

**DRAFT**

SUBMISSION

on

# **Housing Affordability Fund**

Consultation Paper

July 2008

by

Western Australian Local Government Association



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## INTRODUCTION

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Affordable home ownership has been a traditional pillar of Australian society. The vast majority of Australian households either own their own home or are paying it off. Australia. Home ownership rates have been higher in Australia than in many other affluent countries. Home ownership is about more than just financial security, it provides a sense of security (both physical and emotional). The Productivity Commission (2004:p3) suggested that home ownership provided:

*"a foundation for family and social stability, and contributes to improved health and educational outcomes and a productive workforce. Thus it enhances both economic performance and 'social capital'."*<sup>1</sup>

Recent studies on housing affordability have all concluded that housing affordability has deteriorated over the past decade. Findings from the Australian Housing and Urban Research Institute (2007: p 1) are outlined below.

- *Housing affordability is a widespread problem.*
- *Housing affordability is a structural problem.*
- *Causes of affordability problems are complex and diverse. Major driving factors can be found both within the housing system and beyond it.*
- *Housing affordability problems are predicted to increase in the first half of the 21st century as a result of anticipated demographic and housing market changes.*
- *Affordability problems have specific spatial and cyclical dimensions.*
- *Households most at risk of facing the multiple problems that arise from a lack of affordable housing are lower-income households in the private rental market.*
- *Housing markets have failed to provide an adequate supply of affordable housing for lower-income households.*
- *Individual households experience and address housing affordability problems in different ways.*

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<sup>1</sup> Productivity Commission (2004) First Home Ownership

- *While housing provides shelter, it also influences a raft of non-shelter outcomes for individual households, such as workforce participation, access to jobs and services, family stability and educational attainment.*
- *Declining affordability has implications for economic performance and labour market efficiency, social cohesion and polarisation of cities, environmental considerations and the creation and distribution of wealth through home ownership.* <sup>2</sup>

The Select Committee on Housing Affordability (2008: p1) found that:

*"Currently there is a significant problem with housing affordability in Australia. In certain regions of the country the problem is particularly acute.*

*On some measures, housing affordability is at a record low:*

- *the average house price in the capital cities is now equivalent to over seven years of average earnings; up from three in the 1950s to the early 1980s.*
- *only one third of transacted dwellings would be accessible to the median young*
- *household in 2006-07, compared with a long-run average of almost half.*
- *around two-thirds of households in the lowest 40 per cent of the income distribution with a mortgage or renting were spending 30 per cent of their income on housing, the established benchmark for 'housing stress'.*

*Other calculations suggest that the problem may be less widespread.*

- *a low income household that in 1996 was devoting 30 per cent of its disposable income to mortgage repayments would today be able to devote 47 per cent of its disposable income to servicing debt while maintaining the same standard of living. Only around five percent of households have low income and spend more than half of it on housing.* <sup>3</sup>

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<sup>2</sup> AHURI (2007) Housing Affordability: A 21<sup>st</sup> Century Problem

<sup>3</sup> Senate Select Committee on Housing Affordability in Australia (2008) A Good House is Hard to Find: Housing Affordability in Australia

## Purpose of the Submission

This Submission focuses on affordable homeownership. It is recognised that access to affordable rental accommodation (both public and private), and issues of homelessness are also extremely important areas of consideration. It is assumed that these issues will be addressed through other forums.

The Submission considers the definitions of housing affordability and how they relate to the current Western Australian housing market. It looks at the factors influencing housing affordability and provides comment on how these impact on affordability from a Western Australian perspective.

It provides comment on the scope of the Housing Affordability Fund, along with comments on the eligibility criteria, assessment process and performance measures.

Finally, some preliminary information is provided on projects that may address housing affordability issues in Western Australia.

Where possible, Australian Bureau of Statistics data has been used. It is recognised that there are some differences between the median house prices quoted by other sources such as the Real Estate Institute of Australia and the Housing Industry of Australia. However, it is considered that the ABS provides the most consistent source of data particularly when considering differences between states.

## DEFINITIONS OF HOUSING AFFORDABILITY

As has been noted in many of the recent studies, affordability is usually measured as the proportion of household income spent on meeting housing costs. The 1992 National Housing Strategy established affordability benchmark based on the notion that the proportion of household income spent on housing should be reasonable and leave sufficient income to meet other basic needs such as food, clothing, health, education and transport. Households at the lower end of the income distribution (bottom 40%) who pay more than 30% of their income towards housing costs are considered to be in housing stress.

The UDIA/Matsui (2007: Part 3:p8) measure provides a spatial context and classifies housing as:

**Affordable** – when the average household can afford to buy more than 51% of the housing for sale in their local area (using the 30% of household income with a 10% deposit)

**Some constraints** – when the affordable proportion is between 31% and 51% of total sales.

**Seriously constrained** – when this proportion is between 16% and 30%.

**Unaffordable** – when less than 15% of the sales at the time cannot be purchased by the average household in the area.<sup>4</sup>

A recent report by BankWest(2008: p2) classified local government areas as unaffordable if their median house price was more than five times the average annual income level of households.<sup>5</sup>

These measures focus on the entry cost of home ownership. Housing affordability should also take into account the cost of living in that housing including the cost of transport to work and to access other services as well as the cost of utilities and the cost of maintaining that housing.

<sup>4</sup> UDIA(2007) An Industry Report on Affordable Home Ownership in Australia

<sup>5</sup> BankWest(2008) Key Worker Housing Affordability Report : BankWest Financial Indicator Series

## HOUSING IN WESTERN AUSTRALIA

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### Overview of Characteristics and Factors Affecting Housing Affordability

Housing affordability in Western Australia has deteriorated dramatically over the past five years. Perth has high median house prices (second only to Sydney) and, in 2007, there were no suburbs in the Perth Metropolitan Area where houses could be considered to be affordable.

Houses in metropolitan local government areas are no longer affordable for key workers including nurses, teachers, police, ambulance officers and fire fighters.

Housing markets in regional areas are also unaffordable, particularly in areas such as Karratha and Broome.

There is some evidence that the market is levelling off.

The proportion of first home buyers in the residential market is falling.

On average, first home buyers borrow the same amount to enter the housing market as other home owners.

Western Australia has gone through a period of rapid population growth. This growth is likely to continue over at least the short to medium term. Much of this growth is fuelled by overseas migration.

The rate of household formation in Western Australia will continue to increase. Lone person households will make a significant contribution to this increase.

Western Australia has experienced an increase in the level of investment in housing with the ratio of owner occupied to investment finance increasing from 1: 0.66 in 2004-05 to 1:0.82 in 2006-07.

There are concerns within the development industry that there is a shortage of development ready land in Western Australia.

The Western Australian planning system has become cumbersome. There are concerns about inefficiencies, duplication of effort and lack of clarity about the roles and responsibilities of agencies involved in the approvals system. These concerns are not helped by the shortage of appropriately qualified staff.

Residential lots granted final approvals are at their lowest level in the last four years.

