

An industry report into affordable home ownership in Australia



The Urban Development Institute of Australia

NSW Extract

Incorporating the UDIA/Matusik Affordability Measure 2007



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NATIONAL EXECUTIVE SUMMARY

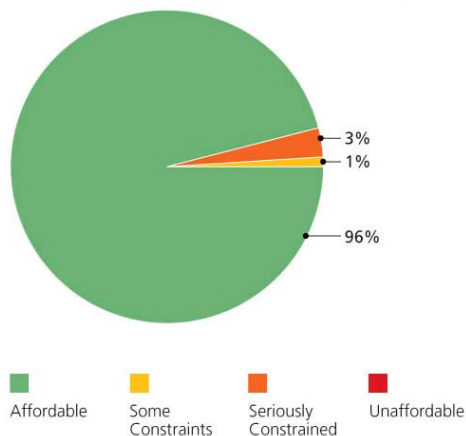
This report has been prepared by the UDIA as a contribution to the debate on solutions to address the housing affordability crisis in Australia today. Commencing with an analysis of housing affordability and the importance of home ownership, this report analyses affordability using the UDIA/Matusik Affordability Measure developed by UDIA Queensland and Matusik Property Insights in 2006.

Research was undertaken across 70 designated population centres in Australia with centres being categorised as being either affordable, having some constraints, being seriously constrained or unaffordable on the basis of the capacity of households on average incomes to purchase specified percentages of the housing sold in their local area. Those centres where there is a capacity to purchase between 31 and 50 per cent, between 16 and 30 per cent and less than 15 per cent respectively during a specified period were considered as having some constraints, being seriously constrained, and unaffordable respectively. Markets were considered affordable where those on average incomes can purchase more than half of the houses in a centre. Data was analysed for calendar years 2001 and 2006.

This research has confirmed the validity of concerns about affordability and added a further dimension to the affordability indices used in Australia.

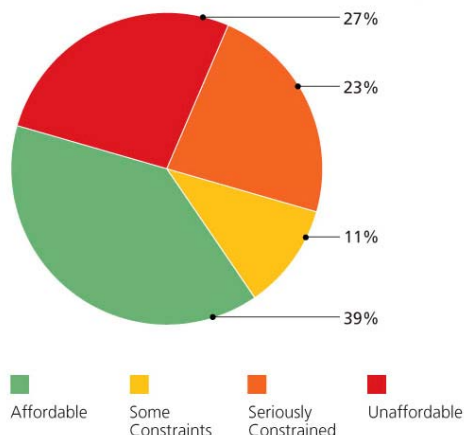
The following charts (Figures 1 and 2) show the general transformation across Australia for the 70 centres studied from affordable in 2001 to a situation where there is a lack of affordability in 2006.

Figure 1
2001 - National Detached House Affordability (% Areas)



