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Economic Review of Land and Housing Markets in WA
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Submission: Economic Review of Land and Housing Markets in WA

Thank you for the invitation to contribute to the economic review of land and housing markets in Western Australia. The Review is a timely initiative by the Department of the Premier and Cabinet. There is an emerging housing affordability crisis in WA that has emanated from an earlier housing supply imbalance. The Review should properly assess the appropriate Government policy response to the crisis.

The operation of markets in the residential property sector is a core issue for the Property Council of Australia. A growing number of Property Council members are directly involved in the creation of residential land and housing units, including land developers and real estate investment trusts that are diversifying into residential property investment. A primary concern for these entities is the capacity to deliver an affordable product to the market. In WA this is becoming increasingly difficult proposition.

This submission includes: a summary of the Property Councils findings in relation to housing affordability and land supply concerns; and the Property Council suite of recommendations to address these concerns. Also attached are reports that further illustrate our key findings and solutions.

Summary comments

Almost every available measure of housing affordability shows a worsening problem in Australia. Typically, Australian families now devote more than 30% of their household income to housing costs - past the point of what has traditionally been called ‘affordable’. On other international measures, Australia is now among the least affordable places in the world to buy a home.

As affordability worsens in Western Australia, the prospects are not healthy for a growing State which will demand some 600,000 new dwellings between 2001 and 2031. The The Voice of Leadership

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question of how people will afford to live in these dwellings is one of considerable concern in the property sector that is grappling to deliver an affordable product.

Limited land supply, induced by restrictive land release policies of state and local governments, is a significant driver of rising housing costs. The cost of land is accelerating ahead of the cost of housing construction and if current land release policies do not change, WA faces a serious shortfall of land supply relative to demand, commencing 2010 and worsening rapidly from there.

Government related taxes, fees, levies, charges and compliance costs are also adding enormously to the cost of new housing. These government related costs have increased by typically between $50,000 and $100,000 in the last five years alone. These costs now represent around a quarter to a third of the cost of a new house and land package.

Apart from the GST, state and local infrastructure contributions applied to new home buyers under a 'user pays' argument are adding significantly to the combined weight of government taxes and compliance. These contributions are often related to infrastructure expenses that are not directly related to provision of services to the home site and which were traditionally funded by the community. Local governments in WA regularly require developers to make contributions, including:

- The ceding of land for roads, public open space, primary school sites, drainage and other reserves;
- Construction of infrastructure works which are transferred to public authorities on completion;
- Monetary contributions to acquire land or undertake works by public authorities or others.

Environmental compliance costs have also added to the cost of new housing. It is estimated that the scheme proposed in WA, ‘5 star plus’, will add some $3,500 to the cost of a new home. New housing accounts for only 2% of the total housing stock, but is bearing close to 100% of the environmental compliance burden.

Systems of development assessment nationally are dysfunctional: applications are taking longer (up to three years) and are increasingly complex, expensive, and subject to unpredictable and undisciplined political intervention (NIMBYism). Research shows that three in four Australians support the de-politicisation of development assessment and the introduction of third party assessment panels - a move strongly resisted by local governments. Other development assessment reforms outlined in the 10 principles of the Development Assessment Forum (DAF) have 'in principle' support of most State Planning Ministers but largely remain the subject of inaction (with the notable exceptions of South Australia and ACT).

Current approaches to the taxation and regulation of new housing have created a generational divide whereby home buyers in premium established locations pay a fraction of the taxes and compliance costs paid by young families buying homes in new estates on the urban fringe.
If the warning signs are misread or ignored, governments of all persuasions and at all levels will consign future generations to an uncertain future which most likely means that home ownership will be well beyond the reach of any but the relatively wealthy.

The remedies for the worsening housing affordability situation are relatively simple: fix the systems of development assessment; move away from heavily prescriptive and regulated restrictions on land supply so that competition is created in the market and pressure on land prices is relieved; and decrease the tax and regulatory burden on new housing by moving from 'user pays' infrastructure contributions to public debt for urban public infrastructure.