There have been some significant increases in the Project Home Price Index. Costs have fallen but the index still remains above the 8 Capital Cities.

Western Australia has a relatively modest development contributions regime. There is a proposal to extend this to include contributions for community infrastructure.

The skills shortage has impacted on the construction industry. It has also had a considerable impact on the availability of professionals to fill key local and state government positions, particularly in planning and engineering fields.

It is anticipated that the skills shortage will result in increases to construction costs associated with wage pressures and increases to holding costs for both development and construction associated with delays in approvals processes (due to a shortage of professional staff).

## The Western Australian Housing Market

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### Median House Prices

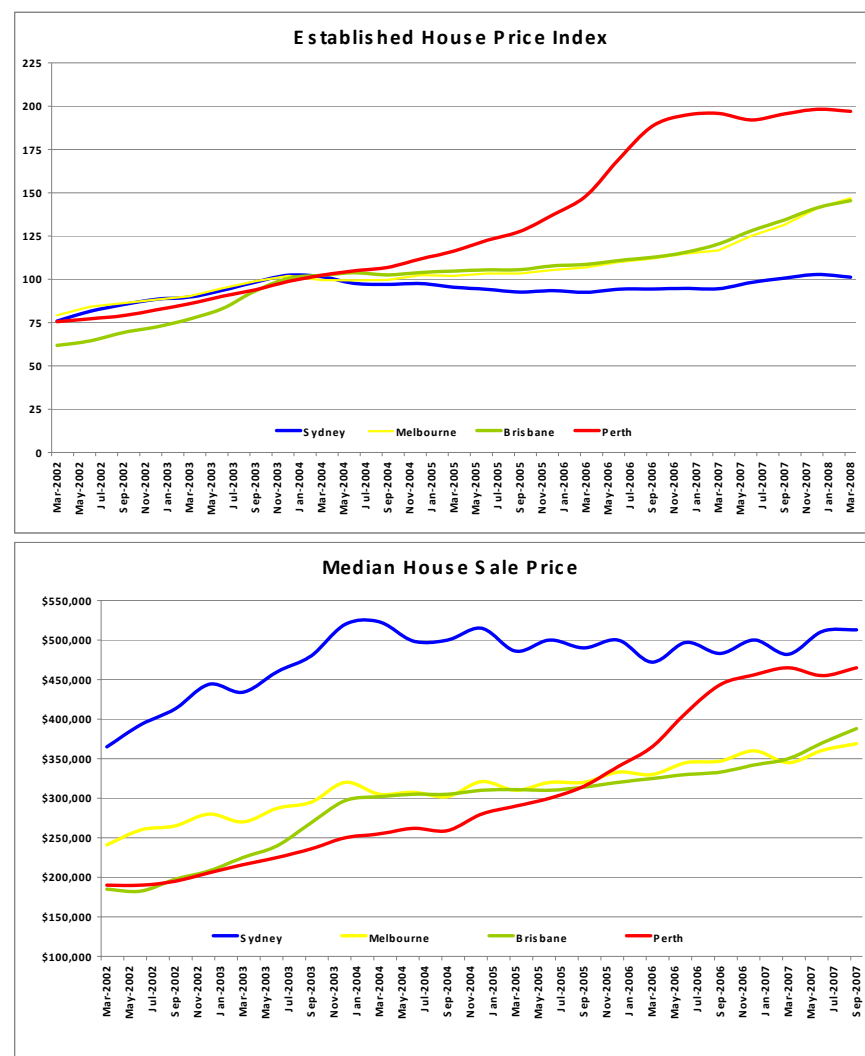
There has been an overall trend towards decreasing housing affordability throughout Australia. According to BankWest (2008: p), house prices have increased by 66% since 2002.

ABS data on median established house prices for selective capital cities is shown below. Sydney clearly has the highest median house price. However, the growth in Perth's median house price has outstripped that of Melbourne and Brisbane. There are signs that the property market has at least levelled out in the major capital cities.

Recent Real Estate Institute of Australia data for the March 2008 Quarter supports this with most major cities experiencing falling house prices.

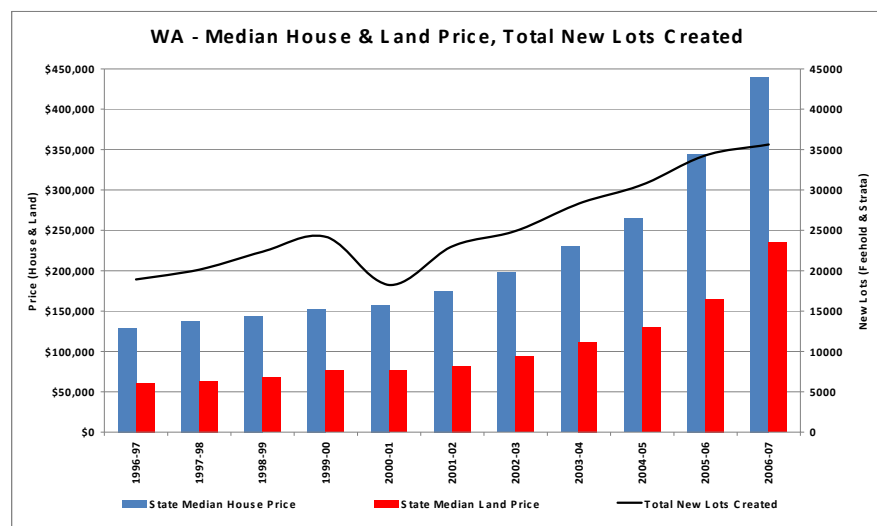
City	Median House Price	Fall over Pervious Quarter
Perth	\$460,000	2.5%
Melbourne	\$432,500	8.4%
Sydney	\$554,000	0.2%

The ABS Median Established House Price Index shows the rate of change in median house prices between major capital cities in Australia when the median house prices are standardised. This illustrates how much more rapidly house prices have grown in Perth than in other capital cities.



Source: ABS Cat. No 6416 House Price Inde3x: Eight Capital Cities (both graphs)

It is possible to compare the median price for an established house in Western Australia with the median price for a block of land. In 1996-97, the median house price for Western Australia was \$129,000 (\$135,000 for the metropolitan area). by 2006-07, this had risen to \$440,000 (\$470,000 for the metropolitan area). Median land prices have risen from \$61,000 to \$235,000 over the same period.



Source: Landgate Website

The ratio between median house prices and median land prices has remained relatively constant at 2:1 regardless of the number of new lots created.

