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## **TRANSCRIPT OF PROCEEDINGS**

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### **PRODUCTIVITY COMMISSION**

### **INQUIRY INTO FIRST HOME OWNERSHIP**

**MR G. BANKS, Chairman**  
**DR D. ROBERTSON, Associate Commissioner**  
**DR E. SHANN, Associate Commissioner**

## **TRANSCRIPT OF PROCEEDINGS**

**AT BRISBANE ON WEDNESDAY, 28 JANUARY 2004, AT 9.35 AM**

**MR BANKS:** Good morning, ladies and gentlemen. Welcome to the first day of the public hearings for the Productivity Commission's inquiry into the affordability of first home ownership. My name is Gary Banks. I'm chairman of the Productivity Commission. My associate commissioners for the inquiry are David Robertson on my left and Ed Shann on my right.

The purpose of these hearings is to provide those who have an interest in the inquiry with the opportunity to present submissions and in response to the commission's discussion draft which was released on 18 December. As you know, we chose the discussion draft format, rather than a more comprehensive draft report, because of timing considerations, but we focused on the key considerations in forming our findings to give you the opportunity to comment on those.

After these hearings in Brisbane, we have hearings in Sydney next week and Melbourne the week after, and we'll then proceed to finalise our report to government. The public hearings allow anyone to have a say in person on the issues under consideration and for others to listen to those remarks and respond, if they wish. We keep the hearings as informal as possible, but the act does require that people be truthful in their remarks and a transcript is made of the proceedings, which we endeavour to place promptly on the commission's web site.

I'd remind participants that all submissions need to be in writing in February, to allow us to draw on them adequately in working through our final report, which has to be completed by the end of March. I should also take this opportunity to thank those participants who have assisted us so far in the inquiry. We've had a lot of cooperation and some excellent submissions, which have made our job a lot easier.

I'd now like to welcome the Local Government Association of Queensland Inc and ask its representatives to give their names and their positions, please.

**MR HOFFMAN:** Thank you, Mr Chairman. My name is Greg Hoffman. I'm the director of policy and representation for the Local Government Association of Queensland.

**MR BANKS:** Thank you.

**MR GRIFFIN:** Malcolm Griffin, planning and development policy adviser.

**MR BANKS:** Thank you very much for attending today and being the first participants in the hearings; also for the earlier submission that you provided, which was quite helpful. You provided a supplementary submission. I'll give you the opportunity just to summarise some of the points you'd like to make.

**MR HOFFMAN:** Thank you, Mr Chairman. Just by way of background, the Local Government Association of Queensland has been in business 108 years. We are, in fact, the longest established peak body representing a sector of government or community within this state. We are recognised within the Constitution Act of Queensland and the Local Government Act of Queensland as the peak body for local government, representing all of the interests of local government across the state.

Firstly, the reasons for our submission: there are a couple. Local government in Queensland has shown an emerging interest in the issue of housing over the last five years. When the inquiry was called, there was certain attribution given to local government's contribution to the problems which we didn't necessarily agree with and we thought it necessary, in the interests of representing local government in this state, to present the situation as we saw it, acknowledging that there are issues that we can deal with but, as I said before, not believing that local government was a significant driver or contributor to the particular problems that are the subject of the inquiry.

In relation to the draft that you've released, we are generally supportive of the broad discussion and the key points, the conclusions and the policy implications which relate to the operation of local government within the planning and development process. However, there are a couple of issues that we thought it worth commenting on by way of elaboration and to ensure that you fully appreciate the issues from a Queensland perspective as you proceed to complete your report.

Local government in Queensland has, as I said, over the last five or, in some instances, more years been interested in a range of issues in relation to housing and accommodation. We've been involved in a number of innovative projects involving the establishment of housing companies, the granting of in-kind support and financial subsidies to community housing groups and, in a number of instances, particularly in rural and remote areas, the direct construction and provision of housing to meet the needs of those communities.

From our perspective, as the Local Government Association, we've developed a policy position in the last two years in relation to affordable housing, and that reflects the issues that are of concern to councils and the role we take in supporting them. That basic policy position is one that is incumbent on all levels of government to cooperate with one another, recognising that we all have a part to play and that, by acknowledging the need for a cooperative approach and also the need for appropriate resourcing across the three levels of government, the problem in its various guises in differing locations and circumstances can have a chance of being resolved. I might add that these problems manifest themselves at a local level and that local government can make a significant contribution to the resolution of those problems, but it does need not only a recognition of a cooperative approach but the need to

ensure that resources at Commonwealth, state and local level are available to deal with the problem as best those respective levels of government can do.

We'd certainly suggest in the final report the importance of acknowledging additional support and resources being provided to local government to develop and apply local responses, as appropriate, in differing locations and the need for a cooperative policy and resourcing approach between the three levels of government.

There are three areas in the draft report that we'd like to comment on - chapters 6, 7 and 8: chapter 6 dealing with that of supply and, "Has it become tighter?" the implications of infrastructure charges and, thirdly, industry performance and building regulation. In chapter 6 in relation to, "Has supply gotten tighter?" there are a couple of points we'd like to note - point 2 and point 4. Point 2 is focusing on land release, the long lead times and the implications or the circumstances that arise from strategic planning and how that needs to be opened to public scrutiny and have a clear statement of key assumptions about cost benefits and the different options.

The Queensland planning system has been through a significant review since the early 1990s, particularly since 1997, under the Integrated Planning Act. We have a process that is rigorous in its requirements, in terms of public consultation, to ensure that all of the stakeholder interests are met. That's in two key parts of the planning process: at the very beginning and then, when councils develop their initial plans, they have to be, again, subject to public scrutiny. In addition to the public scrutiny, there is a need for councils to liaise closely with state government, to ensure that state interests are identified and acknowledged in the planning process and, in that way, efforts made to ensure coordination between state government and local government. Thirdly, the new planning process has a regional planning dimension to it, which requires councils to consult with one another where issues can have a cross-boundary implication.

That process is voluntary, and I'm happy to acknowledge that in the past two years there have been difficulties with that process that have resulted in significant representations and opinion being expressed quite forcefully through the media as to what the problems are and what might be done to address them. I'm expecting that today, in the launch of the government's policy statements for the current state election that's to be held on 7 February, some significant statements will be made about how the regional planning process can be improved. Acknowledging that there are issues there, we at local government level in the regional context have been ourselves acknowledging that there are problems, have made representations and would expect that something will flow from those as we move through the election process.

I'd say, in summary, that what has transpired in the past decade and the ongoing improvements being made to our system - that it is very comprehensive, it's very rigorous in its consultation with the community and with key stakeholders, it's very transparent and the direction that it is taking is very much in tune with ensuring that the environment in which the planning and development process operates is as - I won't say as good as we can get it, but it is significantly improved and dealing with the issues that have been of concern, insofar as the planning processes are relevant to land supply.

The second dot point I wanted to mention is dot point 4, "The planning approval processes appear to involve excessive red tape, duplication, inconsistencies, delays and lack of transparency." As part of the Integrated Planning Act and its requirements, all 125 city, town and shire councils in Queensland are expected to have in place new IPA-compliant planning schemes by July of 2004. Linked to that is the development of the Integrated Development Assessment System, which is designed to ensure that the development approval process has a focus at the local government level, that the interaction and engagement with state government is done in an efficient fashion and, linked to that process that is now being rolled out and improved upon, there is a Queensland Red Tape Reduction Task Force which is looking broadly at the regulatory processes of government - that's state and local - and how they can be improved to ensure that not only is the public interest met but that the broader stakeholders to the process are acknowledged too. There are initiatives in place that are designed to improve the system - the IPA planning schemes, the IDAS system and the awareness that we can do it better and hence the Red Tape Reduction Task Force's role - so we don't have a closed mind to the problems and have mechanisms in place to deal with them.

A couple of other issues that relate to the operation of the planning system that are worth mentioning are those in relation to skills shortages of the appropriate professional people to work the system and issues around dispute resolution. It's well acknowledged that across the nation the planning and development process is labouring under a shortage of appropriate people. Our experience in Queensland, as a consequence of the surge in development that's occurred in the last three years in particular but has been evident for quite some time, means that the local government system is labouring under the lack of availability of appropriately skilled people and we at the association will, through 2004, be focusing on what can be done. There are a number of initiatives and ideas that are being explored, but it is a priority issue for us in terms of our responses in relation to workforce labour market issues for us as an employer body within the state.

In relation to the question around dispute resolution, councils have asked us - and we have responded in a number of ways - to explore alternative and lower cost dispute resolution processes. We're not necessarily proposing the abolition of the

system, which is based on the Planning and Environment Court, but what are alternatives that may operate in conjunction with that process to ensure that those disputes that can be resolved outside of the court process are resolved without the cost and the time delays that that can involve.

We have, in our 10-point state election policy plan, put to all parties a proposal that there be an investigation into how we can amend the current system to achieve these options and alternatives. The major parties have agreed to that investigation, which would involve state government, local government and the key stakeholders. I might add that in our negotiations with the major stakeholders within the development industry they too share the belief that an investigation is worthwhile and would happily participate in that process.

We are looking forward to initiating that investigation. We'll see how we can, in fact, improve that element of the planning process as well. I might add that in the discussions with the industry peak bodies they've asked us to not just look to what alternative dispute resolution mechanisms we might seek to put in place but to look very closely at the reasons for why matters find their way to court or into dispute, for some reason, and that will help us to be better able to identify what alternatives might be appropriate or, for that matter, what systemic changes might be likewise appropriate. We're open to identification of the issues and to look to respond to those in appropriate ways, whether it's in relation to dispute resolution or systemic changes further back up the chain.

Perhaps we'd encourage you to look to incorporate into your report an acknowledgment of the issues around the shortage of skilled staff and a need for it to be recognised and addressed at the appropriate levels within state jurisdictions. That could well be at a national level too. Support for that would be worthwhile. Likewise, to the extent that dispute resolution processes do take time and do cost money, how alternatives or improvements in that process might be an advantage as well.

In relation to chapter 7, "Are infrastructure charges excessive?" you've made a number of points there, key points 1 and 2. We welcome the finding that the relative impact of infrastructure on housing affordability is limited. In Queensland, local government has statutory limits as to what issues it can apply charges for. Not only does the legislation identify what they can be applied to but it also sets very clearly the mechanism by which those charges are, in fact, to be calculated. That is transparent and it's open. It is a cost-recovery system. Because of the transparency of the process and that limitation, the issues around infrastructure charging do not, in our opinion, within Queensland constitute a contributor to the problems.

In relation to building regulation, local government in Queensland supports the

Australian building code as an appropriate mechanism for regulating building. Within this state, there is ability under planning schemes for there to be some variation made to the Building Code of Australia in the interests of getting a balance between the standards that are specified there and the needs of particular communities. Again, because it's done within the planning scheme process, that is transparent and open and is open for everyone to see and to participate in.

We have, as part of the IPA legislation and the new processes put in place, supported fully the reform of the building regulation process, with a move to private certification, within this state. When problems emerged in the early operation of that process, we did initiate an inquiry in 2001, in conjunction with the state government and key players within the building industry, and identified where the problems were, what solutions might be adopted and presented those to government. By and large, those recommendations have been approved and are now in place, improving the system. We've done what we've been able to to make that system work, support it and work on improving it. I'm happy to leave the comments at that, gentlemen, and respond to any questions or issues you might wish to raise.

**MR BANKS:** Thanks very much for that. We've probably all got a few questions to ask. I thought I might just begin by getting you to elaborate a little bit on this question of the local government's role in relation to affordable housing and whether any of that impacts on affordable home ownership, as opposed to other tenancies.

**MR HOFFMAN:** Okay. As I said at the opening, there are a number of initiatives that councils in this state have undertaken: the establishment of housing companies - and I'm referring specifically to the initiative of Brisbane City Council in that regard - the granting of in-kind support and financial subsidies to community housing groups to facilitate their operation and, in a number of instances, direct construction and provision of housing for not only the accommodation of employees within the local government community - where housing for them is important if you're going to recruit people to a particular area - but, in a number of instances, to provide additional housing so that any business that is looking to recruit people to that area or to that particular community can offer accommodation that council has assisted in providing.

**MR BANKS:** Some of the submissions that we got in the first round talked about regional policy as a way of dealing with home ownership affordability problems in the cities - in other words, by implication, there was relatively affordable housing out there in the bush. By implication, what you're saying here suggests that there are actually housing affordability problems in regional areas as well, at least in Queensland.

**MR HOFFMAN:** Affordability and availability.

**MR BANKS:** Yes.

**MR HOFFMAN:** Many of the smaller communities have had housing - perhaps it's older and its standard has not been such that it would readily attract people to those communities, so the response has been to either provide new housing or, in many instances, relocate housing that's been surplus to government requirements. Quite a deal of defence force accommodation in the south-east corner has been released and quite a number of housing units have been relocated quite some distance. It's still far cheaper to purchase in that situation and relocate than it is to build in the more distant or remote areas. I mean, the availability of building contractors and the supply of materials means that construction in regional and, particularly, in remote areas is incredibly expensive and relocation has been an alternative. Also the purchase of kit housing - transportable, relocatable housing - of a higher standard that can be used quite comfortably for longer-term residency has been applied in some instances as well.

**MR BANKS:** The other thing I was just going to pick up on, and then I'll ask my colleagues if they've got some questions: you talked about this question of regional planning, and I wouldn't mind just getting you to elaborate a little bit on some of the problems. I take it, from what you were saying, that some of the problems may well arise from potential tensions between what different local governments might be doing in their areas where there are overlapping issues and so on. Is that the issue there? Does that reflect in Queensland a slightly more decentralised approach than might occur in other states?

**MR HOFFMAN:** Partly decentralised, but it's more to do with the degree of autonomy and responsibility that local government has for planning matters, which in this state are at a higher level than is necessarily the case in other states, where state control or state planning bodies and regional controls are a little more intrusive or direct. But it goes beyond just the issues of inter-council cooperation in terms of the supply and availability of land. It has an interface significantly with the state government because, apart from what local governments might do in approving land development and land release, the supply of services not only on the part of local government but on the part of state government - I mean, they go hand in glove in terms of the development and the provision of viable communities.

What local government might be doing in one respect needs to be paralleled with what state government is doing in the provision of its services and infrastructure in terms of education, health and other government services that are needed to support development as well. The issue that we've been pursuing in the last six months with the state government on the regional planning front is not only to do with how we might ensure the processes - the inter-council processes - might work



but how the intergovernmental processes of state government departments and the coordination across state government responsibilities, as well as local government responsibilities, can be improved.

It is no good having land release if it is not adequately serviced. It might provide a place, but it doesn't provide a community of interest and focus for reasonable day-to-day living. The issues are broader than just across local government boundaries. They're across governments.

**MR BANKS:** Okay, thanks.

**DR SHANN:** I might ask a question about page 4 of your supplementary submission, where you're talking about the lack of skilled staff. You mention that there's increased pressure being experienced in maintaining statutory time frames and issuing development approvals. I'm just wondering what stats are available. New South Wales issues stats via a local government authority on the time taken to issue approvals, so you can get an idea of what the trends over time are and what the differences are between local authorities. Does that sort of information exist for Queensland?

**MR GRIFFIN:** I was asked this question yesterday. No, it doesn't. As far as I'm aware, councils - although they do internal processes and they seek continual improvement, I'm not aware of any of those stats being made available. I know the state government doesn't collect them. Whether they may do in other states, I'm not exactly sure. As far as I'm aware, those stats aren't broadly available, but certainly the information is there. Councils do monitor that.

**DR SHANN:** There's nothing publicly we can look at to see what's been happening to approval times?

**MR GRIFFIN:** Not as far as I'm aware. There's certainly a general acknowledgment and general understanding that time lines are under pressure, with councils seeking to meet the time frames to provide advice or provide direction - preliminary direction - and then provide a decision. There have been some well-documented cases - all large, like the Gold Coast - where they were having major problems meeting the time frames under the legislation to issue development decisions, and that information would be available. Certainly, information broadly across the state - I'm not aware of it.

**DR SHANN:** There's a statutory limit, is there, of 20 days you're supposed to respond to a - - -

**MR GRIFFIN:** Yes, there are a number of time frames there. Yes, there's a time

limit where you have to seek, if you want, additional information from the applicant and then there's a time frame to make a decision as well, so there are a number of time frames within the legislation.

**DR SHANN:** We've got a submission from Yarrum Equities, which is presenting later this morning, where they're complaining about the fact that they will put in a development application and, at the end of the 20-day period, they're then asked for more information and they then have to put in another development application. They are quoting a case where this had happened nine times, effectively. In a sense, the council is meeting the statutory requirement, but the developer is not actually getting a yea or a nay from the council. In this particular case, it eventually went to court. This was with Redlands. I guess the question is: is this a common problem?

**MR HOFFMAN:** I don't believe so, and I would certainly hope not. It's certainly not responsible on the part of local government to overtly delay the processing in that way if there were not justification for that situation. As I said, we'd not want to support a local government that used or abused the system in that way. There are also examples over time of developers not necessarily doing the work they need to do in the submission of applications and relying upon council officers to do it by telling them, "We need this, that or the other." There would be, I would agree, instances on both sides where the process has been misused, but I don't believe that that is the norm at all.

**MR GRIFFIN:** Yes. That was a particular issue of - that was investigating the Red Tape Reduction Task Force about abuse of the information requests. That's right. Without commenting on that particular example, it's not as simple saying that council can abuse that. Developers can refuse a request and say, "No, we've given you enough information to make a decision." Within the processing, there's always recourse to the courts again if developers feel they're being - if the process is being abused by one party or the other. The point that Greg made as well that councils are there to make a decision against the planning scheme - that is open and available and, therefore, that's the measure by which developers should be assessing whether they provide enough information and so on. There are checks and balances within the system which should provide for both parties to act and progress the process and get a decision made.

**DR SHANN:** Perhaps that moves onto the appeals process, where I see you're suggesting it probably could be improved again. I guess it gets back to what information is available. Have you collected information on the number of appeals and the proportion of refusals that are being appealed?

**MR GRIFFIN:** We do have, certainly, the number of appeals going to the P and E Court. That information is broadly available in the annual report of the court. We

don't have that information in relation to how many refusals are appealed or how many times the process breaks down and goes to court. That's one of the primary pieces of information we would need in undertaking an investigation. That's why we think an investigation needs to occur across all interested parties, because that is an important test about how well the system is functioning. No, that second piece of information is not available.

