NSW GOVERNMENT SUBMISSION TO PRODUCTIVITY COMMISSION INQUIRY INTO FIRST HOME OWNERSHIP

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EXECUTIVE SUMMARY

The New South Wales Government welcomes this opportunity to make a submission to the Productivity Commission's Inquiry into First Home Ownership.

This submission comments, and provides associated factual information, on a range of issues raised by the Productivity Commission in its Issues Paper. The submission also comments on housing affordability more generally.

The Terms of Reference for the Productivity Commission Inquiry restrict the scope of Inquiry to first home buyers. Nevertheless, it is important to recognise that data gaps make it extremely difficult at times to meaningfully separate first home buyers from other home buyers in the market.

This submission examines trends in housing affordability in Sydney and NSW, using common industry measures. Despite the widespread use of the term 'affordability', the submission notes that the meaning and measurement of the term is not clear. In addition, it is apparent that housing affordability is an issue that does not only affect first home buyers.

Our analysis of the available data indicates that housing affordability (using current industry benchmarks) has declined for first home buyers and in the market overall in recent years.

Established house prices in Sydney have increased by over 100 percent in the last six years and by nearly 50 percent in the two years to June 2003. This large increase in house prices has been by far the dominant cause of the decline in housing affordability for first home buyers. This is particularly so in terms of first home buyers' capacity to raise a deposit - that is, meeting the up-front costs of entering the market.

From the State's perspective, the significant rise in house prices has been predominantly driven by higher demand arising from:

- unprecedented levels of investment activity in the housing market, driven by financial deregulation, changes to Federal Capital Gains Tax in September 1999 and low returns in other asset markets. In recent months in New South Wales (NSW), investor finance (by value) has outstripped owner occupier finance for the first time;

- strong growth in Sydney's population and ongoing reduction in the average size of households. Sydney's population grew at a faster rate than Australia as a whole, mainly due to Sydney continuing to receive the highest share of net migration to Australia;

- strong household income growth and sustained historically low mortgage rates. Relative to a decade ago, an individual on average earnings can today borrow twice as much; and

- the introduction of the GST and the First Home Owners Grant in 2000, and temporary additions to the amount of the First Home Owner Grant from March 2001 to June 2002, which brought forward housing construction activity and decisions to purchase a home. There has been a subsequent steep decline in demand by first home buyers, as shown in reduced borrowing for homes by first home buyers and much lower take-up of the First Home Owners Grant in 2002-03.

While all capital cities and States have recorded large increases in established house prices in recent years, house prices in Sydney remain the highest in Australia. Apart from Sydney house prices starting off the highest "base", there are unique elements in the Sydney environment that contribute to higher house prices, including higher costs of service provision, higher incomes, and continuing high population growth.

Sydney is Australia's only "global city" and is also the financial and business capital of the nation. Overseas migrants, the predominant source of population increase in NSW, are drawn to Sydney as the focal point for employment and family reunions. There is a clear relationship between the size of a city and house prices (Reserve Bank of Australia, 2001).

At present, around half of Sydney's annual growth in the number of households is attributable to net migration, compared to the national average of 27 percent and 31 percent in the next largest city, Melbourne. Migrant settlement creates direct demand for housing and for supporting infrastructure and services, such as roads and public transport, and health and eduction services.

Sydney's population is projected to grow by some one million in the next twenty years, an increase that will have serious implications for urban infrastructure and amenity. Most of this growth will be attributable to net gains from overseas migration.

Unlike other major Australian cities, there is little capacity for Sydney to expand beyond its current natural boundaries. Sydney is physically hemmed in by high plateaux to the north and south, the Blue Mountains to the west and the extensive Hawkesbury-Nepean River floodplain, which restricts the amount of land for new development. These features pose significant challenges and costs in meeting demand for new housing and infrastructure within a framework of environmental sustainability.

There has been record growth in the demand for dwellings in NSW. In general, supply in NSW has been able to keep pace with the surge in demand for housing. The New South Wales Government has recently announced that it is investigating the release of over 20,000 hectares of land in south and north-western Sydney. The new release areas are anticipated to accommodate around 150,000 new dwellings and over 400,000 people.

The increased land supply in the south-west and north-west should reduce pressure on current housing prices and also potentially provide greater opportunities and choice for first home buyers by offering a more diverse range of lot sizes and building types.

The New South Wales Government recognises the importance of enabling access to affordable housing and has its self implemented a range of programs to assist people, particularly those on low and moderate incomes, to obtain housing appropriate to their needs. These programs are detailed in this submission (see Section 6).

At a broader level, the New South Wales Government has given renewed emphasis to ensuring that land use and land release policies provide an efficient supply response to demand for new dwellings.

State stamp duties related to housing have not been a major factor in declining housing affordability in recent years. NSW stamp duties related to housing represent a relatively small proportion of the cost of purchasing a home (around 3.8 percent on the value of a $450,000 home). Moreover, for most purchasers stamp duty costs are bundled into the housing loan and are in effect paid gradually over the life of the housing loan rather than as an up-front cost. To the extent that stamp duties do impact on the demand for housing, reducing stamp duties in the current market environment would be counterproductive, as it would add to demand pressures, and push house prices even higher.

Stamp duties related to housing are a significant, generally growing but volatile source of revenue to NSW. The size of the revenue provided by stamp duties means that that their rates and thresholds cannot be changed without materially affecting State revenue and NSW's overall fiscal strategy. The variability of the revenues means that changes to rates and thresholds undertaken in one housing market environment may be completely inappropriate for the market environment in a following year.

However, the New South Wales Government recognises that stamp duties may present a relatively greater cost to new entrants to the home purchase market, particularly since new entrants will not have the benefit of untaxed capital gains from the sale of a previous home. The Government therefore provides significant exemptions and concessions on stamp duties to reduce the impact of transfer and mortgage duties, through its First Home Plus Scheme.

The Government has further committed to review stamp duty levels in light of rising property values, as the State Budget can afford. The priority for any changes to stamp duty will be to assist first home buyers.

As stated above and detailed in this submission, the current housing market patterns have been profoundly impacted by Federal Government policy and tax settings, such as high migration intake to Australia and favourable taxation of residential property income and capital gains policy settings. These policies have had a distinct and disproportionate impact on Sydney and NSW.

Federal policies reflect an expectation that NSW will continue to grow as a "global city". However, NSW's capacity to fund such demands is limited, and further reduced by the Commonwealth because of the diversion of revenue raised in NSW to other States and Territories.

Around one-third of the increase in NSW transfer duty revenue over the last five years has been transferred to other jurisdictions through reduced Commonwealth grants to NSW. Other States and Territories are therefore benefiting from high housing prices in NSW at present. However, such transfers increase NSW's reliance on State taxes, of which stamp duty is an important component.

The States' limited revenue raising capacity and the physical and environmental constraints on continuing land and housing supply in NSW and Sydney in particular raise the cost of housing production, and highlight the importance of contributions by the beneficiaries of new housing and development toward the cost and service pressures that new developments create.

Structure of this submission

This submission contains six sections, structured broadly around the key areas in which the Productivity Commission has sought public input, as follows:

1. overview of the profile of first home owners and general trends in the housing market;
2. demand-side influences;
3. supply-side influences;
4. the impact of the market on affordability of housing;
5. taxation issues; and
6. programs that aim to assist first home buyers.

1. OVERVIEW OF THE MARKET

1.1 First home owners: a profile of buyers in NSW

Around half of first-time buyers are in the 20-30 years age group, one-third in the 30-40 years age group and the remainder are over 40 (Table 1.1 below). The age profile of first home owners has not substantially changed over the last 10 years, although there has been a slight reduction in the 30-40 years age group, and a slight increase in the over 40s.

Table 1.1: Age Profile of First Home Buyers

Age group	AHS 94[1] (%)	AHS 99 (%)	FHOG (%)
15-19	0	0	0
20-29	49	47	48
30-39	40	31	34
40-49	7	12	11
>50	5	9	3

Source: Office of State Revenue, NSW Treasury

The percentage of first home buyers whose country of origin was other than Australia is higher than their proportional representation in the general population (Table 1.2 below).

Table 1.2: Country of Origin of First Home Buyers

Region	NSW population (%)	First home owners (%, ABS 1999)	First home owners (%, FHOG) [2]
Australia	74	74	67
Other Oceania and Antarctica	3	4	3
Europe and former USSR	21	16	16
North and sub-Saharan Africa and Middle East	8	8	10
South-East Asia	3	7	7
North-East Asia	3	3	5
Southern and Central Asia	1	4	3
Americas	1	1	1
Other	0	0	0

Source: Office of State Revenue, NSW Treasury

The higher representation of overseas-born people amongst first home buyers does not appear to have changed with the introduction of the First Home Owners Grant.

[1] AHS 94 – Australian Housing Survey 1994; AHS 99 – Australian Housing Survey 1999; FHOG – First Home Owners Grant, from Office of State Revenue statistics.
[2] Records from the Office of State Revenue for the First Home Owners Grant, covering the period 1/7/2000 to 30/6/2003.

Previous research confirms that those who were born, or whose parents were born, in a non-English-speaking country are more likely to become home purchasers than those from English-speaking backgrounds[3].

First home owners overwhelmingly purchase existing dwellings (Table 1.3 below). There appears to have been a reduction in the number of first home owners buying new dwellings, with only 13 percent purchasing new dwellings in 2001-02, down from around 19 percent in 1994. While the reasons for this decline are not conclusive, two factors have been postulated in research and by commentators. The first is a preference by younger people (generation X) for locations close to infrastructure[4]. The second reason is that new release areas are unaffordable for the majority of first home owners[5]. However, future development on greenfield sites in NSW aim to provide a wider range of dwelling types and an increased housing supply in order to create more affordable housing choice in new release areas.

Table 1.3: Dwelling Type Purchased by First Home Buyers

Dwelling type	AHS 94 (%)	AHS 99 (%)	FHOG (%)
New dwellings	19	23	13
Established dwellings	81	77	87
Total	100	100	100

Source: Office of State Revenue, NSW Treasury

The amount of income earned by first home owners has increased in recent years. The 1999 Australian Housing Survey indicates that in 1998, the median income of first home buyers was around 16 percent above the population median income. By 2001, the median income of first home buyers in Sydney was 27 percent above the population median. The income of first home buyers in the rest of NSW has stayed much the same, at slightly above the population median income.

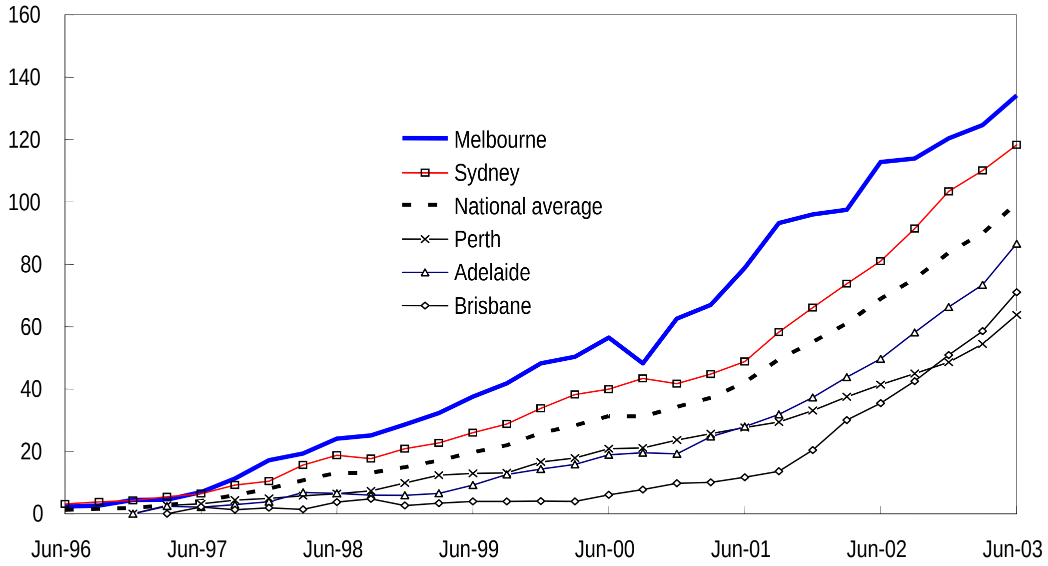
1.2 Recent trends in the housing market

Across Australian capital cities, there has been a near 100 percent increase in established house prices since 1996 and 40 percent in the last two years. Established house prices in Sydney have increased by over 100 percent in the last six years and by nearly 50 percent in the two years to June 2003.

The cycle has been similar though with some unique characteristics in NSW. As shown in Chart 1.2 below, in aggregate, the number of loans for owner-occupier housing rose modestly at the start of the cycle, surged prior to the introduction of the GST and again in 2001-02. It is currently at lower, though still elevated levels.

[3] 2002 Merlo R & McDonald P Outcomes of home-ownership aspirations and their determinants *AHURI Final Report* Australian National University Research Centre.
[4] 2001 *Fact, fiction and first home buyers* Macquarie Property.
[5] 2001 *Fact, fiction and first home buyers* Macquarie Property.

Chart 1.1: ABS established detached house prices, % increase since 1996



Source: ABS data

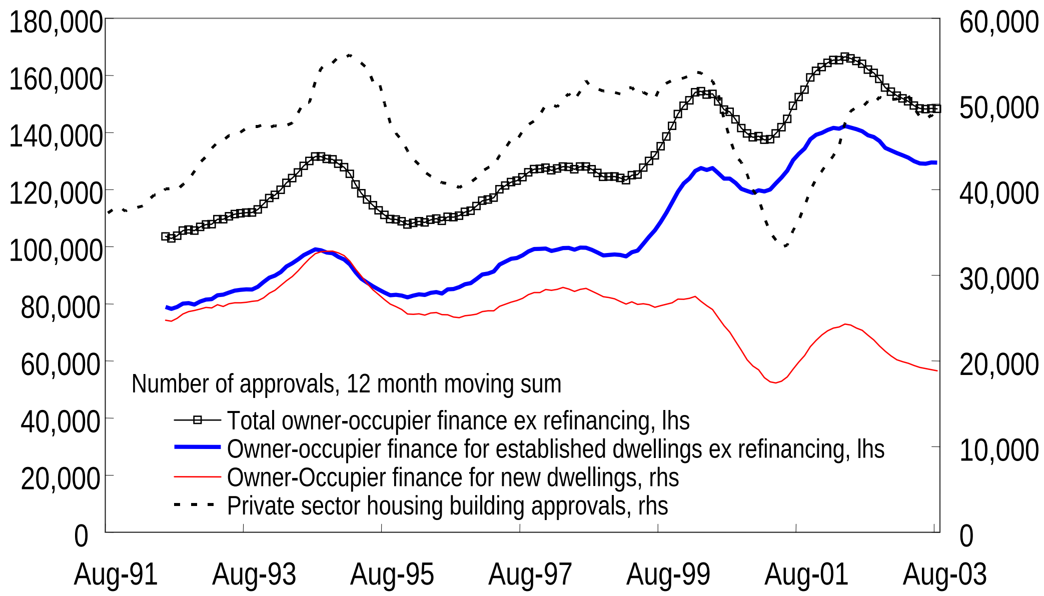
Nationally, in 1999-2000, there was a surge in construction activity prior to the introduction of the GST, influencing demand for new houses in particular. Interest rates rose modestly through 2000. Construction activity slumped in early 2000-01, but the increased first home owners grant saw a very rapid recovery. Interest rates declined again in 2001 to record low levels. Established housing demand remained strong. In 2001-02 investor demand for housing also lifted sharply and continued to do so through 2002-03. First home owner demand slowed sharply in 2002-03 after reaching well above trend levels in the previous two years, but there have been tentative signs of a rebound in recent months.

A difference in NSW is that the increase in the number of owner-occupier loans for new dwellings before the GST was considerably less than in other States. While there was a reasonable rebound thereafter, in part due to the extended First Home Owners Grant, that rebound was somewhat delayed and less robust than seen in other States. Approval levels for owner-occupier loans for new dwellings remain below levels seen in the 1990s.

Demand for established dwellings on the other hand surged in 1999, again in 2001 and now remain at historically very high levels. The divergence between owner-occupied demand for new housing and building approvals, also apparent in Chart 1.2 overleaf, suggests that demand for new housing is coming from another source - investor activity. The ratio of new housing finance for owner occupiers to building approvals, for example, has fallen from the mid 50 percent region in 2001 to just below 40 percent currently.

The growth in investor activity as a key contributor to housing demand in this cycle and other demand drivers is discussed in further detail in the next section.

Chart 1.2: NSW Owner-Occupier Housing Finance



Source: ABS data

2. DRIVERS OF HOUSING DEMAND

2.1 Overview

Population growth is the key factor leading to household formation and the underlying demand for housing. The rate of population growth has been above average in Sydney and NSW. However, the net increase in the number of households (or the underlying demand for housing) has not significantly diverged from the long term trend and does not in itself explain the degree to which prices have risen.

Historically, housing activity in Australia has followed large cycles and been influenced by economic factors and sociological factors (such as family unit changes and household size). A period of strong economic conditions usually sets the scene for high demand for housing and price increases. This period is then usually followed by a period of lower economic growth and subsequent stabilisation or fall in prices.

Current market conditions reflect a period of sustained economic and household income growth, low mortgage interest rates, Federal Budget incentives directed towards boosting spending on housing and, in the last few years, significantly higher investor activity in the housing market. Increased investor activity has been accompanied by rapid increase in house prices in recent years and a decline in housing affordability.

Surging investor activity amidst still high levels of demand from owner-occupiers has coincided with the rapid increase in established house prices in recent years and led to a decline in affordability.

There is some indication that in keeping with the past cyclical nature of housing activity, the housing boom may end soon and house prices may stabilise. However, the affordability of purchasing a home is likely to be an ongoing issue.

2.2 Current housing cycle

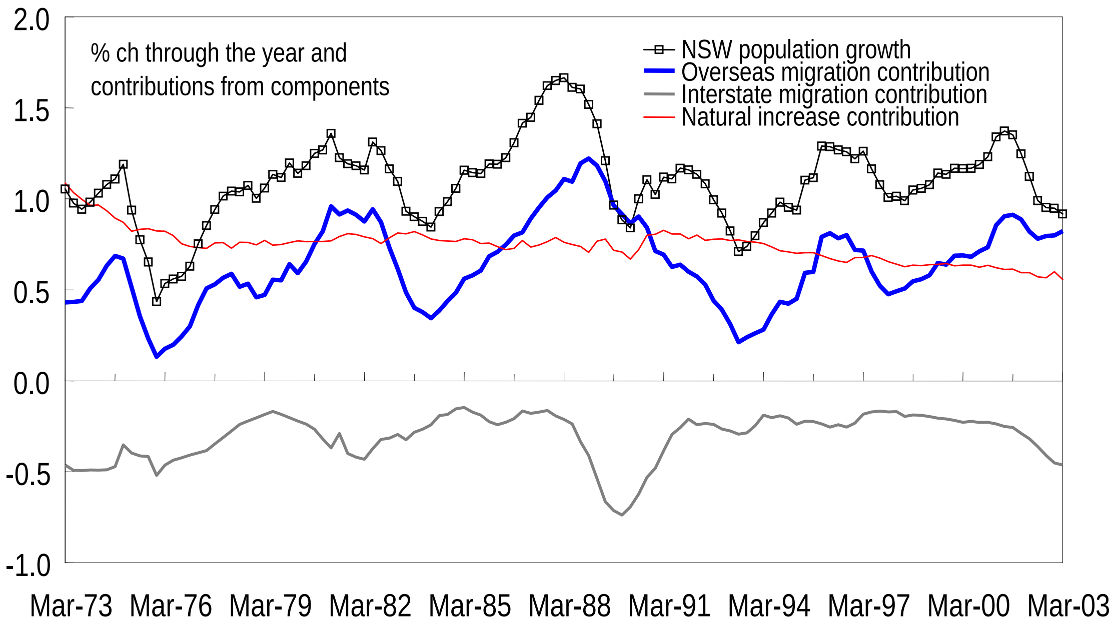
Broadly speaking, this housing cycle commenced in 1997-98. Monetary and fiscal policy settings have been the most significant differentiating factor of this cycle and a key influence on the demand for housing.

2.2.1 Underlying demand

The major driver of population growth in NSW is overseas migration. In the period from mid 1998 to 2001, population growth was driven by overseas immigration levels not seen since the late 1980s. The increase in population growth in this cycle has clearly added to underlying demand. Absolute additions to Sydney and NSW's population have remained high, with an average increase in the number of households of around 36,000 per annum.

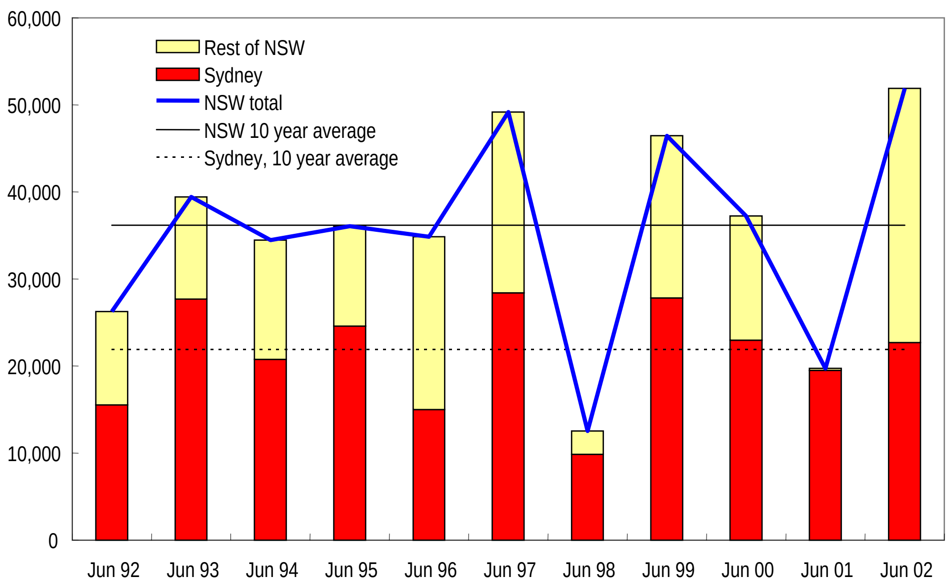
In underlying demand terms, the increase in the number of households however has not been substantially above the long-term average in the last four years.

Chart 2.1: NSW Population Growth



Source: ABS data

Chart 2.2: Change in Number of Households



Source: ABS data

Between 1996 and 2001, Sydney's share of migrants (39 percent) was almost double its share of the general population (21 percent). Net overseas migration currently contributes more than half of Sydney's population increase each year. Sydney is unique in this respect, being the main destination point for new migrants.

The source of population growth is important in considering the nature of the underlying demand for housing. Population growth attributable to net migration has a more immediate impact on the creation of households and demand for housing than population growth due to natural increase.

According to a recent study[6], migrants who choose to settle in Sydney are less likely than the rest of the population to move to other parts of NSW or Australia. As a consequence, a rise in migration intake levels will lead to increasing numbers of migrants permanently settling in Sydney.

The number of households in Sydney grew by around 77,000 during the period 1996 to 2001 (including visitor and non-classifiable households, the ABS estimates actual growth to be 110,000 in this period). The share attributable to household heads born overseas was 54 percent. Most of the demand from these extra households has been for rental housing rather than home purchase. However, demand by migrants is a significant contributor to the growth in overall demand for housing and an important element in the investor housing market[7].

Table 2.1 below shows the magnitude and sources of growth in the NSW population from December 1992 to December 1997; and from December 1997 to December 2002. Over the last five years, higher growth in net overseas migration has seen overall population growth increase, notwithstanding slower growth in population due to natural increase and an increase in interstate migration outflows.

Table 2.1: New South Wales Population Growth

Dec-1992 to Dec-1997 and Dec-1997 to Dec-2002

	Natural increase	Overseas migration	Interstate migration	Total
Dec-92 to Dec-97				
Number	213,045	163,422	-66,666	321,866
Percent*	3.6	2.7	-1.1	5.4
Dec-97 to Dec-02				
Number	199,667	237,133	-89,244	364,482
Percent**	3.2	3.8	-1.4	5.8

Percent of the resident population at (*) December 1992 and (**) December 1997 respectively. Components do not add to the total due to inter-censal discrepancy.
Source: ABS data

[6] Birrell B and Healy E *Metropolis divided* in People and Place, vol. 11, no. 2, 2003.
[7] Birrell B and Healy E *Migration and the Housing Affordability Crisis*, People and Place, vol. 11, no. 3, 2003.

There have been recent questions over the ABS' estimates of the level of net migration to Australia[8], so the total growth figures quoted above may be overstated to some extent.

Netting out the anomalous effects, the gain in overseas migration to Australia from persons settling on a permanent or long-term basis is nonetheless at high levels; in 2001 and 2002 at an amount double the first half of the 1990s[9]. Sydney's population still grew at a slightly faster rate than Australia as a whole over the period 1996 to 2001. The base population of Sydney is also at a level such that a slowing growth rate would result in a significant absolute increase in population numbers in any case.

Another key driver of underlying dwelling sector demand is the change in the pattern of household formation. Household sizes have decreased from an estimated 2.85 in 1986 to 2.64 in 2001. It is estimated that this has created demand for a further 260,000 dwellings across NSW over the twenty year period to 2001.

The demographic and social changes contributing to this decline are likely to include changes to the composition and size of family units (for example, increase in the number of single-person households, people marrying and creating families at later ages, increased rates of marital breakdown, an ageing population), and rising job opportunities and income.

2.2.2 Economic, Fiscal and Monetary Policies

This housing cycle has been characterised by several key economic drivers being in unusual positions and Federal fiscal policy changes that have impacted heavily on new housing construction and investor activity.

Rapidly increasing house prices and taxation incentives, particularly the timing of the changes to Capital Gains Tax, would appear to have significantly increased investment activity in the housing market, including by small investors. This has heightened housing demand and contributed to higher house prices. The backdrop to this cycle has been strong and sustained increases in household incomes in conjunction with historically low mortgage rates. These factors are reviewed in more detail below.

2.2.2.1 Interest Rates

The decline in home mortgage interest rates to historical lows has greatly increased the borrowing power of home purchasers over the past decade. The standard mortgage rate declined from a peak of 17 percent in 1988-89 to an average 6.5 percent in 2002-03. This reflected an easing of monetary policy, and greater competition among mortgage providers.

