



**Government
of South Australia**

TRS19D3179

Hon Stephen Mullighan MP
Member for Lee
Unit 1, 62 Semaphore Road
SEMAPHORE SA 5019

Treasurer
Level 8
State Administration Centre
200 Victoria Square
Adelaide SA 5000
GPO Box 2264
Adelaide SA 5001
DX 56203 Victoria Square
Tel 08 8226 1866
treasurer.dtf@sa.gov.au

lee@parliament.sa.gov.au


Dear Mr Mullighan

APPLICATION UNDER THE *FREEDOM OF INFORMATION ACT 1991*

I refer to your application made under the *Freedom of Information Act 1991* (FOI Act), dated 12 November 2019.

Your application seeks access to:

“All minutes, briefings and correspondence titled ‘Commercial and Economics – Housing Construction Conditions in South Australia’ as described on the Objective document management system, between 23 February 2019 and 12 November 2019.”

The legislative prescribed timeframe to determine this application has expired and is now deemed to have refused you access to all documents relevant to your application. I refer to my letter dated 19 November 2019 where I sought additional time to make my determination.

The purpose of this letter is to advise you of my determination. An extensive search was conducted within this office. A total of 1 document was identified as answering the terms of your application.

I grant you access in full to 1 document; a copy of which is enclosed.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information* (PC045), the Department of Treasury and Finance is now required to publish a log of all non-personal information released under the *Freedom of Information Act 1991*.

In accordance with this Circular, any non-personal information determined for release as part of this application, may be published on the DTF website. A copy of PC045 can be found at the following address: <https://dpc.sa.gov.au/resources-and-publications/premier-and-cabinet-circulars>. Please visit the website for further information.

As I am determining this application as Principal Officer, Section 29(6) of the Act does not provide for an internal review. If you are dissatisfied with my determination you are entitled to exercise your rights of external review with the Ombudsman.

Alternatively, you can apply to the South Australian Civil and Administrative Tribunal. If you wish to seek a review, Section 39(3) of the Act states you must do so within 30 calendar days of receiving the determination.

If you require any further information, please contact Vicky Cathro on 8226 9769.

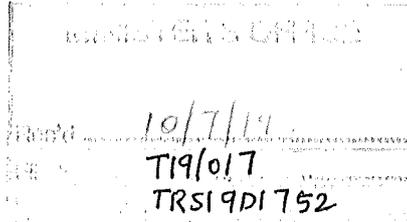
Yours sincerely

A handwritten signature in black ink that reads "Rob Lucas". The signature is written in a cursive, slightly slanted style.

Hon Rob Lucas MLC
Principal Officer

14 March 2020

MINUTE



MINUTES forming ENCLOSURE

File T&F18/0349

Doc No A1200939

To The Treasurer

HOUSING CONSTRUCTION CONDITIONS IN SOUTH AUSTRALIA

Timing: URGENT

Recommendations/Issues: It is recommended that you:

- Note the contents of this brief.

Noted

Rob Lucas
Hon Rob Lucas MLC
Treasurer

13/7/19

Latest statistics on housing construction in South Australia

The trend number of **building approvals** in May 2019 was 21% lower than a year earlier, both in South Australia and nationally.

However, over the past 6 months, approvals have stabilised in South Australia (growing 3.5% since November), despite continuing to fall at the national level (falling 5.1% since November).

The through-the-year fall in building approvals in South Australia is overwhelmingly due to a fall in the number of private 'other' dwellings (which includes semi-detached, units and multi-storey apartments) which were 53% lower than a year earlier. (Approvals for these types of dwellings are typically 'lumpy'.)

By contrast, the number of private sector detached house approvals in May 2019 declined modestly, to be 1.6% lower than a year earlier.

The seasonally adjusted number of **dwelling unit commencements** fell 3.1% in the March quarter 2019, to be 34% lower than the peak recorded a year earlier (10% below the decade average).



