

# The great lock out: The impact of housing and land regulations in Western Australia

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## Introduction

Housing, like all products, has its price set by the interplay between demand and supply. While the prices of existing houses often have a premium to reflect the value of their position, new house prices are fundamentally determined by costs and these are also reflected in prices of established houses.

New house costs comprise four elements: raw land costs, infrastructure availability, the costs of preparing land for housing and the costs of building the house itself. The Perth region of Western Australia has plenty of low cost land suitable for residential housing development. The topography of the region is relatively flat, with sandy soils, meaning low costs of land and residential development. The region is also relatively well supplied with trunk infrastructure and it shares with other Australian urban areas skilled and competitive urban development and house building enterprises. Housing should therefore be cheap.

However, government interventions in the housing market restrict the supply of land for housing and raise its costs. The public policy interventions in land supply and development markets are numerous. Centred on planning and environmental policies, they include land release, land preparation, development and building approvals. These restrictions are the key measures that impair the ability of first home buyers from achieving the 'great Australian dream' of home ownership by increasing housing costs. They are accompanied by other cost-inflating measures including taxes and building regulations.

This paper examines impediments to housing affordability in Western Australia. It establishes that government regulations have a pervasive impact in restricting the supply and raising the cost of new housing which, in turn, places upwards pressure on all house prices. Relaxing current regulatory requirements would considerably reduce house prices in Western Australia.

On the basis of our own estimates, a new house priced at \$380,000 would be as much as 38 per cent cheaper if regulatory constraints on land were removed and other regulatory and tax impositions reduced. This would lower a typical home owner's costs by some \$852 per month, a saving that is far greater than that involved in the first home owners' grant system.

## Trends in Western Australian housing market

Housing in Perth in recent years has become expensive. In 2006, *The West Australian* newspaper published an article stating that 'Perth's property prices move inexorably closer to surpassing Sydney as the most expensive in the country.'<sup>1</sup> High house prices consequently led to concerns about housing affordability and, in particular, the capacity of young people to buy their first home.

According to the REIWA, the Perth median house price rose from \$154,100 during the March quarter 2000 to a peak of \$472,000 in the December quarter 2007. In inflation-adjusted terms, this represents a 102 per cent increase over the period. Though all Australian housing markets experienced an increased regulatory intensity that squeezed new supply and caused price escalations, Perth during the December quarter 2007 had become the second most expensive housing market in Australia, after Sydney. Perth had outstripped prices in Melbourne by 17 per cent, and exceeded Hobart's median house price for December 2007 by a whopping 86 per cent. Prices have since fallen markedly as the Western Australian economy has headed into recession earlier and more deeply than other states' economies. That said, the underlying supply inflexibilities that created the price excesses remain to be tackled.

Table 1 indicates the prices of median houses and apartments around Australia.

**Table 1: Summary of median house and other dwellings prices**

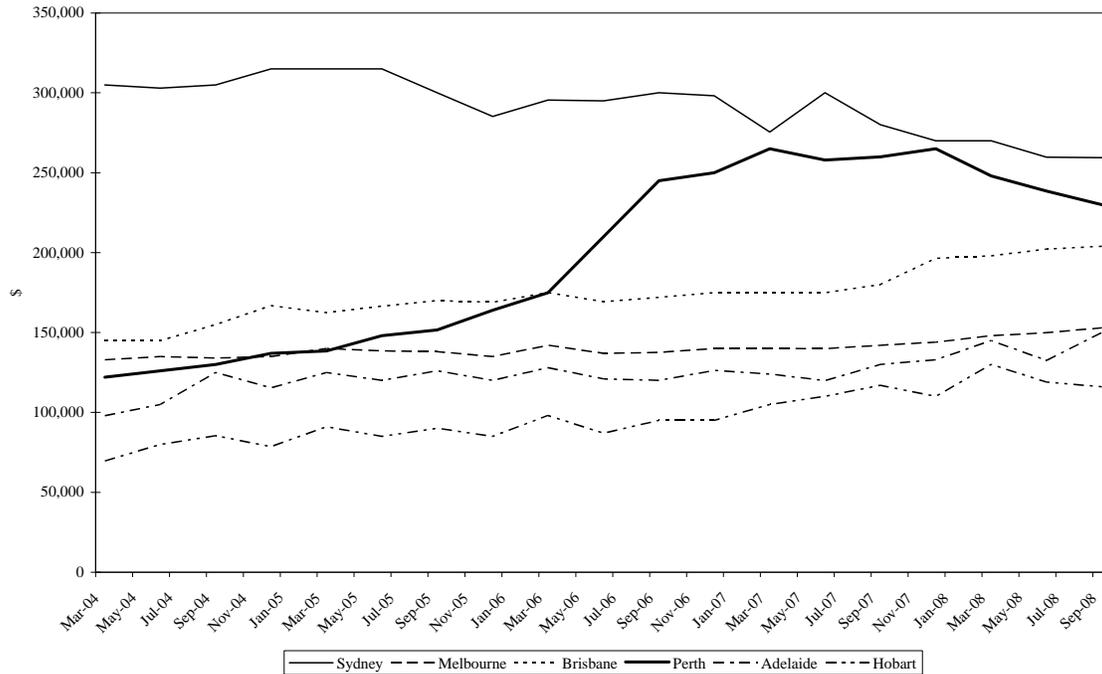
	Median house price (Dec 08)	Change over quarter	Change over year	Median other dwelling price (Dec 08)	Change over quarter	Change over year
Sydney	\$536,000	0.3%	-3.9%	\$363,000	-0.3%	-3.3%
Melbourne	\$426,000	-0.9%	-9.8%	\$365,000	-1.1%	-5.2%
Brisbane	\$398,000	-2.9%	-2.9%	\$349,750	-0.1%	2.3%
Adelaide	\$360,000	-1.4%	1.4%	\$285,000	2.9%	1.8%
Perth	\$412,500	-5.2%	-12.2%	\$345,000	-2.0%	-9.9%
Hobart	\$321,800	0.3%	-2.5%	\$250,000	2.0%	-7.4%
Darwin	\$432,000	1.4%	4.7%	\$372,200	7.2%	20.5%
Canberra	\$435,000	0.0%	-8.9%	\$360,250	1.2%	-1.3%
Australia	\$442,038	-1.3%	-6.2%	\$353,575	-0.3%	-3.4%

Source: REIA, 2009, 'Market responding to interest rate cuts and stimulus measures', Media release, 16 March.

<sup>1</sup> Dawn Gibson, 2006, 'Average house close to \$500,000', *The West Australian*, 4 November.

These figures also reflect the easing of land prices which have fallen faster for Perth (-11.5 per cent) than other capitals. Figure 1 shows the average block prices across the major Australian capitals.

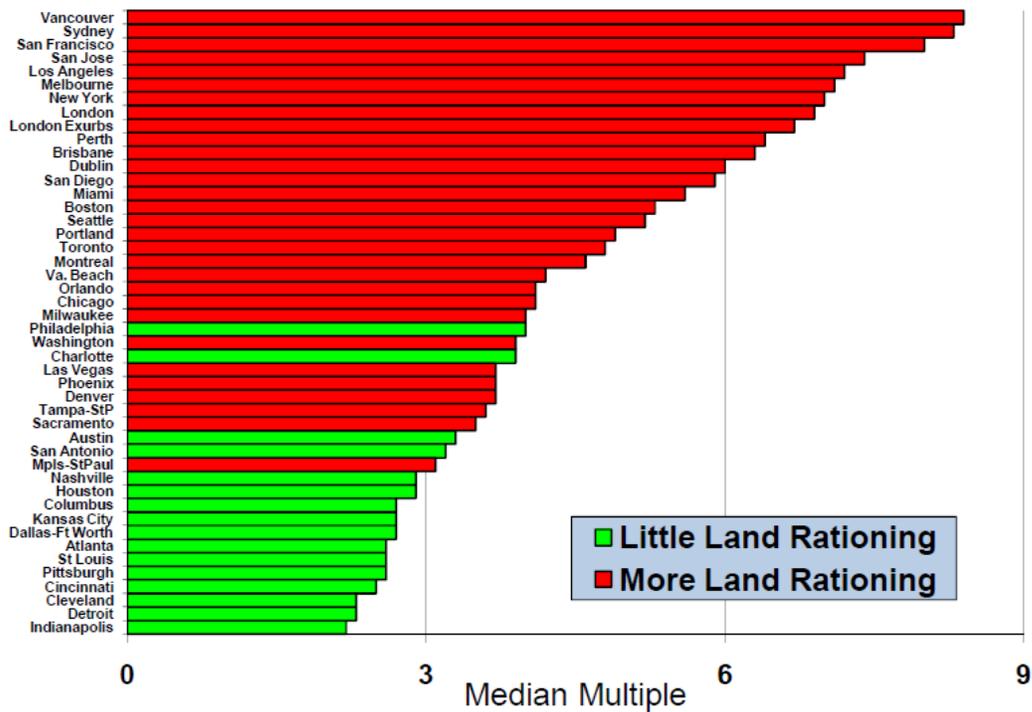
**Figure 1: Median lot prices in capital cities**



Source: HIA, 2008, HIA-RP Data Residential Land Report, September.

Perth's status as an expensive housing market has been recognised by independent analysis. For example, the Demographia International Housing Affordability Survey examines the relationship between the extent of land use regulation and housing affordability for 46 cities around the world (Figure 2). Perth has been identified as being in the top ten of most unaffordable housing markets, with its extensive land supply restrictions contributing to the result.