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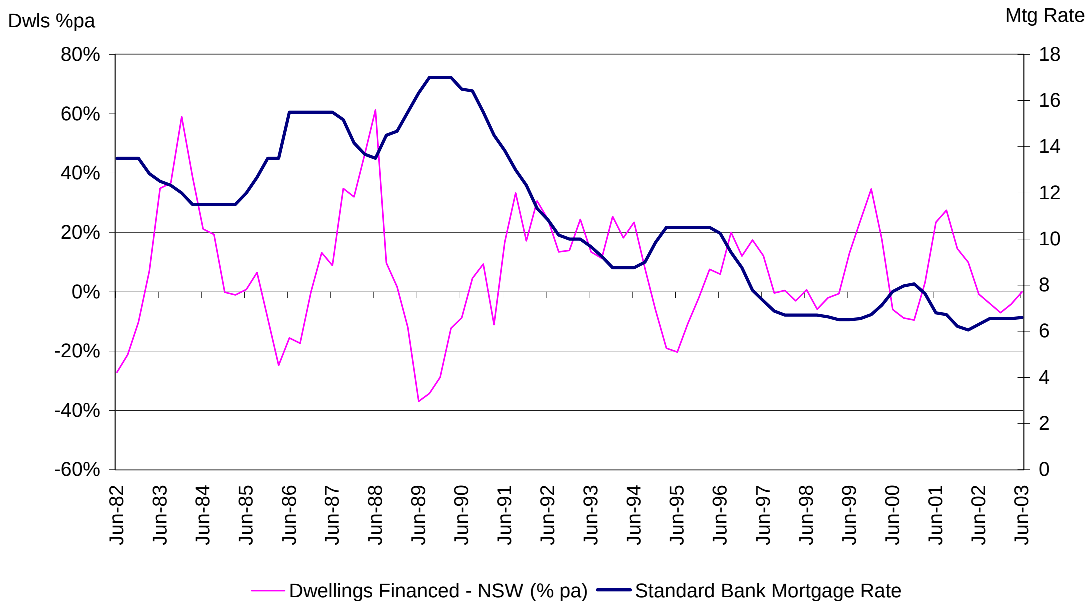
[8] McDonald P, Khoo SE and Kippen R *Alternative Net Migration Estimates For Australia: Exploding the Myth of a Rapid Increase in Numbers*, People and Place, vol. 11, no. 3, 2003.
[9] Birrell B and Healy E *Migration and the Housing Affordability Crisis*, People and Place, vol. 11, no. 3, 2003.

Chart 2.3 below shows the long-term pattern of demand for housing against standard mortgage rates.

Chart 2.3: Interest Rates and Housing Demand



Source: ABS and Reserve Bank of Australia

As a result of declining interest rates alone, the borrowing power of a worker on the average NSW full-time wage[10] would have increased from $43,964 in 1989-90 to $113,051 in 2002-03, a 157 percent increase in effective demand.

The deregulation of financial markets and subsequent diversification in credit providers and products has also boosted borrowing power and demand. Non-bank lenders have obtained an increasing share of the market and driven down average mortgage rates. The emergence of the mortgage backed securities market and mortgage backed derivatives contributed to expansion of this market. The range of financing options to borrowers also greatly increased. Even mature mortgage holders were encouraged to extract equity for other purposes by regearing their homes. All of these factors have added to demand.

2.2.2.2 Income Growth

Demand for housing has been fuelled by strong growth in employment, wages, and non-wage income. The trends discussed below have been stronger in the last 6 years than they were in the prior six years.

[10] Assuming 30 percent of gross income is available for debt servicing.

Over the 12 years from 1989-90 to 2001-02, total average weekly earnings (all employees) increased by an average 3.6 percent per annum, and full-time equivalent employment by an average of 0.8 percent per annum. Employee compensation increased by an average 5.3 percent per annum, higher than the growth rates that would be suggested by wages and employment growth, mainly due to the phasing-in of compulsory superannuation.

Secondary income increased by an even stronger 7.1 percent per annum, spurred on by growth in social benefits and workers compensation. Income from property fell, however, reflecting the collapse of this sector in the 1991 recession. Overall, total gross income increased by an average 4.5 percent per annum during 1989-90 to 2001-02.

Household disposable income has increased by an even stronger 4.9 percent per annum due to declining interest payments, which fell by an average 1.0 percent per annum. The growth in disposable income offset 5 percent per annum growth in income taxes. Final consumption expenditure grew at an even faster rate of 5.6 percent per annum, with consumers financing the gap through reduced savings.

In sum, rapidly expanding consumer disposable income, along with declining interest rates, has boosted the financial capacity of NSW households to acquire dwelling capital stock over the last decade.

2.2.2.3 Equity markets and investor activity

Global equity markets have experienced sharp losses in recent years, reflecting the end of the technology bubble, the onset of recession in the United States, and weakness or recession in other world economies. The substantial losses in equities have created incentives for investors to invest in assets other than shares, principally property and Australian bonds.

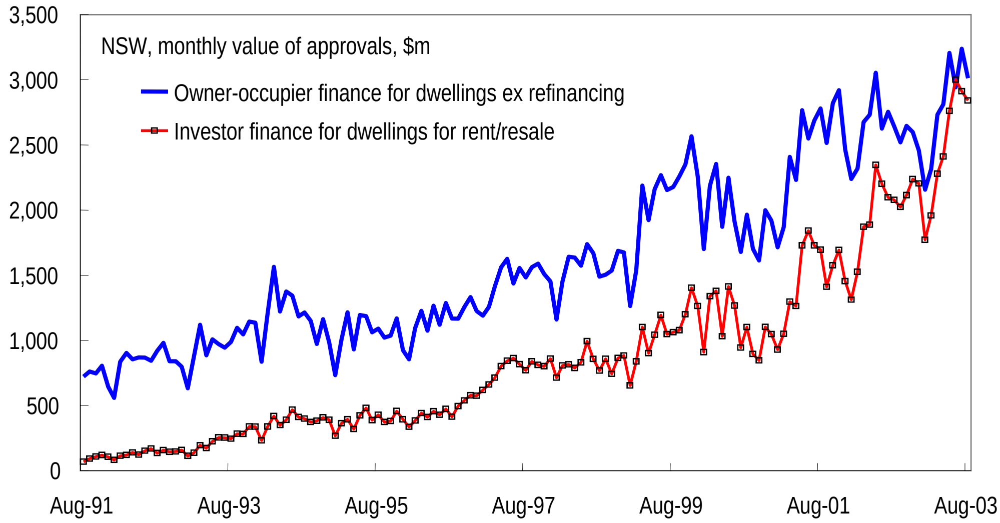
The poor performance of superannuation funds in the past few years has reinforced the traditional preference of Australians to invest in property as a vehicle for retirement savings. Listed property provided the higher returns of all major asset classes for the superannuation industry in 2002-03[11].

Under these circumstances, the upswings in residential property prices and Commonwealth taxation incentives have made investing in the housing market substantially more attractive. The value of investor loans to finance dwellings has surged to unprecedented levels in the last two years and there are no signs of abatement in those trends to date. Investor loans have risen by 158% over the last three years in NSW and in June accounted for more than owner-occupied loans for the first time. In the three months to August 2003, the value of investor loans accounted for 49 percent of total loans – up from just under 40 percent two years earlier.

[11] ASFA Research Centre, *Recent Developments in Superannuation Fund Investment Returns*, July 2003.

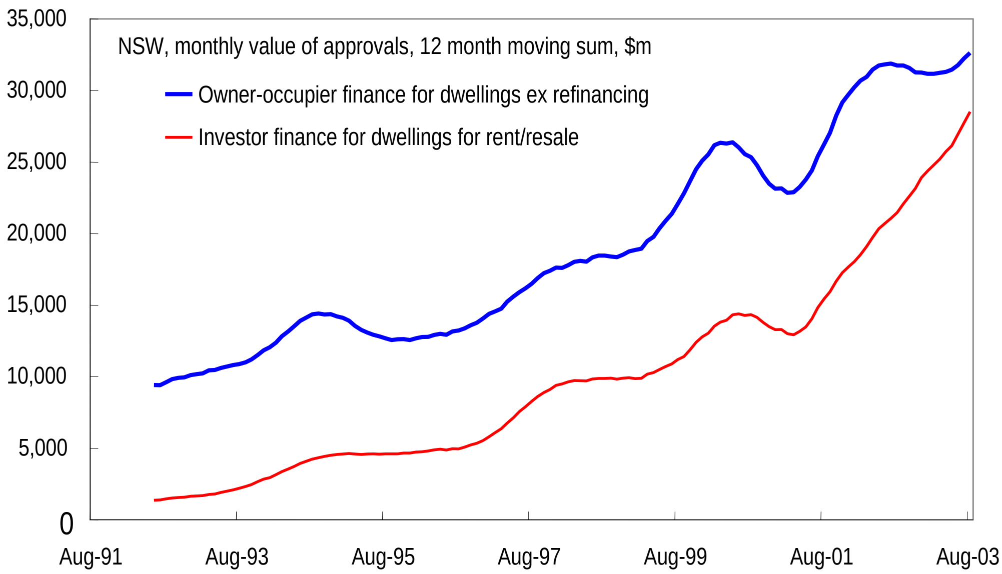
The greater levels of investor activity appear to have been a key influence on housing demand. Indeed, perhaps the most different part of this cycle in terms of demand has been evident in investor finance in the last two years. Charts 2.4 and 2.5 below illustrate the significant increase in investor loans in NSW.

Chart 2.4: NSW Owner-Occupier and Investor Finance



Source: ABS data

Chart 2.5: NSW Owner-Occupier and Investor Finance



Source: ABS data

2.2.2.4 Tax policies

Federal tax and subsidy policies have had profound impacts on developments in the residential property market over the past few years. These include:

- maintenance of negative gearing for income derived from investment in residential property. While there has been no change in this policy, the continuation of full deductibility of interest costs has been an incentive for investors;

- the changes to Capital Gains Tax (CGT) in 1999. While all investments are treated alike, the effective halving of the CGT would have seen investors favour capital gains over income. Given the strong capital gains in the property market vis-à-vis other classes, it would seem likely that the timing of this change has had a large impact on investor activity in housing – a factor already noted as having added significantly to housing demand in the last two years;

> In Australia the dramatic increase in house prices since the mid nineties accelerated with the halving of capital gains tax on investment property from September 1999. In the three and half years to the end of 1999, the average price of a Sydney house increased 30%. In the following three and half years it increased 64%. Over the last three years the stock of debt for the purchase of dwellings for rent or resale by households has increased by just short of 250%. This is a rational response to Mr Costello's invitation to invest in highly geared assets and take the return as a lightly taxed capital appreciation (while deducting from taxable income the difference between the rental yield after costs, and the interest bill on the loan*).*
> *(John Edwards, HSBC, 12 September 2003)*

- the availability to investors of a 2 ½ percent per annum depreciation allowance on investment in new housing;

- the implementation of the GST, with its bring-forward impact on demand in 1999-2000 and the slump in construction activity post-GST;

- the implementation of the First Home Owner Scheme and additional First Home Owner Grant in 2000-01, and the subsequent withdrawal of the additional grant from 2001-02 (details later in this submission); and

- the modification by the Australian Prudential Regulatory Authority of risk-weighted capital adequacy requirements on lending institutions, lowering the capital adequacy requirement for mortgage lending which has made it more attractive for financial institutions to lend for dwelling investment than for other purposes.

Federal tax matters are discussed in more detail in Section 5 of this submission.

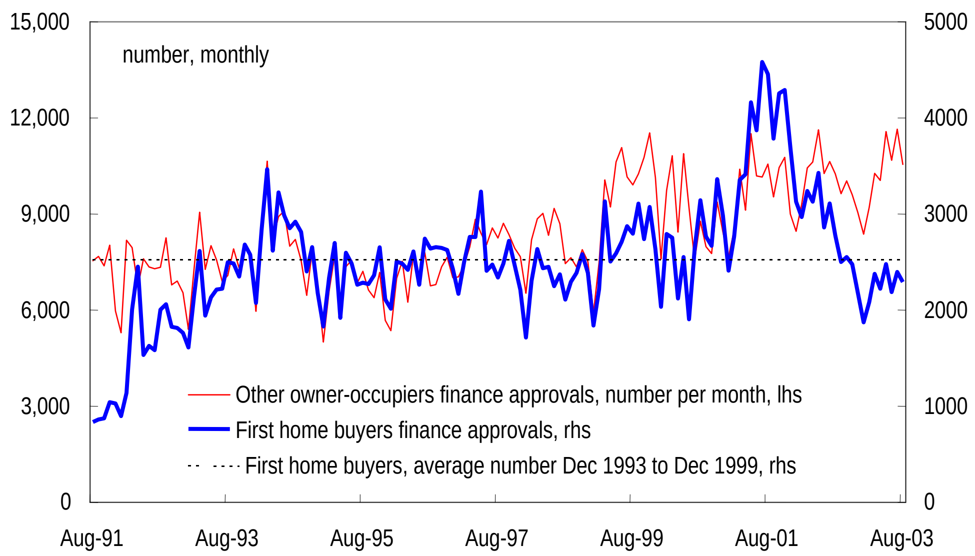
2.2.2.5 Impact of the First Home Owner Grant Scheme

Loans to first home buyers in NSW averaged 2,520 per month from December 1993 to December 1999. That monthly average rate nearly doubled to 4,580 (31.1 percent of total home purchase loans excluding refinancing) in July 2001, following the introduction the Commonwealth's First Home Owner Grant Scheme.

The introduction of the First Home Owner Grant in 2000 and an additional supplementary grant of $7000 from March 2001 brought forward decisions to purchase a home. This led to a rapid rise in finance to first home purchasers and a subsequent adjustment following the phasing-out of the supplementary grant in June 2002.

Loans to first home buyers reached a trough at 1,870 in January 2003, but have since started to move back towards average levels of the mid-1990s. In August 2003, first home buyers accounted for 2,293 loans, or 17.9 percent of the total number of loans (excluding refinancing).

Chart 2.6: First Home Buyer Finance Approvals



Source: ABS data

2.2.2.6 Exchange rate

The AUD depreciated from an average US78.1c during 1996-97 to an average US52.5c in 2001-02, or 33 percent. At its 2001-02 level the currency was significantly undervalued on a purchasing power parity basis and on most other fair value calculations.

While this low exchange rate helped Australia to weather the US recession through a strengthening of net exports, it would also have significantly enhanced the attractiveness of Australian assets, including property, for foreign investors.

Foreign investment in Australian dwellings was further stimulated by uncertainties associated with the hand-over of Hong Kong to China. This was particularly noticeable in the demand for moderately priced high-rise apartments in the CBD. In addition, many Australians working abroad (often on high incomes) took advantage of the low exchange rate to acquire Australian property in preparation for eventual repatriation.

2.2.3 Housing preferences

Changes in preferences concerning the size and quality of dwellings by home buyers may have contributed to housing price increases. Between 1987 and 1997, the average floor area of a new house in Sydney increased by 16 percent from182m^2 to 212m^2. The trend is more noticeable across NSW, where the average floor area had increased by 43 percent between 1986 and 2000.

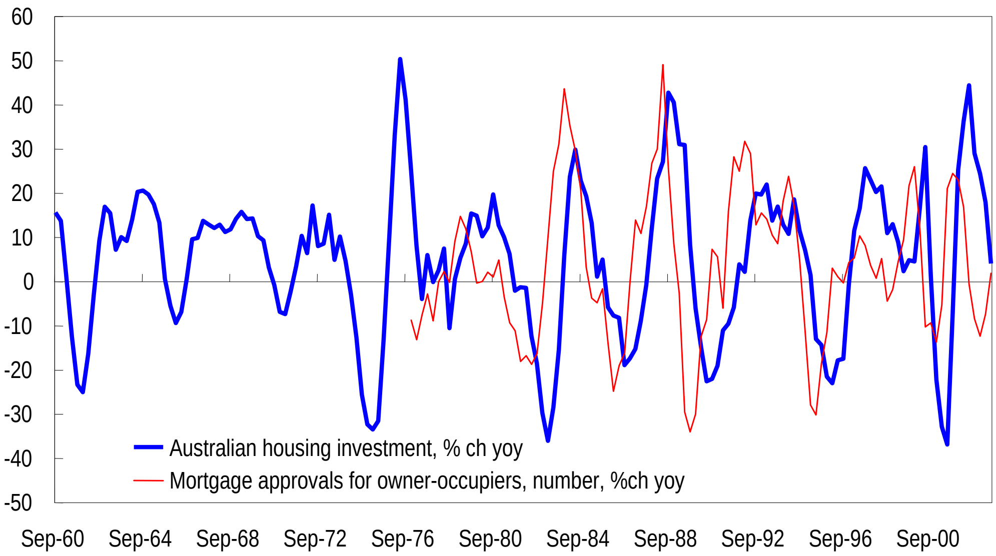
2.3 A long run view of the housing cycle

Housing activity (including demand, supply and prices) has historically moved in large distinct cycles. This is the case in Australia (including NSW), as it is in most English speaking economies. Housing cycles in the past have been typically characterised by:

- improving general economic conditions, such as improved employment and income growth, leading to an increased demand and ability to purchase owner-occupied dwellings;
- increased demand for dwellings being initially for established housing. As there is a fixed supply of housing in the short term, this leads to price increases;
- the rise in prices for established house prices reducing the relative price of new housing, making new housing more attractive;
- as there are capacity constraints on new housing construction, the prices of new housing also eventually rise. More generally, there would be an increase in CPI inflation associated with strong domestic demand. Monetary policy would be used to reign in these inflationary pressures;
- the combination of higher housing prices, contractionary monetary policy and reduced household income growth eventually reducing affordability, leading to a decline in housing demand; and
- an easing of monetary policy as domestic demand slumps, leading to a revival in economic growth.

Past housing cycles are mapped out in Chart 2.7 overleaf.

Chart 2.7: Housing - Large Cycles



Source: ABS data

A key policy lever that has not been used in the current housing cycle is tightening of monetary policy. This is likely to be due to potential spillover effects on the general economy, especially at times of global growth slowdowns and uncertainty as has been experienced since early 2001. However, taking a long-run view, there are a number of factors that suggest that there will, at some stage, be an end to the cycle.

The proportion of owner-occupiers seems to have declined slightly across the country, with a larger downward trend at the NSW and Sydney levels, as shown in Table 2.2 overleaf. To the extent that there is a pick-up in demand by new owner-occupiers, accommodated by an increase in the housing stock (as has been the case in recent years), this will create an excess supply of rental properties resulting in declining rents and rising vacancy rates.

In addition, there has been a significant increase in housing purchases by investors, who accounted for nearly 49 percent of the value of total housing loans in NSW in the three months to August 2003, up from 37 percent in the same period in 2000. This will further add to rental supply. In the long-run, the rental market is therefore likely to act as an equilibrating force that leads to declining owner-occupier demand (as rental becomes cheaper than owning) and to decreasing investor demand (as yields decline).

Table 2.2: Status of Occupied Households at Census Date (30 June)

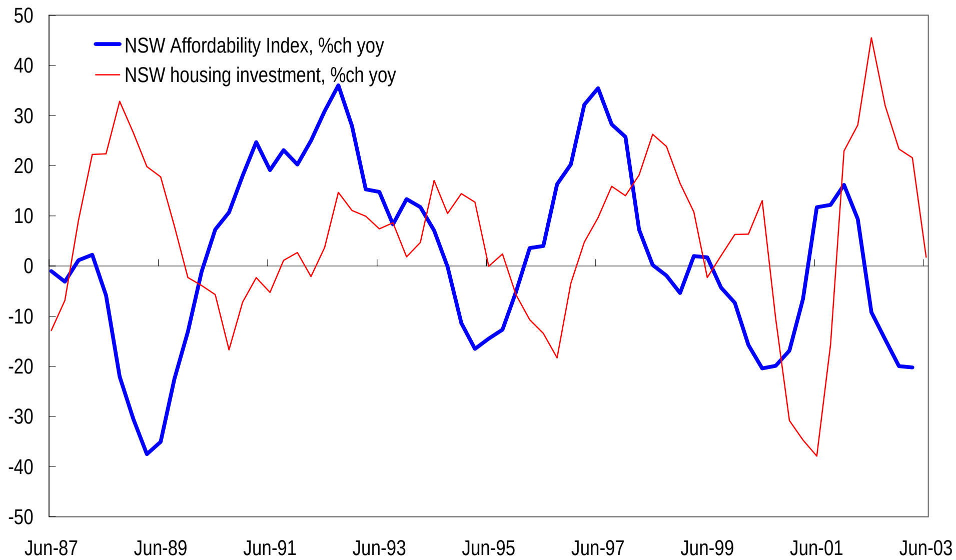
	Owner-Occupiers	Renters	Owner-Occupiers	Renters	Owner-Occupiers	Renters
Census Date	Australia		New South Wales		Sydney	
1976	66.7	25.2	65.4	26.5		
1981	68.1	24.9	67.0	25.9	67.3	28.6
1986	69.1	25.7	67.7	27.0	67.3	27.8
1991	67.0	26.7	66.3	27.1	65.3	28.1
1996	66.4	27.3	65.0	28.6	63.8	29.8
2001	66.2	26.3	64.4	27.5	62.7	29.0

Source: ABS data

The other equilibrating mechanism in the housing cycle is house prices. In previous cycles, housing demand has waned as affordability has declined. In the current cycle, housing demand has been boosted by steady income growth and historically low mortgage rates. However, it is probable that higher house prices will at some stage cause owner-occupier and investor demand (due to low yields) to decline.

Affordability, while currently at low levels, is not as low as in the late 1980s when mortgage rates were nearly 160 percent above current rates. Indeed, as shown in Chart 2.8 below, affordability itself moves in cycles. An analysis of the current market and affordability is provided later in this submission.

Chart 2.8: Affordability Index



Source: ABS, Reserve Bank of Australia and NSW Treasury

It would appear that the NSW housing market is at an extended peak in the cycle. It follows that budget measures to improve affordability, such as the First Home Owners Grant, will quickly become ineffective as high demand will lead to use of the funds to bid up house prices.

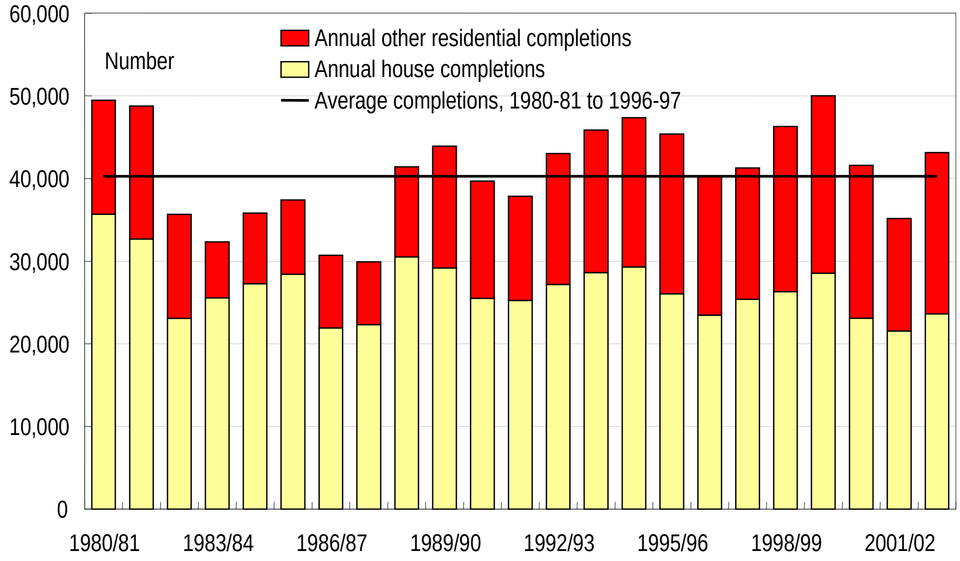
3. HOUSING SUPPLY

3.1 A profile of recent supply

There has been record growth in the demand for dwellings in NSW over the last five years. This demand has largely been met by construction of new dwelling stock. Between 1997 and 2002, 146,300 dwellings were completed in Sydney, an average of 29,200 additional dwellings a year. This is the highest period of five-year growth since the early 1980s. Across NSW 220,600 dwellings were created in the same time period, or 44,100 dwellings on average per annum.

Chart 3.1 below shows that housing completions have been above the long-run average in NSW as a whole for this cycle.

Chart 3.1: NSW Housing Completions



Source: ABS data

Data on the net dwelling stock increase for Sydney, excluding the Central Coast, during the period 1993-94 to 2002-03 shows that stock increased by 249,400 (113,400 in the first five years and 136,000 in the second). The average annual stock increase of 24,900 compares to the average annual increase in households between 1991 and 2001 of 19,300, which indicates that dwelling construction overall has been able to meet demand arising from population growth.

In fact, the planning system and housing industry has shown considerable capacity to respond to the recent significant increases in demand. The average annual increase in dwelling stock in the five years to 1997-98 was 22,700, which compares to 27,200 over the subsequent five years, or a 20 percent increase on the former level. In the two year period during 1997-98 to 1999-00, there was a dwelling stock increase of 35 percent. This increase was achieved despite heightened construction activity in the lead up to the Sydney Olympics.

In the second half of the 1990s, the significant increases in housing demand occurred at the same time that higher environmental standards were being introduced, including NSW Threatened Species legislation. The introduction of higher environmental standards, as well as new information on flooding and salinity, influenced the rate of land supply and reduced the lot potential of earmarked areas on the Metropolitan Development Program. This affected the level of buffer stocks in the Sydney release program, leading to more competition for available potential sites. The new requirements also affected developers' ability to "land bank".

The degree to which existing and anticipated supply shortages contributed to the rate of increase in price of land and housing relative to other factors is subject to debate. Established dwelling prices have grown significantly and "demand-driven" market factors (as discussed previously in this submission) appear to have driven price increases to a considerable extent.

3.2 The sustainability challenge

The features of Sydney that make it unique in Australia include its large population size, strong population growth, its status as a "global city" and its physical topography. These features pose higher costs in meeting demand both for new housing and infrastructure and services to support new developments within a framework of sustainability.

Unique costs to Sydney

3.2.1.1 Large Population Size and Strong Population Growth

As outlined in Section 2.2 of this submission, Sydney is continuing to experience strong population growth.

Business and skilled migrants continue to be drawn to the greater employment and business opportunities in Sydney as the largest city in Australia. Humanitarian migrants and those entering under the Family Reunion categories are attracted to Sydney both because of increased employment prospects and because of the well established migrant communities already settled here.

The Commonwealth/NSW Working Party on Migration to Sydney and Regional NSW examined current criteria for gaining a visa under the business and skilled migration categories. It found that there were few strategies that could effectively divert migrants from choosing to settle in Sydney.

A recent study also noted that people moving out of Sydney to other locations in Australia between 1996 and 2001 were almost entirely of Australian origin[12]. Sydney has not functioned as a "dispatch point" for overseas migrants.

The Sydney region's population will continue to grow substantially. Recent ABS projections[13] estimate that Sydney's population could grow by some one million over the next twenty years, from the current 4.2 million to 5.1 million by 2021. By 2051, the population of Sydney is projected to reach 6.6 million, an increase with serious implications for the environment, infrastructure and urban amenity. Most of this growth will be attributable to net gains from overseas migration. Sydney's growth rate is therefore strongly influenced by Commonwealth decisions on migration numbers.