## Housing Affordability

Housing affordability varies considerably between suburban areas. Anthony (20067) mapped the change in affordability over time for metropolitan suburbs that were affordable in June 2003. He used the 30/40 measure of affordability.<sup>6</sup>

Suburb	2003	2004	2005	2006	Suburb	2003	2004	2005	2006
Armadale	Blue	Red	Red	Red	Leda	Blue	Blue	Blue	Red
Balga	Blue	Red	Red	Red	Lockridge	Blue	Blue	Blue	Red
Banksia Grove	Blue	Blue	Red	Red	Lynwood	Blue	Red	Red	Red
Beckenham	Blue	Red	Red	Red	Maddington	Blue	Blue	Blue	Red
Beechboro	Blue	Red	Red	Red	Medina	Blue	Blue	Blue	Red
Bellevue	Blue	Blue	Blue	Red	Merriwa	Blue	Blue	Blue	Red
Brookdale	Blue	Red	Red	Red	Middle Swan	Blue	Blue	Blue	Red
Bullsbrook	Blue	Blue	Red	Red	Midland	Blue	Red	Red	Red
Calista	Blue	Blue	Red	Red	Midvale	Blue	Blue	Blue	Red
Clarkson	Blue	Red	Red	Red	Mirraboopa	Blue	Blue	Blue	Red
Cooloongup	Blue	Blue	Red	Red	Parmelia	Blue	Blue	Blue	Red
Craigie	Blue	Blue	Red	Red	Orelia	Blue	Blue	Blue	Red
East Cannington	Blue	Red	Red	Red	Queens Park	Blue	Red	Red	Red
Eden Hill	Blue	Blue	Red	Red	Rockingham	Blue	Blue	Blue	Red
Forrestfield	Blue	Red	Red	Red	South Lake	Blue	Red	Red	Red
Girrawheen	Blue	Blue	Blue	Red	Stratton	Blue	Blue	Blue	Red
Gosnells	Blue	Blue	Blue	Red	Swan View	Blue	Blue	Blue	Red
Heathridge	Blue	Red	Red	Red	Two Rocks	Blue	Red	Red	Red
High Wycombe	Blue	Blue	Blue	Red	Waikiki	Blue	Blue	Blue	Red
Hillman	Blue	Blue	Blue	Red	Wanneroo	Blue	Red	Red	Red
Huntingdale	Blue	Red	Red	Red	Warnbro	Blue	Red	Red	Red
Kelmscott	Blue	Blue	Blue	Red	Wattleup	Blue	Blue	Blue	Red
Koondoola	Blue	Blue	Blue	Red	Westfield	Blue	Blue	Blue	Red
Koongamia	Blue	Blue	Blue	Red	Westminster	Blue	Red	Red	Red
Langford	Blue	Blue	Red	Red	Wescombe	Blue	Red	Blue	Red

Source Anthony (2007)

Anthony's findings are consistent with those of the UDIA who undertook a similar study which included an assessment of regional property markets. It found that only whilst

<sup>6</sup> Anthony, T (2006) The State of Affordable Housing in WA. Shelter WA Occasional Paper 2006 - 1

housing in all regional centres in the State was affordable in 2001, only Geraldton and Kalgoorlie remained affordable in 2006.

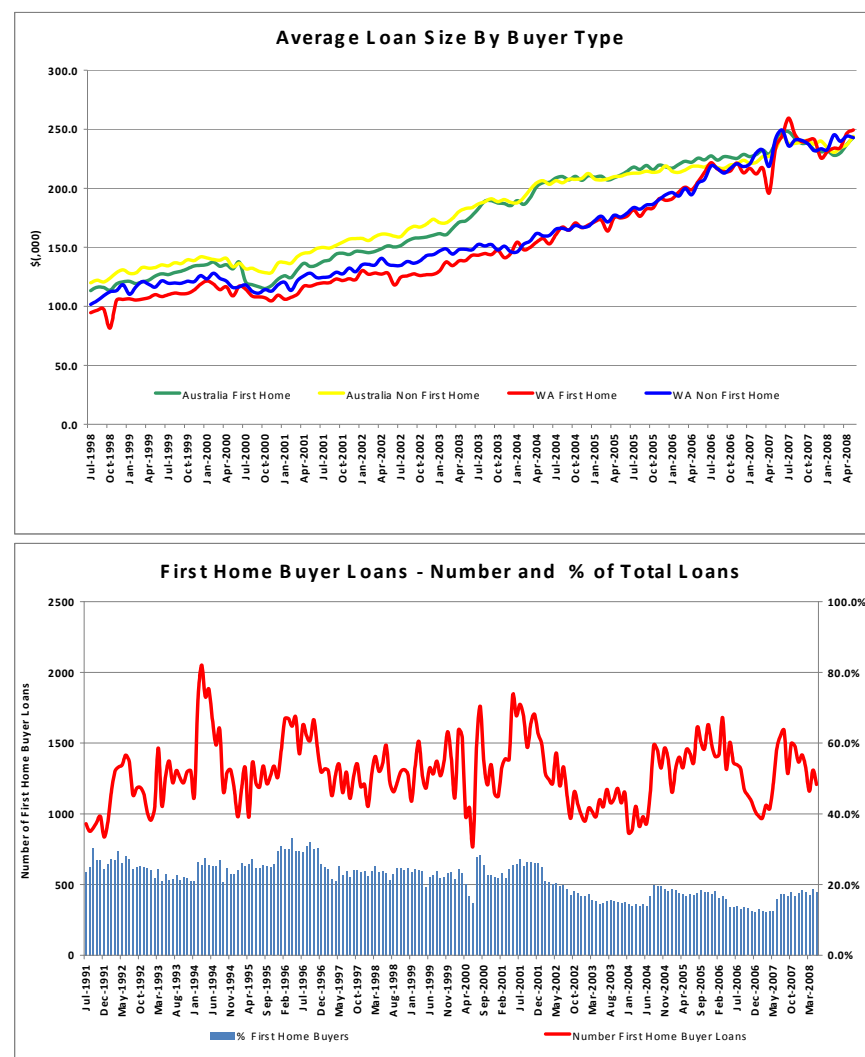
BankWest (2008) provided a useful context for affordability when they considered access to the Perth Metropolitan housing market by key workers – teachers, police officers, fire fighters and ambulance officers. BankWest used the years of income required to purchase a median priced house in a local government area. They found that nurses, teachers, fire-fighters ambulance officers were all priced out of the Perth Metropolitan single detached housing market – that is none of the twenty nine local government areas that make up the housing market were affordable to these occupations. Police officers could afford to purchase in two local government areas – the City of Armadale and the Town of Kwinana.<sup>7</sup>

### First Home Buyers

A particular area of concern is the impact that rising house prices have on the ability of first home buyers to enter the property market. The level of first home buyer activity in the Western Australian housing market shows significant quarter by quarter variation in the number of loans given to first home buyers. In spite of this “noise”, the average number of first home buyers has remained remarkably constant. However, there is a significant downward trend in the proportion of first home buyers to total home loans.

Over the last decade the level of loans to Western Australian first home buyers has generally been below that of other home buyers and those of non first home buyers although by mid 2003, the level of home loans for Western Australian first home buyers was equivalent to that of other home buyers but still below the Australian average. By mid 2007, Western Australian first buyer loan levels were equivalent to the average Australian loan and, in the following quarters, these levels sometimes exceeded the Australian average for both first home buyers and other home buyers. It is significant that first home buyers have to borrow as much as other home buyers to enter the property market.

