



**Queensland
Government**

**Premier of Queensland
and Minister for Trade**

Please quote: RH02/SP

24 OCT 2003

Mr Gary Banks
Chair
Productivity Commission
LB2, Collins Street East
MELBOURNE VICTORIA 8003


Dear Mr Banks

I am pleased to present the Queensland Government's submission to the Productivity Commission's Inquiry into first home ownership (attached). The submission explores the causes and effects of changes in housing affordability, particularly as it relates to first home owners in Queensland.

I look forward to the release of your draft report in December and the opportunity for further discussion and debate on this important issue.

Yours sincerely



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QUEENSLAND GOVERNMENT SUBMISSION

to the

PRODUCTIVITY COMMISSION INQUIRY INTO FIRST HOME OWNERSHIP

Main points

The Queensland Government welcomes this inquiry, as an opportunity on a national basis to explore the causes and effects of changes in housing affordability, particularly as it relates to first home owners. The fact that affordability is presently declining for aspiring first home owners will work against the Government's policy objectives in respect of affordable housing, have impacts on other elements of the housing system, and warrants analysis of further opportunities to stimulate increased supply of affordable housing.

By any measure, housing affordability in Queensland has declined in recent years, as the rising price of housing has more than offset the low interest rate environment (which itself probably contributed to demand) and increases in incomes. However, housing affordability tends to fluctuate over time, in response to changes across a complex set of factors. In addition, the recent decline in housing affordability in Queensland has been less marked than in a number of other States.

There have been strong demand-side pressures on housing prices in Queensland, arising as a result of robust population growth, the poor performance of alternative investment vehicles and stimulus from Commonwealth Government policy. While the investment cycle will fluctuate over time, the expectation of ongoing strong population growth will continue to underpin demand for housing in Queensland.

On the supply side, the release of land for residential development is covered by planning and zoning regulations, but is primarily a commercial matter. Regulation of residential construction by the State and local governments is largely concerned with consumer protection and amenity, and zoning arrangements have permitted a large increase in the density of housing within local government areas with significant housing demand, particularly Brisbane.

Nonetheless, the uneven pattern of rising home prices in specific areas across the State suggests a mismatch of supply and demand in some areas. That is, rising home prices might indicate a lack of *effective* supply of housing, at least in the short term.

The demand for housing in specific areas may reflect preferences for particular forms of consumer amenity, such as water views or parkland. This essentially relates to willingness to pay for consumption of housing services. However, to the extent this demand reflects relative access to social, educational or employment opportunities, there is a risk that lower income households, including those wishing to become home owners, may be forced by rising housing costs to live in areas that do not currently provide these opportunities.

While the emphasis of this inquiry is on home ownership, and first home ownership in particular, the availability and price of rental accommodation is also an important feature of the housing market, being an alternative to home ownership. The increase in rents has fallen significantly behind rising house prices, leading to a sharp reduction in the implied yield to owners of rental housing. While yields to investors are falling as a result of the increase in dwelling prices, rents are also increasing in some areas and may continue to rise. The rental market is an affordable alternative to home ownership for many households in the present circumstances, but not all. There is some evidence that in Queensland the rising price of residential land in desirable locations has reduced the supply of low cost rental units, as the properties previously available are either renovated or replaced, which has a greater impact on low-income households. Long-term reductions in Commonwealth funding under the Commonwealth State Housing Agreement has also reduced the Queensland Government's capacity to respond through traditional programs such as social housing.

It is uncertain how long lived will be the current apparent mismatch between demand and supply for housing in some areas. Demand by investors might fall, depending on expected returns from housing compared to alternative investment vehicles. Effective supply might increase, either in the localities with the highest demand, or by means of increased opportunities and amenity in areas previously not highly in demand.

The Queensland Government has an active policy agenda which, as part of its broader economic development priorities, will, over the longer-term, work to improve housing affordability, including:

- regional development initiatives, including improving transport and communications links to regional areas, involving record levels of investment in infrastructure over a number of years. Improving the attractiveness of the regions as places to live and work will reduce the demand pressure on the South East corner; and
- a supportive regulatory environment, to facilitate timely supply-side responses to changes in demand for housing.

In addition, the Queensland Government provides assistance to low-income families through a range of services such as, public and social housing, concessional home loans, bond assistance, rent subsidies and tenant advice and advocacy. Affordable housing initiatives include the Brisbane Housing Company and the development of a State Planning Policy.

There are a number of ways governments can intervene directly in the housing market. It is important any government action is:

1. targeted at the underlying cause of the problem the intervention is intended to address;
2. underpinned by a rigorous assessment of the effects of the intervention, on the housing market and more broadly;
3. based on available evidence to provide effective assistance for those in need; and
4. coordinated across all levels of government to maximise the effectiveness of government investment.

In the current environment of strong demand for housing in particular areas, policy interventions that add to that demand, particularly by means of untargeted financial assistance, would only further increase prices, often to the detriment of the people the intervention was intended to help.

The Queensland Government is aware of the financial pressure the present increase in housing prices is causing to many families and households. Under the Multilateral Commonwealth State Housing Agreement, the Governments of the Commonwealth, States and Territories have agreed “to promote a national, strategic integrated and long term vision for affordable housing in Australia through a comprehensive approach by all levels of government”. To further this objective, a study has been commissioned to examine how manipulating or changing a combination of policy and planning levers could facilitate the development of more affordable housing.

All Housing Ministers will meet in December 2003 to consider this report and to discuss coordinated action on this issue, including possible consideration by a future meeting of the Council of Australian Governments.

1. Introduction

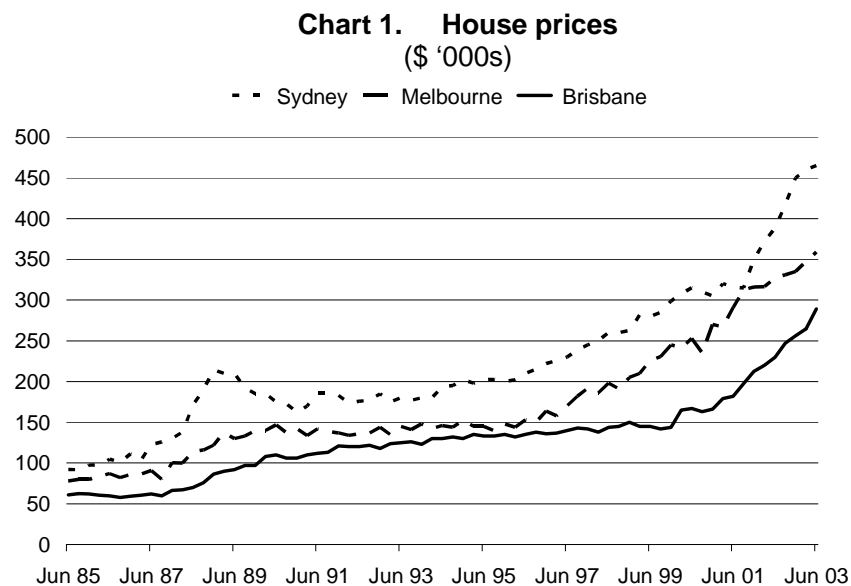
The Queensland Government has an interest in housing and home ownership for a range of reasons, from the economic activity and employment it generates to the importance of housing to the quality of life for the State's residents. This inquiry provides an opportunity for governments and society to develop a clearer understanding of the complex issues that affect the demand and supply of housing and the possible policy responses to imbalances in these.

2. The Situation in Queensland

Trends and observations

Housing prices

Housing prices across Australia have grown strongly over the past two years. Chart 1 shows that house prices have not increased as much, or for as long, in Brisbane compared to Sydney and Melbourne and that median house prices in Brisbane are still much lower than in those cities.

