



Submission to the Senate Inquiry into Affordable Housing

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Australia (UDIA)

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1 UDIA in Brief

The Urban Development Institute of Australia (UDIA) is the peak body representing the interests of the development industry around Australia, acting on behalf of thousands of members across the country from a wide variety of fields.

UDIA aims to secure the economic prosperity and future of the development industry in Australia, recognising that national prosperity is dependent on our success in housing our communities and building and rebuilding cities for future generations.

The property development industry is a major contributor to the Australian economy.

- It is the fourth largest industry in Australia in terms of its contribution to GDP. It directly accounts for 7.3% of GDP and, taking into account indirect impacts on the rest of the economy, delivers an additional 6.2% of national output.
- Almost one in ten Australian workers are employed in property development, with the industry directly accounting for over 975,700 jobs (9.1% of the workforce). In comparison, the mining industry employs less than 2% of the workforce. Property development employs a further 749,600 people through its indirect impact on the rest of the economy.
- As a conservative estimate, the property development industry, both directly and through associated industries, generated in excess of \$29.7 billion of State and Federal taxes in 2007/08.

Source: Property Insights (2010) – Property Development Industry Economic Impact Study

2 Introduction

The Urban Development Institute of Australia (UDIA) welcomes the opportunity to provide this submission to the Senate Economics References Committee Inquiry into Affordable Housing.

As one of the wealthiest countries in the world, affordable access to safe and secure housing should be one of the most basic rights enjoyed by all Australians. Unfortunately, this is increasingly not the case.

Rapid increases in the cost of housing over the last few decades have greatly outstripped increases in income, putting not only low income and vulnerable households, but also a growing number of middle income households, under tremendous financial strain.

Australians have a strong preference for home ownership, and widespread access to affordable home ownership has long been a fundamental facet of modern Australian society. It offers greater security, financial self-sufficiency, enhanced social capital and a greater sense of connection to the community. Affordable housing and home ownership is essential to the health, wellbeing and ongoing sustainability of Australian communities.

Affordable housing is also a matter of key importance to the Australian economy. High housing costs, and more broadly high land costs, flow throughout the entire economy, increasing the cost of doing business, destroying jobs, damaging productivity, and reducing the international competitiveness of Australian businesses. The high level of charges on new housing, a major contributor to poor housing affordability, also damages activity and employment in the property development and construction industries, one of the largest sectors of the Australian economy.

Despite the gravity of the situation, and its critical importance to Australia's social and economic fabric, successive governments at both state and federal levels have time and time again, failed to undertake meaningful action to solve Australia's housing woes. The causes of, and solutions to, poor housing affordability have been outlined comprehensively in multiple past inquiries and reports into housing affordability and home ownership undertaken by Senate Committees, the Productivity Commission, and COAG among others.

In short, Australia does not build enough new housing to support its growing population, creating a severe housing shortage, which is exacerbated by inadequate investment in urban infrastructure, high taxes and charges, and excessive red tape on new housing construction and development. UDIA believes there is an urgent need for governments at all levels to take the necessary action to resolve these problems, and restore housing affordability.

3 Recommendations

- The Federal and State Governments to collaborate to establish a national strategic plan, providing funding for new urban infrastructure, and requiring cities to maintain a rolling supply of development-ready land to meet demand driven by population growth.
- The Federal Government should work with State and Territory Governments to phase out stamp duty on property purchases over a five year period, and replace them with more efficient taxes such as a broadening of the GST.
- The Federal Government should regularly audit Commonwealth owned land to determine if ongoing possession by the Commonwealth is its best use, and if not, investigate making it available for urban development.
- The Federal Government should continue with its plan to streamline the environmental approval process to create a ‘one stop shop’.
- Governments should favour funding and financing approaches that spread the cost of infrastructure out over extended time frames, rather than impose it up front, such as through developer contributions.
- The Federal Government should consider consolidating local infrastructure-enabling programmes, such as the Housing Affordability Fund and Building Better Regional Cities, into one major local infrastructure fund, and commit to ongoing and increased funding to such a scheme.
- The Commonwealth should substantially retain the National Rental Affordability Scheme (NRAS), and commit to increased and ongoing funding to the scheme and an expanded dwelling target.
- The Federal Government should abandon the practice of cost recovery under the EPBC Act, and increase funding to manage the conservation of species listed under the Act.