<sup>7</sup> BankWest used the years of income required to purchase a median priced house in a local government area.

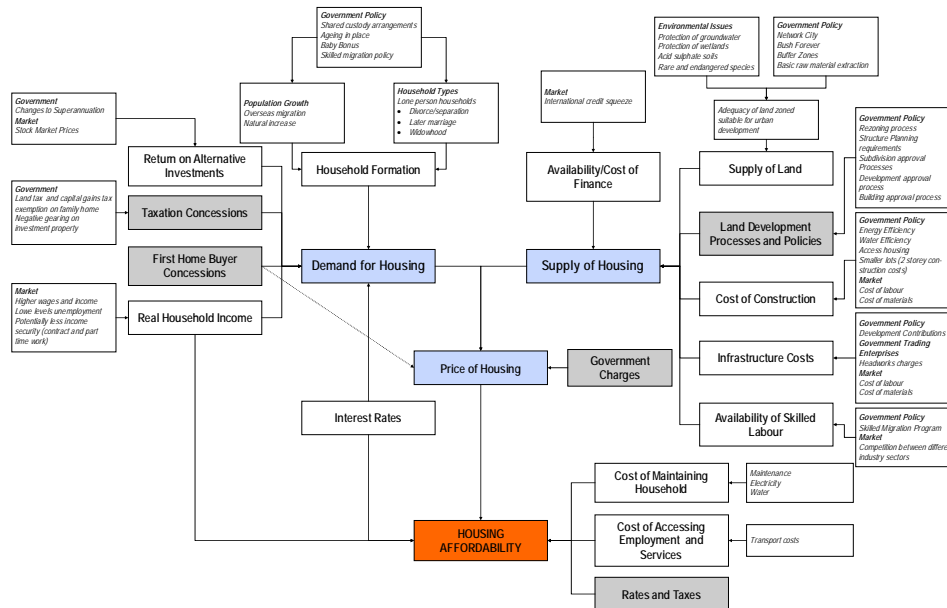


Source ABS (2008) Cat No 5609.0 Housing Finance (both graphs)



## FACTORS THAT CONTRIBUTE TO HOUSING AFFORDABILITY

There is a wide range of factors that contribute to housing affordability. Some of these are within the control of the different spheres of government whilst some reflect local, national and international market forces. These are summarised below. More detailed comments on some of these factors in relation to the Western Australian housing market follow.



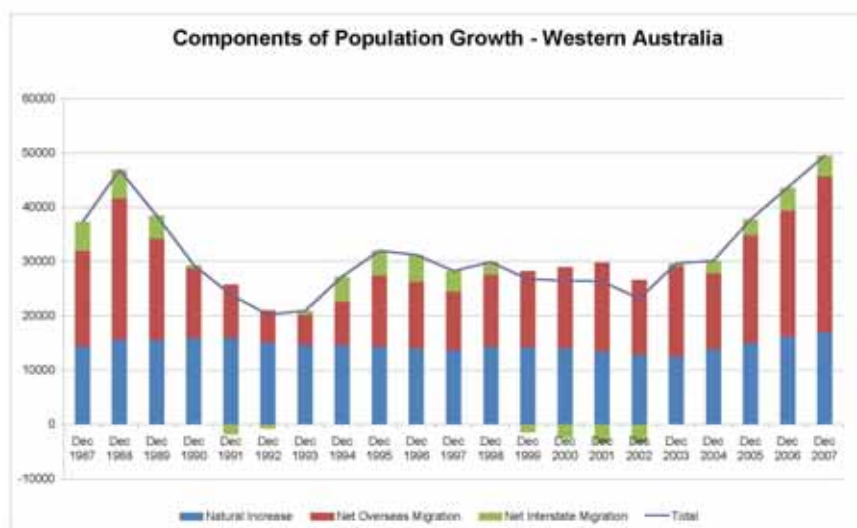
## Comments on Some Factors Influencing Housing Demand

### Household formation

- **Strong Population Growth**

Western Australia's estimated residential population grew by 41,436 residents to 2.13 million in December 2007. This represented an annual growth rate of 2.4% over the year to December 2007, making Western Australia the fastest growing Australian State or Territory. It comprised:

- a natural increase (births less deaths) of 16,833 ;
- net overseas migration (arrivals less departures) of 25,194; and
- net interstate migration (arrivals less departures) of 7,151.



Source: ABS Cat. No 3218.0 Regional Population Growth

One of the implications of having such a large proportion of the population increase occurring through immigration is that it creates an immediate housing need.

Western Australia has some of the fastest growing local government areas in Australia with eight local governments in the top 20 through out Australia. These include the Cities of Perth and Wanneroo and the Shires of Ravensthorpe, Serpentine-Jarrahdale, Dardanup, Capel, Broome and Chittering.

The Western Australian population is projected to continue to grow. Based on ABS projections, Western Australia will increase its share of the nation's population from 9.8% at June 30 2004 to 11.2% at June 30 2051. By this time, Western Australia will have a population of 3.164 million people, with 77.5% of these people living in the Perth Metropolitan Area.

Based on the Western Australian Planning Commission (WAPC) WA Tomorrow population forecasts, much of the State's population growth (up to 76%) will occur in the outer metropolitan local government areas. The growth areas are the local government areas of Wanneroo (22% of total growth), Swan (13%), Rockingham (10%), Cockburn (9%), Mandurah (9%) and Armadale (6% of total growth).

- **Changes in household structure**

The relative portion of lone person households has been steadily increasing in Western Australia as shown in the table below.

	1996	2001	2006
Number of Households	604,067	659,664	703,164
Family (% of Households)	73	72	72
Lone Person (% of Households)	23	24	25
Group (% of Households)	4	4	4

Source: ABS Census Data Community Profile Time series

The ABS forecast that there will be 1 -1.2 million households in Western Australia by 2026. They attribute the increase in household numbers primarily to the increase in lone person households which are anticipated to account for between 179,000 and 226,000 with significantly more female than male single person households. It is

anticipated that 35% residents over the age of seventy five will be living alone. Females account for three quarters of these households. Couples without children are projected to be the fastest growing family household type.

## Level of investment

The level of investment in housing will have an impact on the demand for housing and its supply. In general, changes to superannuation conditions and/or changes to the return on other investments will influence the amount of funding that is invested in property. The table below shows the level of finance in the housing market with a distinction between finances relating to owner occupied dwellings and those associated with investment.

