

**INQUIRY INTO SOCIAL, PUBLIC AND AFFORDABLE
HOUSING**

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SUBMISSION BY THE
Housing Industry Association

to the
**NSW Legislative Council Committee on Social,
Public & Affordable Housing**
on the
Inquiry into Social, Public & Affordable Housing

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HIA is the leading industry association in the Australian residential building sector, supporting the businesses and interests of over 43,000 builders, contractors, manufacturers, suppliers, building professionals and business partners.

HIA members include businesses of all sizes, ranging from individuals working as independent contractors and home based small businesses, to large publicly listed companies. 85% of all new home building work in Australia is performed by HIA members.





1 Introduction

The Housing Industry Association (HIA) welcomes the opportunity to provide comments to the NSW Legislative Council's Select Committee on Social, Public and Affordable Housing in response to its 'Inquiry into Social, Public & Affordable Housing'.

The need for affordable housing supply in all forms is integral to meeting the social needs of the community as a whole.

The Committee is seeking to investigate a range of reforms to improve the supply of social, public and affordable housing. A fundamental part of this approach must be to consider housing affordability in general terms. The framework for housing supply in NSW must have regard for each segment of housing need. Ensuring that those who can currently rent or purchase homes in low and moderate income households are not placed in a situation where they become 'locked out' and cascade down to become households in need of more direct housing assistance is critical.

In undertaking this Inquiry, it is suggested that the Committee give equal focus to factors that can assist those in the community that are not reliant on public or social housing currently to maintain that option, as part of its consideration of affordable housing issues.

Currently there are a number of policies in NSW that seek to address the delivery of affordable housing. However in many cases their implementation is limited by the prohibitive costs of delivering such housing by the private sector, which simply shifts the costs onto new home buyers. There needs to be a balance between government and private development in the supply of affordable housing.

Taxation continues to play a prominent role in housing supply and associated costs. Notwithstanding the readily identifiable taxes such as GST, hidden taxes are estimated at around 31 per cent of the value of output compared with an economy-wide average of 24.4 per cent. Including hidden taxes, the tax on new housing is an estimated at 44 per cent of the purchase price of a new house in Sydney¹. Initiatives that can reduce this taxation burden have a significant potential to flow into the housing market more broadly and increase the ability of those currently struggling to remain in the private market, and those seeking to enter the private market, to do so.

The terms of reference for the Inquiry cover a broad range of matters, many of which fall outside the scope of HIA to respond. Therefore HIA has focused on providing information that may assist the Committee in forming a view on current policy and legislation in relation to planning and taxation matters that affect the delivery of affordable housing in NSW.

¹ Centre for International Economics *Taxation generated from the Housing Sector-Final Report* May 2011. p7

2 Defining Affordable Housing

The term affordable housing is often not well understood. As part of this Inquiry it is essential that the Committee clearly articulate its intended definition of the terms 'social', 'public' and 'affordable' housing. To assist in this, the following comments may assist.

Housing affordability is generally accepted as a term that refers to the relationship between housing costs (rent, mortgage repayments) and a household's total income. It can be applied at the individual dwelling level, but often refers to the conditions of an overall housing market.

A commonly used method of measuring housing affordability is the '30/40 rule' which states that a house is unaffordable if the rent or mortgage is more than 30 per cent of the total household income, and the household is in the lowest 40 per cent of the income distribution. A household in this situation is said to be experiencing 'housing stress'. This concept is used in State Environmental Planning Policy (Affordable Rental Housing) 2009 to define those in need of affordable housing.

Affordable housing is different to housing affordability. It can be used as a specific term in relation to a specific housing product or option. However it is also often used as a generic term for an outcome, being to 'deliver more affordable housing'.

It is presumed that the Committee's interest relates to both the specific housing product, and the generic outcome.

One recent example of a definition of affordable housing can be found in the Western Australian *State Affordable Housing Strategy 2010-2020*:

"Affordable Housing refers to dwellings which households on low-to-moderate incomes can afford, while meeting other essential living costs. It includes public housing, not-for-profit housing, other subsidised housing under the National Rental Affordability Scheme together with private rental and home ownership options for those immediately outside the subsidised social housing system."

Drawing from this definition, affordable housing refers to individual dwellings that are sold or rented to a low to moderate income household at a rate that they can afford. In many cases, the dwelling will be sold or rented through a government or not-for-profit program that offers a subsidy to the owner or tenant, however in some instances low cost housing in the private market (both rental and purchase) will be affordable without any subsidy.

3 NSW Housing Supply

3.1 Affordability

There are various ways of looking at and measuring housing affordability. In HIA's view housing affordability broadly relates housing costs to household income.

For renters, housing affordability indicates comparing the ratio of regular rent payments to household income. In the case of home owners, affordability represents the proportion of household income absorbed by mortgage repayments.

However, in light of Australians' overwhelming preference for home ownership much of the commentary about 'housing affordability' is aligned more closely to concepts of accessibility to home purchase than to recurrent or regular costs of housing as a proportion of household income.

Measuring the ease of access to home purchase can be calculated in a range of ways. Sometimes accessibility to home purchase is measured according to the deposit gap, which is the difference between the price of a typical house and the maximum amount of loan that can be repaid by a household on average weekly earnings or average household income.

Another way of looking at accessibility would be to compare actual incomes against the income required to repay a home loan on an average house and land package with a given level of deposit. Regardless of which approach is employed to measure accessibility, all rely on a combination of house prices, interest rates and incomes and loan to valuation ratios (LVRs).