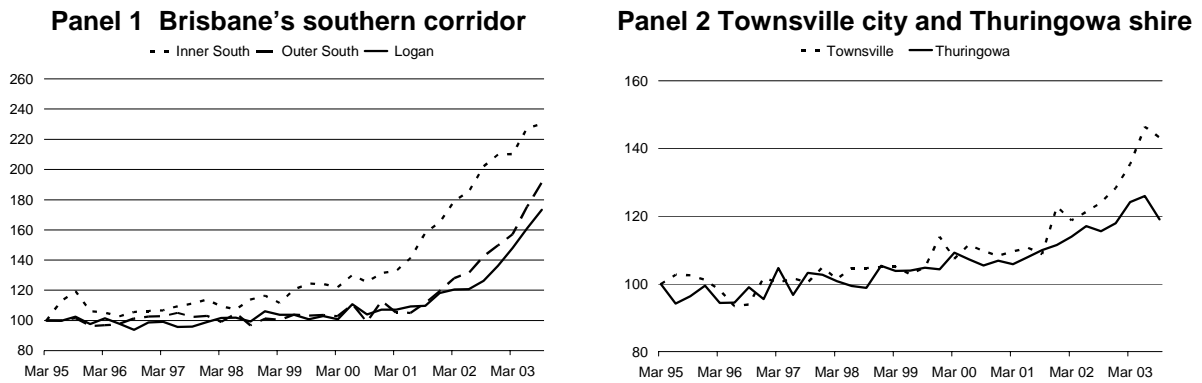


Source: Real Estate Institute of Australia

Within Queensland, there are large variations between regions and within regions in the extent to which housing prices have followed this general trend. In general, housing prices have risen fastest near centres of stronger economic and population growth, with the rate of increase in price declining with distance from those centres, see Chart 2 below.

- In panel 1, which shows the “southern corridor” in Brisbane, house prices rose fastest in the inner south area, with areas along that corridor achieving progressively lower rates of growth, with increasing distance from the centre of Brisbane.
- In panel 2, house prices in Townsville rose faster than those in Thuringowa Shire, the partly urbanised area surrounding the city.

Chart 2. House prices ^a, selected contiguous areas
(Quarterly index, March 1995 = 100)



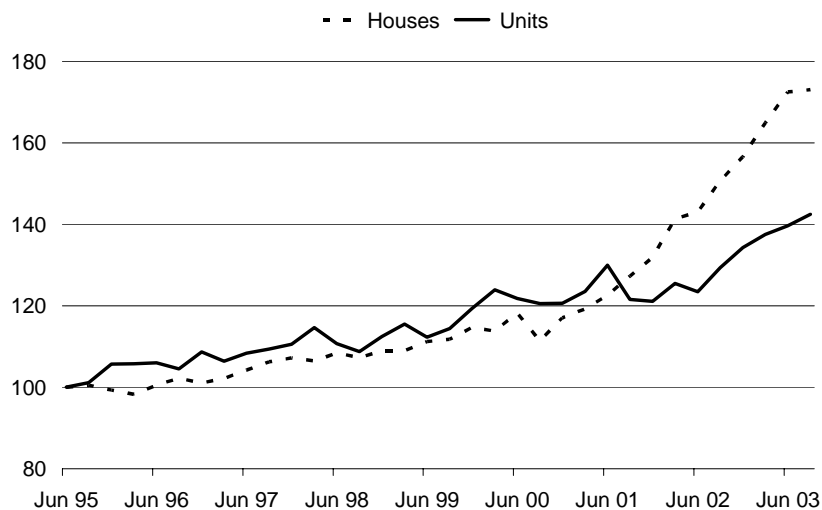
Source: Department of Natural Resources and Mines, unpublished data
 Note: Weighted average of residential property sales

The attachment to this submission shows a similar pattern in other centres of Queensland for which reliable housing data are available. The data also show the price rises were highest in the Southeast corner.

Possible reasons for these differences would include quality of housing stock or locational advantages, such as amenity or access to educational and employment opportunities, with the likelihood that elements of both factors contribute. As shown in the table attached to this submission, Logan City is closely integrated in the Brisbane employment and housing markets, with 43% of Logan City workers commuting to Brisbane to work, compared to 33% working in Logan City.

In addition to differences in prices due to location, the price performance is also related to the type of housing. Chart 3 shows that in Brisbane, house prices have increased significantly faster than unit prices over the past two years. (This trend was replicated in the regional data as well. That is house prices rose faster than unit prices in each area examined.)

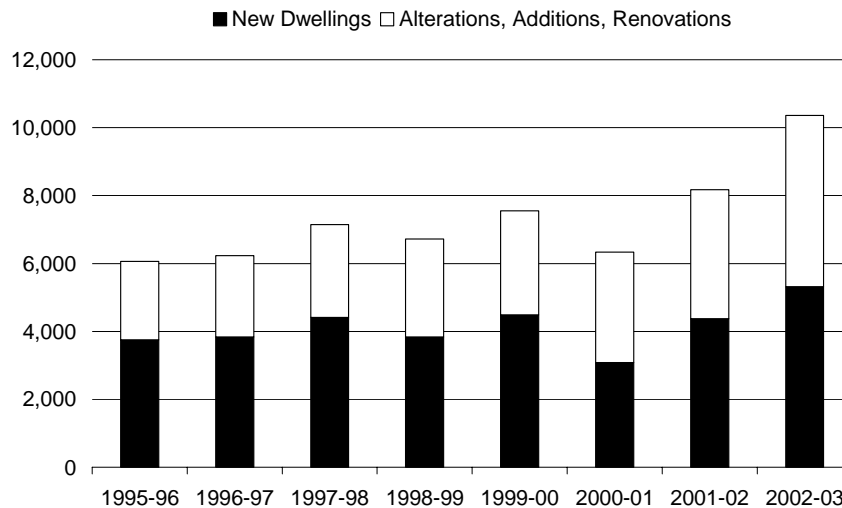
Chart 3. Housing prices, Queensland ^a
(Quarterly index, June 1995 = 100)



Source: Department of Natural Resources and Mines, unpublished data
 Note: Weighted average of closely populated areas of Queensland.

The observed increase in house prices, relative to other forms of investment or consumption, reflects the willingness of people to pay for housing, at the expense of, or as an alternative to, other things. This increase in price may reflect improvements in the quality of the housing stock and is not limited to people 'trading up', but also includes renovations of the existing housing stock. Based on ABS National Accounts (State Details) data and building activity data, it is estimated Queensland households spent over \$5 billion on home renovations in 2002-03, roughly the same as the figure for new residential construction. (See Chart 4.)

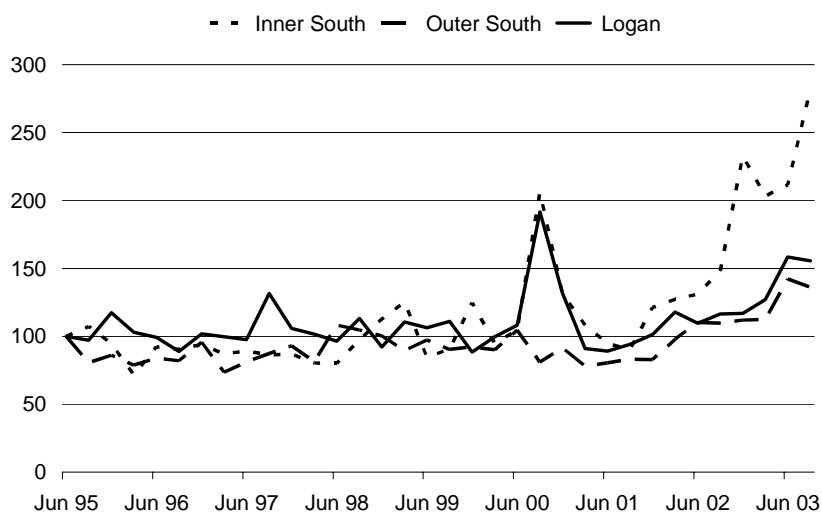
Chart 4. Residential work done, Queensland
(\$ million, 2000-01)



Source: ABS 8755.0 *Building Activity* and ABS 5242.0 *National Accounts: State Details*

To the extent renovations add to the value of houses, this would have an effect on the median price for houses purchased over a given period. That is, the increase in sale prices will reflect the improved housing stock as well as changes in the value of the land on which the dwelling stands. Therefore, the value of vacant land is a more reliable proxy for the locational values of housing prices.

Chart 5. Vacant land prices^a, Brisbane southern corridor
(Quarterly index, June 1995 = 100)



Source: Department of Natural Resources and Mines, unpublished data

Note: Weighted averages based on land sales across a range of land sizes, from below 400 square metres to over 4000 square metres.

As shown in Chart 5, land values follow a similar pattern to that for housing sales in the Brisbane southern corridor. This suggests locational factors are quite important in driving housing demand in particular locations.

Changing tenure patterns

Tenure patterns in Queensland have altered over the past decade. Table 1 shows that in the decade from 1991 to 2001 home ownership in Queensland has declined by 2.2% points, the rental market increased by 1.6% points. Rental market growth has been in the private sector with growth of 2.3% points compared to a decline in public housing of 0.1% point over the period.

