

November 8, 2010

Nationalising Australia's urban affordable housing problem

Australia's cities are clearly in the midst of an acute shortage of affordable housing. This fact was recently affirmed by the one and only treasury in the industrialised world to have avoided recession during the GFC. The Australian Treasury's Red Book mentions the decreasing ability for Australians to "purchase or rent affordable housing", while also lamenting the "market inefficiencies and distortions" which have contributed to the current sorry state of "housing supply".

BY PETER SHERRIE

Such sentiment is widespread among developers countrywide, yet there remains a group of dissidents who refute any claims of a supply crisis and instead choose to demonise industry associations, such as the one I represent, as gold diggers perpetuating the myth of undersupply.

Prominent figures within the real estate community have claimed that if we are indeed in a state of undersupply, why are we not seeing a scourge of homelessness, why have we not seen lower rental vacancies? This superficial analysis fails to consider such factors as the growing number of young potential buyers or renters who have responded to the affordability crisis by embarking on an extended stay with their parents. Never mind the Salvation Army's recently released *Perceptions of Poverty* report which elaborates on the growing hardship, including increasing homelessness, caused by declining housing affordability. Those who believe that there is an adequate stock of affordable housing coming through should study the findings of the National Housing Supply Council's *State of Supply Report 2010* which estimated an undersupply of 178,400 dwellings in Australia in the year to June 2009.

Essentially supply is dismally failing to keep up with demand and the *State of Supply* report expects demand for housing to grow over the next 20 years with an additional 3.2 million dwellings needed to meet underlying demand by 2029. High demand is chiefly driven by the record levels of immigration and despite the recent rhetoric against a "Big Australia", policymakers should come to terms with what Treasury's Red Book calls inevitable population growth.

It would, however, be a grave mistake to characterise the supply crisis as one whereby the development industry lacks the capacity to keep up with overwhelming immigration-driven demand. The industry is both highly capable and more than willing. The sad truth is that developers are increasingly being hamstrung by state and council imposed 'developer levies' (infrastructure charges), while costly delays in planning approval processes are crippling the industry. The Red Book clearly expresses the need to urgently address these barriers, while Treasury Secretary Ken Henry's *Australia's Future Tax System* report also identified the need to review these constraints.

Julia Gillard recently addressed the Queensland Media Club trumpeting her and the Australian Labor Party's status as the custodians of effective economic reform. Disappointingly she failed to mention how her government would address the much-needed reform in the housing sector. However, there does seem to be a slowly increasing willingness

to address housing price distortions at a national level. The Council of Australian Governments has undertaken a review of capital cities planning systems with the findings due to be released in November 2011. In addition, the Productivity Commission is running a project on *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*.

Developers will be pleased to see these critical issues being taken up at the federal level, particularly those in Queensland and New South Wales where, in recent years, productivity has declined and basic housing unit costs have greatly increased on the back of massive hikes in government fees and charges.

While the Victorian State Government has had a degree of success in its management of land supply, the majority of developers would agree that the increasing difficulty of bringing land to market at an affordable price is a national problem requiring a national response. Until now the Federal Government has made several attempts to address housing affordability. However, boosts to the First Home Owner Grant and first homebuyers savings scheme are only short term fixes and do not tackle the wider problem of affordability. The only way to confront the crisis is to facilitate an adequate and consistent level of supply in capital and regional centres.

So where to start? The Urban Development Institute of Australia has been calling for the creation of a Ministry of Urban Development and Cities, reporting directly to the Prime Minister. In the wake of the August Federal election, a new portfolio for regional development was created, but the absence of an urban equivalent is astonishing. After all, “over the next 20 years, around two-thirds of the increase in Australia’s population is projected to occur in capital cities”..... and these are Treasury’s words, not mine.

***Peter Sherrie** has been involved in the property development industry for 18 years and is currently the Director of Excel Development Group Pty Ltd. He has been on the Urban Development Institute of Australia’s (UDIA) national council since 2004 and is the current UDIA National President.*