

Can South Australia afford to be backward on urban issues?

The *InDaily* opinion piece “*Why Capping Adelaide’s urban sprawl is good for everyone*” by George Giannakodakis made interesting reading, as did the 2013 report that his company wrote for the State Government (Infraplan “*A Review of Economic Benefits and Costs for Adelaide*”) to help justify elements of the controversial Planning, Development and Infrastructure Bill that is presently before State Parliament.

Last week alone, the Government proposed another 27 pages of amendments to its own Bill, adding to a raft of others before them and others from non-Government members. Like the Bill, the Infraplan report and the *InDaily* opinion piece fail to stand up to close scrutiny.

Mr Giannakodakis claims that “*it is highly unlikely that there will be a housing affordability issue or spike for that diminishing of the market until at least 2070*”. The fact is there is already a housing affordability issue in Australia, including Adelaide, that if not addressed now will render the majority of Australians unable to afford their own home well before 2070.

Adelaide already has a housing affordability crisis

Adelaide homebuyers are today confronted with a housing crisis with Adelaide’s housing affordability now worse than in New York. Adelaide is in the middle of a housing affordability crisis and today’s young South Australians will be the first generation unable to afford the quality of housing owned by their parents.

International housing affordability think tank, Demographia, has recently established an Australian presence. For the past 12 years Demographia has undertaken an annual survey of global property markets. The [12th Annual Demographia International Housing Affordability Survey: 2016](#) rates middle-income housing affordability in 367 metropolitan markets in nine countries (Australia, Canada, China, Ireland, Japan, New Zealand, Singapore, the United Kingdom and the United States). The survey comprises a total of 86 major metropolitan markets, each with more than 1,000,000 in population, including five of the six largest metropolitan areas in the high income world (Tokyo-Yokohama, New York, Osaka-Kobe-Kyoto, Los Angeles, and London).

Affordability is determined by the cost of housing and the income people have to spend on buying their home. This method is widely used for evaluating urban markets and has been recommended by the World Bank and the United Nations and is used by Harvard University’s Joint Center for Housing Studies. The same or similar methods are used to compare housing affordability between markets by the Organization for Economic Cooperation and Development, the International Monetary Fund and *The Economist*.

Demographia’s research shows that the typical Adelaide house costs 6.4 times the median household income. By contrast, the typical house in New York is 5.9 times that mega-city’s median household income.

- Adelaide is now one of the least affordable cities in the world in which to buy a house. On a scale of 367 cities assessed, Adelaide sits near the bottom as the 321st least affordable city in which to buy a house. The rankings are calculated by comparing the median household income (\$66,700pa) and median house prices (\$430,000) against

those in the other markets. The median price of a house in Adelaide is 6.4 times the median wage compared to 2.9 times in 1980 (according to Reserve Bank data);

- In contrast, Adelaide's US Sister City, Austin (Texas), has an almost identical US dollar Median Household Income (\$65,800 pa) but a significantly lower Median House Price (\$264,000). Austin's economy is currently rated number 1 in the US, has an average economic growth of 5.7 per cent over 10 years and job growth of just under 11 per cent over 5 years. The median price of a house in Austin is 4.0 times the median wage, compared to Adelaide's 6.4.

This is putting our housing almost out of reach for young people and those not already on the property ladder.

Demographia considers a house price-to-household income ratio of 5.1 or greater is severely unaffordable.

Demographia's survey shows the typical Adelaide house now costs \$430,000, which is 6.4 times what the middle-income household in the city earns in a year (\$66,700). Reserve Bank data shows in 1980 the affordability index in Adelaide was just 2.9, just inside Demographia's "affordable" rating.

According to Housing Industry Association analysis, the price of land in Adelaide per square metre is now higher than in Melbourne and Brisbane. We have lost our traditional cost advantage. South Australia is at the cross-roads of its housing future with our traditional lifestyle under threat. Without urgent action, this generation of young South Australians is the first that can expect to live in poorer quality housing than the generation that precedes them.

For more than 100 years the average Australian family was able to buy its first home on one wage. New home owners now pay a much higher percentage of their income on house payments than they should. Similarly, renters are paying increased rental costs reflective of the higher capital and financing costs in turn paid by landlords.

ABS figures reveal that since 2006, Adelaide median household weekly rents have exploded from \$165 per week to \$250, an increase of 51.5 per cent. Median monthly household mortgage repayments have increased from \$1,083 in 2006 to \$1,600, a jump of 44.5 per cent. Yet wages have only risen over that period by 17 per cent.

