Bureaucratic morass in housing markets must end

By Robert Gottliebsen in *The Australian*, 21 January 2022

The chairman of the parliamentary inquiry into housing affordability and supply, Jason Falinski, made a stunning revelation this week: about half the cost of a home and land package comprises state and local government charges.

For me that statement took a while to sink in, but when it did I was horrified. Those charges are added to the price of dwellings and that means that about half of new home bank lending in Australia is required to pay for local and state government bureaucracies and their taxes.

In the process, a vast number of Australians are being priced out of the housing market and we are creating a terrible divide in our community.

Just as bad, we now have a huge bill for social housing so a substantial amount of these taxes have to be diverted to giving people accommodation that they otherwise could afford. And then come the costs generated by the bureaucracies.

Before detailing this tragedy, I need to acknowledge that the Falinski figure comes from a lobbyist, Housing industry Australia, and many people challenge it.

Due to the component complexities of the 50 per cent estimate, there will always be controversy.

But my check of builders and developers of both apartments and house-land packages indicates that average figures around the 40 to 50 per cent mark are about right.

And it really doesn't matter whether the actual figure is 50 or 40 per cent: it's clearly enormous.

State and local governments desperately need that revenue, so are no mood to give it back.

But there are a number of strategies they can adopt to at least reduce the burden and start the process of making housing more affordable and reducing the need for banks to lend vast sums.

The charges that are most often quoted are GST and stamp duty, but in many ways they are not the biggest problem.

We need to start the rectification process in other areas.

State and local governments, particularly in NSW and Victoria, employ vast armies of bureaucrats to delay approvals by setting complex rules with conflicting jurisdictions.

Whether a developer/builder is buying an apartment or a cottage in Melbourne or Sydney, the approval process becomes a total nightmare.

In apartments, this continues into the building process.

The experienced developer/builders know what's ahead and add the estimated costs on to the dwelling price.

Sometimes a developer is lucky and there is a smooth ride. On other occasions, it's horrendous.

In Victoria, there is a tax on each permit and sometimes scheming public servants make sure the permit process is repeated to boost revenue.

In extreme cases, delays can last 10 years.

NSW plays similar bureaucratic games to Victoria and although they are different, the outcome is the same – long delays and lots of uncertainty, so the banks have to lend more money. Apartments have been a big NSW target, contributing to the swing to outer suburban houses.

In other states, the antics used to boost costs are usually not as silly, but they too are dragged into the price escalation game.

Sadly, the community impacts of these state and local government price escalation games are about to multiply.

At the moment, migration is at a standstill, few students are arriving and the economy is slowing under Omicron.

Yet the number of dwellings available for rent has fallen to a historic low.

Once migration resumes and students return, we're going to see big rises in rents.

Until recently, there were a substantial number of apartments in Melbourne available but the actual number was always less than it appeared because many Chinese-owned properties are vacant.

They are seen as a hedge against what might happen in China or Hong Kong.

A large number of cashed-up Australian expats have returned and are familiar with living in small apartments.

They couldn't believe how cheap Melbourne apartments had become and purchased a large number that were previously available for rent.

In Sydney, Meriton uses the Airbnb system plus quarantine to avoid large numbers of empty apartments.

There is not a large reservoir of empty rental apartments to take students and migrants.

Rents will rise.

According to Falinski, NSW needs to build 42,000 dwellings a year just to keep up with demand.

In Victoria, that figure looks to be larger.

In our two largest states by population, building rates are not matching these levels, in part because of the delays and bureaucratic tangles.

In other words, underlying demand is above supply.

In Sydney, a number of large Chinese developers tried to enter the apartment development business and even though they were ready for bureaucratic tangles, the NSW approval morass is so chaotic that they threw in the towel.

Events in China will have also played a role.

If we are going to overcome the problem of inflated dwelling prices and shortages, we first have to recognise underlying causes.

Sadly, we have not yet reached that stage.

But the looming big rise in rents and ballooning social housing shortages will start the process and that focus will almost certainly come at a time of higher interest rates.

Once we understand the problem, we can begin on the solutions.

Any solution will need to start with a streamlined and easy-to-understand approval process.

That does not mean an "anything goes" rule system, but the bureaucratic morass in property approvals must end.

That will quickly reduce costs and increase supply.

Then we can start on the taxing process to see whether it's possible to raise money in a way that does not cause severe social disruption and distort our banking system.