The New South Wales Government believes that the continued growth in NSW's population is placing the provision of services (transport, health, schools, water, etc) under increasing strain. Overall, Sydney's population numbers have reached a point where the extra demands created by population growth are not offset by economies of scale and average costs rise with each addition to Sydney's population.

3.2.1.2 Physical topography constraints

Unlike other major Australian cities, there is little capacity for Sydney to expand beyond its current boundaries. The location of Sydney in a basin consisting of river valleys surrounded by high plateaux to the north and south, and the Blue Mountains to the west, restricts the amount of land for new development and makes air quality a significant urban management issue. Sydney and its surrounds also comprise a large amount of protected areas in national parks and the extensive floodplain of the Hawkesbury-Nepean River system.

The division of Sydney along its east-west axis by the Harbour complicates mobility around the city for both private vehicles and public transport. The cost of overcoming this obstacle is greater than the costs of river crossings in other capital cities such as Melbourne or Brisbane.

The Productivity Commission has raised the question of whether regional development policies could be used to ease pressure on existing housing markets. NSW supports the strengthening of rural and regional areas of the State, including through population growth in appropriate locations. A range of initiatives operate to support regional development.

However, population diversion strategies will not provide a feasible means for driving a significant reduction in Sydney's growth, particularly in the short to medium term. As discussed earlier, population growth in Sydney is largely driven by net overseas migration. This means that even though Sydney has experienced outflows due to inter

[12] Birrell B and Healy E *Migration and the Housing Affordability Crisis*, People and Place, vol. 11, no. 3, 2003.
[13] ABS Population Projections Australia, 2002-2101 (cat. no. 3222.0) figures based on net overseas migration of 125,000 each year.

and intrastate migration over at least the past three decades, there has not been a noticeable impact on pressures in Sydney.

The urban settlement pattern of NSW is significantly different to other States. The Sydney Region (the Statistical Division including Sydney and the Central Coast) currently accommodates 63 percent of the population of NSW. Melbourne, Adelaide and Perth hold over 70 percent of their State's population, while Brisbane and Hobart's share is in the mid-40 percent range. The geographical features of the States present different challenges and opportunities for economic development and population distribution.

In NSW, there are three other major metropolitan areas within 150 kilometres of metropolitan Sydney - Newcastle (population 279,000), the Central Coast (255,000) and Wollongong (228,000). As a comparison, the major centres within 150 kilometres of metropolitan Melbourne are Geelong (130,000), Ballarat (73,000), Bendigo (68,000) and Shepparton (36,000)[14]. Transport links to those Victorian centres are much easier to upgrade than those to Sydney's neighbours which cut across the Hawkesbury River crossing, Illawarra escarpment, national parks and deeply dissected sandstone plateaux.

To the west of Sydney, the Great Dividing Range must be crossed and the nearest major town (Bathurst, Urban Centre population 27,000) is over 200 kilometres away by road.

The scale of the challenge to divert population growth from Sydney can be illustrated in two ways. Firstly, the average annual growth of Sydney of 49,000 for the 5 years 1996–2001 is greater than the population of the largest town in NSW west of the Dividing Range, Wagga Wagga (Urban Centre was 44,000 in 2001). To halve Sydney's population growth would mean that a town the size of Wagga Wagga would need to be built every few years.

Secondly, if it was feasible to divert enough of Sydney's population growth to achieve a 50 per increase in the population of each of the 19 largest inland and coastal regional centres in NSW over 25 years, this would only slow Sydney's growth by about 6 years. Diverting substantial growth to most of these centres would be very difficult, costly and be required to address potentially significant environmental issues (recognising factors such as water supply and sewage disposal).

3.2.1.3 Role of Sydney as a global city and international gateway

Sydney has clearly established its pre-eminence in Australia as a competitor for international economic activity. Sydney is also an international gateway, being the primary point of entry for freight, tourists and immigrants into NSW and Australia. Sydney's role as the dominant international business city creates distinct pressures for the city, and sharpens the contrast between Sydney and the rest of Australia.

[14] Urban Centres data from ABS Census 2001.

In 1999, Sydney generated around 23 percent of national value added, and had 20 percent of national employment[15]. Melbourne, the next largest city, generated 18 percent of national value added with 17 percent of national employment. Sydney now has 21 percent of the nation's population and Melbourne 18 percent. NSW's Gross State Product was just below $250 billion in 2001-02 (at current prices), representing 35 percent of the nation's GDP. The second largest State economy, Victoria, accounted for 25.7 percent of Australia's GDP.

One of the dominant features of recent economic growth in Sydney has been the expansion of employment in the "advanced services", which dominate global trade in services. These include finance and insurance, and the business services sector. The services sector makes up 81 percent of the NSW economy; Sydney accounts for almost half of national output from these sectors.

Sydney is home to 80 percent of financial services regional headquarters in Australia, 70 percent of head offices of all financial services organisations in Australia, and 44 percent of all workers in the finance and insurance sectors in Australia. These companies are attracted mainly by Sydney's highly skilled workforce and competitive office property, telecommunications and other business cost markets[16].

Both the Commonwealth and New South Wales Governments have pursued a conscious strategy of promoting Sydney as an international financial centre. It is likely that the value chains of Australia's major wealth generators will continue to stem from, or are '"laced through" the major urban centres.

Reinforcing and enhancing the attributes that enable Sydney to be competitive as a global city requires investment to be made in particular infrastructure and services that suit operation within a global economy. This includes infrastructure to support both the conduct of business operations and the accommodation of employees in targeted sectors. Sydney is distinct from other cities in this respect.

Sydney's role as a global city and international gateway makes Sydney Airport a significant item of infrastructure. The airport's scale of activity and competition for land in close proximity generates costs that are higher in Sydney than other capital cities. For example, higher levels of traffic necessitate investment in the arterial road network.

Costs of population size

There are significant costs created by Sydney's continued population growth. The New South Wales Government recognises the need to ensure adequate land release and housing opportunities, but that such strategies must address urban land issues and occur within a framework of sustainability.

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[15] Allen Consulting Group (2002) "*Recapitalising Australia's Cities: A Strategy in the National Interest*".
[16] NSW Department of State and Regional Development, at http://www.srd.nsw.gov.au/news.asp

The cost of land and infrastructure development in Sydney is higher than in the capital cities of the other States and Territories. This adds directly and indirectly to the costs that the New South Wales Government incurs in providing government services (including housing and infrastructure).

Direct costs arise because infrastructure and other fixed asset costs are more expensive to purchase, either because the land required is more expensive, or because it is simply not available. Indirect costs arise because the higher cost of living, particularly in Sydney, creates additional demands on services including housing.

The Government believes that the continued growth in NSW's population is putting the provision of services under increasing strain. New development for housing naturally contributes to that pressure and it is therefore important that new developments contribute towards the social, economic and environmental costs that they generate.

3.2.2.1 Land costs

The demand for, and values attached to, land in Sydney are generally higher than in other Australian capital cities, due to its higher population, Sydney's physical topography and its status as a global city and international gateway.

Businesses in the finance and business services sectors that have been attracted to Sydney have a strong preference for prestige locations, which influences the demand for land. The incomes of employees in the finance and business services sectors tend to be above average and, combined with employers' preferences for a limited range of locations, leads to increased competition for housing in a relatively concentrated area[17].

The promotion of Sydney as an international gateway by both the State and Commonwealth Governments makes proximity to Sydney Airport an important factor for both domestic and overseas businesses that trade in the global economy. There is consequently competition for sites in close proximity to the airport, which has placed pressure on the land market in Sydney.

Land costs are a significant consideration in the provision of government services in greenfield release sites, or where multi-unit dwellings and communities are being developed. For example, the development of new schools, hospitals and community centres can require the acquisition of expensive land sites. Similarly, the development of new railways and bus ways, and conservation of regional open space and threatened species communities, is dependent on the purchase of appropriate land.

3.2.2.2 Transport Infrastructure

Compact cities rely heavily on the availability of efficient transport networks, both private transport and public transport (road, rail, ferries, buses).

[17] Searle, G., *Sydney as a Global City*, NSW Department of State and Regional Development/former Department of Urban Affairs and Planning, 1996, pp. 23-25.

The Interim Report (September 2003) of the Ministerial Inquiry into Sustainable Transport in NSW has reported that "transport networks in the Greater Sydney Area are facing increasing pressures because of high levels of population growth, urban consolidation and sprawl, and changing needs" (p. 19).

Strong economic and population growth and a greater reliance on private vehicles have led to significant increases in the number of vehicles on Sydney roads and the number of kilometres travelled. By 2015 there is anticipated to be 2.2 million cars travelling over 34.6 billion kilometres. Congestion costs in Sydney are estimated to be around $9 billion annually by 2015. The Ministerial Inquiry has identified a need for significant additional future investment in public transport to cater for the travel needs of a growing population.

It is noted that changes in demand due to re-casting of population projections lead to lags in supply, as there are long lead times involved in the rezoning and redevelopment of land.

Supply lags in the provision of public transport infrastructure for new areas can lead to the establishment of travel patterns that cannot be easily reversed. The development industry tends to only build medium-density housing in new areas where they believe that there will be an assured market for that type of housing. A pre-condition for this is assurance that appropriate public transport services (a fixed route mode such as rail, busway) will be available to that development around the time that the first stage of housing development occurs. Unless such public transport services are available in new development areas at an early date, new residents are likely to purchase additional cars and become multiple car households. A lagged response in these situations reaps fewer benefits from investment than would otherwise have arisen.

Population growth caused by variations in overseas migration levels similarly make planning for public infrastructure more difficult.

The Government has actively promoted higher levels of public transport use to improve urban air quality and reduce the congestion on roads. The NSW public transport network forms an essential part of the economic and environmental infrastructure.

Whilst public transport systems generally only account for a relatively small number of total trips, most of these trips occur in peak periods. They accommodate a significant number of commuters, keeping cars off roads that are already operating at near capacity at the peak times. In particular, they make a significant contribution to the economic competitiveness of Sydney as they enable employers access to a large and multi skilled workforce, two thirds of whom use public transport for their journey to work. The costs of operating public transport, while sizeable, are still less than the potential costs of expanding the road network to accommodate a corresponding number of cars on the roads.

An increase in the use of public transport, and policies to encourage greater use, requires new investment in infrastructure, such as new rail lines through already developed areas. In Sydney, the construction of new rail lines can only be practically achieved by tunnelling under these areas and pose a very high cost. The estimated cost of a new railway for a line built in a tunnel is around $52 million per kilometre in comparison to $35 million per kilometre for a railway developed on the surface.

Stronger than forecast overall growth in Sydney's population means that the demands on public transport are increasing at faster rates than expected.

3.2.2.3 Private transport

As road networks in compact cities, including Sydney, typically operate very close to capacity there is ongoing pressure to build additional capacity through the construction of new roads or expansion of existing roads. There is little room for new roads at surface level and therefore overpasses and tunnels become the alternative.

The additional costs associated with installation of new road infrastructure are substantial, and include maintenance of the roads, ancillary systems such as traffic monitoring and environmental costs as more traffic is placed on Sydney's roads.

Overlap in Commonwealth/State responsibilities that affect housing supply

The existence of both State and Commonwealth environmental legislation has delayed development and increased costs in a number of instances involving Federal land.

NSW, under its *Threatened Species Conservation Act 1995* meets all the objectives of the Commonwealth *Environmental Protection and Biodiversity Conservation Act* (EPBC Act) and *Australian Heritage Commission Act 1975.*

NSW's *Threatened Species Conservation Act*, however, differs in providing more specific definitions of threatened species and allowing the Government to provide protection measures to suit local circumstances. This provides a more stringent environmental protection regime in line with NSW policy while being consistent with the objectives of the Commonwealth legislation.

The Commonwealth has declined requests by the New South Wales Government to be exempt from the EPBC Act so as to cut the red tape created by two separate compliance regimes.

St Mary's (ADI) Site is an example of where potential developments have been adversely affected through overlaps in legislation. In October 2001, the Commonwealth decided to remove all the part of the site listed by the Australian Heritage Commission from development proposals. This Site had, however, been evaluated under NSW legislation and a much larger area assessed as suitable for development. A developer agreement between the State Government and the developer was negotiated based on the larger area.

The Commonwealth's decision has led to:

- a reduction in the total development site of approximately 270 hectares;
- a loss of 3,000 residential lots. The original development was expected to yield 8,000 residential lots;
- a loss of about 90 lots for affordable housing; and
- an estimated 14 month delay in the final stage of the project, a loss of approximately $450 million due to reduced development yield, and a loss of about $2 million due to the time delay.

3.3 Responses to the land supply challenge

3.3.1 Managing growth

The New South Wales Government has been proactive in seeking innovative ways to overcome the challenges that the constraints to, and pressures on, supply present. Approximately 63 percent of the State's population live in the Sydney Region (which includes the Central Coast), which has seen the largest decline in affordability over time. The majority of strategic Government interventions have therefore been directed toward the Metropolitan area.

The Government has pursued a three dimensioned approach under its *Metropolitan Development Program* to increase the supply of new dwellings to alleviate pressure on the housing market in NSW. In summary, this has incorporated:

1. the consolidation of dwellings in urban areas, specifically around transport hubs wherever possible;

2. increasing the supply of land; and

3. measures to simplify and speed up the planning system.

Urban consolidation

The Government's approach to managing Sydney's growth over the past two decades has been strategically aimed at slowing the rate at which the urban area expands, that is "urban consolidation" or "the compact city approach". This strategy aims to achieve a balance between greenfield development and urban consolidation in meeting housing demand, and responds to a number of environmental, social, and financial challenges that the Sydney region faces. This includes Sydney's physical typography.

All Australian mainland State capitals have adopted policies of accommodating an increased share of their population growth within existing urban areas. Sydney's urban consolidation strategy has centred on building multi-unit housing. The multi-unit share of annual dwelling approvals in the Sydney Region has increased from an average of 33 percent during 1983-87 to over 50 percent since 1994-95.

Nationally, about 70 percent of new construction is houses and about 30 percent is apartments.

Sydney has been more successful in its implementation of an urban consolidation policy than other Australian capitals, possibly because the impetus of meeting the demands of population growth has been more urgent.

From the late 1970s up until the early 1990s, more than 40 percent of the additions to dwelling stock each year in metropolitan Sydney were located in new greenfield areas. That share has dropped significantly since 1993-94 to an average of 28 percent for the period 1996-2001. It is projected to fall further to 25 percent over the next five years. In comparison, 38 percent of new dwellings in Melbourne are projected to come from greenfield development over the next five years.

The proportion of multi-unit housing to total housing across Australian capital cities is shown in Table 3.1 below:

Table 3.1: Building Approvals, Capital cities, Calendar Year

Proportion	**2001**			**2000**		
Capital City	**House**	**Multi-unit**	**Total**	**House**	**Multi-unit**	**Total**
Sydney	43%	57%	100%	47%	53%	100%
Melbourne	66%	34%	100%	63%	37%	100%
Brisbane	73%	27%	100%	62%	38%	100%
Adelaide	82%	18%	100%	75%	25%	100%
Perth	81%	19%	100%	77%	23%	100%
Canberra	46%	54%	100%	62%	38%	100%

Source: ABS data

The move to more compact multi-unit living from traditional detached houses is clearly a long-term strategy for most cities. Nearly 40 percent of the 136,000 new dwellings built in Sydney (excluding the Central Coast) over the five years to June 2003 were built in “centres” – that is, within 800 metres of a railway station or within 400 metres of a light rail station or a significant centre on a trunk bus route.

Up to and including the early 1980s, all of Sydney’s population growth was occurring in the Outer ring of the city[18]. In the mid-1980s this pattern began to reverse. The Inner ring lost 10,900 people during the period 1981 to 1986 but grew by 1,200 people over the period 1986 to 1991, and by 33,500 over the period 1991 to 1996. There was a further

[18] A breakdown of the local government areas in the “inner”, “middle” and “outer” rings of Sydney is contained in Annexure C.

increase of 28,680 in the five years to June 2000. The Middle ring is also showing much stronger growth.

Table 3.2: Sydney Population Change by Ring 1981 – 2001

	Inner	Middle	Outer	Total
Population				
1981	676,850	1,047,300	1,555,450	3279,500
1986	665,995	1,055,315	1,750,257	3,471,567
1991	667,198	1,071,583	1,934,074	3,672,855
1996	700,739	1,096,788	2,083,609	3,881,136
2001	729,421	1,143,560	2,255,291	4,128,272
Average Annual Increase				
1981-86	-2,171	1,603	38,961	38,413
1986-91	241	3,254	36,763	40,258
1991-96	6,708	5,041	29,907	41,656
1996-2001	5736	9354	34,336	49,427
Share of Growth				
1981-86	-5.7%	4.2%	101.4%	100.0%
1986-91	0.6%	8.1%	91.3%	100.0%
1991-96	16.1%	12.1%	71.8%	100.0%
1996-2001	11.6%	18.9%	69.5%	100.0%

Source: ABS data

An interesting aspect of the population change data is that, even with Sydney's growth accelerating, the scale and share of that growth occurring in the Outer ring has reduced.

Increasing the supply of land

The Metropolitan Development Program incorporates a program called *Managing Sydney's Urban Growth*. The program includes a range of initiatives to release land and increase the efficiency of the planning system.

3.3.3.1 Land release planning

The Metropolitan Development Program (MDP) is an expansion of the Government's earlier Urban Development Program (UDP). The UDP has been in place since 1981 to smooth out the cycles in the land development process and ensure that adequate stocks of new land for greenfields housing are available or in the pipeline. The UDP operates on the basis of a five-year, annually renewed supply schedule. Release of new areas is based on assessments of the levels of supply already committed under the Program and the current and anticipated levels of lot production required by forecast population growth and the share of regions' new housing to be built in greenfields areas.

The Program recognises that there are distinct geographic sub-markets within the Sydney land market which relate to the structure of the city, and patterns of internal migration within the city. The latter is closely related to family and social networks and employment location and the consequent propensity for people to move relatively short distances.

The land supply market appears to be broadly segmented along north-western, western and south-western Sydney, the northern and southern suburbs, and the Central Coast. There is little interchange of housing choice between those sub-markets. The Government closely monitors demand and supply in these areas and bases release planning on maintaining adequate stocks in each of the main markets.

3.3.3.2 Lead time for release and development of new land and housing

The length of time it takes for rural land to be converted to a vacant, serviced home site depends on a number of factors. These include whether the area has already been investigated and committed (released) for development, whether it has already been rezoned for development and whether its servicing only requires an extension of reticulation networks or the planning and construction of major headworks such as a water reservoir or sewage treatment plant.

There is potentially up to a fifteen year timeframe involved in respect of a new growth corridor from the initial investigation of constraints and opportunities through to the production of vacant serviced home sites. For this reason it is considered generally desirable for land stocks committed for new greenfields development to provide fifteen years worth of supply (referred to as “Total Stock” or “Lot Potential”). It is desirable that eight years of this buffer stock be land that has been zoned for development and able to be serviced (“Available Stock”).

3.3.3.3 Recent land release initiatives

The Government is currently investigating the release of over 20,000 hectares of land in south and north-western Sydney. This will provide a 20 year blue print for greenfield urban land development with the required infrastructure funding and sequencing to efficiently and sustainably meet Sydney’s housing and urban needs.

The Government’s policy on release of land included in the MDP requires the infrastructure costs and funding mechanisms to be secured and projected within the 15 year framework prior to development.

The south-west release area, which includes Bringelly, Oran Park, Catherine Fields, Leppington, Rossmore and Austral has the potential to accommodate 90,000 dwellings and would result in a population of approximately 243,000 people.

The north-west release area, which includes Marsden Park, Riverstone, Alex Avenue, North Kellyville, Schofields Aerodrome, and Box Hill has the potential to accommodate 60,000 dwellings. This would result in a population of approximately 162,000 people.

The New South Wales Government has also streamlined the processes for adapting land releases to meet the needs of Sydney's urban growth and to speed up the development of land for new homes and other urban uses. For example, land releases in a number of greenfield release areas have been fast-tracked, including:

- Balmoral Road, Second Ponds Creek in the north-west, and Glenmore Park Stage 2 and ADI in the west; and
- Elderslie, Spring Farm, South Hoxton Park, and Glenfield Road in the south-west.

The Government is working in cooperation with local government councils to bring forward other land releases including Menangle Park, Harrington Park Stage 2, Yarrunga, Edmondson Park Composite in the south-west, and Colebee in the north-west.

3.3.3.4 Impact of new release areas on Sydney house prices and first home buyers

Sydney housing prices are higher than other capitals in part because of the number of high amenity locations for which people are prepared to pay a premium, combined with the higher average incomes sustained by the proportion of the workforce whose incomes are set in the global economy, which provide the capacity to pay that premium.

The increasing popularity of the “knock-down” market in established parts of Sydney (where people demolish an old house and have a project home built in its place) also illustrates the premium people are prepared to pay for location.

Within the geographic sub-markets there is some connection between prices paid for new housing and the prices in the established market. People look at what they can afford to pay and then make comparisons between the amenity, lifestyle, floorspace and proximity to family and work that can be obtained from the alternatives.

The increased land supply in the south-west and north-west will impact on housing prices in Sydney in two ways:

1. by meeting and exceeding demand, the pressure on current housing prices will be reduced and there is potential for greater competition resulting in lower land prices per square metre; and
2. the proposed land supply will have a more diverse range of lot sizes and building types. It is estimated that between 17 percent and 25 percent of new developments in the south-west and north-west will be apartments and multi-unit, which contrasts to the current 9.5 percent in the south-west and 4.6 percent in the north-west fringe. Smaller lots are also proposed for semi-attached and detached dwellings. Smaller lots and multi-unit developments have the potential to produce substantially less expensive housing on the urban fringe. The change in focus will ensure there will be greater housing choice on greenfield sites.

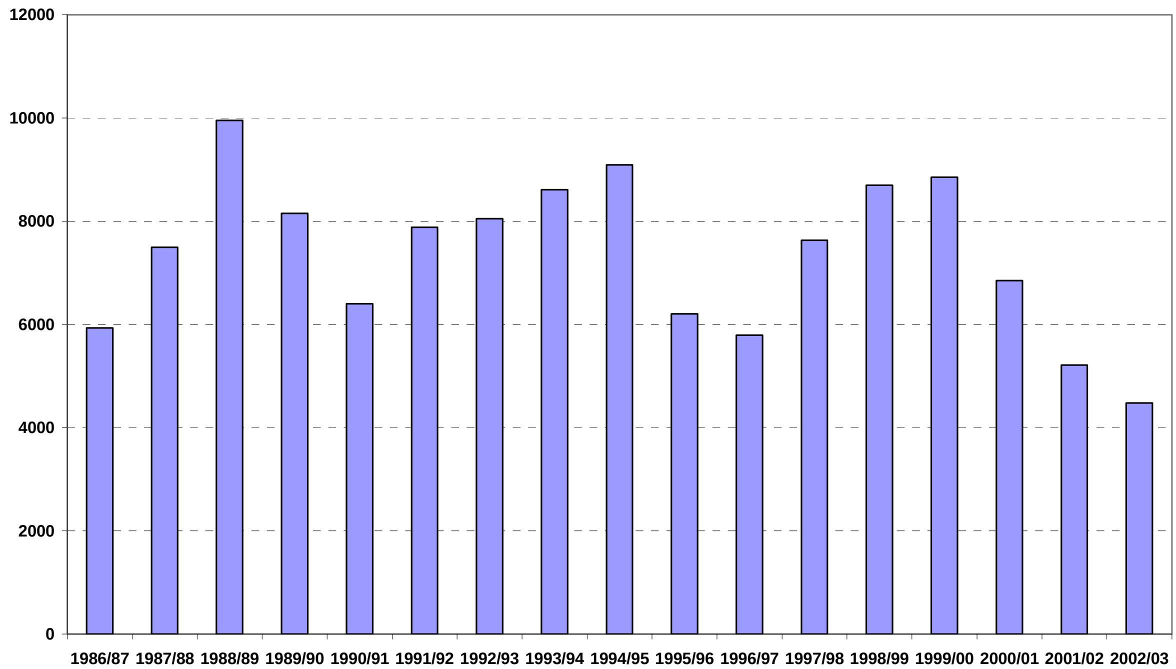
Current purchasers on the fringe are primarily second and subsequent home buyers. However the greater range of housing choice in the future may provide greater opportunity for first home buyers to purchase dwellings in new release areas.

On the whole, first home buyers are more likely to purchase established dwellings in NSW. Statistics from the NSW Office of State Revenue indicate that 87 percent of recipients of the First Home Owners Grant purchase established dwellings. In NSW, the highest proportion of grants are used to purchase housing in the outer ring suburbs of Sydney in the west and south-west corridors. This indicates that first home buyers are purchasing stock that is vacated by existing home owners as they purchase either existing stock or new housing developments.

The historical and forecast pattern of greenfield release stock is shown in Chart 3.2 below. There was a drop in stock levels in Sydney's release areas in the second half of the 1990s, mainly due to several areas no longer being considered feasible or desirable on environmental grounds eg Scheyville, West Menai; and the development potential of some areas being reduced due to heightened environmental concerns and new information on flooding, stormwater and salinity.

Chart 3.2: Sydney Region – Metropolitan Development Program

Lot Production and Lot Potential of Greenfield Release Area June 2002[19]



[19] DIPNR Housing Forecast Forums with industry, councils and service providers are currently occurring to produce the current stock position and forecasts at June 2003. Source: NSW Department of Infrastructure, Planning and Natural Resources.

Action to speed up supply and simplify the planning system

In addition to the fast-track land release program outlined above, the New South Wales Government is undertaking a range of initiatives to ensure that the planning system delivers timely and appropriate outcomes. These include:

3.3.4.1 A Metropolitan Strategy for Sydney

A Metropolitan Strategy is being developed for the Greater Metropolitan Region of Sydney to provide a clear planning blue print. The strategy will inform decisions on infrastructure investment and spatial planning and cover land use, transport and key infrastructure systems. A key part of developing the Strategy will be an examination of the current and future housing needs of Sydney.

3.3.4.2 Building Sustainability Index (BASIX) – an online tool to simplify the planning process

BASIX is an online planning tool for the development industry and local planners to guide them through the planning process in a simple and transparent fashion, focusing specifically on environmental and sustainability requirements of new developments. BASIX is the first of its kind and is attracting considerable interstate and international interest.

3.3.4.3 Reviewing the planning system

The New South Wales Government is undertaking a series of major reviews of the planning system, with the aim of simplifying the planning process, increasing transparency, reducing development approval times, cutting red tape and ensuring that current policies are effectively implemented through the planning system. The reviews include:

- a review of the planFIRST reforms following the reorganisation of planning and natural resources management in the State and of certain planning fees;
- the State Planning Polices Review Taskforce - to review and rationalise existing State policies into a clear, strategic framework that will guide regional and local planning;
- the Local Development Taskforce Review - to review the effectiveness, speed and simplicity of the development assessment and decision making process for local development under the NSW *Environmental Planning and Assessment Act 1979*;
- the Major Development and Infrastructure Taskforce Review - to identify current issues in the assessment and approval of major developments and infrastructure projects and develop an integrated, strategic system that addresses infrastructure, environmental planning and natural resources matters; and

- a Masterplanning Review - to investigate the current approach to masterplan development applications and ensure that there is a consistent and transparent approach in their use across the State.