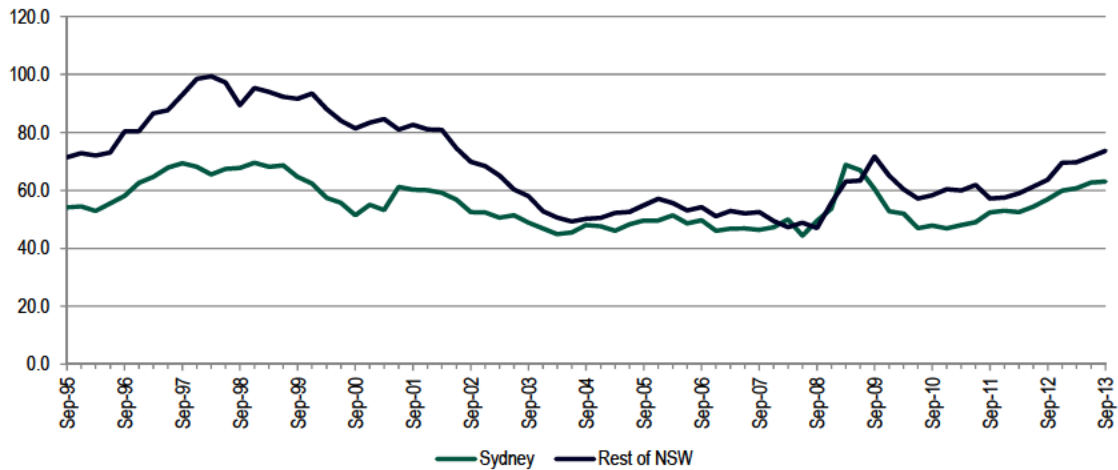
The HIA-Commonwealth Bank Affordability Index describes the relationship between household income and mortgage servicing costs based on prevailing home prices and mortgage interest rates. An increase in the index means that the burden of mortgage repayments has fallen and vice versa.

From the Affordability Index we know that New South Wales finds itself in situation whereby improvements in capital city affordability are occurring concurrently with improvements in the rest of the state.

In common with the rest of Australia, improvements in the affordability index over recent quarters have been driven by easing interest rates which had the effect of reducing mortgage repayments. The impact of declining interest rates outweighed the increases in home prices in recent quarters.

Housing Affordability Index - New South Wales

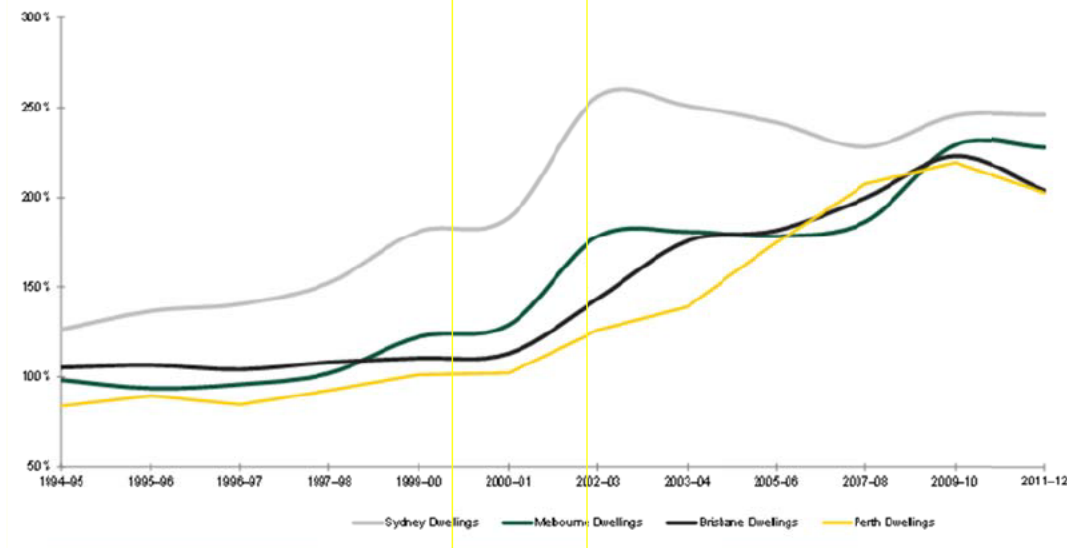
Source: HIA-Commonwealth Bank Housing Affordability Report



Affordability in Sydney reached its highest level since mid-2009 while affordability in regional NSW reached its highest level in over a decade. The affordability index for Sydney improved by 0.5 per cent in the September 2013 quarter and stood 10.7 per cent higher than in the same period in 2012. Affordability improvements in regional NSW were stronger. During the September 2013 quarter, the affordability tracking the rest of NSW increased by 2.8 per cent and was 15.7 per cent higher than a year previously.

Deposit Required for House Purchase as a Percentage of Equivalised Disposable Income, 1994 to 2012

Source: RP Data-Rismark; ABS



HIA has also investigated the deposit required for home purchases. In Sydney in 2011/12 a home buyer would be required to save a deposit equivalent to almost 250% of the equivalised disposable income² in order to purchase a home with a mortgage. This is also modeled on median house prices. Whilst commensurate with rates in other capital cities in the chart, this situation by all accounts is unacceptable and needs to be addressed. (see chart above)

² The Equivalised Disposable Income is a measure of income which takes account of household size and composition.



A greater supply of serviced land is crucial to dealing with housing supply and housing affordability, reduced taxation on housing including lower infrastructure charges together with addressing planning delays and other regulation which adds costs are all vital ingredients.

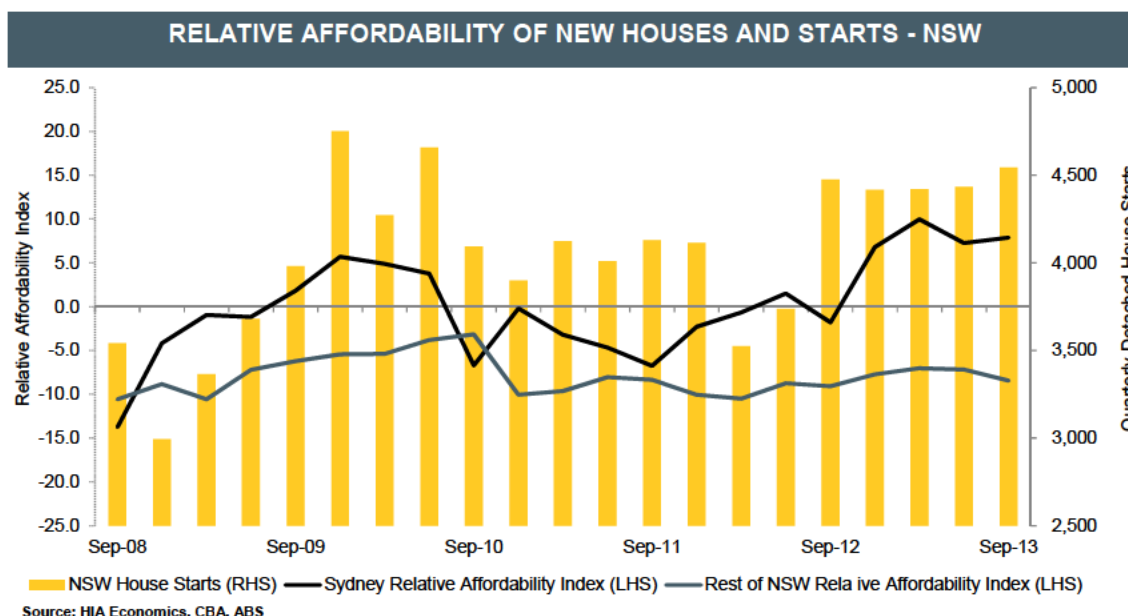
All levels of government should be looking at the roles they need to be playing to address the shortage of housing stock in most Australian cities, it is a balance of encouraging and enabling policies together with market forces that are required to ensure that different types of housing stock can be developed to meet the needs of a growing population.