Table 1. Changing housing tenure

Tenure type	1991	1996	2001	
<i>Owner occupied</i>		64.6	63.5	62.4
Fully owned		40.7	38.7	36.6
Being Purchased		23.9	24.8	25.8
<i>Rented</i>		28.5	30.1	30.1
State housing authority		3.6	3.8	3.5
Other landlord		23.9	26.1	26.2
Not stated		1.0	0.2	0.4
<i>Other tenure</i>		6.9	6.4	7.5

Source: ABS Census of Population and Housing

It is not clear if the decline in home ownership represents a permanent decline or a deferral of entry into home ownership, as a result of a more mobile labour force, increased casual employment and greater investment in education.

Until relatively recently, the private rental market has generally been regarded as the ‘waiting room’ for other forms of tenures: into home ownership for those with the capacity to do so and social housing for those that do not. The private rental market has grown as home ownership is deferred or cancelled and social housing programs are more tightly targeted.

Incomes

Gross household incomes have increased significantly in Queensland and across Australia over the past decade. Table 2 indicates that according to this measure, gross household income in Queensland increased by 29.0% over the decade to 2000-01.

Table 2. Gross household income

Region	Nominal \$ per household		% Change (90-91 to 00-01)
	1990-91	2000-01	
New South Wales	63,858	86,599	35.6
Victoria	62,779	83,127	32.4
Queensland	53,180	68,625	29.0
South Australia	52,370	67,010	28.0
Western Australia	55,837	76,873	37.7
Tasmania	49,645	59,618	20.1
Australia	59,947	79,420	32.5

Source: ABS 5220.0 *State Accounts* and 3101.0 *Australian Demographic Statistics*

Gross household incomes for Australia as a whole increased by 32.5% over the same period. (These figures are in nominal dollars, to be consistent with housing prices as commonly reported.)

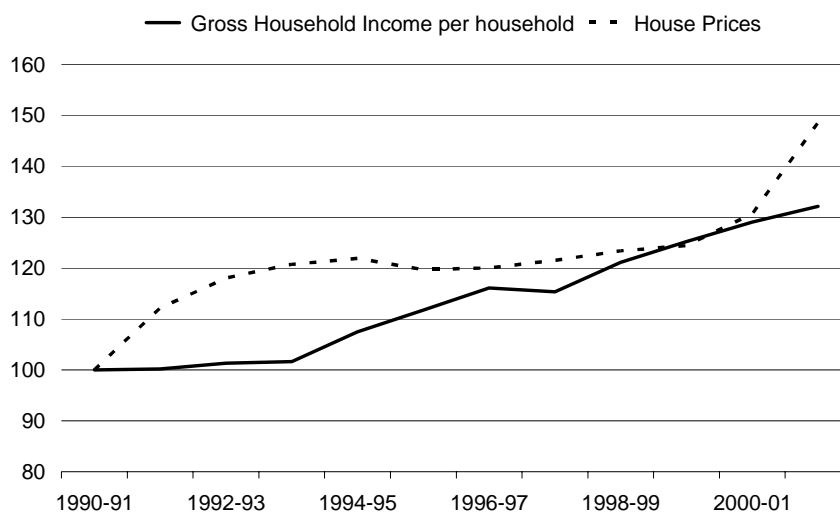
While Queensland's average gross household income has increased over the period, it is likely that the increase was not uniform across all households or regions within the State.

Housing affordability

Housing affordability is a wider issue than the capacity of first home buyers to obtain housing finance. However, many widely reported measures of affordability are in fact home loan affordability indicators. Some of these measures are complex indices that take into account factors such as household income, interest rates and house prices, and others may be as simple as a comparison of incomes and housing loan repayments required to purchase a house at the median price. (Note, these measures should be viewed as indicative rather than authoritative as they depend on the data used to construct them. For example, using male full-time earnings as a proxy for household income is not representative of many households' circumstances, particularly given the declining share of full-time employment and the increasing prevalence of both dual-income and no-income households.)

One housing affordability measure is a comparison of Queensland gross household incomes and house prices. Chart 6 shows that the period of disparity in house price growth and household income growth in the early 1990s was not sustained.

Chart 6. A measure of housing affordability, Queensland
(Yearly index, 1990-91 = 100)



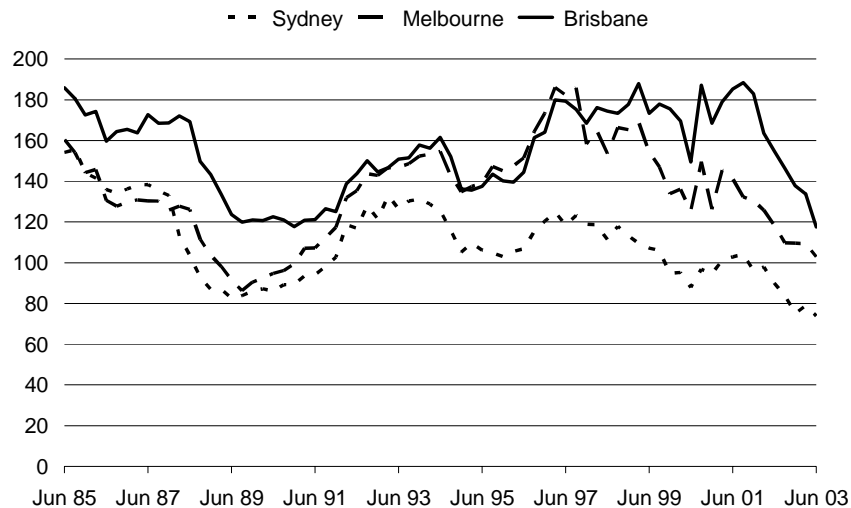
Source: ABS 5220.0 *State Accounts*, 3101.0 *Australian Demographic Statistics* and 6416.0 *House Price Indexes*

Note: 1990-91 is the earliest period that Gross Household Income is available.

Whichever measure of affordability is used, housing affordability for home buyers in Queensland has declined over the past three years. Affordability has declined principally as a result of increasing house prices, as shown in Chart 6, which this submission will examine further.

Over time, housing affordability fluctuates as a result of income changes, house prices and interest rates. The index reported by the Housing Industry Association, in association with the Commonwealth Bank, shows large changes in housing affordability over time (see Chart 7). Chart 7 also shows, despite lower household incomes in Brisbane than in some other cities, housing affordability in Brisbane is higher than in those cities, although affordability in Brisbane has declined more rapidly over the last two years.

Chart 7. HIA-CBA index of housing affordability, Queensland NSW and Victoria
(Quarterly index ^a)



Source: HIA- CBA unpublished data

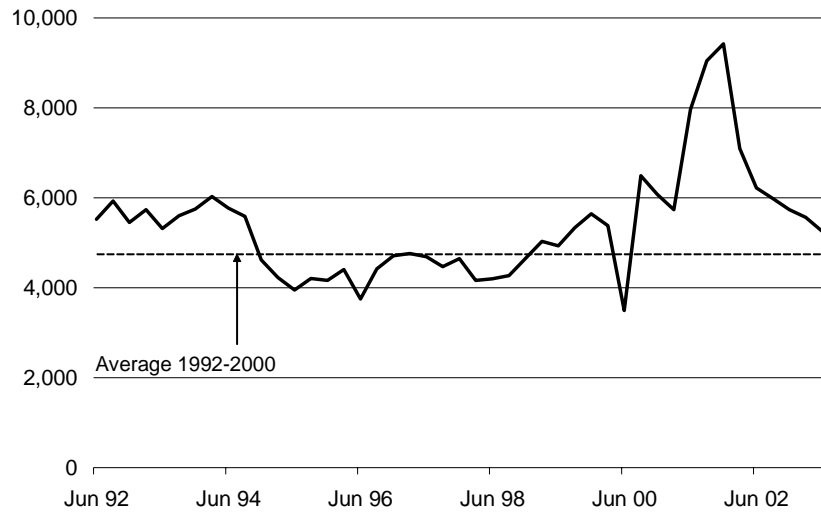
Note: The HIA- CBA index is the ratio of the average household income to the qualifying income required to meet payments on a typical dwelling (expressed as an index). In calculating qualifying income, a deposit of 20% of the dwelling's value with repayments equivalent to 30% of income is assumed using a conventional 25 year loan. A higher number indicates greater affordability and a lower number less affordability.

