Affordable Housing opportunities waiting to happen

Property Council Submission to the Legislative Council’s Select Committee on Affordable Housing

The Voice of Leadership
Property Council of Australia - Tasmanian Division
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INTRODUCTION TO THE PROPERTY COUNCIL OF AUSTRALIA

The Property Council comprises the leading developers, financiers, owners and managers of investment property in Australia. Our members currently own more than $300 billion of domestic assets.

In addition, the Property Council’s members include all the major construction, professional, and trade services suppliers working within the property sector.

The Property Council has divisional representation in every State and Territory.

Property Council of Australia’s Mission

The Property Council’s mission is to champion the interests of the property sector.

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The Tasmanian Division of the Property Council of Australia (‘the Property Council’) welcomes the opportunity to respond to the Legislative Council’s Select Committee into Affordable Housing.

For the purpose of this submission, the affordable housing issue has been divided into two sections:

1. The issue of where responsibility for Social Housing, otherwise known as public housing rests; and

2. Housing affordability – the barriers which impede the ability for Tasmanians, particularly Generation Y Tasmanians, to be able to buy into the housing market.

There are three key factors to blame for declining housing affordability in Tasmania:

- A lack of land supply;
- A rapid escalation of property taxes, fees, levies and charges; and
- Slow, expensive and cumbersome local government planning schemes.

These issues also relate to social housing, however, central to the failure of social housing policy in Tasmania has been a failure of successive Governments to:

- Maintain existing public housing stocks;
- Improve existing housing stocks; and
- Build new public housing stocks.
So dire is this situation that in order to eradicate public housing waiting lists there would need to be an increase of some 30 percent, or 4000 houses, in the number of public houses available¹. However, the reality is that instead of an increase there has been a 14 percent reduction or 2000 houses sold over the last decade².

In addition, the value of public housing has increased over the last decade by some $800 million³ on a comparable number of units basis and is now worth $1.5 billion. This year the State Government proposes to spend 0.4 per cent or $6 million, of the total value of public housing on the affordable housing organisation plus $10 million of crown land and is looking to the private sector to build the shelter.

In order to address these issues of social housing and housing affordability, the Property Council recommends:

**SOCIAL HOUSING**

**Recommendation 1**: The need for a state housing policy; and

**Recommendation 2**: Significant investment into social housing and education

**HOUSING AFFORDABILITY**

**Recommendation 3**: Ensure adequate land supply to meet demand;

**Recommendation 4**: Improve Development Assessment;

**Recommendation 5**: Lower property taxes, charges and levies; and,

**Recommendation 6**: Provision of a state strategic infrastructure plan underwritten by adequate State and Local Government funding.

The Property Council looks forward to discuss these recommendations in more detail with the Select Committee.

¹ Evidence from the Housing and Community Research Unit, University of Tasmania suggests that in 2004, 21,000 Tasmanians were experiencing housing stress. Taking those figures into account along with the number of public housing properties sold, 4,000 would be seen as minimum required to address the need.

² This has been worked out from 1997 and 2007 housing stock figures

³ $800 million is made up of $660 million in capital growth and $144 million in sale revenue
In the lead up to the Federal Election, the issue which is making the headlines and dictating political commentary is housing – housing affordability, affordable housing, rental and housing stress and recently, increasing interest rates. This has seen a flurry of activity from both the major political parties, but is yet to see any concrete outcomes.

**LOCAL REALITIES**

The Residential Development Council\(^4\) has released a startling report which demonstrated that housing was “Beyond Reach” for average workers. The report examined the housing options of owning or renting a house or unit for six different household types in sixteen different metropolitan locations around Australia.

“Beyond Reach” found that owning a median price home in almost any metropolitan location in Australia now requires a combined household income of almost \$100,000. The report highlights that Tasmanians are facing a housing affordability problem and that for Tasmanian single income families the dream of owning a house is getting “beyond reach”.

This is substantiated by figures provided by the Real Estate Institute of Tasmania which shows the medium sell price in traditionally attainable suburbs of Rokeby, Clarendon Vale and Gagebrook have more than doubled in a decade.

