) 10 per cent of fees received by the Development Assessment Commission during that quarter under component (4) of item 1 of Schedule 6 where the council is the relevant authority; and

(vi) the total of all fees received by the Development Assessment Commission during that quarter under components (8) and (9) of item 1 of Schedule 6 in relation to applications for which the council is the relevant authority for the purposes of the assessment of the applications in respect of the Building Rules; and

(b) pay to any body prescribed under Schedule 8 for the purposes of section 37 of the Act 60 per cent of fees received by the Development Assessment Commission during that quarter on account of referrals of applications by the Development Assessment Commission to that body under Schedule 8.

3A. A private certifier must, within 10 business days after the end of each quarter, pay to the Minister the fees received by the private certifier during the quarter under item 5(1) of Schedule 6.

Requirement for a return and method of payment

4. (1) A payment under this Schedule must be accompanied by a return, in a form determined by the Minister, containing reasonable details of the items that make up the amount of the payment.

(2) A payment under this Schedule must be made—

(a) by cheque; or

(b) in some other manner determined by the Minister.

Ability to defer payment of small amounts

5. Despite a preceding clause, if an amount due to be paid to a body or the Minister by a council under clause 2(b) or (c) for a particular quarter would, but for this clause, be less than \$50, the council may defer the payment until the amount, together with an amount or amounts payable to the body or the Minister (as the case may be) in a succeeding quarter or quarters, are equal to, or greater than, \$50.

Certificate in respect of land

6. The Certificate of Approval Fee under component (3)(c) of item 1 of Schedule 6 is payable to the Development Assessment Commission.

Attachment 5

Bibliography and Further Information

Development Act

Refer to Planning SA web site for a brief outline of the legislation and links to other related documents. Go to http://www.planning.sa.gov.au/dev_legislation/index.html

Land Management Corporation

Go to <http://www.lmc.sa.gov.au>

Housing Industry Prospects Forum

Go to <http://www.lmc.sa.gov.au> , then choose General Info, then Publications

Essential Services Commission - Electricity and Gas Regulation

Go to <http://www.escosa.sa.gov.au/site/>

For the current review of electricity augmentation charges to new land division and major building developments, go to:

<http://www.escosa.sa.gov.au/resources/documents/030627-R-chapt3PositionPaper.pdf>

[http://www.escosa.sa.gov.au/resources/documents/030825-R-](http://www.escosa.sa.gov.au/resources/documents/030825-R-Ch3ReviewSupplementaryPaper.pdf)

[Ch3ReviewSupplementaryPaper.pdf](http://www.escosa.sa.gov.au/resources/documents/030825-R-Ch3ReviewSupplementaryPaper.pdf)

Water Supply and Sewerage for New Development – SA Water Corporation

Go to http://www.sawater.com.au/Customer_Centre/index.html

Links to all State agencies and Local Government

Go to <http://www.sacentral.sa.gov.au>

On-Line Atlas of South Australia

Provides on-line mapping of zoning, cadastre, land use, imagery, demographics, etc throughout South Australia, with zoom from State wide to local street level

Useful for understanding pattern of development of metropolitan Adelaide

Go to <http://www.atlas.sa.gov.au/>