**MR BANKS:** I think there's been - it might only be anecdotal - some information in at least one of the submissions that, of those that go to court, most of them are upheld; which, by implication, the council had rejected the proposal on grounds that were upheld by the court. That could simply reflect the fact that the only ones that go to court are the ones where the party feels pretty confident of getting an outcome and given the costs, but do you have any comment on that?

**MR HOFFMAN:** I can only perhaps refer to the discussions we've had in the past couple of weeks with key industry groups - the Urban Development Institute of Australia and the Property Council - here in Queensland. Both of them are acknowledging that a lot of issues are resolved - you know, that do get into dispute and are heading towards court are resolved; in fact, immediately prior to court - on the steps, so to speak, or within a day of a hearing commencing. Our hope would be, if I could just comment on that - if that's the case, that involves time and money to all parties and, if we can find processes that will resolve matters before they go that far, then we've improved the system for all concerned.

However, there are issues where the financial stakes are of such consequence that the parties, particularly the major developers, would want the matter to be explored to the nth degree and would still probably want to take it to a court process, believing that an independent adjudication at that level on issues of such magnitude is where they want the matter resolved. Hence my comment earlier that our proposal is not to seek to deny that opportunity but recognise that there are many more issues that enter or come into dispute that can be resolved to the advantage of the parties that we would want to deal with, recognising that the ultimate court process needs to stand. Whatever, if you like, is the situation surrounding the matter in dispute, we would try to find a process that resolved the matter as expeditiously as possible.

**MR GRIFFIN:** Our understanding is that, on average, it takes between three and six months after an appeal is lodged for it to be heard. It's generally in that time that both parties - or a number of parties - focus and, if they're going to come to an agreement - consent order - that's when they do that. We think there's potential to actually force parties into a process where they may come to an agreement much more quickly than three to six months, and that's where you may very well achieve a lot more efficiencies and reduce costs and, hopefully, better decisions - agreements - rather than court determinations.

**DR SHANN:** You quote that there are - effectively, you're saying there are better systems operating in other states. Did you have a particular state in mind? Some of the other states don't seem to be too happy with their systems either.

**MR GRIFFIN:** We did a preliminary investigation of other models in other states, and no system is perfect. There are warts, I think, on all of them in different ways, but one model which I keep repeating - I think it's quite attractive - is in the South Australian system. As I understand it, they have what's called a compulsory conference, which requires parties to come together. It's directed by a recognised court-appointed barrister, who hears the case and then gives some direction about the validity of it - the significance - and also seeks to mediate and bring some solution. Again, it's a focus point where all parties seek - if they're going to come to an agreement, that's when they can do that. If not, they go to court. There has been quite significant success. On my understanding, approximately 42 per cent - I think that's the reported statistic - of appeals are resolved at that conference. It's really bringing what happens now informally more formally together, bringing the parties together, and that's a model which I think has some - it's certainly worth exploring in a more detailed way whether that could be applied to Queensland.

**MR BANKS:** Okay, thank you.

**DR ROBERTSON:** I just have one quick one. You answered Gary's question of affordability, and you talked about companies being formed in Brisbane and putting together groups in some of the more remote towns. Does that imply that these properties are rented or sold, particularly in terms of affordability?

**MR HOFFMAN:** To my knowledge, it's a bit of both. I have a little more knowledge of those in the regional and remote areas than I do necessarily here in Brisbane, but in those regional and rural areas the councils are acquiring the housing, relocating them and making them available. They make them available either for purchase or for rent. In most instances, it probably would initially be in a rental situation. If the individual is a permanent employee of a council, they may choose to purchase, but the priority is to make housing available and, in many instances, the affordability is not an issue, in that to provide the accommodation is the priority and the council is not going to deter somebody utilising that opportunity by having a rental regime or purchase regime that would be counterproductive.

They are seeing the provision of housing not just for its own sake but in terms of being able to provide for more sustainability in their communities. If you can provide housing, and provide that at a reasonable price, then business opportunities might emerge that would otherwise not emerge or be contemplated. It's about sustaining population, providing accommodation for professional people or other

staff that are needed to operate within the council environment, or support economic development initiatives within the community more broadly. In other words, it would be subsidised to achieve that broader community benefit than it is necessarily to recover the costs of the housing.

**MR BANKS:** Just coming back briefly to the dispute issue, would you like to comment on (a) whether you think disputes have increased over time and (b) what the problem typically is? Is there a systemic problem that's resulting in disputes or not? Is it simply a reflection of a greater volume of transactions and applications?

**MR HOFFMAN:** It depends on the perspective that you're looking at it from. The councils that have raised the issues with us are concerned that - and they predominantly focused in the developing areas, where the pressures are greater. The developers' aspirations to achieve the maximum development possible on a given space, given the costs of the real estate involved, drive them to achieve that goal and disputation is around the best economic outcome from the developers' point of view. From the council perspective, it may well be about broad environmental and other community considerations.

Yes, development pressures and those aspirations drive the process. In the discussions that we have had in the past couple of weeks, as I mentioned before, the developers acknowledge that as a motivator in some situations, but would also argue that the issues around the shortage of staff and the skills and availability of staff means that some of the decisions that they are confronted with are not as good as they could or should be, and claim - this is their claim; I don't know this to be true; hopefully, our investigation can explore this a little more - that, where those shortages or lack of experienced staff are involved, decisions will be made; they will need to be challenged and perhaps reviewed within the council at a higher level; may well be changed there - again, may not be - and the process can escalate through different stages, which is about time delay and, again, cost.

We can recognise the validity of that claim, subject to it being confirmed in a wider investigation, but it stands to reason that that can occur. Hence the suggestion we've put there that it should be acknowledged as a problem and we look as broadly as we possibly can to respond to that. There are a number of drivers for what the problems can be.

**MR GRIFFIN:** Yes, I think it's a good alteration. I think the whole planning development system in Queensland is relatively highly pressurised. There's a huge increase in development activity, there is a shortage of staff. Councils have just gone through a process of moving to new planning schemes which are performance based, where previously they were operating much more on a prescriptive system, and I think that's married with the fact that land prices have increased greatly, so there's

potentially more incentive there for developers to push the envelope to get more lots, higher returns. I don't know the statistics, but I wouldn't be surprised. I think all of those factors contribute to a high number of applications either ending in dispute whether they go to court or not, but certainly the process breaking down to some point because of all of those pressures.

**MR BANKS:** Yes. Performance based systems have obvious advantages compared to prescription, but maybe one of the disadvantages is in the sense of more scope for discretion and more areas of grey which can be subject to - - -

**MR HOFFMAN:** Yes. There are judgments needing to be made about that, as Malcolm said, under pressure of increased number of applications and the difficulties of availability of staff.

**MR GRIFFIN:** At a meeting yesterday, one of the major councils in south-east Queensland have just approved seven additional positions and they have no idea how they - they are not planning on filling them straightaway. They need seven planners but they're just over time hoping to attract someone over about a year. They think they'll take about a year, even though they're operating at that sort of below-level performance within terms of staff. They're not looking to recruit experienced planners because they know they won't get them; they're just looking at getting graduates and hopefully training them up and grounding them in that experience. It's a very common and real problem for councils.

**DR SHANN:** How do you get around that problem? That's the obvious answer. Should they be getting paid more? Can work be contracted out to what is currently done in house? What are the solutions to it?

**MR GRIFFIN:** Again, it's an interesting issue. The common thing that's said by councils or senior staff here is that whatever they pay the development industry will pay more, because they're looking for planners to put the applications in. I know my own colleagues who are there responding to applications and get offered significant money to lodge them, just to be the front end of the process. So I'm not sure that paying more - - -

**MR HOFFMAN:** My personal view is it is availability and the problem caused by the greater level of development. I don't think that's unique to this state; it's issues that you'll find all around the major coastal community and the major centres.

**MR BANKS:** Someone said that it also reflects, I guess, perhaps the society we live in, which is somewhat more complicated than it used to be in terms of environmental and amenity considerations needing to be taken into account in a way that 20 or 30 years ago may not have been such an issue. Is there something in that?

**MR HOFFMAN:** Absolutely. That's being reflected in the planning schemes themselves and on those matters that are open to third party appeals by more action on the part of not only individuals but community groups and lobby and interest groups keen to preserve amenity, environmental values of various sorts. So it's a reflection of all of that, which means that there is no simple, readymade solution; it's a question of what we can respond to and move in those directions. As I said before, we've identified it as a priority area for us as an association and we're going to be working on that significantly this year.

**MR GRIFFIN:** My understanding is that the shortage in planning and all development-related professions is being experienced at the moment in most developed countries. England has a shortage - or the UK has a shortage - and some of the larger councils here are seeking to attract planners from places like Canada and New Zealand and South Africa and even India. They're having trouble attracting people from those countries because there's a shortage there and wages are - they can't get a competitive advantage in attracting staff from those other countries or professions from other countries. So it may even be a worldwide issue.

**MR BANKS:** I have one other question which I think, as a peak body, you're probably in a position to at least respond to in general terms, and that's a sort of a governance issue, I suppose, that's been raised in relation to the whole area of planning and development approvals, whereby the roles are seen as being muddled whereby the councils have a policy-making role, but also ultimately a decision-making role and they have a number of forces on them and so on, including obviously the political process and an aspiration or a wish on the part of some to see some clearer separation of roles, and ultimately even arguing that, once the policies are made, the decisions about whether an application would be approved would be done by at almost an arm's length independent body, and so on. That's a pretty vague sort of question, but I'm just wondering if you know what I mean and whether you have any reaction to those issues.

**MR HOFFMAN:** I understand fully the direction of your question. Certainly in the discussions we've had in the last couple of weeks that's been raised. I'd say that in our investigation that we hope will get under way, that we will explore to what extent that situation is a problem - any of the delays or disputed outcomes - and it may well be that some systemic change is necessary there. We would, as a peak body, obviously argue for the right of the elected council to set the policy, set the direction, and have the role of ensuring that that was achieved. If that can be the outcome, then the processes of achieving that are open to debate, as to what changes may be made there.

The legislation currently provides for delegations to appropriate officers or

committees within councils. We're open to the suggestions of the greater use of that to facilitate the system, but needing to ensure that the wishes of the elected council reflecting the needs of that community are in fact achieved. So open to that as a suggestion and we'd look to explore that within our investigation of what - I think that whilst we started out as an investigation into lower cost dispute resolution, quite reasonably now is saying we need to look very closely at the causes of the disputation if you're going to find a solution. As I said, it might be solutions within dispute resolution, but it might be systemic back up the line into the decision-making processes as well.

**MR GRIFFIN:** I know that it's been suggested that private certification for planning approvals is a way to address the skills shortage and also potentially address that issue, although I don't think in principle that's not necessarily - yes, in principle that would be a solution but I think it would need to be managed very very carefully in terms of how that operates under a performance based system, certainly within private (indistinct) of the building industry. The reform that was actually undertook - you know, that's largely - there's very little; it's a question of performance. There's a building standard that needs to be met and so on, time frames and other sorts of standards. It was found that there was a real problem in the capacity for the industry to actually interpret and understand and apply those fairly arbitrary standards and so on.

**MR BANKS:** On behalf of the community?

**MR GRIFFIN:** Yes, on behalf of the community. That's right.

**MR BANKS:** Conflicts of interest are way more evident in planning processes than they are in building.

**MR GRIFFIN:** Yes, capacity of interpretation on the policy and when that particular solution meets that policy. There's a lot more scope there and so that would need to be very carefully considered in terms a solution to those issues.

**MR BANKS:** I suppose the only other related thing that I just mention - because it has been raised, and we mention it in our discussion draft as one of the things that needs to be looked at - is this question of "as of right" development, where provided a development meets certain prescribed requirements, there is really no scope for appeal on those matters. But, again, is that a problem as you move into performance based systems? How much scope realistically is there to move in that direction or, indeed, has there been any experience of it in Queensland?

**MR GRIFFIN:** I suppose the jury, in some sense, is still out on that. I think there is certainly scope for it within the system to do that, in terms of setting codes and so



on which the developer can look at and, if they can meet that, they don't need to lodge an application and so on. But it becomes a challenge for the council to try and foresee all the huge variety of different sorts of applications that can be lodged and set codes which are then interpreted by the average applicant, which then can be applied and, with a fair degree of confidence, meet those, without having to go through some sort of intimate review by the council. So there is scope to do that and I think a lot of councils are moving to do that, simply because the impact of actually seeing all these applications is quite significant on council. So there is scope to move towards that, but I think it takes a lot more work up-front in the planning process in preparing all the codes and ensuring that they are interpretable and that they can be applied independently and so on.

**MR HOFFMAN:** Probably apply to small scale, lower level developments anyway where there is not the broad range of potential issues in debate.

**MR BANKS:** Yes. I think we've covered all the questions we wanted to. Thanks again very much for coming in this morning.

**MR HOFFMAN:** Thank you for the opportunity.

**MR BANKS:** Thank you. We'll just break for a minute before our next participant, please.

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**MR BANKS:** Our next participant this morning is the organisation Prosper Australia. Welcome to the hearings. Could I ask you to give your name and your position with that organisation, please?

**MR PUTLAND:** Mr Chairman, I am Gavin Putland, the communications officer for Prosper Australia.

**MR BANKS:** Good, thank you. Thanks very much for the submission, which responds quite directly to our discussion draft, and also for the earlier submission that you made, both of which are very interesting. As we discussed, perhaps you might like to just summarise some of the key points and perhaps even start by saying a word or two about your organisation for the record and then take it from there.

**MR PUTLAND:** The organisation believes in the taxation of economic rent, as opposed to taxation of productive activities. We've only had the name Prosper Australia for a few years, but the centenary edition of our journal will appear this year. We, and organisations like us, owe our existence to a visit to Australia in the 1890s by the American social reformer Henry George, with whose name our ideas are normally associated, although they are considerably older than that and have many other variations. But I propose to speak for about six minutes and then be open to questions.

**MR BANKS:** Good, thank you.

**MR PUTLAND:** Mr Chairman, to avoid wasting the commission's time with needless repetition, I propose to concentrate my address on those points that I think are in danger of being underrated. Unfortunately, and surprisingly, one of those points is the central importance of housing affordability, not only for social justice but also for pure economic growth. I'd like to start by giving the briefest possible outline of the economic paradigm to which Prosper Australia subscribes and how it connects a variety of economic ills, including unaffordable housing. It will then be apparent why the proceedings of this commission are more important than the national wage case, or mutual obligation, or workplace relations, or almost any other current economic debate.

Modern economic discourse is dominated by the neoclassical paradigm in which assets are simply assets. In contrast, we distinguish between two classes of assets: those that can be competitively produced by individuals and firms - for example, houses - and those that can't - for example, land. In our first submission we call these respectively house-like assets and land-like assets. The returns to house-like assets are an incentive for producing and maintaining such assets. Accordingly, we unreservedly approve of the private ownership of house-like assets and the private enjoyment of returns to those assets. We're not socialists.

The rental values of land-like assets increase in the long term as effective demand increases whilst supply remains fixed. Because neither the assets themselves nor their values are created by the owners, these rent increments are pure economic rent, not a reward for productive activity, and could therefore be diverted into the public treasury without discouraging any productive activity, without raising prices of goods and services, and with the added benefit of stabilising the prices of the assets and preventing speculative bubbles, like the present housing bubble.

This particular policy was first proposed by John Stuart Mill and there are earlier and later variations on the same theme. But, of course, the owners of substantial land-like assets oppose any such policy and they have the financial means to fight it. So instead of using this economic rent for public revenue, governments tax everything that they should be trying to encourage, such as work, investment, employment and the consumption that creates demand. All of these taxes increase the cost of hiring a worker at a given standard of living and consequently tend to increase inflation or unemployment or both.

Central banks fight the inflationary pressure by raising interest rates to produce yet more unemployment, maintaining unemployment at the so-called natural rate which is the rate required to produce stable inflation. Meanwhile, the opportunity to make capital gains on land-like assets creates a permanent artificial demand for those assets, causing a permanent price premium, exacerbated by periodic speculative bubbles. Unfortunately, one of those overpriced land-like assets is land for housing, which is a necessity of life and for which workers must pay out of wages that have been depressed by competition for scarce jobs, eroded by income tax and devalued by indirect taxes.

In summary, the prevailing economic paradigm regards unemployment, poverty and housing stress not as evils to be avoided but as the price that must be paid so that the owners of land-like assets can continue to enjoy their economic rent. This is the end of history, the capitalists' nirvana. We say we can do better than that. We obviously say that the solution to unemployment and poverty and housing stress and the key to faster economic growth is to tax economic rent and minimise all other forms of taxation. This is one of the few tax reforms that simultaneously improve equity and efficiency.

So unaffordable housing is both a key symptom of economic mismanagement and a key cause of economic inequality. To appreciate the importance of affordable housing to economic justice, let's consider some of the rival proposals for redistributing wealth. Safety net wage rises can be taken away by income tax, income tests on welfare, and income contingent child support payments. Welfare increases or tax cuts for low-income earners overcomes some of these barriers but

can still be competed away in the rental housing market.

Every place of residence, however squalid it may be, commands a rent by reason of the economic opportunities to which it gives access, and every form of wages or taxes or welfare that merely raises the floor under those opportunities will therefore also raise rents, so that the benefits go to landlords. The only way to cut through this web, the only way to deliver real benefits to low-income households, is to exert downward pressure on the cost of housing through policies that strengthen the bargaining position of renters and buyers against landlords and sellers. That is why we say that the real debate on economic justice in Australia is taking place within this inquiry.

Our general approach to the problem is clear: we need to shift the tax burden off productive activities and on to the economic rent of land. In our first submission we propose to do this to a limited extent in a way that shouldn't require too much political courage. We propose to get rid of payroll tax, up-front infrastructure levies and stamp duties on new homes; not first homes, but new homes, because the duty on new homes determines the effect on supply and hence the effect on prices across the board. And we propose a broad-base land tax with no threshold at a rate of 3 to 4 per cent per annum. The land under owner-occupied principal residences would be exempt, although the submission leaves open the possibility of targeting that land through a strengthened assets test on welfare payments. As explained in our second submission, because each household requires access to one lot of land, a general increase in land values represents a transfer of wealth from land-less households to households owning two or more lots so that owner-occupiers are not better off except by comparison with the land-less.

