

Price of a new house could be so much cheaper

[Housing: The Great Australian Dream Project](#) | [Alan Moran](#)



Herald Sun 6th March, 2010

A misdirected email from Justin Madden's office showed the Brumby Government at its manipulative worst.

Following a planning review into the iconic Windsor Hotel redevelopment, the government intended to set up a counterfeit protest group. Then, having "listened to the community", it would reject the redevelopment recommendation.

But planning laws can wreak even greater damage than this. By restricting urban development they make houses unaffordable, and we are already seeing Melbourne's house prices increase.

This can only be exacerbated by the Victorian Upper House last week rejecting the Brumby Government proposals for an expansion of Melbourne's urban growth boundary.

The Greens opposed the boundary extension because they disagree with all development other than bicycle paths and inner city wine bars.

The coalition objected to an increase in the Growth Areas Infrastructure Contribution (GAIC) accompanying the proposed extension. This would have raised to \$95,000 the existing \$80,000 per hectare fee levied by the government on the sale of land permitted to be developed for housing.

The GAIC is not actually required to fund infrastructure, though few MPs understood this. In new developments, most infrastructure -- including for roads, drainage, and parkland -- is funded by the developer. Other infrastructure -- including electricity, water and sewerage -- is supplied commercially.

Either way, the new home owner, not the government, incurs the costs.

The only two major infrastructure categories the government provides are trunk roads and schools.

But trunk roads have to be built anyway and motorists already over-finance them in petrol and vehicle licensing taxes. Suburban trunk roads also are much cheaper to build than those in the inner city.

With regard to schools, these are needed no matter where children live and again are cheaper to provide in areas on the urban fringe than in the inner suburbs.

The GAIC therefore is simply a tax.

However, it does not add to development costs. This is because GAIC is imposed on land that has been inflated in value due to government land-use restraints.

Melbourne's edge largely comprises farmland worth about \$10,000 a hectare. But once it is freed from regulations that prevent it being used for housing the land becomes worth \$300,000 a hectare.

This inflated cost gets factored into the price of houses and the new home owner cops it.

With the GAIC, the government is trying to get a share of the excess costs its regulations on land use have created. But it is the scarcity of housing land caused by regulation that raises costs and prices,

not the GAIC.

A significant relaxation of the restrictions on land use therefore would reduce the price of developable land and of housing.

Politicians should shift their focus from the GAIC, to permitting more of our vast land resources to be developed for housing. This would drive down the costs of land, reducing new house prices by more than \$50,000. Such action also would put welcome downward pressure on house prices generally.

Land is like everything else. Its price responds to demand and supply. Restraining the use of land for housing creates a scarcity that inflates prices. That simple lesson seems to be lost on our politicians.

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