

How land supply restrictions have locked young people out of the housing market, and how Australia is starting to figure it out

Alan Moran: Adjusted for inflation, the price of houses in Australia has more than doubled (trebled in Sydney and Perth) over the past 30 years. How has this occurred? In a landmark address to the Housing Industry Association in July 2005, the Institute of Public Affairs demonstrated that the stellar rise in house prices across Australia was due to land costs.

Those costs were shown to be derived from state governments and local authorities acting to restrict the availability of land for housing. This is corroborated in Chart 1.

The 2005 HIA address was followed by a formal project, the Great Australian Dream, which sought to tease out and clarify in greater detail the measures that had brought about these developments. This culminated in a number of articles in the press and journals. It also resulted in a book, *The Tragedy of Planning: Losing the Great Australian Dream*, which the then-Treasurer, Peter Costello, launched in Parliament House in August 2006.

The culprit of higher housing prices in Australia was clearly identified as being the price of land which had been driven up by planning controls often designed to create more compact cities. The IPA has demonstrated that the cost of building and of land preparation had remained modest—increasing at a lesser rate than general inflation. This was notwithstanding the increased regulatory pressures placed on developers and builders to conform to fashionable environmental goals. And although governments were increasingly stinging new housing for spurious infrastructure ‘contributions’, these too were dwarfed by the scarcity driven price increases of land.

The work of the IPA and of others—in particular Bob Day, home builder and former president of the Housing Industry Association—was instrumental in changing the views of leading policy advisers.

Until recently, the Productivity Commission and Reserve Bank had blamed rising house prices on such diverse causes as interest rates, building industry capacity and taxation. Both these institutions and others have come round to the IPA position that it was land supply constraints causing the problem. It was easy to demonstrate that building capacity was not seriously stretched since far more houses had been built in the early 1990s than ten years later. Indeed, the IPA has assessed that the industry is presently underbuilding by as much as 50 per cent.

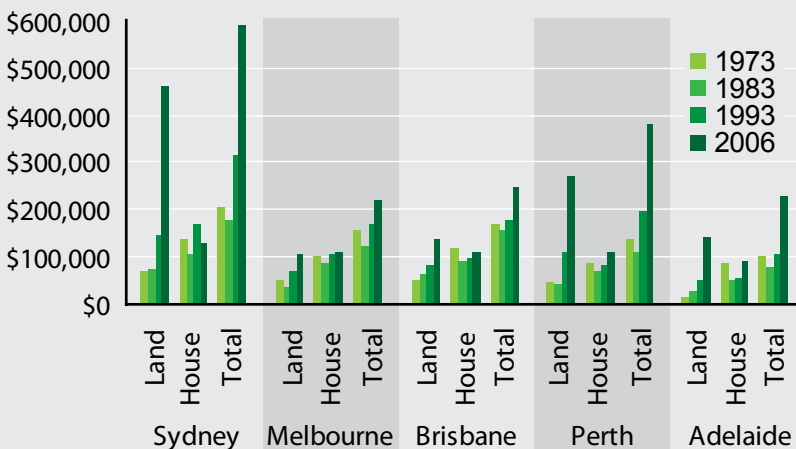
There remain many with a contrary view. One influential banking analyst argued that the price was all due to demand within fashionable areas of

Australian cities. But that line of argument fell foul of the price escalation on the periphery of our cities and the subdued prices in major overseas metropolises like Houston, Atlanta and Quebec, where Australian style planning controls are absent.

Within political circles the reaction to the IPA view has not always been positive. Many conservationists and the majority within the planning fraternity are strongly opposed to opening up more land for development. Many of these define themselves on the political left and their views sit well with prominent circles within the ALP.

Indeed, the federal Housing Minister, Tanya Plibersek, placed two leading opponents of ‘urban sprawl’—Sue Holliday, former NSW Director General of Planning and Marcus Spiller, Director of SGS Economics—on the eight member National Housing Supply Council.

Chart 1: Inflation adjusted median house and land packages, 1973-2006



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For the most part politicians have reacted to the housing issue from an electoral perspective. Labor in government in all states has a vested interest in blaming the high prices on matters other than those within their own bailiwicks. In opposition current housing Minister Tanya Plibersek wanted to capitalise on John Howard's interest rate increases as the bogeyman, refusing to recognise data presented to her that demonstrated the true cause.

When he was opposition Treasurer, Wayne Swan took a more sophisticated position, recognising that an increase in land availability would reduce prices and, though it would ease the burden of the aspiring home owner, it would leave incumbent home owners poorer. Generally, maintaining the barriers to new land supply appears to be political-

ly popular throughout the community and was responsible for a string of populist victories in the 2008 Queensland local elections. Apparently we all want our children to have access to lower cost housing but we prefer to maintain our own capital gains and to retain the 'character' of our neighbourhood.

The 2008/9 Commonwealth Budget provided little comfort about improved land supply. There is \$500 million a year in subsidies for renters and savers but the only supply initiative is an allocation of \$30 million to facilitate faster processing of land approvals.

Some in the housing construction industry, perhaps grateful for any government measures that might assist the industry and keen to avoid antagonising the new administration, have lavished praise on the demand measures

contained in the first Swan budget.

Nevertheless, the high ground of informed opinion has been persuaded that regulatory restraints of land supply have been the main factor behind higher house prices. There are considerable vested interests in the political and planning fraternities, as well as among home owners. These do not want to see a loosening of land regulations.

Much remains to be done to build upon our work and that of others. If Australia is to see more affordable housing and a home building industry producing at the underlying level of demand the debate needs to be intensified. Praising the government for following incorrect policies is not likely to be a useful strategy in addressing this agenda.

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