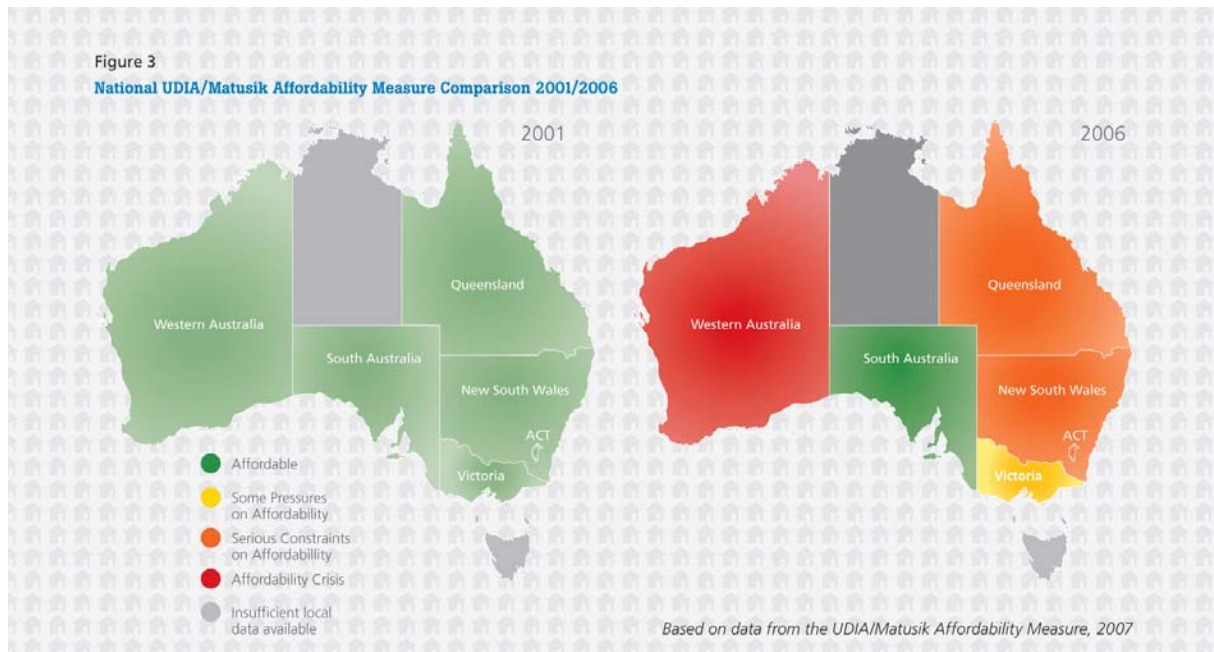
Based on data from the UDIA/Matusik Affordability Measure, 2007

Figure 2
2006 - National Detached House Affordability (% Areas)



Based on data from the UDIA/Matusik Affordability Measure, 2007

The heat maps (Figure 3) identify the current situation in each state based on the performance of centres in those states.



This report also examines the current situation in each mainland Australian state and the Australian Capital Territory from the perspective of each state branch. It also details strategies recommended by UDIA state branches to address diminishing levels of affordability.

Subsequently, the report identifies the issue of housing affordability as being one of national significance and requiring coordinated national, state and local government actions to address it.

The UDIA has analysed a broad range of options that would improve affordability if implemented. This report makes a series of recommendations that have arisen out of those options and these are detailed in the report.

In summary, the view of UDIA is that there is an overwhelming need for the development and implementation of strategies and plans to deliver joint national/state initiatives to improve housing affordability in Australia.

NEW SOUTH WALES

Recommendations

The UDIA NSW has made the following recommendations to address housing affordability:

1. *Dwelling supply*

- Provide for a market-led continuous dwelling supply on both the urban fringe and existing centres.
- Investigate mechanisms for rental or income assistance in high amenity, high property value areas to ensure housing and employment access for lower income workers providing essential services.

2. *Planning*

- Support the preparation and implementation of comprehensive planning strategies that provide certainty to where, how and what costs are applicable for future development.
- Government regulations, processes and implementation need to be streamlined to reduce time and costs.
- The financial impact on housing affordability should be considered before any new government regulation or policy is introduced. This may be in the form of a regulatory impact assessment.
- Consideration should be given to a single agency being tasked with the responsibility of coordinating the whole of government to resolving the delivery of affordable and appropriate infrastructure.

3. *Infrastructure*

- Research be undertaken to investigate and recommend viable alternatives to developer contributions as a means of financing and delivering affordable and appropriate infrastructure.
- The New South Wales Government use public forward investment in infrastructure to create amenity and foster demand for housing in new release areas and existing centres.
- Cost benefit analysis be undertaken or regional infrastructure funded by Government taxes and charges rather than infrastructure levies.