**Figure 2: Relationship between land use regulation and housing affordability**

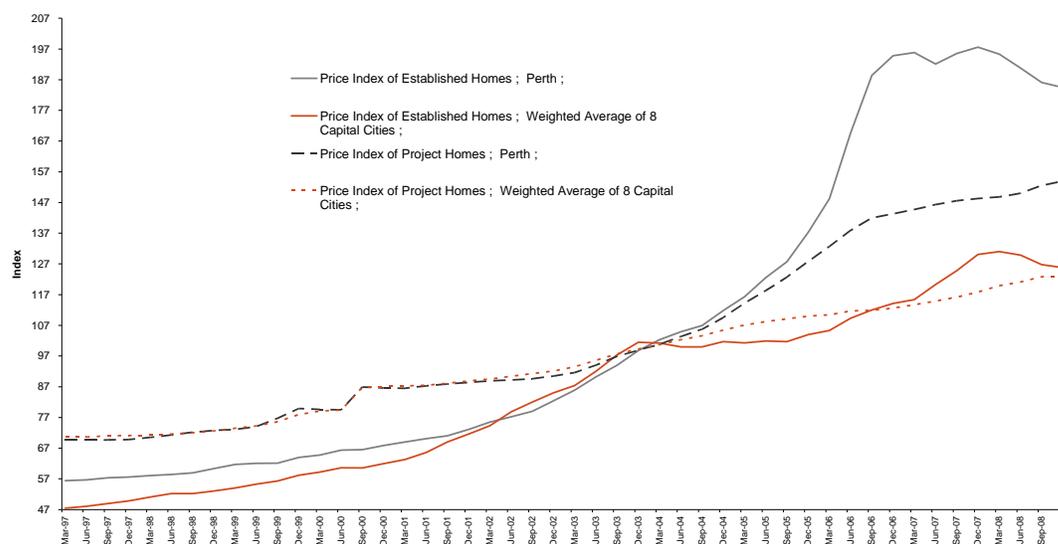


a. The 'median multiple' is the ratio of the median house price to median income.

Source: Demographia, 2009, *International Housing Affordability Survey: Ratings for Metropolitan Markets*.

The Australian Bureau of Statistics constructs price indexes for established and project homes, which also reveal the extraordinary increase in Perth house prices compared to other states (Figure 3). Prices for both established and project homes remained in line with the states' average between 1997 and 2004. In the following years a differential emerged with the Perth prices compared with all states' prices ballooning out to 81 per cent (established homes) and 31 per cent (project homes) in the March quarter 2007.

**Figure 3: Perth housing prices compared to prices for all capital cities**



Source: ABS, House Price Indexes: Eight Capital Cities, cat. no. 6416.0.

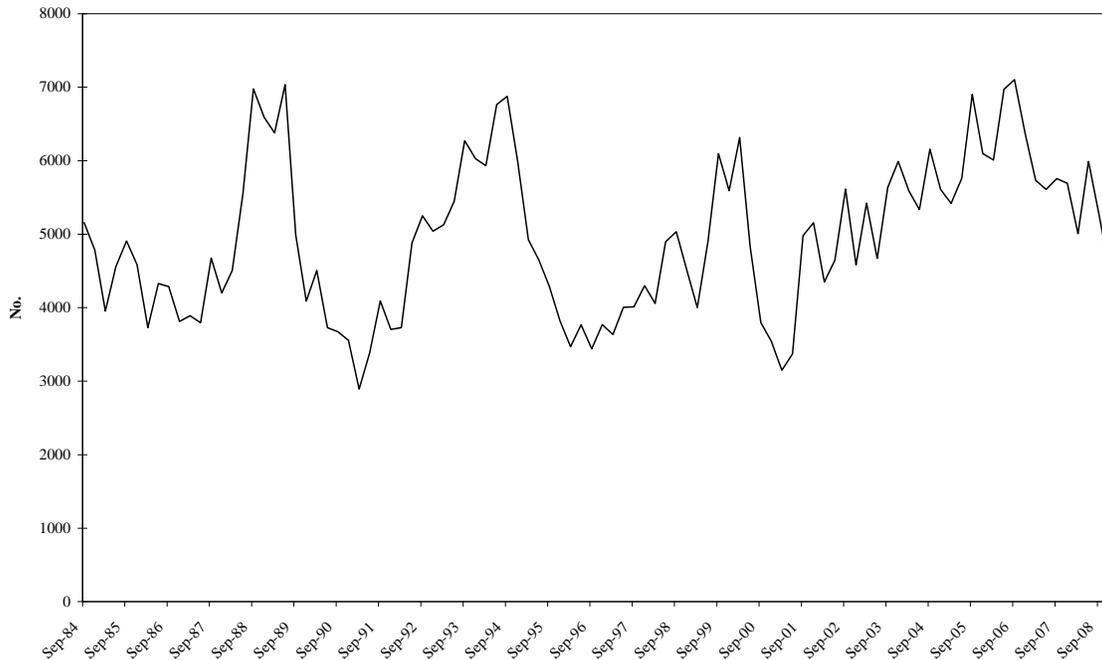
This explosive growth in housing prices impacted strongly on first home buyers more than other groups, which benefitted from the price escalation in facilitating their ability to profitably buy or sell. Of the 7,772 dwellings financed in February 2007, only 970 (or 12 per cent) were to first home buyers. In February 1997 this segment comprised 24 per cent of house sales that were financed.

With the collapse of the housing market and subsidies to first home owners comprising \$21,000 out of a house-land package of \$400,000 this amounts to assistance of 5.25 per cent. As a result, while loans to existing home owners have declined markedly, those to first home buyers are up by some 20 per cent and in the early months of 2009 comprised over 35 per cent of new loans.

With population growth and increases in real incomes from strong economic activity in WA, demand clearly played some role in influencing Perth's housing price movements. But in any well-functioning market suppliers will react to a price increase by raising supply of the relevant commodity in demand. In this case, property developers would ordinarily come onto the market to build more houses.

The experience in WA belies the expected response to the housing price boom. Instead of increasing building activity to meet demand, new housing starts in the state fell from 2006 (Figure 4). Some have attributed this to capacity constraints in the market. Though the excess demand for labour would doubtless have been a factor in restraining supply, the new build levels at the height of the boom were no greater than those experienced in the three previous periods of buoyancy when the state's economy was considerably smaller.

**Figure 4: Western Australian quarterly dwelling commencements**

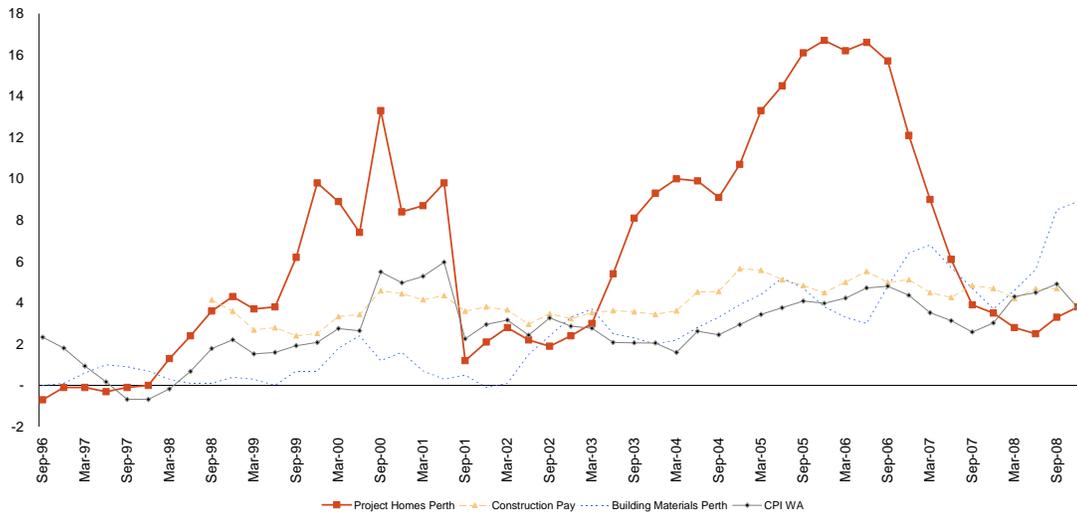


*Source: ABS, Dwelling Unit Commencements, Australia, Preliminary, cat. no. 8750.0.*

Moreover, if industry capacity was a key factor in reducing supply, the shortage would be reflected in increased land development and house building prices. Though some such increases were apparent, these were modest – new houses continued to be vigorously marketed at prices below \$130,000.

Capacity constraints cannot be blamed for the increase (and recent falls) in new house costs or the decline in housing starts (Figure 5). During the spike in new housing costs – from 2003 to 2007 – building materials and construction labour costs growth generally were in line with changes in Perth’s CPI. Were capacity constraints the cause of the large increases in project home costs during the period, this would be apparent in the materials and labour prices, yet these moved in line with the strong growth of the WA economy.

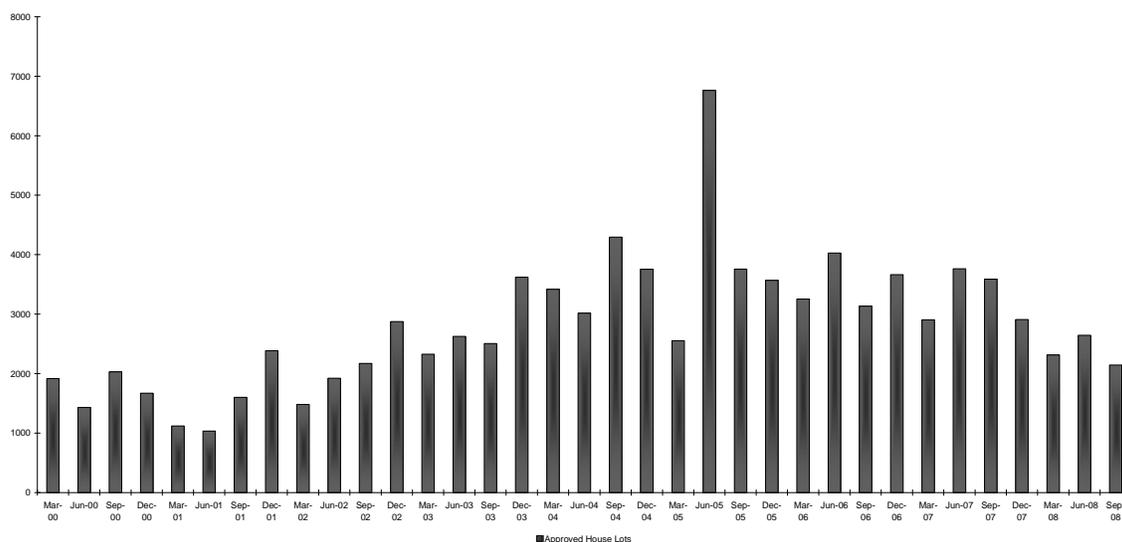
**Figure 5: Western Australia building and components costs**



Source: ABS, Consumer Price Index, Australia, cat. no. 6401.0; ABS, House Price Indexes: Eight Capital Cities, cat. no. 6416.0; ABS, Producer Price Indexes, Australia, cat. no. 6427.0.