Housing finance commitments in South Australia fell by 5.0% in the year to April 2019, although this was predominantly due to 16% reduction in commitments by investors – finance commitments by owner occupiers fell by 1.7% through the year. Banks and the housing industry report that loan finance is taking longer to approve, due to regulator requirements that banks apply more scrutiny to their assessments of applicants' expenses.

The value of **residential construction work in the pipeline** in South Australia, at \$2.7 billion (as of the March quarter 2019) is expected to support construction activity in the short to medium term.

Recent measures to improve housing affordability

The Housing Industry Australia commented in its recent SA Outlook (Autumn 2019): *"Should the widely anticipated interest rate cut eventuate sometime later this year, SA's housing market is well positioned to benefit."* Since those words were written, the Reserve Bank has implemented two consecutive monthly cuts, in May and June 2019, bringing the cash target rate to an historic low of 1%.

Another recent change has been an announcement in May 2019 by the Australian Prudential Regulation Authority of its intention to relax the stress-test requirement applied by lenders when assessing the serviceability of loan applications (specifically, to abolish the 7% floor rate, which many industry participants believed was too high, given the current historically low level interest available to purchasers). On 5 July, APRA confirmed its abolition of the floor rate, and in its place, a buffer of 2.5 percentage points above the loan interest rate to be used for stress-testing.¹

The recent State Budget contained a \$104.5 million housing sector stimulus package comprising:

- An interest-free deposit gap loan of up to \$10,000 to eligible purchasers, through HomeStart Finance.
- \$21.4 million housing construction program to support 90 new homes for affordable housing, through the South Australian Housing Authority.
- \$21.1 million preventable maintenance and upgrade program, for pre-1968 public housing homes and upgrading walk-up flats.

The combined impact of these measures should support residential housing construction activity, across Australia and in South Australia, in the short to medium term.

Master Builders SA proposals

As per previous correspondence, DTF advice in relation to proposals made by Master Builders SA is contained below.

Proposal 1: Stamp duty exemption for first homebuyers (on new builds)

Stamp duty on property transfers is perceived by the community to be a negative influence on housing affordability. However, if stamp duty on first homebuyer purchases were to be reduced or even abolished, there is a significant probability that there would not be a material impact on affordability because property prices would be bid higher. A large proportion of any benefit is likely to be captured by developers and vendors, rather than flowing through to first homebuyers.

¹ <https://www.apra.gov.au/media-centre/media-releases/apra-finalises-amendments-guidance-residential-mortgage-lending>

To the extent that stamp duty imposes costs on homebuyers, the impact of this is already lower on new builds than on established houses, because in the case of a new build, it is only the land that attracts stamp duty (not the construction costs).

About 25% of first home buyers purchase a newly built house (as opposed to an existing dwelling). While the proposed stamp duty relief may incentivise some first home purchasers to switch their preference from an established property to a new build, the extent of this impact is unclear, supported by the view that the markets for established and new homes are relatively distinct. To the extent that there is a switching impact, the overall level of first home purchasing activity would remain unchanged.

It is also expected that any stamp duty relief would benefit those who would have purchased a new property anyway. In addition, it is likely that any additional new first home purchases in the short term would only reflect a pull forward of purchase activity from future years (on the assumption that any relief scheme would be time limited).

Demand for housing is driven by a range of factors, but ultimately demand is limited by population growth. If there is insufficient demand for new housing, it will not be sold or built – whether or not a stimulus is offered.

It is estimated that a full stamp duty exemption for first home property purchases up to the Adelaide median property value, with a concessional phase out rate of duty (e.g. over a \$100,000 band), would cost in the order of \$40 million per annum and represent a substantial erosion to the State's budget capacity particularly in the context of current fiscal pressures.

