Master Builders Association of Victoria

Submission to Productivity Commission

On

Inquiry Into First Home Ownership

October 2003

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INTRODUCTION

The Master Builders Association of Victoria was established in 1875 and represents the professional and industrial interests of Victoria's building practitioners. It advocates on behalf of the industry to all tiers of Government.

MBAV has been at the forefront of developing responsible policies for the construction industry in a wide range of areas including industrial relations reform, training, international business development, technical support, changes to the taxation system and regulation of owner builders, among others.

The Association is committed to developing the highest possible standards of professionalism in the building and construction industry. Each year we conduct major awards programs to encourage excellence in residential and non-residential construction.

Our membership covers builders at every stage and level of the construction process - commercial, industrial, specialist sub-contracting and housing and domestic sub-contractors.

We also represent manufacturers and suppliers of building materials. Our associate members include architects, building surveyors, land and quantity surveyors, building inspectors, engineers and draughtspersons.

This submission deals exclusively with housing affordability in the Victorian market, particularly the residential building market, with a particular focus on first homebuyers.

EXECUTIVE SUMMARY

Having considered the issues that impact on housing costs and the terms of reference for the productivity Commission inquiry, Master Builders Association of Victoria has provided recommendation the homeownership inquiry that will assist to improve the ability of first homebuyers to enter the housing market.

The Association finds that building materials prices have not been a significant factor in generating excess price pressure in the Victorian residential building industry. As a highly completive market, new house construction prices have not been rising at a substantial rate – in fact building materials prices have largely moved in line with consumer prices.

The costs of land acquisition, adherence to local and state regulations by builders and developers, stamp duty imposts on existing dwellings and a lack of indexation of the fist home Owners grant, are all seen as important factors in limiting the supply of inexpensive housing in the current market.

In particular, the Association calls for indexation of the FHOG and an increase in its rate for new dwellings to $15,000 to assist in removing the impact of GST on new homebuyers who build their home.

Local Government town planning policies, and their inconsistent application, also serve to limn it supply, be holding up the approvals of new projects and increasing developers and builders holding costs.

Infrastructure provision is also reviewed, with a recommendation that the Productivity Commission will need to inquire into the degree to which infrastructure charges will impact on new house development costs. Developer contribution charges form part of this same issue and should be reviewed as to the extent of their influence on housing supply.

There is a need to assess the extent to which new infrastructure charges are hared by the whole community, or paid for by new residents to a sub-division. This issue goes to the heart of equity and fairness across different generations, as today's consumer's end of paying for the provision on new assets for future generations. As sharing of the cost burden is required, so that first homebuyers no longer need to contribute a significant share of infrastructure costs.

LIST OF RECOMMENDATIONS

Recommendation (1):
The FHOG be increased to $15,000 for new buildings and be adjusted for CPI movements each financial year, to preserve the real value of the grant and that the FHOG only be available to those who intend to build a new dwelling.

Recommendation (2):
Negative gearing for residential property remain in it current form. Removing the scheme, as suggested by some, will likely lead to substantial distortions in the market for rents and the supply of additional housing stock, as occurred during a brief period in the 1980s when negative gearing was abolished.

Recommendation (3):
Population growth should not be used as a lever to control housing affordability, as increases in population and household formation provide the basis for the overall economy to generate medium term economic growth.

Recommendation (4):
The Federal Government investigate the opportunity of providing potential home owners with their 20% housing deposit, through the issue of an interest only Commonwealth Government Security. The scheme would work similar to HECS and could be repaid through the income tax system.

Recommendation (5):
State Government stamp duty tax scales are amended to adjust for inflation and price growth in established dwellings. It is acknowledged that this is a State based issue and not the purview of the Federal Government. However it is considered a major reason for individuals' lack of access to housing and therefore should be considered in any reform agenda.

Recommendation (6):
Eligibility scales for first home buyers, in regards to stamp duty exemptions, need to be reformed, allowing for at least a $50,000 increase in the scales, with no income test to apply.

Recommendation (7):
That local government town planning polices be reviewed to ensure that land supply and the efficient approval of building permits can occur. Currently Melbourne's planning process is cumbersome at best in approving new permits.

Recommendation (8):
Productivity Commission investigate the degree to which infrastructure improvements in inner suburbs and for new Greenfield sites, impact the affordability of housing.

Developer contribution charges need to be assessed in order to understand their potential negative impact on land and housing affordability.

Recommendation (9):
The Federal Government provide assistance, through the CSHA, for the states to build more public sector housing stock and to provide incentives for the private renters to take up the provision of inexpensive housing.

Recommendation (10):
Any scheme to allow potential homeowners to access their superannuation needs to be carefully researched. There is the possibility of making people less well off in their retirement if the scheme does not have enough checks and balances to stop individuals squandering their retirement funds.

Nevertheless, it is recognised that the proposal has merit and is worthy of further investigation by the Federal Government.

Recommendation (11):
The reports by the Menzies Research Centre to the Federal Government should be considered for their potential to reduce the deposit gap and provide easier access to new housing by households of all income levels.

WHY HOME OWNERSHIP IS IMPORTANT

The issue of housing affordability is a vexing one for policy makers at present. The rate of home ownership remains high – around 66% ownership rates in Australia – yet there is an increasing problem with first home buyers attempting to enter the market, particularly to buy established properties in the inner and middle suburbs of Melbourne, where prices are very high.

This has created concern that Australia is developing a potential underclass of individuals and households that will be locked out of home ownership, due to an inability to bridge the deposit gap, or to secure enough finance, or to meet the prepayments on loans.

Individuals regard housing as an important measure of social standing and well being, whether that is through renting a dwelling, outright ownership or paying off a home.

In this respect, home ownership provides a sense of belonging and security for individuals and households, enabling them to connect with their local community, family networks and friends.

The role of home ownership as a social good must therefore be acknowledged and addressed by all levels of government.

RECENT ESTABLISHED HOUSE PRICE EXPERIENCE

Melbourne and other capital cities have experienced significant price growth in recent times – median prices have risen 81.3% in Melbourne in the last five years and 23.3% since June 2001, reaching a level of $359,000 at June quarter 2003[1].

Growth for unit and apartment development has been similarly high, with an 88.5% increase since June 1998 and 21.2% in the two years to June quarter 2003, with median prices now at $279,000.

This growth in established house prices has exceeded the increase in project home prices over the same periods (see section on building prices increases).

First homeowners are, in the main, buying established properties in the capital cities of Australia, rather than building a new house or flat/unit. Nevertheless, the relative advantage that building new rather then buying established dwellings, that has opened up in recent years, has been one reason for the increase in building approvals numbers in the last half decade.

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[1] Real Estate Institute of Victoria, *Median Prices*, data request, June 2003

Finance statistics from the ABS indicated that about 14% of all finance is going to first homeowners, having peaked at around 25% during 2001 as people accessed government homeowner grants.

Moreover, analysis of the First Home Owners Grants showed that the majority of individuals were using the grant to purchase established dwellings, rather than using the money to build their first home.

The Federal Government reacted to this by increasing the grant to $14,000 from March 2001 for those who intended to build their first home, which generated sharp lift in building approvals.

Affordability has therefore impacted differently for those that are building as opposed to people who are buying their first property.

Considering that new building prices have increased at a moderate pace, we consider land supply issues and taxes as having more weight in the provision of affordable housing for consumers over recent times.

The importance of access to housing by those on lower to middle incomes is the primary focus of the Productivity Commission's inquiry and so we spend time on this issue in our submission.

BUILDING PRICE INCREASES

There is the perception in the market place that residential builders at present are using the historical boom in activity to increase construction prices and make super normal profits.

