

Strong Political Will Needed For Cheaper Housing

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Over the past year Melbourne house prices have edged up by over 5 per cent. This followed rapid price increases in the two decades to 2009 and stable prices over the following three years.

Recent lower interest rates have been a major cause of this year's house price increases by making housing more affordable. There have been consequent warnings about a property price bubble and even suggestions that the government should lift interest rates to avoid this.

Commonwealth Finance Minister Mathias Cormann has argued against such a rise in interest rates and downplayed fears of a price bubble, arguing that higher prices are self-correcting because they lead to increased supply.

For most products higher prices do indeed bring an increase in supply but this does not hold for housing. That's because the key price driver for housing is land availability. And state governments strictly limit the amount of land that might be used for housing around all major Australian cities. So, interest rate reductions improve housing affordability but the resulting higher prices bring a negligible effect on supply.

We see this in Victoria over the past year, when higher prices actually saw new housing starts down 10 per cent.

The Government induced scarcity of land explains this. An average newly developed housing block around Melbourne (with roads, water, sewerage etc) costs \$211,000, a ninefold increase since 1985. Without government restrictions on city edge land use, that block would cost under \$100,000. Regulatory-driven scarcity adds \$100,000 to \$150,000 to costs which the new homeowner must bear.

There is an abundance of developable land on the edge of Melbourne, as with all Australian cities. Freeing up the regulatory bans on development would see new house-land package costs fall by a quarter.

But the Minister, Matthew Guy, takes his advice from an unholy alliance. One part comprises property speculators who have approval for their own lots to be developed and don't want to see competition undermining the prices they expect. In support are greenish busybody "experts" and agitators who want to confine new home building to within existing built-up areas, seldom drawing attention to the fact that less than one per cent of Victoria is urbanised.

The outcome is a squeeze on land availability and an ugly impost on those younger and poorer Victorians who have not got a foot on the housing ladder.

Contrary to its policy promises to lower housing costs and wage a "war on red tape", the Coalition state Government is actually performing worse than its predecessor. It is approving fewer lots for development and compared with the Bracks/Brumby average annual increase in the Urban Growth Boundary of around 10,000 hectares, the Government last year approved less than 6,000 hectares.

House price rises are welcomed by existing homeowners and by those developers with land approved for housing. But one man's meat is another man's poison and the high prices hit renters, especially young people. Unfortunately, these groups are unaware of the tyranny of regulation that is raising their housing costs. For its part, government prefers to accommodate noisy interest groups than to reduce regulatory barriers that adversely impact on the poor.