Whilst industry builds a product that complies with relevant planning and building regulation, it must also take into consideration the needs and preferences of the market and ultimately build it at a cost that the market will bear for that particular product.

The HIA New House Affordability Index tracks new detached house prices relative to established detached house prices.

An index reading equal to 0 indicates that new house prices are the same as established house prices. A reading above 0 indicates that new houses are more affordable than established houses, while a reading below 0 indicates that new houses are less affordable than established houses. The chart below also tracks detached house starts against this measure of relative new house affordability. Housing starts appear responsive to these changes in relative affordability, with starts tending to move in a positive direction when new housing becomes more affordable relative to established houses.

In NSW, the new houses had an affordability advantage in Sydney, but this eludes the rest of the state. In the September 2013 quarter the capital's index reached 7.9, a level which is just higher than the 7.3 of the previous quarter and also represents the fourth consecutive quarter where the index has been above zero. These latest four quarters have been accompanied by improved levels of quarterly house starts in the state. Across the rest of NSW, however, the index continues to track sideways at around -8, a level which has persisted since late 2010.



HIA members are constantly challenged by local government requirements which attempt to extend their influence into planning and building regulations - adding ad hoc layers of regulation, sometimes over and above those contained in the Building Code of Australia (BCA) and its appendices. Whilst it is acknowledged that this process is an attempt to guide local governments policy in the area of affordable housing and provide a clear direction from the state about how it wishes to see an increased supply of affordable housing, this approach fails to consider the impact of other matters such as stamp duty reform, land supply, first home buyer assistance and the cost of planning delays on the supply of affordable housing.

3.2 Housing Supply

The rate of new housing supply in NSW has a direct impact on the demand for both rental and subsidized accommodation. HIA's Summer Outlook for NSW shows that there are many signs of improvement in the NSW housing supply equation. A full copy of the Outlook is attached.

If this rate of supply is maintained and supported by the Government through appropriate reforms and incentives, these improvements should continue to have flow on effects for those households seeking to enter the housing market in coming years, whether to rent or buy.

3.2.1 Housing Finance

The overall profile of housing finance in New South Wales has improved, with further momentum developing since the previous Spring edition of Outlook.

New home lending in 2013 in NSW recorded its strongest calendar year result in over a decade. The number of loans for the construction or purchase of new homes reached 23,396 in 2013, the highest calendar year result since 1999 and also nearly 30 per cent higher than the near-record low reached in 2012.

The final quarter of 2013 indicates a further improvement in the prospects for the residential construction sector in early 2014. Furthermore, it shows that NSW has reclaimed its title of 'Premier State', at least in terms of this segment of housing finance, with annual growth contributing to one third (the largest share among the states) of growth nationally. In terms of actual volumes and rate, new home lending to owner occupiers was in the December 2013 quarter was 24.6 per cent higher than in the same quarter in 2012 – a result spread reasonably evenly between lending to those looking to purchase and those looking to construct a new home.

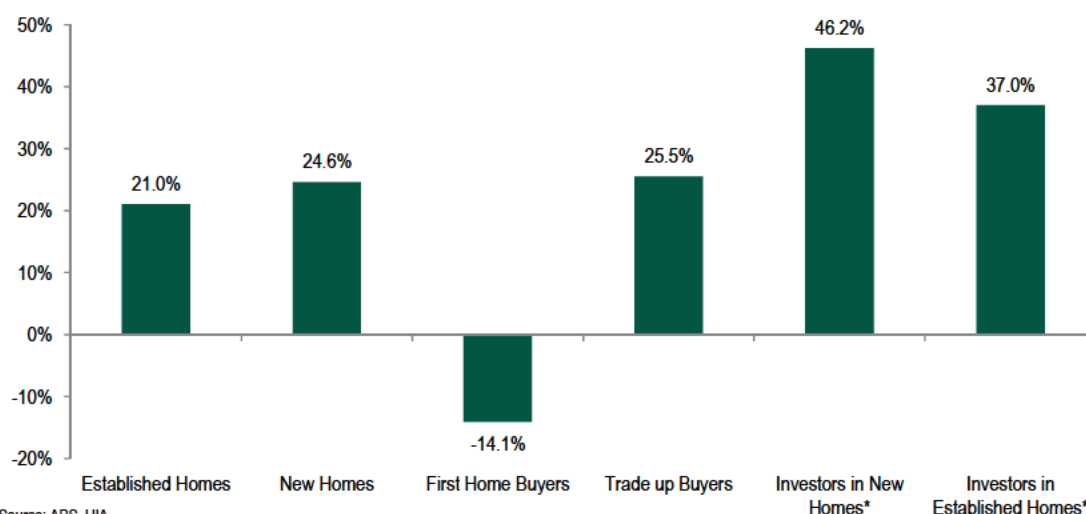
Meanwhile, the investor side of the market has also gathered momentum, with lending for constructing new homes rising by 46.2 per cent over the full calendar year.

