

The land premium that's punishing property

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High land prices have all but killed the Australian housing industry.

Lower housing starts has led to lower GST revenues (house construction attracts full GST) and lower stamp duty receipts are crippling state budgets and crueing the chances of low and middle income earners to get a start in the housing market.

What has caused this slump in housing starts? Land prices.

Raw land for new housing developments should be close to its agricultural value – in other words, around \$10,000 per hectare. But land released for residential development fetches up to \$1 million per hectare – 100 times the agricultural price.

Government land management agencies and private land developers may well argue a lot of land has been released for residential development, but clearly it is not enough.

Only when urban growth boundaries are removed will we know a piece of land's true value. It will then be a trade-off between price and distance. People may be prepared to travel another 10 or 15 minutes by car (10 to 20km) to get a cheaper block.

To highlight the “X’ years supply of land available” argument, I heard a state bureaucrat say recently that the government had released enough land for 15 years supply. I raised my hand and asked “15 years supply - at what price?” He didn't know what I meant. I said “at \$200,000 a block it may well take 15 years to sell. So why don't you double the price and then you'll have 30 years supply?”

These points highlight the fact that, as with most central planning, housing planning is based on a fundamental flaw – that price does not matter. But as we know, price does matter. Imagine the demand for housing if land was \$100,000 per block cheaper. Think LCD, LED and plasma TVs over the past five years.

Australia does not have, and never has had, a housing affordability problem, it has a land affordability problem. The cost of building a new house has hardly moved in 20 years. Land prices however have skyrocketed. By restricting the amount of land available on the urban fringes of our cities, state governments have sent the price of entry-level housing through the roof.

The reasons state governments give for these restrictions all centre on urban planning. They have persisted with their policies of urban densification (squeezing more and more people into existing suburbs), an idea that has failed all over the world.

Whether it's traffic congestion, air pollution, the destruction of bio-diversity or the unsustainable pressure on electricity, water, sewage or stormwater infrastructure, urban densification has been a disaster. The evidence is overwhelming; urban densification is not good for the environment, it does not save water, it does not lead to a reduction in motor vehicle use, it does not result in nicer neighbourhoods, it does not stem the loss of agricultural land, it does not save on infrastructure costs for government and, worst of all, it puts home ownership out of the reach of those on low and middle incomes.

State governments use urban planning laws to restrict the amount of fringe land available and then drip feed it through their land management agencies to a land- starved housing industry at inflated prices. Hmmm. After a change of state government a few years ago, a former cabinet minister was

asked why her government didn't release more land to kick-start the housing industry. She replied: "We needed the money." So much for urban planning.

And of course land developers with massive land banks on their books urge state governments to maintain the scarcity to maintain the 'value' of the developers' inventory. Developers would be better off if they supported the removal of urban growth boundaries and allowed more broadacre land to come onto the market which they could buy at greatly reduced prices. With land prices significantly lower than they are today it wouldn't take long for the industry to recover. Until land prices fall, there will be no recovery.

The Australian housing industry is building 40,000 fewer homes a year than it should be. That's more than \$10 billion worth of work a year the industry is missing out on. That's a lot of bricks, concrete, timber, tiles, steel and, of course, labour.

Governments and industry associations have known for years this was coming but just played footsies with each other – read US economist George Stigler's book *Regulatory Capture* to understand how and why this happens.

Australia's economy has been seriously distorted due to a massive overinvestment in household debt. We have a housing industry on its knees. Getting all this back into alignment with reality will take time but it is a realignment that is necessary.

We cannot continue to deny the next generation a home of their own merely to satisfy the indulgences of urban planners and state government treasury officials.

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