

Land controls at heart of housing crisis

[Housing: The Great Australian Dream Project](#) | [Alan Moran](#)
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House prices are a top priority for most Victorians. This is hardly surprising since the family home is the most important investment nearly all of us own or aspire to own.

Achieving a decent level of personal equity in a home is a multi-year struggle. After that we have an abiding interest in how our nest egg is doing.

Housing is assuming a higher political profile during the current election campaign.

This is partly due to increased house prices, rising interest rates, and rents catching up with the higher house prices.

We are also seeing turmoil in US housing markets which threatens to spill over into Australia.

House building accounts for about 6 per cent of national spending and is itself a major source of economic activity. More importantly, low levels of new housing completions bring higher prices for all houses and increased mortgage payments and rents.

These are a vital part of people's living costs and keeping them down can be a magnet in attracting new industries and workers.

In the US, cities such as Houston, Dallas and Atlanta have few restrictions on land for new house building.

As a result, these and other southern cities have seen lower house prices and considerable growth in house sales and increased wealth generally.

By contrast, US states with heavily regulated land supply have seen higher house prices and less housing.

Nevada, Arizona, California and Virginia saw decreases in home building rates of over 20 per cent last year.

Like the highly regulated land supply laws in many US states, all Australian states have severe housing land restrictions.

The worst performers have been in NSW and Western Australia, which have the strictest controls over land for new housing, the slowest new building levels, and the highest house prices.

Although Victoria is less regulated and has cheaper new housing than other states, its land use restrictions continue to place burdens on the new home buyer and suppress the state's economy.

The Victorian Government's land restraint policies are embedded in the government's creation of a land shortage through 2030 controls over the urban growth boundary.

There is enough land on the urban fringe to accommodate six Melbournes.

Used for farming, that land is worth about \$500 per housing block. But once it gets development approval for housing, the block's worth miraculously jumps to \$50,000.

That cost is passed on to the new home buyer and is amplified by taxes and charges to more than \$100,000.

Even a reduction of \$50,000 in the price of a new home translates into a \$6000 a year saving on a standard mortgage. For a person on average weekly earnings this amounts to a 15 per cent increase in real after-tax income.

Eliminating regulations that raise the cost of buying a new home would reduce rental and house prices far more effectively than any government subsidy could feasibly deliver.

Failure to grasp the opportunity to reduce these costs will see other states seizing those same opportunities and overtaking Victoria.

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