The above reviews and other initiatives to increase the availability of affordable housing are outlined in more detail in Annexure A.

3.4 Developer charges

There is general community expectation that acceptable levels of public infrastructure will be available to meet the needs of new development. Developer charges are levied on the basis that those who benefit from the development or create a need for new or greater public infrastructure share the cost of the provision of those services. Given the cost of servicing new developments, it is important that the developments contribute to the social, economic and environmental costs they generate.

The New South Wales Government makes a distinction between economic and social infrastructure. Economic infrastructure is generally funded by a combination of user charges, dedicated taxes and general taxation and includes roads, railways, power generation and water supply. Social infrastructure is normally funded from general revenue and includes schools, hospitals and police stations.

The most significant charge on new developments in NSW is the statutory power of local governments under the *Environmental Planning and Assessment Act 1979* to raise revenue to fund essential services such as drainage systems, community services, and recreational land. Local government may levy charges on the beneficiaries of new development to cover these costs (known as Section 94 charge). Each local government develops plans that are appropriate to the needs of the locality.

The New South Wales Government is currently reviewing Section 94 contributions and development levies. This will include looking at the range of levies, taxes and charges currently paid at the land development stage, and assessing their effectiveness in funding the provision of local infrastructure as well as their impact on the affordability of housing. The review will also examine alternative levy models.

Currently, local councils' Section 94 developer contribution plans are required to:
1. substantiate a connection between the new development and the demand for additional public facilities;
2. be reasonable in the manner which land dedication or contributions are required;
3. apportion the payment of facilities to those who create the demand or who benefit, to ensure that new developments are only charged for the actual portion of demand created by the development; and
4. be publicly and financially accountable.

These principles aim to ensure that the plan and decision making process is equitable and transparent. Councils are required to consult the community in preparing the plan and clearly set out the basis for the level of contribution levy, the contribution rates for different development types, the timing of payments and the schedule of development for the works.

The other significant charge relates to a recent requirement that developers pay an interim infrastructure levy to meet a small part of the costs of upgrading basic transport infrastructure in four designated new release areas (for full details see Annexure B). The levy has been introduced as a pilot and its impact will be closely monitored.

The rationale for the levy is that it will contribute to the timely construction of transport that may not otherwise have been available in the new land release areas. It will also provide financial and environmental benefits for both homeowners and their general community. In particular the improved accessibility and mobility will reduce the total costs to the household budget.

There are other peripheral charges that apply to developers, aimed at full or partial cost recovery for services that are required to ensure the development can progress, listed at Annexure B.

3.4.1 The impact of developer charges on house prices

An increase in the supply of land for development will reduce the pass-on effect of charges and levies. A per-lot levy on new subdivision will not significantly increase median house prices in Sydney in the longer term. The land releases in the north-west and south-west of Sydney aim to increase significantly the land supply in the greenfield areas of western Sydney.

The NSW Department of Infrastructure, Planning and Natural Resources estimates that on a $570,000 new house and land package (220sqm house on a 500sqm block) in the new release north-west sector, current developer charges would amount to 7.42 percent and GST 7.5 percent. On a $375,000 house and land package in the south-west (140sqm house on a 300sqm block) charges would be 10.3 percent and GST 7.63 percent. Landcom estimates that average profit margins for the industry are generally at least 20 percent.

3.5 Building controls

Development controls can impact on housing prices by placing restrictions on areas for developments and requiring certain standards of urban and environmental design to be met. In NSW, development controls are generally developed at a local level through Local Environmental Plans (LEPs) and Development Control Plans (DCP) with policy direction and guidance from the State Government. These controls are developed to respond to the environmental, economic and social needs of each local government area.

Each LEP and DCP is prepared in consultation with the community, developers, State Government and other stakeholders through a public exhibition and review process.

The controls are vital in ensuring that developments meet the current and future needs of the population.

The introduction of the BASIX into the development approval process will have a short term minor impact on the cost of new housing developments. However, there are immediate and long term benefits of BASIX which offset these additional upfront housing costs. Achieving a water and energy rating of 40 for all new homes in NSW will result in:

- from July 2004 onwards, a cumulative reduction in water consumption of 182,000 mega litres over the next ten years, which equates to a saving of $182 million dollars to consumers across NSW;
- from July 2006 onwards, a cumulative saving of 8.3 million tonnes of greenhouse gas emissions over 10 years, which equates to a saving of $41.5 million dollars to consumers across NSW (based on $5/tonne of C); and
- for an average family using electricity, combined water and energy savings in the order of $300 - $500 a year. For larger families in big houses, the saving will be larger.

In 2002, the average new home size in Baulkham Hills Shire was over 400 square metres. As a reduction in house size by 10 square metres is equivalent to a $7,000 dollar saving (i.e. construction costs assumed at $700 per square metre) most of the essential BASIX items can be covered by this minor offset. Increased construction costs will also be offset by reduced compliance costs through a more certain and accessible framework for developers, local government and the community.

4. IMPACT OF CURRENT MARKET ON AFFORDABILITY

Section 4 examines trends in housing affordability in Sydney and NSW, using common industry indices derived from median incomes, house prices and mortgage interest rates. Such indices provide a useful tool for understanding the impact of these variables on the market. However, despite the widespread use of the term 'affordability', the meaning and measurement of the term is not clear.

For example, the general affordability of homes (not differentiating by class of buyer) is measured by the proportion of gross household income applied to mortgage repayments. Homes are deemed to be affordable if not more than 30 percent of income is spent on repayments.

In Sydney, where median incomes are higher than most of Australia, it could be assumed that higher incomes would generally be matched by the higher costs of housing. However, it may also be relevant to consider whether other living expenses assume a lower proportion of household income for some groups, and therefore raise these groups' capacity to direct a higher proportion of their incomes toward housing costs.

In such cases, the level of consumer disposable income rather than gross income applied to housing costs may be a more relevant variable in measuring affordability.

Affordability may also be influenced by decisions on the location, quality and size of dwellings that people seek to buy. 'Affordability' may be higher if a household's preferences or aspirations lead to decisions to spend more income on housing costs than on other costs.

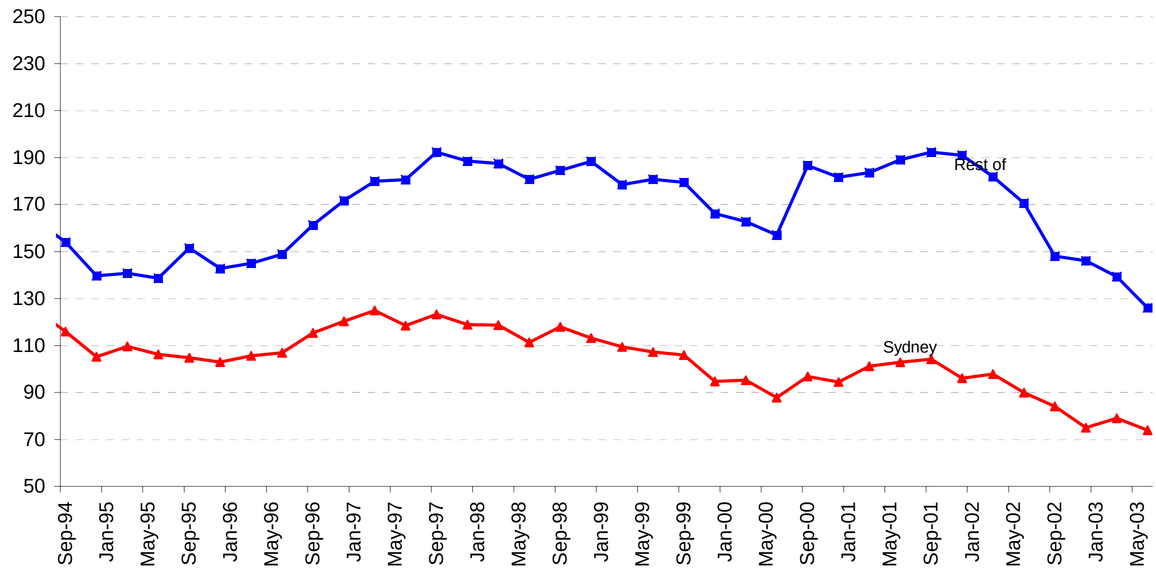
More refined measures of 'affordability' are necessary. In addition, it is clear that the issue of housing affordability is not one that only affects first home buyers. Section 4.3 comments on the issue of the affordability for low and moderate income earners.

4.1 Housing affordability for first home buyers

The HIA/CBA Housing Affordability Index shows that for Sydney, affordability for first home buyers reached a peak in March 1997, and has declined since that time, other than for a slight upward trend between June 2000 and September 2001 following the introduction of the Commonwealth First Home Owners Grant. The value of the First Home Owners Grant was more substantial for the rest of NSW, leading to a sharp increase in affordability in June 2000, which was sustained until December 2001.

Over the last ten years, first home buyers have purchased homes worth around 80 percent of the median house price when first entering the market. This does not appear to have changed over time.

Chart 4.1: HIA/CBA Housing Affordability Index – First Home



HIA/CBA index is measured by the ratio of average household disposable income to the qualifying income required to meet payments on a typical dwelling. The 'qualifying income' is calculated from incomes of first homebuyers only. The price of a 'typical dwelling' is drawn only from dwellings purchased by first homebuyers. A deposit of 20% with repayments equivalent to 30% of income is assumed using a conventional 25-year loan. An increase in the index represents an improvement in affordability.

Source: HIA/CBA "Housing – A quarterly review of housing affordability"

High house prices have significantly raised the upfront cost of purchase, which presents a barrier to entry into the market. There is a higher required level of deposit and first home owners lack existing housing equity or significant other assets to increase their purchasing capacity.

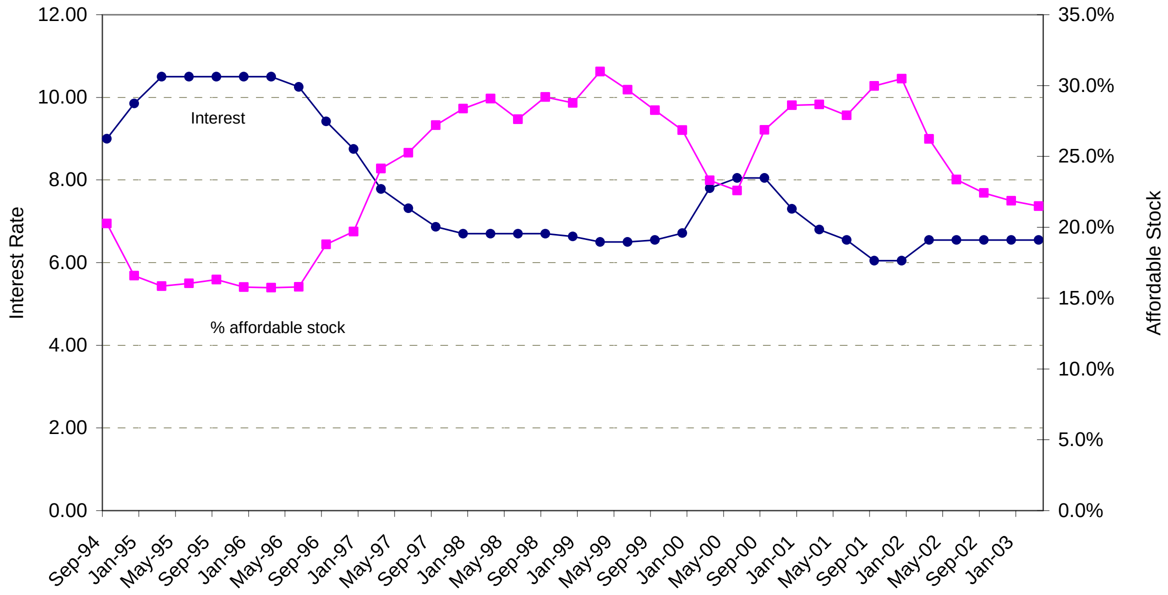
While first home buyers' incomes have risen over the years, the ability to save for a deposit has been outstripped by the rate of increase in housing prices. In an environment where house prices have been inflated by investor activity and interest rates are low, the "deposit gap", or difficulty of access to finance, is likely to present a major barrier to purchasing a first home. Lower income households would clearly face even greater challenges if they wished to enter into the market.

4.2 Trends in general affordability

Current measures of 'affordability' are generally determined by factors including mortgage rates, income growth, borrowing limits and house prices. The section below considers three measures of the impact of the current market on housing affordability.

Historically, the predominant factor influencing housing affordability has been interest rates. Chart 4.2 below shows that there is normally an inverse relationship between interest rate levels and the percentage of stock that is affordable to households on the median income. The relationship, while strong for the period September 1994 to December 2001, has broken down since March 2002, with a rapid diminution in affordability against sustained low interest rates. This demonstrates the sustained nature of the current period of housing price growth.

Chart 4.2: Relationship Between Interest Rate Levels and Affordability of Stock to Median Income Households



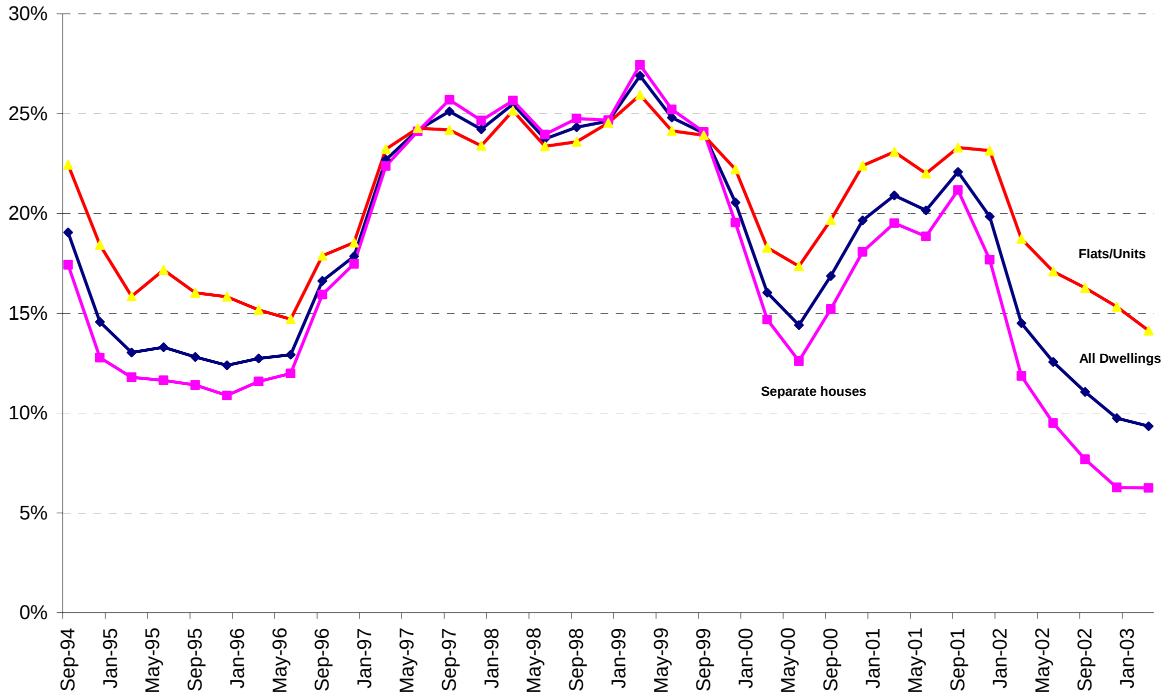
Source: ABS, Reserve Bank of Australia and Land and Property Information NSW data

It is noted that while indicators show a decline in affordability in recent years, they also show that affordability is still above historically low levels.

The Affordability Index used above is constructed without reference to the availability of stock for purchase. A potentially better test of the capacity of the market to afford stock is to examine the proportion of stock that has actually been available to purchase at an affordable level. Affordability is assumed if a household on the median income pays no more than 30 percent of their gross household income on mortgage repayments.

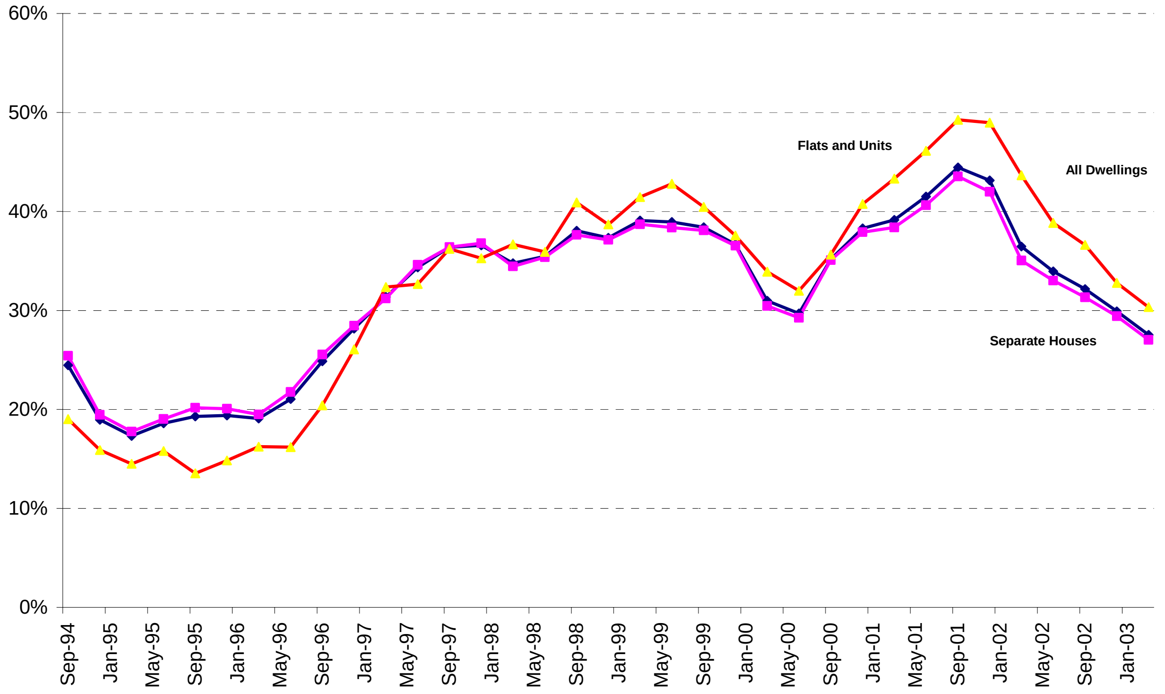
For Sydney, the situation is currently difficult. While around 25 percent of all dwellings were affordable to households on a median income from mid 1997 to mid 1999, less than 10 percent of all stock was affordable at March 2003. The situation is less difficult for the rest of NSW, where just over 25 percent of the stock is available for affordable purchase. However, there has been a sharp downturn in affordability in these areas since December 2001.

Chart 4.3: Percent of Stock Available for Purchase at an Affordable Level - Sydney



Source: ABS, Reserve Bank of Australia and Land and Property Information NSW data

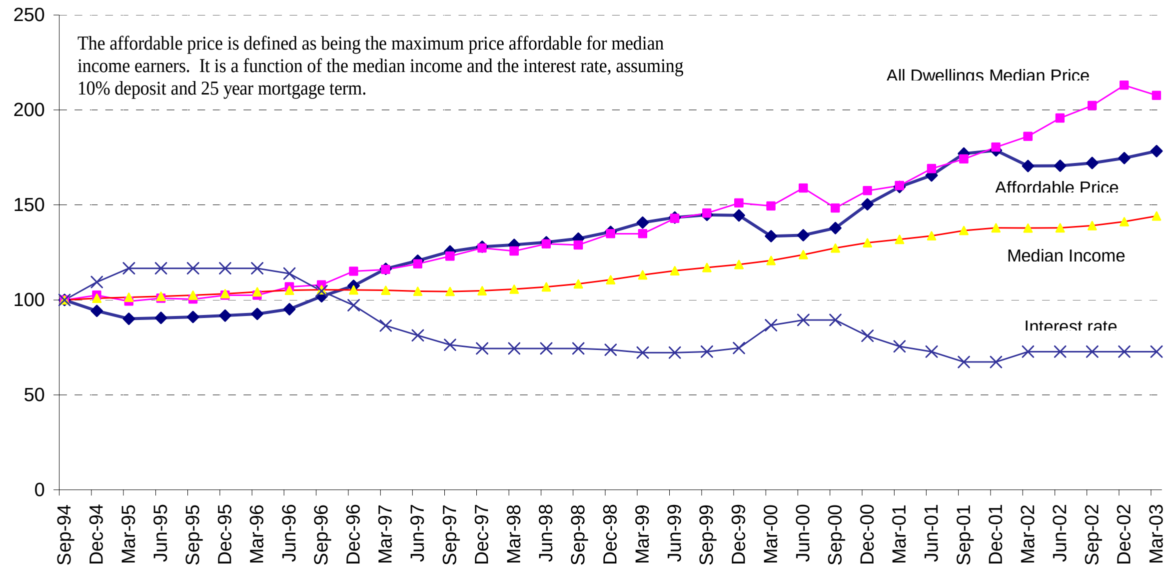
Chart 4.4: Percent of Stock Available for Purchase at an Affordable Level – Rest of NSW



Source: ABS, Reserve Bank of Australia and Land and Property Information NSW data

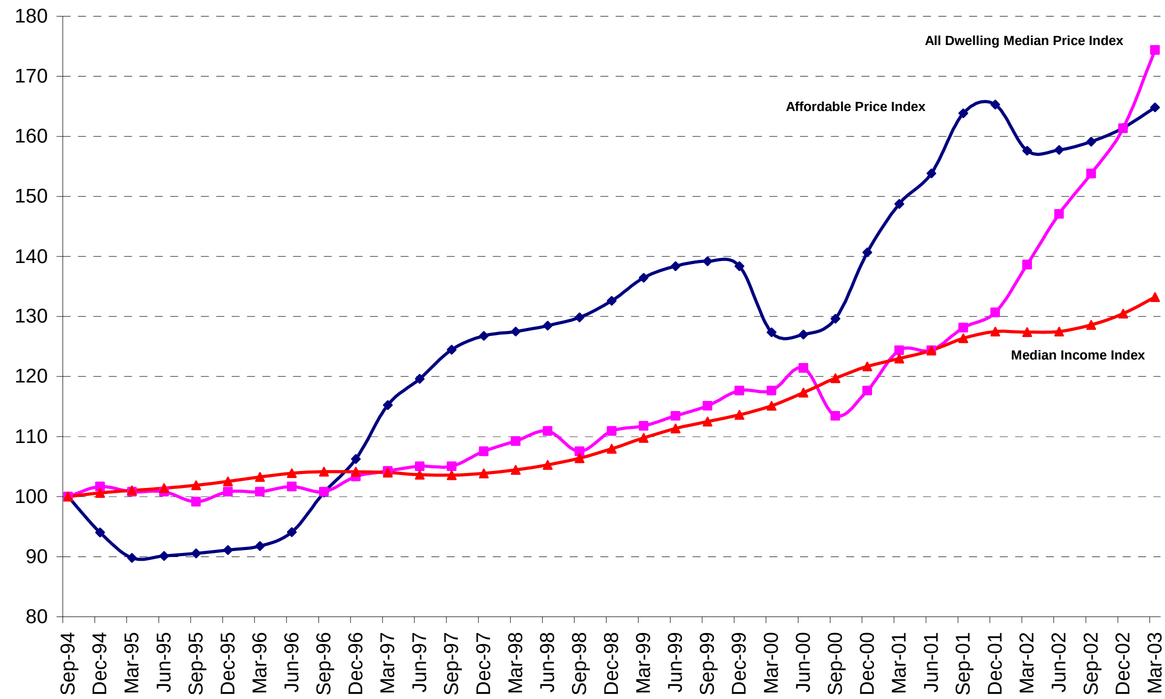
Finally, Charts 4.5 and 4.6 below illustrate the relationship between affordability, incomes, interest rates and dwelling price for the Sydney and NSW markets. There has been a very close relationship between the Affordability Index and the price of dwellings since the mid 1990s until November 2001. The indices have diverged since that date. Prices have increased at a higher rate than median incomes in recent years, suggesting that other factors have been at play to accelerate prices (eg, investor activity).

Chart 4.5: Median Price – Median Income – Affordable Price – Sydney



Source: ABS, Reserve Bank of Australia and Land and Property Information NSW data

Chart 4.6: Median Price – Median Income – Affordable Price – Rest of NSW



Source: ABS, Reserve Bank of Australia and Land and Property Information NSW data

4.3 Housing affordability for low and moderate income earners

This section considers the issue of affordability for the market as a whole in terms of the capacity of a low income household to meet the ongoing costs of housing out of current income. Housing is usually deemed to be unaffordable if a low income household is spending more than 30 percent of household income on rent or mortgage payments. Low and moderate-income households are typically defined as those earning the median income or less. At the 2001 Census the median income for Sydney was $51,428 and for the rest of NSW was $32,916.

At the 2001 Census a high proportion (63.7 percent) of low and moderate income privately renting households in NSW were paying more than 30 percent of household income in rent. Around 50 percent of low and moderate income households purchasing a dwelling were paying more than 30 percent of household income in rent.

Another measure of affordability is the availability of affordable housing for rent or purchase for low and moderate-income households. The relative affordability of different locations can be determined by calculating whether dwellings sold or dwellings available for rent are affordable for these households.

In 2002, a low income household earning $40,560 could buy less than 10 percent of properties in the Sydney region (see Figure 4.1 overleaf). Households needed to earn more than the Sydney median income (between $52,000 and $62,400) before they could afford to purchase between 20–25 percent of dwellings sold in outlying suburbs of Sydney.

Affordability for low and moderate-income households is also constrained in coastal locations outside Sydney (see Figure 4.2 overleaf). For households earning around the NSW (excluding Sydney) median household income (between $31,200 and $34,500) less than 20 percent of dwellings were affordable in all coastal locations in NSW.

In all other non-metropolitan regions in NSW, however, housing is relatively affordable for this income group, where more than 40 percent of stock can be affordably purchased.

The calculations in the figures below are based on the ongoing capacity to service a mortgage and the assumption that households are able to raise the necessary deposit (5 percent for a government guaranteed home loan or 10 percent for a standard loan).

A final factor impacting on access to affordable housing is the willingness of banks to lend to households in some rural areas. In administering the Government Guaranteed Loan Scheme, the NSW Department of Housing has experienced restrictions by lenders on loans for properties in locations below a minimum size. In these situations, households that might otherwise qualify for loans for home purchase are being eliminated from the market due to lending institutions’ perceptions of market risk.

