

Submission

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Inquiry into Microeconomic Reform in Western Australia

**Economic Regulation Authority
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About Shelter WA

Shelter WA is the peak body for affordable housing and homelessness in Western Australia. It was founded in 1979 as an independent community based peak body committed to accessible, affordable and secure housing for every Western Australian. Shelter WA provides a link between government and the community through consultation, research, systemic advocacy, and policy advice and development. Our role is to provide an independent voice on housing rights and options in the state along the housing continuum. Our work focuses on promoting the development of appropriate affordable housing options for low to moderate income earners, those who are otherwise disadvantaged in the housing market and people experiencing homelessness.

Shelter WA promotes a diverse range of affordable housing options including social housing, housing within the private rental market and affordable home ownership. Shelter WA also provides community education, and advice to government on housing policy issues. Our development of policy recommendations is based on sound research and consultation with housing consumers and organisations working on housing and related issues.

Proposed Reforms to Make Housing More Affordable

Shelter WA proposes the following reforms to make housing more affordable in WA:

- Allow local governments to borrow against the value of their land in order to increase their ability to partner in the development of affordable housing;
- Use incentives in conjunction with inclusionary zoning requirements, to encourage developers to increase the supply of affordable housing;
- Encourage more efficient use of undeveloped land;
- Abolish stamp duty to promote mobility in the housing market; and
- Encourage the use of sustainable building materials and techniques.

Shelter WA considers these reforms necessary to provide for the affordable housing needs of the Western Australian community.

1. What sectors of the Western Australian economy are likely to benefit from the implementation of microeconomic reforms?

People on a low to moderate income, and social housing providers, will directly benefit from the proposed reforms. In addition, there will be secondary benefits for others from these proposed reforms, such as private renters and real estate agents, through increased housing stock within the housing market; social service providers, through increased access to affordable housing for clients; and building developers, through incentives to increase development. Further, the WA Housing Authority will also benefit from the increased supply of affordable housing in the private sector, from reduced demand on public housing.

In addition to increasing the supply of affordable housing, the proposed reforms to vacant land will support the efficient use of land and harness development opportunities in WA. This will benefit individuals and families, the job market and the wider community.

The construction industry and state and local governments will also benefit if the reforms and changes proposed by Shelter WA are implemented. The construction industry will be boosted by the reforms, which would see more land released for development (Morris, 2012). The State government will also benefit from these microeconomic reforms, through additional revenue from increased property transactions. In particular, local governments will become more efficient in their use of land and resources. They will also have the opportunity to partner with developers in affordable property development, and have increased access to financing opportunities which will provide them with greater service capacity.

2. What specific reforms might improve the efficiency, productivity or flexibility of those sectors, and why?

Allow local governments to borrow against the value of their land in order to increase their ability to partner in the development of affordable housing within their local area.

Research undertaken by Shelter WA suggests that funding for affordable housing projects can be an issue for local governments. Even if local governments want to take a pro-active role in developing affordable housing, or partner with property developers or community housing providers, current structures do not allow it. The Community Development and Justice Standing Committee (2011) explain that local governments in Western Australia are currently restricted from borrowing against the value of their land to fund their share of an affordable housing development. This is restricted by Section 6.1 of the Local Government Act of 1995. Shelter WA supports the Community Development and Justice Standing Committee's recommendation that this restriction be removed. Removing this restriction will result in a more efficient and productive use of government land, which may be otherwise be left undeveloped. Removal of Section 6.1 of the Local Government Act 1966 could allow local governments across Western Australia, including in regional areas where it could have a significant effect, to have a greater role in the development of affordable housing (Beer, et al., 2011). This will also support increased revenue for local governments from affordable housing sales and additional ratepayers from the increased housing stock.

Use incentives in conjunction with inclusionary zoning to encourage developers to increase the supply of affordable housing.

Inclusionary zoning is not a new reform proposal. Inclusionary zoning has been in effect in many jurisdictions around the world for many years, including around Australia. In the Department of Housing's *Affordable Housing Strategy 2010-20* there is a requirement placed on government land release and re-zoning for a mandatory contribution of 10% affordable and 5% high need housing. However, no such requirements are placed on private property development.

Shelter WA recommends that inclusionary zoning requirements are introduced as a reform for new developments, using either 'threshold' or 'negotiated arrangements' or a combination of both, depending on the particular local government area.

In the threshold approach, a threshold is set as a trigger. For instance, in a property development over a certain size (for example, 10 units), the developer may be required to offer a percentage of the housing for purchase by affordable housing providers at a fixed, reduced price (needs to be sold, or donated, to not-for-profit housing providers who will keep them at an affordable rate long term). In some instances, developers may make a contribution to an affordable housing fund in lieu of providing the actual dwellings.

In a negotiated arrangement, the development assessment process includes a negotiated arrangement which secures an affordable housing outcome. This arrangement is usually between the developer and local or state government.