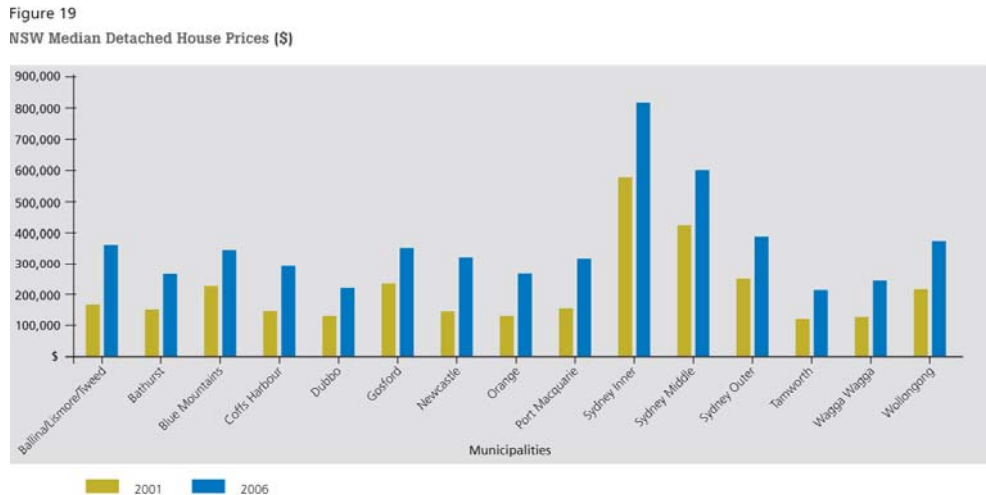
4. *Government taxes and charges*

- There be no new or increases in taxes and charges on the property sector pending an assessment of the collective impact of all taxes and charges across all levels of government on housing affordability.
- Regional and trunk infrastructure should be paid for by the whole region through general taxation from GST and stamp duty.
- Where regional infrastructure is provided by a non-government entity, the provider be compensated for the full cost of provision.
- The GST revenue collected from new housing and renovation activity should be applied to fund infrastructure provision.

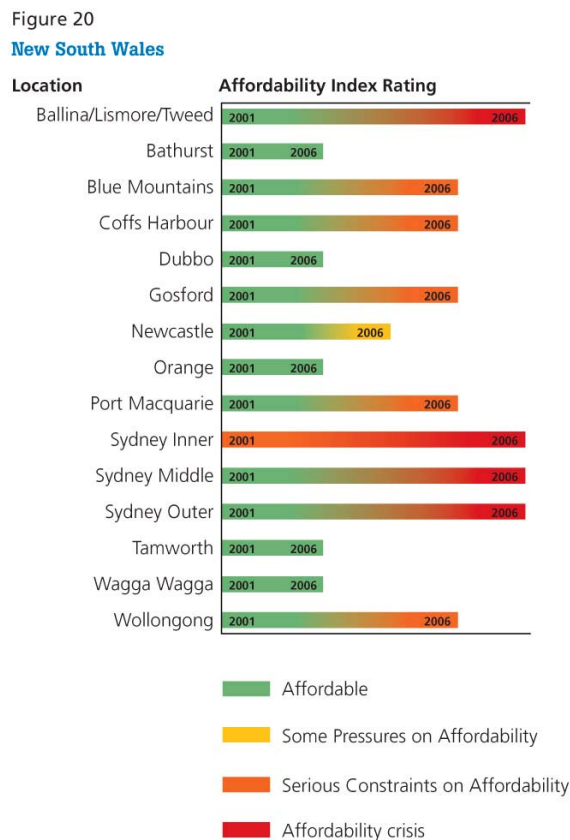
SECTION 1 – OVERALL STATE SITUATION

Housing affordability in New South Wales

The following graph shows the median detached house prices in a number of locations across New South Wales for 2001 and 2006 and the substantial increase in prices that occurred in the period.



The level of affordability of home purchase decreased markedly in the period from 2001 to 2006 throughout New South Wales and is graphically displayed in the following diagram (Figure 20).



New South Wales is home to more than one-third of Australia's population with Sydney in particular resident to over 4.1 million people. New South Wales presents a relatively complex picture on housing affordability and often leads Australia in housing challenges.

Sydney has the unenviable status as Australia's least affordable city with mortgage repayments 40 per cent higher than the national median and rents 31 per cent more, while incomes in the city are only 12 per cent higher than the national median.

From the 2006 Census Sydney's median home loan repayment reached \$1800 a month, 42 per cent more than in the 2001 census and 77 per cent higher than in 1996. The median weekly rent in Sydney has risen by 50 per cent in the decade to \$250 a week. See Figures 21 and 22 below.