In terms of land availability, for demand to be the cause of escalating house prices there must be a lack of supply and this is clearly the case. The failure of a supply response cannot be sheeted home to industry capacity. Nor is the failure of a supply response attributable to an intrinsic lack of suitable land. There is ample land suitable for housing development surrounding Perth yet, like new housing starts, lot production (or land with planning approval) also appears to be trending downwards (Figure 6).

**Figure 6: Perth lot production**



*Source: Western Australian Planning Commission, State Lot Activity.*

Within this data emerges a tale of two property markets. Prices for established homes have leveled off since December 2007, with the ABS price index at a comparable level to what it was in September 2006. Anecdotal reports suggest that price reductions have been particularly significant at the 'top end of town', with western suburbs house prices falling by as much as 14 per cent in the first half of 2008.<sup>2</sup>

On the other hand, prices for project homes typically purchased by first homebuyers have remained resilient amidst the property market downturn. Project home prices in Perth increased by about six per cent over the twelve months to December 2008. This trend could be attributable to reductions in mortgage interest rates over the period, as well as by concessions to the first home buyers who are more prevalent in this segment than in others. However, the rate of growth in project home prices has moderated compared from 2005-06, when annual price growth peaked at 17 per cent in December 2005.<sup>3</sup> House prices as a whole were over 12 per cent lower in December 2008 compared with the previous year.

<sup>2</sup> Veronica Buck, 'Surviving the real estate downturn', ABC Television Western Australia Stateline program, 26 September.

<sup>3</sup> Western Australia Department of Treasury and Finance, 2008, Economic Note: House Prices, December 2008, [http://www.dtf.wa.gov.au/cms/uploadedFiles/house\\_prices\\_dec2008.pdf](http://www.dtf.wa.gov.au/cms/uploadedFiles/house_prices_dec2008.pdf).

## Perth housing prices in a national context

There has been a growing disparity in all Australian cities between land price and building cost increases (Table 2). HIA data shows that increases in the house component of a house and land package were broadly consistent with inflation over a thirty year period. Even in Perth, where there was a modest cost breakout by 2006, house costs have only increased eight fold over 33 years compared to national CPI increases of 6.3 times over the same period. By contrast, the land increase had increased 40 fold, five times the increase experienced by the house prices.

**Table 2: New land and house package costs**

	1973	1983	1993	2006	Price increase multiple 1973-2006
<b>Sydney</b>					
Land	\$9,100	\$29,400	\$107,100	\$460,600	49.6
House	\$18,900	\$43,200	\$121,500	\$128,250	5.8
<b>Melbourne</b>					
Land	\$6,900	\$15,800	\$49,000	\$107,000	14.5
House	\$14,000	\$35,000	\$75,000	\$112,000	7.0
<b>Brisbane</b>					
Land	\$7,000	\$27,000	\$60,000	\$135,000	18.3
House	\$16,000	\$37,000	\$70,000	\$112,000	6.0
<b>Perth</b>					
Land	\$6,500	\$17,300	\$80,974	\$270,000	40.5
House	\$12,000	\$28,000	\$60,000	\$109,000	8.1
<b>Adelaide</b>					
Land	\$2,000	\$12,000	\$35,000	\$140,000	69.0
House	\$12,000	\$20,000	\$40,000	\$90,000	6.5
<i>Australia CPI</i>	20.5	61.6	108.9	150.6	6.3

*a. Standardised to a 135sqm house and 700sqm block.*

*Source: Housing Industry Association.*

The recent declining trend towards housing price reductions is one not seen since 1982, when the median house price fell by about 11 per cent.<sup>4</sup> In a housing market showing general price declines, Perth is leading the way down. This is somewhat suppressed by sellers increasingly withdrawing their property for sale. The number of properties for sale declined by 7.5 per cent during December, compared to the previous month.

These developments have caused sales of homes in the Perth area to remain largely static in recent months. The number of houses on the market declined in seasonally adjusted terms.

<sup>4</sup> Amanda O'Brien and Maurice Dunlevy, 2008, 'Property price fall worst in 25 years', The Australian, 24 November.

The average number of days that a property remained on the market increased from 65 days in the December quarter 2007 to 76 days twelve months later.

But what has emerged is a 'two-track' sales tendency in the Perth property market. Sales of homes in the \$600,000 to \$1 million range have fallen by five percentage points of total market share since September 2008. Conversely, the share of homes sold between \$250,000 and \$450,000 – more affordable to first homebuyers – increased by five percentage points.<sup>5</sup>

It is this segment of the housing market that has been most adversely affected by regulations, taxes and charges and other policies by state and local governments that have constrained the capacity of developers to bring additional housing onto the market in a timely manner. The opportunity now in a period of subdued demand is to radically reduce these constraints, allowing much reduced housing costs with the consequent lift in affordability leading to increased sales and eating into the pent-up demand that the recent supply crisis created. Moreover, if these regulatory burdens are left unattended, the next recovery in the Perth market is unlikely to be an affordable one for many Western Australians.

## **Restricting supply: Government housing and land regulations**

### ***Planning framework***

The Western Australian government maintains a highly centralised system of land use planning and control for the Perth metropolitan region and outlying rural and regional areas. As described by a senior state government bureaucrat, 'unlike in other states, where there is extensive delegation of planning powers to local government, WA has retained a strong degree of state control over planning.'<sup>6</sup>

Under the *Planning and Development Act 2005* the Western Australian Planning Commission (WAPC), a state government authority under the Department of Planning and Infrastructure portfolio, is responsible for overseeing and coordinating planning across the state. It advises the state planning minister on land planning and development, and is also involved in preparing and administering state planning strategies and statutory regional schemes. The WAPC also recommends on local planning schemes and amendments..<sup>7</sup>

Another distinguishing feature of WA's planning system is its emphasis on strategic and statutory planning at a regional level. The current strategic plan for the Perth region is called 'Network City,' as introduced by the former Labor government in 2004, while the

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5 REIWA, 2009, 'REIWA data shows prices down – rents up – for Dec 2008', <http://reiwa.com/Art/Art-Public-View.cfm?PageUUID=ac308e348469651594cd22377d7f6c142c85-23-Feb-2009-03:39:38:57&Id=11583>.

6 Ray Stokes, 'The WA model – what makes the WA planning system different?', p. 1.

7 Ray Stokes, p. 2.

Metropolitan Region Scheme is the statutory plan. Local government planning schemes are required to be in conformity with state and regional planning objectives and requirements.<sup>8</sup>

According to the Land Release Coordinator's 2007 report on the Perth and Peel regions, the primary task of the planning system is to ensure residential land supply.<sup>9</sup> However, as has been seen in relation to the 'Network City' strategy, planning policies can act contrary to this objective.

One of the main aims of the strategy is to limit urban sprawl in the Perth-Peel area through higher density housing about 'activity centres' linked by public transport infrastructure. The Network City approach to urban consolidation is not unique to Australia, but is clearly informed by an ideological objection to the predominant mode of detached housing in Perth. As stated by the former planning and infrastructure minister Alannah MacTiernan:

'We all know Perth is a sprawling city. Despite some very sound planning instruments and structures, we have a highly dispersed city with very high levels of car dependence. It is nevertheless a great place to live, with an abundance of natural assets like the beach, the river and the hills, and it is easy to get around. But that could be destroyed as our population grows. ... We know that we must accommodate around 760,000 more people and 350,000 more dwellings in the next 25 years – and if we continue as we have in the past we will end up with a city that spreads from Bunbury to Guilderton.'<sup>10</sup>

The emphasis on infill development under the Network City planning regime has been identified as a factor fuelling land shortages and reduced housing affordability. According to Mike Nahan, 'under Network City residential land, not on the selected nodes, is not open to development and is in effect sterilised. Aside from reducing the overall supply of residential land, this makes the plan highly dependent on achieving a limited number of developments.'<sup>11</sup> In 2005, the UDIA (WA) noted that the urban consolidation objective of Network City is difficult to achieve due to the reluctance of existing inner-city communities to support greater density developments.<sup>12</sup>

As noted above, the statutory land use plan for the Perth area is the Metropolitan Region Scheme (MRS). The main land use zones prescribed under the MRS is highlighted in Figure 7. It is salient to note that the MRS, combined with the Network City planning policy, places an implicit 'urban growth boundary' surrounding Perth in the form of rural zoned land. This is marked in the figure as the light green shaded area.

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8 Western Australian Planning Commission / Department of Planning and Infrastructure, 2007, *An Introduction to the Western Australian Planning System*; Ray Stokes, 'The WA model – what makes the WA planning system different?', p. 4.