First home buyers

First home buyers are a significant minority of home buyers, and Queensland over the period July 1991 to July 2003 has had a greater proportion (22.7%) of first home buyers than the rest of Australia (20.6%).

The number of first home buyers is volatile from year to year. As illustrated in Chart 8, the number of first home buyers increased rapidly in the year to December 2001. Since then, the number has fallen, although it is still somewhat higher than the annual average for the eight years to 2000.

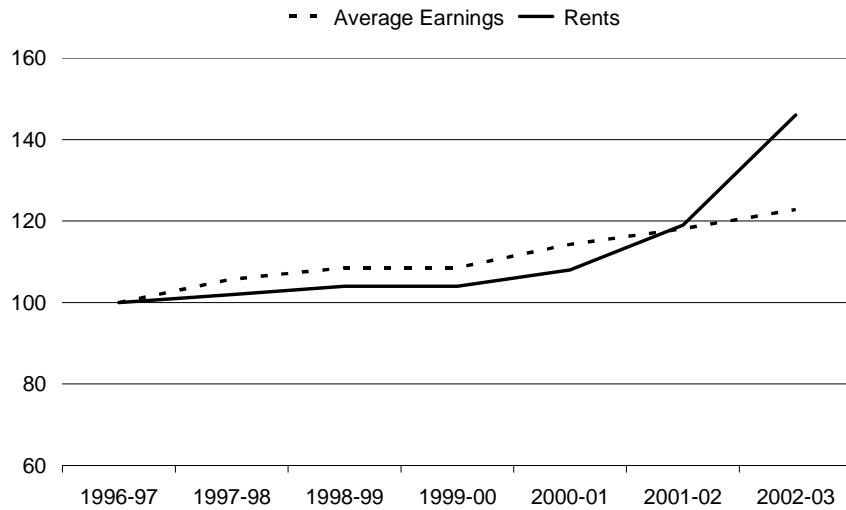
Chart 8. Housing finance for first home buyers, Queensland
(quarterly, number)



Source: ABS 5609.0 *Housing Finance for Owner Occupation*

As will be discussed later in this submission, renting is an alternative form of housing to purchasing. Chart 9 below shows rents recently have risen faster than average incomes for wage and salary earners. That is, in aggregate, rental affordability also appears to have declined in Brisbane over the past two years.

Chart 9. Brisbane rents^a compared to average earnings^b
(Yearly Index, 1996-97 = 100)



Sources: Residential Tenancies Authority, Queensland State Accounts, ABS 6202.0 unpublished labour force statistics

Notes: a For new rental agreements during each period b Average earnings from wages and salaries.

3. Influences on housing demand

Housing is a fundamental need. In addition, housing is a form of investment, for both owner-occupiers and investors. Demand for housing is therefore driven by both demographic factors and the broader investment climate. The interrelationship between these factors is discussed below.

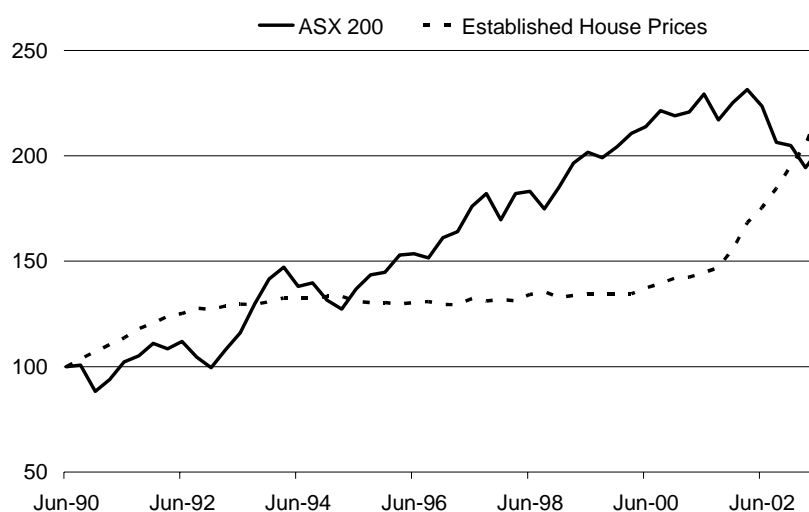
Changes in population and trends in household formation are the major demographic influences on demand for housing. Whether households own or rent the dwelling they occupy, the effect of population growth and smaller households would be to increase demand for housing. This may be referred to as the “underlying demand” for housing, as opposed to the “market demand”, which is the demand for dwellings to purchase at any particular time.

Between 1992 and 2002, Queensland’s population grew by 677,681. By extrapolating the change in household size from the trend between census dates, it is estimated the increased population has led to an increase of over 260,000 households from 1992 to 2002.

The Queensland Government projects Queensland’s population to increase by around 1.5 million by 2026, of which 1.2 million people, or over 450,000 households (on current household size), will be added to the population in the South East corner. This expectation of increasing underlying demand for housing and lower housing prices, compared to other major cities, would be expected to continue to favour housing as an investment in Queensland and particularly the South East, compared to other centres.

Investment in property is influenced by access to capital, the returns available from substitutes and investors’ preferences. Sustained low interest rates have allowed investors to borrow greater amounts of capital and, over the past two years, returns from investments in substitutes such as fixed interest products (eg Government bonds) and shares have been poor and often negative, after a sustained period of very high returns from shares (see Chart 10).

Chart 10. Queensland house prices compared to shares
(Quarterly index, June 1990 = 100)



Source: Reserve Bank of Australia Bulletin and ABS 6416.0 *House Price Indexes*

As investments, housing and shares are not direct substitutes, in that shares are more liquid, can be traded in smaller packets and have lower transaction costs than housing. However, changes in prospective returns would be expected to see a rebalancing of investors' portfolios. This would affect housing in two ways. First, investors looking for a "safe haven" would be expected to withdraw funds from share markets. Second, there would be a diversion into housing from the flow of funds that would otherwise have gone into the share market.

While both owner-occupiers and people purchasing investment houses consider their houses as investments, the increased demand for investment houses is likely to add to demand for lower value housing stock, traditionally associated with first home buyers.

In summary, there have been strong demand side pressures on housing prices in Queensland, because of strong population growth and the poor performance of alternative investment vehicles. While the investment cycle will fluctuate over time, with ramifications for the demand for housing, the expectation of continued strong population growth will continue to add to demand for housing in Queensland and particularly in the South East corner.

4. Influences on housing supply

Land planning and availability

Queensland planning and development framework

The *Integrated Planning Act 1997* (IPA) forms the foundation of Queensland's planning and development assessment legislation. The purpose of IPA is to balance community well-being, economic development and the protection of the natural environment by providing a framework for managing growth and change within the State. In particular, the IPA provides:

- one system for all development related assessments by local and State governments (an integrated development assessment system - IDAS), and
- establishes local government planning schemes as the main instrument for planning and development assessment.

To this end, local governments through planning schemes are responsible for the planning and regulation of development in their local government area.

Within the context of housing supply, the State does not prescribe how individual local government's respond to land development pressures - unlike other Australian states that have adopted mechanisms to influence residential densities and urban consolidation or regulate supply through residential land release schemes.

Rather, in Queensland when local governments prepare their planning schemes they must coordinate and integrate State and regional interests within the context of local priorities, and through State interest checks demonstrate how they have satisfactorily considered such matters.

The State Department of Local Government and Planning also coordinates a range of joint government regional planning projects in areas experiencing rapid growth, which support a coordinated approach to regional development to meet future community priorities, needs and

expectations. The regional planning projects are undertaken in South East Queensland, Wide Bay, Whitsunday, Hinterland and Mackay, Central Queensland, Townsville-Thuringowa, Far North Queensland, and the Gulf Region. These projects provide a regional framework for growth management, such as that provided by SEQ 2021, for South East Queensland, which guide and shape the preparation of local government planning schemes.

In this way the Queensland Government achieves its general housing and development policy objectives through a combination of collaboration, negotiation and regulation.

Infrastructure Planning

The IPA recognises the importance of infrastructure in well-planned communities and provides mechanisms to improve coordination of land use and infrastructure planning, and the coordination of urban infrastructure funding.