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2007</th>
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<tbody>
<tr>
<td>Rokeby</td>
<td>$56,500</td>
<td>$182,500</td>
</tr>
<tr>
<td>Clarendon Vale</td>
<td>$41,000</td>
<td>$140,750</td>
</tr>
<tr>
<td>Gagebrook</td>
<td>$50,650</td>
<td>$135,000</td>
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\(^4\) The Residential Development Council represents Australia’s leading development companies. It was established within the Property Council of Australia in mid 2005 to promote an improved understanding of the issues affecting residential development nationally, and to promote solutions on behalf of the industry and Australian community. It’s a leadership group consists of leading people within blue chip development companies

\(^5\) Beyond Reach, Residential Development Council, August 2007
State and Local Governments are in the best position to respond to the issue of worsening housing affordability by reforming their approach to land supply, relieving the tax pressure on housing, and by fixing the systems of development assessment in local government.

In addition, the responsibility for social housing decline rests squarely at the feet of successive State Governments. Therefore, it is not surprising that the Federal Liberal Government has thrown open the Commonwealth State Housing Agreement to private and non government sectors as well as state and territory governments to provide alternative models for social housing development.
**RECOMMENDATION 1:**

*The State Government should immediately develop a State Housing Policy.*

The Tasmanian community deserves a wider range of housing choice, a better integration of housing, employment, educational outcomes, public transport, community services and recreational opportunities. However, this requires a new and smarter approach to planning and development of future land and housing thereby, improving housing affordability and accessibility across all community sectors.

The Property Council recommends that the State Government work with key stakeholders to develop a State Housing Policy which incorporates the following items:

- Priorities for affordable housing and social housing;
- Land supply and urban renewal;
- Development processes – development assessment forum for a new class of project called residential housing which provides for assessment by an independent panel of experts and takes it out of the realm of council politics. It is envisaged that this expert panel would substantially reduce the development assessment time frame;
- Clear statement of intent concerning private and public partnerships with respect to affordable/social housing;
- Incentives to incorporate affordable housing in new inner city developments; and
- Ensure that Metropolitan planning is conducted across the state.
**Recommendation 2:**

**Increase government investment into social housing and education.**

The recently released ABS Census data highlighted that around 2,000 Tasmanians were homeless on any given night and the waiting list for public housing is around 2,500 with at least 700 on the waiting list for Category 1.

The history of State Governments in addressing social housing is damning. In the period of 1943 to June 1967, 10,161 houses and flats were built. Thirty years on in 1996/97 there were 14,056 public housing properties with a capital value of $840 million or an average price of $60,000 per property.

Since then there has been a reduction of 2,400 properties. The 11,679 remaining are now worth $1.5 billion with a deferred maintenance liability of $80 million, as at March 2007. Based on a conservative estimation of $60,000 per property, there has been a 220% increase in capital value since 1996/97 – in other words each property is now worth $132,000.

In addition, the revenue realised from the sale of the 2,400 properties is estimated to be about $144 million.

Since 2003 affordable housing strategy announcement, 402 public housing properties have been constructed and 433 properties have been upgraded or replaced.

Since the announcement of the Affordable Housing Organisation in December 2005 and the promise of 700 properties, six properties have been constructed and tenanted.

The State Government’s proposal to spend 0.4 percent of the total value of the public housing asset on affordable housing places a question mark over the Government’s commitment to social housing. In addition, it appears to have adopted a position whereby the Government assumes the private sector can somehow step in and fix the situation despite the lack of commercial viability of the proposals.

The reality is the State Government is sitting on a significant asset, but for some reason chooses not to reinvest in this area. This is obviously a policy decision made by Government and it would appear that Government seeks to use the significant growth in the value of the asset to prop up other parts of its state budget. If Government wishes to properly address social housing it needs to accept that there are significant resources available for public housing and review expenditure in line with this acknowledgement.

In addition, State Government’s attempts at Public Private Partnerships (PPPs) have been based on a lack of understanding about commercial imperatives and have not encouraged private investment. Attracting institutional investors requires a subsidy from Government to

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7 Legislative Council Hansard, Wednesday 6 October 1997
8 Figures from Legislative Council Hansard Estimates, Thursday 21 June 2007
9 This is to the end of March 2007. Figures from Legislative Council Hansard Estimates, Thursday 21 June 2007
10 Figures from Legislative Council Hansard Estimates, Thursday 21 June 2007
supplement the capacity of the rent paying occupant in order to provide a rate of return that is competitive with other asset classes which carry significantly less risk.