The strong price developments (prominent in Sydney) throughout 2013 are a significant element in the backdrop in greater lending activity among owner-occupiers and investors into the established housing market. The number of loans (excluding refinancing) to the former group reached 87,844 in 2013, a level that is 7.8 per cent higher than in 2012. For investors, the value of lending increased by 37.0 per cent over the same period.

As noted above, lending to first home buyers is still at historical lows. In the December 2013 the number of these loans was 14.1 per cent lower than a year earlier. Nonetheless, signs are firming up that a reversion to more typical levels is currently under way. In the month of December 2013 loans to first home buyers accounted for 8.5 per cent of all owner-occupier loans, the highest share in just over 12 months.

Meanwhile, lending to trade up buyers has gathered further momentum throughout 2013, with the number of loans to this group up by 25.5 per cent on an annual basis in the December quarter.

NSW - Finance for Market Segments - % change - Dec 2013 Qtr on Dec 2012 Qtr



3.2.2 Building Approvals

In trend terms, residential building approvals in New South Wales have reached their highest level in over a decade.

In the month of September, total approvals reached an especially high level that was not matched in subsequent months. Nonetheless, a broad upward trajectory in total approvals is still in evidence in NSW. Total seasonally adjusted approvals in the December 2013 quarter reached an annualised level of 49,232. While this level is 5.3 per cent lower than the high reached in the previous quarter, it is still a strong 21.0 per cent higher than in the December 2012 quarter.

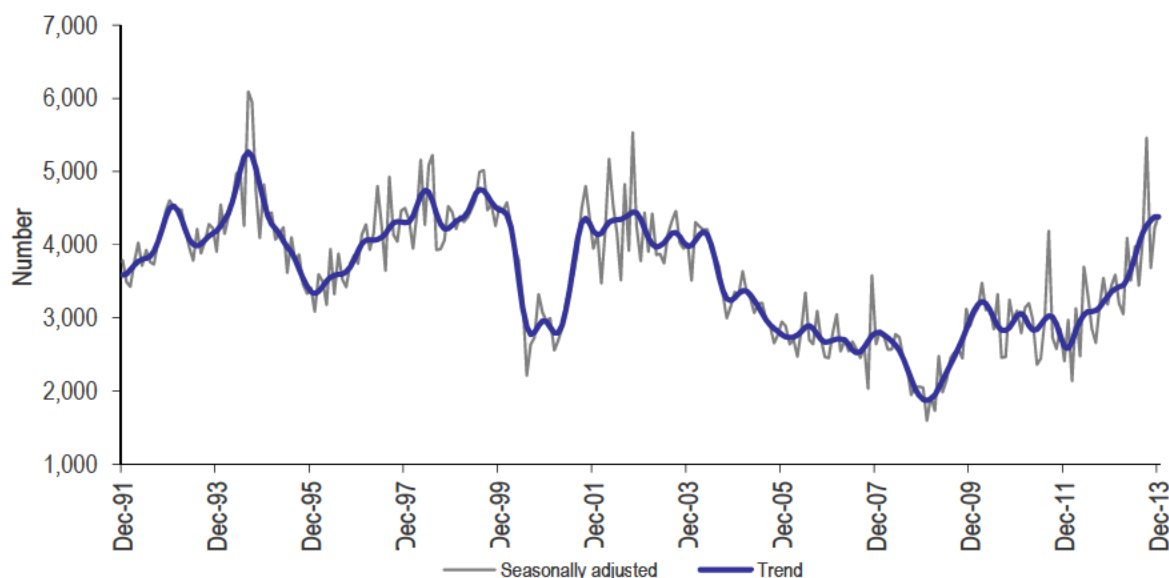
In the previous quarter HIA sought to examine the nature of the recovery currently underway in NSW's residential construction sector by looking specifically at the breakdown of approvals by type. In updating this analysis, it shows that the multi-unit segment continues to drive the total rise in the state's total approvals. In particular, approvals for dwellings in buildings of four or more storeys have contributed the lion's share to total growth in recent quarters. With approvals in this category now at historically high levels, the question is where to from here? That is, will current levels be sustained, grow even further or revert back to what has been typical of broader history?

Meanwhile, detached house approvals have risen more steadily and the potential for substantially more growth remains, given that current approvals levels are still quite a way off what could be regarded as genuinely high.

The section below serves to shed light on these observations and questions, detailing a breakdown of approvals by type. The overall observation from the previous outlook still holds for this update; growth remains largely broad-based, but is being driven by the higher density product. Growth in approvals for dwellings in blocks of four or more storeys contributed 17.3 percentage points to the aggregate growth rate of 22.3 per cent (in original terms). This was followed by approvals for detached houses which contributed 8.4 percentage points to the aggregate growth rate.

Building Approvals - NSW

Source: ABS Building Approvals



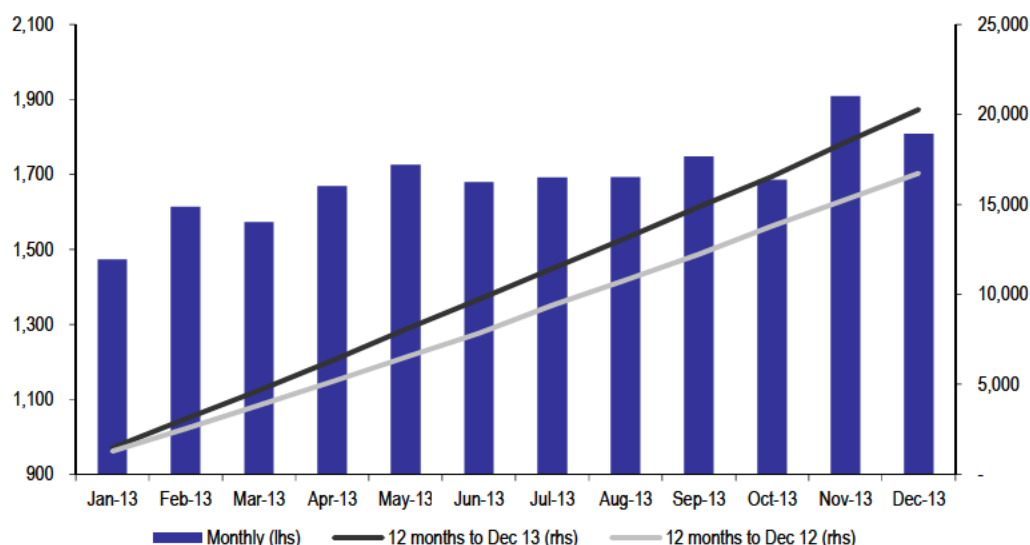
Over the full 2013 calendar year, the seasonally-adjusted level of **detached house approvals** in NSW increased by 21.1 per cent to a level of 20,269.