Stamp duty is typically considered an inefficient tax which impedes the best use of our housing stock, and has a disproportionate impact on people wishing to move (for example, due to employment reasons or changes in their life circumstances). Nevertheless, stamp duty on property transfers is a progressive tax (rates of duty are higher for more highly valued properties) and any replacement revenue stream would need to be carefully structured so as not to produce inequitable outcomes.

Eligible first homebuyers who build or purchase a new property can already access the First Home Owner Grant of \$15,000. If this level of relief was considered in stamp duty terms, it would be equivalent to a full exemption on the purchase of a house and land package (stamp duty only applicable to land component) with the land component valued at around \$370,000. Assuming the land component represents half of the market value, the implied property value would be approximately \$740,000 which is well above the current Adelaide median house price.

Prior to 2012, a grant of up to \$7,000 was available to all first homebuyers (of both new and established dwelling). If any further assistance to first homebuyers was considered to be warranted, it would be preferable to do so by reviewing the grant criteria or grant size, rather than via a stamp duty concession.

MBSA contends that providing stamp duty concessions on new build properties would have significant employment impacts. DTF advises that these impacts are significantly overstated (see Attachment 1).

Proposal 2: Removing the requirement to have a rainwater tank

In South Australia, new houses (and some extensions) are required to have additional water supply to supplement mains water. This requirement was introduced in 2006 as a sustainability measure, during a period where prolonged drought was posing a real threat to Adelaide's urban water supply. The requirement is contained in a South Australian addition to the *Building Code of Australia*. In addition, some local council Development Plans also include a requirement to have an additional water supply.

In Metropolitan Adelaide, development plan rainwater tank requirements are most commonly focused on the 'detention' of stormwater rather than 'retention' or reuse. Detention tanks aim to reduce the rate of flow of stormwater into catchments, while retention is aimed at retaining water on-site for reuse by occupants. Detention requirements do not require tanks to be plumbed in.

Most commonly the requirement is met by installing a rainwater tank. DPTI has advised that the cost of supplying and installing a 1000 litre minimum size rainwater tank is in the order of \$2,000 (with additional cost of pre-plumbing by the builder, in the order of \$500).

Removal of the requirement for a tank could save the installation cost, as well as ongoing costs associated with rainwater tanks, such as tank cleaning and maintenance, maintenance and eventual replacement of the pump and auto change device, or replacement of filters (which are necessary if rainwater is to be used for drinking). If the requirement for pre-plumbing was retained, this would make it easier for homebuyers to install a tank at some later stage, if they wish to do so, without incurring significantly higher costs for internal plumbing to be reworked.

There has also been analysis suggesting that rainwater tanks are an expensive source of water and their installation as a water conservation measure is of questionable net benefit. However, local councils appear to favour their installation to deal with stormwater. Dealing with stormwater runoff becomes more important as greater urban infill occurs. DPTI has advised that, in the move to the new Planning and Development Code, a range of measures to deal with stormwater issues will be investigated and each of the alternatives subject to cost-benefit analysis. The Planning and Development Code is intended to apply in the Adelaide metropolitan area from July 2020.

Proposal 3: A South Australian Productivity Commission investigation

MBSA has proposed an inquiry into building costs by the South Australian Productivity Commission, including taxes. The scope of any Productivity Commission inquiry should be limited to regulatory costs, not extended to taxes. An inquiry would provide an opportunity for a rigorous evaluation of the benefits and costs of a range of building regulations, including the requirement for rainwater tanks.

Proposal 4: First homeowner grant for the regions

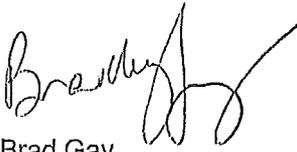
Various data sources indicate that housing in regional areas is significantly more affordable than in capital cities, in South Australia as well as nationally. While many regional areas struggle to attract and retain population, in particular younger people, this issue is not likely to be resolved by a regional-specific housing initiative if there are not sufficient job opportunities in regions to attract young people.