There is one other factor that has been conspicuously overlooked in the discussion draft and in public debate. Policies that stimulate the supply of housing do so through their effect on the rate of new construction and would therefore be more efficacious if explicitly limited to new construction. Hence our second submission suggests that the first home owner's grant be restricted to new homes and perhaps also extended to new homes that are not first homes.

Finally, we point out that because the taxation of economic rent is the key, not only to housing affordability but also to full employment and rapid economic growth, it will still be appropriate after the housing bubble bursts and precipitates the next recession. Thank you, Mr Chairman. I am open to questions.

**MR BANKS:** Thank you very much for that. I guess we have a number of questions actually, going through. One of them is the point that you've made towards the end of your presentation, and that is that you don't see, or you dispute the fact, that a general rise in house prices benefits owner-occupiers and you see it as only

benefiting investors. I might just get you to elaborate briefly on that. I think what you're saying is that an owner-occupier has to live somewhere and therefore, in that sense, there is no great benefit, but would you concede that a house is also collateral and, if the value of that asset rises, your ability to borrow and become an investor yourself, as an owner-occupier, also increases and so your demarcation between owner-occupiers and investors perhaps is a little forced?

**MR PUTLAND:** I think anyone who is an investor also tends to be an owner-occupier. But I guess you also have to ask: if you can use your own home as collateral, why not the thing you're borrowing in order to purchase? I can see that there are arguments on that side - for example, another argument is that although - even if it is argued that an owner-occupier is not better off in absolute terms, then still an owner-occupier is better off relative to someone who doesn't own any land. But I'm trying to look at it from the practical point of view of the ordinary owner-occupier who is not an investor but who knows that moving somewhere else involves both a sale and a purchase. The benefit on one is cancelled out by a cost on the other.

**MR BANKS:** I suppose the other point I would make is that - that's right, in a static sense, but if you think over time, over the life cycle, most owner-occupiers retire at some point and the children hopefully leave home - although that is happening less and less early - so that ultimately, this is a form of retirement savings that is realised by downgrading to a smaller home which, even though all property prices are rising, if you go from four bedrooms to two, you may well have then a sum of money left over that you can use to finance your retirement, or do other things.

**MR PUTLAND:** Yes, but not everybody wants to downsize, for some reason. The intergenerational issue also raises the issue of inheritances, and the more you pass on - sorry, the greater the value of properties in general, the more you can pass on to your children, but the more you need to pass on in order to give them the head start that you want to. So unless you have only one child, you can't even guarantee that that child will get an inheritance, so there are all these conflicting considerations.

I guess one remark I should make is that if you argue that owner-occupiers are indeed better off as a result of rising land prices, then you are arguing against any special treatment for owner-occupiers in the taxation of land. You are even arguing against the idea that there should be, for example, means tests on welfare payments based on land values, as opposed to sending a bill for land tax in the mail. So if the broad thrust is to make a case for heavier taxation of land, then anything that you can say to the effect that home owners benefit from rising land prices is strengthening that case.

**MR BANKS:** Yes. Your advocacy of land value tax: can you point to any

examples in Australia or internationally where that is most closely approximated, or would you have any comments on land taxes as they currently operate in Australia?

**MR PUTLAND:** At the moment, the nearest thing we have to a land value tax regime is the local government rating system in Queensland and New South Wales, but even those systems have different rates for different classes of property. The so-called state land taxes are purer in one sense - that is, that all the state land taxes in all the various states are based on site values rather than accrued values, whereas in most local government areas in Australia, local rates are on capital accrued values. But, against that, the state land taxes are full of exemptions and thresholds, which reduces their ability to raise revenue in general, reduces their ability to recover investment in infrastructure through the resulting increases in land values, and reduces their ability to compensate, through the tax system, people who suffer reductions in land values because of adverse planning decisions. So we tend to regard the present state of land taxes as a terrible mess and we advocate getting rid of the thresholds and bringing in a uniform rate with minimal exemptions.

Internationally, as far as I'm aware, the two countries that have their greatest reliance on land value taxations are Taiwan and Israel. It's a bit difficult to draw conclusions about Israel because it's constantly at war, but I have seen figures from time to time suggesting that Taiwan also has the most uniform distribution of wealth of OECD countries, so there is some evidence - admittedly anecdotal - in favour of the proposition that land value taxation improves equity. The reason why the evidence is anecdotal is that the idea is so widely opposed by property investors who manage to drag ordinary owner-occupiers into their coalition. So a truly comprehensive system, for example a system that goes as far as the John Stuart Mill proposal of taxing away all future increments and land values, has never been tried anywhere.

**MR BANKS:** Good. Thanks for that.

**DR SHANN:** Can I just clarify? So you're removing exemptions. Would you tax rural land?

**MR PUTLAND:** That is bound to be politically controversial, but the fact is that a rural landowner is a small business person, and in metropolitan areas I don't think it's been suggested seriously that a small business person who owns premises should be exempted from land tax.

**DR SHANN:** And so the only major exemption that would continue to apply would be to owner-occupiers who aren't receiving welfare?

**MR PUTLAND:** In our submission, yes, and one can argue about the merits of

that. I confess I'm a little surprised that the questioning to date has tended to be less sympathetic to owner-occupiers than the normal comments on the subject, but I think for background the point needs to be made that a system of land value taxation is, in effect, a compromise between owning and renting, a compromise between buying and renting, which is very much weighted towards buying, so that any complaints that one can make on behalf of owner-occupiers are several times more serious with regard to renters. Whatever owner-occupiers suffer, renters suffer it to a greater extent. For example, when the rental value of land increases, an owner-occupier subject to land tax pays a tax increase which is only a fraction of that increase in rent, whereas a renter pays the whole lot in increased rent. We rarely hear about the plight of renters in discussion about land tax, but if for no other reason, for political reasons it is thought to be not advisable to extend precisely the same arrangements to owner-occupiers - even if one can get around it to some extent by implementing the same idea at the margins through the welfare system.

**DR SHANN:** I would have thought that would be particularly controversial, because effectively people on state pensions would be subject to a land tax and they're usually seen as the people - I mean, one of the problems with land tax is applying it to people who haven't got a ready cash flow.

**MR PUTLAND:** If you are a pensioner subject to a means test based on the value of your land, and if that reduces your pension to zero, the implication is that you own outright a piece of land which the average pensioner would not be able to afford to rent, so in that situation are you really a welfare case?

**MR BANKS:** That would be an interesting debate, I think - political debate anyway. David, do you have a - - -

**DR ROBERTSON:** I'm very troubled by all this and I don't know where to start. It strikes me that this is a very static analysis. It's a comparative static analysis. You take type 1 and you take type 2 and you say, "Values changes; therefore we tax you the value of your land." But we actually live in a dynamic world and there are other changes taking place which indeed influence the value of land, as we've just seen - for example, the change in the financial system. Now, I take it you wouldn't object to the changes we've made in the financial system, and yet that's had an enormous effect, simply because of people's choice.

How can you handle a situation where you get a really big shock to the system like the complete change in financial regulation in Australia or, indeed, a devastating war in the Middle East which leads to the disappearance of petrol, which is going to make a huge difference to land prices, because if you're a long way from the town centre you'll be much more disadvantaged than if you live in the centre? All those kinds of shocks seem to me to cast some doubt on this idea that the only way of

collecting tax is on land.

**MR PUTLAND:** I think one needs to compare those shocks with shocks that occur in alternative systems for raising revenue. For example, in the States at present there's a peak in stamp duty collections, because both the volume of real estate transactions and the values of the transactions are peaking. Under a land tax regime you wouldn't have that double peak, so the revenue stream would be more stable under land tax than it is under stamp duties. Under stamp duties, if people stop buying and selling, the revenue stops, but under land tax, even if people stop buying and selling, the asset base stays there and the revenue stays there as a consequence.

Another aspect of it is interlocational fairness. When shocks occur, they may well affect different areas in different ways and those whose land values increase have their windfall reduced through the tax system and those whose land values are reduced have their losses reduced through the tax system, so it improves equity in that sense.

But perhaps the broadest answer is this: no matter what reform you propose, one will always be able to find something that looks like a ground for objection, so if people are going to react to any proposed reform by looking for some objectionable feature and then rejecting the reform as soon as they find one, then no reform can ever be introduced and nothing can ever get better. So I think one has to calm down a little and consider the proposal by comparison with the present system and ask whether it's better or worse.

**MR BANKS:** I guess that gets onto a question I foreshadowed just before we started, and that is how much attention you or your organisation have given to the question of implementation, and how you would phase in your system and phase out the system that you see such deficiencies in.

**MR PUTLAND:** There are various ways to phase it in. One is the John Stuart Mill proposal, which is to tax away only the increases in the rental values of land. That has the effect of, in Mill's original implementation, preserving the capitalised values of land so that people don't suffer wipe-outs, and as the values of land increase over time then the fraction of revenue that's gathered that's contributed by the Mill tax increases and the fraction of revenue that has to be collected from productivity taxes is reduced. After 100 years, we're in a situation where we collect almost the entire rental value of land.

Another proposal is simply to wind down other taxes and wind up the percentage of land tax at the same time. It has been thought that this would tend to reduce land values steadily. Against that, we have to allow for the fact that the overall trend in land values is upwards, so if for a time the land tax rate is increasing



then the reduction in land value due to that effect will counteract the overall upward trend. But I am one of the school of thought that says there's a stronger reason than that, and that is that when you reduce productivity taxes, you increase the revenue that can be earned from land.

All productivity taxes are taxes on some activity that's carried out on land, so if you remove them, the business value of the land increases. What happens is that the increase in the value of the land due to removal of productivity taxes counteracts the decrease in value due to the ramping up of land taxes. In other words, what I'm saying is that the transition is actually a lot easier than is often imagined, but that is a somewhat new school of thought.

Yet another proposal is to say that - and this is a very radical one, in the sense that it eventually leads to a leasehold system, which some people would consider unnecessarily extreme and which even Henry George didn't want in form; he wanted it in substance - after a certain date one would not be able to sell fee simple title in land; one would only be able to sell, say, a 49-year lease. Now, because of the discounting rates that are applied to future rental streams, the value of a 49-year lease is almost as much as the value of fee simple, so it's not going to hurt anyone in the short term, but it would mean that over the generations land would make the transition from freehold to leasehold and the revenue from the land leases would be used for public revenue and virtually all other taxes would not be required any more.

The mere fact that one goes through the form of introducing a leasehold system is a political problem, I grant you, so for that reason we might prefer some other transitional arrangement. I guess the short answer is there are many transitional arrangements and, because reductions in productivity taxes tend to make the use of land more attractive, the transitional problem is not as difficult as it may seem. The main problem is dealing with the noise from vested interests.

**DR SHANN:** Have you done any costings on how much revenue you would actually raise from what you are suggesting? You are effectively advocating - well, removing thresholds which would get you extra revenue, and extending it to rural land would get you extra revenue. You wouldn't get much from the owner-occupied, depending on the means test I suppose. If I'm reading you right you are abolishing stamp duty, payroll taxes - - -

**MR PUTLAND:** All payroll tax.

**DR SHANN:** Both of which are substantial revenue raisers.

**MR PUTLAND:** Yes. Payroll tax is about \$10 billion, Australia-wide. State land taxes at the moment are about 2.5 billion. Stamp duty and up-front infrastructure

levies are about 1.5 billion and 6.5 billion; I forget which way around it is.

**DR SHANN:** Stamp duty is getting over 7 to 8, now.

**MR PUTLAND:** So it must be 1.5 billion for the up-front infrastructure levies. Some of those figures come from the Housing Industry Association report that was released shortly before this inquiry was announced. So we know how much revenue needs to be replaced. As to the taxable land base, one has to make some rather heroic assumptions.

For example, starting with a published estimate of the total value of residential property in Australia one can assume that that is 75 to 80 per cent of the total property value in Australia. One can assume that about a third of the residential property value is not owner-occupied. One can add the non-owner-occupied part to the non-residential part and assume that somewhat less than half of that was the land value - note the frequent appearance of the word "assume".

The good news is that from time to time I know there is opportunity to repeat this calculation, and I keep coming up with a figure of about \$600 billion for the taxable land base under the proposal in our first submission. That, combined with the revenue requirement - the taxes that we want to replace - gives a land tax rate of between 3 and 4 per cent. That's an average rate for all the states; it would vary from state to state.

Regarding the political implication of that, I believe the top marginal rate in Victoria at the moment is 5 per cent. Bearing in mind that a lot of other taxes are going to disappear, including payroll tax - which is believably unpopular - I don't think it requires too much political courage to take this on.

**MR BANKS:** Just in your calculation there, you have said, in passing, about infrastructure levies being worth a certain amount and so on. You were lumping them as indistinguishable from the tax. Indeed, in your submission you talk about them as a transactions tax.

**MR PUTLAND:** Yes.

**MR BANKS:** I guess we've talked about them in terms of a service and of paying for the provision of a service, and indeed paying differentially for that service if the costs are differential and therefore enhancing locational choice. You seem to have dismissed those arguments for reasons that aren't entirely clear to me.

**MR PUTLAND:** I acknowledge that there is merit in sending price signals to the developers, so that they have to pay more and pass on greater costs if the servicing of

a particular area is more expensive. One can achieve similar outcomes, to some extent, through the approvals process. In any case I think the merit of that has to be argued against the merit of the benefit principle. Land value taxation makes people contribute to the cost of infrastructure in proportion to the consequent increase in the value of their land.

**MR BANKS:** Yes. There's a tension though.

**MR PUTLAND:** Yes.

**MR BANKS:** Because that may not relate too closely to the cost of providing that service.

**MR PUTLAND:** I grant you that. There is a tension between two principles and one has to weigh one against the other. Another relevant argument - sorry, I've lost it. Go on to the next question. I may think of it again.

**MR BANKS:** You have just acknowledged, I think, that - - -

**MR PUTLAND:** Sorry, I have thought of it again.

**MR BANKS:** Yes.

**MR PUTLAND:** I'm making the point that, because the up-front infrastructure levies are transactions taxes, they are passed on in the up-front costs of housing blocks, and I am regarding that as an undesirable outcome. That has to be weighed against the desirable features of the pricing aspect.

**MR BANKS:** Yes.

**MR PUTLAND:** Sorry.

**MR BANKS:** All right. That helps me, actually, to understand where you are coming from. I have lots of comments here. I just want to see which ones are worth raising on the record. I suppose the only way - maybe the last one - is under your heading Cycles Are Not Inevitable. I looked with glee there that you have solved the problem of cyclical activity in the housing sector.

I wondered, when I got behind it, as to whether in fact what you are proposing would eliminate the cycling. It seems to imply that the cycle is entirely driven by speculative activity rather than a bunch of things that characterise housing markets, including lags in supply responses to demand shocks and so on, which we observe all around the world regardless of the tax system and so on. Are you overstating the

case here - that land value tax could actually greatly diminish the cycles?

**MR PUTLAND:** As an ex-engineer I distinguish between non-linear cycles and linear cycles. If you have a combination of lags in a feedback loop then you could get oscillations, so I can't entirely rule out the possibility that you would get cycles from other causes. I should also say that by coincidence the series of economic influences over time will wax and wane and may give the appearance of a cycle, albeit an irregular one.

The essential point is that one can almost always observe, in cycles, a speculative phase, where people want to buy an asset simply because its price is increasing. Now, what I'm saying is that if you tax the value of the asset at a sufficiently high rate you wipe out the speculative phase, which is an essential part of the cycle. When you have speculation, values increase to a point at which they become unsustainable. Then they collapse until the fundamentals indicate that the price has fallen far enough. Then things go quietly for a while until the overall increase in economic growth causes an increase in value as people notice. So again they start wanting to buy the asset because its price is increasing.

There is also a memory factor. People don't want to buy an asset that has recently collapsed, but these things wear off eventually. So this speculative phase is overwhelmingly common. I would say that it's there in the overwhelming majority of cycles and it's certainly there in the cycles that cause problems. The reason why a collapse in prices causes problems is that people have borrowed too much and the asset wasn't worth that much. That happens because of speculation; it doesn't happen in rational conditions. Even if it were not a complete solution, I would say that it's almost a complete solution.

**MR BANKS:** Just to follow up on that, because you have argued, however, that your land value tax should be set at 3 to 4 per cent.

**MR PUTLAND:** Is that enough?

**MR BANKS:** Now, you can't have it both ways. I can't imagine that holding back the speculative rush, and you've talked about then increasing it. Does that mean you having a tax that varies according to the cycle?

**MR PUTLAND:** Well, the feature of the land tax is that an increase in the capitalised value causes an increase in the tax liability, which makes - - -

**MR BANKS:** The absolute - - -

**MR PUTLAND:** - - - less attractive than it would otherwise be. As to whether 3 to

4 per cent is enough, we might actually have to do the experiment. If it's not enough, then most members of my movement will not object to the conclusion, if that means we have to put even more reliance on land tax and less reliance on other things.

**MR BANKS:** Which then raises a question of what impact that has when the market is more depressed and whether it has a long-term impact on investment that may be undesirable.

**MR PUTLAND:** In terms of the impact upon investment, you have to remember that no matter how heavily the land is taxed the land still exists and somebody has to own it. Whoever owns it will have an incentive to do something productive with it in order to cover the tax liability. If all else fails, ownership will revert to the state and the state will have to consider how to earn some revenue from this land.

So the land will continue to exist but it will be used more productively if there is a tax attached to it. This, of course, is the exact opposite of what happens in most cases. With taxes on man-made assets and with taxes on transactions, what happens is that you deter the production of the asset and you deter the transactions. But with taxes on naturally occurring indestructible assets, such as land, the effect of the tax is to force the resource into use and thereby promote activity rather than dampen it.

**DR SHANN:** I'm still puzzling over the proposal, I must say. The heavy capital gains tax would apply to owner-occupiers?

**MR PUTLAND:** It's an option in both submissions. We have suggested that, if you want to do something to bring owner-occupiers into the same framework as investors, there are political arguments and philosophical arguments for doing it through the welfare system rather than through the tax system. Again, if you want to - - -

**DR SHANN:** If you are going to influence the cycle on the housing market, the capital gains tax is only applying to renters; it's only applying to a very small proportion of the market. You would still end up with a cycle in the housing market, wouldn't you?

**MR PUTLAND:** If the acquisition of your own home is attached to a loss of welfare payments, you will take that into account and that will reduce your inclination to buy your own home simply because the value of real estate would rise.