In the December 2013 quarter detached house approvals were running at an annualised level of 21,608 which is up by 19.6 per cent on the annualised level of the same period a year earlier.

The overall profile of this category of approvals continues to gather momentum, with an improvement in results from what was observed in the previous quarter.

Approvals for Detached Dwellings - NSW

Source: ABS 8731



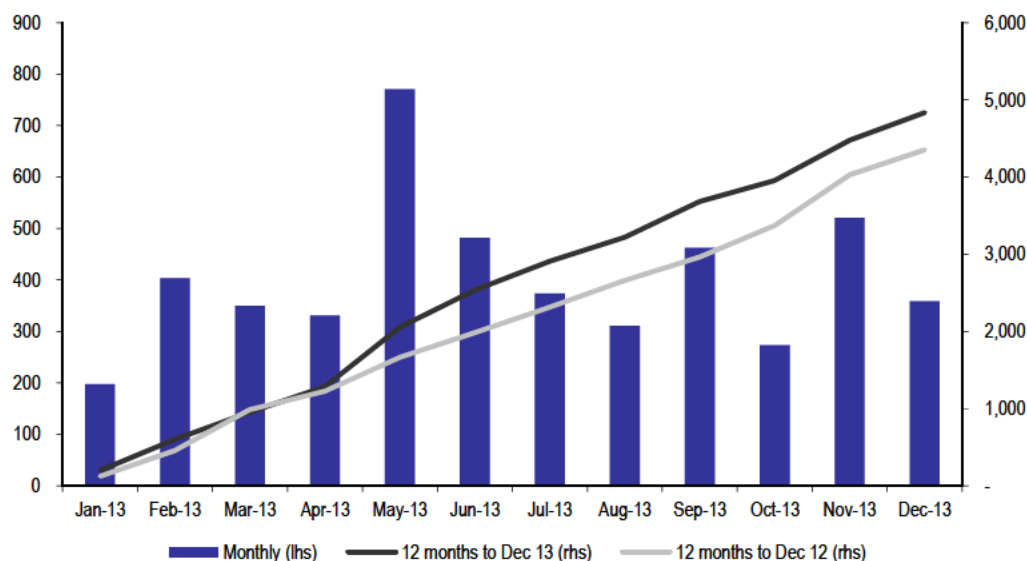
Approvals for **semi-detached, row, and terrace homes** improved by 11.0 per cent over the 2013 calendar year to a level of 4,835.

Semi-detached house approvals were running at an annualised level of 4,612 in the December 2013 quarter, down by 17.1 per cent on the annualised level of the same period one year earlier.

The profile of this class of approvals has softened compared with what was observed in the previous quarter.

Approvals for Semi-Detached Dwellings - NSW

Source: ABS 8731



Relative to other segments, the number of approvals for **units of one or two storeys** quite low

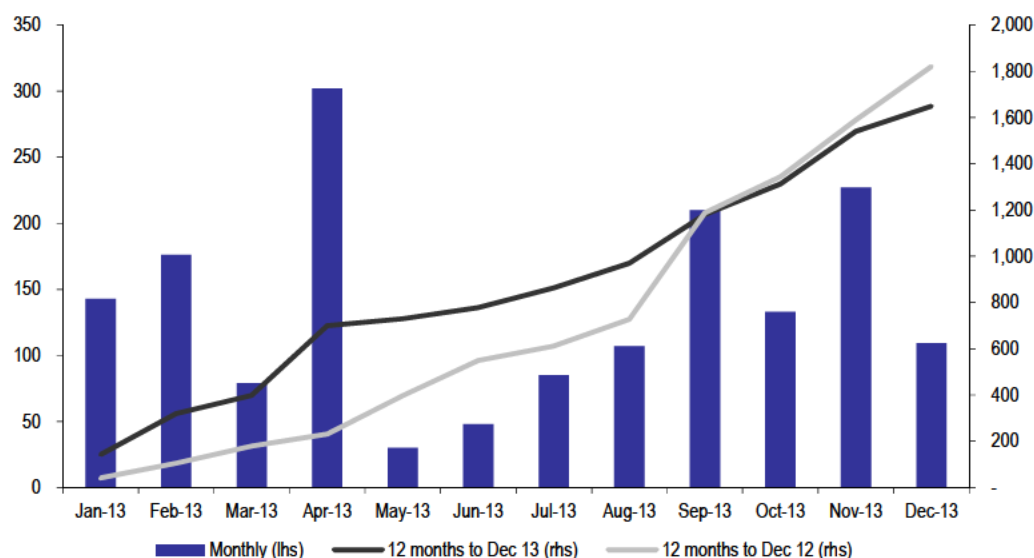
Approvals for in this category reached 1,649 in the 2013 calendar year, representing a 9.4 per cent decline from the level reached in 2012.

In the December 2013 quarter the number of approvals in this category was running at an annualised level of 1,876 which is 25.9 per cent lower than the annualised level in the same quarter a year ago.

The overall profile of this segment of approvals has not materially improved nor deteriorated compared with what was reported in the previous edition of Outlook.

Approvals for Flats or Units of 1 or 2 Storeys - NSW

Source: ABS 8731



Relative to other segments, the number of approvals for **units of three storeys** is similarly low.

