

# POSITION STATEMENT

## HOUSING AFFORDABILITY



### *Context*

Over the last decade housing affordability in Perth has declined dramatically to the point where it is one of the least affordable cities in Australia. Affordable housing is an essential component of a healthy city and allows for the ongoing sustainability of communities.

The availability of affordable housing, for both purchase and rental, is a critical issue for Western Australia, not just in terms of key workers, but to attract and retain the workforce needed for the state economy which is predicted to have strong growth in the foreseeable future.

Housing affordability is impacted by a range of conditions: land supply; the costs of development; the efficiency of the approvals process and the cost of delays; and the cost shifting of infrastructure delivery to new home buyers. Affordability is also impacted by interest rates, the availability of first home buyer grants and other subsidies such as stamp duty concessions. It is directly related to housing supply shortages and the way these play out in the market.

### *Defining housing affordability*

There is no widely agreed definition of housing affordability; in the most general sense it is about the capacity to enter the housing market and relies on cost and availability. Housing affordability is particularly significant to people on lower incomes and/or those wishing to enter the market for the first time. Affordable living is a broader concept that takes into account not only the cost of housing it also includes the ongoing running costs of a home, transport and service costs.

Declining housing affordability in Australia has been reported nationally and globally over the last decade with the focus on the ratio of income to housing cost. While this analysis has its limitations, one indicator of the state of affordability is the relationship between wages growth and changes in the magnitude of housing finance. Data from the Australian Bureau of Statistics show that from February 2000 to February 2011 average weekly wages grew by 61.1% while over the same period the average loan size grew by 102.2%. Where wages are not keeping pace with the cost of housing finance, affordability is impacted.

### *The delivery of affordable housing*

Land supply for housing is inextricably linked to affordability. An adequate supply of urban land is necessary to keep housing land prices down and to ensure affordable land for future generations. Land supply has been compromised in recent years largely due to the complexity of the approvals process and has contributed to deteriorating affordability. This is compounded by the nature of the land under development, and planned for future development, which is highly constrained with environmental and drainage issues that carry high development costs with the complex approvals process resulting in lengthy delays. These impacts are also felt in infill areas particularly where remediation of contaminated sites is required.

The implementation of planning reform measures to improve development timelines with positive flow-on effects for affordability has not happened quickly enough and delays continue to have a strong negative impact on the costs of urban development and subsequently on housing affordability. The costs of delay are high: where a 12 months approval time is assumed by the developer a delay of a further year, resulting in an approval time of 2 years, adds 13.3% to the price of a lot. Where a 4 year delay is endured, that is a total approval time of 5 years, the price of a lot increases by 68.4%. The impact on affordability is obvious and demonstrates the imperative for an efficient approvals system based on cross-agency cooperation and uniform

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policy priorities. The Western Australian Planning Commission has the power to make this achievable and to ensure that conditions imposed on development do not conflict but facilitate the delivery of land to the market in a timely manner.

The Lead Agency model responsible for major land supply proposals in the metropolitan area and strategic integrated land use, transport and infrastructure proposals has yet to demonstrate positive outcomes in terms of greater efficiencies in the approvals process.

Cross-agency cooperation, particularly between infrastructure providers, is critical to the capacity of the development industry to provide affordable housing. The government must review the way it funds and delivers infrastructure as the lack of clarity about front-end works leads increasingly to costs being shifted to developers and subsequently to new home buyers. The cost impost on the developer to provide major infrastructure such as pump stations and headworks is prohibitive and it burdens the new homebuyer with the costs of water, waste water, energy and transport. This is inequitable and unsustainable and has contributed to deteriorating housing affordability in Western Australia.

The shifting of costs for infrastructure from the state government and local government to the new home buyer is a key contributor to declining affordability. The costs of community infrastructure have been passed from local authorities to the new homebuyer, through the purchase price of land, and are a further challenge to the delivery of affordable housing. Community expectations of child care centres, recreation centres, sport facilities or libraries are generally provided by the developer with the costs passed onto the purchaser. Where local authorities overdesign infrastructure with a view to decreasing future maintenance costs, the impacts on affordability are immediate and profound and may increase the cost of an item of infrastructure by as much as 70%.

The successful delivery of affordable housing can only be achieved through a whole-of-government approach with the Department of Premier and Cabinet taking a lead role. All government agencies involved in the provision of housing and infrastructure should be aware of how their policies impact on affordability. The government must encourage and facilitate affordability through the approvals system and recognise the cost implications of time delays, policy requirements and decision making on affordability. Affordability must be considered in all policy and legislative reform and barriers to improving affordability removed. The government should consider an affordability index to measure the inputs controlled by government agencies and address increases that exceed the consumer price index.