**DR SHANN:** There would be many people on welfare who have already bought their own home - eg, pensioners - but there would be far fewer people who would be currently on welfare who are in a position to be thinking about buying their own home - ie, most people who buy their own home actually have an income.

**MR PUTLAND:** Yes. I should explain. There is a subtext here. I am allowing for the fact that in the future there may be a movement towards expanding the welfare system, so that there is a core welfare payment which replaces the dole and which also serves as a new work benefit to stop people moving from welfare to work and don't suffer a disincentive, so that employers wanting to employ these people are not pressured to pay too much in order to make up the loss of welfare.

I should also declare that I'm the author of a submission to the McClure report, back in 99, which suggests that there should be a core welfare payment - which I call a refundable rebate or general rebate - which replaces both the personal income tax threshold and serves as the core of the welfare system. Under that system you will have to ask how universal that payment would be, to which my answer is, you will impose a means test based on land values.

**DR SHANN:** Effectively everyone would be on welfare except if you were means tested because you had property?

**MR PUTLAND:** A very high fraction of the population would miss out for that reason. I don't envisage a vast increase in welfare expenditure, but what I do envisage is a system in which you will not have income tests on welfare producing effective marginal tax rates close to 100 per cent.

**DR SHANN:** Effectively 50 per cent of the market - or whatever proportion it would end up - is not subject to the capital gains tax. You would still end up with a cycle in the housing market because a large portion of the market would not be subject to the penalty - - -

**MR PUTLAND:** You would still get a penalty through the welfare system to those people who are receiving some benefit or who would otherwise qualify for some benefit, and that fraction will increase as the welfare - - -

**DR SHANN:** If you think you can make 25 or 30 per cent on your house, by buying a house over the space of two or three years, the means testing of the welfare - unless you're providing a very large sum through welfare - isn't going to influence the calculation much.

**MR PUTLAND:** Be that as it may, let it be conceded that every little bit helps and that if there is some penalty attached to capital gains for some of the market, through the tax system and through some of the market and in a less severe way through the welfare system, then capital gains would become less attractive and there would be some dampening of the speculative effect and its input to cycles. It is really a question of how far you have to go in order to get rid of the cycles. As I say, people

in my movement don't object to going as far as necessary.

**MR BANKS:** As much as it takes or something? Any other comments you wanted to make? I think we've had a good discussion, and your comment about the McClure submission actually helps me. I think it's the missing bit of the jigsaw puzzle on that discussion there, so thanks for that. I appreciate having you come along and put those submissions. I think you probably staked out one end of the territory. I'm not sure you will have too many other such fervent advocates for land tax in these hearings, so thanks very much for that.

**MR PUTLAND:** Thank you, Mr Chairman.

**MR BANKS:** We'll now break just for a minute or two before the next participants, thanks.

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**MR BANKS:** Our next participant this morning is Yarrum Equities. Welcome to the hearings. Could I ask you, please, just to give your name and your position with the company?

**MR CETINICH:** Good morning. My name is Murray Cetinich. I'm a director of the company. I just want to read a very brief statement. We're here today because our company develops residential land in one of the fastest growing areas of Brisbane. We are currently unable to supply the market with land at an affordable price for the first home owners. In our submissions, we've provided evidence of that contention. The outcome is that the development approval process is inefficient, ambiguous and antiproduative. Our intention in being here today is to ask the commission to consider recommending that the Queensland state government applies the letter of the law to the Integrated Planning Act, efficiently audits local government, provides more staff for the development approval processes of local authorities, cuts delays and improves productivity.

I don't particularly want to read our submission in its entirety. I'd rather have a conversation than a presentation. If we could perhaps start with a case study - and feel free to butt in at any time - we're at the pointy end of development. We provide land. When you can't provide land in a reasonable time frame, the supply and demand chain goes like that - separates - so we have to endeavour to get land to the market in a more efficient manner. Currently, we just can't achieve that. We can do this in a number of ways. This might take about five minutes. I just want to very briefly go through the Integrated Planning Act.

**MR BANKS:** Sure.

**MR CETINICH:** If I buy a parcel of land from a vendor today, I spend maybe six months getting it to council as an application for a development. Council receives the application, and it can be in a number of forms. It can be an in-depth overview of what we're trying to achieve, it can be a broad based brush only dealing with certain aspects of the act, or it can be a very substantial submission in which you've created your development - your plans - you've done all of your consultative work and you make your submission.

Under the act, council have a 20-day period to respond. They then have a further 20-day extension of that period. Eventually, you will get some correspondence from the council, which is generally in the form of an information request. You then answer those questions, depending on how in-depth they are. Generally, it can run into 10 to 20 pages, sometimes 30. Most of the time it's pretty standard information. Occasionally, if there are larger issues with the site, it can take a lot longer to answer those questions.



We send back that information request to council. They then have a further 20 days to respond. Generally, you'll get an automatic letter that extends that period for a further 20 days. These are working days, so if you consider we've acquired the land and we've submitted to council you're looking at about three to six months from your submission to council. If all goes well, you'll get a decision. That can take three forms. It can be an approval, a deemed refusal or a preliminary approval. If it's a preliminary approval, that doesn't really mean anything. It just means that the planning department haven't been able to make a decision, and they want to give themselves more time to negotiate a decision at a further date. There are no statutory time frames within the negotiated decision process.

If they give you an approval, the approval could come with conditions that are acceptable or not acceptable. If they don't particularly like the development application that you have, they will make those conditions as hard as possible. Time will march on for another couple of months whilst you negotiate a decision or you get your approval. In the interim, you may have a change of government or you may have a change of planning staff. In the Brisbane City Council, for example, they have a significantly high turnover in staff. We generally find in the shire that we are in that the senior planners have been there for a long time but, in general terms, the workers turn over quite regularly. They go over to another shire or they go into private practice where the money is better, et cetera.

We have a considerable period of time where - we buy a parcel of dirt. We have to hang onto it. Vendors are becoming more and more sophisticated in their selling, so you generally have to pay up-front for land. You may have a period of a year to get an approval. If you don't get the approval, you have to then go to court. If you go to the Planning Court, you've got a whole host of mechanisms to go through. If you have a situation where the councillors have not accepted the officers' recommendation to accept the development - they vote against the council officers - when it gets to a Planning and Environment Court, invariably the developer will win the case and the conditions will be granted for the development. If you get to the court, not always do you go into the court. Invariably, a council will give you your conditions on the doorsteps of the court and you'll negotiate through those periods.

The time is the biggest killer for a developer. If we had a subdivision like ours at the moment, which is considerably large - we've got about 2000 home sites. If we have 1000 blocks to develop, as we currently do, and we've got all of those applications in council at the moment - if it takes a year to get any approvals out and start developing, at today's date the land is worth \$100, in a year's time it's worth \$150, so it's that \$50 that the end user has to pay for. Out of that \$50, there are holding charges, legal fees, et cetera. Those get passed onto the end user and then there's the little bit that's left over, which is the developer's profit.

So the end user is penalised by council inefficiency, being the first home buyer. It's not just the first home buyer, it's right across the board, but it's much more difficult for the first home buyer to get into a market that's artificially - and I say artificially because of the time delay. There's an artificial shortage of land, because there is enough land in - I'll just specifically talk about south-east Queensland. There is enough land in south-east Queensland to supply the current market, but it just can't get to the market quick enough. That's why prices go up. That's the main focus of my problem now with the submission. If there are any questions, just feel free.

**MR BANKS:** Maybe we'll get you to talk a little bit more about the nature of the development that you wanted in your application and what the nature of the problem was, because I think you said it was an area that was zoned for residential.

**MR CETINICH:** Yes.

**MR BANKS:** So it wasn't a zoning problem per se, but what was the nature of the problem?

**MR CETINICH:** There's no doubt that it's a contentious site. It was originally approved in the late 70s. There have been a number of owners of the site. This particular development probably should have been finished about 10 years ago, but a number of owners that have taken it on couldn't make it work, and there are a number of reasons for that. They didn't get the lot mix right, so they were trying to build too small a lot or too big a lot. The facilities weren't available, being there wasn't enough reason for people to come there in the first place. As the area has expanded, all of a sudden our development is a lot closer to everywhere else now, so there's a reason for people to move there.

We've endeavoured to put a reason there on the ground, creating more community facilities on the ground. We've got a situation where we've got about 1000 acres. A large percentage of that is dedicated as parkland. That was always a contention with the site, but we're getting a bit too specific. The largest proportion of problems were generally at a politicised level, not at a planning level. Our planners had a master plan for the site in the 1990s, and we're going through that same process again, so things are being done two and three times to get to the same outcome.

If a property is already zoned, you have a land-use right. That land-use right can't be taken away, unless it's resumed - and there's compensation to be paid - but, if you have a land-use right, all you have to do is meet a set of town-planning criteria. Those boundaries can change arbitrarily, depending on what council officers want to do. In our case, we've had a number of issues where we've created a precinct that has 200 home sites in it. Our land-use right might have been 400 home sites, so we've downgraded the site in lot yield, but we've enhanced the site environmentally. By

downgrading it on a lot-yield basis, we have to recoup the lost yield. The only way you can recoup a lost yield is by charging more for it. If we were able to develop a site in its entirety or to its legal land-use right, the price of the land would be a lot cheaper.

**MR BANKS:** Okay.

**DR SHANN:** This is the Mount Cotton village we're talking about?

**MR CETINICH:** Yes.

**DR SHANN:** I suppose one question is how general this problem is. Are all these case studies involved with the Redlands Shire Council?

**MR CETINICH:** Yes. It's not just the Redlands Shire Council, it's most councils. Any council that is in a growth area - the Gold Coast, Brisbane, Redlands, Pine Rivers, Caboolture - specifically with the south-east corner, the resources aren't there to handle the applications that are coming through. If it was up to three people to assess 30 applications over a period of two months, but 60 applications come in and no more staff is put on, they're just not going to be met in a timely manner. Under the Integrated Planning Act, they should be. There are ways that you can circumvent that, with automatically extending the time period for the first month and then the second month and unnecessary conditions in the information request.

When you put your application back in, you go through the same process again. Once you get your development permit, you're only halfway. You still have to be able to actually do the work, so you have to go through the operational works permit side of the equation, and that's exactly the same problem with the same time frames. They ask the same questions again, and you have to go back to your consultants, redo the work and send the information back in. Eventually, you'll get a decision or not. If you get the decision, it could be two years down the track, so my \$100,000 block of land is now going to cost the end user whatever the market will pay for it. Currently the market will pay silly amounts, because there is an artificial shortage of land. There's no way our land is worth any more than what it was six or eight months go, but because there's a shortage people are paying the extra 20, 30 or 40 thousand dollars.

So at the end of the cycle, the build-up, he's had the same time frame to wait; not necessarily on our particular block, but his costs have risen over the 12-month period or the 18-month period, so it just flows on all the way down the supply chain. Fortunately, there is some softening in the market at the moment, but if it continued on for perhaps another 12 or 18 months at these levels, either of one or two things would happen: the first home buyer wouldn't be able to buy land or the softening of

the market would be a prick of the bubble rather than a softening. So fortunately we are starting to ease off.

**DR SHANN:** So you haven't been tempted to, in a sense, try your luck with another council?

**MR CETINICH:** Yes, we do. We develop in other areas. Our company is multifaceted. We have shareholders that do commercial buildings in Brisbane on the Gold Coast, but for us they don't particularly - it's not first home buyer related. Commercial buildings and high-rises I'm not so worried about. Land is the biggest problem. We could go to other shires but we can't pick up our land and take it to another shire. We're stuck where we are and we have to fight through the system that we're in.

It's not that they're incompetent. Anyone that's hired in local government has competency. They're either poorly managed or poorly led. If they're poorly managed, where do you make the change? Do you make the change at a local level or do you make it at a state level? So if the state level could step in and create - well, there's been talk of a super-ministry. I think that's a bit over the top, but if they created a separate portfolio that looked at planning right across the south-east corner, which is the fastest-growing area in Australia at the moment, we've got an opportunity - particularly this state government, with the mandate that they currently have and they probably will enjoy after February anyway.

They should be looking at creating a south-east corner precinct that is totally separated; urban sprawls contained in precincts. I'm talking not just within a particular residential enclave; I'm talking suburbwise. Gold Coast is here, Brisbane is here, Sunshine Coast is there. There has to be green space and greenfield sites in between that stay that way, otherwise, as our environmental lobbyists are telling us in quite severe terms - we certainly don't want to see an urban sprawl from the Sunshine Coast to the Gold Coast. It has to be contained in pockets. If we can get the Planning Institute and the Urban Development Institute and the state government working towards a goal of containing urban sprawl, setting aside strategic plans for each precinct, all of this would just become a by-product of it, because once you have a strategic plan - "That is your land use; that's what you can do with it" - and you have your town plan - "Well, these are the rules that you adopt your strategic plan by" - it makes it much more simplified.

Local governments don't have the ability to think strategically at a state level. They're too busy looking after - and rightly so - their little neck of the woods. Politically, 10 councils aren't going to vote themselves out of work, and they're not going to vote their employees out of work, but it should be taken off them at a strategic level. Town plans in our shire: our current strategic plan has got two and a

half years' worth of land in it. Now, this strategic plan is supposed to last for 10 years. So we're going to have the same problem in another two years' time. Traditionally the Redlands has been a cheaper place to buy a house. That's no longer the case; we're very close to our medium house price in Brisbane.

If our current strategic plan is adopted, this same problem will continue. It's not my job to advocate for our strategic plan to be one thing or the other. That's a councillor's role and a town-planner's role. Unfortunately, it was defeated by our local council for an expansion of the urban footprint to retract it and to densify the current urban setting or the current urban areas. It needs to be spread out a bit more so that there is a constant flow of available land, rather than a piecemeal approach: "Quick, develop 20 blocks here, develop 50 blocks there, develop a couple of hundred blocks there."

We've got a thousand-block subdivision, or there are 2000 blocks and we've got 1000 blocks still to build, and yet we are still under the same regime as if we just started from scratch. Every single stage is dealt with as a separate application rather than as a whole, and that's where the biggest problem is. If state government took that role away from local authorities, created a ministry or created a mechanism where, on a strategic level, they looked after everything - and that could be: take away the towns, the local authority's sewerage and water maintenance. The state government should put that in. They should say, "Well, we're going to build a road there. We're going to build a school there. We're going to build a treatment plant there. We're going to service it. You guys fill in the spaces in between." There's a whole heap of different arguments you could make to make that work, but a state government should step in and take some of this work off local authorities.

**DR SHANN:** Getting back to this particular example, what's your feeling as to why they were so slow in taking a decision? Was it inefficiency in the sense that they were overloaded so they simply pushed things off to avoid having to take a decision?

**MR CETINICH:** Sure.

**DR SHANN:** Or was there something else behind it?

**MR CETINICH:** There's something else. There are two things. It's inefficiency, because they won't put on more staff at a development assessment level. The staff that they do have there, there's nothing wrong with them. They do a good job, but there are just not enough of them there. On a political level, you have an evolving council. It might be a pro-development council, it might be an anti-development council, or it might be split, so it might wake up one day and vote one way. They might do deals with each other - "You vote against this this week and I'll vote for you next week" - and away you go. There are a number of reasons.

I think our biggest problem is, we are in a contentious area to begin with, insofar as our development has been superseded in strategically by the Koala Coast area, but we were still halfway through our development when this came into being. So all of a sudden you've got lobbying groups that look at a development like ours and say, "Well, hang on. It doesn't matter that you've spent \$30 million or \$40 million on infrastructure and acquisitions - stop. We're going to do everything we possibly can to make you stop."

A politician can look at that and go, "Well, I can treat this in a number of ways. I can either get votes here or I can lose votes here." Now, they might endeavour to get votes here and support one way or the other, depending on which way they want to look at it. If we take an application to council, the officers eventually recommend it and, depending on which way the wind blows on the day that it's accepted at the development assessment committee, you either win or you lose. Now, if you lose at a political level, there's something extremely wrong with that system.

Like Springfield or Robina, which has an act of parliament, I think that we should be sort of pushing down that road, where developments of a certain size have their own - it doesn't necessarily have to be an act of parliament, but they have their own set of rules. Now, if it meets the strategic plan and it meets the town plan, everything else that falls under that should be automatic. A state government can make that happen. A local government can't. It needs to be streamlined.

The council officers are doing as good a job as they can with the resources they're given. If they're not given the resources, they can't process applications in a timely manner. Consequently, time frames blow out, costs rise, the end user pays. If we have a period of a boom, that we've just proceeded through, we should have sold 6 or 7 hundred blocks in that. We really should only have maybe 300 blocks still to sell, and we've still got a thousand.

Look, to be frank, that will benefit us in the long run. All we have to do is hang on until that day. But the opportunity that is lost with the money that we could have realised and gone on to another project significantly affects us. But, more importantly, it affects the people in the community we're trying to create. You have a huge disparity of income in an area that should be fairly level-pegging. There's nothing wrong with that in a utopian-type situation, but you want people to be able to afford to buy a block of land in Mount Cotton, and it's getting so that we have the only affordable land in the Redlands, because we traditionally have been about 15 or 20 per cent under the market, but now that market is \$300,000 a block, and our blocks are just getting out of the reach of most people. Instead of a \$250,000 house and land package in the mid-scale, it's now \$400,000. It's just unacceptable.

**DR SHANN:** I might read a little quote to you which is from the New South Wales Department of Local Government's submission, which is in the draft report, discussing the extent of appeals in New South Wales:

Councils at times are reluctant to take responsibility for the determination of some matters at the local level due to their being contentious and subject to political, factional, environmental or community pressures. Accordingly, councils abrogate their responsibilities and allow the court to make decisions.

That's effectively what you're saying, is it?

**MR CETINICH:** It happens all the time. A case in point: we put four precincts to the local authority in a submission earlier on in the life span of our development. If they don't feel like making a decision - and I don't say that lightly - they can abrogate their responsibility, as I said. So we went up in a planning environment court. The ratepayers pay the legal fees on behalf of the council. Now, our court costs for this particular case were \$500,000 for one decision and nearly \$1 million for another. Let's just assume that 50 per cent of that was taken up by consultants' fees and 50 per cent by legal fees. In two cases, one developer, it's cost the council say \$500,000 to defend a planning decision that the council officers recommended in the first place. They go to court; they lose. The decision is handed down in our favour and we get the conditions of the subdivision. Politicians will stand there and go, "Look, I've tried my best. I've voted against it, but the bloody court made the decision. Jeez, we're so sorry. Here's the bill for the legal fees for next year."

