

OPINION: WHERE IS THE NEW HOUSING SUPPLY?

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Recently, the Governor of the Reserve Bank, Glenn Stevens, raised concerns about the obstacles holding back an increase in new housing supply to meet a stronger demand for housing.

The tripling of the First Home Owners' Grant in mid-October last year was a first line of defence by the Rudd Government against the fallout from the global financial crisis.

Faced with a severe downturn in industry activity following a difficult introduction of the GST, the then Howard Government doubled the First Home Owners Grant for new housing in March 2001. At that time, the doubling of the First Home Owners Grant would be equivalent to tripling the buyers grant today.

There has been a lot of hype about the impact of the First Home Owners Grant on house prices. But how do the respective increases in the First Home Owners Grant compare in their impact on new-building? It is ten months since the First Home Owners Grant was tripled for new housing so a sufficient period has elapsed to make a comparison.

Looked at in relation to the level of residential building activity, the doubling of the First Home Owners Grant in 2001 has left the tripling of grant last year in its wake. Why?

Back in 2001, the housing industry was experiencing its sharpest downturn on record. Some of the downturn reflected the pulling forward of building in advance of the GST. But the plunge in activity was far in excess of the dragging forward of new home building.

A doubling of the FHOG for new build contributed to a 65 per cent increase in the number of loans for new home construction between March and December 2001. Over the same period there was a 66 per cent increase in the number of local government permits to build new houses.

By comparison, the tripling of the First Home Owners Grant in October of last year is having a much smaller impact on growth in the number of homes approved for construction to commence. Since October 2008, the number of loans to build houses has increased by an impressive 61 per cent, directly comparable with the experience post-March 2001.

But the boost in loans for new-build to date has not converted into permits for new houses to be commenced. Ten months on from the tripling of the First Home Owners Grant, the number of local government permits to start new houses has increased by only 20 per cent.

If the official figures on home loan commitments are to be believed there is a lot of new-build work still to come through. However, the very large gap between the increase in lending figures for new home construction and the expansion of private house approvals raises more questions than answers.

There have been suggestions that the banks might not be honouring all of the lending commitments entered into. There is anecdotal evidence to suggest that some banks could be reviewing prior lending approvals. There has been some tightening of lending criteria, but this

would impact on the number of lending commitments approved. Moreover, the more restrictive lending requirements have been going on for months.

If banks are reversing their lending commitments you would expect this to show up in cancellations of prior commitments. There has been a substantial increase in the number of loan cancellations, but that could have reflected some pessimism and uncertainty on the part of buyers in the face of the threats to job security.

We are still left trying to explain the yawning gap between construction loans and local government permits? Admittedly, some of the impact on new-build could have been blunted by the doubling of the First Home Owners Grant for established housing, leading to some leakage of buyer activity.

That might be true and when the FHOG was doubled in 2001 the higher level of grant did not apply to established housing. However, that explanation doesn't seem adequate since the number of lending commitments to building new homes has increased since October last year more or less in line with what occurred when the grant was doubled only for new housing back in 2001.

If local government permits to build new houses are lagging glaringly new home finance commitments then maybe we should be looking at what is happening with the permit approval process in local government. What has been happening to the amount of time required by local government to approve applications to build houses? The suspicion is that the recovery in new home building has become a hostage to overly intrusive planning approval systems.

Reports from the field indicate that in the green-field suburbs local councils are struggling to keep up with the increase in applications for development consent. Many of these applications are linked to first home buyers endeavouring to take advantage of the time limited boost to the grant. There is a real sting in the tail if the home is not commenced within 26 weeks of the First Home Grant having been approved by the state government. The first home buyer grant can be rescinded leaving the buyer and builder out in the cold.

Recently, the Council of Australian Governments signed off on reforms to the planning system under which standard houses could be handled more efficiently and in timely manner. With the log jam in the permit pipeline and threat to the eligibility for the additional grant, the modernising of the planning approval process can't come soon enough. If that doesn't materialise then the Australian Government should advise states and territories to waive or at least increase the 26-week requirement on the commencement of new houses.

Housing Industry Association