4 Housing Affordability in Context

The issue of housing affordability has a high profile within Australian society, and there is considerable concern that already poor housing affordability is getting worse. In examining the state of affordable housing in Australia, it is worth considering housing affordability in the historical context, the extent to which housing is currently unaffordable, and why affordable housing is an important issue for Governments.

What is ‘housing affordability’

Housing affordability at its most basic level refers to the level of income required to attain a reasonably adequate standard of housing. Housing may be considered to be unaffordable if it requires a high proportion of household income (above 30% is a common guideline) or if the level of housing expenditure impacts on the ability of households to meet other basic needs.

Whilst ‘housing affordability’ for rental households is simply a function of rents, for owner occupier households, affordability depends predominantly on mortgage repayments at prevailing median house prices, and the size of the deposit required to enter the market.

Is Housing in Australia Unaffordable?

UDIA is firmly of the belief that home ownership in Australia is highly unaffordable for many households, particularly those looking to enter the market, and has been for a number of years.

A common indicator of trends in affordability is the ratio of house prices to household income, which has grown considerably over recent decades by most measures. Estimates range from current house prices at 4-6 times median household income depending on income assumptions, but most indicate an approximate doubling in the ratio since the early 1990s. The simple explanation for this is that whilst income growth over the last 15-20 years has been strong, growth in house prices have been much, stronger, leading to worsening affordability.

Worsening affordability is also reflected in falling rates of home ownership, with fewer households owning their homes outright, and an increasing proportion of households forced to rent. This trend is particularly stark when considered in light Australia’s aging population, which other things equal should result in a growing proportion of households with outright ownership.

Why is affordable housing important?

Affordable housing, and in particular affordable home ownership, is critically important to the long term sustainability of households, the Australian economy, and government finances.

Affordable home ownership provides individuals with financial and social stability, allowing them to plan for long term decisions such as having children or forming a household, and provides an added measure of certainty and security to their future. Households that struggle to meet their housing needs are likely to have a lower quality of life, and may struggle to satisfy their need for other essentials such health care, education, and social engagement.

Highly un-affordable housing has significant and damaging impacts on the economy. The need for households to spend increasing proportions of income on housing reduces spending on other goods and services in the economy, and high housing and land prices flow through to businesses, increasing their cost base and reducing their international competitiveness. Poor levels of affordability also reduce activity in the development and housing construction industry, threatening economic growth and employment.

Finally, affordable home ownership will be a major factor in limiting the demands of population aging on Government finances. Government spending on pensions in Australia is able to be considerably lower than in many other countries, because high levels of home ownership amongst retirees have made their housing costs very low. Increasing numbers of people entering retirement reliant on social housing or private rental as a result of their inability to achieve home ownership will result in rapidly escalating costs for government.

What is the role of Government in Affordable Housing?

UDIA believes that all levels of Government have a critical responsibility in ensuring all Australians have access to appropriate and affordable housing, because of how fundamentally important it is to the community and economy, and also because government policy has such a powerful and wide reaching impact on affordability.

State and local governments have a primary role to play in ensuring an adequate supply of land, providing sufficient local infrastructure and services, and ensuring an efficient and effective planning system to support new housing. At the same time, the Federal Government has a major role in funding urban infrastructure, supporting affordability and social housing programs, and in undertaking long term strategic population growth planning.

Unfortunately the recent history of housing affordability policy in Australia has been marked by the refusal of governments to acknowledge their role, and a tendency to try and defer that responsibility to someone else. As the UN Special Rapporteur on Housing noted on a visit to Australia in 2007:

“One of the main factors accounting for this lack of response on behalf of the Government seems to be generated by the lack of clarity in the common responsibility between the Commonwealth and the states to provide adequate and accessible housing for all. It seems that each level of authority ascribes the responsibility for the failures to the other. This hampers an effective, urgent and long-term strategy to address the situation, which in some cases could be qualified as a humanitarian crisis.”