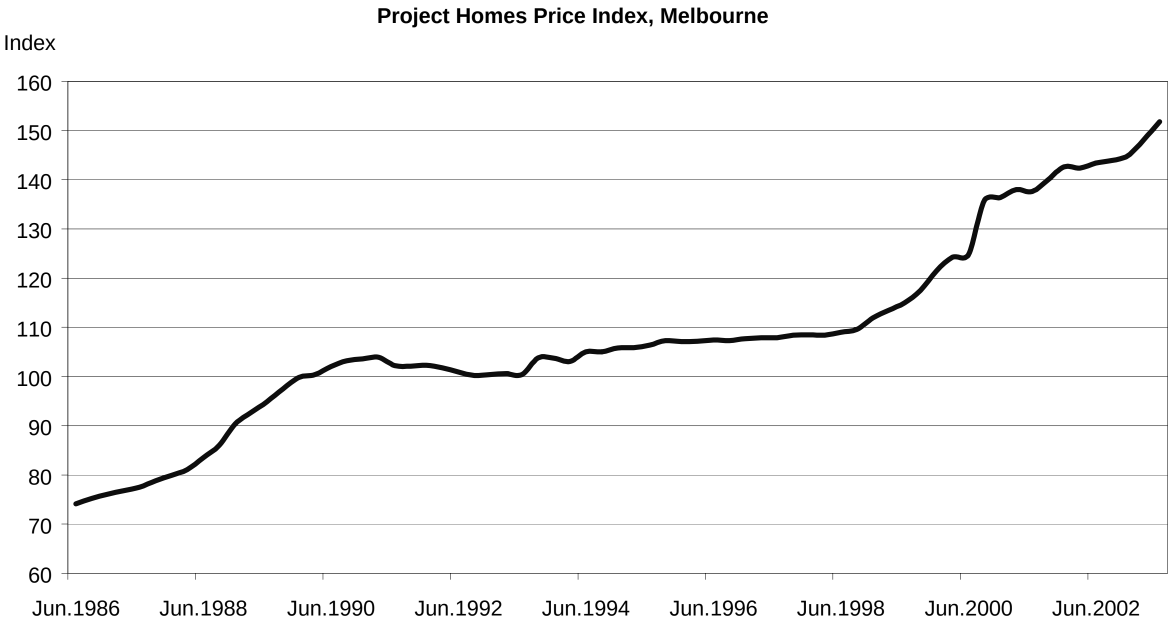
History however suggests builders are better off financially in a slow market, or even a market that is in recession, compared to boom times.

This is due to the pricing power of the existing labour supply – subcontractors who work on construction sites. As builders contract prices are fixed, with minimal movement for variations, an increase in costs strips profit out of the hands of the developer or builder and puts it in the hands of the subcontractors and in some cases consumers, who in some instances are able to win further concessions from builders in terms of stalling the final payment to the builder.

A look at the cost to construct new homes from ABS data reveals a relatively flat line, rising modestly (Chart 1). This suggests that there have been few issues around the supply of raw materials and that builders are not adding additional costs to material prices.

Project home prices have been increasing by an average 4% per year since the mid 1980s. Increases have been slightly higher over the last two years (5% per annum) however, as demand for new building in Victoria has put some strain on material suppliers (Chart 1). Nevertheless, the increases are not excessive, and looked at in the context of established house price growth, are relatively mild.

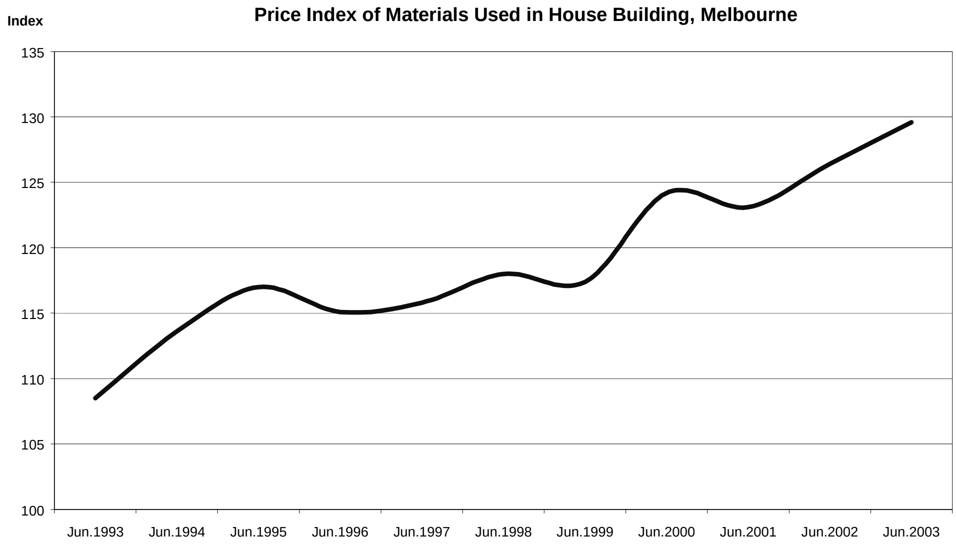
Chart 1: Project Homes Price Index, Melbourne



Source: ABS, Cat No 641603, Base 1989-90=100

The price of materials used to construct homes has also shown a relatively flat incline over the years. The total increase over last decade has been 19.4%, with the only notable increases occurring in the last two years, when prices have increased in total by 5.3%, which is broadly in line with consumer price movements over the same period.

Chart 2: Price Index of Materials Used in House Building, Melbourne



Source: ABS, Producer Price Indexes, Australia, Cat No 6427017

Construction costs have increased broadly in line with the consumer price index for residential construction. However, in the commercial sector, the costs to construct in Victoria are at least 20% higher than in New South Wales due to the enterprise bargaining agreement reached with the construction unions in 1999/2000 that sees the introduction of a 36 hour working week in Victoria from 2003.

This agreement covers the construction of multi-unit development, such as those in Southbank and Docklands, and so inflates the price paid for individual units by final consumers.

This is an important point because the overall house market in Victoria has begun to lean towards a higher share of multi unit work compare to detached houses, especially in the central business district and inner suburbs. This supports the view that builders have not been increasing their profits but rather have been forced to pass on higher costs through the industrial agreements they sign in the commercial building sector.

Data from the Australian Institute of Quantity Surveyors survey of construction costs[2] reveals that the square metre costs for a house of standard design at September 2003 was $510, while that of a medium standard house was $590 per square metre. A high standard house has costs of $1,000 per square metre.

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[2] Australian Institute of Quantity Surveyors, *Current Construction Costs & Index*, September 2003

Comparison costs for the same categories for September 2002 reveal no change in per square metre costs, adding further evidence that actual construction costs have not risen to by any substantial degree.

By all measures and accounts, construction prices for detached dwellings have not risen substantially in recent years and therefore have not been a significant reason in reducing housing affordability.

COMPETITION KEEPS PRICES UNDER CONTROL

The residential building market is characterised by near perfect competition, with a large number of builders competing for work, using sub-contract labour to provide the physical on site construction.

Most sub-trades and builders are price takers, in that they have limited ability to influence the price they pay for materials, other than volume discounts.

In Victoria, annually there are up to 45,000 dwellings commenced each year, a significant increase on the levels that persisted in the mid 1990s.

Competing to complete these projects are a mix of major builders, a small number of medium sized builders and about 10,000 small builders, who might do only three of four homes per annum plus one of two renovations.

Assisting builders to complete projects are tens of thousands of subcontractors, which in Victoria would number any thing up to 60,000 individuals. As such, builders find themselves in a very competitive environment, as do their sub-trades, thus the degree of market power is limited. In part, this would explain the rise in building costs not being too dissimilar to that of inflation, on average.

The development industry, by contrast, is comprised of a handful of large players throughout Australia competing for the right to market their developments to the general community.

These organizations have a degree of market power and are capital intensive industries, with a high degree of risk associated with their developments and therefore a higher profit margin expected at the conclusion of the development.

Nevertheless, it is not considered that these groups hold enough power to significantly increase the costs of material and labour above their long run equilibrium rate.

Master Builders Association of Victoria, in its discussions with major builders and those that develop land, that there are few companies that decide to “land bank”, i.e. hold large parcels of land for a considerable time period, hoping to on sell the land at a significant profit in the future.