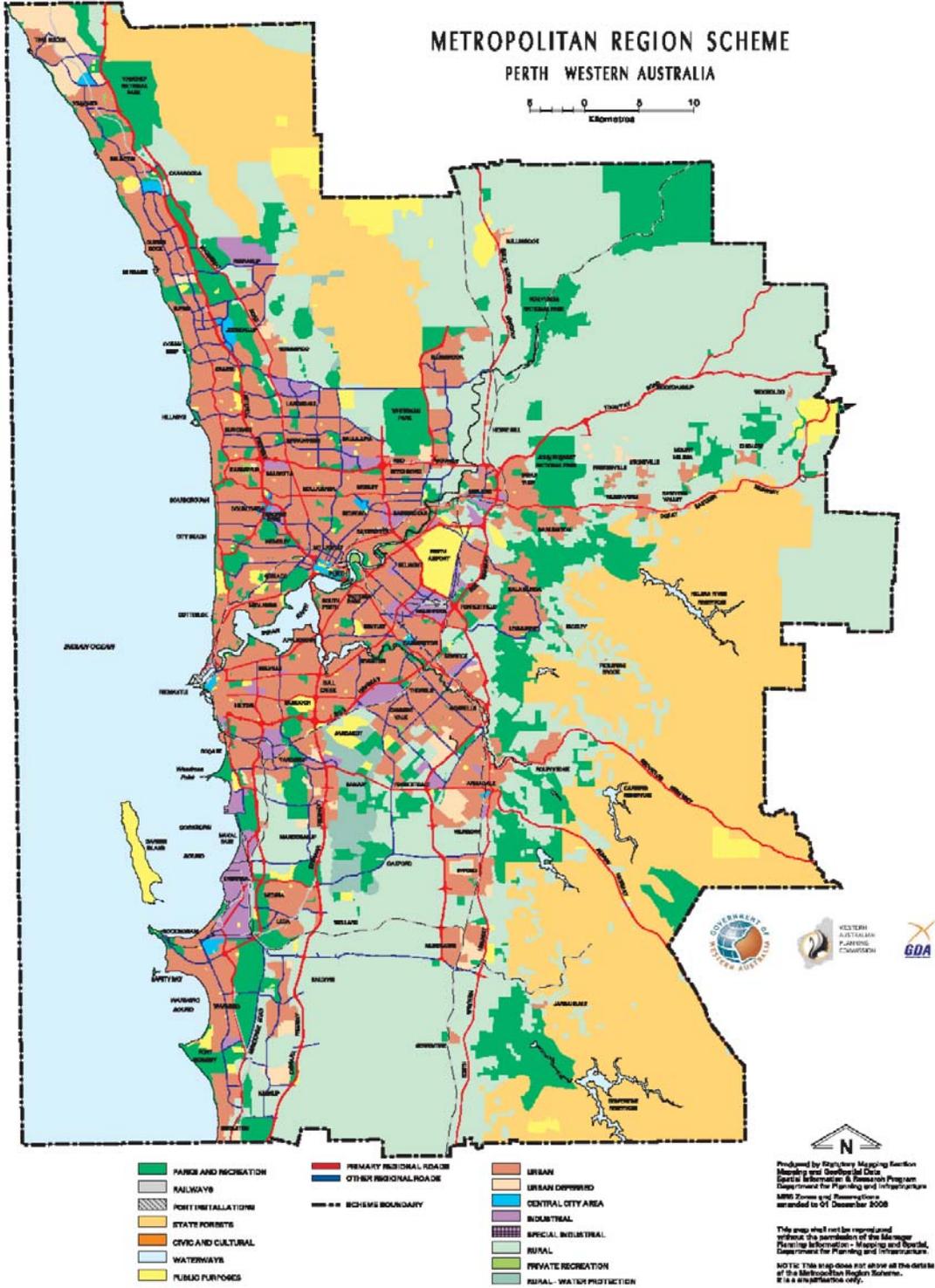
9 Government of Western Australia Land Release Coordinator, 2007, *The Coordination of Land Release for Perth and Peel*, February, p. 2.

10 Western Australian Department of Planning and Infrastructure, 2003, *Dialogue with the city: Issues Paper*, [http://www.dpi.wa.gov.au/mediaFiles/dialogue\\_issues.pdf](http://www.dpi.wa.gov.au/mediaFiles/dialogue_issues.pdf).

11 Mike Nahan, 2008, 'Red tape, strategy dog supply of ready land', *The West Australian*, 12 March.

12 UDIA (WA Division), 2005, *Submission Response to Draft Network City: Community Planning Strategy for Perth and Peel*, January.

Figure 7: Perth Metropolitan Region Scheme land use zones



Source: Land Release Coordinator, 2007, *The Coordination of Land Release for Perth and Peel*.

As will be discussed below regarding development approval processes, the conversion of the vast tracts of rural land into urban (or urban deferred) zones for housing development are potentially subject to significant delays by the WAPC, environmental and other state government agencies and local governments.

Governments have further compounded the problem of restrictive planning policies by effectively reducing the amount of available land by rezoning land from residential to open space. For example, the government's 'Bush Forever' plan for the Swan Coastal Plain area in Perth effectively locks up to 51,200 hectares of land from residential development.

According to the UDIA: 'Bush Forever has required land owners and developers to give up land which is perceived to have regional or local conservation significance with little or no compensation. The cost of Bush Forever is ultimately borne by the new home buyer, while the whole community receives benefit. This is clearly inequitable and has a direct negative impact on housing affordability.'<sup>13</sup>

## ***Development approvals***

Western Australia also has a centralised system of subdivision controls with the WAPC responsible for the approval of all applications made to the Department for Planning and Infrastructure. Generally, the WAPC has 90 days to determine an application and within this time relevant state and local government authorities have 42 days to comment and attach conditions to the development. The WAPC takes into account regional or local planning schemes and other policies, and the particular circumstances of the application including the provision of services, access and public open space.<sup>14</sup>

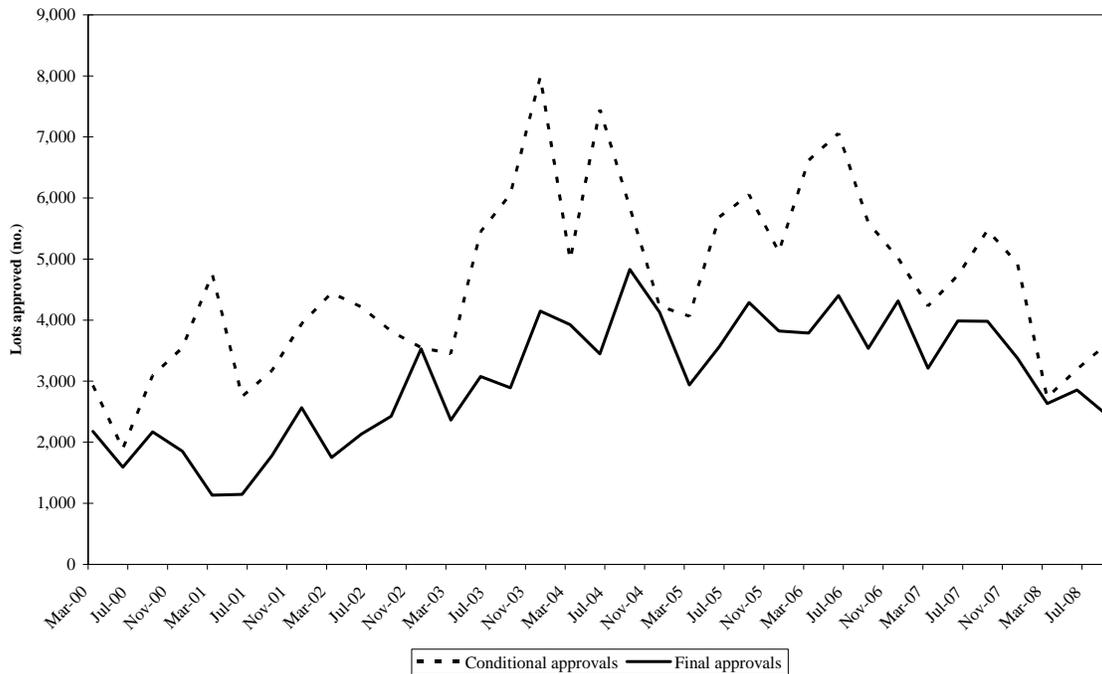
According to the Land Release Coordinator, there was an adequate supply of conditionally approved lots in the Perth and Peel areas (Figure 8). However, a survey undertaken for the Coordinator found that 40 per cent of land at the conditional approval stage was not being progressed to final stages. Approval delays, rather than the warehousing of land by developers, were found to be a major contributing cause of the sterilisation of land.

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<sup>13</sup> UDIA (WA Division), 2003, Submission to the Productivity Commission Inquiry on First Home Ownership, p. 2.

<sup>14</sup> Ray Stokes, 'The WA model - what makes the WA planning system different?', p. 6.

**Figure 8: Conditionally approved and final approved lots, Perth and Peel**



a. Prior to the March quarter 2004, 'conditional' lots were referred to as 'preliminary' lots.

Source: Western Australian Planning Commission, State Lot Activity.