ABS data reveals that salaries in Adelaide are at least \$7,000 less per annum than in the eastern State capitals yet we pay some of the highest utility bills in the world.

Housing is the single biggest expense in the household budget and we have house prices skyrocketing relative to incomes. Housing affordability in South Australia will continue to diminish if stricter land use policies, as proposed by the State Government, are included in the current Planning Bill before State Parliament.

Reduced availability of new land and heavy State taxes and charges on purchasing a home are taking their toll on Adelaide's housing affordability.

For these things, successive State Governments are culpable. It is imperative that all of South Australia's political parties develop policies that will improve housing affordability. It is Demographia Australia's mission to work with all political parties to help this to occur.

Restrictive Planning laws drive up prices

Restrictive planning laws and limited land supply are primary contributors to this threat to our way of life and the opportunity for our children to afford a house of their choice in the location of their choice. High government taxes and charges on housing are another cause. According to Housing Industry Association calculations, Federal, State and Local Government taxes and charges comprise 39% of the cost of building a new home in Adelaide – that's \$167,700 in taxes and charges on the median \$430,000 Adelaide home. In 2015, buyers of newly built Adelaide homes collectively paid more than \$1 billion in Government taxes and charges just to move into their new home.

In recent years, economists and other public policy experts across the political spectrum in other parts of the world have come to realise that restrictive zoning rules are a major obstacle to housing affordability. By artificially restricting new construction, zoning and other similar land-use restrictions greatly increase the price of housing, and prevent the market from adjusting to increasing demand.

Restrictive planning systems drive up land prices. Auckland is a classic example and New Zealand authorities are struggling to deal with the legacy of the planning wall around their major city. New Zealand analysts claim that land inside Auckland's urban boundary now costs around 10 times more than land outside, arguing that it is hard to dispute that the city's urban growth boundary has driven up land prices. In essence, the boundary around the city has created an artificial scarcity of land. It is an open invitation to land bankers to speculate on rising prices. It is also discouraging developers from building affordable homes. It makes no business sense to build affordable homes on expensive land.

The 'scarcity' that drove up land prices is wholly contrived, it is a matter of political choice, not geographic reality, yet our Government is legislating to follow in Auckland's footsteps.

Rather than simply imposing an Urban Growth Boundary, the State Government is arguing that zoning is necessary to protect food production areas and so instead is proposing to limit urban growth through imposing Food Production Areas, a ploy aimed at attracting greater public support.

The reality is that South Australia, with its tiny population approaching 1.7 million, has a land area of 983,482 square kilometres, about 1.67 people per square kilometre. South Australia is one of the least populated States of Australia, which in turn is one of the least populated countries in the world.

Home building activity in Adelaide is depressed

Mr Giannakodakis claims that "*In Adelaide there is currently enough zoned or deferred urban land within the boundary to cater for 25-35 years of greenfield growth (at current rates)*".

It needs to be pointed out that in Adelaide, "*current rates*" are depressed. According to analysis by the Housing Industry Association, while across Australia 2015 was a record year for new home approvals, up 13.7% on 2014, in Adelaide, approvals dropped a further 8.6% against the already depressed 2014 level.

New home building in other parts of Australia has been a crucial support to economic growth over the past two years, particularly in light of the mining investment downturn. Adelaide deserves to have more building activity so it too can derive the economic benefit being experienced by other Australian cities. The reality is that if more land were made available at lower prices, more South Australians would be able to afford to build a home of their own. State Government controls the availability and therefore the price, of land.

Mr Giannakodakis claims that “House prices have had nothing to do with a lack of land supply in greenfield areas ...”. This is simply not the case as is evidenced by the staggering increases in land and house prices since 1980.

Mr Giannakodakis himself, in relation to urban infill, points out that “... while you would need to build 1,000 new houses on greenfield sites to cater for 1,000 new families, you would need to build 2,000 homes in infill areas to achieve the same net outcome”. Logically, the demolition of a house, sub-division of the allotment including service installation plus the building of 2 new homes has to be paid for by someone and it is, through rapidly rising housing and land prices, perhaps a good outcome for Mr Giannakodakis and some of his clients but not for the struggling home buyer.

Mr Giannakodakis makes a number of references in his article to the Report written for the State Government by his company, Infraplan.

The Infraplan report determined that it was more expensive to build and live in detached housing in outer Adelaide than it was in multi-storey apartments in the inner suburbs such as Prospect and Unley.