The impact of such a measure would be questionable, and as indicated above, any benefit would likely be captured by vendors and developers rather than first homebuyers.

Proposal 5: Planning reforms to promote economic growth, not threaten housing affordability

The primary purpose of the planning system is to allocate land use in a way that promotes development outcomes that align to community expectations. There are many factors that affect housing affordability, including income levels, lending rates, the supply of housing, and a range of federal and state policy settings around tax and incentives.

There have been various reforms to South Australia's planning system in recent years. The Australian Productivity Commission noted in 2011 that planning systems across Australia suffer from increasing 'objective overload' – including unresolved competing objectives – where rolling reforms are not fully implemented or evaluated before being replaced with further reforms.²



Brad Gay
EXECUTIVE DIRECTOR, COMMERCIAL AND ECONOMICS

10 July 2019

Attachment:

- DTF economic brief: *Housing and Construction*.

Contact Officer:	Matthew Winefield
Telephone:	8429 3495
Email address:	matthew.winefield@sa.gov.au

² Productivity Commission (2011), *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, Research Report, Canberra (p. xxii)

HOUSING AND CONSTRUCTION

DWELLING APPROVALS

(Monthly, trend number)

Total dwelling approvals in South Australia in May 2019 rose 0.4% but were 21% lower than a year earlier.

Nationally, dwelling approvals fell 0.5% in May to be 21% lower than a year earlier.

Total dwelling approvals include:

- 'Private sector (detached) houses' (75% of total) – flat in the month; and
- 'Private other dwellings' (23% of total) – up 1.0% in the month.

In original terms, the largest rises in dwelling approvals over the year to April were in the local government areas (LGAs) of West Torrens, Unley, Alexandrina, and Prospect while the largest declines were in Port Adelaide Enfield, Playford, Charles Sturt, and Tea Tree Gully (see chart over page).

DWELLING COMMENCEMENTS

(Quarterly, seasonally adjusted number)

Total dwelling unit commencements in South Australia fell 3.1% in the March quarter 2019, to be 34% lower than the peak recorded a year earlier.

Nationally, total commencements fell 5.6% in the March quarter to be 25% lower than a year earlier.

The Housing Industry Association (HIA) forecasts¹ commencements in South Australia to decline by 8.2% in 2019 then to rise by 3.8% in 2020.

HIA notes that *"the state's housing industry has been navigating a challenging economic environment for a number of years"* and further states that *"the impact of the credit squeeze during the later months of 2018 took its toll."*

HIA comments that SA's housing market is well positioned to benefit should the widely anticipated interest rate cut eventuate sometime later this year.

HOUSING FINANCE COMMITMENTS (OWNER-OCCUPIER) (Monthly, trend number)

Total housing finance commitments by owner-occupiers in South Australia fell 1.3% in April 2019, to be 3.0% lower than a year earlier.

Total owner-occupier finance commitments include:

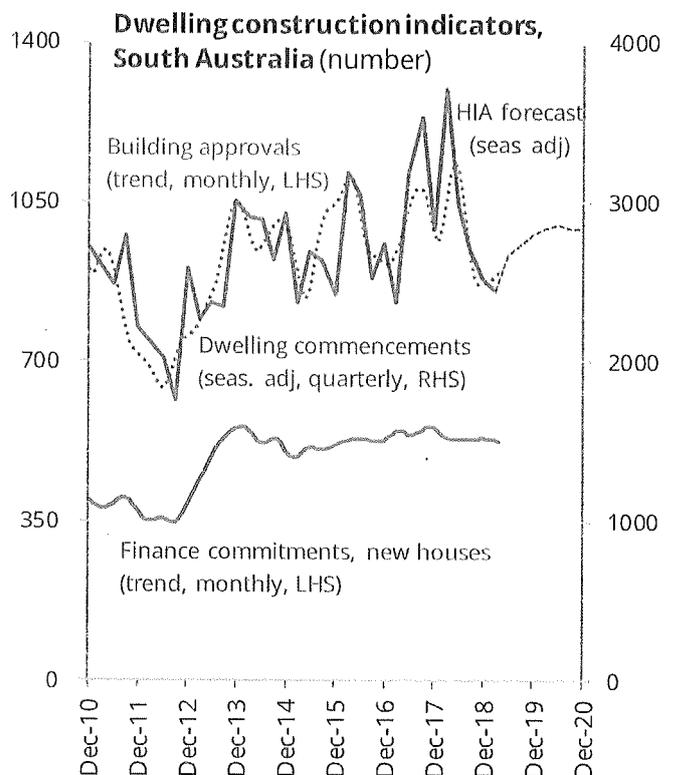
- New housing (purchase and construction);
- Established housing; and
- Refinancing of established housing.