Figure 21
Median Rent, Loan Repayments, Household income: NSW, Sydney, Australia

	NSW	Sydney	Australia
Median Weekly Rent	\$210	\$250	\$190
Median Monthly Loan Repayments	\$1517	\$1800	\$1300
Median Weekly Household Income	\$1036	\$1154	\$1027

Source: 2006 Census (ABS), 2007

Figure 22
Median Rent, Loan Repayments, Household Income: Capital Cities

	Sydney	Melbourne	Brisbane	Adelaide	Perth
Median weekly rent	\$250	\$200	\$220	\$165	\$180
Median monthly loan repayments	\$1800	\$1300	\$1300	\$1083	\$1300
Median weekly household income	\$1154	\$1079	\$1111	\$924	\$1086

Source: 2006 Census (ABS), 2007

New South Wales residents in general also continue to pay higher rents and have the highest median mortgage repayments in Australia. Given the current shortfalls in dwelling supply and decreasing rental vacancy rate, this trend is likely to continue.

Economic and market trends

Economically, New South Wales has been significantly underperforming against the rest of Australia and this has impacted quite significantly on urban development markets and investment within the state. Housing production in the state has fallen dramatically in the last five years from a high of 49,590 dwelling starts in 2002 to 31,240 in 2006.¹

This level of production is approximately 8,000 dwellings below the underlying demand of 40,000 new houses per annum and has had negative implications for both the economy and housing affordability. This continuing undersupply has led to an estimated shortage of supply of 30,000 dwellings.² This shortage in new dwelling supply is also putting increased pressure on the rental market, where vacancy rates have fallen from 3.8 per cent to 1.4 per cent in the past three years, and a significant building shortfall in 2007 is expected to force vacancy rates to thirty year lows below 1 per cent by the end of 2007.³

Urban development currently contributes approximately \$15 billion worth of activity to the State economy each year, while construction and property and business services combined account for around 20 per cent of New South Wales employment.⁴ UDIA NSW estimates that the underproduction of housing is costing around \$4 billion to the New

1 HIA Economics Group, 2007.

2 AV Jennings, 2006.

3 Economics@ANZ, ANZ Housing Snapshot 2007.

4 Policy Agenda, UDIA NSW, 2007.

South Wales economy annually and contributing to unfavourable economic and social outcomes.

In the decade from 1996, population in New South Wales grew 9 per cent, more than two percentage points below the national average and more than 50 per cent less than Queensland. Despite population growth in the last decade below the national average on a percentage basis, New South Wales still grew by an average 47,601 persons per year over the five years to 2006.

Sydney

The influence of Sydney in the supply of housing in New South Wales cannot be understated. It is also a leading indicator of cultural changes within Australia. *“Sydney is the epicentre of tectonic shifts in the Australian social landscape, with an increasingly diverse ethnic and religious mix, an ageing population, a continuing decline in the traditional family unit and big changes in the way we live and house ourselves”*.⁵

Sydney is often perceived to be a victim of its own success. Sydney as a dynamic financial and creative centre creates considerable demand and attracts a proportionally high number of talented and comparatively affluent workplace participants. The 2006 census median weekly household income levels, however, reveal a more humble heartland. There is also a commonly held belief that the city's status as a global competitor automatically dictates declining housing affordability commensurate with places such as Tokyo, London, New York and San Francisco. However, Sydney's context is different and poor affordability need not be the case.

UDIA NSW acknowledges that this may require a change in perceptions by first homebuyers such that a large house may no longer be a realistic option as a first home for many buyers. Nevertheless, it should not preclude access to the housing market. UDIA NSW believes that home ownership in NSW and especially Sydney should be a reality for everyone.

⁵ Sydney Morning Herald, “Good or Bad? Sydney is the mover and shaker”, 2007

SECTION 2 - CONTRIBUTING FACTORS

UDIA NSW has identified the following key causal factors of declining housing affordability:

- Constrained dwelling supply;
- Inequitable infrastructure provision and funding;
- Excessive government taxes and charges;
- Inefficient governance and inadequate planning; and
- Consumption issues.

This section discusses factors that are considered to have impacted development and driven the affordability crisis.