A revised and refined infrastructure framework is currently proposed. Under the revised framework each planning scheme is required to include a Priority Infrastructure Plan (PIP). The PIP will identify, among other things:

- the Priority Infrastructure Area (PIA) ie. the part of the local government area currently serviced with infrastructure and any additional area needed to accommodate at least 10 years, but not more than 15 years of growth in each of the key urban sectors (residential, retail/commercial and industrial);
- existing local government trunk level infrastructure servicing the area; and
- details of any future local government trunk level infrastructure proposed to meet the needs of the growth assumptions.

The purpose of the PIP is to provide a clear statutory framework for integrating land use and infrastructure planning. The PIP also establishes a planning benchmark for the operation of the infrastructure charging and conditioning system. It will promote more efficient provision of infrastructure services and ensure that land use planning decisions are made within a more comprehensive planning framework.

Land planning and availability

In practice planning schemes have tended to identify land available for urban development over at least a 15-year forward period. This has been achieved through planning scheme elements such as zoning and other mapping identifying preferred areas for residential and other urban land uses. Over the next several years this approach to forward planning will be complimented by the introduction of the PIP mechanism.

In some instances local planning controls may contribute to locational pressures. This can occur where residential land supply and development is constrained for environmental or other planning considerations. In some cases the situation cannot be remedied by making more land available because of shortages in the supply of unconstrained land.

There also are other factors that contribute to supply pressures in particular localities, including:

- high demand for housing reflecting factors such as access to employment, educational and other opportunities and lifestyle factors in certain preferred areas including Brisbane inner metropolitan area and the Gold and Sunshine Coast coastal strips. The preferred

locations are often characterised as containing few vacant lots and undergoing a process of recycling and/or improvement to traditional housing stock;

- local community values and political attitudes to development, particularly development involving increased residential densities, perceived to have a detrimental impact on existing urban character and community lifestyle; and
- the possible need for significant investment in infrastructure upgrades and possibly complex coordination issues across different levels of government and private developers, when moving to higher density land use in existing residential locations.

Nonetheless, the supply of new dwellings has generally responded to housing pressures, as evidenced by increased residential densities in areas with high housing demand and consequent inflation of land values. For example, in the inner south area of Brisbane 5,237 more dwellings were recorded in the 2001 Census than in the 1996 Census, an increase of 13.5% in the number of dwellings.

Supply of labour and materials

Within broad limits, the residential construction industry has a capacity to meet a defined amount of demand. In the short term, demand in excess of that limit will not be met, with increasing prices acting to ration the demand. Those higher prices for skills and materials, would be expected to attract investment in those areas.

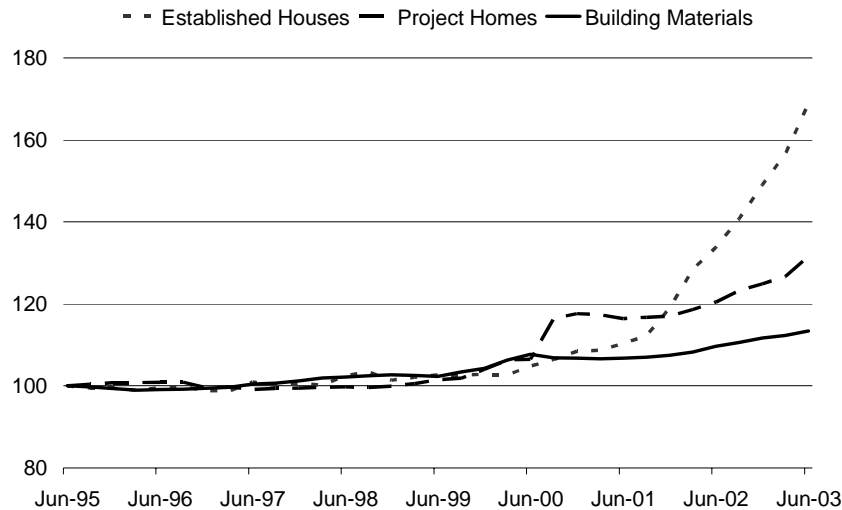
In the absence of market or government failure therefore, the response to an increase in demand for housing would be expected to be an increase in the supply capacity of the industry, through workers entering the workforce, by acquiring the necessary skills or re-entering the workforce and an increase in production of building materials.

Both of these supply responses take time and involve an element of risk for the person making the investment, in funds or income forgone in acquiring skills, or in the funds used to gear up for increased production of building materials.

The data for Queensland appear to show some short-term supply issues in the residential construction industry. As noted above in Chart 5, the increase in purchase prices for vacant land has differed markedly between areas, depending on demand, suggesting the value is determined by amenity, facilities or employment prospects. Project home prices, a proxy for the cost of building materials and labour, have also not risen as sharply as dwelling prices over the past five years (see Chart 11). Removing the one-off impact of the introduction of the Goods and Services Tax, project home prices increased at an average of 3.3% per annum in the period after 1997-98.

The price for project homes has increased markedly in the past year, while prices for building materials have not. While a change in the quality of project homes (for example an increase in size or improved features) might explain at least some of this rise, a more likely possibility is the supply of labour in the industry is insufficient to meet current demand.

Chart 11. Project homes, building materials and house prices
(Quarterly Index, June 1995 = 100)



Source: ABS 6416.0 *House Price Indexes*.

In summary, there appear to be some constraints on the effective supply of new housing in Queensland, especially in the short term. While new land availability in aggregate does not appear to be a constraint, it is clearly a constraint in some localities of high demand. And while significant increases of density of settlement have been achieved in some such localities, there may be a variety of constraints on the ability to maintain or increase this trend. More generally, there is evidence that in the short term, the supply of labour in the industry is insufficient to meet demand.

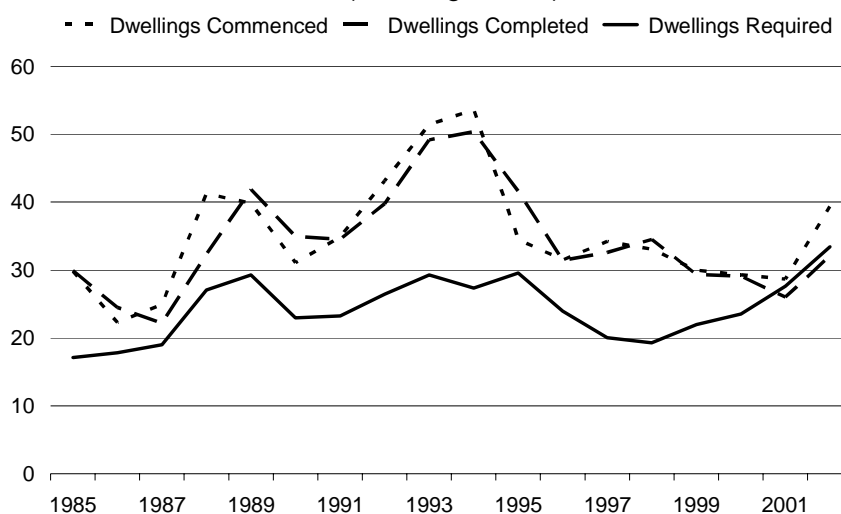
5. Effects of demand and supply on housing prices and affordability

All things the same, an increase in the number of households would require an equivalent increase in the number of dwelling units. Moreover, some of the existing housing stock would be in areas lacking economic and social opportunities, as these change over time. This would tend to increase the number of new dwellings required for a given number of additional households.

Chart 12 below compares the number of new dwellings commenced and those completed to a “derived demand” for dwellings, based on population growth and the change in the size of households over the period as discussed in Section 3.

The relationship between the supply and the derived demand for new housing is subject to other effects, such as the extent to which the existing housing stock meets present requirements, and the importance of these other effects is likely to change over time. Therefore, caution is required in drawing conclusions from this relationship. However, the chart does illustrate how supply of new housing reacts to changes in the demand for housing.

Chart 12. Queensland's Demand for Additional Housing
(Dwellings, 000s)



Source: ABS 3101.0 *Australian Demographic Statistics*, 8752.0 *Building Activity* and Queensland Treasury

Note: Dwellings commenced and completed data available on annual basis from 1985

For example, a relative tightening of the supply of new dwellings (dwellings completed compared to demand) in 1987, 1991 and 1996 was followed by increases in the number of new dwellings commenced. As the gap widened, that is, as supply grew relative to demand, the number of new dwellings commenced fell. While it is too early to tell with confidence, the latest data appear to show a similar supply response in 2002 (the latest year for which data are available), in response to a sustained increase in “derived demand” from 1998.

