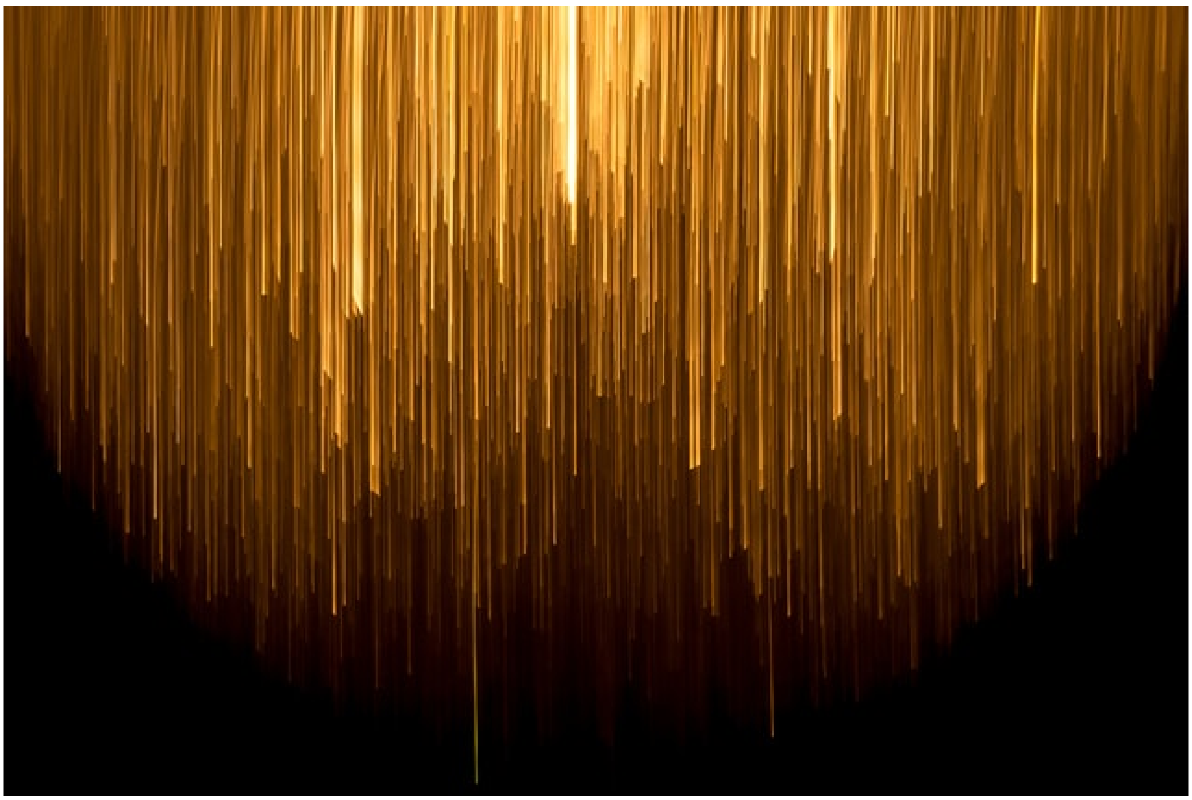
Forget Red or Green Tape, Developers Squeeze Housing Supply with Gold Tape

by Karl Fitzgerald | Jul 29, 2022 | Commentary



Op-ed Cross-posted from The Age, Karl Fitzgerald

The development industry has told us for many years that if the government would just pick up the pace of planning approvals, the supply they could bring to market would bring house prices down.

In submissions to government and evidence to inquiries, they've emphasised red tape, planning delays and the lack of suitably zoned land. They've rarely suggested that they are, in fact, constrained by commercial imperatives to obey the market's "speed limit" on new housing supply.

That's the key finding from a detailed analysis of what developers do in our new research paper Staged Releases: Peering Behind the Land Supply Curtain.

With the University of Sydney's Dr Cameron Murray, we looked at 26,000 property purchases in nine master planned communities. We wanted to understand how the size and timing of staged releases influenced price. With 110,000 housing lots approved, we were surprised that developers had only sold 24 per cent of available sites after nearly 10 years.

Our research reveals a "staged release" approach that responds to price growth, but appears to be well managed to avoid creating supply-led price declines.

We found that all six developers reduced their sales rate when prices softened. In 2017, as supply had built up to a level that could have pushed prices down, we saw a 48.7 per cent reduction in the rate of sales over the next two years.

That year was to become the most profitable on record for Australian land values, increasing by $683 billion.

Across all developments in our study, the result of supply stalling practices saw an annual price increase of 5.5 per cent above inflation.

Planning departments around the nation have been crucified for decades, but nobody has turned the mirror the other way to see what developers do to preserve their profits. Certainly, planning and infrastructure delivery could be improved, but even if planners turned out approvals overnight, it wouldn't change the incentive to keep a floor under prices.

Forget red or green tape, developers hold supply behind a gold tape: they must ensure there is not enough supply to push prices down.

Developers averaged a supply delivery of 3.8 per cent of approved lots each year. Even in Willowdale, the master planned community south west of Sydney where supply ran at 8.8 per cent, supply made little difference with prices increasing 6.5 per cent above inflation.

The reason is obvious. Why would anyone in business keep building to undercut their own product? No other industry does this, yet politicians have been convinced this is the key to solving one of the nation's most pressing problems.

Woodlea, north-west of Melbourne, was awarded Australia's fastest selling community in 2015. This was heralded in media coverage, with some staged releases even selling in under one minute. In the first two years they sold 13.8 per cent of total lots approved.

However, once the prize was awarded, just 6.5 per cent of stock was sold over the next three years.

Springfield, near Ipswich in Queensland, was the largest development we analysed, with 43,000 rezoned lots. At no point during its 20-year development window had all that supply seen prices fall for longer than just a few months. They are building an entire city from scratch and prices have only headed one way – upward.

Over our study period, average lot prices increased $194,010 across all these projects. This represents a combined price hike of $5.9 billion for homebuyers, with much more to be coerced from the remaining 86,000 lots. This money could have been spent among local businesses, creating jobs. Instead, that money left these communities and headed toward those who promised supply would matter.

If we want to actually address the housing affordability crisis in this country, we need to start prioritising supply delivery over land banking. Land taxes should be ratcheted upwards for developers who don't meet certain supply outcomes, with revenues channelled into affordable housing alternatives.

Third-market housing options such as community land trusts – a housing affordability tool used in parts of the world such as the US and UK, where any gains in real estate are minimised and shared among the community – must be prioritised so that building occurs when people most need it, during downturns.

Peering behind the land supply curtain should redirect our attention away from tinkering with planning to the bigger issue at play.

Photo by Rene Böhmer on Unsplash

1 Comment

Helen on August 6, 2022 at 4:58 pm

I totally agree with your paper. I worked in property development from 2000 to 2010 and that is exactly the way it works. That's why there are so many wealthy people that have property as their source of wealth. There is much that could be done in relation to targeted tax policy in this country.

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