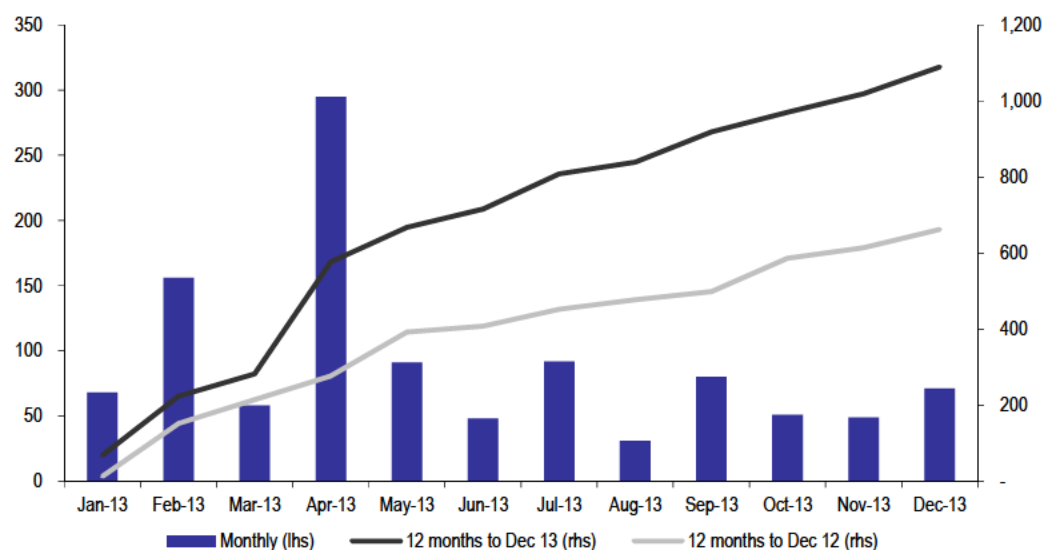
Approvals in this segment increased by 64.7 per cent over 2013 calendar year to a level of 1,090.

In the December 2013 quarter the number of approvals was running at an annualised level of 684, which is 4.9 per cent higher than the annualised level in the same period a year earlier.

The overall profile of this segment appears have softened compared with the previous edition of Outlook.

Approvals for Dwellings of 3 Storeys - NSW

Source: ABS 8731



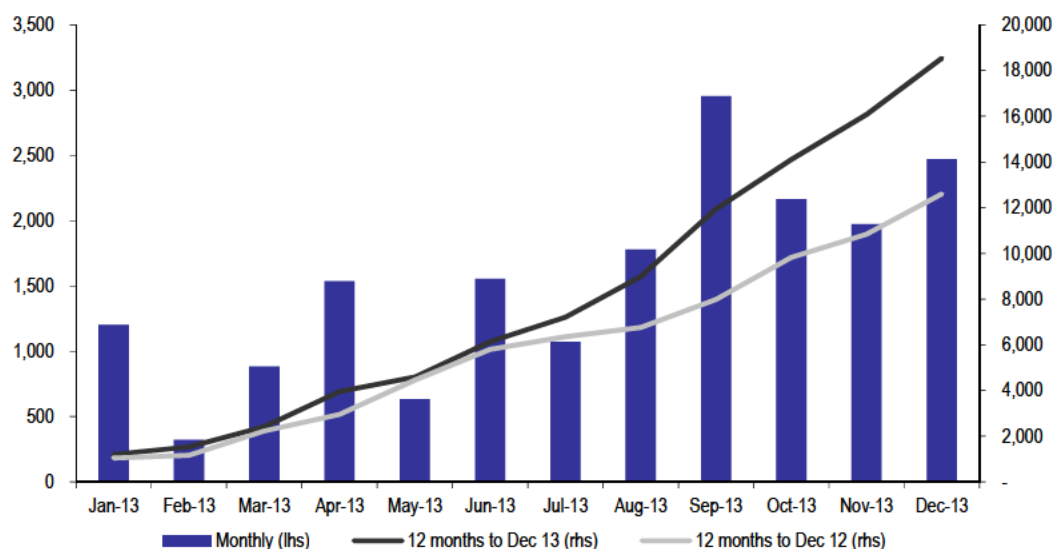
The number of approvals for **units of four or more storeys** climbed by 47.1 per cent over the 2013 calendar year to a level of 18,546.

In the December quarter the number of approvals was running at an annualised level of 26,428 which is more 42.6 per cent higher than the annualised level of the same period in 2012.

Overall, the profile of this segment of approvals has strengthened from what we had observed in the previous Outlook.

Approvals for Dwellings of 4+ Storeys - NSW

Source: ABS 8731



4 Increasing affordable housing supply

In considering the provision of social, public and affordable housing, it is suggested that the Committee consider that the provision of additional residential accommodation, in all its forms, will ultimately reduce the pressure for subsidized housing and government assistance. This can directly influence the demand for social and public housing.

The residential building industry aims to ensure that the housing market offers a range of housing products and types that will provide appropriate housing options for different household sizes at different income levels. It is critical for Government to encourage more rental and saleable housing that people can afford in the areas in which they work and want to live.

The supply of affordable housing is critical to allowing NSW residents to step out of the rental market and into the homeowner market. This will have a flow on effect and relieve the pressure being placed on the current undersupplied rental accommodation market in NSW.

Term of Reference (g) seeks input on potential recommendations for State reform options that may increase social, public and affordability housing supply, having regard to:

- (i) *Policy initiatives and legislative change*
- (ii) *Planning law changes and reform*
- (iii) *Social benefit bonds*
- (iv) *Market mechanisms and incentives*
- (v) *Ongoing funding partnerships with the Federal Government such as the National Affordable Housing Agreement*
- (vi) *Ageing in place*

4.1 Policy initiatives and legislative change

4.1.1 Infrastructure funding

The NSW Government has introduced a number of measures in the recent years aimed at improving the supply of land and housing in both greenfield and brownfield locations. In particular the Housing Acceleration Fund has played an important role in releasing land and housing effectively blocked in the system due to infrastructure delivery costs. Ongoing support for the Fund is seen as critical to maintaining the momentum that has been realized in the last 2-3 years.

In relation to direct infrastructure levies and charges on new land and housing, HIA has been advocating against these for many years as they represent an upfront cost to new home buyers, who represent only a small proportion of the community, to deliver infrastructure that provides a much broader community benefit.

