

Mr V. L. (Vis) KOPFSOVITZ

MTM. B. Eng., B.Econ.

MAIL: .

PHONE:

Qld
(Monday to Thursday)

The Administrative Officer,
PRODUCTIVITY COMMISSION Home Affordability Inquiry
LB2, Collins St East
MELBOURNE Vic 8003

Re: Submission

24/09/03
YEAR OF THE GOAT

Dear Sir or Madam;

Following the on line registration of interest of a couple days ago, please find enclosed the before mentioned submission to the inquiry into First Home Ownership conducted by the Commission.

Should you require additional information in relation to this submission, please call ph 07 3862 2212 for details.

I sincerely hope this inquiry would help us design the best system we are collectively capable of.

Yours truly,

Encl. 1

Affordability and Availability of Housing

INTRODUCTION

This submission is motivated by the need to manage changes around us so to meet the overall requirements for sustainable development. It represents opinions of a private person and as such it is neither bound by any specific contemporary theory nor it boosts sophisticated figures and graphs to support or disprove it. Instead, it attempts to provide qualitative analysis and focus attention on broader areas that could deliver the long lasting improvement in quality of life of many communities.

This submission regards housing as an integral part of urbanisation, a process of humans, relationship with the surrounding environment. It defines economy as the best management of available resources. **In its main thrust it strongly argues for the increased affordability and availability of housing.**

The following submission refers to affordability in economy terms of ownership and to availability in social terms of the need to meet community demands for shelter. Whenever possible it provides brief definitions of terms used by the author so it could become relevant to more readers.

Housing is an integral part of the proverbial 'bread, people need. while it is possible to live without entertainment it is impossible to last without bread and not been affected by troubling thoughts. As humans we are fortunate to have a history we can learn from and it makes us aware that very often troubling thoughts lead to destructive actions a neither part of society comes undamaged from. often those actions bring about a collection of painful changes.

There are two categories of occupancy - owners and renters. Owners buy a house and renters depending on a system either choose it or are allocated with. Both renters and owners are foremost driven by the same need for a roof above one's head. owners are additionally motivated by the possibility of monetary profit.

This submission recognises that the house ownership is very much a culture driven attitude that changes in time and varies from culture to culture. It should be possible for an individual to have the same beautiful dreams regardless if one makes them under own or rented roof.

MAJOR POSTULATES

The submission makes the following propositions to:

- a. Create national population policy
- b. Integrate housing and transport policies under a single department
- c. Provide more land by opening up new areas with integrated transport
- d. Promote higher density urbanisation model
- e. Amalgamate fragmented development industry into a few large-scale units
- f. Introduce system of part-ownership fully tradable on the market

I. Affordability.

There possibly is a range of underlying factors that determine affordability of housing. This submission deals with two of them, namely price of house and person's financial position.

1. The price of house can be expressed by the following formula:

$$\text{House Price} = \text{Cost of House} + \text{Cost of Infrastructure} + \text{Land Price}$$

The cost of house is a compound value of building materials (what influences future maintenance costs), labour (to construct it) and inspections (compliance with relevant regulations). The cost of infrastructure includes the construction and maintenance of services like water, electricity, sewerage, transport, etc. The land price represents a speculative surcharge associated with the right to occupy a particular land.

The both house and infrastructure costs are productive in nature that create employment and tangible wealth.

Land speculation contributes to unproductive side of economy that can be spectacularly created but also it can instantaneously disappear. When a major share of nation's wealth is accumulated in housing it can also disappear as quickly. Speculation behaves like a predator that provides stimulation for development but when unchecked it can quickly destabilise the entire system. A comparison could be drawn to the rising propensity for litigation and the damaging effect it apparently has on our contemporary health system and the range of community activities.

one of the possible ways of reducing the cost of house is by reducing overheads. It could possibly be achieved by consolidating the development industry into large scale units. Each such unit would perform the integrated functions of a modern day developer including finance, marketing and construction plus inspections but with lower overheads. Critically important from the energy effective economy there would be the unprecedented ability to plan new transport corridors and integrate it with new urban developments under one roof. It seems most appropriate that the federal department of transport & infrastructure should play a leading role in setting up such trading enterprises.

2. A personal income is created by exchanging goods or services with other people at a rate of exchange that depends on the law of supply & demand. For example, a farmer can exchange one (1) tone of wheat for an hour or so advice of a city based advisor. one of the most popular forms of exchange is labour-for-cash referred to as earning.

To buy a house one must earn more than one needs to spend. Under the current circumstances for many people it may be beyond reach to buy a whole house. In a culture that places great importance on private ownership but loses the ability to deliver new mechanisms could be considered to help its citizens. One that could enable people buy a part of house and trade it freely on the market.

Another would be a relevant education program to promote alternative forms of occupancy. There are contemporary cultures that have succeeded in this and we may look there for guidance.

Affordability, like unemployment, is a two-factor indirect measure. To make a house more affordable there must be either a lower house price (as referred to in 1) or higher earnings (as in 2). The capacity for earnings depends on national economy, which in long turn depends on foreign trade. Nation's debt can only be paid out by exports like a family's credit cards that are paid out by individuals with a paid employment or profitable business.

In terms of export we have a very limited ability to influence prices we get for our products (our income). But we have the ability to reduce the house price without negatively affecting the productive side of housing industry.