A major part of the problem is that multiple conditions are being imposed on approvals for a subdivision application, creating significant delays in bringing housing and land onto the market. There is anecdotal evidence of 45 or more conditions placed on the approval of a large subdivision. The fact that statutory time limits on the determination of subdivision applications, from an initial zoning application to final subdivision approval, can be halted at any time can significantly delay the final release of land.<sup>15</sup>

The Land Release Coordinator also found that a lack of a coordinated land approval process across government bodies can heighten developer uncertainty. Some of the key problems cited in the report included:

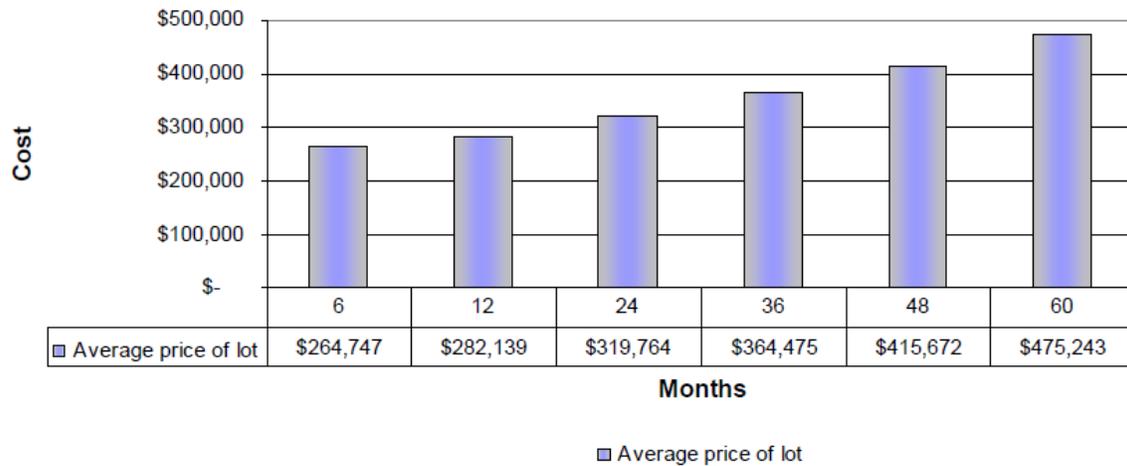
- Lack of responsibility for achieving final approvals;
- Absence of timelines;
- Multiplicity and complexity of conditions;

<sup>15</sup> Jason Pasqua, 2008, Land Release in Western Australia: An Overview and Analysis of the System and its Effectiveness, Mannkal Economic Education Foundation Scholarship Paper, p. 15.

- Uncertainties in responsibilities of clearing agencies;
- Lack of coordination amongst the clearing agencies;
- Rapid changes of, and inconsistent, policies;
- Lack of clarity and consistency in guidelines and standards;
- Lack of consistency in advice in advice to developers, even within the same clearing agency; and
- Inefficiencies in tracking the progress of approval process.<sup>16</sup>

The UDIA (WA) has quantified the impact of approval time delays on end lot prices. Their analysis found that a one-year delay in approval results in a 13 per cent increase in the price of a lot, while a four-year delay increases the lot price by a staggering 68 per cent (Figure 9). These costs therefore directly contribute to the lack of housing affordability in the Perth market in recent years.

**Figure 9: Effect of approval delays on average lot price**



Source: UDIA (WA), Submission to the Senate Select Committee on Land and Housing Affordability.

<sup>16</sup> Land Release Coordinator, 2007, The Coordination of Land Release for Perth and Peel; Chamber of Commerce and Industry WA, 2007, Submission to the Economic Review of Land and Housing in Western Australia.

## ***Environmental regulations***

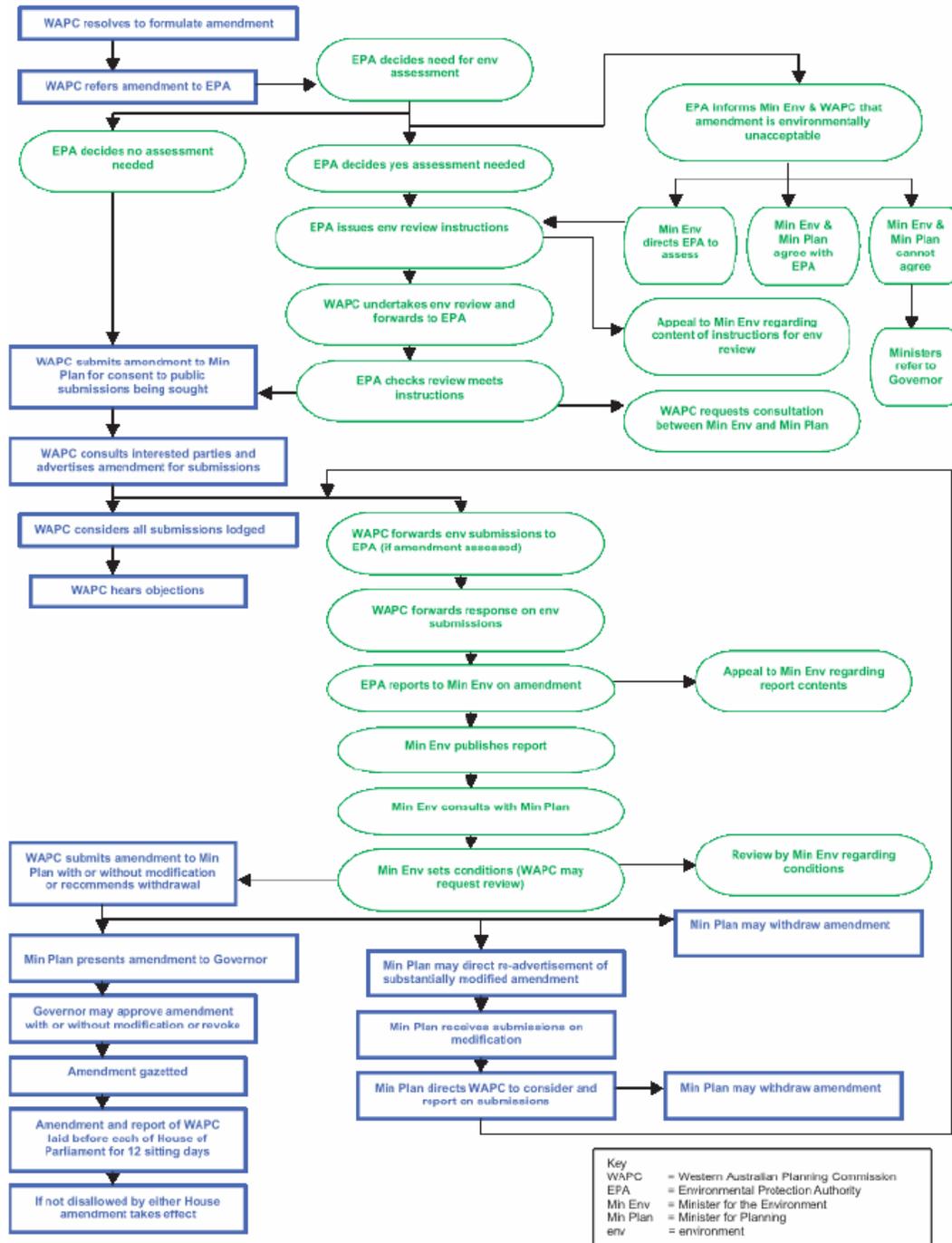
There is already a raft of state government legislation relating to environmental protection, which is factored in by the WAPC when considering development approvals. These include the *Wildlife Conservation Act 1950*, *Conservation and Land Management Act 1984*, *Environmental Protection Act 1986*, and *Contaminated Sites Act 2003*. In addition to this, there exist laws and regulations at the federal and local government levels that also affect the supply of land for housing development.

Environmental regulations have significantly added to the cost of land and housing in Western Australia. These also affect the use of existing property, with no recourse for compensation for the consequent dilution of property rights involved. This study will focus on two aspects of such regulation: environmental approvals for housing developments; and energy efficiency standards for home construction.

## ***Environmental approval processes***

Environmental issues have also become more prevalent in overall land use planning and development approvals in WA. Prior to the 1990s planning and environmental approval processes were separate however the merging of these two systems has yielded a costly and time-consuming system affecting the ready supply of land (Figure 10).

**Figure 10: Preparation and environment assessment of substantial amendment to Metropolitan Region Scheme**



Source: UDIA (WA), 2007, Submission to the Senate Select Committee on Land and Housing Affordability.

According to the Property Council of Australia (WA Division), 'the Environmental Impact Assessment is viewed as the most complex part of the development approvals process. Any step to reduce this complexity would speed it up and reduce frustration.'<sup>17</sup> Further, 'the duplication of agencies responsible for sign off on requirements in the environmental impact assessment leads to naming two clearing authorities creating unnecessary confusion and additional cost.'<sup>18</sup>

The dysfunctional environmental approval process has led to a number of cases where the release of land onto the housing market has been delayed. For example, the 35,000 lot satellite city project of Keralup, 17km south-east of Rockingham, received clearance from the Environmental Protection Agency (EPA) in 1998. The EPA approval expired in 2005 as the former state government sought to redesign the project to fit Network City criteria. A resubmitted proposal in 2008 was rejected under stricter EPA guidelines, with major issues cited including nutrient run-off to the Serpentine River, water quality and drainage, noise, odour and mosquito nuisance.<sup>19</sup> It has been reported that the state government has further delayed planning approvals for the housing project until 2011.

Environmental approval issues appear to have become more intrusive under the Rudd federal government. The potential is always present for duplication and waste, over and above inefficiencies at the state level, as there is both a federal and state ministry having overlapping responsibilities. A well-cited case of losses from such duplication in WA is with Carnaby's black-cockatoo (*Calyptorhynchus latirostris*), which is only found in the south-west of the state and listed as endangered.

This species was given special protection by the state government which required extensive land set-asides before allowing development. The cockatoo is listed under the Commonwealth government *Environmental Protection and Biodiversity Act 1996* (EPBC Act), meaning that any development which may affect its habitat must also be referred to the federal environment minister for consideration. This is despite conflicting evidence about the number of Carnaby's cockatoos, and a lack of understanding about their breeding habits, range of young birds and their feeding habits.<sup>20</sup>

According to UDIA (WA), this regulatory process is delaying dozens of Perth land developments worth millions of dollars by two to three years.<sup>21</sup> One high profile example was the cancellation of a project by the University of Western Australia to convert some of

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17 Property Council of Australia (WA Division), 2008, Response to Environmental Protection Authority Review.