It's not right. They should be audited, insofar as the planning appeals mechanisms - or any decision that councillors make that refuses an application that ends in court against the officers' recommendation - in our shire that number is extremely high. Why can't council be made accountable for that? Now, they're not. No-one knows about it because very few people would bother to even investigate something like that, but if we were able to get the local government ministry to audit all councils on their planning issues, if it went to court against officers' recommendations, and find out what the political state of play was at the time for each particular council and how it was weighted - pro-development and anti-development - you'd certainly get a trend.

In our case, if all of the times that we went to court and won, and all the times in our shire that it went to court and a developer won, if it was against the council officers' recommendations, that would look very poor against the sitting council. That's why, if we can take the responsibilities out of council into a larger area or a greater body, being at state level, it could only be a good thing. They could certainly administer the outcome of the development, but the decision-making process needs

to be shared. Look, smaller sites it doesn't matter so much - smaller sites being under, say, 100 blocks. It's infill generally; it's infill sites, so they're not strategically as important as a larger site. So it certainly needs to be looked at.

**MR BANKS:** When we've talked to developers in Victoria and New South Wales, I think we got the impression that certainly some of the bigger developers had less of a problem because they had a large development which wasn't infringing on too many people's rights, or perceived rights, and therefore it was a self-contained thing and they weren't too worried about the "not in my backyard" sort of thing. But you've got a special problem there in relation to this environmental classification impinging on that larger scale.

**MR CETINICH:** There's no doubt that we have a responsibility to protect the built environment, but also protect the environment that is on the ground before we get there, but if legislation is enacted after you have an approval, the legislation generally says, "Well, it doesn't matter; you can still do what you want to do." That's what we're trying to do at the moment, but we are certainly having a whole host of problems. A larger developer can certainly afford to hang on to properties for a longer period of time.

Public companies is an example. Their profit margins are completely different from a family company or a private company like mine - the company that I'm involved with. So we have a holding charge or a holding pattern problem that a public company or a large company can afford. We don't land bank- you can't afford to land bank - so our forward work is generally only about three or four years. In the particular state that we're in at the moment the forward work is perhaps five or six years, but at the moment it looks more like eight or nine years, simply because our approval process is so slow.

One step further is that we are trying to master plan the estate and it's a pretty sexy term and it's pretty new, but all it means is, "There's the block of dirt; that's what we're going to do with it; this is how we're going to do it; this is when you're going to get our infrastructure and this is when you're getting parkland, and this is how we want to sell it on." The council generally adopt that after a period of time. We've gone through three master plans on our estate - it's ridiculous. We're currently working on one that we submitted in November of 2002 and it probably won't get adopted until after the strategic plan is adopted at state level, which is apparently some time this year, which has already been extended a number of times by the local government minister. It's a difficult problem. Councils have a difficult problem, but there are certainly steps that can be taken to make it easier.

We had a situation in the Redlands where the council staff was 500 two years ago and it's 1000 now: not one extra staff member is in the development assessment



area, yet the development industry creates perhaps the second or third-highest revenue stream for local councils, behind rates and other charges. We've spent \$2 million in the last few years on council application fees, and we've had no joy on that money. The money doesn't matter. If you pay for an application which you have to, that's not the issue. The time frame that you end up getting as a result is the issue at stake. Again, if we have a further \$2 million at 5 per cent spread over two blocks that we're going to develop, that just gets passed on - legal fees - it all just gets passed on.

The market will eventually say, "We're not going to pay any more," and the dollar value might contract slightly, but the boom that we've experienced has taken things to beyond an affordable contraction, so if it's 200 grand now, it might come back to 185 or 190, but my pocket stopped at 100 or 110. So the gap is there and the gap is already too large.

**DR SHANN:** In your view, have your competitors in - I assume there are competitors - Redlands been getting things through - - -

**MR CETINICH:** Not necessarily, no. Sometimes you think you're the only person with the same problem, but we're a pretty close-knit community and we do talk to each other quite regularly through the UDI - we talk. Everyone has the same problem, but our problem is larger because it's gone on for so long and it can't continue to go on. Something needs to be done about it. We've been involved in this for four years as a joint venture partner. Our joint venture partner has been in there since 1993. We are still no closer to reaching a result and 2000 blocks should have been sold four, five, six years ago. We're only halfway through. Every single person that bought at Mount Cotton was a first home owner or a second home owner, because it was affordable. That's no longer the case.

**DR SHANN:** Have you attempted to push this through some of the umbrella organisations in terms of complaining and trying to change the - - -

**MR CETINICH:** Sure, yes. We're lobbying at the moment. We continue to lobby with peak groups. You don't want to be an annoyance to council officers every other day. There's no point in annoying our #flip politicians: half of them you can annoy, the other half don't want to know and therein lies the biggest problem. So without politicising it too much, we have a split vote at council at the moment. That's not necessarily a bad thing, but in the instance of first home ownership it is. If they hold up the natural progression of development and the supply chain becomes tilted too far one way, you get hikes in prices because the land is just not readily made available.

**DR SHANN:** Can I just clarify the timing of these. Case 31 is 96; case 32 is 97;

case 33 - which is the one about the golf course - is that recent?

**MR CETINICH:** No, that's in the same period. They're the most significant ones that historically are still problems for us today.

**DR SHANN:** And the Mount Cotton village is basically - when does that date from in terms of - - -

**MR CETINICH:** In terms of the approval, or in terms of - - -

**DR SHANN:** Wherever you are at, at the moment.

**MR CETINICH:** Our group, and our partners, have had it since 1993. We've developed about 450 blocks. Now, it should be finished. We had a period where the estate - its designation went from residential to comprehensive development. Generally that enables you to expand on your options; you just have to go through town planning approval to construct dwellings. Now, when we submitted applications to council that were refused, we ended up in court and the court found in our favour and set down a host of conditions that we had to do the development by, in 1997, and we're still caught under the regime of, "How slow can we make these go?"

**DR SHANN:** So you've been lodging these development approval applications over the past three years.

**MR CETINICH:** The last three years we felt that we didn't have much of a choice, particularly the last year and a half. You don't normally lodge an application for a particular stage until you're about six to eight months from construction. We felt that with legislation being enacted, if we didn't lodge all of our applications in one go, we might find ourselves outside that approval, or potentially outside an approval. So we lodged all of our applications for every single block over the last quarter of last year and the cost of that was considerable. It was about \$600,000. The cost factor of that is not very important at the moment. If you ended up losing your right to develop those blocks, that would be a cost factor because if you lose yield again you have to make that up somewhere else, and make your blocks dearer.

**DR ROBERTSON:** I was going to ask: the only way you can really get redress is by getting these things out into the public arena, presumably, in Redlands.

**MR CETINICH:** Yes.

**DR ROBERTSON:** Can't you find a tame journalist who could get in there and fight this? Because the facts must be somewhere.

**MR CETINICH:** You can do a number of things. We're a private family consortium, and "private" means just that. This is the first time I've ever spoken publicly about any issue like this, but we are very private people and we tend to try and work things out ourselves. The court worked it out for us once; it still doesn't seem to matter so much. Sure, you can go to a journalist or a number of journalists and row your boat, but every argument has a counterargument and we are currently in a period where we have a state election and a local election - we're a bit gun-shy of putting ourselves up as a target.

**DR ROBERTSON:** You don't have to do it today. You can leave it until next week.

**MR CETINICH:** That's why we are here in some respects, to highlight the ridiculousness of the Integrated Planning Act and the way it can be hijacked within a council for their own ends, by council laws - not council officers; by council laws.

**MR BANKS:** But that's why you need to get somebody who can put together the case, the number of cases, and how different kinds of things intervened.

**MR CETINICH:** Sure.

**MR BANKS:** I mean, it's a task; you're not going to get the council to put those numbers out.

**MR CETINICH:** No. If we could get someone, hopefully the right people to do it, that is at a state level. The state level can audit it and audit the system, find out where it's wrong, address it - and that doesn't necessarily mean sack everyone and start again; it just means put more staff here where it's needed.

**MR BANKS:** Yes, I know, but New South Wales is trying that - what was that group we spoke to? Property Council. The New South Wales government has done this; they've set up a sort of central planning agency in the state government and the consequence is that a lot of the best people have been withdrawn from the local councils and go in to the central one and they've got even bigger problems, you see. I mean, there is a huge shortage. We've heard that already this morning.

**MR CETINICH:** Yes, but I think they should take that one step further. That's how it should be - the best people should be where the most important decisions are made. Queensland should learn from the New South Wales experience and perhaps broaden the scope of the ministry, or the department that is set up to administer the Integrated Planning Act and the development process. So if you had a ministry that took the eyeteeth out of all of the shires, got the best people that they could possibly

get, pay them more - it wouldn't matter - and then at a local level all their responsibilities are to administer the decisions made by the peak body, I wouldn't think that would be a difficult task.

**MR BANKS:** But you'd still have the problem of the local councillors, because they think they have the right to make these decisions and that's - - -

**MR CETINICH:** But they're not equipped to. They don't have the - - -

**MR BANKS:** You tell them that.

**MR CETINICH:** They don't have the capacity to make decisions. I finished high school - I went to school to eat lunch, that was about my educational experience. I learnt to do things in a different manner. I can't make decisions or I couldn't debate with an economist, I couldn't perform brain surgery. I can push a shovel around, I can push dirt around. I know how to deal with people. So I don't begrudge anyone doing their specialty. I hire people brainier than me. I try and be the dumbest person in the room. It's their job to make the decisions that I technically can't.

So take the power away from people that don't have the authority - don't have the ability to make a decision - and put it into an area where they have the ability to make a decision. There it is, administer it. It's not hard, because the people that are already in council - they can administer a list of conditions. They can't make the conditions. They don't have the ability to. Councils certainly don't; they just don't have the ability to do it.

**DR SHANN:** Having an auditing system where you see why things are going to court would certainly be one.

**MR CETINICH:** Yes. In our shire two out of 20 court cases that went against the planning officer's decisions, where council voted against it, were found in favour of development. It's not right. Something needs to be done about it.

**MR BANKS:** Yes. Your submission is very useful in a practical way, highlighting some of these so-called governance issues to do with decision-making and local government bodies. We had the Queensland Local Government Association here earlier this morning and I raised those same things with them. What they were saying is that these are issues that obviously they're looking at, along with a range of others. So there may be a time - particularly given the boom and the way that's exacerbated problems - where some significant changes can be made. I guess our role is to try to pick up themes that have some national relevance, but a case of this kind is a useful particular illustration.

**MR CETINICH:** Councils have the ability to look at things, and that's about all they do. Really, the decision needs to be taken away from them. It's not so much an advocacy of creating a monopoly somewhere; it's putting the best people to make the best decisions that benefit everyone. This isn't here to benefit me personally, or our company personally; it's to the benefit of the people we sell land to.

**MR BANKS:** Could I just ask you one last question: your whole problem, I suppose, has been to get land on to the market. Some would argue - just to get you to react to this - that developers to some extent have been holding land back as a way of making additional profit through artificial scarcity or whatever. Would you give your own perspective from your company's point of view as to whether that's a smart strategy or not?

**MR CETINICH:** Developers' land bank?

**MR BANKS:** Yes, land banking I guess for a purpose of not just securing supply to bring it on-stream as it's needed, but rather to create a monopoly position and push up prices.

**MR CETINICH:** I've not doubt in certain circumstances that developers hold back land to boost profits, or to boost prices. It makes good economic sense to do that, if you can afford to do it. It wouldn't necessarily be the right thing to do, but I have no doubt that that happens. In a situation where a company that has maybe two to 4000 lots in their land bank, they might have 10 subdivisions going in the one particular time. If they're public companies it is their duty to try to maximise their profits. If that means slowing up their supply, they'll do that.

We can't afford to. Smaller developers can't afford to. That's why if we go out of the market, companies like us - and there are hundreds of companies like us who are in the same boat - if we go out of the market competition suffers. If competition suffers, prices rise and it rises into an area where there might only be a few significant players, and that's what you can't afford to let happen. It's like anything; small to medium enterprises are the backbone of this country.

We're a small to medium enterprise. We offer a product in a different manner than the larger corporations do. We offer it in a different time frame. If we can get it to market as quick as we can, prices stay low. Small companies can't afford to hold back land. They don't have the capacity to pay for the holding charges. We need to keep companies of our size in the marketplace so competition is there. If you don't have any competition, a few players will end up with the lot.

**MR BANKS:** I think this is a good note to end on. Thanks again for the submission. It was very useful. Thank you for discussing it with us.

**MR CETINICH:** Thanks very much for your time. I appreciate it.

**MR BANKS:** We'll now break for lunch. We're resuming at 2 o'clock. Thank you.

(Luncheon adjournment)

**MR BANKS:** Our next participant is Queensland Shelter. Welcome to the hearings. I'll just ask you to give your name, please, and position.

**MR PISARSKI:** My name is Adrian Pisarski. I'm the director of Queensland Shelter.

**MR BANKS:** Thanks very much for attending today and also for the submission on the discussion draft and the earlier submission that you provided when we were preparing that draft. As discussed, we'll give you the opportunity to provide a bit of an overview of the points you want to make.

**MR PISARSKI:** Thanks for the opportunity. I'll start out by saying that Queensland Shelter represents the interests of low income housing consumers in Queensland. Our brief is largely in the rental market, but it also touches the home ownership market, as more and more low income people would like to be able to take up home ownership, but in our view are prevented from doing so for a range of reasons.

The first point that I wanted to really make - and that Queensland Shelter wants to make - is what we consider to be a bit of a gap in the report, and it relates to really the balance of assistance provided to different groups within the Australian community in terms of housing tenure. Effectively, we maintain that there's already massive assistance in the housing market, especially for home owners and, more recently, for first home owners and, in a particular sense, to investors as well. We have detailed some of those figures within the submission. Overall, I think it's fair to say there's something like between 20 and 23 billion dollars worth of assistance that goes into the housing market overall, which effectively provides a distortion within that market.

When the commission, for example, argues that the cycles that we're going through are not necessarily anything to be that concerned about at this stage - that markets may, in fact, correct themselves for a lot of this - we just want to point out that the market isn't a pure market, in the sense of an automatically correcting perfect economic model. There's already a range of distortions within that market that actually affect the performance of that market and the way it can or will adjust to a range of circumstances.

Particularly, within that, we want to point out that what's been happening within the balance of assistance in the Australian housing market has been shifting very substantially over the last 10 years, particularly between assistance to home owners and assistance provided to public housing tenants or social housing tenants through the Commonwealth State and Territories Housing Agreement. Effectively, the CSTHA has been cut quite dramatically over the last 10 years.

If you go back through the history of the Commonwealth-State Housing Agreement, it was originally introduced as a counterbalance to home ownership - an alternative to home ownership - in a kind of post-war reconstruction economy, and has continued for over 50 years. It is still there, but the level of assistance that's provided through that has been cut quite dramatically over the last seven years, in particular. There was some boost during the tenure of the Hawke-Keating governments, but this government has taken what they were putting in back out and has continued to cut the Commonwealth-State Housing Agreement.

That means that, for people who are on those massive waiting lists for public housing, their access to public housing or some kind of social housing is very limited and, therefore, their ability to get into home ownership is even more limited, because not only is there not the public or social housing available to them but the impacts on the private rental market are also quite dramatic within that as well.

There are just a couple of things that we wanted to point out within that. One of the items in the commission's draft report talks about the rental market, in terms of that last term of reference in particular, and what's happening with the rental market. You point out that in Brisbane and Melbourne vacancy rates have started to go back up, because of the additional supply of housing within those markets, especially the unit development that's gone on over the last few years.

If you actually look at Brisbane though, it's a very different story. Even when you do that comparison at figure 5 of Rental Yields and Vacancy Rates in Three Capital Cities, you'll note that the trend for Brisbane at the moment is almost exactly opposite the trend for Melbourne and Sydney. In fact, in Brisbane over the last five years or so we have had the same building boom that has gone on everywhere else, but it certainly hasn't produced affordable housing and it's being taken up at such a rate and we have such a population growth that vacancy rates are actually dropping rather than increasing, as you would expect in that correcting kind of market.

We think there are particular things about Brisbane - and Queensland in general - that need to be noted as a special case. I think you'll find, when you look at all of the capital cities, Adelaide also has a drop in vacancy rates. Canberra does as well, but that's probably more to do with the bushfire tragedies more recently, whereas Brisbane in particular - even though we've added a lot of supply in the rental accommodation market, we're still not seeing the vacancy rates. The net result of that is an even further reduction or contraction in the supply of affordable accommodation for the sorts of people that Queensland Shelter represents, so their ability to get even into the rental market at a price that's affordable to them is very very grave indeed and we're seeing large blow-outs in public housing waiting lists



and great difficulties, even in the private rental market, of people on low incomes accessing that market.

The broad point I guess I'm making is that the way the market works varies. The things that affect home ownership also affect the rental market, and the effects that we're seeing in Brisbane - but in Queensland in general - are not necessarily the ones that you're pointing to within the report. There needs to be a look at what's causing that. One of the things that I'll mention is the way the First Home Owner Grant has been operating. You do point out in the report - although you're not holding first home owners schemes or grants responsible for it - that housing has become less affordable and that there's been a big boost to the availability of finance.

We think that's actually been exacerbated - and has put more heat into the market, if you like - by the First Home Owner Grant. Really it's because of the amount a bank is prepared to lend you, based on the level of deposit you have. If that's being topped up by the First Home Owner Grant, it means that the bank is lending far more to people who can't necessarily afford it or who might be able to afford it in a regime of low interest rates but when interest rates invariably change, as they do, that could create quite significant problems up here. We think the First Home Owner Grant has actually been playing into that. We're not arguing that you would take it away, but certainly that it should be targeted more at the lower end, which would have the effect of providing a subsidy at the lower end, which wouldn't necessarily create that overall heat within the market.