UDIA believes that ensuring an adequate supply of affordable housing is a matter of national significance, and achieving an effective solution will require willingness and coordination at all levels of government.

5 Factors Affecting Housing Affordability

UDIA is strongly of the view that Australia does not build enough new dwellings to support population growth for many years, and that the country now suffers from a significant underlying shortage of homes, pushing up both rents and house prices.

In order to address the root of Australia's housing affordability problems, Governments absolutely must address the supply side constraints on new housing production, such as the insufficient supply of new urban land, inadequate investment in urban infrastructure, high taxes and charges, and burdensome red tape and regulation.

Population Growth and Land Supply

Australia currently has one of the highest population growth rates of any developed country, and this is likely to remain the case into the foreseeable future. UDIA believes that well managed population growth can provide many benefits to the Australian economy, such as creating economic growth and opportunity, alleviating labour and skills shortages, and offsetting the fiscal pressures of Australia's aging workforce.

However to realise these benefits, population growth must be planned for, with the necessary land, new housing and infrastructure to support population growth. Doing so will ensure that population growth is managed sustainably and for the benefit of the entire community.

Unfortunately, state and federal governments have largely failed to support Australia's rapidly growing population, by failing to ensure sufficient new land is available for housing development, and by not investing sufficiently in new urban infrastructure such as transport, utilities and community facilities. This has meant that the supply of new housing has struggled to keep up with increasing demand, and both rents and house prices have risen dramatically as a result.

In addition to damaging housing affordability, inadequate land supply and investment in infrastructure risks damaging Australia's international competitiveness and productivity, through increased congestion, and higher land prices.

A key problem with the existing relationship between the Commonwealth and State Governments is that the Commonwealth has a strong incentive to facilitate population growth, as it stands to benefit through increased GST, income tax and company tax revenue, whilst State Governments, which bear greater infrastructure and services costs, have an incentive to resist growth.

UDIA believes that there is a critical need for the **Commonwealth and State Governments to collaborate to establish a national strategic plan, providing funding for new urban infrastructure, and requiring cities to maintain a rolling supply of development-ready land to meet demand driven by population growth.**

An additional option available to the Commonwealth to improve the supply of urban land is the release of surplus Commonwealth owned land for use in housing. Many Commonwealth sites such as military instalments and CSIRO sites are underutilised, disused or surplus to requirements, and could be better used as housing.

Due to their age, many of these sites are in central capital city locations with good existing access to community infrastructure such as schools, jobs and transport infrastructure, making them perfect for infill housing development. Selling surplus lands would also have the added benefit of generating revenue for the Commonwealth, and eliminating the costs associated with the long term management of unneeded land.

UDIA believes the Government should **regularly audit Commonwealth owned land to determine if ongoing possession by the Commonwealth is its best use, and if not, investigate making it available for urban development.**

Red Tape and regulation

Excessive and unnecessary regulation and red tape is another significant contributor to the cost of new homes, and acts as a considerable barrier to new investment. Areas of particular concern for the development industry are costs associated with the application of the EPBC Act and delayed and restrictive planning regimes.

State and Local Government Planning, Zoning and Approvals Processes

Delayed, complex, and restrictive planning regimes at the state and local government level are often a major barrier to the supply of new housing, and can contribute considerably to the affordability problem by increasing costs.

The holding costs involved in the urban development process are often very high, which means that development projects are usually very sensitive to time delays, as they blow out holding costs. Unfortunately planning, zoning and approvals processes in many cities can be extremely slow, adding considerably to the cost of new housing. The 2011 Productivity Commission Report on planning, zoning and development assessment found that across Australia's five largest cities, it can be as long as a decade from the commencement of rezoning to subdivision approval and the installation of infrastructure, indicating the need for planning system reform.