Commitments for new housing in South Australia fell 0.6% in April to be 0.4% lower than a year earlier.

Nationally, commitments for new housing fell 1.2% in the month to be 14% lower than a year earlier.

In April:

- New housing commitments accounted for 16% of total commitments in South Australia, in line with a 16% share nationally.
- South Australia's share of national finance commitments for new housing was 7.1%, below the state's share of total housing finance commitments of 7.3%.



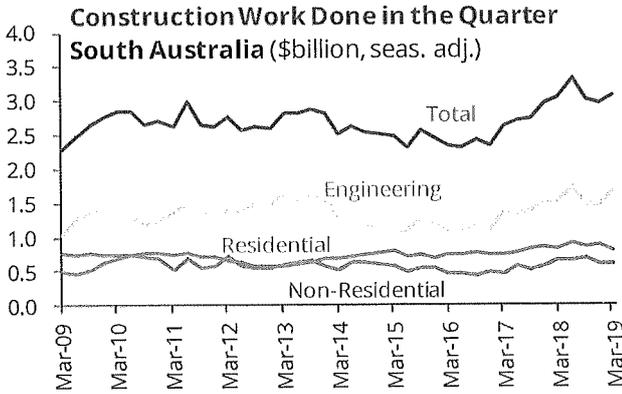
¹ Housing Industry Association, SA Outlook, Autumn 2019

CONSTRUCTION WORK DONE

(Quarterly, seasonally adjusted value)

The value of residential construction work done:

- In South Australia fell 11.5% in the March quarter 2019 to be 4.2% lower than a year earlier.
- Nationally, fell 2.5% in the March quarter to be 3.2% lower than a year earlier.

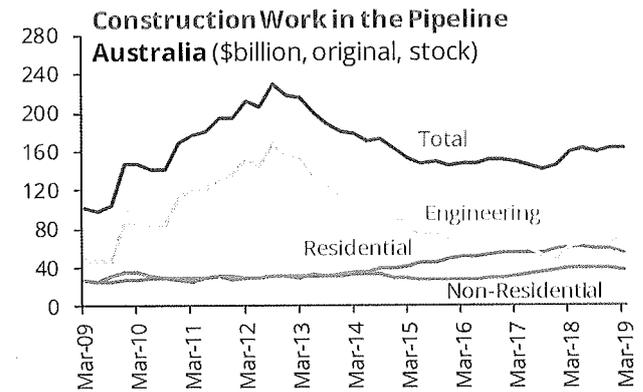
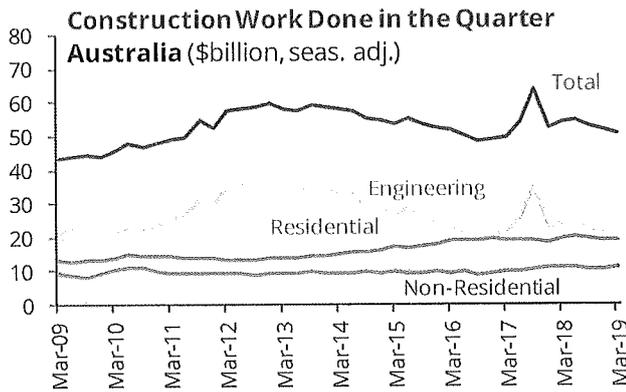
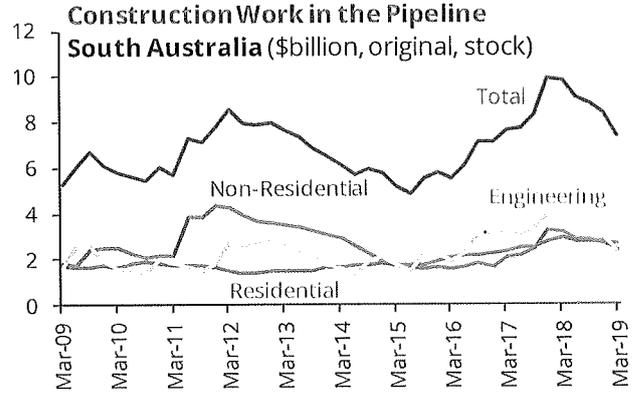