A fundamental principle of affordability is housing diversity that caters to people of all ages, needs and income. Local resistance to infill development, higher densities and 'one off' dwelling designs can reduce the provision of a variety of housing types and affect housing affordability which puts more pressure on urban fringe locations to provide the majority of new housing mainly in the form of single detached housing. Demonstration projects of more compact and affordable typologies are required to show that affordable housing and quality housing are not mutually exclusive and should not signify additional approval timeframes. Industry has been successful in meeting the challenge of affordability with the use of cottage lots, flats above garages and laneway developments offering high levels of amenity in a smaller footprint. Industry is experimenting with medium and higher density housing in greenfield areas, however this can meet market resistance and affordability criteria are difficult to achieve as the construction costs per square metre of medium and high density developments are significantly higher than single storey development (Table 1).

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Table 1: Comparison of Construction Costs of Single and Multi-Storey Dwellings

Type of Dwelling	Construction Cost	Price per m2	Dwelling size
Single Storey	\$ 250,000	\$ 800	313 m2
Double Storey	\$ 250,000	\$ 1,200	208 m2
3 Storey Walk up	\$ 250,000	\$ 2,600	96 m2
10 Storey Apartments	\$ 250,000	\$ 4,000	63 m2
Over 10 Storey Apartments	\$ 250,000	\$ 6,000	42 m2

Source: UDIA

The successful delivery of affordable medium and high density projects can be supported by incentives such as density bonuses or reduction of stamp duty for developments offering a proportion of affordable housing. These have proven to be effective instruments in the delivery of affordable housing in appropriate locations.

#### *Government policy framework*

The development industry supports the position of *Directions 2031* in terms of land supply and the planning horizon of more than 20 years however the *Central Metropolitan* and *Outer Metropolitan and Peel Sub-Regional Strategies* pay scant attention to affordability. The total land in the urban expansion plan is 32,300ha which should be sufficient if the approvals process operates efficiently and increased density in infill and greenfield areas is achieved and if all urban land is developed and/or made available to the market. Some small or multiple ownership parcels are unlikely to be realised quickly. The scenario based approach of *Directions 2031* allows for adjustments to urban growth requirements based on monitoring of the targets and adjustment of future urban land requirements through the urban development program. Density targets for infill areas offering affordable options will require incentives given the higher land costs in inner ring suburbs and higher construction costs particularly for developments of over three storeys.

The mandate of the *Affordable Housing Strategy 2010-2020: Opening Doors to Affordable Housing* (Department of Housing, May 2011) is to provide long term solutions to increase the availability of affordable housing in Western Australia. The strategy seeks to provide a wider range of housing options to low and moderate income households and to transition people through the housing system from public rental to home ownership. The government wants to partner with private developers and non-government organisations to increase the supply and diversity of affordable housing and proposes a 15 per cent affordable housing quota on State Government land and housing developments. It targets key planning reforms such as the use of ancillary dwellings, introducing planning codes that facilitate medium density mixed use or multi-unit developments while continuing Keystart low deposit loans and the shared equity scheme.

Federal and state government initiatives to improve housing affordability include first home owner grants and stamp duty concessions for first home buyers. While these are supported by the industry they offer short term opportunities for entry into home ownership but do not challenge systemic issues of land availability, the cost of regulation, the provision of infrastructure or labour supply that have contributed to declining housing affordability.

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#### *UDIA policy position*

It is the policy of UDIA to:

- Promote the need for an efficient approvals process that protects housing affordability by reducing timelines and risk;
- Promote the need for the Western Australian Planning Commission to exercise its power as the central approval agency to ensure an integrated approach to land use, transport and infrastructure planning to deliver serviced lots to the market in an efficient manner to protect affordability;
- Promote the need for the Western Australian Planning Commission to ensure that conditions imposed on development do not conflict but facilitate the efficient delivery of land to the market;
- Promote state and local government policy that encourages innovation and diversity of product;
- Advocate for planning incentives such as density bonuses to improve the viability of projects and to make medium and high density developments more affordable;
- Promote the development of new, innovative funding structures and initiatives to reduce the cost burden of infrastructure on new home buyers and increase the supply of affordable housing in Western Australia;
- Support the continued use of taxation mechanisms to help maintain a stock of affordable housing, such as relaxation of stamp duty for first home buyers and negative gearing of investment property, and promote a regular review of these measures to maintain housing affordability.
- Support public private partnerships for the provision of affordable housing product;
- Support partnerships between the public and private sectors to deliver affordable housing;
- Support initiatives such as the use of ancillary housing for affordable rentals and to increase housing diversity in appropriate locations;

This Position Statement articulates UDIA's current policy position and supersedes any other UDIA policy statement.

<b>Committee Review</b>	<b>Endorsed by Council</b>	<b>Policy Review</b>
	July 2011	