

Don't blame planning for a supply shortage and rising house prices

by Tim Sneesby (19 May 2020)



Photo by Kelvin Li on Unsplash

Recently I argued that cutting red tape or fast-tracking planning approvals would not help the housing market recover from its COVID afflictions. Some developer lobbyists have responded, doubling-down on the claim that rapid and less scrutinised approvals are essential for property market recovery. This claim underpins their attacks on the planning system – it demands a close look at the evidence.

The COVID crisis has amplified the push by development industry lobbyists to cut red tape and fast-track planning approvals to “boost the housing market and associated construction jobs”. While the developer lobbyists shibboleth hasn’t changed in recent times, the economic contraction and uncertainty of COVID has meant that simple (but wrong) supply side solutions are gaining traction with the NSW government.

As I argued here with clear evidence, housing supply in Sydney is a success story with the city having the highest housing approvals in the developed world – a product of the established

planning system (not of course without its flaws but by no means the block or barrier to development it is painted as).

The recent fall in approvals and commencements are a result of a collapse in demand, not an excess of red-tape or lack of fast-tracking.

Taking the higher ground to find common ground

The response by Urban Taskforce to my recent piece on cutting red tape was measured. It’s good to see developer lobbyists backing away from unsubstantiated claims about red tape and focusing on issues on which there is broad consensus, for example, the need to fund additional capacity at council, NSW government as well as the Land and Environment Court.

I expect to see more nuanced soundbites calling for more public servants, and not just more of the same “policy by press release” on planning

red-tape, housing supply and unaffordability.

There is agreement from developer lobbyists that planners need to have a better understanding of economics. This may have the opposite effect than expected.

Far from accepting the usual talking points of the industry lobbyists, planners could “pull back the curtain” and see for themselves that many lobbyist claims will neither deliver public benefit nor stimulate economic activity.

For example, high infrastructure contributions are not “passed on” to the final dwelling price. When clearly signalled, they are factored into the development equation and work to suppress land values.

The profession would then better understand why developer contributions can be up to 10 times higher in greenfield areas compared to inner city areas, where the smaller dwelling is twice as expensive. Planners would understand why land value is so important and why developers seek to game the system for windfall gains.

They would also appreciate that landowners pay contributions, not developers, if the industry players are diligently doing their Residual Land Value feasibility assessments.

Lastly, they'd recognise the importance of implementing value capture schemes to reduce the incentive of rent-seeking (for strictly private gain) and apply the public's share of windfall planning gains to implement strategic plans.

The lobbyists don't want us to pay attention to the man behind the curtain – they rely on economic illiteracy in policy makers so no one will question their claims.

The “supply gap” shibboleth, planning, house prices

Some developer lobbyists argue that development approvals for new dwellings have “dropped off a cliff” because of “a fundamental failure of the NSW planning system”.

The argument of falling approvals is cunning. Approvals have dropped, but not approval rates. No one is buying, so no one is building, so no one is putting in applications, so there's less to approve. That is not a problem with the planning system.

But this “supply gap” is intuitive at face value, which is why it has such currency and is rarely questioned by the mainstream media and politicians.

How is it possible that Sydney has approved and built record numbers of new dwellings, while at the same time planning “red-tape” has been a handbrake on new housing supply, forcing up prices?

To test this idea, policy makers need to first ask the right questions: how is it possible that Sydney has approved and built record numbers of new dwellings, while at the same time planning “red-tape” has been a handbrake on new housing supply, forcing up prices?

Why is it that companies in the business of selling housing are lobbying for a policy that increases supply and reduces the price of their product?

If supply is the issue, why don't lobbyists advocate for large-scale social housing construction?

Why don't they advocate for a bigger role for the government as a developer, such as Landcom in NSW?

Why do they dismiss the Missing Middle as a supply solution? Because their members don't profit from that kind of supply boost.

The reality is they wouldn't lobby for steady supply, and they don't. Supply elasticity (responsiveness) at the macro scale (pushed by RBA, Treasury, et al.) is completely disconnected from the spot rezonings in an inelastic (unresponsive) market that lobbyists want.

And the reason they want easy spot rezonings is because they don't make money actually building houses, they make money through approvals increasing the value of their land assets by maximising yield relative to what is permissible.

And further, the apartment towers built may be less likely to find a buyer if a steady, more incremental supply base is established.

There is an abundance of supply

In the long run, an adequate supply pipeline is important for several reasons apart from moderating house prices, such as orderly development – coordinated with infrastructure – to accommodate population growth and change across Sydney.

In the short to medium-term, there is an abundance of approved and ready to develop greenfield and infill sites in Sydney, with 190,000 dwellings in the pipeline in the next five years. This is an 8 per cent increase compared to the last five years, which was the largest approvals and construction boom in Sydney's history.