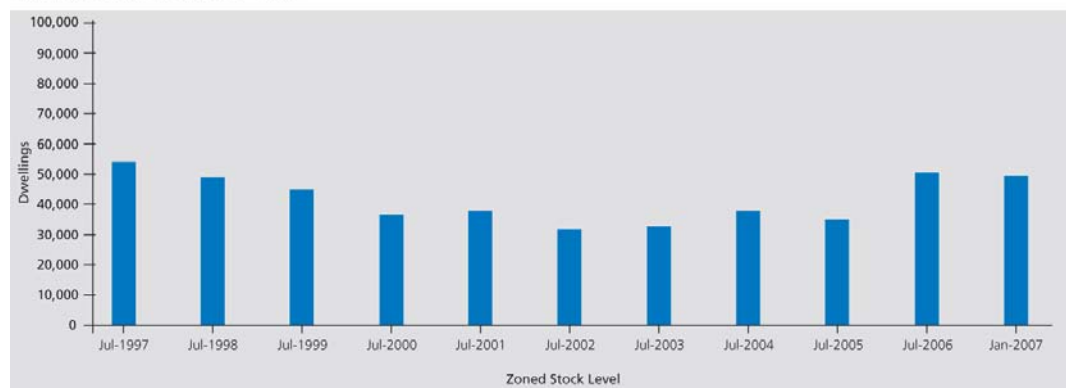
Constrained dwelling supply

In the mid 1990s the New South Wales Government adopted a largely ideologically driven and widely contentious policy of urban consolidation. Pursuant to this policy objective, the supply of greenfield land was constrained and price signals established to deter fringe development.

The policy has had an unprecedented impact. Today nine new dwellings are being constructed in Sydney's existing urban footprint for every new dwelling on the fringe. The policy, however, has exacerbated the decline in housing affordability as infill dwelling production alone has not proved capable of satisfying the underlying demand.

The table below demonstrates the tightening of Sydney's supply of greenfield land by the New South Wales Government.

Figure 23
MDP Zoned Stock Levels 1997 - 2007



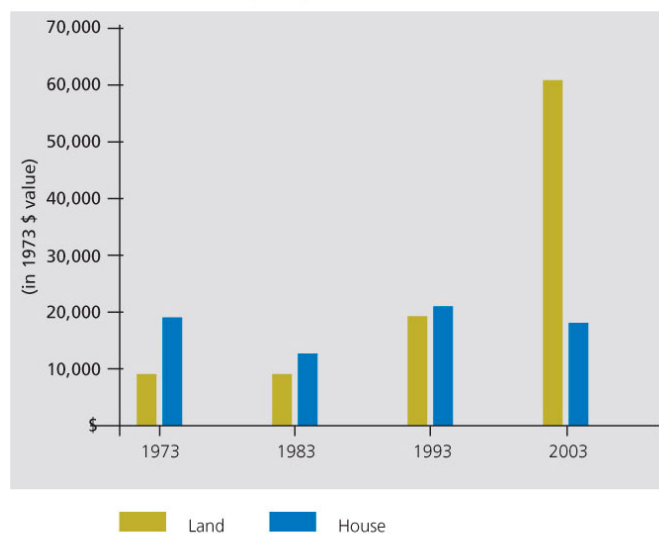
Source: NSW Metropolitan Development Program, 2007

Typical market laws of demand and supply suggest a direct causality between dwelling supply and price inflation. The shortage of land supply in Sydney, in a high demand market, has contributed toward a price escalation. HIA (2006) reported that the price of land in Sydney has increased by 330 per cent between 1993 and 2006.

The lack of housing supply has led to dramatic price escalation in Sydney and New South Wales. The chart below shows that house building costs have remained remarkably consistent over the 30 year period whereas land has increased markedly so that it now represents almost 80 per cent of the cost of buying a house and land package.

Figure 24

House and Land Costs Sydney 1973 - 2003 (\$)



Source: Policy Exchange, 2005

Demand for land on the urban fringe in Sydney is driven principally by the population in the west, and the preference for detached housing on individual lots. The supply of land to this market has been constrained yet underlying demand remains for around 8,000 detached housing lots per annum.