This speculative practice is thought to be too risky in the current environment for major developers, who prefer to construct on the land as quickly as the planning and building approval process will allow them.

Speculative developers and builders are thought to have some involvement in the “land banking” market however, though the degree to which this occurs cannot be determined with any certainty.

Again, builders’ practices are not a significant reason for price escalations in recent years, through some developers do possess enough market power to “create markets” and therefore influence prices in a development. They do this by “drip feeding” the amount of land they release to builders, holding land to maximise its return upon sale in a rising market.

While these practices do increase land prices and no doubt have played a part in rising land costs in the last year or two, it is uncertain as to the extend of this practice occurring in Victoria.

RECENT TRENDS IN AFFORDABILITY

Master Builders Association national office has undertaken a survey of members throughout the states to determine the views of members on affordability issues.

Members advised that housing affordability for their first home buyers clients was worse at September 2003 than it was two years ago, and much worse compared with the situation five years ago.

This is show in the Table 1, which indicates that any recording over 50 (neural level) indicated lower affordability, while any reading under 50 indicated improved affordability.

Table 1: From the perspective of your first homebuyer clients, how would you rate affordability?

Affordability	**Net Balance (50 = neutral)**
Now	72.1
2 Years ago	48.5
5 years ago	36.2

Source: MBA Inc., *National Survey*, September 2003

As a follow up, builders were asked what issues impacted on affordability at present, with the outcomes observed in Table 2.

Table 2: What effect are the following factors having on affordability?

ISSUE	NET BALANCE
Land prices	91.3
State government fees/charges	80.5
Indemnity Insurance	79.9
Land availability	76.7
Regulatory delays (development approval)	73.4
Availability of trades	71.4
Local government fees/charges	70.9
GST	69.2
Excessive buyer expectations	67.3
Price or availability of materials	63.7
Infrastructure costs	60.4
Access to finance	39.6

Source: MBA Inc. *National Survey*, September 2003.

Again, a net balance above 50 indicates the issue is negatively impacting affordability. As can be seen, land availability and its cost and state and local government fees and charges are hurting builders and therefore their clients, the most. Only one issue – access to finance – was not seen as a significant factor limiting affordability.

Without doubt, the burden of regulations imposed by local, state and federal government does impact upon the costs of providing housing to Australians.

Therefore, there are a multitude of factors, each important in their own right but together having a significant effect, that are impeding access by households to affordable and inexpensive housing throughout Australia and Victoria.

Various aspects of this survey are dealt with throughout the reminder of this submission.

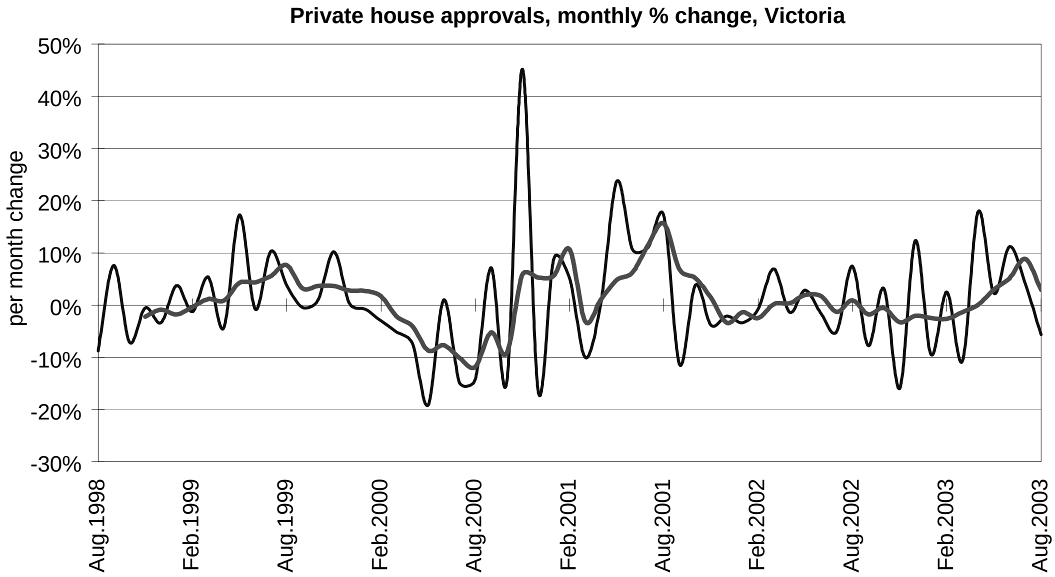
FIRST HOME OWNERS GRANT

The introduction of the Goods and Services Tax in July 2000 was the catalyst for an (expected) increase in construction costs across the board. The Department of Treasury and Finance at the time estimated costs would rise by 4.7% while work done for Master Builders Association suggested the rise would be closer to 8%.

Following the GST's introduction, the construction industry underwent a sharp decline in activity – in Victoria private sector house approvals fell 54% from a monthly peak of 3,382 units in December 1999 to 1,552 dwellings by October 2000.

As can be seen by the chart 3, building approval volatility increased substantially around GST introduction time, while overall building approvals fell.

Chart 3: Private Sector House Approvals, Victoria



Source: ABS

To offset this, the Federal Government decided to increase the $7,000 first home owners grant, which began from July 2000, to $14,000 for those who intended to build their first home, rather than buy an established dwelling, in which case they would continue to receive the original $7,000 subsidy.

The impact of this decision was immediate. The domestic building market entered a recovery phase, with building approvals increasing between March 2001 and December 2001 by 55%[3] on a monthly basis, as people accessed the higher grants to build new homes or apartments.

During 2002, the FHOG for those building their first home was progressively reduced to $10,000, which applied from 1st January to 30th June, and then to $7,000, which applied from 1st July onwards.

These measures had a stabilising effect on building approvals, reducing their monthly variability (chart 3).

[3] Australian Bureau of Statistics, *Building Approvals Australia*, Cat No. 873101b.

Analysis of housing finance data confirm that the FHOG did assist first homebuyers enter the new dwelling market; they applied for 26.3% of all loans by December 2001 in Victoria[4].

Their average loan size has also increased from $151,000 in December 2001 to $184,900 in July 2003[5], implying that the FHOG did allow for greater access to finance for building or buying a new home.

Since the removal of the additional grant stimulus, first homebuyer numbers have again dissipated. This raises the question of whether the FHOG should again be increased.

Master Builders Association recommends that the FHOG be indexed to the Consumer Price Index at the very least, or to the rate of increase in building costs. It is noted that the latter has largely moved in line with consumer prices in the last two years (and in the long term) and so either measure could be adopted for indexation purposes.

This will ensure that the real value of the subsidy is not eroded over time, as is presently occurring. It will also preserve the original policy intention of FHOG to compensate those wishing to build a home for the GST price impacts.

This lack of indexation is in turn making it difficult for new homebuyers to access the market for new building projects.

As the Productivity Commission terms of reference require it to include "*an assessment of rent and direct ownership subsidies, loan guarantees and shared equity investments*" MBAV points the Commission to the influence of FHOG in enabling new entrants to access housing, particularly those on lower incomes.

In addition, to reduce distortion between the established home market and new residential buildings, it is recommended that the FHOG only be available to those first homebuyers who wish to build their first home. MBAV further advocates that the grant be increased to $15,000 per annum.

It is the construction of new homes that directly ads to economic activity and which therefore brings advantages in terms of multiplier effects throughout the state and national economies.

Better targeting the grant will help eliminate the FHOG being capitalised into the cost of established dwellings, driving up their price. This solution should also be seen in terms of established dwellings not having 10% GST applied to their final sale price, mitigating the need for direct subsidies to buyers of these homes.

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[4] Australian Bureau of Statistics, *Housing Finance for Owner Occupation Australia*, Cat No 560909b
[5] Ibid.

Recommendation (1):
The FHOG be increased to $15,000 for new buildings and be adjusted for CPI movements each financial year, to preserve the real value of the grant and that the FHOG only be available to those who intend to build a new dwelling.