That's not necessarily the most coherent argument that I've ever put, but I think the drift is there and there's a bit more detail in the submission. The other element that I wanted to point to is the effect of negative gearing. As I've said, in Brisbane we've had quite a large increase in the supply of rental accommodation in the market, but studies by Judith Yates and Dr Tim Seelig at the University of Queensland here confirm that what's been happening, particularly in the Brisbane market, is that, whilst we've had an increase in supply, we've had a massive cut in the supply of affordable rental accommodation. Where that supply is going and the sorts of renters who are taking up that supply aren't the ones whose interests we serve, for example, so that low income people are actually being squeezed further and further within that market. Therefore, their ability to even get a foothold in the rental market is contracting and, therefore, their ability to save for deposits and things to enter the home ownership market is a distant dream for them really.

There is current research that Dr Seelig has done at the University of Queensland updating his previous work on this, which we'd be happy to chase up and try and ensure that the commission gets its hands on. Really, it's an argument about the effect of negative gearing - that as an investment tool it's been open-ended and really carte blanche. What's been provided with that subsidy, if I can call it that, has

been an increase in the supply of rental accommodation, but not affordable rental, and what we would like to see around negative gearing, in particular, is some way of targeting it so that it would actually increase the supply of affordable rental accommodation and give some relief at that end of the market. We haven't done the detail on this, but we believe there would be ways where negative gearing, for example, as an investment subsidy could be targeted at properties of a certain value or that attract a certain yield and thereby would create a pool of funding which would build affordable housing and would increase the supply of affordable accommodation, not just the supply of rental accommodation, as it currently does.

The other one - I'm not sure what we would suggest about it - is capital gains tax exemptions, being the largest area of government subsidy to home ownership, estimated somewhere between 8 and 13 billion dollars a year. Again, just to point out that it adds a distortion to the market, so that the market doesn't necessarily operate like a perfect market or one that's in balance and responding exactly to the so-called laws of demand and supply. It's one that has distortions in it and, therefore, is going to react differently to various pressures.

We point that out just really to point out that the balance of support provided by governments in Australia is very skewed to home ownership, without necessarily taking into consideration the downside of a disinvestment in social housing provision, and we would encourage all Australian governments to recommit themselves to a social housing provision and to a greater funding of what is a secure tenure, but doesn't necessarily involve the potential risks of home ownership for low income earners, but gives them that same security and would fulfil the original intention of public housing provision, which is an alternative to home ownership.

They're really the main points that I wanted to make. You have the submissions that we've provided. There probably are a few other points that I could go to, but it may be better to draw those out in questions that you might have or, if I think of them at the end, I might add something.

**MR BANKS:** Thanks very much for that. Perhaps I should just point out, given a couple of the points that you made, that we too didn't really see the housing market as a perfect market, but even perfect markets can have cycles and some correction, which obviously we saw some potential to occur. I suppose the other point to make is, as we've indicated from the outset, that our predominant focus has been on home ownership, and all the points you make about those who can't afford to own a home - that have affordability problems - is quite right. I suppose the challenge for us has been how can we step into that quite complex area in its own right in a way that's sort of credible and do-able in the time available. That's a challenge for us, I suppose, going forward from this round of hearings, where we'll get presentations urging us to do more.

**MR PISARSKI:** I appreciate the limitations of the terms of reference. There was one, though, just that last one in which the inquiry will also identify and examine mechanisms available to improve the ability of households, particularly low income households, to benefit from owner-occupied housing, but that includes an assessment of rent and direct ownership subsidy. So it's really to that point that we're talking. We haven't had many opportunities either at a state or a national level to provide a voice around the issues in the rental market and the public housing market recently, so where we can squeeze something into a term of reference, we will endeavour to do so.

**MR BANKS:** No, that's understood. Perhaps just to help me, when you're talking about affordable housing, other than affordable ownership, I suppose, how do you characterise that and what are the sort of parameters that would inform, for example, guidelines related to tax provisions or something like that?

**MR PISARSKI:** The general rule of thumb is that for the bottom 40 per cent of income households is if they're paying more than 30 per cent of their income on housing, it's said to be unaffordable. Using that rule of thumb, the Queensland government estimates that 167,000 Queenslanders are currently in after-housing stress. That's the minister's figure. We would probably say that it is well beyond that and that's a conservative estimate. We know that the waiting lists since those estimates were made have blown out quite considerably. There's about 30,000 applications currently pending for public housing in Queensland which represents potentially 100,000 people. It's a lot of people in a smallish state. We have the lowest base level of public housing provision of any of the states. That's been dropping as well, so the social housing provision in general has been falling as a proportion of total housing stock, and that is really a major concern for us.

**MR BANKS:** This could be in anything from single dwellings to high-rise type of accommodation.

**MR PISARSKI:** Yes.

**MR BANKS:** So there is no distinction being made there.

**MR PISARSKI:** The general rule of thumb goes across those tenets.

**MR BANKS:** Okay.

**DR SHANN:** Just thinking about that, looking at the table you've got on page 4, where you're looking at the increase in rents over a five-year period, you've pulled out a number for the local - these are nominal, aren't they, not real? I mean, the

CPI - - -

**MR PISARSKI:** No, this is RTA data.

**DR SHANN:** Yes, that's nominal, it isn't adjusted there. The CPI has risen by about 15 per cent over that period, so it actually suggests in quite large areas the rents have been growing at or below the rate of increase in the CPI, so it seems to me the problem must be the number of cheap houses available. It wouldn't appear that the rents of, say, if you look at two-bedroom flats or houses - I mean, the rents for houses have actually been growing significantly slower.

**MR PISARSKI:** One of the problems with the data - and we should have made a note of this really - is that the RTA bases it only as rents turn over, so when properties turn over and they actually change hands they go up. There would be, within this, a large number of properties that have been there for long-term rental which wouldn't - you wouldn't therefore be picking up their increase. Consequently, we always think that these figures are an underestimate, if you like, of the real effect within the marketplace.

What we think they show is that they're either around or an excess - I mean, there are a couple of areas like the Gold Coast which is surprising really, that shows a 9.2 per cent increase, for example, which is below that CPI. But we know that the Gold Coast has the highest waiting lists. It also has massive homeless problems and really low vacancy rates as well. So it's a very difficult housing market and we suspect that is distorted because there are a lot of people that have hung on to what they've been able to get and it hasn't necessarily gone up and the increase will only be reflected when those houses turn over.

But if you look, for example, at the inner city in Brisbane, where the boom has really been concentrated, that's gone up 34 and a half per cent even on these figures. Now, that really reflects the turnover that we've experienced in the CBD and the inner city area, and the new building that has been going on.

**DR SHANN:** It could reflect a different type of accommodation and different - - -

**MR PISARSKI:** Of markets in different places, yes.

**DR SHANN:** Yes, again, you might not be comparing like with like.

**MR PISARSKI:** You may not be, but it certainly demonstrates the point about a loss of affordability within the inner city area.

**DR SHANN:** Inner city area, yes. We canvassed in the report the possibility of

means testing the First Home Owner Grant. I take it your view would be that it should be abolished altogether and the money used for other purposes - or not?

**MR PISARSKI:** No, I think we'd probably be in favour of means testing the first home owner's grant. I mean, I'd be tempted to abolish it, but one of the things that persuades me against that is when I go to regional areas of Queensland where housing is a lower cost per se - that the first home owner's grant really does make a big difference to those people accessing those markets in regional Queensland. So to abolish it would be doing an injustice to those people, whereas if you target or means tested it, they would still qualify within a means test, but it would tend to limit the kind of willy-nilly handing out of the first home owner's grant that we've seen various cited examples of.

**MR BANKS:** What about having a ceiling - or perhaps a literal ceiling - on the price of a house for which you qualify for a grant?

**MR PISARSKI:** I think you'd have to do it that way, because if you do it by income there are so many ways of distorting income that in fact quite asset-rich and wealthy people can show quite a low income. Incomes are a much more easily distortable way of means testing, we think. In terms of that it would have to be therefore on the price of the house, but would I think need to take into account locational variation as well. So it would potentially be different in Sydney to elsewhere and different elsewhere in terms of capital cities and regional areas - that kind of thing. But the coastal strip of Queensland is all experiencing quite massive price growth. Townsville, for example, which isn't necessarily a short flight from anywhere, is experiencing the kind of investment growth that we're seeing in capital cities. It's having a big effect up there as well.

**MR BANKS:** This was one of the reasons why, as you know, in our report we saw some of the financial or macro drivers as being quite important, because you are observing - perhaps with a lag - these price surges all around the country, for reasons that are otherwise hard to explain. I think the problem with affordable rental housing perhaps in Brisbane, and certainly in the inner areas, it's just in the high cost of land and the incentive to put commensurately high-quality accommodation on it, I suppose, flowing into rentals. Is that part of the story?

**MR PISARSKI:** I'd say that's part of the story, but I think population growth is the other thing that we experience in Queensland. The premier makes a lot of it and whilst I think that's sometimes exaggerated, it certainly does have an effect. We anticipate, if you look at previous boom-bust cycles in house prices - for example, not that they ever seem to bust so much, they plateau rather than bust - but the booms seem to pick up here a bit later but last a couple of years longer. We think that's probably about capital cashing out from places like Sydney and Melbourne realising

a better advantage in south-east Queensland and therefore continuing a price escalation here for some time after those other markets, which means that we've still got some way to go before this current escalation has finished here as well, which means that we're going to have those pressures. That's partly what worries us when we look at that in combination with the low vacancy rates and increasing rentals in south-east Queensland in particular. It's likely to get worse before it gets better.

**MR BANKS:** Yes. Okay.

**DR ROBERTSON:** Yes, I think it's pretty clear that there is a dimension that's been neglected, which is the heavy building in city centres has taken away a lot of what was formerly low rent housing.

**MR PISARSKI:** That's right.

**DR ROBERTSON:** And, of course, there's no compensation for that in building outside. I was attracted by one of your recommendations - the one about the federal building write-off which goes for rental properties and whether that couldn't, in fact, be redirected towards low-cost housing.

**MR PISARSKI:** Indeed, and we feel quite strongly about that; that would be a preferable way. In a sense the market is neutral when it comes to what kind of accommodation it builds. At the moment it sees advantages in building what it is building, it doesn't really think about the impact of that overall. So, given that, it doesn't seem unreasonable to think that those sorts of subsidies could be used to stimulate the provision of affordable housing, rather than unaffordable housing.

What we have lost in Brisbane in particular, if you look at Kangaroo Point, West End and New Farm - you know, the more urban consolidation areas in Brisbane - it all used to be low-cost accommodation and now that's all been torn down. It started in 88 and it's been going ever since, but that used to be the student, the low income accommodation areas of Brisbane and now it's reversed; it's now the quite high income area of Brisbane. It's got the river, public transport, cafes and all of that, which is - - -

**MR BANKS:** It's got some good cafes, too, some good spots.

**MR PISARSKI:** Yes.

**DR SHANN:** On page 3 you mention there are also more victims of mortgage stress presenting to emergency relief agencies. There was this housing lifeline proposal. I guess one of the questions in our minds is: is there actually much of a demand for - is this a real problem in terms of mortgage stress? Could you comment

on the extent of the problem but also, have you looked at that lifeline proposal and what's your view on that?

**MR PISARSKI:** I haven't looked specifically at the lifeline proposal, but the extent of the problem is also hard to gauge. It's anecdotal at this point. But it is the emergency relief organisations who we have quite a lot to do with in terms of homelessness assistance and those sorts of issues, who are now getting people coming to them saying they can't pay their mortgage, particularly if they've lost jobs or the interest rates are going up and it's just people on low incomes - they are far more vulnerable to any small change that might occur.

We think at the moment it's probably at a level that isn't necessarily going to cause a major kind of outbreak of riots or anything like that, but if interest rates were to continue to rise, anybody's guess is as good at the moment, I think. But if they were to continue to rise we think you'd see a lot more of it, and it could be quite a significant problem, and therefore you might need some mortgage relief types of actions from the federal government.

Now, I'm not exactly familiar with the lifeline proposal, but if it's around mortgage relief so that it enables people to stay in homes that they would otherwise lose, then yes, we would support that as well, because it would stop those people falling further through the net, more into the social housing sector which would have the effect of clogging that up even more than it is at the moment. It's already overburdened. It doesn't need any more stresses on it.

**MR BANKS:** Okay. Anything else?

**DR ROBERTSON:** Could I ask an information question. Public housing: there was an article in the Canberra Times, which is in my opinion one of the worst newspapers you'll find - but there are a lot of people in public housing in Canberra who, in fact, are well paid and well off. Is that true in the states?

**MR PISARSKI:** No.

**DR ROBERTSON:** It's not?

**MR PISARSKI:** It used to be. If you go back 20, 25 years, about 90 per cent of public housing tenants were working, often in not terribly high-paid jobs, but they were working and in the workforce and so therefore earning wages at a much higher level than they would be getting welfare payments. That figure is now pretty much about 95 per cent or 98 per cent even of people in the public housing system who are not working. They are on some kind of fixed benefit.

**DR ROBERTSON:** Some kind of welfare.

**MR PISARSKI:** So if Canberra has been able to retain that - it used to be an element that cross-subsidised the provision of public housing so that it was part of what allowed public housing to grow through the 60s and early 70s even. Since kind of the mid-70s, that trend has started to turn around and most media outlets generally attack that kind of government - what they see as government subsidy for people in public housing. And yet, when it's home ownership - you know, much more massively subsidised than public housing - they seem to be all for it. So it's one of those value problems that media often suffer from.

But the trend has been quite the reverse in public housing in all states and territories. Canberra has done well if they've retained some workers, because it will help them pay for their system. One of the problems that public housing authorities all over the country face is that they have maintenance backlogs, they have debts to the Commonwealth that they just cannot reach. New South Wales is worse. Queensland maintains that we're debt free, but still Queensland's public housing sector and social housing sector is declining; it's not growing.

They can't actually grow it and that's largely because the income level that they have doesn't sustain the asset. So it's an inevitable kind of decline. It's one of the reasons that they have been more in favour of funding community housing agencies, which appears slightly off government books for starters - can take advantage of things like GST exemptions and other tax treatments itself. It attracts Commonwealth rent assistance, which is the other area of major subsidy that's going on, but not with particularly good effect in terms of affordability, we would point out.

They have tended to try and push it into the community sector because they think that might be the cheaper option, and it's basically the way that the UK went. In the UK you have a direct federal or national government subsidy that supports the housing cost of the people in that accommodation. Their equivalent of the Commonwealth rent assistance is called the Housing Assistance and housing assistance provides a hundred per cent of the housing cost for people on low incomes, whereas Commonwealth rent assistance is less than 30 per cent of that cost. So there's a huge gap to make up. Generally that's borne by a combination of the tenant and government, in some way, shape or form, or by running it very cheaply as a community-housing model.

I think Australian governments, at the moment, really don't know which way to go with social housing provision and they are kind of caught in the worst possible limbo land, where they haven't made a commitment anyway and therefore it's all falling apart.



**DR ROBERTSON:** Thank you.

**MR BANKS:** All right. Thank you very much again for coming today, and for the submission, which we will draw on, as I said, with other submissions that come in in that area. So thank you.

**MR PISARSKI:** Thanks for the opportunity.

**MR BANKS:** We will just break for one minute, please.

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**MR BANKS:** I would now like to welcome our next participant to the hearings, Peter Rowan. Welcome. Thank you for the submission, it's a very interesting one and made a nice read after some of the dry stuff we normally get. I hand over to you to make whatever comments you want to make.

**MR ROWAN:** Thanks, Gary. I guess that maybe I should just give you a little background on myself. I have been involved in property, on and off, for probably about 40 years now - 30 years actually - from having boarding houses in Kings Cross to houses in - where I mention there - Woodridge, New Zealand and so on. I have been involved in selling investment programs to people in the 70s, as well, in Sydney. Generally I'm not a person who is really a real estate person, in a way. I'm actually a qualified teacher and my primary area of interest is working at teaching parents of young children how to educate their children at home; I go from one area to another.

I have had a lot of contact with people who are low income earners as a result of my life over that time, and I was creating lifestyle environments in Sydney when I was there in the 70s - like a place in Kings Cross, with 20 units in it for artists to live, and that sort of thing. At the same time as I was doing that I was selling investments programs to get people into their first home; that would help them. They would buy a property and they would pay that off over a period of time. Then they would eventually get a house and so on.

I can't say that I know much at all about the higher end of the market. It has always amazed me, the higher end of the market, and I have kept away from it because I find it scary, basically. It's based a lot on emotion and not very much on practicality and reality of prices. The lower end, though, I am very familiar with and I want to help people get into low-cost housing. I am actually a low-cost housing provider and that happens by means of me buying properties, turning them into something that I can see people wanting to live in and then renting that property out to people.

I have tended to keep with the lifestyle idyll, to some extent. I have four town houses, for example, at a place called South Golden Beach, which is the area where I also live. In that area there I've got tenants who - the shortest one has been there for three and a half years and the longest for about seven years now; and there are four town houses there. Two of the people are part-time workers on a pension and one of them is employed as a butcher. They are all very happy there and they pay rent of \$125 a week. We have this absurdity at the moment, where the building is worth, on the current market, something like \$850,000, which to me is just not reality; the market is absurd at this time.

What I'd like to say now is that in relation to these prices of properties now - that's what my submission is about. I'm saying that the key problem that we have is

the government subsidising high-income earners to buy property. That is the big problem, and they do it through negative gearing. Another point I want to make that is very important is that the people who do it are often irrational. Overall the property market is generally irrational. It's irrational because people are driven by emotion in what they are doing and not by intelligence, in many cases.

I said I'm a low-cost housing provider, but when low-cost property is available people don't necessarily want it, and that's what I'm saying is part of the problem with this emotion-driven property market. I buy property where people don't want it and it becomes property that people want.

Your previous speaker I know was talking from his heart and he is trying to help people, and so on, but the idea of picking out where to subsidise people and bringing government subsidies into the market and trying to pick where people ought to live - and what they are doing - has been a failure many times throughout the world, trying to do that.

Woodridge is a good example of that now, where the housing department is doing the right thing and has been, over the last few years, selling off a lot of the government-owned property there for people to own privately, who will then do something with it. It's the same in Inala and other areas. I would recommend that you don't get involved in subsidising people into housing. In general, I would say that. Having said that, I would say, yes, targeted at times, and there is good reason for doing that for certain people: to level the market off and to stop these huge rises that take place at times, like right now, and get rid of negative gearing.

I can't say much more than my submission says there, I think, about negative gearing. The reality is that in my example there - and I've seen this happen - people could have had a house for \$130,000 - a couple - but the house finished going for \$182,000 because of negative gearers. They are absolutely absurd in what they do. They have no sense of reality. You would think it would be otherwise, you know?