There is a need to actively address the issue of Tasmanians requiring social housing holistically and arguably the issue of education is crucial to the discussion. The Business Council of Australia (BCA) recently released its report Restoring Our Edge in Education which calls for a rethink about the ways to improve and lift the quality of the school system, if Australia is to improve the standard of living.

According to the report there are two challenges to this

- The number of young people who only achieve minimum educational outcomes; and
- The shortage of young people with knowledge and skills required to participate effectively in the modern workforce.

This is not new nor surprising for Tasmania, indeed as the State Government has articulated on a number of occasions there is a need to urgently address educational attainment levels.

The Property Council supports the BCA comment that high quality education is crucial for future innovation, productivity and increased standard of living and therefore education must be part of any discussion and approach to social housing.

The Property Council recommends:

- The State Government has a $1.5 billion asset in public housing which is an increase of $800 million over the past decade. In order to maintain and grow, what has been one of the best if not the best money making investments the state has made in the last 10 years, it should invest significant funds:
  - Maintain public housing;
  - Improve public housing;
  - Build new public housing; and
  - Improve educational outcomes for social housing areas.

This will not only mean better housing for low income Tasmanians but also see the public housing asset continue to grow in value.

11 Restoring Our Edge in Education: Making Australia’s Educational System its Next Competitive Advantage, prepared for the Business Council of Australia by Professor Geoff Masters, Chief Executive Officer, Australia Council for Educational Research, August 2007
RECOMMENDATION 3: Ensure Adequate Land Supply to Meet Demand

The State and Local Government need to acknowledge that their land release policies are limiting land supply and act as a significant driver of rising housing costs. To reduce pressure on land prices, it is essential not only to ensure adequate total supply volumes, but for government to understand the need for competition in various locations and for various types and sizes of lots demanded by Tasmanians.

The Property Council recommends the State Government should:

- Closely examine their assumptions on available developable land, and to agree to a consistent methodology for monitoring land supplies;
- Conduct an audit of surplus government lands and release these with incentives for affordable housing; and
- Ensure new land releases are synchronised with the provision of infrastructure

RECOMMENDATION 4: Improve Development Assessment;

Despite repeated calls for reform of local government development processes, there has been little improvement in terms of the time it takes to assess development applications, or in the complexity and increasing politicisation of development assessment, for example the Star Street housing project. This adds to the cost of housing as well as the ability to address the social housing gap.
29 councils and 43 planning schemes, equates to a lack of state wide certainty and consistency leading to conflicting assessment schemes and variations in the upfront lodgement requirements of developers and systems of development assessment.

In March 2006, the Residential Development Council released a report\textsuperscript{12} into levels of public confidence in the efficiency of development assessment. While the findings are national, there is strong correlation at a State level. The findings found that:

- Nowhere in Australia did half or more of the population think that local government politicians had done a good job of determining development applications in their community; and
- Generally two thirds of Australians believed that the politics of development assessment should be divorced from planning and therefore, supported the introduction of professional panels to consider development applications.

This report confirmed the Property Council’s\textsuperscript{13} call for an independent planning expert authority with qualified and experienced planning personnel as a decision making body. The creation of an expert panel would address a number of issues such as a shortage of professional officers and expertise in a number of councils, politicised decision making and timeframes.

The Property Council strongly recommends that the State Government should as a matter of priority:

- Reform and standardise development assessment, providing for independent assessment panels and other fast tracking incentives proposed by the Development Assessment Forum which has “in principle” support of all State Planning Ministers. It’s time that the Tasmanian Government fast tracks the reform that is required.

**Recommendation 5:**

**Lower property taxes, charges and levies;**

Taxes levied on property are a major constraint on housing affordability.

It has been the position of the Property Council that as a matter of priority there should be a reduction of Tasmania’s property taxes and local government charges and levies. Currently, Tasmania is the highest land taxing state in Australia which acts as a barrier to property investment and is anti-competitive.