The NSW Government has currently capped the State Infrastructure Contribution and local government section 94 contributions, which has been a move supported by the industry. However, ongoing uncertainty about how long these caps may apply and delays to the planning amendments which were to adjust how these levies were collected, have the potential to stifle future supply.

4.2 Planning law changes and reform

4.2.1 Planning Bill 2013

The Government's process to overhaul the current planning system included reforms that would have improved the timeliness of approvals for many residential building projects.

The amendments made to the Planning Bill 2013 during its passage through the Legislative Council, and now the delay in proceeding with the Bill, have seen these reforms lose momentum. In the case of 'code assessable' development this option had the ability to facilitate streamlined approvals for a range of housing types. Several states already support this process in their planning system. If this option is not to be included in future legislation, it is essential that the option of 'complying development' be retained and where practical expanded to cover more housing options.

Currently complying development is available to single dwellings and 'granny flats'. There would be merit in considering expanding the scheme to cover 'dual occupancy' dwellings and potential low rise medium density housing, as occurs in other states through the code assessable pathway.

The amended Bill also included provisions to allow the charging of 'affordable housing levies' on new development. This is not supported as a means of increasing the supply of affordable housing for a number of reasons, most importantly that it transfers the cost to a small part of the private housing market. This issue is discussed in more detail below.

4.2.2 State planning policies

There are currently two State planning policies that have a relationship with the provision of affordable housing in NSW.

State Environmental Planning Policy (Affordable Rental Housing) 2009 encourages an increase in the supply and diversity of affordable rental and social housing in NSW. It covers housing types including villas, townhouses and apartments which contain an affordable rental housing component, along with secondary dwellings (also known as granny flats), new generation boarding houses, group homes, social housing and supportive accommodation.

The overriding purpose of this policy is to permit housing, based on the standards set out in the policy, regardless of any limitation that may have been applied by the local government authority through either zoning or development standards. The policy goes further to offer a floor space incentive for projects which meet the provisions of the policy.

This approach to incentivizing housing supply is supported and should be encouraged.

However, the policy does include provisions for 'affordable housing contributions' and these are not supported as they simply place a cost on the overall development which must be passed onto the buyers.

Many developments and builders already contribute towards providing affordable housing, based on their price positioning at the lower end of the market. If social housing is required then it is the responsibility of governments to provide such infrastructure from general revenue.

State Environmental Planning Policy (Housing for Seniors or People with a Disability) 2004 aims to encourage the provision of housing (including residential care facilities) that will increase the supply and diversity of residences that meet the needs of seniors or people with a disability, and make efficient use of existing infrastructure and services.



This policy was originally introduced to limit the ability for councils to apply local policies that prevented housing for disabled persons. It has been an integral part of the NSW planning system for over two decades. The residential building industry works well with the policy and it is considered that in most instances, local government has now moved past the era of not supporting this housing need.

Whilst this policy does not include 'incentives' to deliver housing for seniors or people with a disability, it does serve to provide certainty for the development industry about building standards and ensure that housing can be supplied in the locations with greatest need based on market demand.

4.2.3 Inclusionary zonings and affordable housing quotas

HIA does not support inclusionary housing policies or affordable housing quotas being applied through planning policies.

Affordable housing levies usually require the provision or replacement of housing in exchange for the granting of rezoning or development consent.

The requirement is usually met by either payment of a monetary contribution to the consent authority, providing a defined 'quota' of affordable housing within a project or negotiation an additional floor space or other development entitlement for the provision of 'affordable' housing as part of a total project.

The quota system is in effect a tax on new home purchasers, who ultimately will bear the cost of any development subsidy that the quota requires. This unfairly places the burden of providing affordable housing onto new home purchases. Affordable housing quotas do not address the underlying root causes of the undersupply, rather they provide only minuscule and random relief to what is a much larger community issue that requires a whole of community solution.

4.3 Other Factors Affecting Affordable Housing Supply

4.3.1 Taxation

In addition to the readily identifiable taxes such as GST and stamp duty there are a range of hidden taxes (development contributions is one) that not only add to the housing cost but cause deadweight losses on the economy.

It is not only the Commonwealth Government that extracts large amounts of taxation from housing. State and Local Governments also rely heavily on taxes and charges on residential properties for their revenue which has both a direct and indirect impact on housing affordability, and hence places pressure on low to moderate income households to have access to more affordable housing.

The types of taxes include:

- GST
- Stamp duty
- Land tax
- council rates
- Development contributions



GST - In terms of GST alone, the residential building sector accounts for 13 per cent of all GST revenue raised by the Commonwealth Government.³ Whilst not able to be controlled or altered by the WA Government, it still needs to be a factor in the consideration of governments as a contributor towards the unaffordability of housing.

Stamp Duty - Levied when a property is sold, stamp duty can be paid multiple times on a new property. The current process for levying stamp duty involves 'triple taxation' this is a 'tax on a tax on a tax' obviously this is reflected in new house prices with each transaction in the construction process adding further cost to the end consumer. At each stage in housing production stamp duty is collected on both the contract sale price and levied on items such as GST, development charges and stamp duty applied in previous transactions. Stamp duty is imposed at three stages in the construction of a new house:

- Sale of land to developer;
- Sale of land from developer to builder; and
- Sale of house and land package to purchaser.

Stamp duty levied on previous taxes and charges as well as stamp duty levied on earlier transactions in respect to land and other development processes necessary to produce new house and land package, all adds cost to new house and land packages. In other industries, for example the used car industry, the commodity is regarded as holding stock and does not attract stamp duty until the sale to the ultimate consumer.

Land Tax – Land taxes paid by the developer must be passed to the consumer as part of the end price.

Council Rates - Council rates during the development phase of housing also add to the holding costs of developers and, like all taxes, add to the final cost of a home and land package or an apartment. The costs of rates paid whilst approvals are sought can be significant and should be addressed by either a rate cut or exemption during the development phase.

Development Contributions – These contributions are considered to be an ambiguous tax and are imposed by both state governments and local councils ostensibly for the provision of infrastructure. High infrastructure charges contribute greatly towards the unaffordability of housing as many authorities charge for items of infrastructure which are considered by HIA to be unreasonable.

