



Ref: 23.4

13 February 2004

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

Dear Sir/Madam,

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. In this capacity we thank the Productivity Commission for the opportunity to respond to the Productivity Commission Discussion Draft on First Home Ownership.

UDIA would firstly like to commend the Commission on the quality of the Discussion Draft report which has addressed a wide range of issues in a very comprehensive manner.

We would, however, like to respond to a number of the findings of the report and highlight some additional points which we believe could be given additional consideration by the inquiry. Our responses are provided below and are structured by Chapter titles.

Has Taxation Played a Role?

UDIA believes that taxation has had a direct negative impact on affordability and first home ownership and we believe that the Discussion Draft should be strengthened in this regard for the following reasons:

- The urban development and housing industries in Australia have too long been considered soft targets by state governments looking to increase revenue through taxation and this has had direct, negative impacts on housing affordability. In Western Australia alone 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.
- Table 5.1 in the Discussion Draft clearly shows that while there has been an average increase in median home values across Australia there has been an average 104% increase in stamp duty.



In recent years growth in the value of property in Western Australia has resulted in state governments receiving windfall annual revenue of over \$450 million from stamp duty at the cost of home buyers. Despite this the State Government has increased stamp duty rates in the last two state budgets, taking an additional \$166 million dollars from West Australian home buyers. This is clearly unfair and inequitable and we believe that this revenue should, at the very least, be put back into paying for more affordable housing and community infrastructure as well as improving the planning and environmental approvals systems.

- UDIA would support the suggestion at Page 79 of the Discussion Draft relating to extending the scope of the 1999 Intergovernmental Agreement on the reform of Commonwealth-State financial relations to include the abolition of stamp duties on housing and their replacement by more efficient alternative forms of taxation or sources of revenue.
- UDIA would support the replacement of the existing complex and inefficient property taxation system with a single efficient and equitable property tax. However UDIA would have concerns about increased reliance on land tax in its current form. The urban development industry has some serious concerns about the impact of land tax on land supply and release rates over the year and we believe that increased reliance on land tax could exacerbate this problem. In addition, we have some concerns regarding the calculation of land tax and believe that if there was to be greater reliance on land tax it would be necessary to ensure that it is a broad based tax applying to all properties and calculated on unimproved values.
- UDIA supports the return of GST revenues to property tax payers – which would amount to in excess of \$100 million per annum in tax cuts for Western Australian property owners each year.

Has supply got tighter?

UDIA would like to comment on the following points:

- We agree with the assertion in the Discussion Draft that consolidation policies that introduce constraints on fringe development are likely to increase the scarcity value of land.

In this regard we believe that there is an urgent need for State governments to review public policy regarding urban consolidation and land supply. There appears to be an inherent problem in most states with planning policy espousing urban consolidation without appropriate strategic planning to identify how demand for new housing will be met if urban consolidation policies are implemented. There also seems to be little

consideration of how this will impact on and accommodate consumer lifestyle choices.

- UDIA agrees with the conclusion that the scope to increase housing densities may have been overestimated. Recent planning studies undertaken in Australia (such as Melbourne's 'A More Compact City' and Sydney's 'Shaping our Cities') have found that even with a very aggressive 'pro-consolidation' stance at least one quarter of long term housing demand will be met by releasing new land on the urban fringe. In addition, recent approval and sales statistics show a decline in both approvals and sales of high density development, indicating that Australians still have a very strong preference for detached housing which cannot be simply overcome through public policy.
- The finding of the Discussion Draft that *'planning approval processes appear to involve excessive 'red tape', duplication, inconsistencies, unnecessary delays and lack of transparency all of which warrant detailed review.'*

UDIA supports this view and believes that the adverse impact of planning approval delays on the development industry cannot be underestimated. However we would like to comment that a joint industry/government review of the State government planning approval system entitled the Planning Process Review is currently being undertaken in Western Australia. The study was initiated and funded by UDIA and PCA and is expected to have mutually beneficial outcomes for industry and government.

- UDIA would support in principle the establishment of the nationally consistent best practice system to assess development plans through the Development Assessment Forum (DAF) process.
- We believe that the lack of consistency in planning processes and structures at local government level within Western Australia is also contributing to costly delays and inefficiencies in the development process. At present there are 144 separate local authorities in WA, each with differing standards and development requirements and this causes serious inefficiencies for the development industry. UDIA would support greater consistency across local authorities in Western Australia.

Are infrastructure charges excessive?

UDIA does not concur with the finding of the Discussion Draft that *'claimed savings or improvements to affordability from reducing developer charges for infrastructure appear overstated'* for the following reasons:

- While many of the costs may appear incremental, the total impact of increases in developer contributions has had a significant increase on property prices.

Research undertaken by ACIL Consulting on behalf of UDIA has found that direct servicing costs which include all land development works associated with the estate such as earthworks and retaining walls, landscaping (estate), storm water drainage, water, sewerage, underground power installation, road works and professional fees as well as the provision of public open space, recreation, education and community facilities, make up the single largest proportion of the cost of developing a residential lot in nearly all capital cities cost upwards of \$17,000 per lot (between 16% and 42% of total lot development cost).

In addition to this most developments on the urban fringe are also required to contribute to external and indirect authority requirements, which are those incurred to undertake the development but are not directly or exclusively for the benefit of those who purchase in the housing estate, such as the extension of roads and major infrastructure works, main outfall sewer, main drain outfall and external electricity supply. This can raise the cost of developer contributions to 40% to 50% of total development cost, which in our view cannot be considered insubstantial.

- UDIA does not believe that it is fair or equitable to expect new home buyers to fund infrastructure for the benefit of the wider community.
- UDIA supports the recommendation that developer contributions should be replaced by funding from general charges and revenue sources for major infrastructure that confers broadly equivalent benefits across the community, such as headworks and for community wide social infrastructure and open space.

Are industry performance and building regulations appropriate?

UDIA would support the adoption of nationwide best practice and uniform building standards and believes that this agenda could be progressed through the Development Assessment Forum (DAF).

Conclusion



We again thank the Commission for the opportunity to make this submission and we look forward to the outcome of the inquiry which we believe is a unique opportunity to correct these inefficiencies and provide significant positive outcomes for first home buyers.

If you would like further information on any of the issues outlined in this submission, please contact me on (08) 9321 1101.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Marion Fulker', is positioned above the printed name.

MARION FULKER
Executive Director