They are accountants, sometimes, they are solicitors, they are middle-level managers; they are a whole range of generally middle-class people. They catch property fever when they see prices moving up, and they take these ideas about how good it is to lose money. Again I can't see the sense in it at all - that they are told that it's a good thing to go out and invest in property and lose money - and they just rush out and do it.

I have a little joke that came to me once, when I was talking to an agent. I talk to quite a few agents around the place and it's not unusual for them to say to me, when we get on the topic of why the prices are going up, "I had this person ringing the other day saying, 'I need a property. I want a property, but it has got to be negatively geared. It must be negatively geared.'" So I say to them, as a joke - but

this is reality too, this is definitely reality - "Well, why don't you tell them you've got this property selling, say, for \$100,000 - if you've got one for \$100,000 - and just say to them, 'Well, I've got one for \$100,000. I will sell it to you for \$150,000 and then it will be negatively geared.'" That's the reality. They don't care what the price is. They care that it's negatively geared. They care that they are going to lose money.

I feel like I'm a shag on a rock sometimes because I look at these realities around me and I think, "God," - you know - "what's wrong with the world? What's wrong with the people?"

**MR BANKS:** I suppose the only problem with that particular one is that if they were just a bit more savvy they would realise that it would take a long while to get the capital gain that makes the negative gearing strategy profitable overall.

**MR ROWAN:** That's right.

**MR BANKS:** I suppose you need to look at the capital gains side of it, which we have identified in our report - taxation capital gains - as being an interacting factor with negative gearing.

**MR ROWAN:** Yes.

**MR BANKS:** Of course all of the people you have been talking about are probably on pretty high marginal tax rates.

**MR ROWAN:** Yes.

**MR BANKS:** Probably the top marginal tax rate.

**MR ROWAN:** Yes.

**MR BANKS:** Which provides, I suppose, an incentive to find a way of reducing their taxable income.

**MR ROWAN:** That's right. That's exactly right, yes. All they are after is a way to lose money. Yes, what you say is right.

**MR BANKS:** But to make a capital gain and to not have - - -

**MR ROWAN:** Yes, but I'm looking at the reality and not what they think they are going to do. The reality is that right now, starting with two months ago - and I will use Woodridge as an example because I have that in my paper here and we can talk about this one area. Two months ago I walked into an agency where they manage some properties of mine and I looked at their rental list and I said, "Gee, what has

happened? Suddenly, from four or five houses you have a list of 20 houses there and they are all coming down now to 160 a week and they were 180 a week, just for four or five, only a couple of weeks ago."

I said, "What's happened? What's causing this?" "Oh, they are the people from Melbourne and from Sydney, and a few other locals who have bought high and suddenly they find they can't sell them now. They are trying to rent them, because they are run-down buildings and they are not very good. They have paid 160 to 170 to 180 thousand for them. They are now trying to get some rental income on them because they've got to try and get some money back on them."

That's it, you know? Why did they buy them? There was no sense in buying them at those prices. If they had asked me I would have told them there was no sense in buying them at these prices. But no, they don't think that way. They are not thinking in terms of what reality is; they are just thinking, "It goes up; it goes up; it goes up. We can buy this, and we've got our other income. We are going to pay less tax. That's going to be a big thing. And we are going to just make money out of it."

As I gave in the example here, the person who buys it for \$180,000 there in the end - 182,000, I think it was - that person is going to be stuck in the market at that level for at least a few years to try and get out without losing anything. That's just what happens. That's what the end result is, generally. There are some who make some money along the way. They get their capital gains because they happen to have got in earlier than some others, but a lot of them come at a time that is a bit too late.

The thing that is really important here is not what happens to those negative-gearing people. What we are talking about here, really, is low-cost housing and what does it do to the people who are low-income earners or for any other reason why people want or need low-cost housing, or they are first-home owners, or they want to be first home owners? What's pushing them out of the market? Well, it's this speculation which is largely government funded through negative gearing. I guess that's my main point.

**MR BANKS:** All right. I don't know how much we have to follow up on. Did you have any questions there?

**DR SHANN:** I guess my reaction is that you need to look - as Gary has suggested - not just at negative gearing but at capital gains tax treatment and high marginal rates. In a sense it's the interreaction of all of those things which provides the incentive. I suppose the other point to note is that as property prices start falling you start making very large losses.

**MR ROWAN:** Yes, for sure.

**DR SHANN:** If you are negatively geared, which is what happens to house prices in the other bit of the cycle.

**MR ROWAN:** Yes. That property that I just mentioned before, at South Golden Beach where I live, I bought that in mid-1990, and that was from a speculator; I bought it from a speculator and I paid \$160,000 for it at the time. I'm saying that because the speculator had to bail out. The speculator had the bank on his back and he had to get rid of it and he was rushing to get rid of it. He lost money on that purchase, and that's what happens.

**DR SHANN:** Notwithstanding that distortion in the market, I suppose what you are saying is that the market rises, but it does fall again.

**MR ROWAN:** Yes.

**MR BANKS:** That's certainly what happened, I think, after 89- 90, even up here in Queensland.

**MR ROWAN:** Yes. That's right.

**MR BANKS:** There was a drop-off at that time.

**MR ROWAN:** Yes.

**MR BANKS:** As we noted in our report, there are signs of softening in the markets. It's only anecdotal so far, here in Queensland, but I think certainly in Sydney and Melbourne, particularly in the inner areas, we are seeing that happening again. So there will be a shake-out occurring. Anyway, I thank you for your contribution - - -

**MR ROWAN:** Can I just say something else?

**MR BANKS:** Yes.

**MR ROWAN:** In relation to your interaction there between negative gearing, capital gains tax and tax levels - - -

**MR BANKS:** Income tax.

**MR ROWAN:** Income tax. Yes, there is a certain amount of interaction there but I would be very very careful about going for any of the other factors as being important, like marginal tax rates - sorry, what do you call them?

**MR BANKS:** Capital gains tax?

**MR ROWAN:** No, the tax levels.

**MR BANKS:** Thresholds.

**MR ROWAN:** Thresholds, yes. I would be very careful about looking at thresholds and capital gains tax, as it is at the moment, compared to negative gearing. I see negative gearing as being the big problem because it's so absurd and complicated - as you can see. I had a lot of trouble trying to make it just make sense there because there are other things that come into it. The capital gains tax issue - to have high levels of capital gains tax is a - I haven't been thinking on this thread but I'm going to try and pull the information out as I come to it.

The capital gains tax issue is one which is punishing to people to have to pay a high level of capital gains tax. Like for me, for example, I don't sell my properties but if I ever had to I would need to do it for financial reasons. I think I'm a pretty good person to have in the marketplace, doing what I'm doing, and I think for me to have to go broke over capital gains tax or lose a lot of money on capital gains tax is a real problem that makes my business extremely difficult.

The other point with capital gains tax is - I can't remember what I was going to say. I think I was going to say something along the lines of, it blocks people from - yes. Capital gains tax forces people into being long-term holders of property. It stops people from selling. It therefore prevents a free market from operating and it's very strong in doing that. It does it very well, because it's a great disincentive to think, "If I sell that property I'm going to lose half the capital gains; even half now, but if it was more" - as it was before - "I'm going to lose so much money in capital gains tax on that."

It's a strong disincentive to a flawed market. It also brings people into disasters because they keep putting it off and putting it off and putting it off, until they finish up where - well, they are not going to lose so much because they are going to be so broke anyway that they won't have to pay any tax anyway in the end. I'd really recommend strongly against doing anything about that. I don't like capital gains tax at all. I don't make use of it but I think it's a disgusting tax, really.

**MR BANKS:** All right. We've heard contrasting views on two of the taxes, so I thank you very much for that.

**MR ROWAN:** Right.

**MR BANKS:** Thank you. We will have a short break.

**MR BANKS:** Our next participant today is in Tempore Advisory. Welcome to the hearings and thank you for the submission. Please, could you just give your name and your position with that organisation.

**MR CHRISTENSEN:** Yes. My name is Mark Christensen and I'm the director of in Tempore Advisory.

**MR BANKS:** Again, thank you for coming today. Perhaps you could just tell us what that organisation does before we ask questions.

**MR CHRISTENSEN:** Yes, it's basically a consulting company which is a one-man band, involving me. I've been doing freelance, I suppose you'd call it freelance economic consulting over the last three or four years in Brisbane, after a stint with Queensland Treasury and, before that, with you guys down in Canberra. Essentially I work mainly with GOC organisations in the rail or electricity sector on a range of different bits and pieces.

**MR BANKS:** Good, thanks for that. As we discussed, perhaps you might like to just raise some of the key points in your submission and we'll see where that takes us.

**MR CHRISTENSEN:** Sure, yes. As I was saying, the submission is I suppose not specifically targeted at the housing market issue; it's more of a general pitch on some economic framework issues, if you like, that have been churning over in my mind over the last couple of years. For a number of reasons it came to me that I would like to get involved with this inquiry. I sent in the forms to get involved and so forth and when your paper came out before Christmas I took it upon myself to sit down and jot down some ideas.

As I see it the economic policy framework that we have is in need of some form of - if you like, to use a consulting time - paradigm shift in terms of where it is taking us. Again, using an economic phase, I suppose in my view it's getting to a point of very marginal, or diminishing marginal gains in terms of the ideas that it presents and how to tackle the issues that seem to be coming up. I think the housing inquiry is a case in point of something that has emerged as an emotional issue, I suppose, within the community about concerns that people aren't going to be able to afford housing going forward and so forth.

I think there's a need to recognise some of the - not constraints within the economic policy framework but some of the more difficult or contradictory aspects of the theory, if you like. My view is that they haven't been particularly well presented or articulated to the community along the way. We're probably getting to a point now where that is starting to become a bit of an issue in terms of a level of



disquiet within the community about a so-called free market push that has been going on for a while now. In the submission I've tried to, I suppose, flush out those issues and lead it back to the core principles that we've built our policy on in Australia, at least, and many other countries - such as the notion of the invisible hand and so forth.

I suppose in a nutshell, the pitch is to recognise the metaphysical aspects of that theory to then take you into a view - or my view, at least - that it is not a rational - the core or the theory that we claim to be a rational theory is in fact anything but. What we need to do is go in and recognise that as part of the process.

**MR BANKS:** When I read that I sort of smiled because I thought of all those who accuse organisations like ours as being economic rationalists have actually got it right, because what you're saying is there is no rationality in the core belief.

**MR CHRISTENSEN:** There are rational aspects of it which you can observe and comment on, you can measure, you can look at your performance and so forth, as the commission does with a variety of things, to help draw a picture of what's going on. But I think the essence of it as a philosophy requires a leap of faith which is not a rational thing, if you like; it's not something you can know about.

**MR BANKS:** Could I just draw you out on this in terms of, I suppose, the housing inquiry which you addressed in your submission, but relatively obliquely. In your view, how would our report be better, taking into account some of the considerations that you have put in your submission?

**MR CHRISTENSEN:** Yes.

**MR BANKS:** What can we do to sort of improve it from your perspective?

**MR CHRISTENSEN:** I suppose go back to a recognition of why the initial question has been asked, I think. My belief is that that question has been asked because people feel as though there's something missing in a bigger sense in the community or in their lives, and that's leading on to a grab for the more material aspects of life, be that a flashy new car or a big new house or whatever. I think that is a symptom of not recognising the aspects of the framework to start with, or an economic framework to start with. People have been presented with a picture that it's very rational, or very tangible, or very real, where in fact it's not and I think that has taken us down a path of somewhat misguided view on what the market is or isn't.

**MR BANKS:** But would it be trivialising your point to say that in a sense what you're talking about is why preferences are evolving the way they are and what's behind those? I mean, in a sense, are you taking a pot shot at materialism?

**MR CHRISTENSEN:** I suppose not a pot shot, but just trying to get a handle on - it's a fairly confounding - well, in my view, and I think I've seen evidence of this in some of the commission's material, which is a sort of contradictory position which is - as our nation improves with material wealth, there is also a growing level of anxiety which is manifest in things like you getting the terms of reference, for example, and a lot of opposition to microreform and other sorts of initiatives which you would think, on the face of it, people would be happy with given that it has clearly delivered a lot of good things for our country. But it hasn't, if you like, solved the issue in a bigger sense.

**MR BANKS:** You could look at it in a couple of ways, and one is that perhaps what's happened with home ownership is just another manifestation of people reacting to things that they perceive disadvantage them. So I think what's happened in the housing market is that people who have already got a house and are paying it off are probably feeling neutral and positive about all that, but those who haven't got one are feeling pretty bad. That translates into some political pressure and whatnot.

The same thing happens in microreform where, as you know from having worked in the area, there are winners and losers, and it depends on who has got the loudest voice in which particular electorate and so on. Over time some of these things play out, so you could take rather a cynical view of what you've just said and say, "Well, it relates much more strongly to something that, as you know, Adam Smith was rather well across, and that is the question of self-interest and how that gets reflected in political activity."

**MR CHRISTENSEN:** Yes.

**MR BANKS:** But I suspect that's not where you're coming from. You're seeing it as part of a broader concern.

**MR CHRISTENSEN:** I think it's right to say that there is a growing disparity which is an issue.

**MR BANKS:** Disparity in income levels or - - -

**MR CHRISTENSEN:** The ability to buy into a housing property, for example. If the current market situation continues, then I would have thought for this coming generation it's going to be harder to achieve that. I suppose it's not a cynical view. I suppose it's more of, what is in someone's self-interest? Is it a self-interested view to have a level of so-called equity across the community, or be able to buy into a minimum level of housing or whatever? Again, our policy framework would suggest that is something that is real. We subsidise housing and other things along the way.

I suppose it's about, if you like, the positive sides of the economic framework of being able to generate self-interest and have people take us forward, if you like, in terms of self-interest in being able to acquire whatever they can with their skills and so forth in the market. I think that's a positive thing. But there's also a concern that that - I suppose I'm not saying it's a concern, but what's happening is that desire to accumulate that or achieve that is becoming an end in itself. I wouldn't have thought that we're about just achieving that. I would have thought that it's about achieving a level of wealth which is going to be at some level, in some ways shared across the community, otherwise you end up with a range of social problems which then come back and undermine the whole process anyway.

**MR BANKS:** Okay. I didn't have any other questions. Are there others? No. All right, thanks very much, we appreciate it.

**MR CHRISTENSEN:** Thank you.

**MR BANKS:** I'm going to break now for afternoon tea and then we have two participants to follow after that. Thank you.

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**MR BANKS:** Our next participant is Vis Kopfsovitz. Welcome to the hearings. You provided us with a submission. In fact, you provided us with a submission in the first round before we produced our discussion draft, for which I thank you. I'll give you the opportunity now to make the main points you'd like to make.

**MR KOPFSOVITZ:** Thank you very much. I'd like to thank the commission for the opportunity to speak. I appreciate it. I represent myself, as a concerned person. What I'd like to do perhaps - I'd like to share a positive experience what I may have from a different system and, as well, I'd like to express appreciation for people who actually presented the draft paper for opinions expressed and I'd like to comment on the particular opinions.

In my second submission I actually singled out four points I'd like to concentrate in reference to the draft discussion paper. The first point what I'd like to raise - it's about a need for a broader perspective. Whatever we do, whenever we treat a subject like housing, I believe it's a part of a very important area, what we usually refer to as (indistinct) as a second part of entertainment what we need. As such, it's extremely important that we provide as best housing opportunity as possible.

What I'd like to emphasise, that there's a difference from the community perspective - in my opinion, more important is availability of housing and, from economy point of view, affordability of housing. I am glad that both issues have been raised by the discussion paper. Actually, it was stressed in the paper that we've got a sufficient level of availability of housing and a quite decent level of affordability. Whatever motivation was behind raising the inquiry, I think so far it has been proved that if we keep what we've got at the moment we should consider ourselves as a very happy and a lucky country.

I just read a few minutes ago about another country - a former superpower - and they are struggling to get actually about 1 and a half per cent home ownership, and they've got about .3 per cent of public housing on top of that, so 1.8 per cent of people - there actually is about 150 million population. They build about 40 million square metres of housing every year. If we look, you know, from the wider perspective, we can appreciate whatever we've got at the moment. As I said, the need for a global perspective - perhaps it should be appropriate by the commission to be raised as well in the final draft.

The second small point what I'd like to refer was that at one point the draft paper referred to the ownership as a factor behind strong family. I'd like to dispute it, because I think what we've got at the moment - we've got I don't know how million of bedrooms are empty every night in Australia - and say what it means that the young family is moving out very easily, very quickly, very willingly. What it means

actually, it creates immediate pressure on both child and aged care facilities. Both are important, both are rising costs and both must be met by the community - by all of us. I think that if we could envisage somehow to change the structure of costs towards rewarding perhaps people who stay in the multigenerational accommodation, because it would reduce costs from a community point of view. That's a small point I'd like to raise.

Another small point I'd like to raise is the aspect of human capital, as I noticed that every inquiry - including this one - produces an amount of human capital. The number of people who actually committed the time and energy and intellectual potential to contribute somehow, more or less - we perhaps should retain somehow that capital, perhaps even increase on it. I made the small suggestion, if possible, for the commission to produce a matrix of, on one side, the points being raised by the submissions and a corresponding number of submissions that actually refer to a particular of interest - of concern. Why? Because I think, if we would like to increase on that capital, it would be very easy for anyone interested in a particular area - because I don't think it's feasible for people to read over 200 submissions, some perhaps 200 pages, plus attachments. It's impossible to go all through, but if we had that table of matrix we would be able perhaps to concentrate on those few people who were like-minded and then perhaps we might be able to move forward from that point of view.

The fourth point I'd actually like to raise is the fundamental point of a totally different approach. My motivation to raise that point was many-folded. Basically, as someone with a grasp of economics and experience in different systems, I understand that we perhaps need to stress - to redefine the term "economy". Economy, I understand, is the most skilful use of available resources, and the most scarce resource of all is energy. We've been fighting wars over energy, because without energy we can't produce food, we can't produce tools, we can't cool down, we can't be mobile, so energy is fundamental.

As I noticed before - as a person, I'm kind of a generalist, with pretty deep - inquisitive even perhaps - interest in a number of areas. One, from historical perspective, I understand that energy has become a fundamental issue as far as human development was concerned. First, it was wood what we used - what people used before - then it was supplemented. Once we ran out of wood, it was supplemented by slavery. Slavery lasted till the invention of a steam machine. The steam machine was substituted by electricity and then now we've got oil and coal.