Locational and quality factors

There are wide variations in the quality of housing (as expressed in terms of size, quality of construction etc), type of housing, whether detached houses or semi-detached units or townhouses, and environmental attributes, such as closeness to transport and social, employment and educational opportunities. The preferred balance between all these factors differs between households and also depends crucially on the price required to purchase a dwelling with the preferred attributes. There is thus a large number of housing “markets” within any given area, which are linked with each other to a larger or smaller degree.

Based on the state-wide allocation of urban land in current planning schemes, there is sufficient supply of residential land to accommodate projected population growth and facilitate stable average housing market prices across the State. For example, broad hectare studies of the area covered by the South East Queensland Regional Organisation of Councils (SEQROC) identify that the region, broadly identified as Noosa in the north, south to the Queensland - New South Wales border and west to Toowoomba, has enough residential urban broad hectare stock to accommodate demand for the next 20 years.

However, within the SEQROC region land supply is limited in particular favoured localities, specifically the main coastal centres, which are experiencing rapid population growth. Consequently, such local variations in housing supply and demand are putting a premium on housing prices in these localities.

The existence of these different markets has implications for the effect of changes in demand and supply. Should some of the housing stock have attributes that are seen as desirable by a

large number of households, and therefore be in demand, the price of that sort of housing would be expected rise, to the point where some potential purchasers are “priced out” of that segment of the market and seek alternative housing options.

There is some evidence this has occurred in Queensland. As noted above, home prices have risen fastest or first in areas closest to centres of employment, or with other attractive features, such as transport links.

The impact of rising house prices and alternative housing options

To the extent the differences in price changes reflect preferences of home purchasers for “lifestyle” attributes of homes, this would not be a significant issue for governments. That is, if higher income households chose to spend more on housing, this would reflect a consumption choice. However, to the extent this demand reflects relative access to social, educational or employment opportunities, there is a risk lower income households, including those wishing to become home owners, may be forced by rising housing costs to live in areas that do not currently provide these opportunities.

That said, while a continuation of the rise in housing costs might change the situation, Queensland is not currently in the position reportedly faced in other countries, where key workers in the service industries cannot afford housing located so that employment opportunities can be filled.

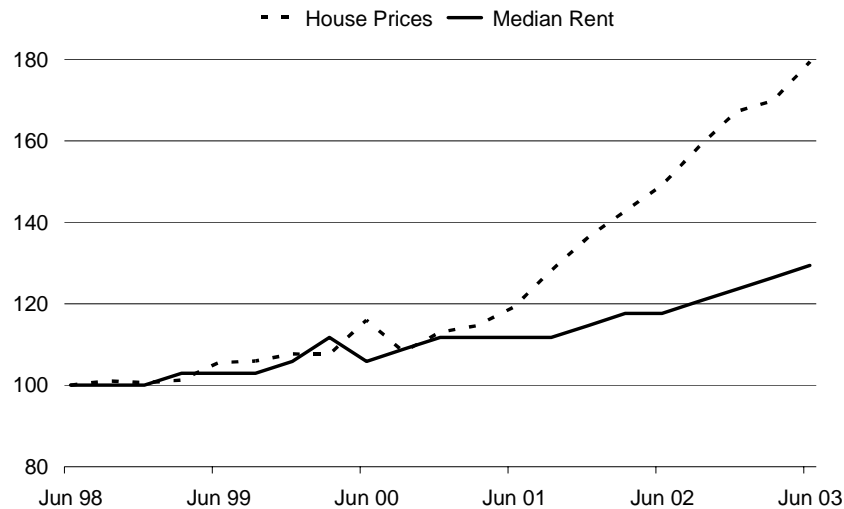
Renting

While the emphasis of this inquiry is on home ownership, and first home ownership in particular, the availability and price of rental accommodation is also an important feature of the housing market, being an alternative to home ownership.

Rental properties are a sub-set of the total housing stock in any given location, with a great deal of substitution between the alternative uses over time. That is, a house or unit may be occupied by either an owner or a renter at different times over the years, depending on the circumstances. As noted earlier, renting is presently more prominent as a housing choice than has previously been the case.

As illustrated in Chart 13, rents have not increased at the same rate as housing prices in Brisbane over recent years. Other population centres and the disaggregated view of Brisbane presented in earlier sections show a consistent pattern of rents lagging house prices significantly.

Chart 13. House prices ^a and rents ^b, Brisbane
(Quarterly index, June 1998 = 100)



Source: Department of Natural Resources and Mines and Residential Tenancies Authority, unpublished data

Notes: a Weighted average of closely populated areas of Queensland. b Rental figures for new rental agreements during each period from June 1998.

The disparity between house prices and rents is likely to be temporary and the rental yield is likely to narrow over the medium term. This would require either an increase in rents or a reduction in housing prices, possibly as supply increases through new construction.

Renting rather than purchasing provides a viable alternative to many households that can not presently afford to purchase a dwelling. However,

- it is unclear whether the observed decline in home ownership is permanent so it may be that some households will no longer be able to satisfy their aspiration to buy their own home; and
- while yields to investors are falling as a result of the increase in dwelling prices, rents are also increasing in some areas.

Recent rent increases in some areas are outstripping inflation, so that indexed payments such as the Commonwealth's Rent Assistance program is of declining as a proportion of rent payable. Recent research by ACOSS and AHURI shows that Rent Assistance does not provide an affordable outcome for many households. It is also possible recipients may move to lower rent areas which have lower employment prospects.

The quality and affordability of rental housing and, in some areas, the availability of rental housing at all, may be issues of concern for this inquiry.

- There is some evidence that in Queensland the rising price of residential land in desirable locations has reduced the supply of low cost rental units, as the properties previously available are either renovated or replaced.
- In some regional areas of Queensland, there is an absolute lack of rental housing available, significantly constraining access to economic opportunities in those areas.

Purchasing or renting units

As noted above in Chart 3, unit prices have not risen at the same rate as those for houses. This, as well as the price performance of vacant land, illustrated in Chart 5, shows the increasing scarcity of land in areas of high housing demand. It also provides another housing option for households who can not afford to purchase a house, but who wish to live in a particular location, although as for rents, this option may not be available for some low income households.

6. Policy interventions

There are a number of ways governments can intervene directly in the housing market. It is important any government action is:

1. targeted at the underlying cause of the problem the intervention is intended to address;
2. underpinned by a rigorous assessment of the effects of the intervention, on the housing market and more broadly;
3. based on available evidence to provide effective assistance for those in need; and
4. coordinated across all levels of government to maximise the effectiveness of the intervention.

Queensland Government policies

The Queensland Government is concerned with housing in a number of ways, both as a regulator of parts of the market and as a provider of housing services. The *Housing Act 2003* has as its objects:

- (a) to improve the access of Queenslanders to safe, secure, appropriate and affordable housing; and
- (b) to help build sustainable communities.

Economic policies

The Queensland Government has an active economic development policy agenda which, over time, will work to improve housing affordability. The major policy drivers in this category include:

- regional development. As noted above, there are wide variations between regions and even within regions in the rate at which housing prices have increased. To the extent this represents differences in economic and social opportunities, improving these in areas with relatively low housing prices would be expected to draw population to these areas. The Queensland Government regional development strategy aims to ensure regional economies are able to develop to their potential, including by improving transport and communications links, reducing the costs of these with the rest of the world and allowing the development of knowledge-based industries in regional centres. As part of this strategy, the Queensland Government has undertaken very high levels of infrastructure investment in Queensland, particularly in the regions; and
- a supportive regulatory environment, to facilitate timely supply-side responses to changes in demand for housing, as discussed above with regard to the *Integrated Planning Act 1997*.

Queensland Government Social Housing Policies

The Queensland Government has been assisting people who have been unable to afford housing from the private sector since 1909, with the creation of the Workers' Dwelling Board. Since then, it has responded to need in a variety of ways, using both funds delivered through the Commonwealth State Housing Agreement (CSHA) and internal funds.

Typically, responses have been through:

- Home loan products that have variously offered concessions such as subsidised interest rates, reduced establishment fees, income-linked repayments, lower deposit requirements or exemptions for fees such as mortgage insurance;
- Social housing programs delivered through public housing, Aboriginal and Torres Strait Islander Housing and community managed housing. Such housing has typically been targeted to low income earners and provided secure tenure and subsidised rents;
- Assistance for private renters, through mechanisms such as bond assistance, rent subsidies and advice and advocacy.

