Prices and planning:
The state of the housing industry

Alan Moran

House prices vary according to:

- The pressure of demand on the existing stock, which at any one time is unlikely to be able to be expanded by more than a few per cent.
- The cost of expanding supply, which in turn depends on:
  - the efficiency of the supply industry;
  - regulatory arrangements that might increase its costs; and
  - the ability of the existing housing stock to be adapted and traded, itself a function of regulatory and taxation considerations.

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In terms of efficiency of supply, Australia has the benefit of a house building industry that is low cost and which readily adapts to provide consumers with the product they want. Entry into the industry has been relatively easy and therefore competition is fierce. The industry's most marked organizational feature is independent businessmen—sparkies, brickies, plumbers, chippies—freely contracting with each other. The Australian house building industry, with efficiency levels that are inferior to none in the world, operates in stark contrast to the union-controlled construction sector which is pregnant with outdated and inflexible work practices.

The Demographia International Housing Affordability Ratings for houses examines about 80 different locations in North America, Australia and New Zealand. It arranges an affordability index based on the average price costs as a multiple of average household earnings. All seven of Australia's major capital cities are placed in the top dozen of unaffordability. Hence Australian home ownership levels, which have long been among the highest in the world, are likely to come under pressure.

As Table 1 illustrates, the ratio of home prices to household income topped 10 in Los Angeles, which was closely followed by Sydney. The final column refers to whether or not there are 'smart' growth urban consolidation policies limiting access to housing land. Most cities in this group had such policies.

Table 2 is of the most *affordable*

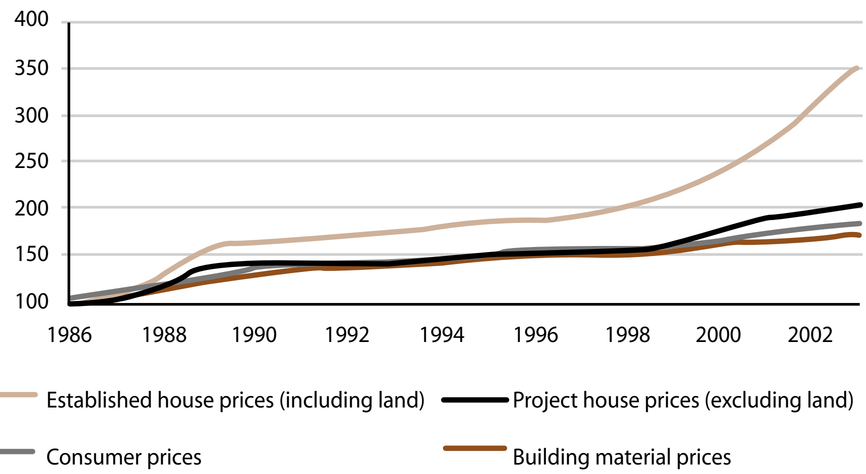
Table 1: Least Affordable Cities

Country	Least Affordable Cities	House Price ($US)	Ratio to Average Household Earnings	Smart Growth Policies
USA	Los Angeles	649,450	10.1	YES
Australia	Sydney	505,000	8.8	YES
USA	Honolulu	460,000	8.1	
USA	San Francisco	646,800	7.9	YES
USA	Miami	281,400	7.3	YES
USA	New York	398,800	7.1	
Australia	Melbourne	373,800	6.9	YES
Australia	Adelaide	248,800	6.2	YES
Australia	Hobart	242,300	6.2	YES
Australia	Brisbane	300,000	6.0	YES
NZ	Auckland	352,000	5.9	YES
USA	Las Vegas	276,550	5.8	
USA	Sacramento	319,200	5.6	YES
USA	Sarasota	267,600	5.6	
Australia	Canberra	361,900	5.6	YES
Australia	Perth	255,700	5.4	YES

Table 2: Most Affordable Cities

Country	Most Affordable Cities	House Price ($US)	Ratio to Average Household Earnings
USA	Dayton	119,100	2.6
USA	Allas	140,650	2.6
USA	Todeo	115,400	2.6
USA	Omaha	33,650	2.5
USA	Pittsburgh	116,150	2.4
USA	Tulsa	114,550	2.4
USA	Indianapolis	127,200	2.4
USA	Columbia	120,700	2.4
USA	Little Rock	110,650	2.4
USA	St. Louis	132,400	2.4
USA	Wichita	106,250	2.2
USA	Rochester	110,000	2.2
USA	Buffalo	95,600	2.1
USA	Syracuse	98,700	2.1
USA	Forth Wayne	99,150	2.1

Figure 1: Housing cost increases, 1986-2002



cities. These have new house prices that are effectively half and, in some cases, one quarter of the least affordable group.