DEMAND FOR HOUSING

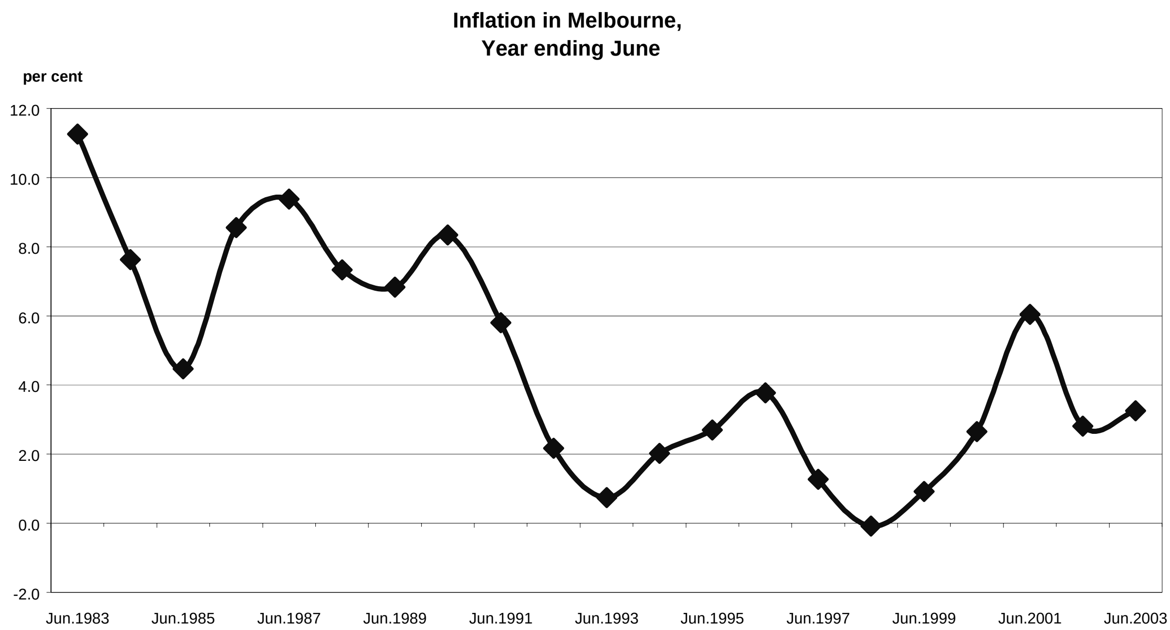
There are a number of important factors that influence demand for houses.

Employment (and unemployment), household income levels, inflation, population growth, economic growth and inertest rates are all at play.

In recent years, on of the major changes in the Australian finance market has been the steady decline in interest rates.

This has occurred as the Reserve Bank of Australia has grown confident about the degree of price stability in the economy, typified by low inflation, see chart 4.

Chart 4: Melbourne Inflation, Financial Year

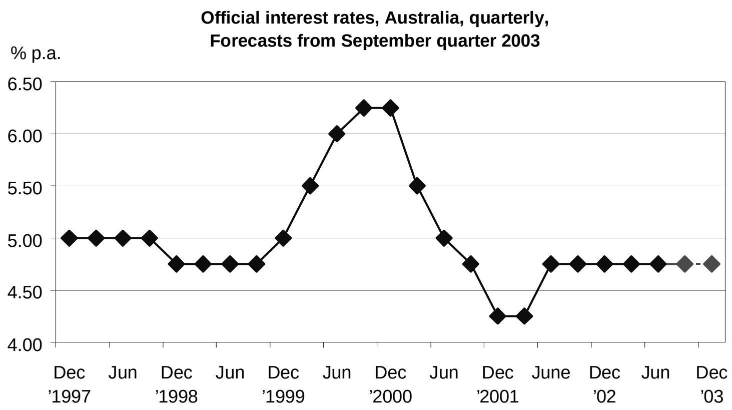


Source: ABS, *Consumer Price Index, Australia*, Cat no 64011a

Inflation has fallen in Australia since the 1980s, to be now within the Reserve Banks target range of 2-3 per cent annually.

These developments have contributed a fall in the equilibrium interest rate level required to achieve price stability. Chart 5 shows the decline in interest rates in recent years.

Chart 5: Official Interest Rates, Australia and Forecast to December 2003.



Source: Reserve Bank and MBAV forecasts

Lower interest rates in turn have been a stimulant to the detached housing market.

During 1996-97, when rates were falling, the rate of building approvals in Victoria was growing and continued to do so through the 1990s, until GST put a brake on activity for approximately one year.

Chart 6: Private Sector House Approvals, Victoria, Monthly

Source, ABS, *Building Approvals Australia*, Cat. No. 87311b

Since the introduction of the GST in mid 2000, interest rates have been on a downward path, and together with the first home owner grant, have assisted to lift building approvals back to record levels, see chart 6.

The building industry has long viewed, and continues to view, the level and movement of interest rates to be an important factor in determining affordability for first homebuyers.

Lower rates have also increased the buying power of households, who can take on larger debt in times of low interest rates. Indeed, this has occurred in Australia since the 1990s.

The higher incidence of debt has shown up in a surge in building approvals data for both owner occupier and investors, as they rushed to access a booming housing market, hoping for capital gains or to beat further price rises.

These high debt levels do have a downside however. The main one being a substantial rise in interest rates – considered to be anything over 2.5 percentage points – would begin to reduce affordability and most likely flatten out housing prices.

It would take an increase in rates of at least 3 percentage points to begin reducing the price of houses to any significant degree. Of course, such an outcome would be beneficial to those buyers wanting to enter the market for the first time, as affordability would substantially improve.

However, it remains the building industry’s view that apartments close to or in the central city would be the main sectors affected by such a move, as overcapitalised investors seek to liquidate their holdings and avoid large losses, in either rental returns or capital loss.

Detached houses in the suburbs would most likely see a small decline in price at best, as households decide to maintain their holdings and wait for mortgage rates to fall again.

Provided a sharp rise in interest rates did not cause a general recession, of the type seen in the early 1990s, the prospects that affordability would mostly be improved for all potential home owners would be relatively small.

Certainly a credit crunch, through sharply higher interest rates, is not in the interests of the wider economy and Master Builders Association of Victoria cautions against such an approach. Dislocation throughout the entire economy occurred in the early 1990s recession, brought on by a policy of higher interest rates in the late 1980s to control inflation and a housing price spike at the time.

A similar episode in the next year or two could produce similar damage is the brakes are applied heavily enough. Granted, housing affordability would improve substantially, however existing owners would also face substantial capital losses – and negative equity – leading to an overall loss for the entire economy.

In a free market economy, such as exists in Australia, the predominant forces that determine the price level are the demand for goods and services and the supply of such services. When demand exceeds supply, prices increase until the demand-supply equation returns to equilibrium, which can result in prices falling back to their original level.

There are numerous factors that might shift the demand for a good or service other than its price – technological change, increased marketing of a product that results in its demand increasing and population growth, which leads to greater demand.

Despite the above factors being an important influence on demand, it also appears that the increasing use of property investment seminars have lured more individuals into the housing market as investors.

These have grown in significance during the last five years, particularly for multi unit development in the central business districts of Australia’s capital cities.

Some seminars have come in for criticism from government and regulators about the quality of information being provided to potential investors.

The use of negative gearing strategies and deposit bonds to secure off the plan purchases of units and apartments has prompted criticism from government circles that investors are overextending themselves in the market place.

Borrowing to invest in residential property has ballooned from $2.83 billion at June 2001 to $4.78 billion by June 2003 in trend terms, an increase of 68.9%[6]. In June 1998 the figure was a much smaller $1.43 billion. This substantial growth has caused the Reserve Bank to express concern at the rising debt levels of the nation.

This high level of investor activity would also appear to be "crowding out" genuine first home buyers from the market, would are unable to generate the required deposit, or are forced into paying considerably more for their homes.

This begs the question of whether there should be reform of the tax treatment of property, especially in relation to negative gearing.