18 Property Council of Australia (WA Division), 2008, Response to Environmental Protection Authority Review.

19 City of Rockingham, 2008, Notice of Planned Services Committee Meeting, 17 November,

<http://www.rockingham.wa.gov.au/pdf/agenda/2008/plan/17nov08-planning.pdf>; Environmental Protection Authority, 2008, Keralup (formerly Amarillo) Masterplan, Karnup, Advice of the Environmental Protection Authority to the Minister for the Environment under Section 16(e) of the Environmental Protection Act 1986, [http://www.epa.wa.gov.au/docs/2661\\_Bull1281Amarillo-Keralup040308.pdf](http://www.epa.wa.gov.au/docs/2661_Bull1281Amarillo-Keralup040308.pdf).

20 UDIA, 2008, Submission to the Independent Review of the EPBC Act, <http://www.environment.gov.au/epbc/review/submissions/pubs/095-urban-development-institute-of-australia.pdf>.

21 UDIA (WA), 2008, URBANexpress: Official newsletter of the Urban Development Institute of Australia (WA Division) Inc., August, [http://www.udia.wa.com.au/upload/documents/urban\\_express/98A510AF4244E5F40B203B3A03C4370C.pdf](http://www.udia.wa.com.au/upload/documents/urban_express/98A510AF4244E5F40B203B3A03C4370C.pdf).

its land into a 160 lot housing estate, in order to preserve habitat for the cockatoo. Ironically, the development of new sustainable housing communities is being threatened by the presence of Banksia Woodland which provides foraging for the cockatoo.<sup>22</sup> These issues exacerbate the problems associated with the timely release of land to cater for growing housing demand.

It appears that such actions by the commonwealth environment department that delay land development are not confined to Perth. Writing in *The Australian* newspaper, former NSW Treasurer Michael Costa said of the EPBC Act:

'It requires that ... [the federal environment minister] ... approve any developments likely to have a significant impact on things the act protects, such as world heritage sites, national heritage properties, wetlands of international importance, threatened species and ecological communities, migratory species and marine areas.'<sup>23</sup>

Mr Costa also stated that the administration of the EPBC Act had become more interventionist under the present minister Peter Garrett:

'Critical land release projects have been delayed by the capricious action of these unaccountable bureaucrats. In the Sydney basin, for example, where for many years the state government was reluctant to release land, the Edmonson Park land release is being held up by DEHWA.

This is despite the fact planning for this release has been under way since at least 2000 and has involved numerous consultations between the state government, developers, local councils and the community. The principal developer is Landcom, a state government agency.

At issue is the so-called Cumberland Plain woodland ecological community. Green groups have used this issue to restrict urban development in western Sydney for almost a decade. The result? More costly and less affordable housing.'<sup>24</sup>

### *Building standards*

There has been significant growth in regulation over the past decade stipulating that the construction of new houses and major refurbishments conform to energy efficiency standards.

Since 2003, construction businesses have been required to meet the energy efficiency measures incorporated into the Building Code of Australia. These measures relate to heat

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22 UDIA, 2008, Submission to the Independent Review of the EPBC Act, p. 6.

23 Michael Costa, 2008, 'Garrett holding economy to ransom', *The Australian*, 27 February.

24 Michael Costa, 2008, 'Garrett holding economy to ransom.'

transfer resistance, solar radiation and heat flow resistant glazing, house sealing, provision of air movement in the home, insulation and sealing of air conditioning ductwork and hot water piping.<sup>25</sup>

Australian analysis has shown that such regulatory impositions raise material input costs, which are passed onto home buyers in the form of higher prices. For example, in Victoria, it is estimated that the cost of building a standard home to five star efficiency regulations is in the order of \$7,600.<sup>26</sup> A report by the Productivity Commission into the private cost-effectiveness of improving energy efficiency found that there is considerable uncertainty about how much building standards have reduced energy consumption and emissions, and that the costs of the regulations were higher than originally anticipated.<sup>27</sup>

Despite the growing body of evidence about the impact of these regulations in inflating housing costs, the previous WA state government continued to proceed towards more prescriptive energy efficiency standards in addition to those contained in the national building code. In particular, it introduced '5 Star Plus' building standards in September 2007. The standards were to be rolled out in two stages, the first relating to greenhouse gas emissions from hot water heating systems and the efficient use of potable water in buildings. The second stage, which will now not proceed, was to address alternative water supply systems and grey water recycling.

At the time of the introduction of the additional building regulations, the Property Council of Australia (WA Division) noted '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 are bearing close to 100% of the environmental compliance burden.'<sup>28</sup> While stage 2 of the scheme has been rescinded by the government, the evidence provided by the Property Council highlights the inflationary effects of regulations in this area.

Local governments contribute to rising housing costs by imposing their own requirements, including those related to ceiling heights, room and balcony sizes, and use of energy efficiency and water saving devices. A recent report estimated that these additional requirements, which exist in Western Australia, could add up to 14 per cent in home building costs.<sup>29</sup>

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25 Australian Building Codes Board, Energy Efficiency Provisions for Housing,

<http://www.abcb.gov.au/go/whatweredoing/workprogram/projectsae/energy/eevisionshousing>.

26 Master Builders Association of Victoria, 2008, Submission to the Victorian Competition and Efficiency Commission Inquiry into Victorian Environmental Regulations.

27 Productivity Commission, 2005, The Private Cost Effectiveness of Improving Energy Efficiency; Regulation Taskforce, 2006, Rethinking Regulation: Report of the Taskforce on Reducing Regulatory Burdens on Business.

28 Property Council of Australia (WA), 2007, Submission to the Economic Review of Land and Housing in Western Australia.

29 Australian Building Codes Board, 2008, Impacts on Housing Affordability – Local Government Regulatory Measures that Exceed the Requirements of the Building Code of Australia: Results of Preliminary Analysis; Mike Steketee, 2008, 'Local council rules increase housing construction costs', The Australian, 18 October.

## Property taxes and charges

The state government levies a range of taxes on land and property. These include land taxes (on the unimproved value of land), transfer duty (on the total value of property transferred), and a Metropolitan Region Improvement Tax on the unimproved value of land located within the Perth region. The WA government introduced a new landholder duty as at 1 July 2008 on land acquired indirectly in company and unit trust structures.

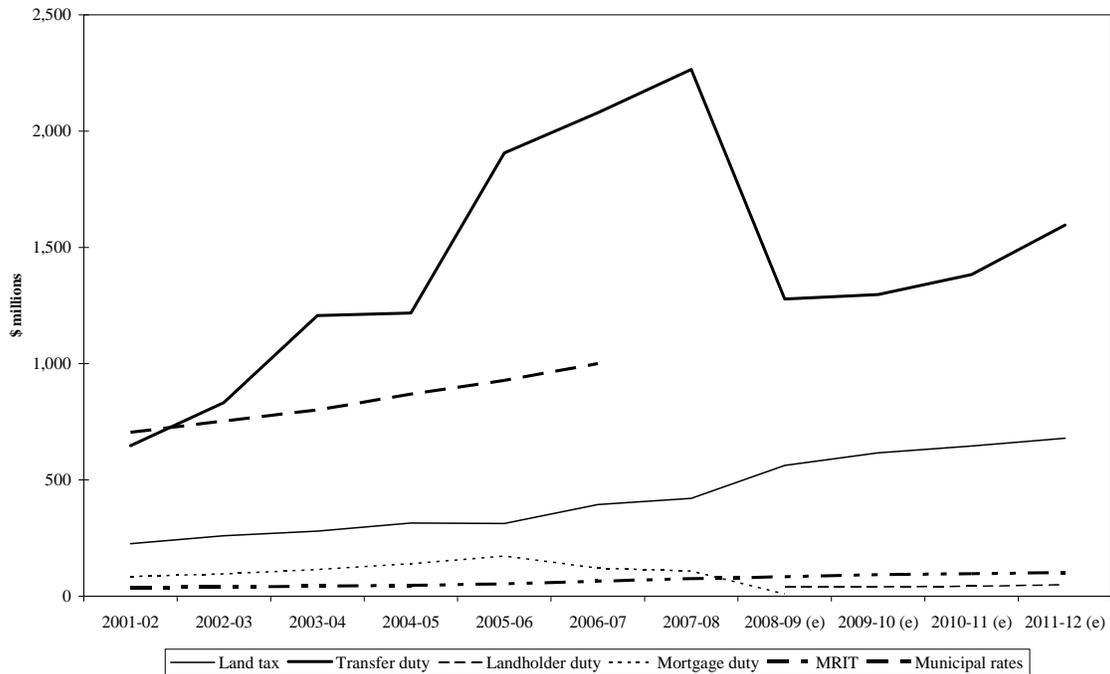
Local governments also levy rates on the value of land in their respective jurisdiction. The *Local Government Act 1995* specifies that land for non-rural purposes is to be assessed against its gross rental value.

The amount of revenue obtained from property taxes has increased significantly since 2001-02 (the first full year after the GST reforms were introduced). State government property revenue in 2001-02 was \$996 million, and has grown to about \$2.9 billion by 2007-08. This represents a massive increase in the order of 188 per cent. In 2006-07, local governments acquired an additional \$1 billion in rates revenue from the property sector.

The total amount of state revenue from property is expected to decline over the forward estimates period as a consequence of the housing market slowdown. In particular, transfer duty revenue in 2008-09 is projected to be about 44 per cent below the revenue collected in the previous year. By 2011-12, the WA government projects total revenue from property to be approximately \$2.4 billion, or \$444 million below actual revenue obtained in 2007-08.

The property tax mix in WA is dominated by property transfer duty, accounting for 57 per cent of total state and local property taxes in 2006-07 (Figure 11). The state land tax system accounts about 10 per cent of total property taxes, whereas mortgage duty and the MRIT accounted for three per cent and two per cent of total taxation respectively. Local government rates accounted for 27 per cent of total property taxes in WA.