This affordability spectrum is not purely a matter of income levels. In the US, Miami, where houses are unaffordable, is not a particularly high-income city. On the other hand, Dallas and St Louis are two relatively high-income cities with highly affordable house prices.

Nor is it a matter solely of pressure on resources. Although cyclical price rises and falls occur in the industry, two of America's most affordable cities—Little Rock and Dallas—are also seeing high rates of urban growth. We saw a variation of that ourselves in South East Queensland during the mid-1990s. A rapid increase in the demand for housing due to interstate migration was accompanied by a supply response made possible due to the availability of land. The net result was a major jump in new housing activity with little pressure on prices either in the new or established housing markets, especially on the urban fringe.

The distinguishing feature of all the most affordable cities is that they have none of the major planning restraints that are characteristic of the unaffordable group.

Clearly, Australia is in a situation of high-cost housing when measured against the US and Canada. How did this come about and has it always been with us?

Productivity Commission evidence of costs increases is best encapsulated in the following chart which was included in the First Home Ownership Inquiry Report

As Figure 1 shows, house prices have outpaced inflation. In fact, real house/land package prices have doubled over the period, with all of this increase due to the higher costs of land, taxes and development requirements.

The HIA has assembled as good a source of statistics as is available. It shows the land component has doubled in Sydney to 62 per cent over the past 30 years. From a lower base, the increase is even greater in Adelaide. This is illustrated in Table 3.

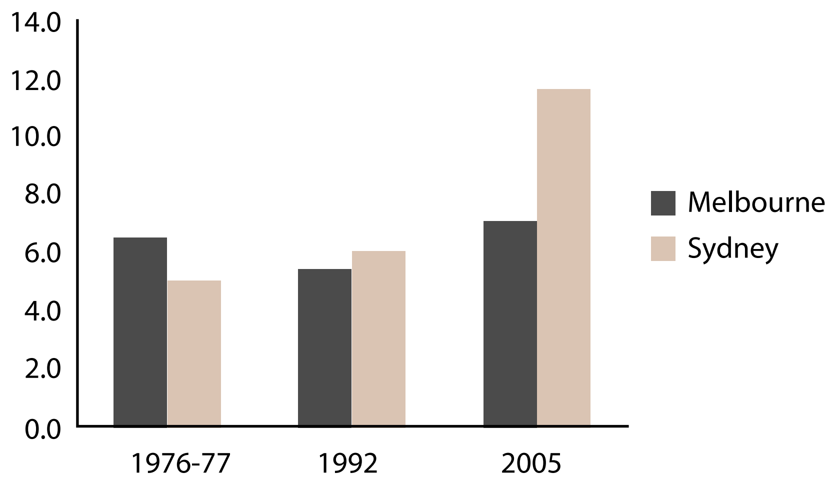
When we examine these data against real wage trends, the overall deterioration in affordability is not quite as serious, at least outside of Sydney. In gross wage terms, an average new house in Melbourne requires seven years' income, which is a little higher than in 1976–77 and 1992. In the case of Sydney, a strong increase in prices is clear—house prices have risen from five-and-a-half times annual earnings to 11-and-a-half times. (The numbers differ from those estimated by Demographia largely because the latter uses household income.)

In the case of Sydney, had land prices and associated land development charges been kept to the real level that they were in 1976–77, instead of a house/land package of $565,000, we would now be seeing prices of under $400,000. Had prices for land and its development increased along the lines of the consumer price index, as they did in the lower cost US cities, both Melbourne and Sydney would now be far more affordable.

Table 3: Typical New House and Land Prices by Capital City, 1976 to 2005

		1976-77	1992	2005
Sydney				
	House	$49,010	$189,800	$565,000
	Land	32%	44%	62%
Melbourne				
	House	$63,200	$169,000	$340,000
	Land	24%	24%	38%
Brisbane				
	House	$46,280	$164,690	$362,000
	Land	21%	39%	41%
Adelaide				
	House	$46,280	$125,970	$272,000
	Land	21%	26%	44%

Figure 2: New Houses: Number of Years Income



Put in simple terms, the key aspects of the increased costs are the scarcity value created by urban planning and the imposts heaped on developers by government regulations. The pure house price has moved in line with the Consumer Price Index. The basic house itself has increased in size and in its features. Material input prices have fallen slightly, but it is the labour arrangements within the industry that have kept down costs and prices.