The solutions

1. Local government and development assessment reform

The Property Council of Australia has joined a growing number of groups calling for reform of the local government system in WA, in particular the development assessment process. The model for council amalgamations recently proposed by the Local Government Managers Association is part of a much bigger reform process that is urgently required in WA. Red-tape bottlenecks and development assessment concerns in local government are the biggest problems in the WA development sector today.

The local government system is not coping with the enormous infrastructure and construction investment happening in WA. The State’s annual investment in infrastructure and construction has doubled from $5 billion to $10 billion over the last two years.

The admission by the Local Government Managers Association that many marginally viable local governments would struggle to maintain adequate services is very apparent in the property sector.

The recent push from local governments to introduce a new development tax in WA is an example of bad policy outcomes that will result if the core problems are not addressed.

In addition to council amalgamations the property sector is calling for the assessment of property developments to be handled by expert panels in local governments, leaving elected officials to be responsible for planning policies. This key reform is proposed by the Development Assessment Forum (DAF) - a federally funded initiative supported by all state governments. Expert panels in local government to determine development assessment is working well in South Australia and most other states are also considering a similar move. The Leading Practice Model for Development Assessment is available from the Development Assessment Forum website http://www.daf.gov.au

2. Zone enough land to meet demand
Australia is not short of habitable land. Restrictions on the supply of land are not a product of geography or even climate: they are a product of public policy. Public policy which seeks to restrict the unrestrained growth of ‘cookie cutter’ suburban housing emerged in the late 1980’s onwards. The determination to limit suburban growth grew more pronounced as governments became increasingly less willing to fund new urban infrastructure associated with growth. Public policy now typically seeks to contain growth within existing urban footprints, citing the need for more efficient use of existing infrastructure (through higher density) and attempting to prescribe this outcome by creating urban land boundaries around major population centres. This practice has had a particularly dramatic effect on the price of englobo land, and has fuelled rapid increases in housing prices - especially in the past five years - as supplies of available expansion land dries up or the prices become uneconomical.

In 2007, the Residential Development Council (a division of the Property Council) released a detailed national study into land supply. The study, prepared by consultants Macroplan, examined the forward projections of land supply and interrogated official estimates of available land - most of which are found defective (that is, most official figures over estimate available land supplies). The report’s key findings include:

- Australia’s residential land markets are not functioning effectively. The primary cause is the misapplication of urban planning and development contribution policies, which have led to distortions such as land ‘withdrawal’, property ‘hold out’, infrastructure deficiencies and higher costs for residential land buyers.

- Residential land undersupply is a major national issue which is now having long term affordability impacts, creating major market distortions and generating migration and inequality rather than urban consolidation. Limitations on land supply have already added just under $30,000 to the price of a block of land.

- A national understanding of land supply issues is required given the impact of non local factors, such as immigration and population settlement patterns. While there is much debate about the relative importance of demand factors versus supply factors in determining affordability, the following is clear:
  - First, there is no agreed, standard or consistent methodology for measuring the interaction between supply of and demand for housing in Australia.
  - Second, even though demand plays an important role in setting housing prices, the key to achieving higher levels of affordability to Australian families is to increase the supply of stock. Consequently, reliable measures of stock flow are crucial.

- Governments should establish a standard methodology for measuring the interaction between supply and demand factors, including:
  - The difference between theoretical and effective/practical land release;
  - Differentiation between land releases based on class of supply, such as unzoned, zoned, serviced etc;
  - Underlying demand;
  - The relative impact of factors impacting on demand;
  - Forecast price points based on the interaction of demand and supply; and,
- An assessment of all locales across the State, distinguishing between inner city, metropolitan, outer metro, regional, sea-change communities etc.

MacroPlan forecast land supplies based on current supply practices, and expected demand over 2005 to 2026 for the Perth metropolitan area. It found that 198,790 lots will be required in Perth but only 142,069 lots are expected to be produced, leading to a supply shortfall of 56,721 lots.

