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By Email: [housing@pc.gov.au](mailto:housing@pc.gov.au)  
Productivity Commission - Inquiry on First Home Ownership  
LB2, Collins Street East  
Melbourne, Victoria 8003

**Dear Sir,**

**Productivity Commission Inquiry on First Home Ownership**

The Urban Development Institute of Australia Western Australian Division (UDIA WA) is the peak body representing the urban development industry in Western Australia.

UDIA commends the initiative of the Commonwealth Government in requesting that the Productivity Commission undertake an inquiry to evaluate the affordability and availability of housing for first home buyers and we thank the Commission for the opportunity to make a submission to the inquiry.

This submission outlines the key issues of concern to the development industry in Western Australia in regards to the affordability and availability of housing for first home buyers in Western Australia. These primarily relate to:

- The increasing cost of developing lots for new housing resulting directly from growing government requirements, charges and levies.
- The inequitable taxation of the development and housing in comparison to other sectors, assets and services.
- Inefficiencies in planning approval processes at both a State and Local Government level.

In 2002 UDIA commissioned ACIL Consulting to undertake a study on the impact of development cost on housing affordability. This provides a detailed overview of the key land cost issues impact on housing affordability. A full copy of the report entitled Land Cost: the impact of land costs on housing affordability (updated in 2003) is provided at Appendix 1.

## **Government Regulation, Policy and Servicing Requirements**

The cost of developing new lots in Western Australia has increased substantially over the last two decades. This has a direct and serious impact on the affordability and availability of housing for first home buyers.

A key factor contributing to this is increasing government requirements and regulations. Planning, engineering, building and environmental requirements of State, local and semi-government authorities all impact on the cost of land development and housing.

We recognise that the objective of regulation is to protect the health, safety and amenity of the community as well as create some certainty in development outcomes, however all regulations by their nature impose cost and therefore impact on housing affordability. These are direct costs, such as additional labour and materials as well as time costs and the cost of obtaining approval.

UDIA is particularly concerned that some of the costs imposed through government regulation and policy are inequitable in that new home buyers are ultimately required to meet these costs while the benefit derived from them is enjoyed by the whole community. As such, the benefit to new home buyers from some regulations and charges is less than the costs that they impose, resulting in a welfare loss and having a substantial impact on housing affordability.

In particular there has been a substantial increase in environmental regulation and policy in recent years, which has added to the complexity and cost of obtaining approval for development. For example, the Western Australian Government's *Bush Forever*, which aims to preserve vegetation for the long term benefit of the state's community has had a serious impact on the cost of affected land developments.

Bush Forever has required land owners and developers to give up land which is perceived to have regional or local conservation significance with little or no compensation. The cost of Bush Forever is therefore ultimately borne by the new home buyer, while the whole community receives benefit. This is clearly inequitable and has a direct negative impact on housing affordability. We assert that the cost of policies that benefit the entire community should be shared equally among the community.

In addition, the ACIL Consulting 'Land Cost' report found that government requirements related to infrastructure provision are significant contributors to the high cost of developing land. It also found that public funding of infrastructure is declining, placing increased pressure on developers to fund such infrastructure - costs which are inevitably passed on to the purchaser.

In Western Australia direct servicing costs (earthworks and retaining walls, landscaping (estate), stormwater drainage, sewerage, water, underground power installation, roadworks and associated professional fees etc) contribute up to 42% of the total cost of land development and therefore markedly impact on the cost of a new home.

We believe that much of this infrastructure, particularly social infrastructure (including public open space, landscaping, recreation and community facilities) is of benefit to the whole community, not just new homebuyers and the cost of providing this type of infrastructure should therefore be equitably shared among the community to reduce pressure on new home buyers and avoid the cost of housing being pushed up by inequitable charging systems.

### **Inequitable Government Taxes, Charges and Levies**

UDIA believes that the housing and development industries in Australia have long been considered soft targets by state governments looking to increase revenue through taxation and this has had direct, negative impacts on housing affordability for first home buyers.

Government taxes, charges and levies are 'direct' charges imposed by local government and other Government bodies, including stamp duty on the purchase of land, levies, public open space (POS) contributions and land tax.