It has been commented that negative gearing provided property investors with a substantial edge over non-geared individuals in terms of purchasing property. This is no doubt true.

However, negative gearing is an enshrined practice in investment law, and is not confined solely to property translations. Share portfolios and investments in bonds and other fixed interest securities can also be negatively geared, and business interest outgoing as are an ordinary business costs that is deductible. There is no suggestion that theses asset classes need reform of their tax treatment.

Any government needs to recognise that eliminating negative gearing for property investment will make that asset class significantly less attractive relative to shares and other assets. In turn, investors are likely to increase rents substantially to make up for the shortfall in caused by the loss of tax credits. This is precisely what occurred in the mid 1980s when the then federal government eliminated negative gearing. It was quickly reinstated to reduce the pressure on rents.

Attempting to reform negative gearing in the past has proven unsuccessful and altering the current scheme at a cyclical peak in housing demand will not be in the best interests of the market. A substantial distortion could be expected, along the line experienced during the GST's introduction, however with no offsetting policy measures to smooth demand (such as the FHOG since July 2000).

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[6] ABS, *Lending Finance Australia*, Cat No 567108a.

Interest rate increases- likely in early 2004, perhaps earlier – are considered a more effective option in reducing the incidence of investor activity in the market, while not distorting investment choice between property and other investment asset classes, such as equities.

Recommendation (2):
Negative gearing for residential property remain in it current form. Removing the scheme, as suggested by some, will likely lead to substantial distortions in the market for rents and the supply of additional housing stock, as occurred during a brief period in the 1980s when negative gearing was abolished.

POPULATION GROWTH

In increase in Australia's and Victoria population base since the second half of the 1990s has seen an in increase in the underlying demand for dwellings.

In Victoria, in the in the 1990s, the average number of dwellings commencements was leas than 30,000; in 2003, the average has been more than 40,000. This increase has pushed up demand for builders services, while at the same time coincided with a period of low unemployment and falling interest rates.

This in turn has lifted disposable incomes for housing investment and led to dwelling commencements far exceeding levels of a decade ago.

Population growth is perhaps the main drover of future hosing demand and growth – with additional people entering the state or new households being created, demand for new dwellings will follow.

The Master Builder movement has long supported an immigration program for Australia that supports net migration of 100,000, which is seen as sustainable in the long term and in the interest of future economic development.

The important of immigrations and a skilled migrant intake is brought into sharper focus, given Australia's ageing population and the necessity for the working population two decades from now to support significant growth in individuals aged over 60 years, who will be in retirement.

It is likely that population growth does impact negatively on housing affordability, however its impact purely on one sector of the economy – housing – should not be considered in isolation. Economy wide effects re important and studies over the years have reaffirmed the positive influence immigration, especially of skilled migrants, plays in overall economic development.

As mentioned above, Australia cannot rely purely on natural increase to sustain its labour force into the future; immigration levels will therefore continue to play a role in development and on housing prices.

Melbourne and Victoria in general have achieved a considerable turnaround in population since the early 1990s, most notable in net interstate migration, which was once heavily negative but in recent has turned positive.

The Victoria State Government has expressed a desire to continue attracting migrants to the State, and to encourage them to shift to regional centres rather then metropolitan Melbourne, to reduce the incidence of urban sprawl and to improve vitality of regional centres, such as Bendigo, Ballarat, Shepparton, Traralgon and Geelong, among others.

This is in contrast to Sydney, which wants to reduce the number of people settling in the city, due to overcrowding and attendant infrastructure costs to service growing populations.

Victoria can therefore expect some relative population pressure to be exerted on the housing stock over the coming decades, if these policies come to pass.

In any event, household formation and population growth is an important determinant of the building industry's future demand and therefore its overall health and contribution to the economy.

Construction industry multipliers are considerable, with around $2 generated in associated industries for every dollar spent in the construction industry. Its impact is easily seen in recent years, with the economy going into a low growth phase when construction went through a slump in 2000 following GST's introduction. This was followed by a quick rebound as the housing sector picked up throughout 2001/02 in response to lower interest rates and a doubling of the home ownership grant.

Recommendation (3):
Population growth should not be used as a lever to control housing affordability, as increases in population and household formation provide the basis for the overall economy to generate medium term economic growth.

AVAILABILITY OF FINANCE

Master Builders Australia affordability survey indicated that builders thought finance was not an issue harming affordability at present. It has a net balance of less than 40, (50 being a neutral level), while other factors such as land supply and government regulation were considered more important in the affordability equation.

Lending institutions have, since the late 1990s, been more relaxed about lending large amount of money to all borrowers, for housing or other purposes. New mortgage products have become available, such as lines of credit, split loans, no deposit loans, honeymoon rates, among others, that have increased individuals' access to the finance market.

In earlier times, this would have been considered a positive for affordability, allowing more potential homebuyers to enter the market. In the 1980s there were considerable restrictions placed on homebuyers seeking finance, cutting them out of the market.

Today, access is almost universal. This is seen as a positive for homebuyers, improving housing choice and financing options.

Nevertheless, the usual checks and balances within the finance sector in the provision of loans means that some individuals fail to qualify for home loans.

Given this, Master Builders Australia advocates the Federal Government adopt a scheme similar to the Higher Education Contribution Scheme (HECS) which funds greater access to university education than would otherwise be possible, to fund access to home loans. MBAV supports this proposition.

A Housing Acquisition Contribution Scheme (HACS) could assist individuals overcome the deposit gap – usually 20% of the value of a home needs to be provided as a deposit.

The Government could guarantee this deposit by issuing banks with an interest only Commonwealth Government Security (CGS). The financial institution would provide 100% finance for the purchase of the home. It would record 80% of this loan on its balance sheet, receiving the remaining 20% from the government at no cost, in the form of the interest only CGS.

The individual would owe the bank 80% of the total loan value; 20% would be liable to the government. The interest costs could be capitalised on the loan, offset through time by increases in the value of the house.

The individual is therefore able to enter the market without the need to acquire the 20% deposit, which is now secured by government. The grant could be repaid through the income tax system, in the same fashion as HECS.

Lending institutions receive the benefit of two assets on their balance sheet – the value of the house and the CGS. Their risk profile would actually be reduced, as government bonds are effectively 100% secure.

The costs to the Federal Government are also limited to the interest costs on the 20% of the loans taken up under the scheme. These costs could even be offset by a matching decline in Commonwealth spending under the Commonwealth-State Housing Agreement, if government intends to make the scheme revenue neutral.

Recommendation (4):
The Federal Government investigate the opportunity of providing potential home owners with their 20% housing deposit, through the issue of an interest only Commonwealth Government Security. The scheme would work similar to HECS and could be repaid through the income tax system.

OTHER INVESTMENT MARKETS

Since 2000, the decline in equity market has been considerable, especially those that cover the information technology sector. The all ordinaries index has also had a sluggish performance over the last two years, through there has been a strong rebound in the last six months, as investors grow confident about prospects for world economic growth, particularly for the Unites States.

This pick up in alternative investment class performance could be expected to take some of the heat out of the housing market, reducing the demand at the margin for investment property, in turn taking some steam out of house prices.

However, given turbulence in investment markets in the last three years, it is not surprising that housing has maintained its lustre as an investment vehicle since the beginning of the 21st century.

Australians have always maintained an affinity with housing, with high rates of home ownership through the decades, despite world wars, depression, numerous recessions and fluctuations and interest rates. Housing is seen as a safe investment, especially in times of considerable economic change, which has been a characteristic of the Australian economy since the beginning of 1990s.

It is not anticipated that this desire for home ownership with alter substantially in the immediate term, through there may be a preference for younger generations to regard ownership of dwellings as less desirable, in the future, given high entry costs and the supply of reasonably affordable rental stock around the nation.

As regard the taxation of investment profits – investors now receive a 50% capital gains tax deduction if they hold an asset for at leat twelve months after purchase.

Such policy provides for further incentives to invest in all assets, housing included, and no doubt this policy would have played a role in increasing demand for residential investment properties.