There is an urgent need for state and local governments around the country to work together to **undertake major planning system reform, to increase the supply of urban land and reduce delays and uncertainty associated with zoning, planning and approvals processes.**

EBPC Act

UDIA is fully supportive of the goals of the Environment Protection and Biodiversity Conservation (EPBC) Act, and we believe that if applied efficiently this legislation can contribute towards achieving the triple bottom line of sustainability.

Currently, under the EPBC Act, development projects impacting on any matters of national environmental significance (MNES) must be approved by the Federal Government, as well as undertake the approvals process required at both state and local government levels. This duplication of the approvals process can add considerable delays and costs, yet the same outcomes can be achieved through a streamlined, comprehensive state approvals process.

UDIA supports the creation of a single, streamlined environmental approvals system to reduce the red tape associated with duplicated systems, without harming environmental outcomes. **The Government should continue with its plan to streamline the environmental approval process to create a ‘one stop shop’.**

UDIA continues to be concerned with the level of cost recovery undertaken by the Commonwealth in the application of the EPBC Act, as it is inequitable and unjustified where the community should expect a Government agency to function within budget funding. Ultimately costs recovered from developers under the EPBC Act must be built in to the cost of a new home, increasing prices, reducing supply and worsening affordability.

The Government should abandon the practice of cost recovery under the EPBC Act, and increase funding to manage the conservation of species listed under the Act.

Taxes and Charges on New Housing

A major contributor to the high cost of housing in Australia, and subsequently affordability pressures in recent years is the escalating level of taxes and charges on new homes. The development and construction industry is one of the most heavily taxed sectors in the Australian economy, with various government taxes and charges accounting for up to 44% of the price of a new house in some cities. Many of these taxes are economically inefficient and inequitable, further discouraging investment, contributing to Australia’s housing shortage, and worsening housing affordability. The damaging nature of much of the taxation on new property has been recognised in a number of housing and tax reviews undertaken in recent

years, such as the Henry Review of Australia's taxation system, and the 2008 Senate Inquiry into affordable housing.

Whilst a large proportion of the taxation on property is levied by state and local governments, their replacement with more equitable and efficient taxes will only be achieved with cooperation and leadership from the Commonwealth, due to the vertical fiscal imbalance experienced between Australian Governments.

Stamp Duty

Stamp duties are an economically inefficient tax that contributes considerably to the cost of new homes. In 2010, the Henry Tax Review stated that "there is no place for stamp duty in a modern Australian Tax system", and recommended the Commonwealth Government facilitate the transition to less costly and more equitable taxes.

When levied on property, stamp duties distort the efficient allocation of housing and land by penalising owners for moving to properties that best suit their needs. This has the effect of damaging economic productivity by constraining labour mobility, as the Productivity Commission recently reaffirmed in its study on Geographic Labour Mobility. This propensity to lock people in to certain locations also has the potential to increase transport congestion and costs, as individuals are forced to commute rather than move to areas closer to employment due to high transaction costs.

Stamp duties are also a highly unreliable source of revenue for state governments, as they rely on the volume of property transactions, which are highly variable. With property transactions at sustained low levels over the past several years, state government budgets have been hit hard. A more reliable source of revenue is needed.

The Federal Government should work with State and Territory Governments to phase out stamp duty on property purchases over a five year period, and replace them with more efficient taxes such as a broadening of the GST.

Developer Levies/Charges

Developer levies, or developer contributions, are upfront charges levied on developers for the provision of new or upgraded infrastructure. They typically take the form of infrastructure provided and paid for by the developer, a gift of land from the developer, or a monetary payment made by the developer to the government, ostensibly for the provision of infrastructure.

Developer contributions have gained increasing importance as an infrastructure funding mechanism as a result of:

- Increasing demand for and cost of infrastructure

- Fiscal constraints on local governments as a result of rate capping and reduced grants from state and federal governments.
- A shift in broader expectations away from government financing and funding of infrastructure toward cost recovery from users/beneficiaries of infrastructure.