Examples of these arrangements include:

- Reservation of infrastructure capacity for affordable housing
- Concessions in fees or charges
- Pre-purchase commitments (such as for social housing)
- Assistance with financing costs
- Promotional or marketing assistance

Inclusionary zoning can provide incentives to developers to increase the affordable housing stock and build more diverse housing types. Widespread use of inclusionary zoning in the private housing market has the potential to increase the supply of affordable housing and mitigate demand for limited resources in the public housing system.

Encourage more efficient use of undeveloped land

Shelter WA research suggests that land speculation is an issue which is impeding the creation of affordable housing. According to WALGA, the land development industry determines the amount of land release onto the market, its timing, lot sizes, subdivision design, and housing type (WALGA, 2013). Many developers believe the undersupply of land in the metropolitan region is leading to affordability issues. The development of lots left vacant for speculative purposes can help address the lack of affordable housing in Western Australia.

The issue of undeveloped vacant land can be dealt with at a state or local level. WALGA maintains that, "Local governments could elect to levy higher rates on vacant properties as currently done by the City of Perth" (WALGA, 2013). In *A Fading Dream - Affordable Housing in Western Australia*, the Community Development and Justice Standing Committee suggests that state governments should investigate the feasibility of requiring developers to release undeveloped lots within a certain time frame, and implement a differential land tax regime on long-term unimproved land. Shelter WA supports this recommendation, and urges that a feasibility study into a vacant land tax is undertaken, either at a state or local level. If local governments are to take control of this issue, they should be provided a framework for dealing with the issue of land speculation. More research is required on this issue to ensure fairness and transparency for land holders, while encouraging the development of more affordable housing.

This reform has the potential for more effective and efficient land use in WA, whilst also stimulating the economy from increased housing construction activity through reduced land speculation.

Abolish stamp duty to promote mobility in the housing market

Shelter WA strongly supports the recommendations made in the Henry Tax Review to abolish stamp duty and introduce a broad-based land tax over a transition period (Australian Government Treasury, 2010). As highlighted over previous years, stamp duties are widely considered inefficient taxes which prevent people from moving through the housing market, including downsizing as they age and as housing careers change. Abolishing stamp duty while implementing a broad-based land tax would remove a significant cost to home buyers, help control house price inflation, and importantly return equivalent revenue for the State Government over time. It would increase housing affordability for first time homebuyers, low and moderate income households and anyone wishing to move or downsize (Australians for Affordable Housing, 2012). Most importantly, the implementation of this recommendation is cost-neutral to the State.

Encourage the use of sustainable building materials and techniques

Another area of potential reform for consideration by the ERA is the use of sustainable building techniques and materials in residential construction. The use of sustainable building techniques and materials has the potential to decrease construction time and cost, and increase environmental sustainability in the built environment (SGS Economics & Planning, 2008). This proposal may be achieved by reducing unnecessary regulation on the building industry, investing in green jobs to manufacture sustainable building materials in WA, and providing incentives to developers to use sustainable materials and techniques.

3. What economic and social benefits might those specific reforms have for individuals, business and/or the State?

The creation of affordable housing is essential to the social fabric of Western Australia. The development of appropriate affordable housing options for low to moderate income earners, those who are otherwise disadvantaged in the housing market, and people experiencing homelessness, are vital to the wellbeing of our society and economy. Western Australia continues to experience a housing crisis, with many individuals and families, including people engaged in the workforce, unable to access affordable housing or at risk of experiencing homelessness. Housing is a basic human need which, if not met, impacts on many other areas of wellbeing. Inability to access affordable housing also increases the risk of homelessness, which also leads to social exclusion, exclusion from education and increased contact with the criminal justice system, all of which impact on the wellbeing of society. A failure to address the housing crisis will result in increased costs to State government through health care, mental health services, additional pressure on crisis accommodation and a rise in domestic and family violence, and the well-documented issues ensuing from this.

Individuals stand to benefit economically from the abolishment of stamp duty, which increases mobility in the housing market. This facilitates more effective allocation of housing based on individual household needs. This proposed reform will reduce the up-front costs of purchasing a property, facilitate the transition into homeownership for first time homebuyers, and allow people to move house more readily in accordance with their needs.

An economic benefit of the undeveloped land proposal would be increased revenue for local governments. Government would also receive a greater taxation base sooner, as the land is developed and becomes more productive.

4. What economic and social costs might those specific reforms have for individuals, business and/or the State?

Some of the proposals put forward by Shelter WA come at a slight economic cost; however the increased social outcomes far outweigh these costs.

The revenue currently received from stamp duty would be replaced by a board-based land tax to make this proposed reform cost neutral.

The undeveloped land initiative will carry an extra cost for individuals and businesses who own vacant land for the purposes of speculation. These land holders are currently charged a percentage of Gross Rental Value (GRV) on their land; the vacant land proposal would merely have a higher percentage added of GRV to provide incentives for land speculators to develop the land and thereby increase the supply of available housing. Land speculation has been proven to benefit the more affluent sector of society, and lead to economic polarisation, which results in an economic and social cost to society as a whole.