3. Fairer funding of infrastructure

The current practice of imposing infrastructure levies on developers is lazy public policy and it is indiscriminately increasing the cost of home buying. A major reason for the housing affordability crisis is the increasing tendency for governments to use homebuyers as cash-cows for the funding of a range of community services that governments traditionally looked after themselves.

In WA development levies are not mandatory and infrastructure contributions by developers are worked out with local governments on the merits of each project. At least this system is accountable.

However a uniform development levy proposed by the local government sector with tacit State Government approval, will create a perfect storm at a time when housing has never been more expensive in WA. In other states increases in mandatory development taxes have far out-stripped construction costs and are out of control. In New South Wales there are moves to wind back these levies, which are believed to be a major reason for the stagnation in the State’s housing supply chains. According to the NSW Urban Taskforce infrastructure charges are now so high that they are preventing any significant development in the State. A typical new lot in NSW growth centres bore a $110,000 government infrastructure charge, which equates to almost 40% of the retail sale price of the lot.

The Review should undertake a full review of the far-reaching implications of development levies in WA with a view to the impact of housing affordability and ruling out the imposition of mandatory levies in the State.

4. Continue the tax reform process

The tax reform process in WA should not conclude with the work of the recent State Tax Review. There is enormous scope for further significant reform, particularly the reduction and eventual abolition of stamp duty on property purchases. Stamp duty is now a significant component of housing costs and it has become a major constraint on the normal trading of real estate. As capital growth in the real estate market stabilises in the WA market most home owners will need to wait extended periods of time before they can recoup the in-going costs comprised in the cost of their existing home. For most households the stamp duty turnaround cost exceeds $50,000 which includes the recouping of the stamp duty cost on the existing property and the duty applying to the new property. This cost imposition has already impacted on housing turnover rates and it will impact on the supply of second-hand homes to the needy first home buyer market.
The Property Council would also like to endorse the following key recommendations from the recent report by the State’s Land Supply Coordinator, Marion Thompson.

(a) Delivery of residential land and housing to provide sufficient and affordable accommodation for West Australians is a critical economic and social sustainability objective. Government agencies need to give priority to land and dwelling supply as they do to major mining projects. Priority should be given to streamlining approvals for major residential subdivisions and development projects, in both ‘greenfield’ and ‘brownfield’ locations and by other measures, such as expediting infrastructure provision and government housing developments.

(b) The forthcoming State Taxation Review should examine any taxation impediments to the supply of adequate residential lots to the market and the conversion of lots into housing, particularly for owner occupiers.

(c) Timelines should be introduced to the clearance process for local government and other referral agencies. Procedures are required to accelerate clearances if timelines are not being met.

(d) Programs should be established by land developers in liaison with the Western Australian Planning Commission and relevant agencies, particularly the Department of Environment and Conservation, for major land release areas, and timeframes introduced to ensure that the necessary approvals and subdivision works are complied with in time to meet lot supply targets.

(e) The Department for Planning and Infrastructure should continue to improve and reform its statutory approval processes and planning practices, particularly introducing joint rather than sequential assessment of subdivision and structure planning proposals with local government and Memoranda of Understanding with other government agencies with the objective of expediting land supply.

(f) The subdivision approval process is currently a paper based system. Introduction of an electronic approvals system by the Department for Planning and Infrastructure that will allow tracking of applications, approval, clearance and title processes and critically, identify delays, is a land release priority. The proposed electronic land development process (eLDP) based on the Shared Land Information Platform (SLIP) should be funded with program delivery to 2011.

The task ahead for the Economic Review of Land and Housing Markets in WA is substantial and it will involve considerable cooperation from the major agencies and private sector
organisations. The Property Council of Australia is always available to assist with the Review and I look forward to further consultation.

Yours sincerely

Joe Lenzo
EXECUTIVE DIRECTOR