The Queensland Government has been increasingly tailoring its home lending to specific markets where the otherwise very competitive private lending market is reluctant to operate, such as rural and remote areas. As a result, home lending represents a small proportion of total households assisted.

Social housing is in decline, as a result of increasing costs related to an aging portfolio and an increasingly targeted population with complex needs. Income is also declining with lower real rents per household related to targeting and smaller households, and significant and long-term reductions in real funding delivered through the CSHA. As a result of these pressures, the public housing portfolio is projected to fall to about half its current proportion of all housing over the next twenty years, with consequent reductions in the number of people that can be housed.

To complement the economic policies being pursued by the Queensland Government, a number of housing policies are also being pursued. Recent initiatives include:

- seeking to leverage greater affordable and social housing outcomes;
- developing an Affordable Housing Policy and Strategy;
- developing the Brisbane Housing Company;
- preparing the Five Year Plan for Public Housing;
- developing New Loan Products;
- enacting new legislative and administrative arrangements for housing; and
- continuing to develop an appropriate, efficient and effective continuum of responses to address unmet housing need.

The Queensland Government is aware of the financial pressure the present increase in housing prices is causing to many families and households. Under the Multilateral Commonwealth State Housing Agreement, the Governments of the Commonwealth, States and Territories have agreed "to promote a national, strategic integrated and long term vision for affordable housing in Australia through a comprehensive approach by all levels of government". This initiative recognises that housing affordability is a wider issue than access to home ownership by potential first time buyers, although they are a crucial element of the

housing system. To further this objective, a study has been commissioned to examine how manipulating or changing a combination of policy and planning levers could facilitate the development of more affordable housing.

The Ministers responsible for housing in all jurisdictions will meet in December 2003 to consider this report and to discuss coordinated action on this issue, including a possible meeting of the Council of Australian Governments.

Recently proposed initiatives

A number of recent reports have recommended changes to how governments and other institutions, such as banks, deal with housing issues.

Grants to home buyers

If there is a perceived “affordability gap” between the price of housing and the capacity of a household to pay, it has been suggested governments should provide funds to fill this gap, by means of a grant. Alternatively, this grant could be used as or towards a deposit to enable households to borrow for a home. The effectiveness of such a move would depend on its effect on both demand and supply of homes.

Any prospective home buyer would have a financial limit, above which he or she would not wish to incur additional debt or even be able to service the debt incurred in purchasing the home. The provision of a grant to a prospective home buyer would increase his or her financial limit. Nothing else would have changed; that prospective home buyer would just be able to spend more on housing than previously.

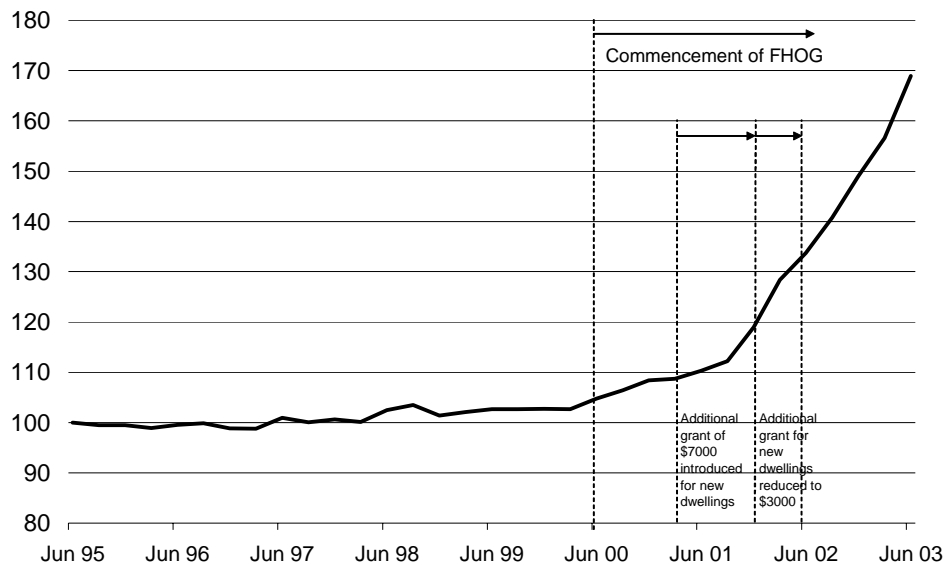
If a grant were widely available, a large section of prospective buyers would see their purchasing power increased and therefore demand for housing would increase, both:

- in terms of the number of buyers in the market, as people previously not in the market can now afford it; and
- in the price those buyers are willing to pay for housing.

Because of the increased demand, the payment of a grant would translate into higher house prices, although the extent to which this occurred would depend on the elasticities of demand and supply. In the present situation of excess demand, it is likely the majority of the value of the grant would flow through to higher house prices.

This appears to have been the case with the first home owner grant introduced around the time of the introduction of the GST on new dwellings (see Chart 14, below). Given the strong underlying demand for housing, the grant to all first-time purchasers of houses has been completely absorbed by rising house prices, leaving low income first home buyers at best no better off and more likely worse off than if the grant had not been introduced. People in the same financial position as first home buyers, but who are not eligible for the grant, are unambiguously worse off.

Chart 14. Established House Prices, Brisbane
(Quarterly index, June 1995 = 100)



Source: ABS 6416.0 House Price Indexes

In addition, the non-means-tested design of the Grant is such that it is available equally to people on very high incomes. The Grant has been used in some cases to purchase very high value dwellings, which raises issues of equity.

It is also important to consider the effect of possible adverse changes on those that are assisted in home ownership. The Productivity Commission might consider the effect of even a small rise in interest rates or other adverse economic events on those home buyers who would not otherwise have been able to afford home ownership but who were able to enter the market because of a grant.

Should governments decide to assist potential home buyers by means of grants, it would be preferable to limit its availability to those needing the assistance, such as by applying a means test, as this would reduce the adverse effects discussed above. The more closely targeted the assistance, the smaller will be the impact on overall house prices and therefore the greater will be the proportional benefit to those receiving the assistance.

Reducing costs associated with Government fees and charges

It has been suggested State taxes or charges such as stamp duty on conveyancing and infrastructure charges contribute to higher home costs and that these should be reduced or waived, to reduce prices. The conclusions above, that excess demand in certain locations is the primary cause of price increases, suggest reductions in taxes, fees and charges would do little to reduce housing prices. By further increasing demand for housing and with the supply

of housing relatively inelastic in the short term, most of the reduction in taxes will be offset by increases in the pre-tax prices of housing.

Transfer (Stamp) duty

Queensland transfer duty rates on conveyances are the lowest in Australia. In addition, Queensland provides a concession on transfer duty for all home buyers and an additional concession for first home buyers. The combined effect of these on the transfer duty payable for a home purchase can be seen in Table 3, below.

Table 3. Transfer Duty for Home Purchasers – all Capital Cities

Capital city	Median house prices (\$)	Transfer duty – Home (\$)	Transfer duty – First home (\$)	Transfer duty – Investment (\$)
Sydney	465,000	16,415	16,415	16,415
Melbourne	359,000	17,200	17,200	17,200
Brisbane	289,000	3,865	3,865	8,590
Adelaide	220,000	7,680	7,680	7,680
Perth	210,200	7,765	7,765	7,765
Hobart	180,000	4,975	4,975	4,975
Canberra	305,000	9,775	9,775	9,775
Darwin	206,000	5,584	3,444	7,084

Source: Real Estate Institute of Australia, State and Territory Offices of State Revenue

Note: House prices for each city the latest figure available.

Neither the rate nor the thresholds relating to transfer duty has changed in Queensland since 1994. It is difficult to see how a levy of slightly over 1% of a transaction, which rate has not changed, accounts for an increase in house prices of over 50% over five years. To put this into context, if mortgage interest rates were to rise by slightly more than 1.5 percentage points, the annual additional interest costs on a mortgage of \$250,000 would equal the transfer duty payable by a first home buyer on a median priced house in Brisbane.

As noted above, only the mismatch of demand and supply of housing explains the increase in prices. Further, to the extent a reduction in transfer duty charges would increase the ability of households to pay for housing, in the current conditions, this would be likely to be translated into higher prices for housing.