The NSW Government's Metropolitan Development Program (MDP) 2007 identifies 32,825 potential dwellings from land that is already zoned and serviceable. Industry has estimated however that only about one tenth of this stock will actually be delivered to market in 2007⁶. A range of factors were identified as contributing to this problem; planning approval delays, delays in infrastructure provision, high raw land costs, and development levies.

The establishment of the Growth Centres Commission and a commitment by the New South Wales Government to increase zoned and serviced stocks on Sydney's fringe and in the regions may assist to alleviate housing affordability in Western Sydney and regional New South Wales. However, the problem for those areas is more an issue of servicing charges and vendor expectations.

Nevertheless, Sydney remains a large and complex system. The release of more fringe land cannot alone solve housing affordability across the entire city. Any solution needs to look more broadly at dwelling production and the diversity of supply.

Sydney is appropriately described as the City of Cities. There is strong disparity between housing markets in east and west Sydney which presents essentially two different cities and a further challenge to addressing housing affordability. House prices in eastern Sydney are not dependant on land supply, but are a product of amenity and access.

The premium property values are afforded by amenity and access to the harbour. Similarly, access to employment, entertainment and creative networks drive Sydney's real estate prices. Housing prices in broadest terms generally fall as a function of their distance from the harbour and CBD .

⁶ HIA, 2007

⁸ "Not all just houses, home buyer preferences and developer contributions in new release areas in Sydney", UDIA NSW and University of Western Sydney, 2006.

The disparity in housing prices between inner, middle and outer Sydney is particularly pronounced. The Productivity Commission in 2004 revealed that in Sydney between 1994 and 2002, the real median house price five kilometres from the city increased by more than 100 per cent, while at 40 kilometres it increased by less than 50 per cent.

The demand for housing in the eastern divide of the city is therefore clearly not a product of constrained land supply on the fringe. There is also evidence that the demand for inner city living is being exacerbated by the aspirations of Generation Y which continue to value access and amenity above space.

Sydney requires a more sophisticated approach to addressing housing affordability beyond simply releasing more fringe land. Locating in the eastern suburbs is not always a choice with many professions being location dependent but which do not afford a competitive salary to gain access to that market.

Measures such as rental assistance or a living allowance may be appropriate to ensure that people who work in lower income jobs are not confined to fringe suburbs. The *London Nurses Living Allowance* provides a suitable example of a measure that should be investigated to ensure greater access to housing in the east for lower income earners.

Inequitable infrastructure provision and funding

A considerable proportion of total urban infrastructure costs in Sydney are now being funded through levies. This is having a significant impact on housing affordability.

The intent of levies is value capture. Value capture is where the Government seeks to internalise the lift in land value resulting from a decision to rezone for residential purposes. The levy is expressed as a developer contribution but works to suppress the residual paid to the vendor.

The Growth Centres in south-west and north-west Sydney are expected to provide 160,000 dwellings over 25 years. A State Infrastructure Contribution (SIC) has been applied to Sydney's Growth Centres for assets such as hospitals, rail lines and schools. A levy of \$485,000 per hectare for residential land has been imposed to provide for 75 per cent of the cost of significant infrastructure at a total cost of approximately \$7.8 billion.

It is anticipated that this practice will be extended throughout New South Wales and recently Wollongong has implemented a 1 per cent state infrastructure levy on construction costs in the city centre. Industry has serious reservations regarding any expansion of SICs without the necessary governance structures and appropriate transparency and accountability being applied to the process.

These levies are in addition to existing local government charges referred to as section 94 developer contributions. These charges are often in excess of \$40,000 per lot and are broadly levied to pay for local infrastructure such as open space, community facilities, parking, libraries, landscaping and childcare centres.

There is a misconception that these charges are developer contributions. The reality is that developers must make a return to their shareholders, remain viable and be competitive with other investments such as shares. While this applies to all industries the development industry experience is that the cost of the levies is not being addressed by lower development site expectations by vendors given the tightly regulated land supply market. The possibility of full levy transfer to the homebuyer in Sydney is also limited as prices have risen so far that there is an effective affordability ceiling.