**Figure 11: Western Australian state and local property taxation receipts**

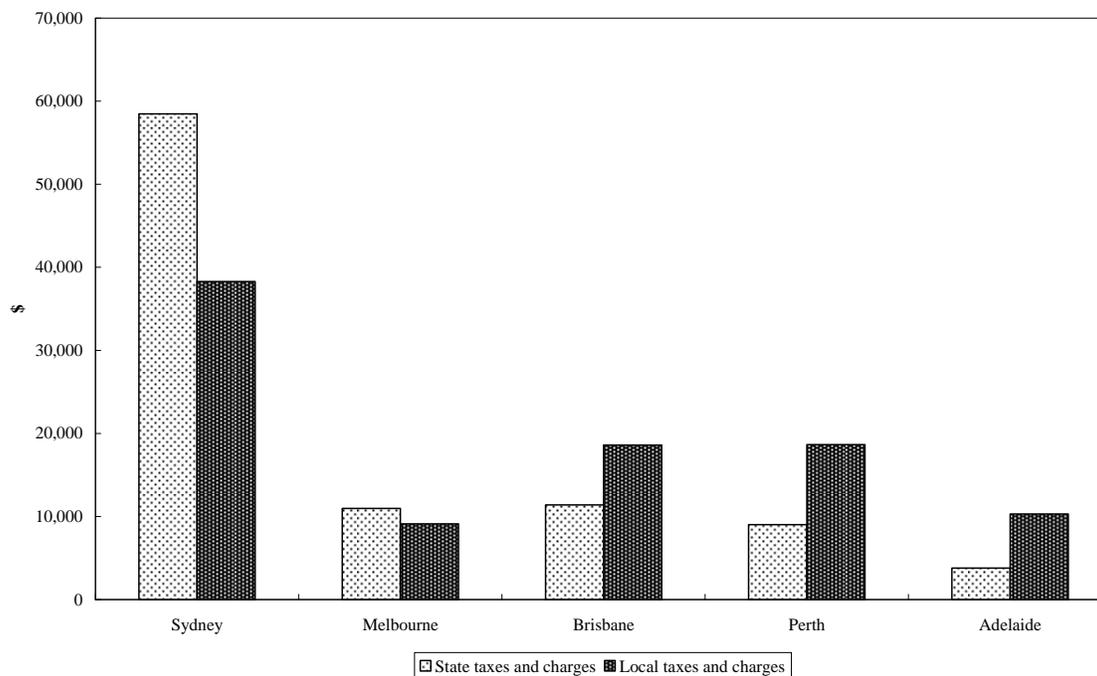


a. The latest available data published by the ABS for municipal rates is for 2006-07.

Source: ABS, *Taxation Revenue, Australia*, cat. no. 5506.0; Government of Western Australia, *Budget Economic and Fiscal Outlook*.

State and local property taxes, fees, levies and charges are a significant component of housing costs in Western Australia. According to the Housing Industry Association, state and local taxes and charges on a house and land package in Perth are about \$28,000, or about six per cent of the house and land costs (Figure 12). To put this into perspective, the cost of the property tax impost repaid over 25 years at an ‘interest rate’ of five per cent is \$95 per month.

**Figure 12: State and local government taxes and charges on selected new house and land packages**



*a. Excludes Commonwealth taxes and charges, such as GST on construction materials. b. Results for Sydney and Brisbane are an average of individual house and land package data.*

*Source: HIA, Submission to Commonwealth Treasury 'Australia's Future Tax System Review', October.*

Many studies in the Australian context rank municipal rates and land tax as relatively efficient taxes. By contrast, stamp duties generally rank poorly on efficiency grounds, by discouraging transactions and hence impeding the performance of the housing market as a value-enhancing discovery process.<sup>30</sup>

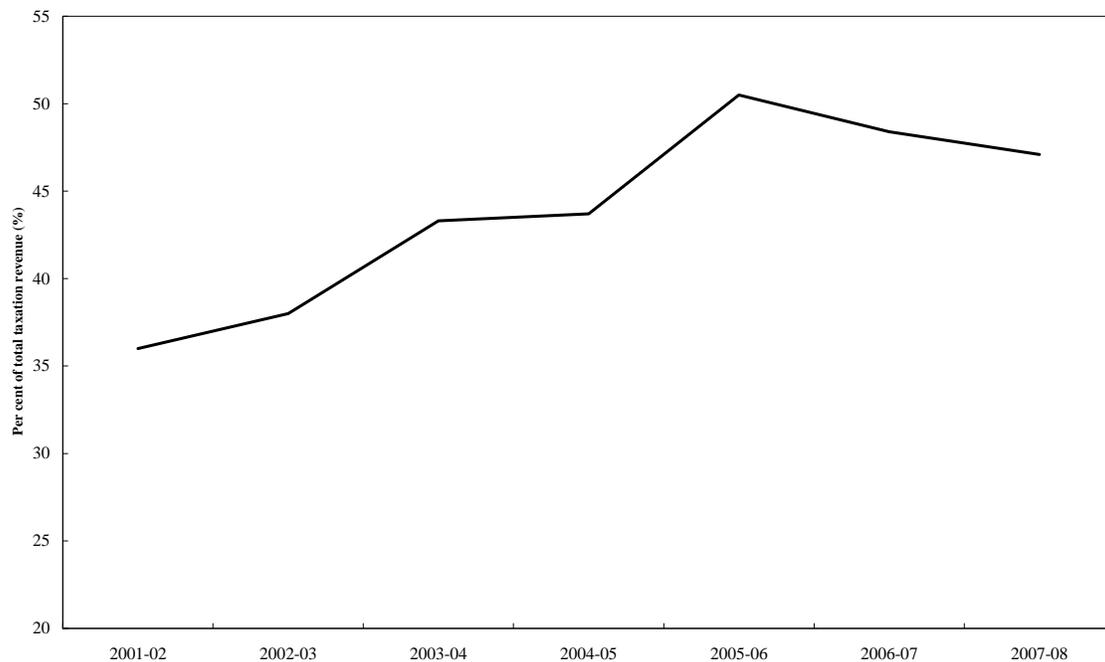
State and local property taxes tend to reduce housing affordability for prospective first homebuyers. They also constrain mobility by reducing housing turnover. It is estimated that the stamp duty turnaround cost alone exceeds \$50,000 for existing homeowners, including the recouping of the tax cost on the existing property and that applying to the new property. For example, existing homeowners who wish to purchase a smaller property, say, in advance of retirement, are penalised for doing so by punitive property taxes.

<sup>30</sup> Victorian Government, 2001, Review of State Business Taxes Full Report, Presented by the State Business Tax Review Committee, February; Access Economics, 2008, 'Analysis of State Tax Reform', Report by Access Economics for Financial Industry Council of Australia, April; IPART, 2008, Review of State Taxation, Report to the Treasurer, October.

Property taxes can also distort supply decisions. According to the UDIA (WA Division) submission to a 2008 Senate inquiry on housing affordability, developers manage their subdivision program around 30 June to minimise their land tax liability.<sup>31</sup> Developers tend to accelerate their development programs to ensure titles are issued in April, implying that sales to purchasers can be completed and settled in May/June. Alternatively, they could delay completing the subdivision and applying for titles until July/August. This pattern has an impact on the smooth supply of land to the Perth market.

A substantial reduction, if not elimination, of property taxes is needed to improve the functionality of the Perth housing market. However, a significant obstacle in the way of such reform is state and local governments themselves who have become increasingly dependent on these taxes as a source of their own revenue. Rates are the predominant source of own revenue for local governments, whilst the WA government has become increasingly dependent on property taxation (Figure 13).

**Figure 13: Property taxation as a proportion of total Western Australian government taxation revenue**



*a. Including land tax, stamp duty on conveyances and other property taxes.*

*Source: ABS, Taxation Revenue, Australia, cat. no. 5506.0.*

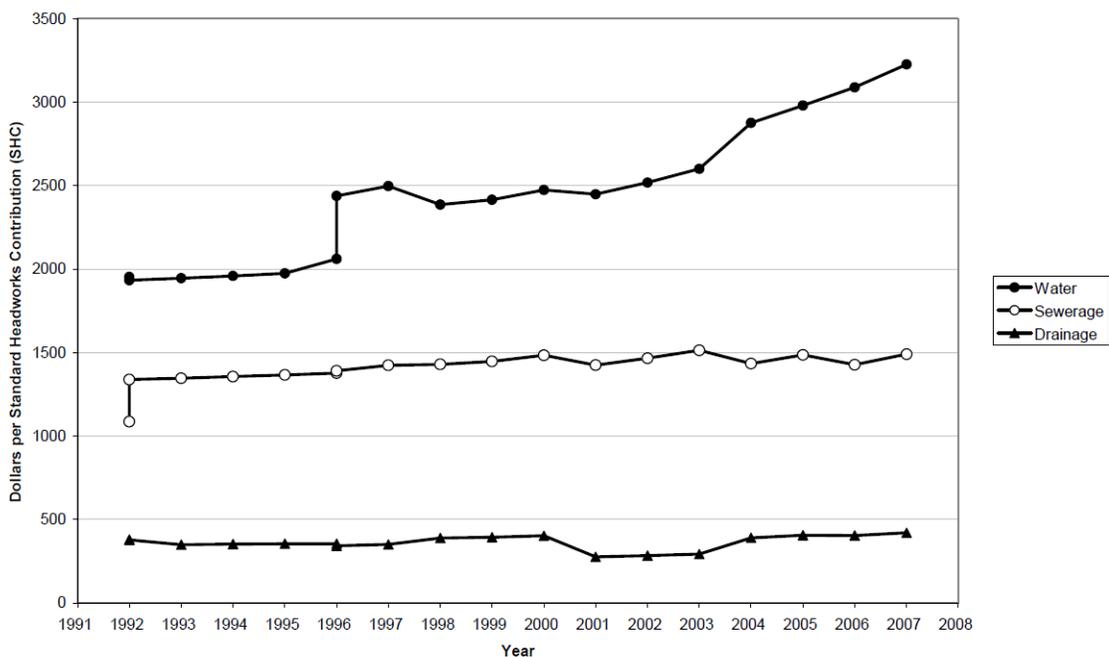
31 Urban Development Institute of Australia, 2008, Submission to the Senate Select Committee on Housing Affordability in Australia. A developer is charged land tax based on the en globo value of the land if land titles have not been issued, or the value of the developed lots if titles have been issued.