Their implementation is justified based on the belief that those who directly benefit from infrastructure should cover the costs of its construction. To be fair and effective, developer contributions should be charged proportionately to the benefit received by the beneficiary of the infrastructure, and should be transparent in their calculation and application.

Unfortunately all too often this is not the case and developer contributions are unreasonable and excessive, damaging both business and housing affordability.

Developer contributions are frequently opaque and unjustified in their application, and there may be no clear connection between the cost of the infrastructure provided and the contribution, to the extent that the contribution may be well in excess of the cost of the infrastructure it is supposed to pay for. Additionally in many cases developer contributions are used to pay for infrastructure that benefits the wider community (for example trunk roads and utilities infrastructure upgrades). In this case, developers and ultimately new home buyers are being forced to subsidise the rest of the community.

A further problem with developer contributions is that where the developer is required to build and bear the upfront cost of public infrastructure, local governments and councils have a strong incentive to set unnecessarily high engineering and construction standards in order to minimise their ongoing maintenance and replacement costs. Where these reduced costs aren't reflected in lower council rates, new home buyers effectively end up paying for their infrastructure twice, once through a higher up front house price, and again through recurring rates.

It is important to note that whilst developer contributions are nominally paid for by developers, the cost is reflected in the price of new homes, and thus ultimately borne by new home buyers. UDIA estimates that the upfront infrastructure costs imposed on new housing in many instances can be as much as \$65,000, which is a considerable proportion of the cost of a new home, and a substantial hurdle for those aspiring to home ownership.

Governments should favour funding and financing approaches that spread the cost of infrastructure out over extended time frames, rather than impose it up front, such as through developer contributions.

Timely and Sufficient Provision of Urban Infrastructure

One of the most fundamental challenges to providing affordable housing to support Australia's growing population is ensuring that adequate trunk and local infrastructure such

as roads, utilities, telecommunications and community facilities are in place to support urban development and growth. In many cities, the release of serviced land for new housing is significantly delayed or prevented by inadequate provision of infrastructure, further constraining housing supply and exacerbating affordability pressures.

Two Federal initiatives which have been successful in alleviating the cost pressures associated with providing infrastructure for urban development are the Housing Affordability Fund (HAF) and the Building Better Regional Cities (BBRC) initiative. The HAF provided funding to address rising infrastructure costs in new areas as well as holding costs brought on by long planning and approvals times, and the BBRC provided funding for housing infrastructure in regional cities.

Both the HAF and BBRC have been highly successful at reducing the cost of infrastructure in new areas, and have been strongly supported by industry as a way to increase the supply of serviced land and improve housing affordability. The Commonwealth should **consider consolidating local infrastructure-enabling programmes, such as the Housing Affordability Fund and Building Better Regional Cities, into one major local infrastructure fund and commit to ongoing and increased funding to such a scheme.**

The National Rental Affordability Scheme (NRAS)

The National Rental Affordability Scheme was launched in 2008 to provide financial incentives for the construction of dwellings to be rented at below market rates to low and moderate income households. After getting off to a slow start, the NRAS has emerged as a viable solution to delivering much needed affordable rental dwellings.

Since its inception, the NRAS has been successful in providing tens of thousands of homes affordable to those on low incomes, with thousands more currently under construction. It also provides investors with an attractive investment return, and represents good value in government spending compared to alternatives such as directly funding the construction of social housing.

UDIA recognises that there is room for improvement in the implementation and administration of the NRAS, but fundamentally believes that it provides a productive partnership between the Federal Government, State Governments and the private sector to supply affordable housing. As such, **UDIA urges the Commonwealth to substantially retain the NRAS, and commit to increased and ongoing funding to the scheme and an expanded dwelling target.**

6 Concluding Comments

UDIA would like to thank the Senate Economics Reference Committee for the opportunity to provide this submission into the Inquiry into Affordable Housing.

UDIA would welcome the opportunity to discuss any aspect of this submission in greater detail. For further information, please contact UDIA National on 02 6230 0255 or at udia@udia.com.au