Inclusionary zoning may be seen as a burden for developers; however this is not necessarily the case. For example, WALGA explains that the application of inclusionary zoning in areas identified by local governments as suitable for higher density development does not affect developers' economic viability or profit margins. WALGA suggest that "...in these locations, the cost of providing affordable homes can be readily offset by the increased density allowance and reduced requirements for car parking and open space provisions" ensuring development costs are reduced, and developer profits assured (WALGA, 2013).

5. Are you aware of any additional information that may assist the ERA in assessing the efficiency of the sector in question, or the costs and benefits of the proposed reforms?

Shelter WA can recommend some resources for further investigation of these proposed reforms. Some recommendations are derived from the Community Development and Justice Standing Committee's 2011 report *A Fading Dream – Affordable Housing in Western Australia*. This report makes recommendations about how to ensure affordability through government initiatives and reforms.

Shelter WA has also developed a resource describing reforms for local government which can stimulate the development of affordable housing. This report explains how inclusionary zoning works, and where it can be useful to increase the productivity and efficiency in land use. It is entitled 'Local Government Guide to Developing an Affordable Housing Strategy' and can be accessed on the Shelter WA website at <http://www.shelterwa.org.au/resources/papers-reports/>.

More information is available on sustainable building materials and techniques and 'Environmentally Sustainable Design' (ESD) through the Australian Housing and Urban Research Institute, Green Building Council of Australia, Curtin University Sustainability Policy (CUSP) Institute, and the Sustainable Buildings Research Centre at the University of Wollongong.

6. Are you aware of any examples of other jurisdictions (either in Australia or overseas) where similar reforms have been implemented? How effective were the reforms in those jurisdictions?

Inclusionary zoning examples:

Boston Linkage Program: The Boston Linkage Program relies on fee extraction from new large-scale developments exceeding 100,000 square feet and requiring zoning relief, including expansion and rehabilitation programs. Linkage requirement can be fulfilled through cash payment, by direct creation of housing, or a job-training program. Through the program, more than \$45 million in linkage funds have been allocated for construction of nearly 5,000 housing units since 1986. Charged at \$7.18 for every square foot of gross floor space of Development Impact Project (DIP) uses in excess of 100,000 square feet.

The housing contribution is made over a seven year period for inner city developments and over 12 years for neighbourhood suburban developments. The extended payment period means there is an element of flexibility, to facilitate progress of development in different circumstances. The deferred payment schedules allow developers to pay linkage fees out of operating revenues from the project rather than having an up-front cost, which could be a disincentive for development.

Randwick Local Government, New South Wales: Randwick local government area (LGA) in NSW has an affordable housing policy which requires master plans over 4,000sqm² for redevelopment sites to consider housing density and to contribute to their specific local government Affordable Rental Housing Program. The LGA has retrieved 15 units as part of this scheme (more since the reference document was produced). If they don't contribute any tangible assets, developers can still contribute to the fund monetarily. This has been successful, collecting over \$500,000 to achieve affordable housing goals (Randwick City Council, 2007). This works well when there is competitive bidding for developments, because projects which better meet inclusionary requirements are better positioned to be chosen for tenders (Schuetz, Meltzer, & Been, 2007).

Undeveloped land initiative

A version of the vacant land initiative is currently applied in the City of Perth. The City “levies a rate of 3.898 cents per dollar of Gross Rental Value (GRV) on residential land, whilst 5.130 cents per dollar of GRV is applied to all vacant lands” (WALGA, 2013, p. 31). An explanation of the reasoning behind this is “the higher rate is imposed to discourage holding undeveloped land within the City which reduce the amenity of the area and to encourage its early development” (City of Perth).

Conclusion

Shelter WA welcomes the opportunity to contribute to the Inquiry into Microeconomic Reform in Western Australia. Our recommendations include removing a restriction on local governments to borrow funds to support affordable housing, using inclusionary zoning to provide incentives for the provision of affordable housing by the private sector, encouraging the more efficient use of vacant land, abolishing stamp duty to promote mobility in the housing market, and encouraging the use of sustainable building materials and techniques. These reforms will help increase the supply of affordable housing and meet the growing housing needs of Western Australians.

Shelter WA would like to stress that while some microeconomic reforms can be very effective in bringing more affordable housing to the market, some efforts to decrease regulation and government spending would work against overall community outcomes. Shelter WA believes that while some services can be provided by the private sector, we also believe other services must be provided by government to ensure their appropriate delivery and to achieve community outcomes. For example, most affordable housing in the Perth metropolitan region has traditionally been provided by the private sector and is rapidly diminishing as demand continues to increase (WALGA, 2013). There is a need for government to support the provision of affordable housing in the private sector as well as investing in an increased supply of social housing for those most vulnerable and disadvantaged in the housing market.

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