In Western Australia, these costs currently contribute to approximately 20% of land development cost in Perth - and have increased exponentially on new house and land packages in recent years. In particular, increasing stamp duty onus, additional levies and charges by both local and state government and the introduction of GST has resulted in a growing problem of double taxing which according to HIA's report '*Restoring Housing Affordability*' (released in July this year) currently adds \$6,000 to the cost of a house and land package in Perth.

We believe that stamp duty is an inequitable tax that directly hinders the ability of first home buyers to enter the property market and acts as a disincentive to economic growth in the state.

As prices of property increase each year, buyers pay more stamp duty. This tax eats into people's hard-earned deposit, and particularly for first home owners, is often an unbudgeted cost. It can extinguish the dreams of first homebuyers and totally negate the benefits of the First Home Owners Scheme grant. In recent years growth in the value of property has resulted in state governments receiving

windfall revenue from stamp duty at the cost of home buyers. This is clearly inequitable. We therefore believe that there is an urgent need for stamp duty rates to be reviewed to ensure more equitable rates that do not unfairly add to the cost of housing.

UDIA also has serious concerns about the impact of land tax on new home buyers. The Western Australian State Government has recently abolished the land tax concession that was introduced in May 1996 when the Western Australian Parliament passed the Taxes and Charges (Land Subdivision) Legislation Amendment Bill (“Act”). The main objectives of the Bill were to increase the buffer stocks of residential lots to assist in keeping land prices affordable and to smooth the seasonal pattern of decline in residential lots immediately prior to 30 June each year. UDIA has calculated that abolishing the land tax concession will add approximately \$470 to the cost of a new lot. This may not appear substantial, but we feel that this additional cost will impact on the ability of up to 1,000 West Australian families to afford a home. In addition, we believe that the cumulative impact of relatively small increases in government taxes and charges cannot be underestimated.

UDIA is also concerned about recent indications by the Western Australian State Government relating to the imposition of developer levies to pay for the provision of infrastructure to fringe locations and to meet the cost of infrastructure and services that have traditionally been provided by government. UDIA would oppose any such levies on the basis that they will:

- Have a direct negative impact on housing affordability by raising the cost of development - cost that will be passed directly to the purchaser, as has been experienced in other Australian capital cities.
- Result in a spillover of price increases on the fringe across the entire housing market and lead to a reduction in overall affordability.
- Create inequities between new and existing homebuyers/residents: new purchasers who pay additional costs for infrastructure; and existing home owners who have not paid any additional cost and will continue to benefit from the increased capital cost of their infrastructure.
- Result in inequities with the overall fiscal system: New home buyers will be forced to pay for services which for the majority of consumers are financed out of federal, state and local government revenue and will also be forced to pay taxes and municipal rates according to normal schedules. New home buyers will therefore be disadvantaged.

UDIA strongly believes that the government should use the already high level of revenue directly obtained from the industry to pay for the provision of essential services rather than further penalising new homebuyers at the expense of housing affordability.

## **Inefficiencies in planning approval processes at both a State and Local Government level**

Government also has a direct and indirect impact on the costs of developing urban land through their efficiency and timeliness in which they administer the approvals process.

Delays in planning approvals have also had an impact on the cost of land development in Western Australia. UDIA members have experienced serious delays in receiving approval for rezoning and subdivision applications which appear to be a result of both resource issues and inefficiencies in the planning approval process. UDIA WA is currently working with the State Government through a joint study to address these issues.

UDIA also believes that the growing number and complexity of regulations is reducing efficiency and adding to delays in the approvals process. In turn, these delays added to the cost of development and increased the uncertainty of current and future developments.

## **Summary and Conclusion**

In summary, UDIA (WA) asserts that affordability for new home buyers has been directly and negatively impacted by:

- The increasing cost of developing lots for new housing resulting directly from the growing number and complexity of government requirements, charges and levies.
- The inequitable taxation of the development and housing in comparison to other sectors, assets and services.
- The impact of government regulations on the efficiency of the development industry in Western Australia.
- Inefficiencies in planning approval processes at both a State and Local Government level.

We believe that the Productivity Commission is in a unique position to correct these inefficiencies and provide significant positive outcomes for first home buyers.

We thank you for the opportunity to provide comment on this issue. If you would like further information on any of the issues outlined in this submission, please contact me on (08) 9321 1101.



Yours sincerely

**MARION FULKER**  
**Executive Director**