## Infrastructure charges

Public infrastructure is financed through various sources such as state or local government own revenues, commonwealth government grants, user and access charges, fees and developer contributions. In WA developer contributions are typically in the form of land, works or payments towards the provision of infrastructure. The types of infrastructure provided by developers have included water supply, sewerage and drainage, roads and power, as well as public open space and primary school sites.<sup>32</sup>

One of the major infrastructure requirements for developers is the payment of 'Standard Headworks Contributions' for water, sewerage and drainage to the state government Water Corporation (Figure 14). Another requirement is that 10 per cent of the gross residential subdivision area must be relinquished free of cost by the developer to the Crown, to be vested in local government as public open space.

**Figure 14: Water Corporation Standard Headworks Contributions**



Source: Western Australia Economic Regulation Authority, 2008, *Inquiry into Developer Contributions to the Water Corporation, Draft Report*.

32 Western Australian Planning Commission, 2008, State Planning Policy 3.6 Development Contributions for Infrastructure (Draft), May.

Other developer contributions permitted by the WAPC include payments for underground power cabling, land and payments for local road construction and footpath construction, and four hectares of land for government primary schools.

The current developer contribution policy, developed in 1997, defined the scope of developer contributions by outlining the relative contributions of developers and state and local governments to certain infrastructure works. The policy stated that ‘the practice of local governments enforcing contributions from developers beyond the ... [WAPC] ... stated policies is not acceptable.’<sup>33</sup> It has been estimated that the existing developer contributions regime can equate to over 40 per cent of the total potential market price of a lot of land.<sup>34</sup>

In May 2008 the WAPC released a draft revision to the policy that provides a ‘system for local governments to plan and charge for development contributions over and above the standard provisions’.<sup>35</sup> The proposed revision has been opposed by major industry stakeholders on the basis that the scope for development contributions would appear to be too open-ended, and would risk setting WA toward the onerous contributions regime that currently exists in New South Wales.<sup>36</sup>

Whereas infrastructure for most residential properties in the inner suburban areas of Perth were financed out of taxation revenue, rates or public borrowings, developers of new dwellings directly incur the costs of funding infrastructure. These costs are passed onto home buyers, reducing the affordability of housing in new estates. Further, new home buyers are forced, through their land costs, to directly pay for infrastructure that would be used by the entire community.

## Putting it all together: The impact of regulations on the cost of housing

If land supply in Perth were not constrained by a multitude of prescriptive planning, development approval and environmental regulations, the price of housing would be far more competitive. Further price reductions can be found if governments provided property tax relief by not requiring home buyers to pay for all the additional costs upfront – such as the provision of roads, sewerage facilities and schools – that previous generations of home

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33 Western Australian Planning Commission, 1997, Planning Bulletin No. 18 Developer Contributions for Infrastructure, p. 5.

34 UDIA (WA), 2005, Response to the Western Australian Legislative Assembly Public Accounts Committee Inquiry into Developer Contributions for Costs Associated with Land Development, <http://www.udiawa.com.au/upload/documents/submissions/UDIA%20final%20submission%20Public%20Accounts%20Committee%20Inquiry%20into%20Developer%20Contributions.pdf>.

35 Western Australian Planning Commission, 2008, State Planning Policy 3.6 Development Contributions for Infrastructure (Draft), p. 2.

36 Property Council of Australia (WA Division), 2008, Submission to WAPC on State Planning Policy 3.6 Development Contributions for Infrastructure (Draft).

buyers instead paid (through general taxes and rates) incrementally as they used the services.

Land across Western Australia in its normal (agricultural) usage would typically cost from \$3,000 to \$5,000 per hectare. With the urban share of land representing less than 0.1 per cent of the state's land mass and less than one per cent of that of the south west corner there is no shortage of sites for home building. Clearly, since urban usage represents a relatively trivial share of the total usage, and as land is a homogenous good (with different values largely dictated by position), the value of land for urban development would be set by its alternative usage.

As this usage is overwhelmingly for agriculture, if the regulatory distinction between urban and rural usages were to be removed, urban land values would be based on the \$3,000 to \$5,000 per hectare that prevails with agricultural land. As a subdivided hectare would comprise at least ten housing blocks, even if the positional value of housing land on the periphery of Perth were to raise its price to \$10,000 per hectare, the virgin land costs would be only \$1,000, compared with a level of over \$80,000 at present.

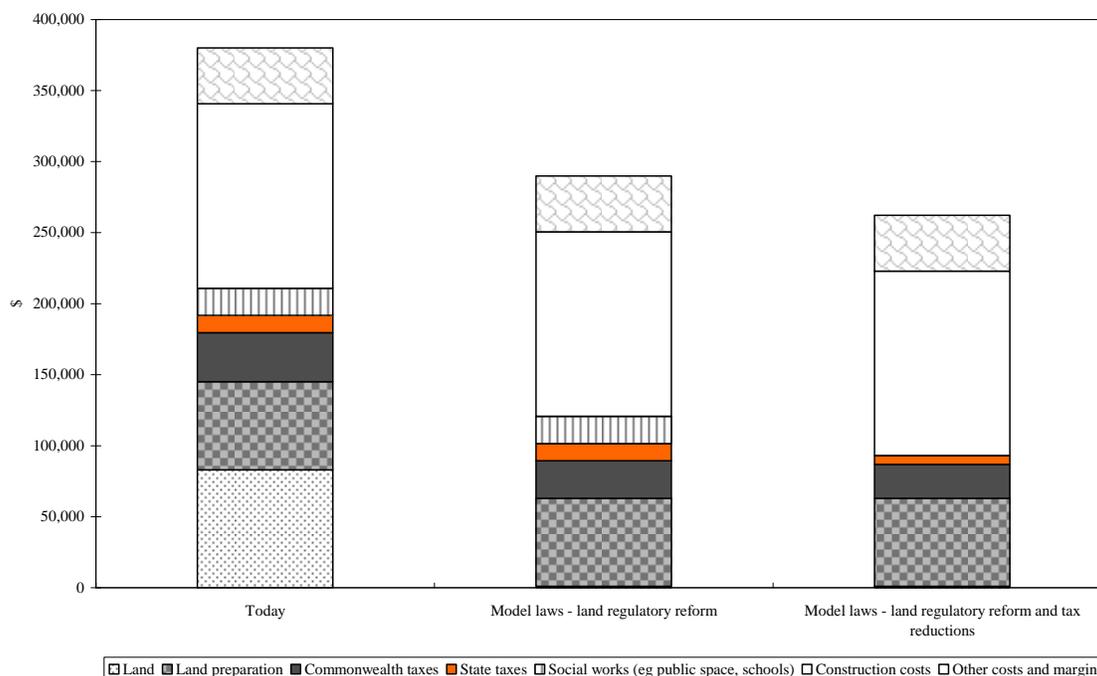
Land regulation reform along these lines would translate into lower costs for the house buyer, given the highly competitive nature of the house building and land development industries.

Land rationing through the planning system is not the only government intervention that has raised costs. Taxes and set-aside requirements have also been important. Alleviation of property burdens comprising tax and regulations other than those impacting on land availability, at the state and local levels, would further promote housing affordability.

We have modeled house and land costs to estimate the impact that reforms could have. Reforms that focused on freeing up the supply of land would see the total cost of a new house and land package drop significantly from \$380,000 to \$289,800 (Figure 15). If governments reduced their property taxes, and other regulatory burdens, house prices would fall further. Assuming a halving of state property tax liabilities on a new house, and with infrastructure contributions instead financed out of consolidated revenue, the price of a new home would fall further to a little over \$262,000. Thus, regulatory burdens add as much as \$144,000 or 38 per cent to the price of a typical new house in outer Perth.

The difference of \$144,000 effectively costs the home buyer an additional \$10,200 each year (assuming interest rates of five per cent, loan term of 25 years, and 90 per cent of house value borrowed), representing an extra \$852 per month on a mortgage.

**Figure 15: Perth new housing costs under different regulatory regimes**



Source: UrbisJHD, 2006, *Residential Development Cost Benchmarking Study*; Western Australia Office of State Revenue Tax Calculators; IPA calculations.

Government interventions represent a substantial cost imposition on those wishing to purchase a house and land package in Perth, and can only be alleviated by policies designed to improve the responsiveness of supply to the demands of those wishing to buy into the great Australian dream.

## Conclusion

The fact that significantly higher prices for housing for much of this decade has not resulted in a more significant supply response is a reflection of the various supply-side constraints that represent a wedge in the cost of bringing new housing to the Perth market.

As former National President of the Housing Industry Association, Bob Day AO, recently put it, ‘it is important to remember that the “scarcity” that drove up land prices is wholly contrived – it is a matter of political choice, not geographic reality. It is product of restrictions imposed through planning regulation and zoning.’<sup>37</sup>

<sup>37</sup> Bob Day AO, 2009, ‘The Source of the Housing Crisis’, *Quadrant* 53 (3) (March): 44-49.

As the issue of housing affordability came to a head in Perth, private sector developers found themselves hamstrung in their capacity to deliver more houses because of cumbersome planning and approval regimes that react too slowly to developments in a complex and fluid marketplace.

The recent trend of housing price reductions against the background of a slowing economy should not be used by governments as a rationale for taking no action to improve supply. Indeed, moves by the Rudd federal government to triple the size of grants for first home buyers represents a continuation of more of the same failed policies to improve long term housing affordability.

Alternative measures to improve the functioning of the Perth housing market – centred on removing restrictions against land supply – will prove to be the best guarantor for opening greater opportunities for home ownership for young and old Western Australians alike.