Land tax is also a tax on shelter as it is passed on through rental prices and with 33% of Tasmanian residential properties being rented, it also acts as a barrier to affordable rent.

Tasmanians with property valued from $25,000 to $349,000 are paying land tax of 0.55% of the property value above $25,000, while those Tasmanians with property worth $750,000 and over are faced with paying $10,000 plus 2.5% of the value.

The current property tax system is now completely out kilter with major mainland states such as...

\textsuperscript{12}Local Government Research: Survey Results, Residential Development Council, March 2006

\textsuperscript{13}Initiatives for Hobart Region Property Council of Australia (Tas Division), June 2005
as Western Australia, Victoria and New South Wales. For example, Victorians pay no land tax up to $224,999 and only 0.2% of the value in excess of $225,000 and only $8,440 plus 1.3% for property valued between $1.62 million to $2.69 million.

Put simply, if you own land with a value of $150,000 in Tasmania you will pay the same amount of land tax as owning $550,000 worth of land in Victoria.

In the last decade, the State Government has seen a massive $41 million increase in land tax revenue, from $27 million in 1996/97 to $68 million predicted for 2007/08.\footnote{All revenue figures have been collated from Tasmanian Treasury budget papers.}

Stamp duties over the same period have also seen a dramatic increase of $114 million from $119 million in 1996/97 to $233 million in 2007/08.

The revenue collected over the past decade from property taxes has provided $2.44 billion to State Government coffers. This makes the $95 million\footnote{$95 million is what the State Government has committed to the Affordable Housing Strategy and the Affordable Housing Organisation} provided for affordable housing seem pitiful in comparison.

Tasmania’s property sector continues to suffer from an unfair and decrepit tax system. Property owners pay a disproportionately higher rate of tax than other sectors, which impedes prosperity and affordability.

Therefore, the Property Council recommends that:

- Property taxes be reduced;
- Stamp duties should be phased out as they act as a barrier to home ownership;
- Affordable housing projects should be land tax exempt; and
- As a starting point the State Government should review property taxes and local government charges and levies.

**RECOMMENDATION 6:**

**The provision of a state strategic infrastructure plan underwritten by adequate State and Local Government funding.**

There has been infrastructure neglect in this State for some time, which impacts directly on economic growth.

The Residential Development Council have argued one of the reasons governments have increasingly restricted the supply of developable land has been to curb their infrastructure spending responsibilities\footnote{Boulevard of Broken Dreams: The Future of Housing Affordability in Australia, Residential Development Council, February 2007}.
In a landmark study, National Housing Infrastructure Costs Study\textsuperscript{17} highlighted the policy where state and local governments are demanding the costs of any infrastructure associated with residential development be met by the residents living in new apartments or houses, where a developer has supplied the stock to the market.

The existence of headwork charges and/or community development levies is a fundamental shift in the way public facilities are funded. Twenty years ago infrastructure was funded through the tax system and public debt, now there is a move towards “user pays” system. Many commentators say this has pushed the burden of increasing infrastructure costs on future generations, while the rest of the community benefits.

There is a requirement for the State Government to develop a strategic infrastructure plan and adequately fund the maintenance and provision of new infrastructure. Planning should be carried out strategically, rather than through the current inefficient command and control approach. This would deliver the infrastructure and land use policies necessary for the social and economic future of Tasmania.

Therefore, the Property Council recommends:

\begin{itemize}
\item Funding for future infrastructure is by government borrowing, not through the planning system where the onus eventually falls on the homebuyer; and
\item That the State Government work on developing a strategic infrastructure plan for the economic and social future of Tasmania.
\end{itemize}

The challenge and the opportunity for Government is to address the structural barriers to shelter, not to provide band aid solutions.

\textsuperscript{17} National Housing Infrastructure Costs Study, Prepared for the Residential Development Council by Urbis JHD, November 2006
RESOURCES

Beyond Reach, Residential Development Council, August 2007
Annual Report 0506, Department of Health and Human Services,
Initiatives for Hobart Region Property Council of Australia (Tas Division), June 2005
Legislative Council Hansard, Wednesday 6 October 1997
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Local Government Research: Survey Results, Residential Development Council, March 2006
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Tasmanian Budget Papers 1996/97 – 2007/08