However, as with taxation of investments generally, it is difficult to quarantine the effects of tax from one sector to another. Disallowing the tax break for housing investments, yet allowing it for other investment classes will provide for positive discrimination against the asset denied the incentive.

To remove the exemption from direct housing investment may slow the amount of funs migrating to the residential market, however in the medium term will, in all probability reduce the supply of affordable housing still further, as investors choose to place their money in assets that deliver a favourable tax treatment. Low income households wanting access to inexpensive housing would be the losers.

OTHER ISSUES IMPACTING ON AFFORDABILITY

A) Insurance Costs

Warranty Insurance policies have increased in price over the last two and a half years following the collapse of HIH insurance, which was one of the major suppliers of (compulsory) warranty insurance throughout Australia.

It is not uncommon for builders to be spending $2,000 or more in premiums for a single warranty insurance policy in 2003, whereas the costs were perhaps one tenth of this when indemnity insurance provision was privatised in Victoria during May 1996.

This is a hidden cost to the consumer, with the builder forced to pass on the additional costs down the chain. The insurance is taken out by the builder to protect the consumers form defective building work or from builder insolvency during constriction.

Moreover, the dysfunctional warranty insurance system has made it difficult to builders to acquire the policies in the first instance, since the collapse of HIH in March 2001.

The Association undertook a survey following the collapse of HIH in early 2001 to gauge the impact on builders.

The results revealed 1,703 projects valued at $241 million were delayed and put in jeopardy[7] due to an inability of the relevant builders to acquire appropriate insurance form alternative suppliers. 50% of these projects were for detached houses, while one third were for units and apartments and the 16% for alterations/extensions to existing residences. Moreover, 435 employees and apprentices were laid off due to the insurance crisis in Victoria.

An additional adverse effect has been a significant increase in owner builder activity in Victoria, as builders attempted to avoid the need to take out warranty insurance by using

[7] Master Builders Association of Victoria, *internal survey of members on warranty insurance*, April 2001

the owner builder system, whereby they request the consumer to take out the building permit in their own name, rather the builders name. Unfortunately, a decline in adherence to building regulation has been the result.

The insurance diminished the pool of builders available to start construction on the 45,000 dwellings in Victoria per annum (plus an additional 40,000 renovations/extensions), leading to delays for consumers in commencing construction of their homes.

Warranty insurance continues to impact builders negatively in Victoria at September 2003, with many having their turnover restricted to levels considerably lower than those which applied pre-HIH collapse, again limiting the ability of the industry to respond efficiency to consumer demand. Owner builder work has skyrocketed to 34.8% of all domestic building permits as a consequence[8], as builders attempt to overcome the system and clients look for ways to have their projects completed on time.

The efficiency of the building industry has therefore been impaired by a dysfunctional warranty insurance regime, which has reduced the supply of builders (and the quantity of work they can undertake in any given twelve month period) and driven up housing costs via a substantial and sustained increase in insurance premiums.

The Master Builders Association of Victoria has already made recommendations to the State Government about necessary changes to the insurance regime to assist the building industry, and on-going discussions with policy makers continue.

However, it appears that higher warranty insurance costs are hear to stay, irrespective of any new insurance model, and these will continue to be borne by consumers who seek to have a home constructed for them in Victoria.

B) Stamp Duty Costs

The rate of stamp duty in Victoria might be regarded as a significant burden on the ability of first homebuyers to purchase dwellings.

It is also one of the major sources of revenue for state governments, who are reluctant to reform the system, however the rate of revenue collection has become considerable in recent years, with homebuyers bearing the costs.

[8] Building Commission, *Building Victoria 2002*

Victoria's rate of duty collection is very high, with high marginal rates of taxation cutting in relatively low in the tax base, as can be seen in table 1 below.

Table 1: Stamp Duty Rates in Victoria

Contract Value ($)	Rate of Duty
0-20,000	1.4% of property value
20,001-115,000	$280 plus 2.4$ over 20,000
115,001-870,000	2,560 plus 6% over 115,000
870,001 plus	5.5% of total value

The Victorian Government is reluctant to cut stamp duty, given that in 2002/03 it earned $2.1 billion from this revenue source ($512 million more than forecast) and has budgeted for $1.85 billion in 2003/04.

Industry has long argued that a more equitable system would see the rate of duty move more in line with that of New South Wales and Queensland.

However, the Victorian Government seems intent on keeping the tax scales unchanged, justifying this decision on the basis that the tax helps to pay for much needed social infrastructure like schools and hospitals, among other things.

Moreover, the actual tax scales have not been adjusted for either inflation or house price growth and so now represent a greater burden for potential homeowners than in previous years.

Considering the burden of taxation, Master Builders Association of Victoria advocates that the tax scales be adjusted to account for price changes over recent years, which will provide material benefit to first homebuyers.

Master Builders' recent survey of members provided comments from builders about means for reducing housing costs – stamp duty was mentioned more times than not and clearly builders see this as an impediment to the supply of affordable housing.

State governments have nevertheless refuted claims that stamp duties are too high and remain convinced of their need for revenue raising purposes.

There is merit in the States approaching the Commonwealth to revisit the revenue sharing arrangements to ensure all state receive a fair share of the GST and other revenue payments received from the Commonwealth.

Victoria needs to ensure it can capture a larger slice of commonwealth revenue grants, to offset policy measures that will reduce own source revenue from stamp duty reductions and concessions.

There is also the issue of GST applying to the stamp duty inclusive costs on new residential development or land costs. This adds a cascading effect, effectively taxing individuals twice when purchasing a given quantity of land. This inequity adds to housing costs, with significant price escalation once land exceeds $115,000.

Recommendation (5):
State Government stamp duty tax scales are amended to adjust for inflation and price growth in established dwellings. It is acknowledged that this is a State based issue and not the purview of the Federal Government. However it is considered a major reason for individuals' lack of access to housing and therefore should be considered in any reform agenda.

Given this, the MBAV advocates that the Victorian State Government should at least be providing first homebuyers with additional stamp duty concessions.

Moreover, any additional revenue received over and above what was budgeted for ought to be used for housing assistance schemes, or to invest in the public housing system.

For instance, additional concessions for first homebuyers from stamp duty costs could be introduced, funded by the additional revenue sourced from the booming property market over the last few years.

For the building and development industries, it is unacceptable that a large slice of revenue is being gouged out of the market but not returned in the form of additional measures to improve housing, including for those on low incomes.

At present, there is a full exemption up to $150,000 and partial exemption for homes valued at between $150,000 and $200,000[9]. It is recommended that these rates be increased by $50,000 at each price point and that no income tests apply. Moreover, We recommend that the criteria that first homebuyers have a dependant child be dropped, to allow greater access to the scheme for genuine buyers.

Recommendation (6):
Eligibility scales for first home buyers, in regards to stamp duty exemptions, need to be reformed, allowing for at least a $50,000 increase in the scales, with no income test to apply.

[9] State Revenue Office, http://www.sro.vic.gov.au/sro/srowebsite.nsf/taxes

SUPPLY SIDE ISSUES

A) The Town Planning System

In Victoria, there is widespread acknowledgment that the system of approving a permit for construction is painfully slow and riddled with inconsistencies throughout local councils.

In an affordability survey, undertaken by Master Builders Australia Inc. in September 2003, there was a negative depth of feeling by builders about state based regulations having a detrimental impact on first homebuyers.

In the 21st century, local council rules/laws and fess applicable have increased at a substantial rate.

Listed below are a range of fees and charges that impact upon residential construction in Victoria and are passed on by builders to homeowners

<u>Planning stage</u>

1. Property advice to builder ($30-$120)

2. Permit fees ($260 min). However time costs to acquire the permit can be considerable and uncertain.

3. Development Levies - $300 minimum.

4. Obtaining a heritage permit, where required ($120)

5. Provision of amenities –toilets and rubbish bins

6. Warranty insurance costs (Up to $2,000 per policy, previously c.$150)

Building permit levies:

1. HIH levy: 0.032% of building works (i.e. $32 per $100,000 or work)
2. Building permit levy (0.128% ($128 per $100,000 {previously $64 per 100,0000}

3. Modifications to plans and appeals – ($90 lodgement fees)

4. 5 star energy requirements – (cost min. $3,300 to adhere to regulation)[10].