The urban planning system is the chief spur to higher prices. For Melbourne, the 2030 Strategy has essentially replaced zoning as the determinant of costs. Soon after the Urban Growth Boundary was introduced, land brought inside it, say, around Whittlesea, was selling at some $600,000 per hectare where previously before the Boundary de facto rezoned it as housing it cost $150,000–200,000 per hectare. And the value outside of the residentially zoned area already had a premium because of speculation that the area would eventually be zoned residential. Indeed, the value of the land without such an expectation would be likely to be of the order of $4,000 per hectare. So, a regulatory stroke of the pen increases costs tenfold. It may be some small comfort to hear that other governments are even more merciless towards the new aspiring home owner—in the UK, planning can increase land costs 500-fold!

37 per cent of new houses in Victoria sought to overcome the higher costs of using registered builders by becoming 'owner builders'.

On top of this are mandatory charges for development. Many of these would be required in any event, but some are clearly extortionate.

One builder provided evidence that the increased documentation required for new house building in NSW cost an additional $9,958 per dwelling over the past few years. The HIA estimated that the regulatory 'tax' on new subdivisions in western Sydney was $60,000. Though some of this is arguably for infrastructure directly contributing to the value of the subdivision, much of it is for social infrastructure such as 'affordable housing contributions', local community facilities, public transport contributions and the employment of community liaison officers.

In addition to lower new home-building activity per se, one outcome of the increased cost impositions must be a reduction in levels of home ownership. As well as distorting consumer choice, this might have a wider adverse community impact in so far as home ownership is a great force for social stability and the creation of an aspirational society that has done much to transform living standards over recent times.

THE FUTURE OF PLANNING LAWS

Developer-builders are in an intensely competitive system and they need no prodding by socially active regulators to press them in directions that their customers want.

Some means is urgently required to sharply curtail the discretionary powers held by local officials and councillors over new developments. It is odd that there is not a massive protest about the escalation of land and associated development prices on the part of the perpetually indignant. After all, we are talking about some of the *bêtes noires* of the agitational classes—speculators, local government corruption, and extortionate rental profits being amassed by the 'passive' landowner! Unfortunately, it is the very people who profess to be 'concerned' who have created the political environment for supply constraint. In this, they are aided and abetted by prosperous individuals living in areas that are relatively close to major urban centres but which have features of remoteness and exclusivity that would be disturbed by influxes of riff-raff!

Unfortunately, the administration of planning regulations has become infested by elected busybodies and appointed experts who are determined to tell consumers what is good for them and to prevent them from doing anything else. Sadly, urban controls represent perhaps the last great redoubt controlled by Stalinist planners. They seek to impose on the public their own preferences for open space, green belts, house/land area and so on. They have little conception of the implications these measures bring for house costs. Indeed, at the recent Housing Industry Association conference in Melbourne, the doyen of the planners, Lindsay Nielson, the Victorian Secretary of the Department of Sustainability and Environment displayed all the hallmarks of an adviser captured by the myths that others had sown.

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He argued that it was not planning, but access to water, that had resulted in relatively high house prices in Melbourne compared with comparable cities such as Houston and Dallas.

Although the worst regulatory trends have not yet escalated the costs of house building itself, they are poised to do so. We have cost impositions arising from water storage, heating measures, room layouts and even the growth of credentialism which is stopping entry into the industry. One outcome of the growth in credentialism was that, last year, buyers of fully 37 per cent of new houses in Victoria sought to overcome the higher costs of using registered builders by becoming 'owner builders'. The restraints on supply together with the imposts placed on developers have clearly been the major, if not the only, factors in pushing up the prices of housing.

All this is at the expense of the weakest and poorest members of society—the mainly young first-home buyer.

The restoration of low costs for the home building industry requires measures such as:

- Relaxation of restraints on where homes may be built, even if this means growth in the urban sprawl so dreaded by the chattering classes. This might entail restricting area restraints only to areas of great natural beauty, for example, national parks and so on.
- Considerably curtailing requirements on builders to set aside land for public use.
- Restraining the demands that can be placed on developers for expenditures on infrastructure by redefining infrastructure to mean such essential features as water and sanitation, and local roads, and by recognizing that much of the expenditure for these services is already funded out of general State and local charges.

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