Tell’em they are dreamin’

Housing Affordability in the ACT
The Usual Measures

Affordable Housing
‘housing that is safe, appropriate and accessible and where housing services are purchased for 30 per cent or less of a household’s gross income’

Housing Stress: The 30/40 Rule
The 30 percent rule is usually applied to the lowest 40 percent of households by income (bottom two income quintiles)
The Usual Measures (contd...)

Median Multiple

The ratio of median house price to median income. An internationally used measure for comparisons of markets.

3 or less: Affordable;
3 - 4: Moderately Unaffordable;
4 - 5: Seriously Unaffordable;
Greater than 5: Severely Unaffordable
Housing Affordability
A social construct

- A social norm reflective of what we expect as reasonable consumption and costs relative to income.
- A range of other expectations reflected in planning policies, building standards, and rules and laws regarding materials, methods, skills etc.
- Households’ expectations may differ across tenures or during the various phases of life.
‘I thought the prospect of being able to buy a modest size house sufficient to raise a family, within a reasonable distance of a job that pays an average salary should be part of an Australian's birthright.’

The Canberra Times; comments on 6 May 2015
Income Distribution...double peaked

Source: Report of the Affordable Housing Steering Group 2007
Income Distribution...away from mean/median

Source: Report of the Affordable Housing Steering Group 2007
Trends in Affordability: Changes in Median Multiple
No change in aggregate measure over the decade

Source: Demographia International Housing Affordability Survey 2015
Changes in Dwelling Prices – Houses
Decreasing stock at equivalent price...pressure on prices
Changes in Dwelling Prices – Multi Units
Similar to detached houses

Price Distribution of Multi Unit Dwellings 2003-04 and 2013-14
So why no progress despite commitment at all levels?

• Too many factors at play

• Several levels of government

• Convenient to look towards the other for solutions

• Readily seen as a political problem rather than a policy problem
Underlying Causes...usually mentioned

- High population growth...immigration...too many people looking for houses
- Negative gearing...
- Low interest rates...people feeling wealthy...people behaving irrationally...bidding up prices
- Easy credit...cheap finance...banks not behaving responsibly...people in the market who should not be there
- Foreign money...Chinese investors
- Government subsidies and concessions
- Government taxes, fees and charges...passed on to buyers
Underlying Causes...the one thing

“...the affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land.”

Dr Donald Brash (2008)
Former Governor, Reserve Bank of New Zealand
Underlying Causes...restrictions on land supply

“...there is little doubt that state government restrictions on both land supply for housing and the application of capital to land are limiting the supply of housing. The Productivity Commission (2004) found that housing land values on the urban fringes of Australian cities significantly exceeded the opportunity cost of non-residential land.”

Abelson P; Economic Papers; Vol. 28, No. 1, March 2009; pp 27-38
Underlying Causes...unresponsive land supply

“Housing affordability is complex in the detail – governments intervene in many ways – but is conceptually simple. It costs too much and takes too long to build a house in New Zealand. Land has been made artificially scarce by regulation that locks up land for development. This regulation has made land supply unresponsive to demand.”

Hon Bill English; Deputy Prime Minister New Zealand
Land Supply...Medium Term Targets
Decrease of 6,000 dwelling sites in 4-year program

- 4-year Residential Land Supply Target: 2012-13 Budget 19,500
- 4-year Residential Land Supply Target: 2013-14 Budget 18,000
- 4-year Residential Land Supply Target: 2014-15 Budget 13,500

Source: Statement of Intent (Relevant Years)
## Land Supply Targets...and Delivery

### Delivery Against Targets

<table>
<thead>
<tr>
<th>Budget Year</th>
<th>Target</th>
<th>Actual</th>
<th>Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008-09</td>
<td>3,792</td>
<td>4,028</td>
<td>236</td>
</tr>
<tr>
<td>2009-10</td>
<td>3,014</td>
<td>4,279</td>
<td>1,265</td>
</tr>
<tr>
<td>2010-11</td>
<td>5,000</td>
<td>5,048</td>
<td>48</td>
</tr>
<tr>
<td>2011-12</td>
<td>5,500</td>
<td>2,466</td>
<td>-3,034</td>
</tr>
<tr>
<td>2012-13</td>
<td>5,000</td>
<td>4,354</td>
<td>-646</td>
</tr>
<tr>
<td>2013-14</td>
<td>4,800</td>
<td>3,299</td>
<td>-1,501</td>
</tr>
</tbody>
</table>

Source: Annual Report (Relevant Years)
Land Supply Targets…and Delivery
Shortfall of 5,181 dwelling sites against budget targets over 3 years
Land Supply...Change in Objectives

2012-13 Objective 1
- Ensure an adequate supply of land to meet market demand and establish an inventory of serviced land

2013-14 Objective 1
- Ensure that an adequate supply of greenfield and brownfield land will be maintained to meet market demand for residential, commercial, industrial and community uses.

Source: Statement of Intent ( Relevant Years)
## Land Production Costs and Sale Price

### High Zoning Costs

<table>
<thead>
<tr>
<th>Item</th>
<th>Economic Value/Cost ($/m²)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Raw Land</td>
<td>~ $1</td>
</tr>
<tr>
<td>Trunk Infrastructure</td>
<td>~ $50</td>
</tr>
<tr>
<td>Estate Infrastructure</td>
<td>~ $140</td>
</tr>
<tr>
<td>Studies, Fees</td>
<td>~ $10</td>
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<tr>
<td>Financing Costs</td>
<td>~ $30</td>
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<tr>
<td>Development Margin</td>
<td>~ $35</td>
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<tr>
<td>Total Production Cost</td>
<td>~ $266</td>
</tr>
<tr>
<td>Land Price (Sample Average)</td>
<td>~ $467</td>
</tr>
<tr>
<td><strong>Excess (~43 percent)</strong></td>
<td><strong>$201</strong></td>
</tr>
</tbody>
</table>
Land Value: Econometric Estimate
Characteristics Based Valuation

![Graph showing UV (2010)/Sqm vs Distance from the City (km)]
Molonglo Land Release

Estimated $530

Actual $740

Land Value/m²

Multidimensional Criteria including Distance from the City

Molonglo: Actual

Molonglo: Econometric
Lawson Land Release...similar picture

- Actual $900
- Estimated $481*

* Figure based on 2010 model
Policy Stances and Responses for ACT?

- Problem common across jurisdictions but is ACT unique?
- Monopoly on land supply – who is the regulator?
- Housing affordability – welfare measures or should we expect mainstream responses?
Policy Stances and Responses for ACT?

- Objectives of government land supply – revenue, competition in the market?

- Status of current policies – Affordable Housing Action Plan targets?

- Time to rethink or just implement what is already agreed?
Policy Stances and Responses for ACT

- Unreasonable to suggest to sell land below the market price. However, reasonable to expect that market price is stabilized given the monopoly control
- Need to address concerns about negative equity and eroding wealth
- Responsive land supply system: planning and builder pipeline
- Ensure enough supply to meet demand: inventory on the shelf
Questions and Discussion