UDIA NSW undertook a survey of new residents in recent developments to gauge their views on these charges. The study revealed a wide lack of understanding about developer contributions amongst consumers. When asked to prioritise facilities, homebuyers valued roads and parks above other facilities and were willing to pay a premium for their timely delivery but when presented with the section 94 contribution, they expressed surprise at the scale of the charges. There is a fair degree of community spirit in their responses but the homebuyers' motives are not entirely altruistic. The subtext of the responses is that when presented with the s94 contribution, they express surprise at the scale of the charges but on reflection accept that they could afford it. This premium creates the perception of exclusivity. Furthermore, the contributions fund community facilities which enhance the value of the neighbourhood and their asset.⁸

The quantum of the levies is partially a product of greater aspirations and government standards. Prior to the 1970's many subdivisions were lucky to get a footpath and improved facilities were developed from government borrowings and taxes paid over time. Today buyers expect, and regulation requires, a range of high quality community assets delivered immediately and payment is also required up front. In a market under pressure and as depressed as presently in New South Wales, levies are proving to be powerful impediment to the further supply of new dwellings.

In many cases once development feasibilities have taken account of the suite of levies and charges applied to the land, the residual value, or the amount the development can afford to pay the vendor, is below the value of the existing use, which in most cases on the urban fringe is an agricultural use. Accordingly vendors are withholding their land from the market, further constraining supply.

In the last 10 years infrastructure charges per lot for new housing developments has increased by \$56,167 or 466 per cent in Sydney.⁹ This increase is directly attributable to the SIC and Section 94 charges. Yet similar charges are not being imposed in established areas in Sydney where the government is required to invest in infrastructure (e.g. Royal North Shore Hospital, Epping to Chatswood rail link). The current user pays model applied in New South Wales has both serious locational and intergenerational inequities.

Levies are also a significant impediment to dwelling supply in urban renewal areas. Urban renewal by definition seeks to revitalise a neighbourhood. This requires forward investment by government or private equity to lift the area's amenity and generate local demand. Levies, such as Section 94, work against this urban renewal starting. They require developers to accept significant risk by committing to development in an area where the current economic life is exhausted, then pay for improvements to lift the amenity before sales have been achieved.

This is manifestly counterintuitive and contrary to world's best practice. To improve housing affordability requires dwelling supply to meet demand. This cannot occur if there are serious disincentives to investment and real impediments to supply such as levies.

Excessive government taxes and charges

The increased and expanded infrastructure levies are being imposed at a time when governments are also the beneficiary of a growing property tax base, via the GST (which only applies to new housing), stamp duty and council rates revenues because of the rising costs of housing.¹⁰

⁹ UrbisJHD.

¹⁰ UrbisJHD.

“Indirect taxes on new land and housing have increased much faster than general inflation over the last decade. By way of example, the consumer price index has increased by 25 per cent in the past 10 years, whilst taxes on new housing and land development have increased by more than 300 per cent.”¹¹

UDIA NSW offers the following illustration of the collective impact of taxes and charges on housing affordability on Sydney’s Growth Centres on the urban fringe. A practical financial ceiling for a first homebuyer in Sydney may be around \$300,000 to \$350,000 (requiring a combined household income around \$90,000 per annum). Should such a new house and land package be available to meet this ceiling (which it is not), the following provides a breakdown of the charges which would be applied to such a new home by all three tiers of Government:

Figure 25

Quantum of Taxes and Charges on House and Land Packages	
\$2,000	Stamp Duty (Developer)
\$17,000	Stamp Duty (Sale)
\$33,000	State Infrastructure Contribution
\$40,000	S94 Contribution
\$12,000	Sydney Water Charges
\$35,000	GST
\$139,000	Total

Source: UDIA NSW, 2007

The taxes and charges would account for around 40 per cent of the cost of the house and land package. However, in practice after the charges and basic development costs, no funds would remain for payment to a vendor to purchase the undeveloped land or as a profit to the developer. Clearly the collective impact of the taxes and charges is excluding first homebuyers as participants in the market.