Figure 4.1: Proportion of Housing Affordable to Median Income Households in Sydney

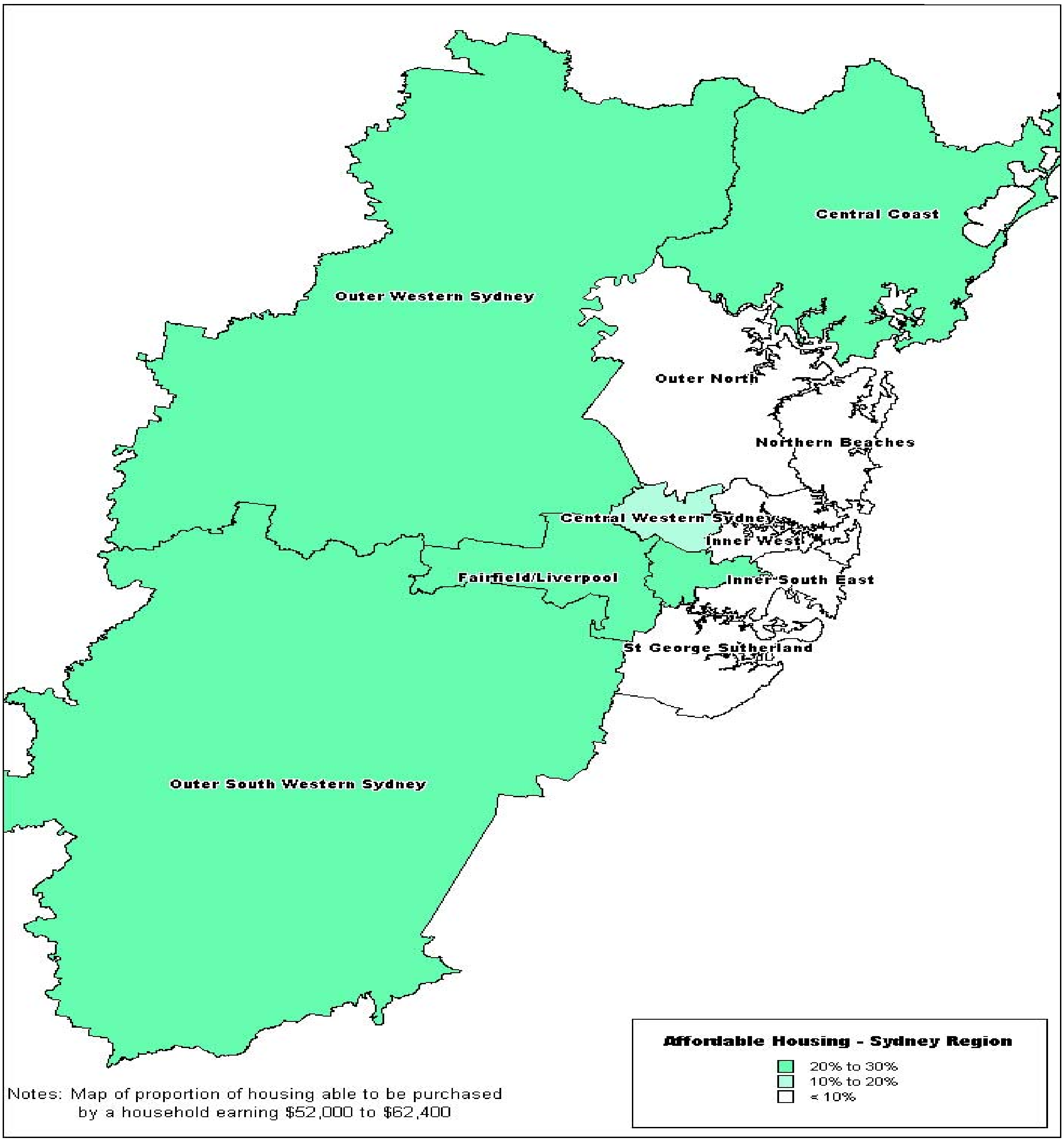
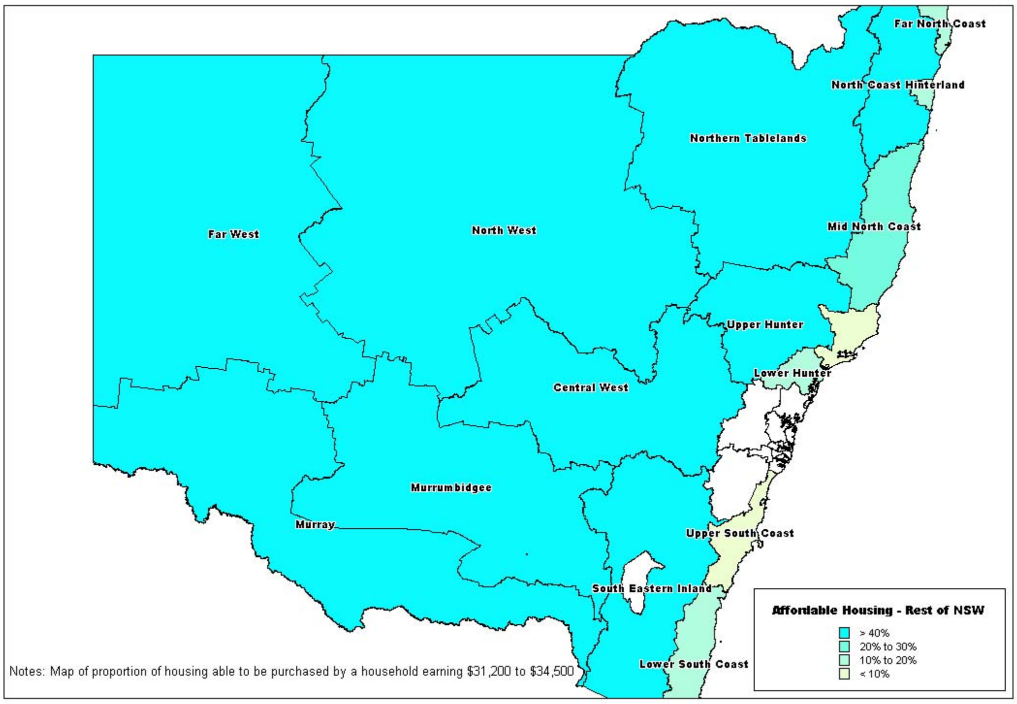


Figure 4.2: Proportion of Housing Affordable to Median Income Households in Rest of NSW



Source: ABS, Reserve Bank of Australia and Land and Property Information NSW data

4.4 Housing market implications

A decline in the affordability of home purchase has significant implications for the private rental market, particularly in the Sydney region. A greater number of households are renting and are renting for longer periods. Increases in supply of rental accommodation thus do not automatically translate into affordable rental housing for all households.

During 2001- 2002 there was a high level of construction of both houses and flats. Rental vacancy rates have been relatively high in much of 2002, particularly in inner-ring[20] local government areas (LGAs). As a result, median rents for both houses and flats have stabilised or fallen slightly in these areas. By contrast, rents for both houses and flats in traditionally lower cost areas of outer Sydney have remained stable or increased slightly (see Table 4.1 overleaf).

[20] The inner ring is a grouping of 13 LGAs comprising Ashfield, Botany Bay, Drummoyne, Lane Cove, Leichhardt, Marrickville, Mosman, North Sydney, Randwick, South Sydney, Sydney, Waverley, Woollahra.

Table 4.1: Median Rent All Dwellings – Sydney Region[21]

	2001 ($)	2002 ($)	2003 ($)
Inner ring	350	350	350
Middle ring	235	230	240
Outer ring	200	200	205

While the overall supply of rental accommodation has increased over the last three years, a study undertaken for the Australian Housing and Urban Research Institute (AHURI)[22] has shown that between 1986 and 1996, the supply of low cost rental accommodation, particularly in the inner ring, had declined.[23] This decline is due to the combination of at least two factors – the loss of existing stock through gentrification and the lack of incentives to invest in new low cost rental stock. For example, investors in low cost rental housing tend to receive fewer tax benefits and to face higher operating costs than other investors[24].

The study also found that low to moderate income households frequently occupy lower-cost rental accommodation. Moderate-income earners unable to purchase are likely to take up lower priced rental stock as they save for a deposit. The availability of low cost rental accommodation is therefore affected by increased competition arising from the larger numbers of households remaining in the rental market.

4.4.1 Intergenerational issues

The capacity to purchase a home is determined by a number of factors, including a household's income, its stage in the lifecycle, its propensity to save, its receipt of gifts, and by the size of the required deposit.

The long-term trend indicates that levels of home ownership are declining. Between 1986 and 1996 the proportion of households purchasing in Sydney declined by 8.3 percent and for the rest of NSW declined by 3.0 percent[25]. The decline has been greatest for households aged 25-44 years which are typically first home buyers. For younger households, it is noted that lifecycle changes such as longer periods of study, less secure and growing part-time employment, delayed household formation and later childbearing affect housing decisions.

Between 1986 and 1996 the rate of households who owned their homes outright increased. This increase reflects historically greater accessibility to home ownership and

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[21] Median rent of all 2-bedroom dwellings at June Quarter. DOH Rent and Sales Report.
[22] Yates J "Implications of Social, Spatial and Structural Change" *Australian Housing and Urban Research Institute.*
[23] A further study based on 2001 Census data is currently underway.
[24] Wulff, M. & Yates, J. with Burke, T. 2001, *Low Rent Housing in Australia 1986 to 1996*, Australian Housing Research Fund, Canberra.
[25] Yates J "Housing implications of social, spatial and structural change" July 2002 Australian Housing and Urban Research Institute.

the ageing of the population. Between 1996 and 2001 the proportion of purchasing households stabilised at around 22.7 percent while the proportion of owner-occupier households fell from 41.5 percent in 1996 to 39 percent in 2001.

For ageing households, housing decisions are often related to lifestyle and health preferences, and are influenced by the options available to suit these preferences. Older people who own their own home may rely on the relative strength of the housing market to raise sufficient funds from their homes to fund moves to different accommodation, such as retirement villages, self contained accommodation within a supported environment and residential aged care. Lower levels of home ownership amongst older Australians would place additional pressure on government subsidised health and housing services.

5. TAXATION

5.1 Overview

Section 5 of this submission discusses State and Commonwealth taxation as it relates to housing affordability.

State stamp duties related to housing have not been a major factor in declining housing affordability in recent years. As discussed in Section 2, recent declines in housing affordability have been caused by rapidly rising house prices. In turn, rising house prices primarily reflect demand pressures related to sustained economic and household income growth, population growth, low mortgage interest rates, budget incentives directed toward boosting spending on housing and, in the last few years, significantly higher investor demand in the housing market.

NSW stamp duties related to housing represent a relatively small proportion of the cost of purchasing a home. Moreover, for most purchasers stamp duty costs are bundled into the housing loan and are in effect paid gradually over the life of the housing loan rather than as an up-front cost. To the extent that stamp duties do impact on the demand for housing, reducing stamp duties across the board when high housing demand is pushing up housing prices would be counterproductive, since it would add to demand pressures, and push house prices even higher.

However, stamp duties related to housing are a significant source of revenue to the States. Further, stamp duties related to housing provide a revenue source which generally reflects population and economic growth. The size of the revenue provided by stamp duties means that that their rates and thresholds cannot be changed without materially affecting State revenue and the overall fiscal strategy.

The variability of the revenues exacerbates this problem, since changes to rates and thresholds undertaken in one housing market environment may be completely inappropriate for the market environment in a following year. Revenue variability is driven mainly by variations in turnover of dwellings rather than prices of dwellings, meaning that a large fall in prices is not a necessary condition for a large fall in revenue.

However, the New South Wales Government recognises that stamp duties may present a relatively greater cost to new entrants to the home purchase market, particularly since new entrants will not have the benefit of untaxed capital gains from the sale of a previous home.

The Government therefore provides significant exemptions and concessions on stamp duties to reduce the impact of transfer and mortgage duties, through its First Home Plus Scheme.

The Government has further committed to review stamp duty levels in light of rising property values, as the State Budget can afford. The priority for any changes to stamp duty will be to assist first home buyers.

Commonwealth income and capital gains taxation also impacts on investor and owner-occupier housing decisions, and as noted in Section 2 are likely to have played a significant role in the recent housing boom. The Goods and Services Tax (GST) added another layer to new home taxation, without any attempt to reduce existing taxation. Moreover, as an element of taxation, the GST is around twice as significant as State stamp duties. The Commonwealth-State First Home Owners Grant Scheme was introduced to offset the impact of the GST on house prices.

The importance of stamp duties on property as a State source of revenue, and a further reason why stamp duty rates are difficult to change in NSW, are related to the nature of Commonwealth-State financial relations. These issues are discussed in Section 5.4.

Stamp duties on property transactions are a significant source of revenue to State governments because of the States' limited taxation bases in relation to their spending responsibilities. GST-related Commonwealth-State financial reforms have not solved this problem. NSW will not benefit from GST-related tax reforms until the end of this decade, and even then transfer duty is likely to continue to constitute a significant source of State-controlled taxation revenue. Transfer duties on residential property were not one of the State taxes included for abolition under the GST-related tax reforms.

Moreover, the current revenue sharing arrangements between the States means that, despite strong transfer duty revenues, NSW cannot afford to reduce transfer duty rates or thresholds. Dividing Commonwealth GST revenue grants to try to "equalise" revenue sources and service standards between the States means that the property boom has increased the subsidy that NSW pays to some other States. Around one-third of the increase in NSW transfer duty revenue over the last five years has been transferred to other States through reduced Commonwealth grants to NSW.

5.2 State taxation

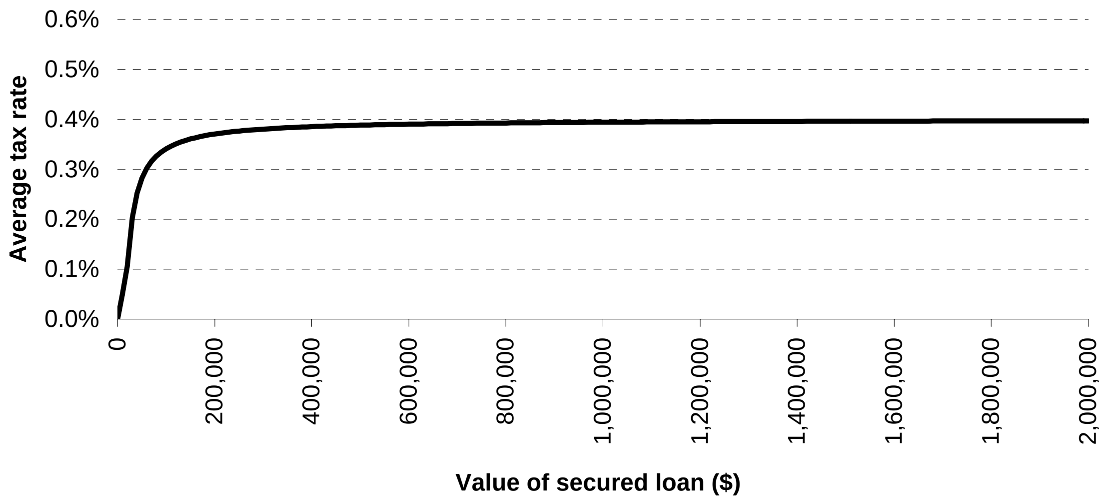
5.2.1 Stamp duties and the cost of housing

The two main State taxes on housing transactions are transfer duty and mortgage duty. These taxes represent a very small proportion of the cost of purchasing a home. Charts 5.1 and 5.2 overleaf show average transfer duty rates and average mortgage duty rates. Annexure D provides details on the nature and rates of transfer and mortgage duties.

Chart 5.1: NSW Transfer Duty – Average Rates

Source: NSW Treasury

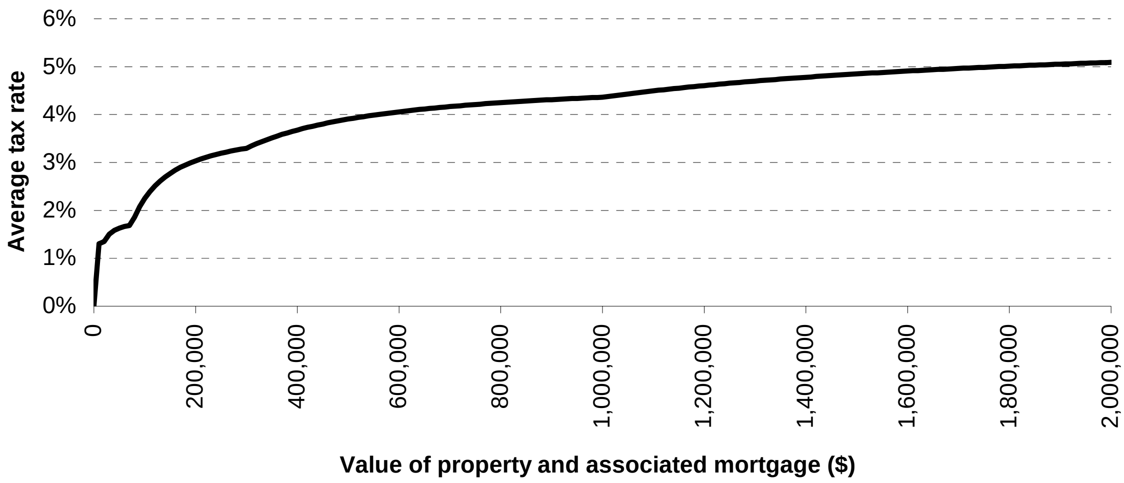
Chart 5.2: NSW Mortgage Duty – Average Rates



Source: NSW Treasury

Taken together, and assuming mortgages represent 80 percent of the value of the property, NSW transfer duty and mortgage duty add around 3.8 percent to the value of a $450,000 home, and around 3.3 percent to the value of a $300,000 home. Total average tax rates are shown in Chart 5.3 overleaf.

Chart 5.3: NSW Transfer and Mortgage Duty – Average Rates



Source: NSW Treasury

The average rates presented in Charts 5.1 to 5.3 do not take into account the availability of exemptions and concessional rates for first home buyers, which are discussed later in this section.

5.2.2 Stamp duties and housing demand

The extent of the efficiency and equity distortions created by stamp duties on patterns of demand can be overstated.

The most efficient taxes are those that cause the least distortions to the decisions of consumers and producers by having the least impact on the relative prices of consumer goods and services and inputs to production. More efficient taxes tend to be those that are applied widely and at low and uniform rates.

As an extra cost on transactions in housing, transfer duty may discourage people from changing to different accommodation when their housing needs change or discourage labour mobility. Stamp duty may also influence investment decisions through the differential treatment of different classes of assets, with rates of stamp duty on transfers of real property higher than that for transfers of shares. As a tax on transactions, stamp duty will fall more heavily on those who change dwellings often, rather than those who remain for a long period in the one dwelling.

However, given the relatively minor costs added by stamp duties to the total cost of buying a house, and that for most house purchasers the stamp duty cost is rolled into the total housing loan and paid off over the life of the housing loan, stamp duty may not constitute such a significant up-front cost as generally assumed. On its face, the growth in the volume of property transactions in recent years at a time when stamp duty rates have not changed suggests that that stamp duty has not overly discouraged housing turnover.

This might particularly be the case for those already in the property market, since capital gains on a previous dwelling can offset the stamp duty costs associated with the purchase of a new dwelling. The lack of Capital Gains Tax on the principal place of residence may encourage people to hold wealth in the family home rather than in other assets that are subject to Capital Gains Tax. Stamp duty, to the extent that it adds to the transactions costs of such a strategy, could reduce the incentive to do so.

For new entrants to the housing market stamp duty costs may be of greater significance. First home buyers do not have access to capital gains from previous dwelling ownership, and are likely to be more constrained in the amounts they are able to borrow to finance purchase of a home.

5.2.3 Who pays stamp duty?

To the extent that stamp duties do impact on the demand for housing, reducing stamp duties when high housing demand is pushing up housing prices could be counterproductive, since it would only add to demand pressures, and push house prices higher.

This is because while the legal incidence of stamp duty falls on the purchaser of the property, the economic incidence of the duty will depend on demand and supply elasticities in the housing market, or in other words the ability of the purchaser to pass on to the vendor some or all of the cost of the stamp duty.

In a “soft” housing market characterised by high responsiveness of demand with respect to price, and low responsiveness of supply with respect to price, some or all of the stamp duty will be passed on to the seller in the form of a lower sale price. Buyers are more likely to buy if prices are lower, sellers are prepared to sell at whatever price they can get, thus buyers are more likely to be able to reduce the house purchase price to cover the cost of stamp duty.

In a sellers market, the opposite is the case. With demand less responsive than supply to price, buyers would generally find it difficult to shift transfer duty to sellers. In a balanced market, it would be expected that both buyers and sellers bear some part of the transfer duty, notwithstanding that it is the buyer who actually pays the duty.

In current market circumstances with a seemingly highly inelastic demand for dwellings in most segments of the market, any reduction in stamp duty (through a reduction of rates or thresholds) is most likely to be passed on to the seller as buyers use the relatively marginal saving to bid up house prices. Rather than making it easier for buyers, the effect would be to transfer funds from State revenue (to the extent that higher prices did not maintain revenue at current levels) to house vendors.

5.2.4 The significance of housing-related stamp duty revenue

Revenue from transfer and mortgage duty represents a significant proportion of NSW tax revenue and total revenue. Transfer duty is paid on non-residential property transfers and the transfer of other forms of property, such as statutory licences and goodwill associated with businesses, and mortgage duty is paid on mortgages other than for homes. However, the majority of revenue from these duties is related to residential property transfers. The large absolute size of the revenue means that even apparently minor changes to rates or thresholds can have material revenue impacts on overall NSW public finances.

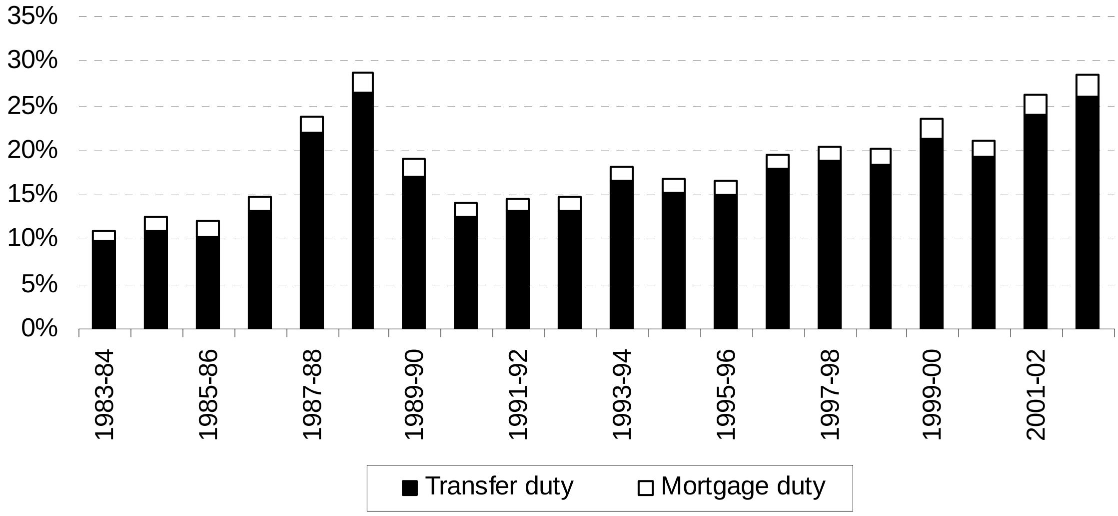
Table 5.1: Total Transfer and Mortgage Duty Revenue

	Transfer Duty Revenue	**Mortgage Duty Revenue**
	($ million)	($ million)
1991-92	871.1	98.8
1992-93	882.0	101.1
1993-94	1,180.5	121.0
1994-95	1,122.5	122.6
1995-96	1,148.2	121.9
1996-97	1,541.0	135.0
1997-98	1,845.3	165.0
1998-99	1,915.8	176.6
1999-00	2,406.1	228.8
2000-01	2,266.7	206.2
2001-02	3,118.5	294.4
2002-03	3,677.2	362.3

Source: NSW Treasury

In 2002-03, transfer duty revenue accounted for 25.9 percent of NSW tax revenue, while mortgage duty accounted for 2.6 percent. The relative contributions of these duties to State revenue have increased in recent years due to the abolition or reduction of other State taxes following the 2000 GST-related tax reforms. Chart 5.4 overleaf shows a longer run of data, with pre-2000-01 total revenue adjusted to the same basis as post-2000-01 revenue by removing the taxes that have been abolished.

Chart 5.4: NSW Transfer Duty and Mortgage Duty Revenue as a Share of Total NSW Tax Revenue (GST-reform adjusted)



Source: NSW Treasury

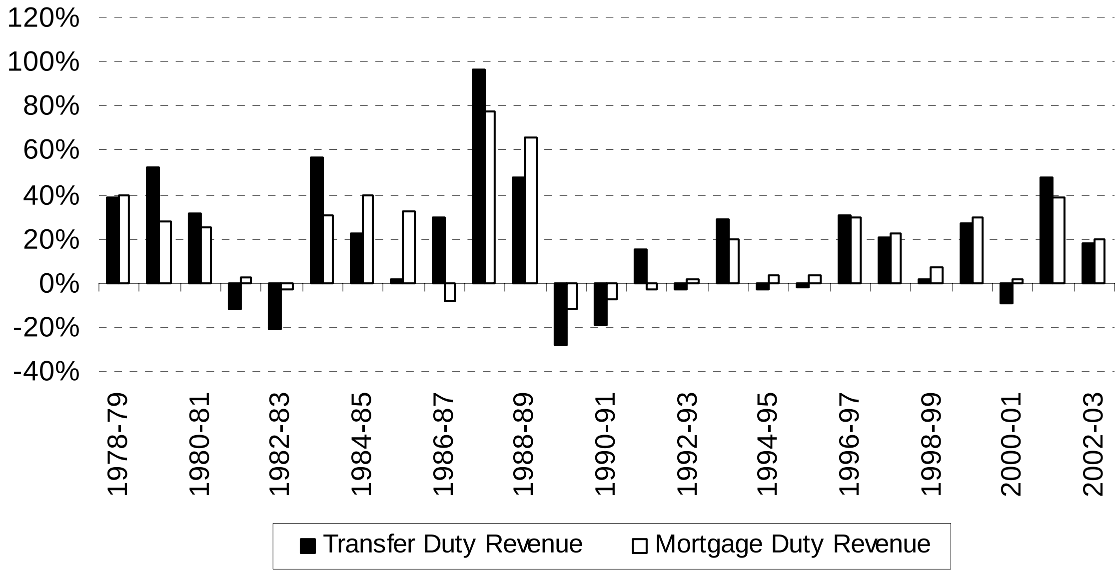
Both revenues as a proportion of total taxation revenue vary depending on the state of the property market cycle. But, on average, over the last two decades transfer duty revenue has accounted for 17.1 percent of total NSW tax revenue, with mortgage duty revenue accounting for a further 1.8 percent.