This submission argues that it could be achieved by adopting new approach to transport and its role as an engine of growth.

We gradually realise that we can not simply react to the arising problems but have to create a new model that would not only reduce the existing challenges but would limit the appearance of new ones. one possible example of that approach captured by the old saying 'do not put good money after bad, could be the building more roads in a badly designed city what only puts the point of breakdown temporarily off.

It can be stated that currently there are two opposite models of relationship between transport and urbanization. a. Transport follows urban developments b. Urban developments follow transport

The current school of thought and practice here subscribes to the former model. It results in rising costs of traffic congestion and pollution and reduced speed of transport. The costs of congestion can be measured according to our current methodology. The costs of pollution and social dissatisfaction are currently kept outside accounting books.

This submission strongly argues for the latter model, which can result in greater affordability and lower social and business costs.

The nature of cost is that it changes in time. It could be successfully argued that while the costs of house and infrastructure keep rising in pace with national economy (or inflation) the rise in land prices contributes most to the escalating price of house.

We can markedly improve the affordability by reducing the element of land price in that equation.

There are a number of possible ways to achieve it. The most appropriate, this submission argues, is by improving the supply side.

People live in a particular place either because that is what they can afford, are allocated or it suits their lifestyle. In more advanced societies that demand is mostly driven by lifestyle trends.

Land price is derivative of supply. In order to reduce price more new urban land needs to become available, but not any land. This submission argues that it needs to be the cheapest land from an infrastructure point of view that can also meet people's aspirations and expectations.

Such a land could be opened up by an advanced transport system coupled with a higher density accommodation model.

Infrastructure cost relates to many factors including territorial spread of development (population density & size), logistics (distribution of accommodation and facilities its residents need to regularly access) and transport (means of affecting mobility). In short it refers to population policy that should provide a reference point for any urban planning.

Current and incurring in future infrastructure costs are to be met by someone. Relevant fees and charges paid by property owners including stamp duty are designed to assist the broader community. In fairness to the community that cost should be calculated by including transport, pollution and other related elements that result from urban developments and have a long term effects on the community. Ultimately, to standardise those costs and make them fully comparable the cost may need to be expressed not in terms of money spent but total amount of energy needed. The rate of those charges should reflect the long term socio-economic cost: Lower the cost, lower the charges.

One possible way to reduce infrastructure coast is by the provision of higher density accommodation serviced by mass transport.

According to quantity surveyors for each \$1mln we can build either ten (10) houses 150sqm or 20 units 50sqm each. What it means is that for the same amount of money we can provide either ten or twenty families with the roof above their heads. When expressed by energy used we may end up with ever more units, but it needs to be tested.

Furthermore, the unitary cost of infrastructure (water, sewerage etc.) for higher density accommodation most probably is lower than for detached houses and cost of transport, pollution, social isolation etc. much lower.

Savings on cost for developments created within transport corridors could and should result in lower price of house.

* The currently under way Auslink inquiry into integrated national transport system provides perfect opportunity to combine the both inquiries for the common objectives and benefits. We may find it to be an appropriate venue for outlining creative solutions we need. one possible outcome could be a new network of concentric and diagonal transport corridors spanning the land with an aviocosmic port at the middle intersection as the ultimate entry point to Australia. It would have a profound impact on our quality of life and the prospect for our economy for a foreseeable future. The proverbial divide between city and the bush could be expediently relegated to our past.

II. AVAILABILITY

According to our current cultural values it is the collective responsibility of community to provide housing to all its members who need it. The government on behalf of the community is charged with execution of that responsibility. In a modern world the government would provide an appropriate structure and regulations and the community itself would supply housing it needs.

In Australia we are pretty close to achieve it.

In order to attain that objective we need to improve our current system by reducing and wherever possible eliminating surcharges and inefficiencies. Also, by providing assistance in a form of bank guarantees to help people own their accommodation (or part of it).

Perhaps it would be wise to consider the amalgamation of the departments of transport and housing for ever greater effectiveness in planning and implementation. Most probably it would not be the world first. Given the entrepreneurial (risk capital) culture in Australia it is admissible that the above mentioned departmental fusion could play a leading role in improving the availability of housing.

We need a sound urban development model for at least the next several decades. This inquiry could provide a focal point and nucleus for an overarching strategy that could inject predictability to our housing as well as to socio-economic, demographic and industrial developments. We need it to guarantee the continuation of our quality of life.

That overarching strategy is called a population policy.

At one point in our history we will have to address the following questions: how many people we would like to live here in say 100 years, what values and lifestyles they would preferably represent, what industries and urbanisation model they would need to support them and how the national wealth would be distributed. Despite that no one can ever guarantee for values worked out by one generation to be implemented by the following ones we need to try to do our best.

It can be safely said that we could attain that objective only if we continue an honest, unbiased approach enforced by clear vision of long term challenges and benefits. As the recent examples of our approach to the matters relating to Iraq show we may face a real challenge with maintaining that right approach.

While working on this and other related issues we need to keep reminding ourselves that the socio-economic and political realities around us keep changing rapidly. If we do not seize the moment we may fail on building our future prosperity based on sustainable development and equality. We may lose the best chance to help resolve the major problems that would affect our future. Thank you for attention.

Mr V. Kopfsowitz

Comments welcome to:.....,

21 September 2003