The ratio of owner occupied to investment finance in Western Australia has risen from 1:0.66 in 2004/05 to 1:0.82. This ratio is now higher than the overall Australian ratio

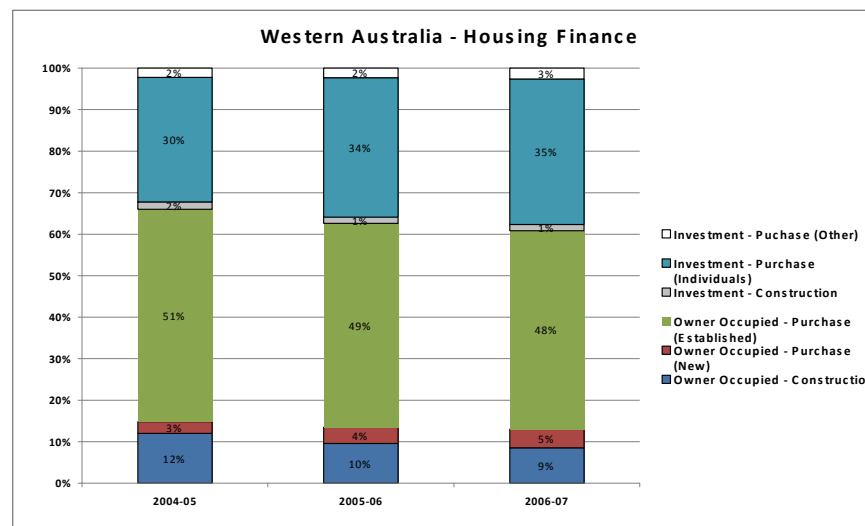
Category	2004/05		2005/06		2006/07	
	WA	Australia	WA	Australia	WA	Australia
Owner Occupied - Construction (\$m)	2,171	11,541	2,403	11,948	2,311	13,078
Owner Occupied - Purchase (New) (\$m)	506	5,763	980	7,850	1,225	8,841
Owner Occupied - Purchase (Established) (\$m)	9,250	80,543	12,358	93,725	12,973	103,798
<b>Total Owner Occupied (\$)</b>	<b>11,927</b>	<b>97,846</b>	<b>15,741</b>	<b>113,523</b>	<b>16,509</b>	<b>125,717</b>
Investment - Construction (\$m)	321	7,107	362	6,838	404	6,505
Investment - Purchase (Individuals) (\$m)	5,424	54,841	8,452	57,368	9,512	61,573
Investment - Purchase (Other) (\$m)	401	5,447	577	5,364	717	7,473
<b>Total Investment (\$)</b>	<b>6,145</b>	<b>67,395</b>	<b>9,392</b>	<b>69,570</b>	<b>10,633</b>	<b>75,551</b>
<i>Ratio Investment to Owner Occupied</i>	<i>0.66</i>	<i>0.84</i>	<i>0.76</i>	<i>0.74</i>	<i>0.82</i>	<i>0.73</i>
<b>Grand Total</b>	<b>18,073</b>	<b>165,241</b>	<b>25,132</b>	<b>183,093</b>	<b>27,142</b>	<b>201,268</b>

Source ABS (2008) Cat No 5609.0 Housing Finance

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<sup>8</sup> Refinancing data has been excluded from both the table and the graph

The increase in investment as a relative proportion of the total housing finance market in Western Australia can be seen below. The relative value of owner occupied construction has fallen over the past three years as has the value of owner occupied purchase of established homes. There has been a rise in the relative value of owner occupied purchase for new homes.

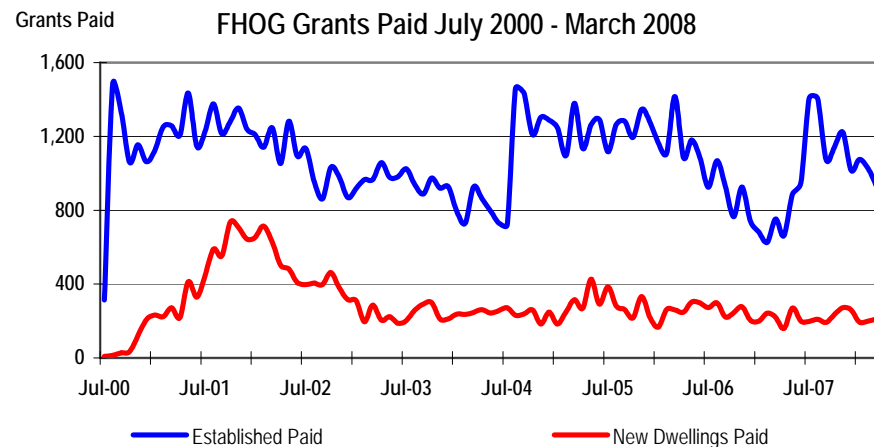


Source ABS (2008) Cat No 5609.0 Housing Finance

## First Home Owner Grant Scheme

Just over 12,700 grants were paid under the First Home Owner Grant scheme in 2006/07, a 28% decline on the number of grants paid out in the previous financial year. However, the number of grants paid so far this financial year to the end of March 2008 is 28% above the year-to-date figure for 2006/07, which supports the improvement reported by REIWA.

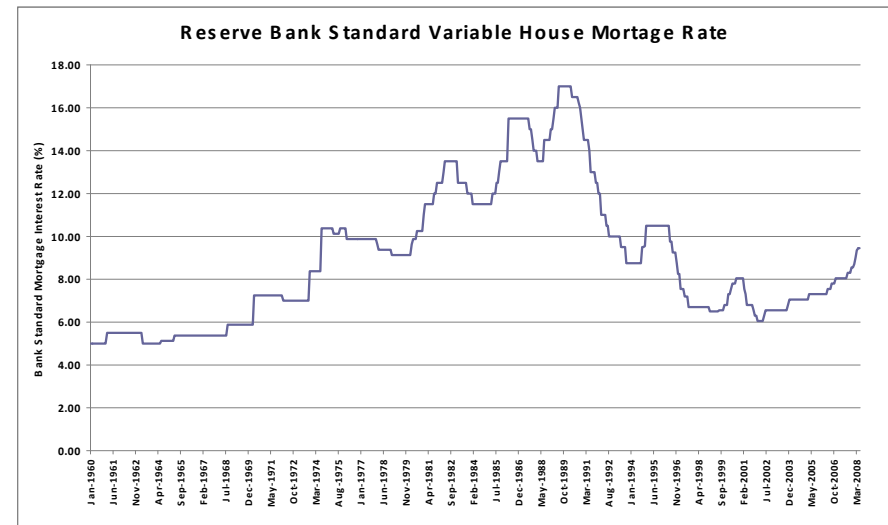
Established property grants represented 80% of year-to-date grants paid and were slightly higher than the 78% figure in 2006/07 but below the long term average of 81.4% since 2000.



Source WA Office of State Revenue

## Interest Rates

Although there have been a number of increases in interest rates in recent times, they have been at significantly lower levels than in previous decades. Lower interest rates give borrowers the capacity to borrow more to enter the market and encourage more purchasers into the market.



Source RBA 2008 Indicator Lending Rates

## Comment on Some Factors Affecting Housing Supply

### Availability of Land Suitable for Urban Development

The development of land for housing in Western Australia relies on land being assessed as suitable for urban development and zoned accordingly. Currently, it is claimed that there is a twenty five year supply of land zoned urban. Whilst this appears, on the face of things, to be true, there is a concern by industry groups such as the Chamber of Commerce and Industry and the Urban Development Institute of Australia (Western Australian Division), that this is not the case. Their concerns stem from amendments to the Environmental Protection Act (1986), made in 1996, which required all land use or zoning changes to be approved by the Environmental Protection Authority. This requirement was retrospective and land that was already zoned was not exempt from this requirement. This has led to significant areas of "urban" and "urban deferred" land, rezoned prior to 1996, not having final clearance and not being available for land development.