The GST is applied by the Commonwealth to the land development process at various stages and redistributed to the states as revenue. The imposition of the GST in development means that the New South Wales State Government is effectively double dipping on the development process.

UDIA NSW contends that a more equitable process of the collection and distribution of the GST is required to help alleviate the housing affordability issue in New South Wales. The GST collected from the urban development process should be applied to assist regional and state infrastructure provision.

Inefficient governance and inadequate planning

Decision making delays are detrimental to housing affordability. Urban development viability is affected by, and sensitive to, holding costs. This is primarily due to the interest on loans to complete the project. Experience has shown apartment production has been particularly affected by delays, as has urban renewal in regional cities such as Wollongong, Liverpool and Newcastle and other medium to high density residential construction projects.

¹¹ HIA, “Restoring Housing Affordability: The Housing Industry’s Perspective”, 2003.

The Department of Local Government's Comparative Information on Local Government Councils 2004/05 documents a sustained failure of many Sydney Metropolitan Councils to determine development applications within the 40 days prescribed under Environmental Planning and Assessment Act 1979. The report records that development groups 1, 2 and 3 which cover most urban renewal activity, have a mean time to determine applications of 74 days. The highest recorded mean time elapsed for determination was 119 days. These figures are necessarily misleading as they skew the real results for major projects. A majority of development applications counted are for minor projects such as carports and renovations. It is the major proposals representing significant investment and risk that are much more likely to suffer protracted delays.

UDIA NSW recognises that urban renewal projects may be controversial at the local level. Nevertheless, if a council's Local Environmental Plan and strategic policies indicate support for such development then the development assessment process should reflect that with practice and yield consents in a timely manner.

The New South Wales Minister for Planning recently observed that New South Wales typically determines 120,000 development applications per year while Victoria assesses 50,000 development applications in the same period. UDIA NSW contends too many minor matters are being dealt with in the assessment process and a greater degree of development types should be determined as exempt and complying development. Similarly referrals are causing inordinate delays with the planning process impacted by the competing agendas of government agencies.

An increased focus on strategic planning particularly at the local level is required to improve development certainty. Prompt decision making would then assist in improving dwelling supply by relieving impediments such as excessive holding costs and therein improving housing affordability.

Consumption

Australia has just completed the fifteenth year of continuous economic expansion brought about by generally low interest rates and strong global performance. However this growth has not been evenly spread across Australia. The New South Wales economy has been significantly under performing in comparison to the rest of Australia, and has been in danger of recession.

New South Wales building approvals have taken a severe downturn, recently below 1,500 per month, down over 40 per cent from the peak in 2002. Current estimates are a shortage of supply of 30,000 dwellings. This decrease in new dwellings supply is putting increased pressure on the rental market, which has plummeted to record lows of 1.5 per cent vacancies and is expected to continue down.

The major reason that house prices have risen so much relative to incomes over the past decade is that interest rates halved (comparing the second half of the 1990s with the second half of the 1980s). Lower interest rates have enabled households to service much more debt, and this has greatly increased their purchasing power. The fall in interest rates therefore fuelled purchases and increased competition in the market, driving up prices.

Consumers are having direct impacts on the market through their lifestyle choices and shifting expectations. The strong capital gains experienced in home ownership have led to expectations of sustained growth in housing prices and inertia amongst existing home owners who do not want the value of their asset to decrease.

The challenge for decision makers is therefore to increase accessibility for home ownership without compromising existing house prices. This is particularly important within the context of record high household debt. Any dramatic fall in housing prices would further expose the vulnerable in society to repossession in the event of mortgage default.

SECTION 3 - UDIA NSW APPROACH

Recommendations

The UDIA NSW has made the following recommendations to address housing affordability:

1. *Dwelling supply*

- Provide for a market-led continuous dwelling supply on both the urban fringe and existing centres.
- Investigate mechanisms for rental or income assistance in high amenity, high property value areas to ensure housing and employment access for lower income workers providing essential services.

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- Support the preparation and implementation of comprehensive planning strategies that provide certainty to where, how and what costs are applicable for future development.
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 - The GST revenue collected from new housing and renovation activity should be applied to fund infrastructure provision.
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