



BOB DAY Housing land rush leaving many out in the cold

ANYONE who has played musical chairs will realise that as the game reaches its climax, the niceties of human engagement go out the window and it's every man, woman and child for themselves.

In Australia over the past five years we have seen a form of this old game played out in the housing market as the young, the old, the baby boomers and the upwardly mobile all attempted to grab their seat in suburbia before it was too late.

Now it is too late and the most vulnerable Australians - those with limited resources and moderate incomes, young families in particular - left standing on the sidelines to wonder what went so wrong.

It was not so long ago, only five years ago in fact, when households with an income of \$40,000 could have bought a nice house in Adelaide. The median house price was \$135,000 then - it is nearly double that amount now.

Just as musical chairs is a game centred around diminishing availability (economists call it scarcity), the operation of the real estate market becomes much more desperate when supply is short. Where there is an abundant supply of any commodity - be it real estate,

water, artworks, oil or cars - the price drops. Conversely, prices rise when a desired commodity is in short supply.

In the case of the dramatic rise in house prices in Adelaide over the past five years, the changes were not driven by the cost of housing but by the cost of land.

Urban containment policies in the form of growth boundaries, zoning and other planning instruments have conspired to stifle land supply and escalate prices.

A modern-day land rush was created and many who hoped some day to have a home of their own were crushed in the stampede.

It has often been claimed that urban containment is important because of the high cost of infrastructure on the fringes of our cities.

International evidence does not support this claim, indicating that upgrading services in the inner suburbs to cater for higher population densities is actually more expensive than establishing them new on the fringe.

In five years the price of residential land has doubled. Where land once represented 25 per cent of the cost of a new house and land package, it is now 50 per cent - a 100 per cent increase. This is a disaster for a family trying

to build their first home. By comparison, the actual cost of constructing a new house has been rising at less than 5 per cent per annum.

It is important to remember that this scarcity that has propelled land prices through the stratosphere is contrived - it is the product of artificial restrictions brought about by planning regulation and zoning.

A drive on any sunny day from Gawler to Aldinga will reveal that there is an abundant supply of land suitable for housing development in the urban corridor. Adelaide's land shortage is a matter of choice, not of fact.

Housing affordability or first home ownership is about "entry level" and entry level housing happens on the urban fringe. If you restrict supply at the entry point, up goes the price and down goes the affordability.

The encouraging aspect of this realisation is that housing affordability can be restored in our outer suburbs by removing these artificial impediments. Unlike musical chairs, the rules of the land market do not demand that we should make it more and more difficult to find a seat for those least able to compete.

□ Bob Day is national president of the Housing Industry Association.