We all know that resources what we've got - the coal and especially the oil - are not going to last forever. Some sceptics say maybe 30 years, some maybe 50. Who knows? Certainly, one day we will run out of resources and then what? There will be big problems. That's why I like to draw attention - perhaps it would be possible to

start some sort of - to pinpoint other people's attention - to draw other people's attention, through the commission, to the issue. Maybe it's the time now for us to raise it and to try to develop it. Maybe we could be able to determine our common goals and maybe we'll be able to marshal our resources, because in the longer term I think I'm right. Our resources are going to be depleted at some stage. Then what? A return to slavery? Quite unthinkable.

At the moment, whatever we do - and each time I hear the word "economy", I think it's misused, because efficiency - our activity is being judged in terms of money. I think it's a quite indirect measure. You can't compare, you know, money spent in Australia with money spent in China or somewhere else, but what we could compare is units of energy spent in Australia with units of energy spent in China. Then what we may discover, that it's actually those - you know, so-called cheap stuff from China is not so cheap, because maybe they had to use much more energy to produce that stuff in \$2 shops than they are selling in here. Maybe it's a way to save our jobs as well. You know, when you look from that perspective, if investors, if they want to go into other countries now, they want to exploit cheap labour over there. If we introduce a standard mark like a unit of energy to be used, it may be quite a different picture.

What I'd like perhaps to suggest to everyone who bothers to listen, as well as the commission, if we perhaps could get interest of some, you know, academics - some centres of intellectual concepts to follow the idea - if it would be feasible to introduce, say, all the charges what we now label on the developments and, by developments, I mean whether it's extension, whether it's a brand-new house or it's a totally new urban development, to try to impose some sort of - at one stage I called it sustainability label or, say, energy efficiency label like we've got on some home appliances at the moment, and then label all charges accordingly.

What it would mean? It would mean that to build the accommodation in urban centre with all facilities, like transport and the medium-density housing, would be much cheaper than built in isolation. We can't prevent anyone from building a house of his dream in the middle of nowhere, but that house out there will be much more expensive. All the energy required would include human, mechanical energy - both - to produce materials for infrastructure and for buildings, to transport workers, to transport materials, to sell the development (indistinct) transport, because at the moment what we've got - we chase up the cheapest land possible in the middle of nowhere.

We suddenly create, you know, 20,000-strong bedroom and, in the case of Brisbane, we've got on our averages 1.2 cars per adult. What it means - that a 20,000-strong development in Brisbane puts on our roads about 20,000 cars. If it's not served by mass organised transport, it means immediately big pressure on the

road system. Of course, once there's big pressure on the roads, people demand better roads and the government has to spend more on roads. All development becomes very expensive. At the moment, it's beyond the province of developers. They create, they pay all the charges and they go out from that, and we, as a community, have to pay for that. If we apply a measure of energy needed to create and to maintain for a long time and, by a long time, I mean at least a couple of generations, then the developers will be forced actually to look at the best locations from an energy point of view and in my opinion - and I can say from my experience in the past there is no better - every real estate agent knows, you know, "Location, location, location," but everyone means something differently.

From my experience, I can tell you that the best ever location is above a train station. If we could design an urban system - we built medium or high-density accommodation above a train station, where people could walk outside one's apartment, go down straight onto the train platform, travel wherever they want, to work, to entertainment, to business centres - whatever they want - and the same way up to do their business, it would be the most efficient and effective way of urban development, I reckon. I had once an opportunity to share that vision with the state minister of state development and he applauded it as marvellous - a marvellous idea of having community (indistinct) across Queensland, but in practice it takes a long time actually perhaps, you know, to communicate between one minister and another, because that idea - it didn't take off at all.

**MR BANKS:** To build an Eiffel Tower, which would make it more expensive as well.

**MR KOPFSOVITZ:** But, as I said, the energy issue - it's a huge area. It's a huge area. It's like, say - money is one fetish. That would be a different one. The energy needs - because I'm concerned very much at the distribution of resources at the moment - what we witness, and we contribute to it - is unjust. It's a very difficult term actually to define, because people for a thousand years have tried to come to grips with the concept of what's just and what's unjust. But my opinion of "just" means something that the vast majority of global population thinks is good for very long time. A very long time is counted as 300 years. So From the global point of view, what's just is just; that we actually use resources available in the proper way, not like now - let's say according to some experts - 20 per cent of population has got access to 80 per cent of resources.

As I said, energy is a critical issue that we will be facing in the near future, perhaps before some of us are still alive we may end up switching off our appliances and use it as a stand for our flowers, or something. That's a very sad perspective, unless we do something now. To switch or to create new standard measure like energy unit would require immense intellectual input. It would create - if we've got

today - if we could not have Mr Gates (indistinct) of the future who would adopt the idea and would create the industry, would create a new area of measurements - if we have success in Queensland, beautifully - or in Australia, it will perhaps now position us as a global leader and sooner or later someone - I'm sure - will tackle that issue.

I'd like to use (indistinct) to draw people's attention to that issue now here and if the commission says it's appropriate to raise in the final draft perhaps somebody would eventually take notice and maybe would like to follow it. Then I think that would be perhaps something that I'd be very happy about.

**MR BANKS:** Could I just perhaps stop you there and comment that I think your idea of ensuring that vocational choices take into account the real cost of energy involved in living a long way from transport nodes and so on, I think is a very good one, and I think we'd agree with that and it's probably reflected in aspects of our report. The question is: how do you best achieve that?

I suppose market economies have, over time, been moving to try to price energy appropriately and take into account externalities and so on, so that you can do it in a decentralised way where people respond to the price system, so if they're going to live out in Woop Woop - as we'd say - they pay a lot more for the infrastructure that they have to have there compared to living in the city. Those price signals, in a way, perhaps guide some of those decisions. I put it to you that if you can rely on the price system to do the work you want, it's a little bit easier than having to recalibrate the whole economy in terms of kilojoules, which I think would be tricky.

**MR KOPFSOVITZ:** I agree that money is easier, because we are all confident with using money and what I've raised is a totally new concept. Any new concept is difficult to tackle so with cost of energy as a driver, I'm concerned that basically I think that petrol is very cheap; it's too cheap. I heard on the radio the other day that it is (indistinct) to produce about 30,000 tonnes - to grow 30,000 tonnes of (indistinct) to turn it now into one litre of petrol. A huge amount, you know, of green mass that is to be converted and we use it so carelessly sometimes perhaps - even a dollar a litre is comparable to drinking water would provide and no-one wants to pay too much.

The way what I would envisage would be possible to achieve it, would be say to combine both inquiries actually - this inquiry and the Auslink inquiry I think is still current by the federal Department of Transport. If we could say arrange transport corridors national or state, local corridors and within those corridors provide accommodation, I think it would be the cheapest and most efficient way of creating accommodation - within transport corridors. Whoever wants to build outside a transport corridor should consider now - or should be required to pay higher costs.



So costs will be differentiated between efficient location - and we should perhaps try to define what we mean by "efficient location" - without perhaps going into energy units, but somehow what we actually understand by "efficient". Then charges are levied accordingly to the level of efficiency. If it's much difficult, takes much more effort - not only money - to be somewhere else, perhaps charges should be higher. I am not very well you know in terms of accounting and market economy and mechanisms that governed, but I can only say that the situation you've got now is beautiful.

The reason for my opinion as a private person, why the prices of real estate are skyrocketing are simply we produce, as a nation, bags of money every week, bags of wealth in terms of money and then we have to do something with this money. Traditionally we used to locate that money in real estate, in the stock exchange or in government bonds or financial institutions. At the moment only real estate is favourable to bring some profit. All others, you know, traditional forms of investment are actually bringing losses. So all those bags of money were suddenly pushed into real estate and that's the result you know, because it's impossible to deliver as much as the market demands, so prices went up.

But most prices are highly speculative and that's another question, where I think the draft is right - the words in the draft are expected prices in the future and then perhaps we should consider the situation I came across the other week, of the cost of building a five-bedroom house - five-bedroom house in rural Queensland and they say - I can quote it, for instance, "For \$177,000 I've just sold a new, five-bedroom brick home with en suite, family room on five acres with good views, a double garage and workshop area and carport, on good soil and handy to town."

On page 119 to build a house - dwellings they call it there, not house - dwelling in Sydney to build, 155,000, plus all other costs - for 100 something thousand dollars. I think overinflated. Those costs in Melbourne and Sydney are grossly overinflated. We have to do something about it because otherwise there will be perhaps people who would be very disappointed when prices may, you know, it's the pricing (indistinct)

**MR BANKS:** Thank you. Perhaps come back to your earlier point about the information available to the inquiry and how it could be accessed. That's something we certainly will think about. As you may know, all of the submissions are on our web site and stay on the web site for a considerable period of time, so you can look up - you know, even hearings or inquiries that we had years ago and find them, as people do - it may well be having a search engine on the web site to allow you to pick up key themes or topic words and it would be a way of facilitating that, rather than us having to do it sort of manually and produce an index which might be

incomplete anyway. But thank you for that suggestion. That is something we will look at.

The idea of having a CD-ROM - we have done that actually in some of our inquiries; the big inquiry we did on the gambling industries, we produced a CD-ROM which included all the submissions. We look at it on a case-by-case basis depending on how much demand there is. These days most people have access to the Internet so provided we keep it on our web site, that provides access. I should give my colleagues an opportunity, if they have any questions for you - no. All right, thank you very much for attending today and for the submission, and for the two submissions actually, which have been very useful. Thank you again.

**MR KOPFSOVITZ:** Thanks very much.

**MR BANKS:** I'll now break for a minute or two for our next participant.

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**MR BANKS:** Our final participant today in Brisbane is Richard May. Welcome to the hearings. You've provided a small submission, for which we thank you. We've got it here. As I said we'll perhaps give you the opportunity to make whatever points you'd like to make covering the ideas in your submission.

**MR MAY:** The only thing that I have to add to that is personal experience of the state of some of the market. I've got three daughters approaching the time in their lives when they possibly would want to buy a house and that was my prime motivation. Having been out into the market recently and not having had any real contact with for a number of years I was shocked to see the adverse situation facing particularly young first home buyers and other people in the community who would like to buy a home and who don't already own a home.

Some of the experiences I've had were travelling out to the Lockyer Valley and finding that it was impossible - almost impossible to get anything in the Brisbane metropolitan area under \$200,000 - house and land - when, in my previous experience of looking a bit more closely at the housing, there were ample homes between 100 and 150 thousand dollars within close proximity to the city of Brisbane. Having gone out to the Lockyer Valley trying to find something under \$200,000, I found that the major Lockyer Valley town, which would be 30 to 40 kilometres from Brisbane GPO, and about 10 kilometres from Toowoomba - 10 or 15 kilometres, 20 kilometres from Toowoomba, the real estate agent, principal at the real estate agency told me that within the last 12 months he personally had bought four homes, snapped them up around the 50 to 60 thousand dollar mark.

He related a story of investors coming up from down south who had spent \$8 million in the area, a blanket order to buy anything that they could get their hands on for those prices that were existing six or 12 months ago. He was telling me and the person I was with that this particular group of investors, having spent 8 million had up to \$15 million to invest in houses. The tragedy of it is that the first home owners who can't get accommodation within reasonable proximity to the city, where they work and in reasonable proximity to where their families have become established, have to go out to this particular area looking for something affordable, only to find that wealthy investors have come in like sharks and snapped up everything there is and taken them out of their reach.

The other experience I've had is going to a place called Springfield Lakes, which is approximately 30 kilometres from the GPO, a bit closer in by about 10 kilometres - 10 or 15 kilometres from where I went out to the Lockyer Valley. A major developer, who is developing an estate there, having previously developed an estate at Forest Lake, and having the experience of finding that any available land for the cheapest price was 85,000 for 300 square metres - 300 square metres and \$85,000. Having been told by the salesman that six months earlier they were

\$40,000 and that, according to their estimates the price of that land - it's still awaiting registration which is due in about six months - is increasing in the order of \$500 per month. This was just a few weeks ago.

So to be told that it had increased by \$40,000 in six months and that a house and land package on one of those blocks, with a modest small cottage was - when I first went out there 210 - speaking to the builder he kicked his prices up \$10,000 within a matter of a few weeks. The point that struck me was that with any other commodity such as, for instance, a motor car or any other product, with a reputable dealer if he has run out of stock, he might say to you, "Look, it will be a few months before we can get that one in but the price you'll pay is the same," but the reason for that being of course the intense competition in the market.

It struck me as being very unfair and morally questionable, that a major developer - probably with somewhat of a monopoly over available land - scarcely available land, was happy to make what I assume was a reasonable profit six months earlier by selling the land for 40,000, but by virtue of the fact that there was now such a pent-up demand and by virtue of the fact that there was no other available land, he was now cashing in on the misfortune of these young people and others by doubling the price within six months. To me, in my opinion, that's the action of a rogue who is not much better than a common thief.

According to the salesman half the sales are going to investors, who are getting in there and pushing the genuine home owner right out of the picture. That's all I wish to say.

**MR BANKS:** It's been very useful to get a story like that, a particular example of what's a reasonably widespread phenomenon, I think, this time; what we believe is much more widespread than the boom of the late 80s, for example, which seemed to be a bit more concentrated in the major city areas. In your experience as a real estate agent, obviously prices have risen and fallen over time and I suppose I will just get any comments you might have about the extent to which the markets here in Queensland have fluctuated in the past and therefore may well come back to be more affordable again.

**MR MAY:** Back in the 70s, early 70s, when I commenced my interest as a real estate salesman then as a principal, blocks of land were 2 and 3 thousand dollars and houses were somewhere in the order of 15 or 16 thousand dollars. They've steadily increased over that period of time. But there seems to have been a marked increase in the last 10 years, and even in the last 12 months. It seems as though, with the stock market uncertainty - the previous speaker was correct in saying that it appears that investors in the stock market are bailing out. The appeal of negative gearing is becoming very well understood and there seems to be huge amounts of money

available that are now targeting the housing market.

**MR BANKS:** You make the point in your submission that - and you've alluded to it again, I think, in a way that land is being withheld by developers from the market. Do you have any evidence to support that contention?

**MR MAY:** No, I don't have the evidence. All I can say is that the example I gave - these people have access to statistics regarding population growth, regarding catchment areas of the population, regarding the available number of blocks at any one time within the metropolitan area. They have very extensive statistics.

If they have miscalculated the demand, I would be very surprised, very surprised. They're either totally incompetent or there is possibly some ulterior reason, which I've alluded to in my submission. I don't see how they could not be in a position where there is so much demand and so little land becoming available to satisfy that demand. In my opinion, it's sufficient evidence that the government needs to step in. With a country of so much land available, it's not realistic that a 300-square metre block of land should be priced at \$80,000. I can't see why a better manager of the land could not provide it to young people at affordable prices.

**MR BANKS:** The only other thing I was going to ask you: I think you see a solution in terms of the government stepping in by funding state housing commissions as competitors in acquisition, development and sale of housing allotments at affordable prices that you mention here. There are such bodies in a number of states. I guess one of the issues they face is how to target those who need the affordable housing and how to stop them simply winning a lottery, in a sense, by getting a house at a subsidised price - subsidised by the taxpayer - and then reselling it in a more buoyant. I'm just wondering to what extent this kind of approach can, in your view, make a real difference in a market that's so much larger than the influence that a government organisation of this kind could rival.

**MR MAY:** If we took the negative gearing tax break away, the shine would go off buying a house to a large extent, I believe, and houses would go back to the traditional. You could always buy a house and try to speculate on it before there was negative gearing, and the same would apply. I don't think it's fair or reasonable that well-off people can buy a house and claim their interest repayments as a touch deduction against their net income, when the mortgage repayments by the first home owner and out of the genuine home owner's lot.

**MR BANKS:** There has always been negative gearing, of course. At the time when you were a real estate agent, negative gearing provisions probably applied. How do you explain then, if it's all about negative gearing - - -

**MR MAY:** I wasn't sure that they were back that far.

**MR BANKS:** It depends when you were - - -

**MR MAY:** Back in the 70s. I thought negative gearing was something that was brought in more recently than that.

**DR ROBERTSON:** It was taken away - - -

**DR SHANN:** It was taken away (indistinct)

**DR ROBERTSON:** - - - but then given back.

**MR MAY:** It was taken away - - -

**DR ROBERTSON:** Keating took it - 88?

**MR BANKS:** Yes, briefly in the late 80s, but I thought it would have been around for quite a long time before then because it had been seen, and then removing it was seen as having quite a profound impact.

**MR MAY:** There are perceptions, and the perception is with people with spare money that whether they get real benefit - as good a benefit from it as they imagine, it's a reason that they use for buying houses for an investment. Whether it has been around for a long time or not, the government has got to look at denting the attraction to buying houses from anyone but genuine people who are in need of a roof over their head.

**MR BANKS:** What happens to the rental market?

**MR MAY:** Well, they use this as a reason for allowing negative gearing. They said it would encourage people to buy homes, but had they restricted negative gearing to the construction of new dwellings, that might have had a more efficient way of trying to promote more housing. But I think that the theory that negative gearing was going to encourage wealthy people to build housing and satisfy the housing shortage, I personally don't see that. All we've seen is the situation now where up to 50 per cent of the homes being purchased are being purchased by people as investments. Wouldn't the normal demand of the genuine first home buyer and genuine home buyer for their own residence create the demand just the same, without the inflated pricing that has to go with it?

Maybe they thought that negative gearing was a way of stimulating employment, but I don't see that the normal demand of a growing population

wouldn't have done exactly the same thing, because the number of houses being built would be proportionate with the demand and, as long as the land was kept at a reasonably affordable price and building costs were not allowed to escalate through lack of competition in building products manufacturers, I don't think that we'd have the land rush and speculative rush that's just pushed housing right out of the reach of the majority of medium and low-income earners. That's my opinion.

**MR BANKS:** Thank you very much for attending today and for the submission. That concludes our hearings here in Brisbane. We resume next week in Sydney on Monday and then in Melbourne the week after. I adjourn the hearings until next week. Thank you.

AT 4.30 PM THE INQUIRY WAS ADJOURNED UNTIL  
MONDAY, 2 FEBRUARY 2004

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