

The Sydney Morning Herald

Homebuyers are paying a heavy price for zoning restrictions: Reserve Bank

By Eryk Bagshaw

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Government zoning of residential areas has pushed the average property price up by 40 per cent in Sydney and Melbourne, fuelling inequality and locking out new homeowners from the property market, the Reserve Bank has found.

In a research paper that calls for a fundamental rethink of government policy, the central bank said zoning "had driven prices substantially above the supply cost," as east-coast homeowners fight to stop medium density "Hong Kong style" developments being built in their suburbs.

"We estimate that the average Sydney house, valued at \$1.16 million in 2016, represents a \$395,000 structure on a \$765,000 block of land," the analysis says.



Zoning is raising property prices by up to 40 per cent

Photo: Dallas Kilponen

Up to 70 per cent of a house's value was made up by the land zoned for residential purposes in Sydney and Melbourne, according to the report by economists Ross Kendall and Peter Tulip.

Among the worst affected areas were Willoughby and the Northern Beaches in Sydney's north shore and Boroondara and Stonnington in Melbourne, where prices on the median house have been driven up by more than \$700,000.

The disparity is fuelled by zoning - council restrictions on housing density within their area - pushing up prices in suburbs close to the east coast CBDs where there is scarce land available.

Are efforts to help first homebuyers actually making the housing affordability crisis worse? Chris Kohler explains.

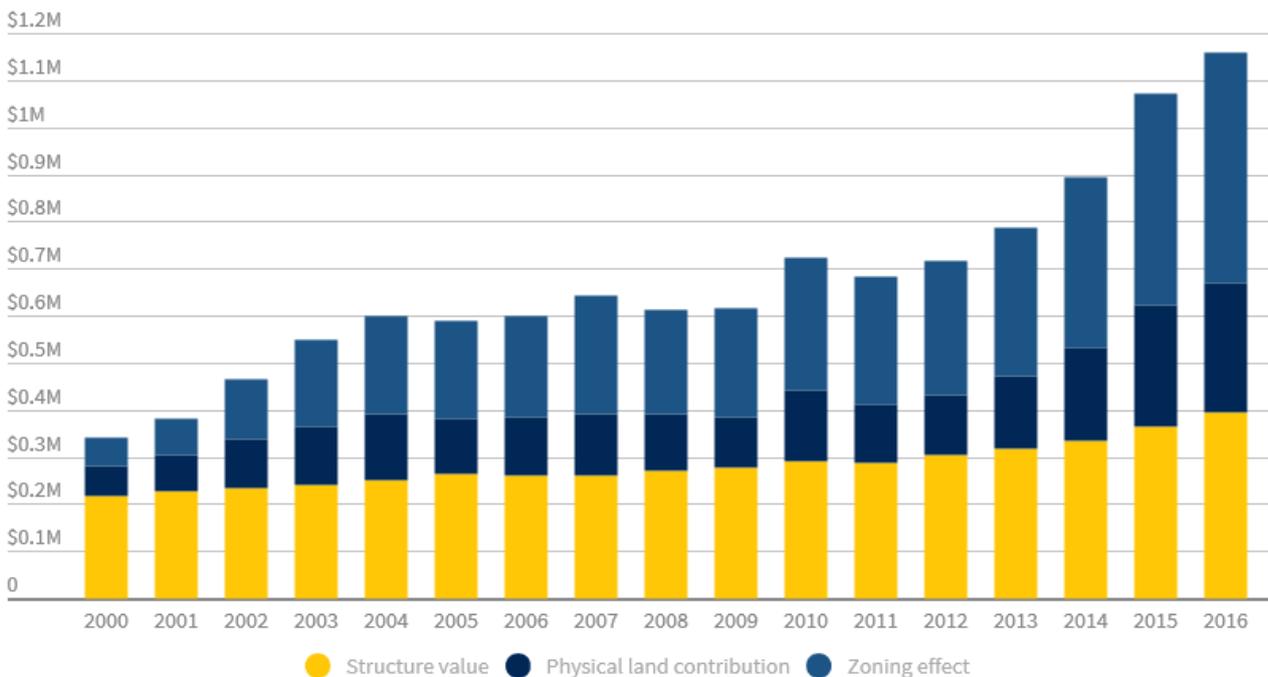
It cites a 363 hectare site in Wyndham Vale, 40 kilometres west of Melbourne, increasing in value from \$120 million to \$400 million after it was rezoned from rural to residential.

"Such large increases in values as a result of zoning changes are inconsistent with the view that a physical shortage of land itself is the main cause of high housing prices," the paper said.

The handbrake on apartment developments has also created a "shadow price" distortion, with a poor availability of sites and delays in planning approvals adding more than \$100,000 to already existing apartments.

The impact of zoning on Sydney

Zoning has more than doubled its effect on house prices since 2000



Source: Reserve Bank of Australia, 2018.

"Overall, our results suggest that development restrictions [interacting with increasing demand] have contributed to the significant rise in housing prices in Australia's largest cities since the late 1990s," the bank found, while criticising government policy inertia.

A frustrated Scott Morrison has previously called on state government's to get their act together and rezone areas that have been trapped in a supply bottleneck.

The Treasurer has made his views over supply delays known since 2016, arguing they are the biggest contributor to house prices being pushed beyond the reach of many middle-income Australians.



Shadow treasurer Chris Bowen would call on COAG to fix Australia's housing affordability crisis.

Photo: James Brickwood

On Thursday, his shadow Chris Bowen said Labor would use the Council of Australian Governments to push a uniform vacant property tax across all major cities to encourage the loosening up of supply.

"It is simply not good enough for a Commonwealth government to sit idly by and argue that housing affordability is a matter for state governments," he told Fairfax Media.

But the bipartisan federal pressure is likely to be met with resistance from local councils, who have banded together with residents to oppose the developments needed to increase supply and reduce prices.

Labor mayor Darcy Byrne [slammed a 2016 proposal in Sydney's inner west](#) - one of the most expensive areas in Australia - to build 2600 units as "monstrous in scale".

"The proponent seems to have confused south Marrickville with downtown Hong Kong," Cr Byrne said.

In Victoria, hundreds of protesters opposed three 10 storey affordable housing apartment blocks being built above Preston markets last year.

Median house prices in the suburb have gone past \$1 million, driving many low-income families out of the area.

Victorian Minister for Planning Richard Wynne said residential zones had to strike the right balance between protecting neighbourhood character and driving development where it's appropriate.

"The new zones spell out precisely what can and can't be built, protect our suburbs and save the much-loved Aussie backyard," he said.

NSW Planning Minister Anthony Roberts said zoning was just one element of housing affordability and the provision of roads, sewer, power, transport, school, hospitals added to the supply of housing and to the value of land.

"Liveability is a most important ingredient in the development of communities and that's why we have strong policies on open spaces and park lands as part of infrastructure," he said.

He said he "made no apologies" for guarding against overdevelopment.

The Grattan Institute's John Daley and Trent Wiltshire said Australia was "confronting a housing affordability crisis".

"The question is whether the costs of our planning rules outweigh the benefits."



Eryk Bagshaw is an economics reporter for the Sydney Morning Herald and The Age, based in Parliament House