There are also a number of more requirements on land than there were in the 1990s. These include protection of wetlands, ground water area and rare and endangered species. In addition, there are requirements to address issues such as acid sulphate soils. These may all be appropriate considerations in the current development environment but they will reduce the availability of land for urban development.

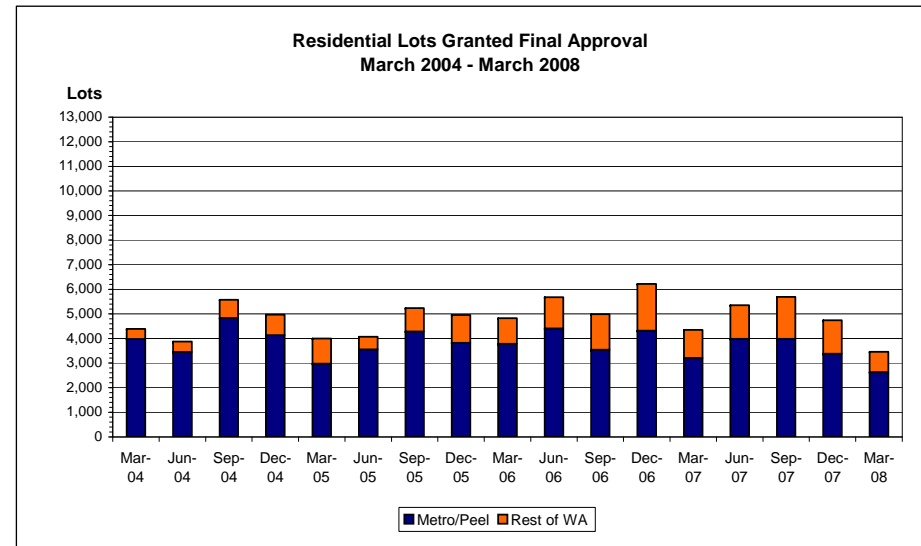
- **Final approval**

Residential lots granted final approval throughout the State and in Metropolitan Perth/Peel are at their lowest level in over four years. Final approvals declined for the second consecutive quarter in WA to record 3,455 lots in the March quarter 2008 representing a decline of 27% when compared with the December quarter total of 4,742 lots.

In the metropolitan Perth/Peel region there were 2,635 final approvals granted to residential lots, a decline of 22% from the December quarter. The fall was felt in the regions, which recorded a decline of 40% from 1,368 in the December quarter to 820 in the current quarter.

These declines reflect a reduction in activity from developers seeking final approvals due to reduced market demand and relatively higher stock levels.

After residential subdivision activity peaked during 2005/06 and 2006/07, three-quarter figures suggest that 2007/08 will see final approvals weakening in the aftermath of these boom years.



Source Department of Planning and Infrastructure

### Land Development Processes and Policies

The State Government has adopted Network City as its principle planning policy for urban growth in the Perth Metropolitan and Peel Regions. It provides an approach that focuses on urban consolidation, activity centres, activity corridors, transport oriented development and increased housing choice. Unfortunately, this has been slow to translate into an overall strategic direction and plan for the City and surrounding areas and has not been translated into a statutory framework. As a consequence much of the statutory approvals process relies on government planning policies and guidelines that may inconsistent with the intention of Network City. The lack of clarity in the current system is likely to result in unnecessary costs and delays to developers.

Roles and responsibility in the planning and approvals system are not clearly defined. The Land Release Coordinator (2007) Found that there were problems with the management and coordination of the planning process including:

- Lack of responsibility for achieving final approvals;
- Absence of timeliness;
- Multiplicity and complexity of conditions;
- Uncertainty in responsibility of clearing agencies;
- Lack of coordination amongst clearing agencies;
- Rapid change of, and inconsistent policies and objectives;
- Lack of clarity and consistency in guidelines and standards;
- Lack of consistency in advice to developers; even from the same clearing agency; and
- Inefficiencies in tracking the approvals process.

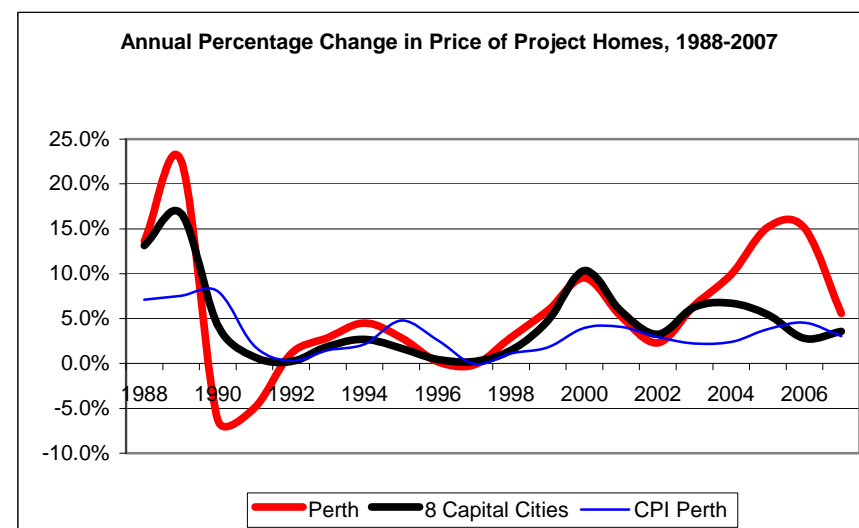
### Cost of Construction

The annualised Project Home Price Index for Perth increased by 5.9% in calendar year 2007 over the previous year, which was much below the increases of over 15% in each of the two previous years but was still above the average for the Eight Capital Cities and the all groups Consumer Price Index for Perth.

The MBA/Grant Thornton Survey of business conditions noted in its April report that *"construction times have improved considerably as on-site bottlenecks have eased and productivity improved."*

The building industry estimates that 5 Star Plus, with implementation of energy efficiency and water reduction measures in all new homes approved for construction since September 2007, could add an extra \$3-4,000 to the cost of building a new home<sup>9</sup>. Any upfront costs, however, will be offset by energy and water cost-savings over the life of the dwelling.

<sup>9</sup> It should be noted that other States have also increased sustainability requirements on new homes.



Source: ABS Cat Nos 6401.0 Consumer Price Indexes and 6427.0 Producer Price Indexes

### Infrastructure costs

Infrastructure costs relating to the provision of utilities have two components – headworks charges which relates to the capital development and upgrading requirements for the main arterial system including power supply, sewerage treatment works, water supply etc and the cost associated with extending these services to the newly created lot or dwelling. In addition, many States have a system of development contributions which may require developers to make a contribution towards physical and social infrastructure. Some of systems appear to include development contributions towards schools, hospitals and primary roads.