Population density and infrastructure cost

Mr Giannakodakis claims that Adelaide has a much lower population density than other Australian cities. This is wrong in the case of Brisbane and misleading in the case of Sydney and Melbourne. He is close in his claim that Adelaide’s urban density is 1,100 per square km, (the ABS says the urban centre density is 1,256), but his claim that Brisbane has higher density than Adelaide is wrong. ABS puts the number at 950. Also Melbourne is less than 1,500 and Sydney less than 2,000. Perth is also lower than Adelaide (though he does not mention Perth).

ABS Data – Urban population density for Australian capital cities

City	Population density per square kilometre
Adelaide	1,256
Brisbane	950
Perth	1,040
Melbourne	1,458
Sydney	1,919

His “unaffordable cost of development” is countered by the fact that at lower densities (greater sprawl) and significantly larger populations, Perth and Brisbane seem to be operating more effective road and public transport systems. Moreover, many US cities are considerably larger than Adelaide, have lower densities and are operating more effectively (Atlanta, Charlotte, Austin, Houston, Dallas-Fort Worth and many more).

The Housing Industry Association (HIA) commissioned a review of the Infraplan report by respected locally based consultancy firm, Hudson-Howells. The report raises serious issues with the validity of Infraplan's conclusions.

Among the problems identified by the review, Infraplan had calculated the travel costs associated with commuting to work over seven days not five; Infraplan had assumed that households in inner-Adelaide wanted only one car; and Infraplan had failed to consider the resale value of a detached house compared to an apartment after 20 years when calculating the 20 year cost of a home.

Hudson -Howells concluded in part that:

“By testing the model developed by Infraplan for a range of indicative and plausible sensitivities around assumptions it demonstrates that for Adelaide, an alternative conclusion as to the total cost to household of living on the fringe is possible –that the whole of life cost (of housing and transport) is much more similar to residents of the fringe and the inner areas.

Therefore, while the Infraplan report provides some context to advance our understanding of the implications, there is counter evidence – which suggests a need for further research so as to better understand the relationships involved. On the sensitivities tested, sensitivities which are quite plausible, the outcomes lead to quite different conclusions”.

Mr Giannakodakis poses the question “Are taxpayers willing to subsidise house and land packages on the fringe at around \$90 million per thousand homes?”

This analysis is not meaningful nor can it be measured. To claim that there is a \$90 million penalty for every 1,000 homes built on the suburban fringe is ludicrous. Firstly, the analysis must consider that that inner housing areas have a century of taxpayer and ratepayer funded infrastructure. It must also consider that urban infill is necessitating the upgrade of electricity, water and sewerage infrastructure in established areas, often at significant cost to Government and inconvenience to existing residents.

To calculate the costs of new schools, hospitals and service infrastructure on the fringe and putting that as a direct apportioned cost against new land and housing and not building the historic cost of the same infrastructure into the inner suburban analysis is misleading at best. Further, developers and end purchasers now pay for all essential infrastructure in new growth areas. Sewer, roads water, power, NBN, footpaths, reserves, stormwater controls are required to be paid directly by developers or through infrastructure augmentation charges. Most new schools in new growth areas are now provided by the private school sector.

Freedom of Choice

Suburbs rarely cease growing of their own accord. The only reliable way to stop them, is to stop them forcefully. But the consequences of doing that are severe.

For decades our lifestyle was the envy of most of the world. Our weather, pristine coastline, environment and standard of living are desired by more of the world’s citizens than our nation can accommodate.

Intrinsic within our standard of living has been the suburban Australian home on a traditional block. Adults who have lived their childhood in Australia have experienced the joy of living with the space afforded by the traditional suburban home. They have enjoyed some or all of backyard cricket, netball, basketball, a trampoline, a swing set, a cubby house, having space to run and play with their pets, a backyard barbecue, swimming pool, fresh air and peace and quiet.

People from around the world have sought to immigrate to Australia to escape their claustrophobic, densely built, high-rise homes to enjoy our freer lifestyle.

To maintain our lifestyle, a good planning system, a sensible tax regime and new land releases are essential. Abundantly available land slows price rises and keeps affordability within the reach of all South Australians. Taxes on building a new home discourage people from building and thwart employment in the home building sector.

Young middle income earners are the latest victims of housing market distortions. As the Adelaide housing market has persisted in inflating and running ahead of the incomes that underpin it, progressively more and more people are unnecessarily being denied their right to home ownership and better quality housing.

They should be free to choose the type of housing that they wish to own and not denied that freedom through the imposition of artificial planning constraints.

Wayne Matthew is the spokesman for Demographia Australia, he is a former South Australian Cabinet Minister and is passionate about improving housing affordability. Information about Demographia Australia is available at www.demographia.com.au