Both revenues as a proportion of total revenue also vary depending on the performance of other revenue sources. While transfer and mortgage duty revenue has grown rapidly in recent years, total NSW General Government revenue has grown by a modest average of around 5.5 percent over the past five years, reflecting the slower growth of other taxes, the Government's program of tax cuts since 1999 (which have reduced revenue by an estimated $1.4 billion in 2003-04), and the loss of Commonwealth grants due to the increased cross-subsidy from NSW to other States.

5.2.5 The volatility of housing-related stamp duty revenue

As well as accounting for a large proportion of NSW tax revenue, housing-related stamp duty revenue is highly volatile. The volatility of revenue makes it difficult to make periodic adjustments to duty rates and thresholds as adjustments made one year in a certain revenue environment may be wholly inappropriate in the following year if the revenue environment changes dramatically.

Chart 5.5: NSW Transfer Duty and Mortgage Duty Revenue – Annual Change



Source: NSW Treasury

Stamp duty on property transfers is the most volatile revenue source available to the State, with an average (absolute) change of 26 percent for the period 1978-79 to 2002-03, and annual variations of up to 95 percent (Chart 5.5 details annual changes in policy-adjusted transfer duty and mortgage duty revenues). Mortgage duty is also quite volatile, with an average (absolute) change of 22 percent for the period 1978-79 to 2002-03, and annual variations of up to 78 percent.

By contrast, payroll tax revenue is a more stable taxation revenue with an average (absolute) change of 8 percent for the period 1978-79 to 2002-03, and annual variations of up to 19 percent.

The New South Wales Government is committed to sustaining a sound fiscal position over the course of an economic cycle, while avoiding fluctuations in levels of service delivery and protecting NSW's position as a competitive location for business investment and employment growth. Maintenance of the State's AAA credit rating requires prudent fiscal policy. Moreover, the need to avoid too frequent changes to tax rates, thresholds and bases is required under the NSW *General Government Debt Elimination Act 1995* (Fiscal Principle No 7).

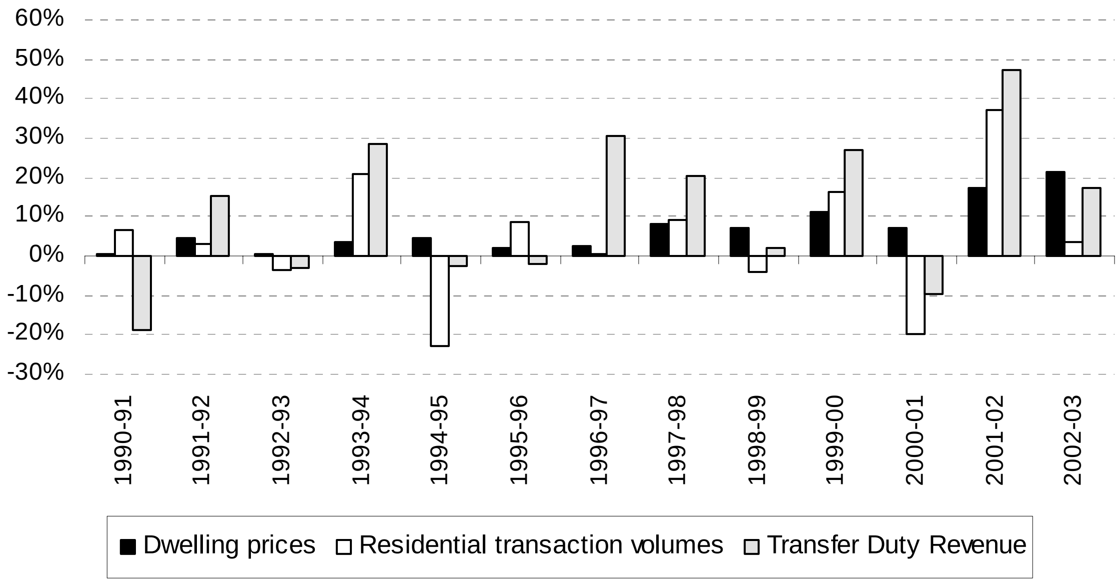
Experience at the state level in the United States demonstrates the budgetary difficulties that governments can face if tax policies are adjusted in response to cyclical factors. Through the 1990s US state tax revenues grew strongly, partly in response to growth in capital gains tax revenue stemming from the share market boom. State spending grew, but tax rates were also cut significantly. When the share market boom ended revenue fell, though spending has been much harder to adjust. States now face budget deficits of the order of 20-25 percent of annual revenues.

5.2.6 Revenue volatility relates more to transaction volumes than prices

In the past, housing prices have not been subject to sustained and significant falls. However, large falls in house prices are not a necessary condition for a severe fall in transfer duty revenue. Historical data has shown that the impact of the housing cycle on transfer duty revenues is affected by the volume of transactions and not only the level of house prices in a housing cycle. Transfer duty revenue almost halved while established Sydney house prices rose by 0.1 percent between June 1989 and June 1991.

Chart 5.6 below shows that while rapidly rising house prices can have much to do with increases in transfer duty revenue, falls in revenue can occur without falls in house prices because of the volatility of transaction volumes.

Chart 5.6: Annual Change in Dwelling Prices and Transaction Volumes



Source: ABS, NSW Treasury and Real Estate Institute of Australia.

5.2.7 First Home Plus

For State Governments across Australia, stamp duties on property-related transactions are important sources of revenue. However, the New South Wales Government recognises that stamp duties may constitute a higher relative cost to first home buyers who have no previous housing capital gains and whose capacity to borrow to finance home purchase may be constrained.

Therefore, the New South Wales Government has reduced the impact of transfer and mortgage duties by providing exemptions and concessions to first home buyers.

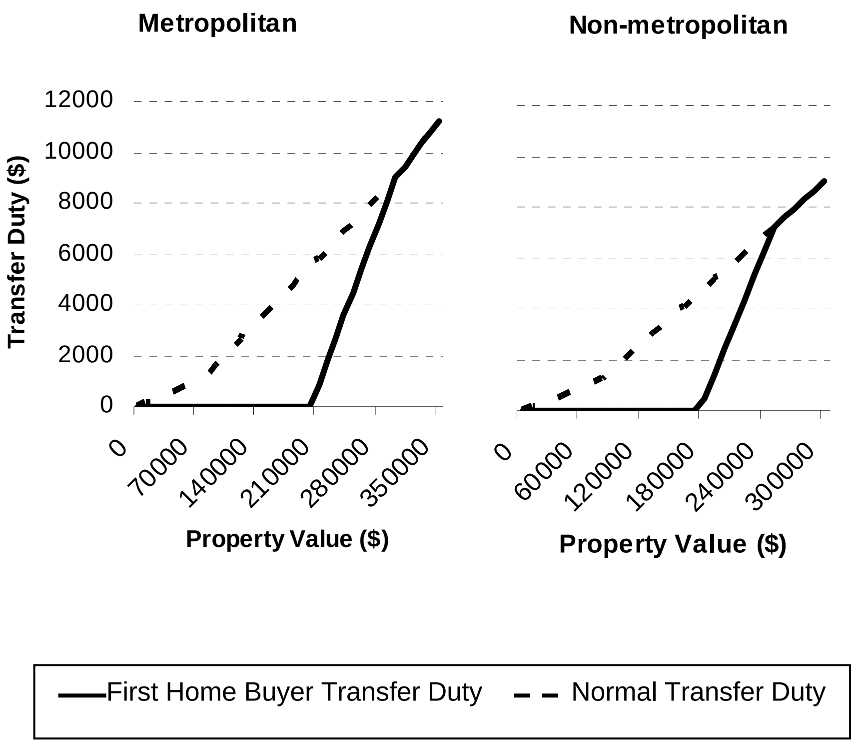
Concessions to first home buyers on transfer and mortgage duties have been provided since the 1980s. Under the current First Home Plus scheme, introduced on 1 July 2000, first home buyers are exempt from any transfer and mortgage stamp duties for metropolitan property values up to $200,000 and for property values elsewhere in NSW up to the value of $175,000. The stamp duty exemptions phase out between $200,000 and $300,000 for metropolitan property values, and between $175,000 and $250,000 for property values elsewhere in NSW.

For vacant land, the threshold value is $95,000 in the metropolitan area, with the exemptions phasing out between $95,000 and $140,000, and $80,000 elsewhere in NSW, phasing out between $80,000 and $110,000.

Although there is no explicit income test for eligibility to the First Home Plus scheme, the property value threshold and phasing-out arrangements target assistance to those most in need. Assistance to first home buyers under First Home Plus is additional to assistance provided under the joint Commonwealth-State First Home Owners Scheme (FHOS), introduced as part of national taxation reform.

The combined effect of the two grants for eligible first home buyers is assistance of around $13,070 for the purchase of a new home valued at $200,000 in the metropolitan area, and around $12,100 for the purchase of a new home valued at $175,000 anywhere in NSW. Chart 5.7 illustrates the benefits to first home buyers of the First Home Plus exemptions and concessions on transfer duty. In a press released dated 29 October 2003, the Housing Industry Association calculated that the value of the transfer duty rebate for first home buyers purchasing at the median first home price in metropolitan NSW was over six time more generous that in any other State.

Chart 5.7: Transfer Duty Savings under First Home Plus



Source: NSW Treasury

Between July 2000 and August 2003, over 118,000 first home buyers in NSW received total or partial exemptions from transfer duty, with revenue forgone estimated at over $332 million. In 2002-03, 62 percent of NSW first home buyers qualified for the First Home Plus concessions. On average, they saved half of the normal stamp duty liability; paying duty of $2,128 and saving duty of $2,169 (see Table 5.2 below).

Table 5.2: NSW Transfer Duty Exemptions for First Home Buyers

	Number of Beneficiaries		Transfer Duty Paid	Transfer Duty Exemption	
		%[a]	$m	$m	%[b]
2002-03	25,543	61.9	54.4	67.5	55.4

(a) As a proportion of all first home buyers, defined as those accessing First Home Owner Grants.

(b) As a proportion of transfer duty normally payable, or duty paid plus duty exemption.

Source: NSW Treasury

The Government has committed to review stamp duty levels in light of rising property values, as the State Budget can afford. The priority for any changes to stamp duty will be to assist first home buyers.

5.3 Commonwealth taxation and subsidies

Housing decisions are significantly affected by Commonwealth taxation and subsidy policies. The relatively favourable taxation of residential property income and capital gains may encourage over-investment in residential property. The GST generally adds substantially more to the cost of a new house and land package than NSW stamp duty.

5.3.1 Income tax

Rental income on investment properties is taxed as part of income. However, investors in rental properties can claim borrowing and other property-related costs against income, including unrelated income, and can depreciate those costs included in the property's capital base over time.

Negative gearing clearly makes housing property attractive to investors and is likely to have been a key factor in the entry of new (small) investors into the housing market. As a form of investment, housing is more accessible and understandable to small investors than investment in other assets. At the same time, while rental income is taxed, the implicit value of housing services provided by owner-occupied housing is effectively tax free since is not included as part of the occupier's taxable income.

5.3.2 Capital Gains Tax

Capital Gains Tax applies to capital gains realised on the sale or disposal of designated assets acquired after September 1985 (when Capital Gains Tax began). However, capital gains on the sale of a principal place of residence are exempt from the tax. Moreover, changes to methods of calculating capital gains in 1999 probably have given impetus to investment in property.

Since September 1999, taxpayers have been permitted to choose between calculating capital gains as 50 percent of the nominal capital gain achieved, or the real capital gain for assets purchased before September 1999 (but with indexation of the cost base frozen after this date). In periods of low inflation and rapid asset price growth, the effect is to significantly reduce measured capital gains. This may have a particularly strong effect in relation to property investment, where most of the (pre-tax) gains to investors come from asset price gains.

5.3.3 Goods and Services Tax (GST)

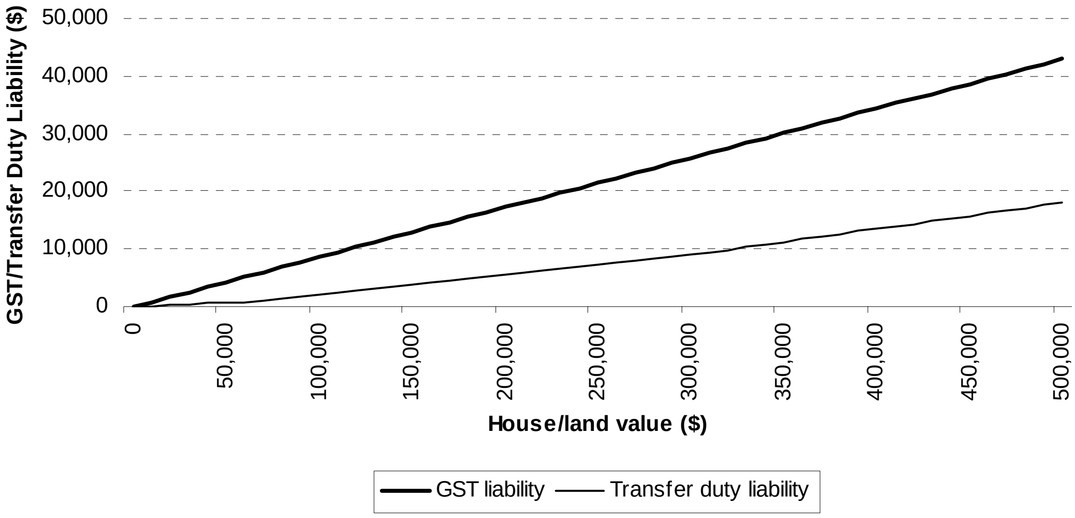
GST is payable on new house and land packages. The house component is fully subject to GST, as no inputs into the construction of a home are free from GST.

GST on the land component can vary. The sale of land on which there are no improvements by a government is GST free. However, the term “improvements” is interpreted broadly and can include minor works associated with the supply of water and electricity.

GST on such land is equivalent to one eleventh of the increase in value in the land since 1 July 2000. Due to the recent high increases in land value, even using this “margin scheme” to calculate GST has meant that GST now accounts for around 8 percent of the sale price. At the time the GST was introduced the Commonwealth estimated the cost of constructing a new home would increase by about 4.7 percent.

Land typically accounts for between 40 and 50 percent of the cost of a new house and land package. Assuming a land value of 45 percent in a land-house package, total GST paid on a package of $450,000 would be approximately $38,700. The level of GST payable on the total cost of different house and land packages (assuming land of 45 percent) is compared with State stamp duty levied in Chart 5.8 overleaf.

Chart 5.8: GST and NSW Transfer Duty Payable on New Home/Land Packages



Source: NSW Treasury

Transfer duty on property is levied on the GST-inclusive price of the property. This is consistent with pre-GST practice, where transfer duty was levied on prices of goods inclusive of Commonwealth Wholesale Sales Tax. Wholesale sales tax was levied on some materials used in constructing and finishing a house, such as floor coverings, bathroom fittings and appliances. Generally, State and Territory governments have continued the policy of applying stamp duty to prices that include Commonwealth taxes. Similarly the Commonwealth levies GST on the price of petrol and tobacco inclusive of Commonwealth excise duties.

As discussed previously, when the Commonwealth Government introduced the GST it made no provision to reduce existing stamp duties on the transfer of residential property and so added an additional layer of taxation.

5.3.4 First Home Owner Grant Scheme (FHOGS)

The Scheme was introduced to offset the impact of the GST on house prices. The Scheme provided a $7,000 grant on the purchase of a new or established dwelling from 1 July 2000. From March 2001, following evidence of demand switching to existing dwellings and new dwelling construction activity declining, the Commonwealth Government increased the grant on the purchase of new or previously uninhabited dwellings by an additional $7,000 to 31 December 2001. This declined to an additional $3,000 to 30 June 2002, after which date the additional grant was ceased. Table 5.3 overleaf shows the number and value of FHOS grants paid in NSW to 2002-03.

Table 5.3: NSW FHOS Grants

	Original ($7,000)		Additional ($7,000)		Additional ($3,000)		Total	
	No.	$m	No.	$m	No.	$m	No.	$m
2000-01	43,626	305.3	1,011	7.1			43,626	312.4
2001-02	61,864	433.0	10,030	70.2	641	1.9	61,864	505.1
2002-03	41,265	288.8	2,474	17.3	2,067	6.2	41,265	312.3
Total	146,755	1,027.2	13,515	94.6	2,708	8.1	146,755	1,129.9

Source: NSW Treasury

5.4 Commonwealth-State financial relations

5.4.1 Vertical Fiscal Imbalance

Vertical Fiscal Imbalance refers to the mismatch of revenue capacity and spending responsibilities between the Commonwealth and the States.

The States have constitutional responsibility for the services of greatest importance to Australians' daily lives, including education, health, community services and law and order.

Constitutionally, the States and Territories have access to any taxes aside from customs and excise duties. Despite this apparently broad scope, the States have been prevented from effectively exploiting their taxing potential by the High Court's interpretations of powers, notably section 90 of the Constitution.

By contrast, the Commonwealth's ability to raise revenue exceeds its own expenditure requirements. Commonwealth grants to State governments currently total around $54 billion per year, which represents 27 percent of total Commonwealth expenditures and approximately 40 percent of the States' revenue.

In addition many State taxes, such as business stamp duties, are levied on bases which are highly mobile. For such taxes, interstate competition drives their rates downwards. This means that taxes on less mobile bases, such as land, assume greater importance.

Transfer duty is levied on the transfer of land within NSW. This base is relatively protected from interstate competition, and hence is an important source of revenue.

5.4.2 Commonwealth-State financial reform

The *Intergovernmental Agreement on the Reform of Commonwealth-State Financial Relations* (IGA) was signed by all States in June 1999. The IGA outlines major changes to Commonwealth-State financial arrangements.

Key elements of the IGA included the introduction of the GST from 1 July 2000 and the abolition of a number of State indirect taxes and the Commonwealth's wholesale sales tax; the passing-on by the Commonwealth of GST revenues to States to replace Financial Assistance Grants and abolished State taxes; and the provision by the Commonwealth of guarantee payments to ensure that no State is worse off financially during the transition to a GST regime.

Although the GST-related reforms give States access to revenue from a broad-based tax, the fundamental structure of Commonwealth-State finance has effectively changed little. The GST is a Commonwealth tax, and the pass-on of GST revenue is a revenue sharing rather than a tax base sharing arrangement.

5.4.3 State tax reform

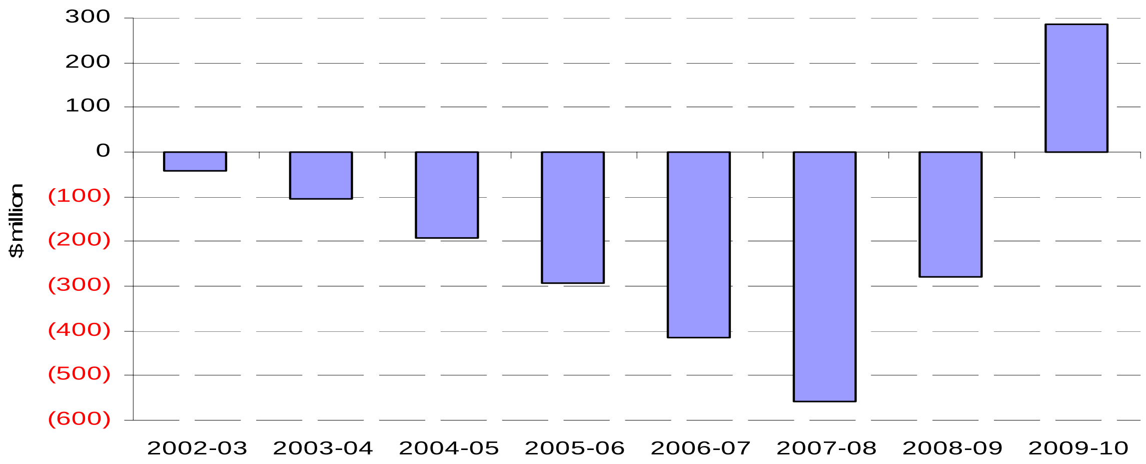
The initial IGA provided for the abolition of nine types of State taxes. The list of State taxes for abolition was designed largely by the Commonwealth. Transfer duty on residential conveyances was never among the taxes listed for abolition. The taxes abolished or to be reviewed are:

- accommodation levies (or "bed taxes"), abolished from 1 July 2000;
- financial institutions duty (FID) and stamp duty on listed marketable securities, abolished from 1 July 2001;
- debits tax, to be abolished by 1 July 2005, subject to review by the Commonwealth-State Ministerial Council established to oversee the operation of the IGA. New South Wales abolished debits tax from 1 January 2002; and
- the need for conveyancing (transfer) duties on non-residential properties, stamp duties on credit arrangements, instalment purchase arrangements and rental (hiring) agreements, stamp duties on leases, stamp duties on mortgages, bonds, debentures and other loan securities, and stamp duties on cheques, bills of exchange and promissory notes will be reviewed by the Ministerial Council by 2005.

GST revenue provided to the States does not provide a source of funds sufficient to reduce or abolish transfer duty on residential conveyances. Every dollar of GST revenue (and Budget Balancing Assistance grants provided by the Commonwealth) so far received by New South Wales has been offset by losses of revenue from abolished State taxes, abolished grants from the Commonwealth, or increased State spending required under the IGA.

Current estimates show the last Budget Balancing Assistance being paid to NSW in 2007-08, with a net benefit beginning in 2008-09 when annual gains exceed annual losses.

Chart 5.9: Cumulative Shortfall / Gain from Tax Reform for NSW



Source: NSW Treasury

5.4.4 Fiscal Equalisation

Horizontal Fiscal Equalisation (HFE) is a method used by the Commonwealth Government to override interstate differences in revenue-raising ability and spending requirements.

Equalisation is implemented through the distribution of grants of GST revenue from the Commonwealth to the States. The grants are allocated among the States according to the recommendations of the Commonwealth Grants Commission. The Commission allocates a higher share of grants to States that have below-average capacity to raise their own revenues and/or have to spend more to provide the same standard of services as other States.

Due to its high land values, NSW is seen as having an above-average revenue base for transfer duty and for land tax. On an annual basis, the Commission determines how much of NSW's revenue base is above average. It then reduces the grants to NSW by the revenue available from this part of the base. This reduction is calculated at the average rate of tax, not at the actual rate applying in NSW. NSW cannot influence the size of the reduction by changing its own rates of transfer duty or land tax.

With the recent strong growth in land values in NSW, the Commission has determined that the above-average part of the revenue base has increased. This has resulted in greater reductions in grants to NSW.

In 1997-98, when NSW revenue from transfer duty was $1,845 million, the Commission made a reduction of $140 million in grants to NSW. For 2003-04, transfer duty revenue is forecast to increase by around 80 percent, to an estimated $3,373 million. Over the same period the Commission's reduction of grants to NSW has more than quadrupled to $647 million (an increase of over $500 million).

Land tax revenue has been similarly affected. In 1998-99, the Commission reduced grants to NSW by $213 million, due to NSW having an above-average revenue base. In 2003-04, the Commission's reduction has increased to $358 million.

Whilst the Commission effectively penalises the New South Wales Government for Sydney's higher land values, it does not recognise that Sydney also suffers distinct cost disadvantages.

6. PROGRAMS ASSISTING OWNERS AND RENTERS

The main funding instruments contributing to direct social housing assistance in Australia are the Commonwealth-State Housing Agreement (CSHA), the Commonwealth Rent Assistance (CRA) program, and the First Home Owners Grant.

The New South Wales Government provides a number of different responses to assist in affordability, particularly for those who have difficulty participating in private rental.

6.1 Commonwealth assistance

6.1.1 Commonwealth State Housing Agreement (CSHA)

The CSHA is the primary means by which social housing assistance is provided in Australia.

Since 1990, funding under the CSHA has been re-directed from primarily investment in additional housing stock to a range of assistance programs, including home acquisitions, debt redemption, asset improvement, and replacing poor performing or inappropriately located stock.

From 1998-99 to 2001-02 total housing stock under the CSHA declined from over 391,000 to less than 388,500 dwellings. Data at national level is not available, however the gap is being filled by short-term leasing arrangements. In NSW, where lease arrangements are most common, over 7,000 leased properties were included in the total supply for 2001-02.

The focus of the Commonwealth in recent years has been improvement of efficiency in the delivery of public housing programs. Reforms have centred on aligning income eligibility to social security recipients, increasing rents, introducing reviewable tenancies and segmenting waiting lists.

Since the 1999-2001 Agreement, funding has also been directed to meeting priority needs, including assisting those whose needs could not be met by the private market and ensuring the duration of assistance is based on need.

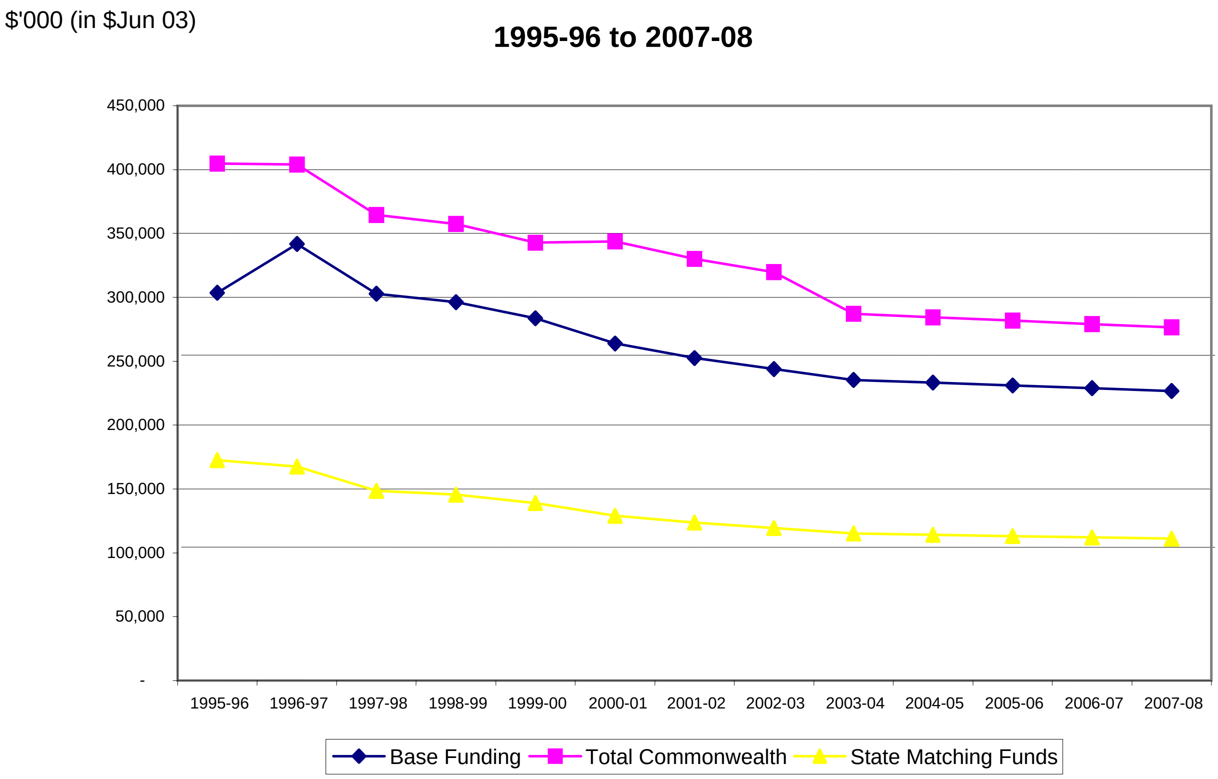
In this context, NSW has continued to target assistance to those most in need and has introduced a number of new housing assistance products that provides people with more options for meeting their housing needs, both in the private rental market and through home purchase. These products are described in detail below.