Western Australia has a relatively modest regime of development contributions. To date these have only been applied by local governments where there is a need to coordinate the planning and development of areas with multiple ownership and have only apply to infrastructure items which would traditionally have been paid for by the developer(s). There is no development contribution system which includes specific levies for infrastructure that is the responsibility of the State.

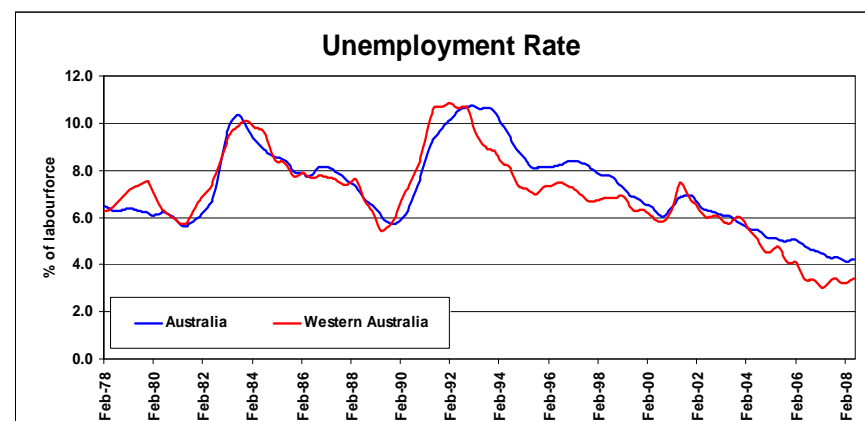
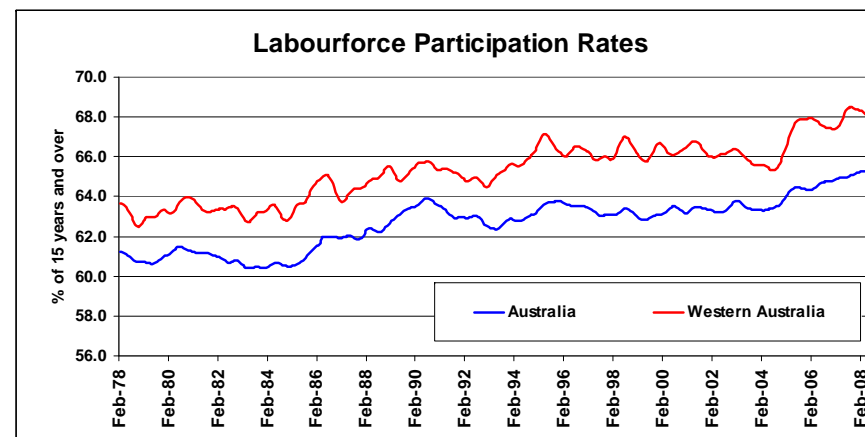
Currently there is a draft State Planning Policy which will extend local government's ability to apply development contribution charges for community infrastructure. Contributions can only be sought for capital works and the principle of need and nexus must be clearly demonstrated. Unlike some of the other states, local governments in Western Australia are not responsible for the provision of any utilities.

### Availability of Skilled Labour

Many Western Australian businesses have identified the lack of skilled labour as an area of growing concern. Western Australia has consistently high levels of workforce participation and is experiencing record low levels of unemployment.

In 2005, ABS examined the Western Australian labour market. It found that recent strong demand for skilled labour, relative to the demand for unskilled labour, supports the existence of a labour shortage that is more skilled than general in nature. Further analysis of labour market indicators reveals that shortages are most concentrated in the occupations of Tradespersons and related workers, Professionals, Labourers and related workers, Intermediate production and transport workers and Managers and administrators; and the industries of Construction, Manufacturing, Property and business services, Mining and Health and community services. The current shortage of skilled labour in Western Australia is cyclical (due to an insufficient supply of labour), reflecting the recent strong growth in the State's economy.<sup>10</sup>

A recent discussion paper by the Chamber of Commerce and Industry (CCI) (2007) suggests that Western Australia's current economic expansion will continue for a number of years. This will require a significant increase in the workforce to facilitate such growth. It is expected that an additional 400,000 workers will be required in the WA economy over the next 10 years. These additional labour requirements cannot be met on the basis of the current labour market and population trends. In the absence of measures to grow the workforce sufficiently, it is estimated that there will be a shortfall of 150,000 workers in Western Australia by 2017.<sup>11</sup>



Source ABS Cat. No 6202.0 Labour Force (both graphs)

<sup>10</sup> ABS (2005) Western Australian Statistical Indicators (Cat. No 1367.5)

<sup>11</sup> CCI WA (2007) Building Human Capital: A Discussion Paper Business Leader Series

## Affordability of Housing Beyond the Purchase Price

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The entry cost of housing is one component of the ongoing affordability housing issue. The cost of the housing loan is a primary concern, particularly in a climate of rising interest rates. In addition, the costs associated with maintaining a dwelling (including the lifecycle cost of materials and the adaptability of a dwelling to meet the needs of residents throughout their lives) are important considerations.

Housing that meets the needs of the occupants is likely to be more affordable for the resident. In an era of decreasing household size, the market seems to be focused on increasing dwelling size. A significant proportion of new households are likely to be single person households and households without children. Households are likely to be older and require some degree of modifications to their dwelling to enable them to live at home for as long as possible.

Last home buyers (older people) are likely to be living on fixed incomes with limited opportunities to grow these incomes. The cost of living in their existing residences is likely to consume a significant proportion of their disposable income. Entrance costs are a significant barrier to first home buyers but the cost of maintaining a house becomes a significant barrier to older residents.

Most State governments have introduced programs that promote energy efficiency and water savings. These programs may add to the initial cost of the house (and therefore act as a potential barrier to first home buyers) but this should be counter balanced by savings in water and electricity costs.

Transportation costs are also likely to significantly add to household costs. Rising petrol prices will continue to be a characteristic of the current economic landscape. Whilst these costs are not directly related to the cost of a dwelling, they are directly related to the location of that dwelling and opportunities to access employment, education and services. Affordable housing should be integrated with good access to public transport. In addition the traditional journey to work paradigm which sees employment areas separated from living areas, need to be challenged.

## RESPONSES TO QUESTIONS RAISED IN THE CONSULTATION PAPER

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### Question 1

#### Is the high growth target too restrictive?

The targeting of high growth areas is one way of insuring that the fund is addressing a component of the demand for housing. However, Western Australia would be concerned if the fund required local governments to demonstrate that their growth was significantly higher than the average growth in new dwellings in the State as Western Australia has a higher growth rate than all other States.

There are two aspects of growth:

- **Magnitude** - the proportion of the State's growth that is occurring in a local government area
- **Impact** - the rate at which an individual local government is growing. Some local governments may have small base populations and modest increases (in terms of actual numbers) will result in high average annual growth rates.