CONSTRUCTION WORK IN THE PIPELINE

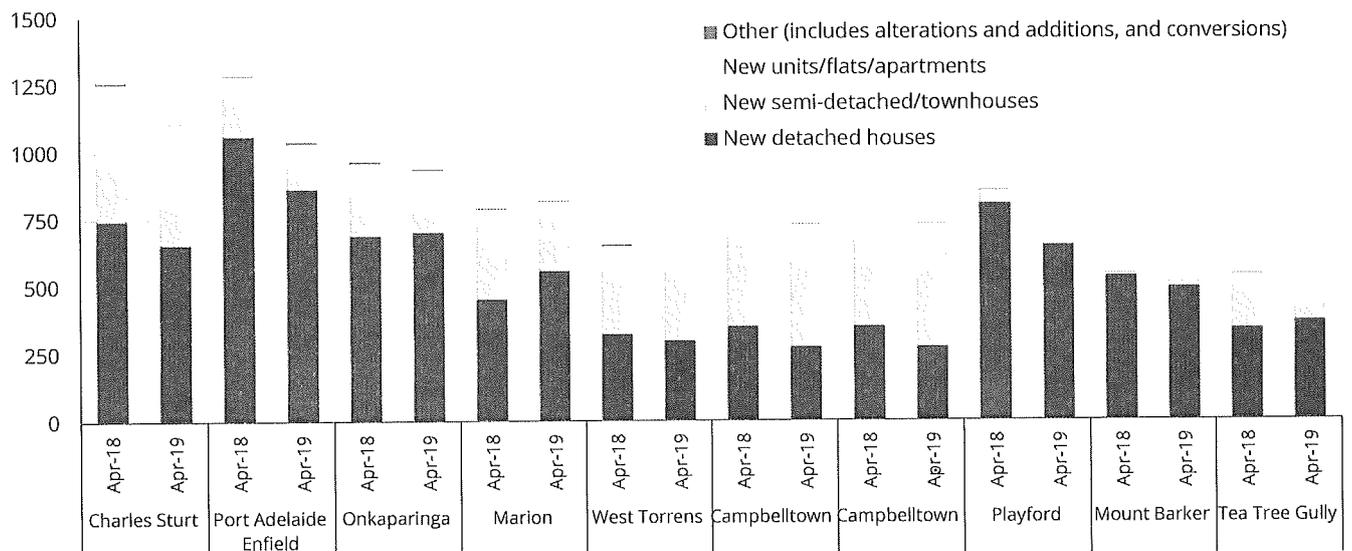
(Quarterly, original value)

The value of residential construction work in the pipeline:

- In South Australia fell 2.8% in the March quarter 2019 to be 8.0% lower than a year earlier.
- Nationally, fell 6.9% in the March quarter to be 10% lower than a year earlier.