From building permits to beginning of construction:

1. Lodgement fees: ($15 to $30)

2. Building regulations 2.2 property information ($30) covering:
   - Bushfire
   - Termites
   - Flooding
   - Alpine regions

3. Demolition permit ($30)

4. Flooding reports ($50 to $120)

For the adequate supply of inner city and middle ring suburbs land and demand, there is the potential to unlock demand by freeing up the planning and permit approvals process in Victoria.

Many of the fees listed above cascade to have an effect on overall prices paid by consumers and builders, and importantly delay the planning and building approvals process by months, sometimes years.

The State Government has initiated a review, called *Better Decisions Faster*[11], which aims to cut the time a planning application takes to go through the full planning approval process. If these reforms are introduced and prove successful, they will go some way towards reducing the delay faced by individuals in having their development/s approved and therefore receiving a building approval quicker than is currently the case.

Such issues are important, for they cut down the delay costs of construction and the holding costs, which can be substantial for a developer or private individual waiting for town planning approval.

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[10] Building Commission, *Energy Efficiency Standards for New Residential Buildings, Regulatory Information Bulletin*, August 2002, p 20.
[11] Department of Sustainability and Environment, *Better Decisions Faster*, discussion paper, August 2003.

For any planning reforms to work effectively requires the support of local government, for ultimately they have carriage of planning and building approvals for their municipality. The multitude of planning overlays works against a quick response time by local municipal planners in approving developments.

Further, getting zoned land released for purchase by developers and individuals in Melbourne can take a considerable amount of time. This militates against timely and inexpensive housing supply, as sections of Melbourne become locked out of development for lengthy periods of time.

Melbourne 2030 – the new planning and development framework of the State Government - aims to overcome these problems by ensuring at least a ten year supply of serviced land in Melbourne’s growth corridors.

Recommendation (7):
That local government town planning polices be reviewed to ensure that land supply and the efficient approval of building permits can occur. Currently Melbourne’s planning process is cumbersome at best in approving new permits.

It is acknowledged that policies determining where and when land is released are important for the economic development of local council areas. Where housing development may take place is a crucial first step in the provision of housing.

Local planning schemes however create unnecessary costs, due to requests by council for information on a host of issues, including:

- Traffic controls
- Arial photographs
- Engineering reports
- Planning consultant reports
- Arborists’ reports

The housing affordability study conducted by MBA indicated that State Government charges were a major reason for reductions in affordability of new housing. The survey indicated that a net balance of 80 (on a scale of 1 to 100, 50 being a neutral figure) was recorded in regard to state and local council fees/regulations reducing affordability.

As per discussions above, builders are finding it increasingly frustrating to work within slow building approvals and permit processes. The delays are considerable and add to developers and builders’ holding costs, which ultimately must be passed onto consumers.

Holding costs by developers can mount to tens of thousands of dollars while waiting for plans to be approvals by local council. Inevitable, these must be passed onto final consumers.

B) Land Costs And Availability

Land prices have increased considerably in Melbourne in recent years. An example of growth is the more than three fold increase in prices for a 650 square metre allotment at Burnside, which increased from $42,000 in 1995, to $140,000 in June 2003[12].

In Sunbury, another outer suburban areas attractive to first time buyers, land prices have escalated in the last twelve months. At September 2002, 650 square metre to 1,000 square mete lots were selling for between $90,000 and $120,000; By September 2003, those prices were $140,000 to $160,000.

Likewise in Gisborne, 650 to 800 square metre lots were selling for $80,000 in September 2002; by September 2003 those prices were $92,000 to $128,000.

The builder who provided these examples noted that the key reasons for upward price pressure were shortages of available serviced land and higher production costs to get land ready for sale to consumers.

Examples such as these abound throughout Victoria, with substantial growth throughout the suburbs and in regional centres.

These figures confirm the views of builders from the MBA survey that land availability is causing consumers to be either locked out of housing or forced to settle for smaller blocks of land in the outer suburbs.

Local councils and state governments need look at policies that artificially restrict the supply of zoned land for future building. Improvements here would go some way towards eliminating bottlenecks in the land supply market.

Governments also need to be mindful of the competing interests of the environment and development industries. This is becoming more important now, as the environment plays a major role in decisions about what can produced and where within the economy.

This extends to all sorts of industries, however the building and development sector is particularly affected, as broad acre land is held by council or other government agencies and not released, to cater for environment al concerns.

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[12] Urban Development Institute of Australia, *Urban Affairs*, June 2003.

These environmental reasons may of course be perfectly valid, however it must be recognised that the opportunity cost is higher land costs for the housing sector and less affordable housing for consumers as a consequence.

C) Infrastructure And Transport Links

Arguably overlooked in the debate about housing markets and affordability, is the extent to which infrastructure improvements play a role in driving the costs of houses.

One benefit the upgraded roads and (soon) rail networks across Victoria has been the extent to which outer regions of Melbourne and regional cities, like Geelong, Bendigo, Ballarat, Traralgon, an among others, have been opened up to the public, allowing easy access to these regions from central Melbourne.

The degree to which regional towns can be reached from the central business district has been vastly improved. This in turn enables a larger number of people to migrate to regional centres, which typically have lower housing costs than metropolitan Melbourne, and certainly much lower than inner city Melbourne.

However, these factors work best where land is being opened up for the first time to development along a corridor serviced by infrastructure.

In contrast, established suburbs of Melbourne and regional centres, which already have quality existing infrastructure, including schools, hospitals, freeway networks, gold courses and other social infrastructure, the price of these facilities is factored into the costs of the surrounding land and houses.

Inner and middle suburbs of Melbourne fall into this category, and so price pressure occurs on the dwelling stock, driving its price up.

In this case, upgrades to existing infrastructure, or the creation of new networks, are a negative influence on housing affordability, as they attract additional people to the area who bid the price of dwellings up. Moreover, these individuals or future households are likely to be cashed up and in the high net worth category. This gentrification of suburbs drives up the price of housing.

It is recommended that the Productivity Commission investigate the degree to which transport improvements have enabled a greater mobility of the labour force, and thus made a valuable contribution to reducing demand for city based property, and increasing that for regional (less expensive) housing.

Moreover, the degree to which infrastructure costs are passed onto consumers (end users) is also a matter for considerable conjecture.

How the community is asked to pay for infrastructure is important. Up front user charges, or time payments that smooth demand are the two options that typically will be used.

To reduce the influence of infrastructure charges on consumers, time payments will be more effective. Local council rates offer one avenue for this to occur; developer contributions charges are an example of up front costs. In conclusion, households end up paying for the infrastructure in their area, both through the indirect influence on house prices through access to services and directly through user charges for the right to use services offered.

Developer contribution charges have recently been altered by the Victorian Government, which will force developers to pass on the costs of infrastructure provision to future homeowners. Developers will face additional charges to cover infrastructure previously provided by the state, such as fixed rail assets, stations, and bus stops, driving up the costs of land for end users. The costs to supply these community facilities, used by all within a municipality, are being borne only by new households through development contributions. Mechanisms need to be developed that share the costs of these services among the entire community, which in turn will reduce the direct costs passed onto landowners and consumers.

With these charges likely to be upfront, there will be little room for developers to move in terms of bearing some of the costs in their margins, with full pass through to consumers expected. Additional cost pressures are sure to manifest themselves in Victoria over the next few years.

Governments will need to look at offsetting policies that can help alleviate these price pressures on housing and land, to ensure that the majority of Australians can continue to afford decent and secure accommodation, whether for rental or purchase.

Recommendation (8):
Productivity Commission investigate the degree to which infrastructure improvements in inner suburbs and for new Greenfield sites, impact the affordability of housing.

Developer contribution charges need to be assessed in order to understand their potential negative impact on land and housing affordability.