Consideration needs to be given to the capacity of a local government to deal with growth. Pressures on fringe metropolitan, peri-urban and sea change local governments, where their development character is changing from rural to urban, are likely to be under considerably more pressure than established urban local governments.

Caution also needs to be exercised in areas where housing is unaffordable for low income purchasers and growth is rapid but there is a strong second home market (e.g. sea change areas). Efforts to improve affordability may only benefit those who are looking for a second home.



## Question 2

**What types of projects should be suitable for funding and what level of saving may be generated?**

The Paper identifies two main project areas:

1. Infrastructure
  - connecting infrastructure projects including water, sewerage and roads;
  - site remediation
  - community infrastructure
2. Reform relating to improving the efficiency of the development assessment process.

WALGA favours projects that result in long term savings to the industry in general or those that focus on the affordability of housing and the creation of sustainable communities in the long term.

One off subsidies to specific costs of development, such as power water and sewerage, that will only impact on the entry cost of housing and may not result in significant savings to those who purchase those dwellings are not supported. These subsidies may distort the market and may even draw resources to projects that are essentially unviable. The provision of funding for essential infrastructure should be addressed in a strategic manner and form part of an overall infrastructure strategy.

It will also be very difficult to ensure that these one off subsidies are captured in the long term and do not just result in a windfall gain to the first purchaser.

On the other hand, providing subsidies for community infrastructure will result in the development of infrastructure that supports the householder, particularly where it results in the reduction of travel costs to employment and other services. Consideration should be given to projects that can demonstrate good employment and transportation links (including access to public transport). The level of savings to the first purchaser may be less than the development infrastructure subsidy, but some of the benefits will accrue to subsequent householders through the reduction of their ongoing living costs.

WALGA is particularly supportive of funding of reforms to the planning and development system. Savings in these areas will be more difficult to quantify. However, they will be long term and result in potential savings across all developments.

WALGA believes that it will be difficult for applicants to demonstrate the level of savings generated for any of the possible options. It would appear from the current market that the price of a house or land is not determined purely by the costs of development and construction. It will be even more difficult to quantify saving associated with reform. However, reforms to the planning and development process will result in greater certainty for developers and the reduction in processing times will ensure that there are no bottlenecks in the system resulting in scarcity in the market and associated price pressures.

## Question 3

**Are the mandatory criteria appropriate and will applicants be able to provide evidence without substantial cost burden?**

The two staged process will ensure that applicants do not waste a lot of time on proposals that do not meet the mandatory criteria. The mandatory criteria are relatively straight forward and should not result in unnecessary burdens on local government.

## Question 4

**Are the weighted criteria appropriate and will applicants be able to respond without a substantial cost burden? How should criteria be weighted?**

Demonstrating that a proposal meets the weight criteria will be quite complex.

- **Value for money** – local governments will have difficulty in demonstrating either evidence of, or level of savings to householders when they are not directly involved in the provision of the housing. For projects which focus on reform this will be even more difficult. This is even more problematic when considering benefits to households through time.
- **Leading Practice Planning Models** – this criterion should be relatively straight forward to demonstrate.
- **Savings on moderately priced homes** – This criterion seems to be a subset of the value for money criterion. The same comments apply.

- **Additional support** – whilst it is appropriate to consider whether a proposal has additional elements of support, particularly in-kind contributions, some of the suggested examples such as the reduction of tax and regulatory burdens have significant may be considered anti competitive as they would apply to a specific development rather than across the board.
- **Accessibility and environmentally sustainable outcomes** – this are important considerations for the long term affordability of housing. It should be relatively easy to demonstrate that proposals meet this criterion. However, it may result in a higher entry cost for dwellings. Ongoing savings to householders would be harder to quantify.

In addition to these criteria, proposals should be asked to demonstrate that they provide good access to public transport and/or employment, retail, education and community services. This would help to determine the long term sustainability of the proposal and would also help to reduce household living costs.

The Fund need to allow for flexibility whilst ensuring the evaluation criteria are applied in a manner that fits the scale of the project and that the funding decisions are transparent. This implies a focus on qualitative rather than quantitative criteria.

### Question 5

**Will the funding available enable a sufficiently wide range of innovative projects to be developed?**

The funding level is modest. The ability to demonstrate innovation across a wide range of projects is likely to be limited and will depend on the type of projects that are funded and the level of funding.

### Question 6

**What performance measures should be used to assess the ability of applicants to deliver savings?**

The effectiveness of performance measures, including those that appear in the Paper, depends on the ability to find an appropriate independent measure which needs to be capable of being audited. There needs to be a benchmark to measure change against and

the ability to track changes through time. It is important to measure outcome, not just workload or timelines.

The outcomes of some proposals (especially those that look at reducing long term housing costs or focus on reforms to existing systems) will not be able to be measured in the short term.

### Question 7

**Are the timelines adequate for proposal development?**

The timelines are challenging particularly when proposals require commitments from partners and may require quite complex technical support. It is important that local governments consider the long term implications to their area before finalising a proposal.

### Question 8

**Does the information requested at the first and second stages assist in keeping costs of submitting proposals to an acceptable level?**

The two stage process will assist with keeping costs down. The second stage data requirements are difficult to determine without seeing the guidelines. There should be no significant cost implications if the data is readily available.

## POTENTIAL PROJECTS

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WALGA believes that the best way to secure long term affordability outcomes throughout Western Australia is to fund projects that support reform in planning and development processes and projects that consider the long term cost of living for residents.

### Reform Projects

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#### Improving the Development Approvals Process

WALGA believes that there is a need to review the Western Australian planning system to address issues including:

1. Lack of an overall strategic direction;
2. Confusion of roles and responsibilities between the WAPC, the EPA and local government;
3. Opportunities for process improvement in the development assessment process.

Resolution of these issues would improve developer certainty and reduce the time it takes to convert raw land into houses. This should reduce risk to developers and reduce holding costs.

WALGA would be an active participant in these reforms. It will be submitting a proposal for funding to assist local governments to adopt the leading practice model for development assessment and introducing electronic development assessment processes that can be integrated into the State's planning system.

## Addressing long term housing affordability

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AS has been stated previously, WALGA is concerned that proposals that look at reducing the cost of extending essential infrastructure to development areas will not result in any changes to long term housing costs. There are two areas that WALGA would like to see the Fund concentrate on.

- **Diversifying housing stock**

One of the areas that should be considered is the need to provide for a diverse range of housing to meet housing needs. AS has been discussed above, some of the greatest forecast change in household types is the increase in lone person households, particularly for older women. The Western Australian housing market has traditionally produced single detached houses (3 bedroom/2 bathroom). A consideration for housing affordability is the provision of appropriate housing stock to meet housing needs. However, very few local governments have clearly articulated and integrated housing strategies that include targets for diversity and affordability.

WALGA would seek funding to support the development of housing strategies at a local level.

- **Projects that address long term cost of living**

WALGA believes that projects funded through the Fund should ensure that savings to households are captured beyond the sale of property. It believes that the best way to do this is to focus funding on projects that support community infrastructure and are integrated with employment and transport opportunities.

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