

ABC NEWS

Zoning regulations adding hundreds of thousands dollars to price of new houses: RBA

By business reporter Stephen Letts

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PHOTO: Zoning restrictions now account for around 70pc of the price of a block of land in Sydney and Melbourne. (Damien Larkins: ABC News)

Fancy handing over an extra \$500,000 for your brand new house just because government regulations restrict the supply of land for property?

No? Too bad, because that is the effective tax extracted for the average new house-and-land package in Sydney due to the impact of zoning regulations.

It's not just Sydney.

All the big cities in a study just released by the Reserve Bank are hit with similar massive imposts via zoning regulations — or as the RBA calls it, "administrative scarcity".

As RBA researchers Ross Kendall and Peter Tulip pointed out, the reason land is expensive is not because it is "physically scarce".

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Key points:

- The impact of zoning restrictions been the fast growing component Australian house prices since 2008
- Zoning restrictions add between \$150,000 and \$500,000 to new houses in Australia's bigger capital cities
- Zoning costs now account for around 40 per cent of house prices in Sydney and Melbourne

Market	Cost of zoning	Zoning Impact (above the cost of supply of land)	Zoning impact (As percentage of total house price)	Zoning impact (High density dwelling percentage of price)
Sydney	\$489,500	+73 per cent	42 per cent	85 per cent
Melbourne	\$324,000	+69 per cent	41 per cent	30 per cent

Market	Cost of zoning	Zoning Impact (above the cost of supply of land)	Zoning impact (As percentage of total house price)	Zoning impact (High density dwelling percentage of price)
Brisbane	\$159,000	+42 per cent	29 per cent	26 per cent
Perth	\$206,000	+54 per cent	35 per cent	Not calculated

Source: RBA, authors' calculations, CoreLogic

To illustrate its reasoning, the RBA research used an example of the average Sydney house, valued at \$1.16 million 2016.

It valued the structure at \$395,000 on a \$765,000 block of land.

The report said property buyers in effect valued Sydney property at roughly \$400 a square metre, or \$277,000 for the average block, or \$489,500 less than the market value.

"This difference represents what home owners need to pay for the right to have a dwelling at that location, or the cost of 'administrative scarcity'," Mr Kendall and Mr Tulip said.

"The academic literature refers to this difference as the 'zoning tax' because the wedge between prices and costs is induced by government-determined scarcity.

"We, however, use the less-loaded term 'zoning effect', which avoids implying that government revenue is involved."

'Shadow price' of government permission

Anecdotal evidence in the report suggested zoning could have a huge effect on land values.

The authors cited a 363-hectare site in Wyndam Vale (40km west of Melbourne), which increased in value from \$120 million to \$400 million following its rezoning from rural to residential.

"Such large increases in values as a result of zoning changes are inconsistent with the view that a physical shortage land itself is the main cause of high land values and housing prices — and instead point towards a high 'shadow price government permission to build dwellings as a likely explanation," they said.

While the RBA study found zoning restrictions raised detached house prices in Sydney by 73 per cent on average, it emphasised it did not represent the amount house prices would fall by in absence of zoning.

"Ideally, policy with respect to zoning would reflect a weighing of the benefits and costs."

Young, poor hit by housing crisis



Community opposition to development causes younger, low-income households to suffer from housing affordability crisis.

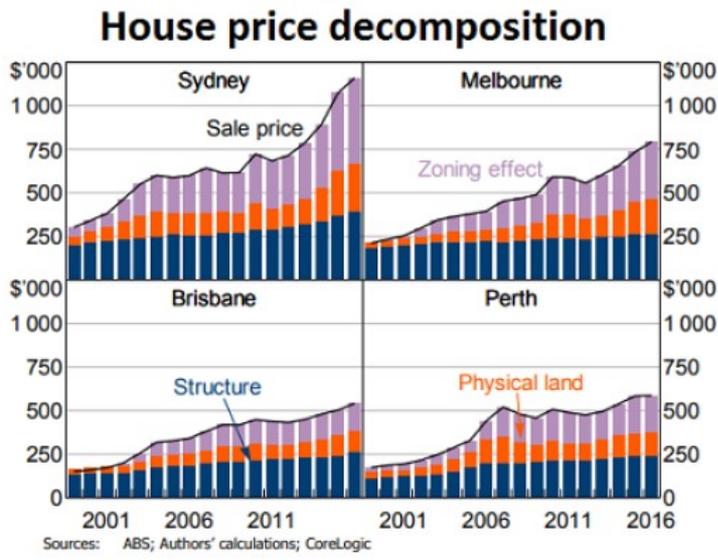


PHOTO: The cost of zoning regulation has been the fastest growing component of house prices since 2000. (Source: ABS, RBA, CoreLogic)

The report noted the costs of zoning needed to be weighed against the benefits, such as overly intensive or uncoordinated development.

Mr Kendall and Mr Tulip said while other evidence pointed to the costs of zoning outweighing the benefits by a substantial margin, they noted the benefits were difficult to quantify.

Only way is up for house prices

However, they were prepared to say that under the current zoning regimes in capital cities, house prices would continue to rise.

"If housing demand continues to grow, as seems likely, then existing zoning restrictions will bind more tightly and place continuing upward pressure on housing prices," they said.

"Policy changes that make zoning restrictions less binding, whether directly [for example: increasing building height limits] or indirectly, via reducing underlying demand for land in areas where restrictions are binding [for example: improving transport infrastructure], could reduce this upward pressure on housing prices."

Topics: consumer-finance, housing-industry, housing, australia

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