POSSIBLE OPTIONS FOR IMPROVING AFFORDABILITY

A) Recent State Government Actions

In the 2003-04 Victorian budget[13], the state allocated $89 million over four years for the provision of affordable housing via:

- $70 million to increase the supply of affordable housing stock through partnerships with not for profit housing providers:

- $10 million over four years, to upgrade the existing public housing stock; and

- $9 million over four years to reduce youth homelessness, via an expanded youth homelessness strategy.

These programs are worthy and should be consistently funded by government, however they can only make improvements to affordability at the margin, due to the small stock of public housing in the state and the limited amount of funds available to increase the supply of housing.

The State has no plans at present to substantially increase the overall stock of low cost housing for Victorians, which could make further inroads into affordability for those households on low to moderate incomes, who would typically face difficulties in meeting repayments on mortgages or bridging the deposit gap.

In relation to taxation, in the 2003 budget, the Victorian Government reaffirmed that mortgage duty would be abolished from 1st July 2004. Though representing only a small dollar figure in any home purchase, the alimentation of this tax will nevertheless ad slightly to the affordability equation for households, and therefore is welcomed by industry as a positive step forward.

There are thus a range of worthy options the Victoria Government intends to initiate that will provide a positive boost to affordability for first home buyers, however these schemes are limited in nature and affect only a small number of consumers.

As mentioned previously in this submission, reform of stamp duties, of the planning system and state/local government regulations and costs would provide a positive step towards making housing more affordable to low and middle income households.

[13] Department of Treasury and Finance, *2003-04 Budget Statement, Budget Paper No 2*, p. 77.

B) Federal Government Assistance Programs

The public housing program and rental assistance provided by Federal Government is an important element of the Australian housing market.

Well targeted government assistance is essential to the provision of inexpensive housing.

The Commonwealth, via the following means, provides housing assistance to the community:

1. Subsidised public housing tenants
2. Private rental assistance
3. Capital funding through the Commonwealth-State Housing Agreement (CSHA), to increase the supply of the public sector housing stock
4. Funding not for profit sectors to provide housing assistance.

The vast majority of Federal money for housing assistance is in the form of rent assistance, with limited use of money to expand the capital base of public sector owned dwellings.

Funding cuts to CSHA should to be reversed in the future to allow a greater supply of new dwelling stock and increase the pool of funds available for rental assistance.

Private-public partnerships in the provision of housing assistance programs should be investigated. One of these options has already been presented in this submission under the Availability of Finance section.

The Federal Government should also look a he possibility altering the CSHA to provide additional funds to the states to build low costs accommodation for those in housing stress.

Most assistance takes the form of rental subsidies, however, not enough public housing or social housing stock has been provided by the market over the last decade.

The challenge is to provide these new dwellings without creating “slums” in certain regions of the inner city or suburbs, however this has always been the case in regard o government decision about the siting of low cost houses.

At present, there does not seem to be enough of an incentive for private sector investment to provide alternative cheap housing, most probably because institutional investors cannot get a high enough return on their money.

Recommendation (9):
The Federal Government provide assistance, through the CSHA, for the states to build more public sector housing stock and to provide incentives for the private renters to take up the provision of inexpensive housing.

C) Access to Superannuation

One idea being floated for improved affordability is the possibility of creating access to superannuation for use as deposits for a home purchase.

However, an overlooked issue here is the degree to which an individuals future lifestyle and retirement benefits are going to be impacted by allowing access to superannuation.

For instance, there may be negative consequences, as individuals use their superannuation as a deposit for a home, then down the track decide to sell the home and return the proceeds either to a bank account, into some other form of future investment, or buy themselves another homes. By doing this, their superannuation is effectively gone – they will be left with no savings for retirements, other than cash/investments built up through time over and above their initial superannuation outlay for the house purchase.

Therefore, the risk is that housing affordability improves but retirement incomes fall and standards of living beyond retirement are lower than they would have been without the scheme.

For a superannuation scheme to succeed, it is suggested the following conditions need to be met:

1. No ability to borrow more than 50% of accumulated superannuation savings and that only draw down is permitted during a person’s lifetime, prior to reaching preservation age.

2. No ability to sell the house within a certain time frame, unless certain circumstances, such a financial hardship, change of residence due to an interstate or overseas move – this will reduce the ability of someone to access superannuation, only to sell the house months later, in which case the superannuation benefits are lost (assuming no major price increase in the dwelling between purchase and sale.

As can be seen from the above, neither option is likely to be palatable to the population, particularly the second option, which restricts labour mobility and might be seen as politically undemocratic, in terms of not allowing individuals to sell within a given time frame.

It is a matter for considerable research as to how such a scheme might work and indeed if it will be beneficial in allowing access to the new home market.

Recommendation (10):
Any scheme to allow potential homeowners to access their superannuation needs to be carefully researched. There is the possibility of making people less well off in their retirement if the scheme does not have enough checks and balances to stop individuals squandering their retirement funds.

Nevertheless, it is recognised that the proposal has merit and is worthy of further investigation by the Federal Government.

D) Shared Equity Schemes

The Menzies Research Centre has recently completed an analysis of housing finance options, whereby an institution and the private homeowner in effect share the costs of providing the finance.

The idea is to make it easier for homeowners to enter the market by allowing them to share in the purchase and finance costs of the home.

In return, the financial institution gets a half share in any sale proceeds if the homeowner sells the house in the future. That sale is at the discretion of the homeowner – the financial institution has no say in when or if the house is to be placed on the market for sale.

This shared equity arrangement has merit and should be further investigated.

Of concern however is why institutional investors and financial institutions have not adopted such instruments previously.

Given this, MBAV advocates the HACS proposal (page 20) to overcome the lack of interests by the private sector in alternative financing options at present. Nevertheless, this does not preclude further investigation of the Menzies Report recommendations

Recommendation (11):
The reports by the Menzies Research Centre to the Federal Government should be considered for their potential to reduce the deposit gap and provide easier access to new housing by households of all income levels.

E) Provision of Social Housing

The social housing concept would involve developers of major projects being provided with a financial incentive – such as a subsidy – to provide for a given level of inexpensive housing within their developments. Such schemes have been used overseas

This could occur though government provided subsidies or grants to developers on the proportion of the housing stock, which is to be provided at below market rates. Builders/developers would receive a subsidy from government to recover their costs, so that they are not worse off.

For developers to do this would require the grants revenue received to exceed the rental foregone by providing cheap rental accommodation. Government may be reluctant to do this, seeing it as a transfer of wealth from the public sector to private developers or builders.

Additionally, there is the issue of creating implied “ghetto’s” in developments, which is likely to be against the interests of owner occupiers of those developments, as well as being counter productive to good community relations and well being.

CONCLUSION

Master Builders Association of Victoria contends that the issue of housing affordably has a number of interwoven elements that demand wide ranging policy responses in order to bring home ownership within reach of those on low and middle incomes.

Crucially, building material prices have not increased at a substantial rate over the last five years, in fact they have largely moved in line with inflation.

The competitiveness of the material supply industry should ensure that further rises will not be far out of line with general price inflation, and will constrain the degree to which builders will be able to increase prices.

It is the building industry's contention that the major influence on affordability is from the supply side, mostly the limitation on land availability, which potentially could be impacted by the Melbourne 2030 planning strategy is supply cannot be increased quickly enough to meet demand.

Additionally, local and state government regulations and planning policies also impinge upon the timely approval of planning and building permits, due to the large volume of information a builder needs to supply in order to commence construction – excess costs and time delays result from such excess regulation.

Additionally, there is a role for state governments to cut taxes that impact on the market – such as stamp duty – and to increase the supply of affordable low cost housing, through an expanded construction program. This should be undertaken in conjunction with the Federal Government, in the form of additional grants under the Commonwealth-State Housing Agreement.

Finally, the Association recommends government investigate the possibility of using a HECS style repayment option for home loan aspirants that would enable them to bridge the deposit gap and enter the housing market earlier than they might otherwise be able to.

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