HIA considers *development specific infrastructure* to be infrastructure which provides essential access and service provision and without which the development could not proceed. These items are considered to be core requirements for housing development and should be provided in a timely manner to facilitate affordable development.

Development specific infrastructure items within the boundaries of the development HIA agrees should be provided by the developer as part of the cost of development. For example, local roads, drainage, stormwater, land for local open space and direct costs of connecting to local water, sewerage and power supplies.

HIA defines *community and regional infrastructure*, as items of broader physical, community and social infrastructure for new development.

³ HIA commissioned the Centre for Independent Economics to undertake a study into the Taxation Treatment of Housing Titled “*the report was released in September 2011. This information is taken from page 8 of this report.*”



HIA considers these items to be ancillary to the direct provision of housing and an increased population and could include headworks for water, sewerage and power supplies which may be part of a specific contributions plan; community facilities such as schools, libraries & child care; district and regional improvements such as parks, open space and capital repairs; public transport capital improvements; district and regional road improvements.

In summary, development specific infrastructure establishes a nexus with the services necessary for the provision of an allotment or building whilst community social and regional infrastructure establishes a nexus with the needs of the population who will occupy the premises from time to time.

State and Local Governments are increasingly reliant on development contributions to fund social and community infrastructure to support residential development. The complex array of levies is growing and is adversely affecting housing affordability.

HIA opposes development contributions for broader community infrastructure items as they represent a “user pays” funding model for items from which the whole community uses and benefits. It is a burden on developers and new homebuyers to partially or wholly fund infrastructure items from which the whole community derives benefit.

If contributions are excessive, ineffective or contribute to general revenue they may be construed as additional taxes and as outlined adversely impact housing affordability.

4.3.2 Planning Delays

Delays and uncertainty in the planning system have been a key concern for the residential building industry for some time. An increase in the number of proposals requiring planning approval, a lack of experienced planning staff, high turnover rates in councils, lengthy referral processes that often add little value to built outcomes and the capacity for “objections” all serve to stifle timely decision-making.

Delays in the planning process have a significant impact on the residential building industry, in particular the operational competitiveness of small to medium sized building companies. When poorly administered, local councils negatively affect the cost of housing. Companies and land owners have compounding holding costs whilst awaiting approvals. Rather than increasing the amounts of affordable housing quotas, councils would be better placed to assist housing affordability by ensuring planning permits are dealt with in a timely fashion. Land holding costs as a result of planning delays increase the cost of housing provision.

4.3.3 Land prices

High land prices are an obvious contributor to housing affordability issues and the cost of supplying housing.

Sydney’s median residential lot price has escalated alongside the rising sales volumes, reaching \$295,000 in the September 2013. This represents an 11.3 per cent increase compared with 12 months previously. Despite this increase, it should still be noted that this September price is still below a previous high of \$315,000 reached in 2004 and 2005. Nonetheless, price pressures are emerging and could be suggesting constraints on Sydney’s land supply in the face of rising demand.

The trend decline in Sydney's median lot size appears to have been stabilised, with some increases evident over the past 12 months. In the September 2013 quarter the median lot size was 525 square metres, higher than the 505 square metre median lot size in the June 2012 quarter. Given this development in lot size, prices on a per-square-metre basis have been dampened somewhat, but have still, on net, risen. In the September 2013 quarter the price per square metre was just under \$562, which is 7.0 per cent higher than in the September 2012 quarter.

Outside of Sydney, the most expensive residential land markets were Richmond-Tweed, which had a median land price of \$225,000 - this price also represents the third most expensive, nationally. The Hunter and Illawarra regions followed with median land prices of \$185,000 and \$183,000, respectively.

NSW's most inexpensive residential land markets were the Murray, Northern and North Western regions, with median lot prices of \$105,000, \$115,000 and \$117,000, respectively.

A copy of the latest HIA-RP Data Residential Land Report is attached which provides additional detail on land prices.

4.3.4 Regulatory costs

Regulation of both housing and land development lies at the heart of higher costs for new housing. Regulation of new housing is not confined to land supply and subdivision matters. Higher costs of new housing through more onerous regulation in the areas of water, energy efficiency and accessibility can also have a similar effect on the supply cost of new housing. With further policy changes no doubt in the pipeline on energy efficiency, climate change, life cycle, broadband and the like, there will continue to be a cost effect on new housing relative to the price of established housing that will risk diverting demand to the established housing market and see a diverse supply of new housing slowed. These costs need to be addressed.

5 Conclusion

Housing affordability in New South Wales, and particularly Sydney, has been a major issue over the past decade. A declining number of people are able to afford to purchase their home and an increasing number of people are unable to afford to rent in the private market. Whilst this situation has improved somewhat in the last 2-3 years for a range of reasons, there will always be a percentage of the population who do not have the capacity to access the private market, either through purchase or rental.

The inability to purchase a home means that many 'would be' purchasers are staying in the private rental market, which consequently increases demand for rental stock, leading to an increase in price in rental accommodation. The flow on effect is that households at the lower income end of the spectrum have are unable to access appropriate private rental accommodation, but they may not qualify for the severely limited supply of public housing.

It is essential to recognise that there will always be a sector of the community who requires assistance, whether in part or in full, to access appropriate housing to meet their needs. Such housing will always require direct government involvement and will always be classified as 'subsidised' housing of some type.

House prices increases in NSW have occurred as a result of multiple factors including constrained land supply, increasing taxes and charges, cumbersome zoning and development approval processes. These matters should all take priority for the Government to address as a means to unlocking overall housing supply and to avoid letting those on the fringes of the private rental and purchase market falling into a situation that requires direct housing assistance.

HIA remains committed to finding workable, affordable housing solutions that can support the NSW community. Whilst the industry is often unfairly targeted, it recognizes that it is part of the overall affordable housing solution.

Other options that government could pursue include:

- The creation of market opportunities through development incentives, bonuses and cooperative partnerships;
- Seed funding initiatives;
- Innovation planning mechanisms that encourage product diversity in a local context;
- Encouragement of greater institutional investment in affordable housing projects; and
- Innovative funding options for new stock, e.g. shared equity.

A holistic and sophisticated approach to the issue of providing increased levels of affordable housing and solving the housing affordability crisis is essential.