Infrastructure charges on new developments

New developments contribute to the cost of infrastructure supporting them, which cost would be passed on to buyers of the properties in those developments. However, as noted above, home prices in outlying districts have not risen at the same rate as those for inner-city suburbs. This is largely a reflection of stronger consumer preference and market competition for housing in established residential areas. It also indicates that infrastructure charges are not a significant factor in the price of new development housing. In addition, to the extent original infrastructure was provided free to some established houses, the benefits of this would be capitalised in the house price.

For this reason, removing infrastructure charges would not be likely to greatly affect the price of housing in new developments.

Access to shared equity schemes for home buyers

Allowing investors to share ownership of housing with home buyers would increase demand for housing, particularly from those who were not able to satisfy lending requirements for a larger loan. As discussed above, the increased demand is likely to increase prices.

Conclusion

Conclusion

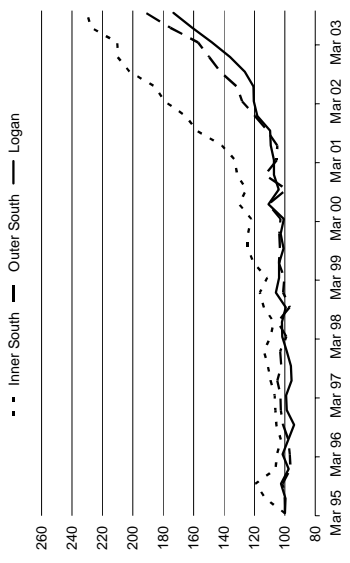
The Queensland Government is concerned about the decline in affordability currently faced by potential first home buyers. Rapidly escalating dwelling prices in some parts of Queensland result in some households either deferring plans to enter home ownership, or cancelling them altogether. Renting is a viable alternative for many such households, as is locating in areas of lower demand. There appear to be no constraints on the production of new dwellings in aggregate to meet expected population growth. However, there may be some short or longer term constraints that reduce the ability of the housing market to increase housing density in the areas of highest demand for housing. The Queensland Government is working actively to address these constraints.

For some members of society, none of the housing options discussed above is available without assistance, particularly as there is evidence that there has been a decline in the availability of low cost rental accommodation. The Queensland Government's capacity to respond to the needs of these people, through traditional programs such as social housing, is constrained, because of the reliance by the Commonwealth on rent assistance. There has been a long-term real reduction in grants from the Commonwealth Government to Queensland through the Commonwealth State Housing Agreement. While rent assistance has a role to play, it has limitations in circumstances where there is no deep pool of rental dwellings or where there are supply constraints, as occur in some parts of Queensland.

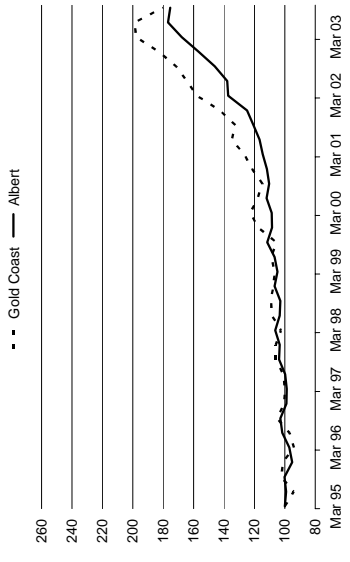
The Queensland Government does not support short-term policy responses that are taken in isolation. A set of principles for such interventions has been suggested in this Submission. The Queensland Government also believes that any responses to housing affordability need to be taken in a coordinated manner across all spheres of Government. The Council of Australian Governments may provide one avenue for ensuring such a coordinated response is pursued, building on the work currently being undertaken by Housing Ministers.

House prices, selected contiguous areas
(Quarterly index, March 1995 = 100)

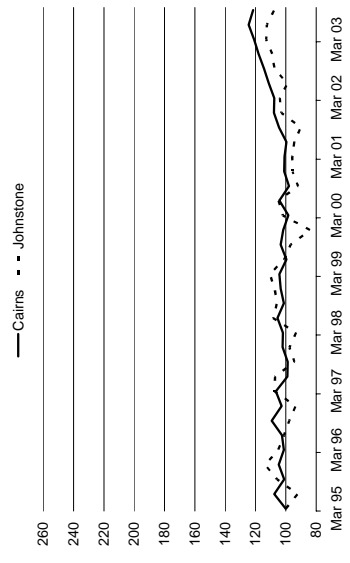
Brisbane's southern corridor



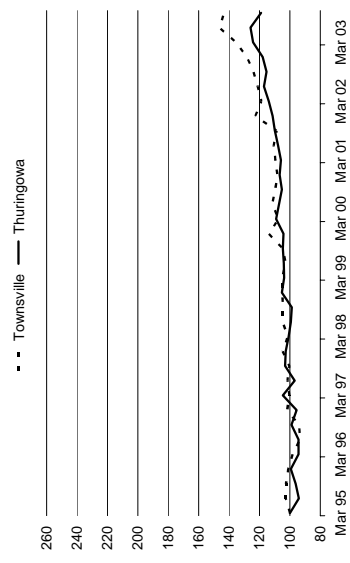
Gold Coast and Albert Shire



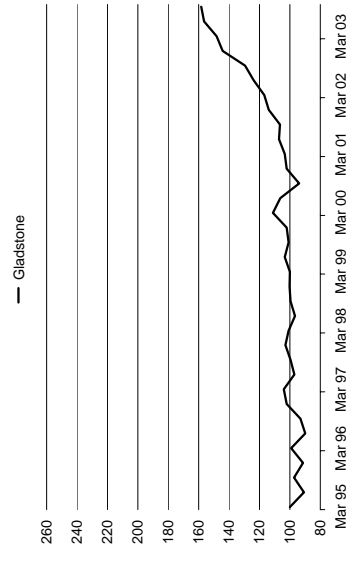
Cairns and Johnstone Shire



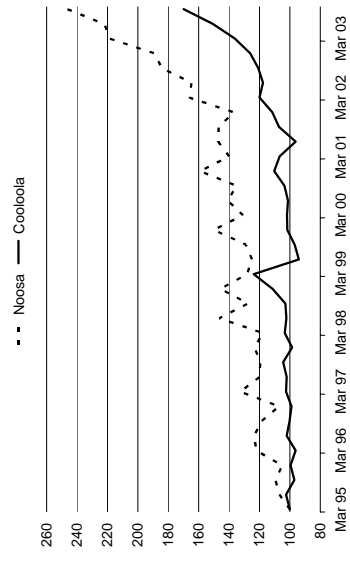
Townsville and Thuringowa



Gladstone



Noosa and Cooloolool Shire



Source: Department of Natural Resources and Mines, unpublished data

Note: Weighted average of residential property sales

Journey to work, South East Queensland, Census 2001

(a) Number of persons, origin versus destination

		Destination							
		Brisbane	Beaudesert	Ipswich	Logan	Pine Rivers	Gold Coast	Other	Total
Origin	Brisbane	345,535	603	7,124	10,128	5,538	3,425	48,442	420,795
	Beaudesert	6,112	8,522	454	2,892	28	2,153	3,459	23,620
	Ipswich	17,451	69	26,496	758	49	221	6,338	51,382
	Logan	30,610	738	1,154	23,793	108	3,411	11,552	71,366
	Pine Rivers	34,321	24	154	264	15,342	157	9,276	59,538
	Gold Coast	11,290	725	426	4,038	70	128,633	26,993	172,175
	Other	47,422	265	2,877	2,209	4,175	5,295	247,842	310,085
	Total	492,741	10,946	38,685	44,082	25,310	143,295	353,902	1,108,961

(b) Share (%) of origin population to each work destination

		Destination							
		Brisbane	Beaudesert	Ipswich	Logan	Pine Rivers	Gold Coast	Other	Total
Origin	Brisbane	82.1	0.1	1.7	2.4	1.3	0.8	11.5	100
	Beaudesert	25.9	36.1	1.9	12.2	0.1	9.1	14.6	100
	Ipswich	34.0	0.1	51.6	1.5	0.1	0.4	12.3	100
	Logan	42.9	1.0	1.6	33.3	0.2	4.8	16.2	100
	Pine Rivers	57.6	0.0	0.3	0.4	25.8	0.3	15.6	100
	Gold Coast	6.6	0.4	0.2	2.3	0.0	74.7	15.7	100
	Other	15.3	0.1	0.9	0.7	1.3	1.7	79.9	100
	Total	44.4	1.0	3.5	4.0	2.3	12.9	31.9	100

Source: ABS Census of Population and Housing 2001