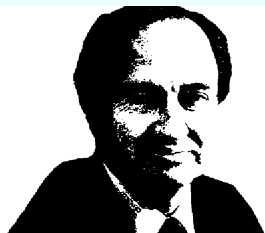


In housing, distance makes the buck go further



ED SHANN

THE Prime Minister recently blamed state government planning laws and taxes for driving up house prices. The HIA and the IPA support him. Their analysis is flawed.

John Howard should read the 2004 Productivity Commission report on first-home ownership.

House prices doubled in Australia in the eight years to 2004, yet there was little population growth. The jump in house prices was not due to a surge in demand for new houses the building industry could not supply.

The leap in house prices was mainly due to a halving in interest rates, which doubles the mortgage a borrower can obtain.

Financial deregulation also made it easier for people with little capital and credit problems to borrow.

Capital-gains tax changes and negative gearing helped double the

proportion of taxpayers with investment properties to 17 per cent.

House prices are determined by demand and supply. Population growth was stable, so demand for new houses did not leap. The ability of people to borrow more meant the main rise in demand was from people with higher incomes seeking to upgrade their homes in established areas. They bid up established house prices as a result.

New lots can be released on the urban fringe, but there is a limited supply of expensive housing close to the city where people want to live. Nor do middle-class kids want to buy cheap houses in outer suburbs given travel times and fewer facilities.

Now of course a faster supply response and the release of more land on the fringe would help hold down house prices in the outer suburbs, but it would not have stopped established house prices jumping in the inner suburbs.

In the past three years, house prices have actually fallen in the outer suburbs.

However, expensive inner suburbs like Brighton and Toorak, where house prices average over \$1 million, have seen prices rise 59 per cent in the past three years.

The surrounding suburbs where average house prices are closing on \$1 million, such as East Malvern, East Brighton and Albert Park, have seen prices rise 30 per cent in that time.

Supply could be expanded in inner suburbs by increasing population density. Alternately, we could build freeways to the outer suburbs to make access easier.

Better facilities might make living in the outer suburbs more attractive to the middle class.

However, that would require major changes in the lifestyle that richer Australians want. We will get some higher densities as older Australians move to apartment living in areas like Docklands, but existing homeowners continue to resist increased densities in more expensive suburbs.

New supply will keep house prices subdued for some time in the outer suburbs, where average prices are nearer \$200,000. New supply is mainly in the outer suburbs and house prices in the inner suburbs are unlikely to collapse as a result.

Affordable housing is available, but not in suburbs where the middle class want to live.

Ed Shann is an independent economist.