The current CSHA Multilateral agreement provides a 5 year Agreement from 2003-04 to 2007-08. The Agreement includes two key priorities for the Commonwealth: 1) reducing work disincentives for social housing tenants and 2) attracting private investment in social housing from outside the sector.

Nationally, expenditure on CSHA assistance declined by approximately 20.8 percent between 1992-93 and 2001-2002, against an increase in expenditure in real terms on Commonwealth Rent Assistance (approximately 27.9 percent).

Commonwealth funding for NSW under the CSHA has declined in every year but one (2000-01) since the mid 1990s (see Chart 6.1 below). The new CSHA will see a continuation of this trend.

Chart 6.1: CSHA Funding (real $s)



Source: Housing Assistance Act 1996 Annual Reports (up to 2001-02) - Department of Family and Community Services (2002-03 - 2007-08)

6.1.2 Commonwealth Rent Assistance (CRA)

The CRA program provides income support to assist in meeting the housing costs of Centrelink clients and some households receiving family payments who rent (or board) privately. In 2002-03 the Australian Government spent $1.848 billion on Rent Assistance assisting over 940,000 customers.

The aim of CRA is to give customers a choice about their accommodation circumstances in recognition that some customers place a higher value on housing compared to other expenses. For example, some customers choose to pay higher rents to live closer to employment opportunities or amenities such as public transport. Those paying higher rent receive more assistance up to the maximum threshold. However, in Sydney, the ability to trade housing cost against these costs is significantly constrained as the maximum rent assistance already falls well short of median rents.

About $602 million of CRA is spent in NSW. About 172,000 income units receive an average payment of $75 per fortnight in Sydney and 144,000 income units receive an average payment of $71 per fortnight in the rest of NSW.[26] The total funds spent by the Commonwealth on rent assistance have increased significantly over the last 10–15 years, however, the average payment for recipients has not.

As CRA is a national payment, the Department of Family and Community Services (DFaCS) seeks to ensure CRA clients who have the same household characteristics receive the same amount of assistance wherever they live. This national payment objective results in little variation in the average level of assistance across locations as the maximum rates of housing assistance do not vary despite rents varying considerably by location.

This policy has a significant impact on the equity and effectiveness of CRA in NSW and particularly in Sydney, where median rents are amongst the highest in Australia.

Most low-income private renters will be eligible for CRA but in NSW this assistance is not enough to make rent affordable in many areas of the State. It is also unavailable to low income people who do not receive any social welfare benefits, for example employed households but with constrained incomes and high housing costs.

As at 2002, 127,120 households in NSW, even after receiving CRA paid more than 30 percent of their income on rent placing them in housing stress. The large majority of these people live in Sydney or other coastal areas and are single people or single parent families. The CRA is more effective in rural and regional areas of NSW.

6.1.3 Could CRA be better deployed to assist first homeowners?

CRA recipients include low statutory income households such as pensioners, single parents, people receiving the disability allowance, and students.

At June 2001, there were approximately 460,000 households living in some form of rental accommodation and on incomes in the bottom 40 percent income range (that is under approximately $34,000 in 2001) in NSW.

For some recipients of the CRA, the stage they are at in their housing lifecycle and circumstances mean that rental assistance is the most appropriate form of housing assistance. For example, recipients of the youth allowance who are studying are likely to require short-term housing assistance until their earning capacity increases to the point where they are capable of meeting private rental costs unassisted or of servicing a loan. Similarly a home ownership product is not suited to very low-income frail aged persons (85yrs +).

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[26] Source: Steering Committee for the Review of Commonwealth State Service Provision, Report on Government Services 2003 Vol 2.

Some of the advantages that home ownership provides (for example, security of tenure) may still be delivered to lower income households not capable of servicing a loan if alternate products such as the facilitation of long-term leases were explored. Other approaches that would meet the needs of this group include better targeting of existing taxation incentives such as allowing negatively geared investment properties to be offset against incomes only if investment is at the lower end of the rental market.

However, some CRA-eligible households with relatively higher incomes, whose wages are supplemented by Centrelink payments (for example those receiving family benefit payments) may be assisted into home ownership in cheaper rural locations if the correct housing products were available.

Potential products include concepts similar to the NSW Government Guaranteed Loan. This is a State initiative described in detail below, which assists borrowers who could service commercial mortgages but are rejected or charged premiums of up to 4 percent above the normal rate because their incomes are supplemented by Centrelink payments. Further research is required to determine whether this would be a more effective use of CRA funding. This group would also benefit from a better targeting of the First Home Owner Grant to ensure the grant was only payable to low income first home buyers.

6.1.4 The First Home Owners Grant (FHOG)

The First Home Owners Grant provides a $7,000 grant to those purchasing their first home in Australia. It assists over 100,000 first home buyers a year. Since its commencement in July 2000, a total of over $3.7 billion has been provided to help over 482,000 individuals and families to purchase their first home. The program was introduced in July 2000 to offset the impacts of the introduction of the Goods and Services Tax on first home buyers. It is not means tested.

6.2 NSW Government assistance

The NSW Government, through the Department of Housing, is committed to providing a range of housing opportunities and services to meet the needs of the community. By working in partnership with the community, industry and individuals, the Department aims to provide safe, decent and affordable housing opportunities for people on low incomes so that they can live with dignity, find support if needed and achieve sustainable futures.

The Department of Housing estimates that it will provide services to around 500,000 people in 2002-03 through social housing assistance, private rental assistance and also home ownership assistance.

6.2.1 Social housing assistance

Housing assistance is provided through both non-government and government housing providers. Government providers include the Department of Housing (incorporating

Public Housing Services, the Office of Community Housing, the Home Purchase Assistance Authority) and the Aboriginal Housing Office. Non-government providers are predominantly the community housing sector.

Government services include:
- medium to long-term subsidised rental housing managed by public housing, community and Aboriginal housing organisations;
- emergency accommodation;
- accommodation linked to support services provided by government and private agencies;
- helping tenants participate in housing and community issues; and
- a housing appeals system.

As at 30 June 2003, the NSW Department of Housing:
- directly managed 129,185 public housing dwellings;
- provided 12,691 dwellings through community housing providers; and
- managed 4,055 dwellings on behalf of the Aboriginal Housing Office.

6.2.2 Private rental market assistance

The Department of Housing directly assists people into the private rental market and works to stimulate the market to provide more affordable housing. Specific forms of assistance include:

- one-off grants to help people obtain private rental housing (for example, to cover bonds). The Department assisted approximately 36,500 households in 2002-03 to secure tenancies in the private market by providing financial assistance of approximately $24 million. This included temporary accommodation assistance and help with the payment of private rental bonds and rent in advance;

- more than 1,779 ongoing private rental subsidies were provided to eligible clients living with HIV/AIDS or with a disability;

- tenancy guarantees, which were developed in response to concerns that some people who seem able to afford and sustain a private sector tenancy are unable to secure one. This could be due to a number of reasons, including the lack of a tenancy history and references or discrimination in the private rental market. The Tenancy Guarantee addresses this by providing a level of protection for landlords/agents in addition to the rental bond. Tenancy Guarantees are currently being piloted;

- affordable housing demonstration projects, which respond to common marketplace barriers to participation in affordable housing, by showing the successful operation of affordable rental housing, while assisting households in stress; and

- rent and sales report, which is widely used by the private rental market in monitoring trends and decision making in rental operations.

A full list of Department of Housing products addressing affordability issues in the private rental market is at Annexure A.

6.2.3 Home ownership assistance

The NSW Government has implemented a number of programs to assist affordable home purchase, or support people to stay in home ownership. These include:

- a Self-Build Grant Program, which provides grants to sponsor organisations to assist them with the costs of self-build schemes. Self-build schemes bring people together to build their own homes. The value of participants' labour gives them equity, which they can then use to secure a mortgage from a financial institution. This allows them to purchase the house and land. The Self-Build program commenced in July 2003 and it is anticipated that up to 70 households will be assisted in the first year of operation;

- a Government Guaranteed Loan Scheme (GGLS) which assists low and moderate-income earners who can afford loan repayments, but who have difficulty in securing home loans from commercial lenders due to strict credit qualifying criteria demanded by mortgage insurers. The security afforded to funds providers by the Government-backed guarantees will facilitate the availability of loans under the GGLS to people in these circumstances. Commencing in March 2003, it is anticipated that up to 800 loans will issue in the first 12-18 months period; and

- a Mortgage Assistance Scheme, which supports people who experience difficulty in meeting their home loan repayments due to unexpected circumstances such as job loss or illness. An interest-free loan helps people meet their loan repayments until their circumstances improve, allowing them to stay in home ownership when they may otherwise have been foreclosed on by their lender. In 2002-03, 166 families were assisted.

In addition, the Department of Housing managed more than 4,265 Government home loans, including around 1,540 under the HomeFund Scheme, at the end of 2002-03.

A full list of Department of Housing products addressing affordability issues in the home ownership market is at Annexure A.

6.2.4 Other measures to reduce the cost of home purchase

The New South Wales Government has initiated other measures through its Office of Fair Trading to help reduce the cost of home purchase and to alleviate difficulties for borrowers. These initiatives include:

6.2.4.1 Reforming Conveyancing Industry

The opening up of competition in the provision of conveyancing services, which has resulted in a reduction in conveyancing costs for consumers.

6.2.4.2 Reforming Finance Broking Industry

Earlier this year the Government introduced the *Consumer Credit Administration Amendment (Finance Brokers) Act 2003*. Among other things, the legislation provides for up-front disclosure of commissions payable by the consumer to finance brokers. It also requires disclosure of any financial or other benefit that a finance broker will receive. These new requirements will help consumers select the best mortgage for their purposes thereby reducing their borrowing costs.

6.2.4.3 Implementation of Comparison Rates for Loans

An amendment to the Uniform Consumer Credit Code, which commenced on 1 July 2003, provides that:

a. a comparison rate must be included in any advertisement for fixed term consumer credit which contains an interest rate; and

b. consumers must be provided with comparison rate schedules – that is, lists of comparison rates for a standard range of loan amounts and terms – by credit providers, finance brokers, and linked suppliers (suppliers of goods and services who refer consumers in need of finance to particular credit provider).

Comparison rates enable consumers to gain a much more accurate idea of what a loan costs than they would from looking at the interest rate only. This helps consumers to make a more informed decision about which loan suits their needs.

6.2.4.4 Reforms to Property Agency Industry

In 2002, the New South Wales Government introduced the *Property, Stock and Business Agents Act 2002.* The new Act contains a range of reforms for the property agency industry to increase consumer confidence and bring greater transparency in the buying and selling of real property, businesses, and livestock. The new Act commenced on 1 September 2003.

One of the key reforms is designed to deter dummy bidding at auctions. Dummy bidding is a form of collusion against genuine bidders that is intended to push prices higher. It acts to inflate prices by creating the impression that there is more interest in the property than actually exists. The use of auctions for home sales is becoming more widespread and the new auction rules will help to ensure that prices are set by a fair and open process.

The new Act also prohibits agents from understating the expected sale price to buyers. This saves inexperienced buyers from unnecessarily incurring costs on legal and building reports when they have little chance of affording the property. The use of understated selling prices is a tactic sometimes used to attract a greater number of persons to auctions thereby creating the appearance of greater interest in the property. It also has the effect of attracting more persons to a property thereby giving the agent the opportunity to pressure inexperienced purchasers into buying the property but at a higher price.

6.2.4.5 Hardship applications under the Uniform Consumer Credit Code

The rise in housing cost has meant an increase in the size of home loans. Under the Uniform Consumer Credit Code a borrower may make a hardship application to the credit provider to have payments suspended or reduced or the term of the loan extended.

The ceiling for hardship applications was initially set at a mortgage value of $125,000 in 1996 when the Code commenced.

In December 2002 the Ministerial Council on Consumer Affairs agreed to a recommendation that the ceiling for hardship applications be increased to be more relevant to current mortgage values. The proposal currently under consideration is that the ceiling be increased to the figure published by the Australian Bureau of Statistics from time to time as the average mortgage for new dwellings in NSW plus 10 percent.

Raising the threshold in this way will retain a monetary limit which will afford protection to the majority of buyers with a standard home loan. It will also provide an appropriate indicator to keep pace with home mortgage values.

Attachments

Annexure A

NSW Government programs to assist in providing affordable housing

Annexure B

Developer charges in NSW

Annexure C

Sydney's residential "rings"

Annexure D

Transfer duties

Annexure A - NSW Government Action to Increase Affordable Housing

LANDCOM

OVERVIEW

Landcom is a state-owned corporation set up under the *Landcom Corporation Act 2001*. Its role is to implement key government urban development objectives.

Landcom was originally set up in 1975 to counter the "boom/bust" cycle typical of residential development on Sydney's fringe. Since its inception, Landcom has delivered over 58,000 home sites to the market. It has also produced over 500 hectares of serviced industrial land.

In recent years, Landcom has moved into urban renewal projects and is has become an industry leader in this field. It has also diversified into more strategic projects, featuring a variety of mixed commercial, industrial, retail and other uses. The corporation is currently moving towards the management of projects which feature outcomes having metropolitan significance (such as the Rouse Hill Regional Centre and Green Square Town Centre).

Part of Landcom's "Five Year Vision" is to become recognised as a national leader in innovation. It has chosen the fields of housing affordability, urban design and environmental sustainability as its fields of excellence.

In addition to delivering industry best practice in these fields, Landcom is a significant force in the residential marketplace. In the 2001-2002 financial year, Landcom released a total of 1,878 home sites and dwellings for sale, up from 1,620 on the previous year. Landcom raised its production levels once again in 2002-2003, delivering a further 1,946 dwellings and home sites onto the market.

Landcom has traditionally been a significant player in the provision of serviced land on the urban fringe of Sydney for new housing. Landcom's natural market share is about 15 percent of the total for Greenfield home site releases.

First home buyers are a component of this market. In order to supply this market, Landcom owns and manages a large landbank, consisting of unserviced, non urban land in a variety of outer metropolitan locations but mainly to the south-west and west of Sydney. An accelerated program of dwelling/home site production is proposed for at least the next three years, in an attempt to address the growth in demand.

INCREASED LAND SUPPLY PROGRAM

Overview

In recent years, Landcom has focused its activities on bringing forward its land holdings for development as quickly and efficiently as possible, while at the same time ensuring that contemporary standards in built form, urban design and environmentally sustainable practices are maintained.

As at June 2003, Landcom's landbank had the potential to accommodate 17,834 home sites. This figure assumes that the typical constraints to development (availability of services, resolution of environmental constraints and the negotiation of required approvals) are capable of being satisfactorily resolved. The figure also includes some 3,000 home sites which are currently in varying stages of development.

Key Deliverables and Timeframe

Landcom plans to release around 5,700 home sites onto the market in fringe locations within the Sydney Region, the Hunter and Illawarra in the three years to 2004-05. These land releases will, over the short term, account for well over 30 percent of Landcom's current landholdings.

The proposed land releases represent a significant increase on the corporation's current (2002-2003) per annum lot production – an increase of 28 percent and 43 percent respectively in the 2003-04 and 2004-05 financial years. This reflects the considerable effort being made by Landcom to respond to housing demand.

INITIATIVES TO ACCELERATE PRODUCTION

Overview

Partnering with the private sector to improve delivery of housing

Landcom often delivers its projects via a variety of joint venture-type arrangements with the private sector in order to increase its ability to deliver better quality outcomes in shorter timeframes.

By way of illustration, approximately 3,000 home sites are currently in the process of being delivered in partnering arrangements with the private sector. Landcom is likely to expand its involvement in partnering initiatives with the private sector in future.

Facilitating private sector supply

In addition to both managing and accelerating the development of home sites within its own holdings, Landcom takes an industry leadership role by pro-actively seeking to facilitate the supply of land for housing on strategic sites where it does not necessarily have a direct interest. It does this by:

- bringing community, State and local government stakeholders together to resolve critical infrastructure and environmental constraints to development (e.g. the Menangle Park Release Area);
- Providing the financial or technical support required to resolve deadlocks to development on behalf of other landowners. For example, in order to facilitate the development of release areas in multiple holdings, Landcom often finances the upfront costs to resolve complex infrastructure, environmental and planning constraints on behalf of all landowners, thereby coordinating the resolution of issues across entire release areas. Landcom may also undertake this work in locations where it has no direct interest or landholding, if the outcome is likely to be of significant benefit to the State; and
- Taking a proactive approach to potential release areas which are in fragmented ownership by building stakeholder relationships and by facilitating landowner negotiations in order to promote site consolidation. These areas tend to be perceived by the private sector as being either uneconomic or too difficult to consolidate into developable precincts (e.g. the proposed Riverstone Release Area).

Rationale

Through the above initiatives, Landcom is helping to facilitate the release of over 60,000 new lots over the longer term, either in its own right, in partnership with the development industry or by assisting other land owners.

LANDCOM'S MODERATE INCOME HOUSING INITIATIVES

Overview

In 2001, Landcom adopted a Moderate Income Housing Policy. The Policy requires that moderate income housing be included in all Landcom projects, as part of a range of housing choice available to the market, wherever commercially viable. Landcom has adopted as its target the provision of a minimum of 5 percent of yield in its developments as affordable housing by 2007-2008.

Project delivery

Landcom is currently completing a moderate income housing demonstration project in its Forest Glade Estate at Parklea, where 13 out of a total of 63 house and land packages have been made available specifically for moderate income households (a yield of 20 percent).

These "smart houses" incorporate the latest environmentally sustainable principles, showcase a number of innovative and low cost construction techniques and demonstrate a range of flexible layouts, some providing for the houses to expand as families grow. The Forest Glade Estate project has benefited from strong local government support.

In addition, Landcom and its private sector partner, Mirvac, have, during 2002-2003, released the first group of house and land packages targeted specifically at moderate income households within Landcom's Newbury Estate in Sydney's north-west. Landcom is also making provision for moderate income housing within a number of future Landcom developments which are currently in the planning stage (e.g. Greenway Park Release Area – Stage 3).

Research initiatives

Landcom has commissioned a number of independent studies to better understand the size of the moderate income housing market and to investigate alternative delivery models in the provision of more affordable housing. The studies provide the basis for increased innovation in house construction and design and help to ensure that the type of moderate income housing Landcom promotes will continue to meet the needs of end users.

Promotional Activities

Landcom sponsors and participates in a range of promotional activities designed to raise awareness of market opportunities, share ideas and promote discussion on the issues surrounding moderate income housing.

Landcom is also a standing member of the Joint Industry Housing Group, a private sector-led group of industry representatives that seeks to explore the development of public and private solutions to address the issue of affordable housing. With Landcom's assistance, the Joint Industry Housing Group prepared and released a “Moderate Income Housing Toolkit” in 2003. The Toolkit provides a comprehensive overview of the issue for builders and developers and presents practical guidelines and models for the delivery of moderate income housing.

Moderate Income Housing Finance Initiatives

Landcom is in the process of engaging a moderate income housing “finance partner” to work with it in assisting moderate income households to enter the housing market.

This will involve the development and implementation of finance products that are specifically targeted to moderate income homebuyers.

In addition, Landcom regularly engages in discussions with its private sector partners with a view to developing creative financing options designed to assist moderate income households interested in purchasing within new release areas.

For example, in the Greenway Park (Stage 3) release, Landcom and Australand, (the private sector partner for this project) are jointly developing a “shared equity” product for the project, aimed specifically at assisting the moderate income purchaser to enter the housing market.

Rationale

Landcom’s moderate income housing initiatives are market-driven and aim for a measurable increase in the number of homes available to moderate income households and, at the same time, promote initiatives which increase the financing capacity of such households. In the promotion of Landcom’s initiatives, strong emphasis is given to the currently unexploited opportunities which are available for any provider willing to invest in this market sector.

PLANNING AND DEVELOPMENT

URBAN CONSOLIDATION

Overview

The policy context for urban consolidation set out in *Shaping Our Cities* sets the broad strategic framework for managing Sydney's growth. It includes housing a proportion of the growing population through urban consolidation and renewal.

State Environmental Planning Policy 32 - Urban Consolidation (Redevelopment of Urban Land) provides the mechanism for agencies and authorities to identify land that is suitable for more compact forms of urban development. Land that is no longer needed for its current purpose and is close to public transport can be zoned or classified to allow higher density development.

State Environmental Planning Policy 53 - Metropolitan Residential Development requires Councils in the Greater Metropolitan Region to prepare a residential development strategy that addresses the housing needs of the local population and contributes to the metropolitan objective of urban consolidation.

Rationale

The location of additional housing in established urban areas where public infrastructure, transport and community facilities exist increases opportunities for people to live in more affordable housing in localities which are close to employment, leisure and other facilities.

The policies allow for the redevelopment, in a timely manner, of urban land that is suitable for multi-unit housing. This provides for affordable housing to be purchased in all areas within the Greater Metropolitan Region.

Key Deliverables

Of all the major Australian cities Sydney now relies least on fringe growth for new housing – since the late 1970s the proportion of new housing being provided on the fringe fell from 42 percent to 27 percent in 2002. This proportion is forecast to be about 25 percent over the next five years.

Of the 100,000 dwellings completed in the last five years in established areas, 86 percent were multi-unit. About 50 percent of new development approvals were for multi-unit housing over the last five years.

URBAN RENEWAL

Overview

The renewal of major urban centres forms a component of the New South Wales Government strategy for urban consolidation and housing choice. The centres contain large sites where high residential densities are being achieved. Many of these areas have substantial dwelling capacity and will be able continue to produce multi-unit dwellings over the medium to long term.

The City West redevelopment area comprises the precincts of Ultimo, Pyrmont, The Bays, Central and Eveleigh. These areas have been the focus of urban renewal in the last 10 years. The revitalisation of the area has focused on creating a mixed use, high density and medium rise precinct. It is estimated that 7,500 new dwellings will be constructed over the 20 year redevelopment period.

The South Sydney Development Corporation was created by the New South Wales Government to manage the development of the Green Square redevelopment precinct. Landcom is facilitating urban regeneration to provide commercial developments, residential dwellings, community facilities and public open space. To date, 3,000 dwellings have been completed or are under construction.

The renewal of the Rhodes Peninsula is part of a major new plan to revitalise 43 hectares of former waterfront industrial land in Sydney's inner-west. The precinct will provide office and retail development and more than 3,000 dwellings.

Rationale

The renewal of major metropolitan precincts provides a choice of housing closer to public transport and jobs. This reduces pressure to release land on the urban fringe and provides for affordable housing in all areas within in the Greater Metropolitan Region.

Key Deliverables

The inner and middle ring suburbs have taken the increasing share of housing in the last five years. Of the 136,000 dwellings which have been constructed in the last five years in the Sydney Region, 52,000 (39 percent) were in centres and 48,000 (35 percent) were infill developments.

Timetable

A preliminary dwelling forecast for the next 10 years for some of the other key areas of urban renewal in Sydney are : Sydney CBD – 9,600 dwellings; Wolli Creek – 7,000 dwellings; and Canada Bay LGA (number of major sites) – 6,000 dwellings.

NORTH WEST AND SOUTH WEST URBAN RELEASE AREAS

Overview

The Managing Sydney's Urban Growth program includes a range of initiatives to release land and increase the efficiency of the planning system. The program manages housing supply in greenfield developments on the metropolitan fringe to ensure a steady supply of land. Bringelly in the south-west area and Marsden Park in the north-west area have been identified as Investigation Areas, as well as fast track actions for short term supply.

The Fast Track program has included the release of:

- Colebee (Medallist) on 22 October 2002 - 1,000 lots.
- Harrington Park Stage 2 on 9 August 2002 - 1,000 lots.
- Glenmore Park Stage 2 on 9 July 2003 - 1,000 to 1,300 lots.

Also, the rezoning or approval of:

- The first development precinct of ADI, approved on 16 June 2003 - 1,900 lots and 30 hectares of employment lands.
- Glenfield Road, rezoned on 28 February 2003 - 1,000 lots.

Rationale

To ensure a steady land supply in the short, medium and long term. This land release program will allow the New South Wales Government to meet current and projected demand in these areas for at least the next twenty years. This will place downward pressure on prices in these areas and Sydney generally.

Key Deliverables

This land release program is projected to yield:

- A range of housing choices for first and subsequent home buyers;
- An average density of at least 15 dwellings per hectare which will help relieve current and future pressure for dwellings;
- 31,300 new dwellings in the next five years; and
- Reduction in planning approvals times of several years in release areas.

Timetable

This is a proposed twenty to thirty year program for both release areas.
Stage 1 – 90,000 lots South-West – First lots produced 2008, 20 -30 year program.
Stage 2 – 60,000 lots Marsden Park – Commence 2006, on going for 20 years.

METROPOLITAN STRATEGY FOR SYDNEY

Overview

A strategy is being developed for the Greater Metropolitan Region of Sydney, which will be used to better inform Government decisions on infrastructure investment and spatial planning. It will incorporate strategic planning for landuse, transport and key infrastructure systems.

Rationale

The preparation of a strategy will be critical in guiding the future development of the metropolitan region and ensuring that the outcomes are delivered across key agencies in a coordinated manner. The strategy will set out clear governance and implementation mechanisms. Housing supply, choice and affordability will form a major component of the strategy. Emphasis will also be given to demand management, environmental capacity, land use options, housing choice and infrastructure demands and funding.

Key Deliverables

A Metropolitan Strategy to inform policy making and provide a blueprint for the future direction of the Greater Metropolitan Region of Sydney.

LOCAL GOVERNMENT HOUSING INITATIVES PROGRAM

Overview

The Local Government Housing Initiatives Program (LGHIP) is an ongoing program established in 1994 that provides funding on an annual basis to enable councils and other local government organisations to undertake specific housing research and strategic policy development. It also funds a housing policy officer position within the Local Government & Shires Association to assist councils in providing a range of housing information and initiatives. It is a unique program in Australia as it is the only state-funded program for local government to conduct housing research.

The program is currently providing for the development of a Regional Housing Strategy for two regions, inner-east and Manly/Warringah. The strategies are focusing on providing housing choice and affordability within those regions.

Rationale

This program facilitates knowledge at the local government level on housing access and affordability issues. Central to developing this knowledge base is local government bodies understanding the existing and future needs of their locality. This program provides an opportunity to identify redevelopment potential and growth areas in well serviced and accessible locations.

