

23rd October 2003

Inquiry into First Home Ownership
Productivity Commission
LB2 Collins Street East
Melbourne 8003
Fax 9653 2305

Dear Sirs,

Submission to First Home Ownership Inquiry

I am a practising Estate Agent with almost 30years experience in servicing the first homebuyer market in the outer Melbourne areas of the Mornington Peninsula and Dandenong Ranges.

I have also served on the local shire council and have been the council delegate on the regional planning authority.
You could say I have seen the system from both sides.

I wish to specifically address the topic outlined below as referred to in the terms of reference.

Identify mechanisms to improve the efficiency of the supply of housing and associated infrastructure-

I wish to specifically address the aspect of land supply as the main component of new housing (if you decide to build a new home what do you need? – A block of land to put it on).

As an Estate Agent, one of the most frustrating aspects of not having enough land to sell when a boom takes off is the attitude of non-developer landowners who hold subdividable land during the preceding recession.

They tend to give up all hope that their land will ever be viable as a subdivision and do not prepare for the day when the market turns around. They are reluctant to spend money on such a capital hungry non income-producing asset and adopt the siege mentality of "I'll just leave it to the kids". This is because they feel powerless and have no influence over the market.

Therefore, instead of using the recession to apply for planning permits for subdivision they sit back and do nothing.

Later, when the market picks up, they need those permits in a hurry so they can get the best price out of developers. This results in the planning system becoming overloaded.

In order to encourage such land owners to spend some of their resources on planning during the quiet times in the market when there is little demand for land and unused capacity in local government town planning departments, state governments need to make it worth their while.

This can be achieved by giving the owners of subdividable land a discount of say 50% off their land tax so that there is a built in incentive to always hold land that has a current Town Planning Permit for development.

In Victoria, we are able to sell land "off the plan", so when we get to the point where the demand for land exceeds the existing developed supply all we have to do to increase the supply is to:

- Obtain a Town Planning Permit to subdivide,
- Peg the land, and
- Sell the land prior to completing construction works.

The works are then finished after the developer has sold sufficient lots to make the development viable. This system takes a lot of the risk out of the venture for the developer whilst allowing buyers to "get into the market" before prices really take off.

Of the three steps outlined above, by far the most time consuming and frustrating is the obtaining of a permit to develop. This process is the one that generates the most angst amongst users of the planning system and is the primary cause of the reputation of local government to be sullied.

It is also the primary reason, coupled with the attitude of landowners, why the present land supply system lets down the first homebuyer.

Land Tax

On the subject of land tax, a possible off set for state governments for the discount suggested above would be to levy land tax on all **zoned** residential land whether or not it is used for primary production. The present practice of not levying land tax for this reason is the mechanism by which many developers escape the tax net until they are ready to realise the profit on their development.

Land tax is a good tax when levied on undeveloped residential land because it has the effect of increasing supply when it is most needed, i.e. when the valuation of the undeveloped site increases rapidly.

This is the very time that more supply is needed.

If a property owner is holding residential zoned land with no intention of doing anything with it in times when there is a shortage of supply, (a practice known as land banking), there should be a cost to the owner in order to encourage them to either develop or sell. After all there is a cost to society when prices get out of hand due to a lack of supply.

I would be happy to elaborate verbally on this submission.

Yours faithfully.

Chris Watt A.R.E.I.,
C.B.S.R.E., C.C.I.P.,
Principal
Ray White (Hastings) Pty Ltd