Since 1999, the cumulative gap between approvals and completions is 142,000 in Sydney alone, with over 100,000 surplus approvals

granted since the 2012 price boom began.

Is the “supply gap” creating high house prices?

The idea that supply inelasticity (that is, an unresponsive supply pipeline) is a significant factor pushing up house prices is a thought-bubble repeated by some who have little understanding about how housing markets operate.

The RBA last year acknowledged, based on detailed empirical modelling, that house price increases in Sydney and Australia have been driven by interest rate falls, along with record high immigration.

The RBA study shows that a 1 per cent drop in interest rates will increase prices by 30 per cent, but a 1 per cent increase in the number of dwellings only lowers house prices by 2.5 per cent. Given that new housing supply only adds just over 1 per cent to housing stock each year, even a doubling of housing supply would have a negligible impact on house prices where these are set by all house sales, old and new.

What about slow approvals?

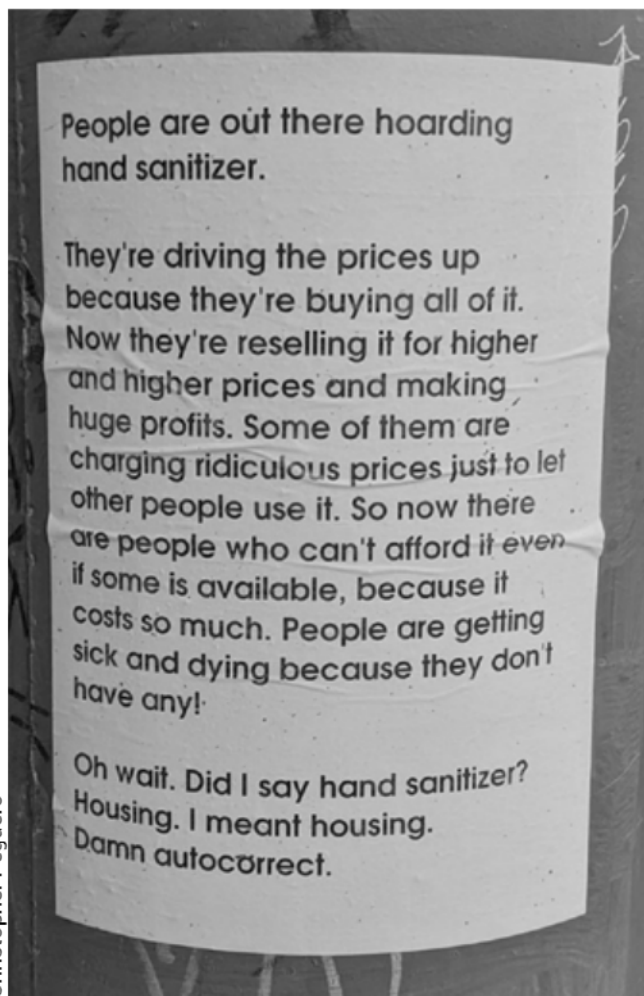
The assessment of Planning Proposals and Development Applications is designed to add value by maximising the public benefit of a project consistent with a community's adopted strategic plan for the future growth or change of a precinct.

Development lobbyists often make the argument that approvals taking too long are the real issue in NSW. To the extent that lack of government planners creates delays, there would be little disagreement that this could be addressed. But there's more to it than this.

The Productivity Commission found that developers often push the boundaries for “potential windfall gains, [which] will see some developers persevere with rezoning proposals in areas that are not part of the government's strategic plan. This might provide a hint as to why lobbyists may despise the GSC [Greater Sydney Commission] and a strategic plan-led system.



Photo by Claudio Schwarz | @purzibaum



It is also revealing that lobbyists dismiss strategic planning as the government responding to “local communities and councils” like it’s a bad thing.

Why would developer lobbyists want “certainty” in the system to reduce delays, since that certainty could mean not getting their “proponent-initiated merit-based planning. They wouldn’t and they don’t. What is requested is “certainty we’ll get what we want”. If the choices are “certainty we’ll have to follow the rules” or “uncertain flexible rules that offer us a chance for an unearned increment”, they will take the latter. The torturous process they can go through is their own doing: follow the rules and you’ll generally get approved and faster. Let’s not pretend normalising spot rezoning or attempting to remove rigour in assessment processes is good planning.

Government planners don’t have a monopoly on good ideas, so the system can accommodate others putting their ideas forward, particularly when strategic plans are being prepared. But let’s not pretend planning is creating a supply gap at an aggregate level and that this has been the cause of high house prices.

<https://www.thefifthstate.com.au/innovation/design/dont-blame-planning-for-a-supply-shortage-and-rising-house-prices/>



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