Key Deliverables

- Promote greater awareness and participation by local government in assessing and monitoring local housing demand and supply in the promotion of affordable and appropriate housing.
- Provide a better understanding of local housing needs and the potential role of local government in responding to those needs.
- Facilitate an inter-sectoral approach to residential planning and provision at the local level.
- Develop planning initiatives which are responsive to local housing needs and consistent with key state planning policies and directions.

Timetable

This is an ongoing program which forms part of the New South Wales Government's approach to providing and retaining affordable housing within the Greater Metropolitan Region of Sydney.

URBAN IMPROVEMENT PROGRAM

Overview

The Urban Improvement Program (UIP) is working with local councils to revitalise key urban places across Sydney. The program aims to provide more attractive places for people to live, work, and visit. The program was developed by the State Government to assist councils to develop local strategies to support the Government's metropolitan planning goals for the region.

The program provides partnership grants for local councils to invest in urban renewal projects. The funding grants are for minor capital works, strategies or studies in areas where the benefits of urban regeneration can be realised through coordinated State Government, council and private investment. The focus of projects and funding grants has been on neighbourhoods which adjoin highly accessible centres.

Projects have included:

- Kogarah Town Centre – a new town for the St George community that features new residential development, and options for solar energy and transport.
- Revesby Urban Village - residential units within walking distance of the station and improvements to town centre amenities.
- Botany South - new strategies for the successful co-location of residential and industrial property.

Rationale

The program helps to develop innovative projects that demonstrate best practise for managing the pressures of urban development and change. The projects focus on improving accessibility to housing and employment and increasing housing choice in existing areas.

Key Deliverables

- Create attractive neighbourhoods with well maintained infrastructure and a strong local identity.
- Provide opportunities for people to live in centres with easy and safe access to public transport.
- Increase the choice and affordability of housing close to public transport.
- Build quality public spaces for recreation, culture and leisure.
- Promote partnerships and collaborations that foster creative problem solving.

Timetable

This is a four year program that is due to conclude at the end of 2003.

AFFORDABLE HOUSING INCLUSIONARY ZONING SCHEMES

Overview

Inclusionary zoning schemes have been introduced in three localities within Sydney, to provide affordable housing opportunities in new developments. The inclusionary zoning mechanism requires particular sites within an area or zone, or particular forms of development, to allocate a proportion of that development as affordable housing. The affordable housing is either provided on site or by way of an in lieu monetary contribution to a housing fund.

Sydney Regional Environmental Plan 26 – City West (REP) includes an inclusionary zoning mechanism providing that all new commercial and residential development in City West at Ultimo – Pyrmont contribute to the provision of affordable housing.

South Sydney Council's LEP 1998 (Amendment No.6) - Green Square and *Affordable Housing DCP (1999)* sets amount the amount of affordable housing to be provided in the Green Square redevelopment area as 3 percent of the total floor area of a residential development and 1 percent of the total floor area of a non residential development.

Willoughby City Council Local Environmental Plan 1995 was amended in 1998 to establish the statutory requirement for 4 percent of total floor space in new residential development within identified local housing precincts to be provided as affordable housing.

Rationale

Inclusionary zoning mechanisms aim to provide housing choice in areas of redevelopment to accommodate a range of income groups. It assists in the promotion of socially diverse communities, specifically through the provision of housing to people on low to moderate incomes. In areas undergoing significant redevelopment such as Green Square and City West, inclusionary zoning schemes ensure that low to moderate income households can continue to live in the locality.

Key Deliverables

- To encourage a variety of housing including affordable housing, to accommodate a range of income groups close to employment and services.
- To ensure that low to moderate income households can live in the localities by requiring development to provide an appropriate proportion of affordable housing

Timetable

In City West, 340 affordable units have been built to date and it expected that over 400 units will be constructed in Green Square.

AFFORDABLE HOUSING DENSITY BONUS SCHEMES

Overview

Waverley Council undertook an Affordable Housing Study in 1996, with funding from the Local Government Housing Initiatives Program (LGHIP), to assess the demand for affordable housing and identify mechanisms to promote and retain affordable housing. Waverley Council adopted a density bonus scheme which offers a bonus to developers who provide affordable housing as part of their residential development.

The density bonus mechanism is defined through Council's planning instruments – the Local Environmental Plan and a Development Control Plan. Developers may increase the floor space ratio, develop a larger building envelope or do a combination of the two. A bonus is offered only to projects where the increased density has minimal environmental impact on the surrounding development. If the developer accepts the density bonus some of the additional units must be affordable housing.

This mechanism has been used to target small or large redevelopment sites. Larger density bonuses and sites with higher land values provide opportunities for a higher return in affordable housing. The affordable housing units are provided in perpetuity or for a specified duration, rent-capped at a level below market rent.

Rationale

Waverley Local Government Area over the last five years has experienced a significant decline in accommodation that can be affordably purchased and affordably rented. The Affordable Housing Program was introduced to maintain and create housing opportunities for all sections of the community and maintain a social housing mix. The units are targeted at existing residents who are in housing stress and currently can not afford to purchase their own property.

Key Deliverables

- To provide affordable housing for local households on low to moderate incomes.
- To deliver affordable housing within private residential developments to maintain the socio-economic mix of the community.
- 30 affordable housing units have been approved to date in exchange for density bonuses.

RETENTION OF LOW COST RENTAL ACCOMMODATION

Overview

The New South Wales Government aims to largely retain existing stocks of low cost housing within the Greater Metropolitan Region. Low cost rental accommodation is under increasing pressure for redevelopment or conversion into more expensive forms of accommodation.

State Environmental Planning Policy 10 – Retention of Low-Cost Rental Accommodation is directed at the retention of existing low cost stock of boarding houses, hostels and low cost residential flat buildings. The policy requires that consideration be given to the effect of proposed developments on levels of low cost stocks and whether there is sufficient low cost accommodation to satisfy demand.

The New South Wales Government has a number of initiatives in place which also assist in the retention of low cost rental accommodation. Exemption from land tax is available for boarding house accommodation and low cost accommodation within the inner city area of Sydney. Financial assistance for essential upgrading is offered to boarding houses providing affordable accommodation to permanent residents.

Rationale

The policy aims to retain affordable rental accommodation in all areas within the Greater Metropolitan Region and is an essential component of providing housing choice.

Rental accommodation is an essential component of housing affordability for many people. It provides a form of accommodation for those who currently can not afford to purchase their own property.

Key Deliverables

- Retention of existing low cost rental accommodation.
- Provide a pathway towards home ownership.

IMPROVED PLANNING SYSTEM

Overview

"planFIRST" was announced in 2001 to modernise the NSW plan making system to deliver better outcomes and sustainable development in NSW. The planFIRST reforms focused on changing the strategic planning system in NSW, so that it better reflected the strategic direction and vision of regions and their communities.

Since that time work has progressed on reviewing existing State Environmental Planning Policies and Ministerial Directions, scoping major issues in certain regions, refining the single local plan concept and developing options for electronic delivery of integrated planning information.

A review of planFIRST was undertaken in August 2003 to investigate the proposed reforms under planFIRST and to advise on any changes which may be necessary following the reorganisation of the State planning and natural resource agencies in March 2003.

Rationale

An improvement in the planning and development system has a twofold impact on the supply and cost of housing. Simplifying the planning and approvals system will improve the efficiency of the system and reduce the time taken for approval process. This will reduce the time taken for new housing developments and the costs incurred in the development process.

Key Deliverables

- Embed a holistic approach to policy making that balances and integrates economic, social and environmental issues - rather than dealing separately with specific issues or 'land use' and development control issues.
- Integrate principles of community collaboration and sustainability in the planning system.
- Provide a regional context and a single local plan for each local government area.
- Improve collaboration between State and local government, industry and communities.
- Facilitate better use of information technology to provide planning information and communicate with and inform stakeholders.

Timetable

The planFIRST Review Taskforce completed the review in August 2003. The recommendations are currently being considered by Government.

REVIEW OF SECTION 94 CONTRIBUTIONS AND DEVELOPMENT LEVIES

Overview

Section 94 of the *Environmental Planning and Assessment Act 1979* enables local councils to levy developer contributions for public services and amenities.

A review has been announced to assess the impact of Section 94 levies. The review is seeking to determine the types of infrastructure being provided through Section 94, the timing of delivery of the infrastructure and the need to keep contributions within an overall context of housing affordability.

Rationale

The review will examine the existing system and identify ways in which it could be more transparent and ensure the levies directly benefit the community through local infrastructure provision. The review specifically is also seeking to examine the impact of Section 94 levies and developer charges on housing costs and affordability.

Key Deliverables

A report on whether the Government should retain the existing system of Section 94 contributions, either in whole or in part.

Timetable

It is anticipated that a final report will be produced by February 2004.

STATE PLANNING POLICIES REVIEW TASKFORCE

Overview

Presently there are over 90 State Environmental Planning Policies (SEPPs), Ministerial Directions and circulars in existence. A review of the existing policies began with the introduction of the planFIRST reforms. Following changes to the planning ministry in early 2003, a Taskforce has been set up to review and rationalise the existing policies.

In consultation with other State agencies the Taskforce is seeking to consolidate the existing policies. It will form part of an overarching policy framework on issues that affect the State – economic development, natural resources, community and social development, infrastructure and service provision.

Rationale

To identify a clear strategic direction for planning across the State. The simplification of the strategic planning system will improve land use planning in NSW at a State, regional and local level. The new strategic framework will be applied through the preparation and implementation of policies identified in regional strategies and local plans. Simplifying the planning system has the overall effect of increasing efficiencies and reducing time taken in the planning and assessment processes.

Key Deliverables

Rationalisation of existing State policies into a clear, strategic framework which will guide regional and local planning.

Timetable

It is anticipated that the State Planning Policies Taskforce will complete the review of existing State policies by December 2003.

LOCAL DEVELOPMENT TASKFORCE REVIEW

Overview

The NSW Department of Infrastructure, Planning and Natural Resources has established a Taskforce to investigate local development under part 4 of the *Environmental Planning and Assessment Act 1979*. The Taskforce comprises Government and industry representatives and a range of industry groups will be invited to participate.

The Taskforce will investigate and report on the development assessment and decision making process for local government and whether it can be improved. It will also examine the system of exempt and complying development and ways to reduce red tape and improve services to the community and developers.

Rationale

An improvement in the planning and development system has a twofold impact on the supply and cost of housing. Simplifying the planning and approvals system will increase efficiencies and reduce the time taken for approval process. This will improve the time taken for new housing developments and reduce the upfront costs incurred in the development process.

Key Deliverables

A report on the development, assessment and decision making process for local development under the *Environmental Planning and Assessment Act 1979*

Timetable

It is anticipated that the Local Development Taskforce will complete its review of the local development process by the end of the year.

DEPARTMENT OF HOUSING

SELF-BUILD GRANT PROGRAM

Overview

The Centre for Affordable Housing offers grants through the Self-Build Grant Program to assist sponsor organisations in conducting group self-build schemes. Self-build schemes are designed to help people who can afford to pay a mortgage but can't raise a deposit, to enter home ownership.

Rationale

Self-build schemes bring people together to build their own homes. The value of participants' labour gives them equity, which they can then use to secure a mortgage from a financial institution. This allows them to purchase the house and land.

The Centre for Affordable Housing is providing grants to sponsor organisations to assist them with the costs of implementing self-build schemes. Self-build grants can be used for administration and management costs, bridging finance interest payments, building supervisor costs, advertising and so on.

Key Deliverables

Grants of around $50,000 will be available to four or five sponsor organisations. This will enable between 50 to 60 households in NSW to enter home ownership.

Timetable

The Centre for Affordable Housing advertised for expressions of interest for the Self-Build Grant Program in July this year. Applications closed on 12 September 2003 and it is anticipated that successful applicants will be announced in November. Self-build schemes funded under the Grant Program should be underway early in 2004.

GOVERNMENT GUARANTEED LOAN SCHEME (GGLS)

Overview

The New South Wales Government is increasing the availability of home loans to low and moderate income earners by issuing guarantees to private sector funds providers for funding loans under the GGLS.

Rationale

Sometimes, even when they can clearly afford the repayments, low and moderate income earners have difficulty in securing home loans from commercial lenders due to strict credit qualifying criteria demanded by mortgage insurers. The security afforded to funds providers by the government-backed guarantees will facilitate the availability of loans under the GGLS to people in these circumstances.

Key Deliverables

The expansion in March 2003 of the GGLS by the issue of new guarantees of up to $75 million is expected to provide around 800 new home loans to assist low and moderate earners into home ownership.

Under the conditions of GGLS lending, at least 25 percent (200 loans) will be available to people who meet public housing eligibility criteria.

Timetable

The GGLS is an ongoing program. Lending under the expanded GGLS commenced in March 2003 and it is expected that the projected 800 loans will issue in the first 12 to 18 months of lending.

SHARED HOME OWNERSHIP SCHEME

Overview

The New South Wales Government is increasing the opportunity for public housing tenants to enter home ownership by introducing a shared equity scheme whereby tenants will be able to purchase a share of the Department of Housing property in which they live.

Rationale

Low income households face increasing challenges in achieving home ownership. Often households will have adequate income to service a home loan but cannot borrow enough money to purchase a home outright. The ability to purchase a share of the property they live in will give public housing tenants the opportunity to become home owners with a smaller and therefore more manageable home loan.

Key Deliverables

It is projected that the Shared Home Ownership Scheme will assist up to 300 tenants into home ownership in its first year of operation.

Timetable

Implementation of the Shared Home Ownership Scheme is expected to occur in 2004.

MORTGAGE ASSISTANCE SCHEME

Overview

The New South Wales Government is helping families to remain in home ownership through difficult times by providing relief to them under the Mortgage Assistance Scheme.

Rationale

From time to time people will experience difficulty in meeting their home loan repayments due to unexpected circumstances such as job loss or illness. The availability of assistance under the Scheme by way of an interest-free loan to help people meet their loan repayments until their circumstances improve will allow them to stay in home ownership when they may otherwise have been foreclosed on by their lender.

Key Deliverables

In 2002-03 166 families were assisted with funds totalling $657,000. It is projected that the $1 million of funds available for assistance in 2003-04 will help up to 200 families remain in home ownership.

Timetable

The Mortgage Assistance Scheme is an ongoing program.

SALES TO PUBLIC HOUSING TENANTS

Overview

The New South Wales Government is providing opportunities for public housing tenants to move into home ownership through a program of sales to tenants, which is conducted by the Department of Housing.

Public housing tenants may apply to the Department to buy the home they are living in. The properties are sold for market value and tenants must obtain their own finance.

Rationale

The financial circumstances of some public housing tenants improve over the course of their tenure to the point where they are able to afford to move into home ownership. The Department's Sales of Homes to Tenants Program has the capacity to make this transition to home ownership easier for such tenants.

The opportunity for tenants to purchase the home in which they live reduces the cost of home purchase by eliminating relocation and re-establishment costs while at the same time allowing tenants to maintain a connection to their property and their community. Tenants must obtain their own finance but are exempt from paying Stamp Duty on the purchase.

When deciding on the sale of a property the Department considers the property's future utility as a public housing dwelling and its requirement for any future redevelopment. The Department will generally sell properties that are affordable to tenants and that no longer suit the demand in the area. It will also sell properties that are in areas of high concentration of social housing or are being subdivided as part of a community regeneration strategy. Properties must be separately titled.

Key Deliverables

- Based on proposed sales targets, sales to tenants of between 175 to 200 homes are projected for 2003-04.
- Sale proceeds are reinvested into the Department's housing assistance program.

Timetable

The Department's Sales of Homes to Tenants Program is an ongoing program and sales are dependent upon tenant demand and availability of saleable properties.

CENTRE FOR AFFORDABLE HOUSING DEMONSTRATION PROJECTS

Overview

The Centre for Affordable Housing has a demonstration project program aimed at encouraging broader participation in affordable housing provision.

Rationale

There is a need for long-term rental accommodation that is affordable to low-to-moderate income households in many parts of NSW. The private, not-for-profit and local government sectors could be playing a greater role in providing such accommodation. The Centre for Affordable Housing is working to identify barriers to participation in such provision and to demonstrate via real sites the viability of affordable housing provision. For example, one barrier already identified is the perception by local government that a small portfolio of affordable housing always requires an ongoing financial subsidy.

Key Deliverables

Two demonstration projects have commenced:

- two sites in Sydney’s inner-west, which have the dual benefit of housing 12 families and also demonstrating the financial viability of a small portfolio; and
- two sites in Sydney’s outer ring, in which existing sites are being redeveloped as public/affordable housing. These will also house 12 families.

Further projects are being planned.

Timetable

The inner-west sites will commence operation in late 2003. The outer ring sites will commence operation in late 2004.

TENANCY GUARANTEE PILOT PROJECT

Overview

A Tenancy Guarantee provides up to $1,000 (including GST) in compensation to landlords/agents over and above the rental bond for rent arrears and property damage should it be necessary after the bond has been fully expended. The Tenancy Guarantee is available for 12 months after the start of the tenancy or until the tenancy is terminated, whichever occurs sooner. Successful applicants must agree to pay back any money expended from the Tenancy Guarantee to the NSW Department of Housing.

Rationale

The Tenancy Guarantee was developed in response to concerns that some people who seem able to afford and sustain a private sector tenancy are unable to secure one. This could be due to a number of reasons, including the lack of a tenancy history and references or discrimination in the private rental market. The Tenancy Guarantee addresses this by providing a level of protection for landlords/agents in addition to the rental bond.

Key Deliverables

Tenancy guarantees are administered by issuing agencies. A total of 325 Tenancy Guarantees have been allocated for availability to clients in the following areas:

Issuing Agency	Area	Number of Guarantees
Hume Community Housing Association	South-West Sydney	100
Wentworth Area Community Housing	Western Sydney and Lower Blue Mountains	100
Shoalhaven Community Housing Scheme	Nowra and Shoalhaven area	50
Sapphire Coast Tenancy Scheme	Bega and South Coast area	25
Community Housing Mid North Coast	Mid-North Coast	50

A further 25 Tenancy Guarantees are yet to be allocated.

Timetable

A pilot commenced on 30 June 2003 and will operate for two years, until 30 June 2005, in the following stages:

- 6 or 12 month Tenancy Guarantees will be issued in the first and second six-month period;
- remaining Tenancy Guarantees will all expire in the third six-month period; and
- the pilot will be formally evaluated in the fourth six-month period.

RENTSTART

Overview

The New South Wales Government recognises that the cost of establishing a tenancy in the private rental market can be prohibitive for people on low incomes. By providing assistance to maintain a tenancy or to rent temporary accommodation, many private renters are able to sustain their tenancies and avoid homelessness. The Department of Housing offers this type of assistance through the Rentstart program.

Rationale

NSW has some of the highest cost rental markets in Australia. This prevents many low-income earners from being housed affordably, including many recipients of Commonwealth Rent Assistance.

The Department's Rentstart program provides a range of monetary aid to help people enter or survive in the private rental market by:

- Assisting eligible clients to establish or keep a sustainable tenancy; or
- Providing quick financial help to clients in need, particularly those facing homelessness.

People in severe financial and housing circumstances may be eligible for the Rentstart Plus program. This provides them with:

- Up to full bond;
- Up to 2 weeks advance rent (3 weeks for furnished accommodation);
- Up to 4 weeks rent arrears; or
- Up to 4 weeks rent in temporary accommodation.

Key Deliverables

During 2002-2003 under the Rentstart program:

- $23.59 million was expended;
- 36,544 households received assistance;
- 27,436 households received bond assistance;
- 12,364 advance rent applications were approved; and
- 2,372 renters received assistance for rent arrears.

Timetable

This is an annual program with a budget of $25.8 million for the 2003-04 year.

SPECIAL ASSISTANCE SUBSIDY

Overview

The New South Wales Government recognises that some special needs groups with low incomes cannot afford the cost of establishing or maintaining a tenancy in the private rental market. The Department of Housing provides financial assistance for these people to secure and maintain a home through the provision of subsidies called 'Special Assistance Subsidies'. This program is targeted at people living with either HIV/AIDS (Special Assistance Subsidy–Special) or a physical disability (Special Assistance Subsidy–Disability).

Rationale

NSW has some of the highest cost rental markets in Australia, which prevents many low-income people with special housing needs from being housed affordably, even with Commonwealth Rent Assistance.

Low income people living with a physical disability or HIV/AIDS sometimes require special accommodation that is in short supply and that cannot be immediately provided by the Department. In some cases the lack of appropriate public housing means that they may have to wait much longer than other clients for a suitable home to become available. To prevent these people becoming homeless, the Department subsidises their accommodation so that they only pay the same rent as other public tenants.

To be eligible for the Special Assistance Subsidy clients must first be approved by the Department for priority housing.

Key Deliverables

The Special Assistance Subsidy assisted a total of 1,779 clients during 2002-03 with $10.38 million being spent for that period. This comprises:

- 1,119 subsidies to people with a disability at a cost of $5.88 million for the 2002-03 year; and
- 660 subsidies to people with HIV/AIDS, at a cost of $4.5 million.

Timetable

This is an annual program and has a budget of $10.9 million for 2003-04. It is estimated this will assist 1,700 households.

Annexure B - Developer Charges in NSW

STANDARD CHARGES

Headworks charges

Headworks charges are levied by utility companies to meet the cost of providing extensions to infrastructure in order to ensure that new developments receive essential water and energy supplies.

Section 94 Charges

Section 94 charges are levied by local councils to cover the demand for local services created by population growth. These charges are assessed on the basis of land and service costs within a locality.

The NSW Department of Infrastructure, Planning and Natural Resources provides detailed guidelines to assist Local Government with the application of charges and determines the criteria against which charges should be set. Developers have a right of appeal if they feel that the charges levied are not equitable.

Section 94 charges are currently being reviewed.

Integrated Development Referral / Concurrence fees

A flat rate $250 fee was introduced to ensure that issues that could halt delay or prevent development are cleared as part of the Development Agreement (DA) process. For example, in the past a developer could have a DA signed off by the consent authority and then discover that other agencies (e.g. the Heritage Council) objected to the development. This fee is a charge for approval or advice from Government agencies where there are environmental, heritage or other issues that require their input. It is a nominal fee that partially recovers the cost for agencies and reduces both risk and red tape for developers.

Development Assessment (DA) Fees

DA fees are levied by the consent authority and are set on a sliding scale relative to the value of the development. The fees are regulated by the *Environmental Planning and Assessment Act*. The fees are capped at $115 for housing with construction costs of under $100,000 and set on a sliding scale thereafter.

planFIRST Strategic Planning Fee

This fee is currently under review, as part of the overall planFIRST review process.

The fee of 0.064 cents in the dollar on all NSW development applications worth over $50,000 has been payable from 1 November 2002. Councils retain $5 for every DA that attracts the strategic planning fee. The fee will provide direct support for councils to help them prepare new local plans. The NSW Department of Infrastructure, Planning and Natural Resources will use the remaining funds raised from the fee to progress reforms, give additional support to councils and monitor the planning system as planFIRST is implemented. There is a clear link between better strategic planning and a more effective and efficient development assessment process.

Small developments will not attract the fee. These include complying development and other development not involving erection of a building, major building work, demolition, changes of uses, or land or strata subdivisions. The Government has structured the fee in an equitable manner to exempt home renovators and those who need only limited access to council resources.

Rezoning Fees

Rezoning fees are set by local councils and are dependant on the size and nature of a development. They aim to recover costs incurred when providing detailed studies (e.g. Local Environmental Studies). They only apply where such studies are required.

OCCASIONAL CHARGES

SEPP 65 Levy

This is a flat fee levy of $600 for development applications for residential apartment buildings that are referred to a design review panel. The fee covers the costs of panellists and applies to development applications in respect of residential apartment buildings of three or more storeys and four or more self contained dwelling units where a design review panel exists. Currently, there are only three panels which have been officially appointed by the Minister.

Rouse Hill RTA Levy

This is a $2,000 per lot levy for the extension of major roads. This charge applies to the Rouse Hill area only and was negotiated by the RTA to take account of the large-scale road investment required in this area to service the new development.

Interim Transport Levy

This levy is to apply to only four new release areas - Elderslie and Spring Farm in the South West and Second Ponds Creek and Balmoral Road in the north-west. It will meet part of the cost of part of the total infrastructure transport demand.

Annexure C -Sydney Residential 'Rings'

LOCAL GOVERNMENT AREAS WITHIN THE THREE "RINGS" OF THE SYDNEY REGION

Inner Ring	Middle Ring	Outer Ring
Ashfield	Auburn	Baulkham Hills
Botany Bay	Bankstown	Blacktown
Lane Cove	Burwood	Blacktown - North
Leichhardt	Canterbury	Blacktown – South-East
Mosman	Canada Bay - Concord	Blacktown – South-West
Marrickville	Canada Bay - Drummoyne	Blue Mountains
North Sydney	Hunters Hill	Camden
Randwick	Hurstville	Campbelltown
Sydney	Kogarah	Fairfield
South Sydney	Ku-ring-gai	Gosford
Sydney & South Sydney	Manly	Hawkesbury
Waverley	Parramatta	Holroyd
Woollahra	Rockdale	Hornsby
	Ryde	Liverpool
	Strathfield	Penrith
	Willoughby	Pittwater
		Pittwater & Warringah
		Sutherland
		Sutherland - East
		Sutherland - West
		Warringah
		Wollondilly
		Wyong

As defined by the Metropolitan and Housing Policy Branch, NSW Department of Infrastructure, Planning and Natural Resources.

Annexure D - Transfer and Mortgage Stamp Duties

TRANSFER DUTY

Transfer duty (previously known as contracts and conveyances duty) is imposed on the transfer of real property. Duty is payable by the purchaser based on the sale or market price of the property. The duty is a transaction-based tax – it is only payable when a transfer of ownership occurs.

All State Governments levy conveyancing duty in a broadly similar fashion. All transfers of land are subject to taxation. There are no tax-free thresholds.

The current NSW transfer duty scale is shown in the table below. These marginal rates have applied since 1986. Marginal rates apply only to that part of property value above the defined threshold. Therefore, average tax rates are lower than marginal rates.

NSW Transfer Duty – Marginal Rates

Value of Property	Marginal Rate
$0 - $14,000	1.25 percent
$14,001 - $30,000	$175 + 1.5 percent
$30,001 - $80,000	$415 + 1.75 percent
$80,001 - $300,000	$1,290 + 3.5 percent
$300,001 - $1,000,000	$8,990 + 4.5 percent
Over $1,000,001	$40,490 + 5.5 percent

Mortgage duty (formerly known as loan security duty) is levied on the value of loans secured by property (eg, land, shares, units in unit trusts, government debt securities). Duty attaches to an instrument or document (loans secured against property), rather than a transaction (borrowing money in whatever form). All jurisdictions except the Northern Territory and the ACT currently levy mortgage duty (although Victoria is to abolish the duty from 1 July 2004).

In NSW a duty of $5 applies on secured loans of $0-$16,000. Loans greater than $16,000 attract a duty of $5 plus a further $4 for every $1,000, or part, by which the amount secured exceeds $16,000.