DWELLING APPROVALS BY LOCAL GOVERNMENT AREA[^] (12 months to April, original)



[^] Council areas in chart represent approximately two-thirds of all dwelling approvals in the state.



Key Statistics

South Australia

<i>Monthly data (trend)</i>	<i>Latest Month</i>	<i>Compared to previous month</i>	<i>Compared to a year earlier</i>
Dwelling Approvals (May 2019)	899	0.4%	-21.1%
Private Houses	675	0.0%	-1.6%
Private 'other' dwellings *	208	1.0%	-53.5%
Owner-occupier finance commitments (Apr 2019)	3,397	-1.3%	-3.0%
New housing ¹	527	-0.6%	-0.4%
Established housing excluding refinancing ¹	1,747	-1.3%	-3.2%
Refinancing established housing ¹	1,123	-1.5%	-3.8%
<i>Quarterly data</i>	<i>Latest quarter</i>	<i>Compared to previous quarter</i>	<i>Compared to a year earlier</i>
Dwelling commencements (Mar qtr 2019, seas. adj.) ²	2,447	-3.1%	-34.2%
Construction work done (Mar qtr 2019, chain vol. seas. adj.)	\$3.1b	3.3%	0.8%
Residential	\$0.8b	-11.5%	-4.2%
Non-Residential	\$0.6b	-0.1%	-10.3%
Engineering	\$1.7b	13.6%	8.4%
Construction work in the pipeline (Mar qtr 2019, original)	\$7.4b	-11.2%	-24.3%
Residential	\$2.7b	-2.8%	-8.0%
Non-Residential	\$2.4b	-10.1%	-23.4%
Engineering	\$2.3b	-20.2%	-37.7%
Construction industry employment (Year to May qtr 2019)	73,470	na	11.0%

Australia

<i>Monthly data (trend)</i>	<i>Latest Month</i>	<i>Compared to previous month</i>	<i>Compared to a year earlier</i>
Dwelling Approvals (May 2019)	14,778	-0.5%	-20.9%
Private Houses	8,480	-1.3%	-16.7%
Private 'other' dwellings *	6,122	0.6%	-26.0%
Owner-occupier finance commitments (Apr 2019)	46,465	-1.2%	-12.4%
New housing	7,443	-1.2%	-14.2%
Established housing excluding refinancing	23,343	-1.5%	-14.8%
Non-FHB average loan value	15,679	-0.9%	-7.7%
<i>Quarterly data</i>	<i>Latest quarter</i>	<i>Compared to previous quarter</i>	<i>Compared to a year earlier</i>
Dwelling commencements (Mar qtr 2019, seas. adj.) ²	46,267	-5.6%	-25.1%
Construction work done (Mar qtr 2019, chain vol. seas. adj.)	\$50.8b	-1.9%	-6.0%
Residential	\$18.7b	-2.5%	-3.2%
Non-Residential	\$11.1b	3.6%	3.1%
Engineering	\$21.0b	-3.9%	-12.4%
Construction work in the pipeline (Mar qtr 2019, original)	\$163.4b	0.3%	2.7%
Residential	\$54.1b	-6.9%	-10.1%
Non-Residential	\$36.9b	-4.2%	-4.5%
Engineering	\$72.4b	9.4%	20.0%
Construction industry employment (Year to May qtr 2019)	1,165,945	na	-0.4%

* 'Other' dwellings includes semi-detached, town houses, units, and multi-storey apartments.

1. Trend components are DTF estimates – the ABS publishes state component estimates in unadjusted terms only.

2. Seasonally adjusted numbers are reported in this brief for quarterly indicators as these provide a better reflection of contemporary movements than trend, and are also widely reported in the media.

Note: this updated brief includes the latest ABS **Dwelling Commencements** and **Construction Work in the Pipeline** data for the **March quarter 2019**.

