



File: T&F19/0230
A1226277

23 August 2019

Hon. Stephen Mullighan
Member for Lee
Level 1, 62 Semaphore Road
SEMAPHORE SA 5019

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Dear Mr Mullighan

Freedom of Information Internal Review — Master Builders Association of South Australia

I refer to your Freedom of Information application received by the Department of Treasury and Finance on 26 April 2019 and your Internal Review application received on 29 April 2019.

Your applications specifically requested:

“All DTF advice provided to the Treasurer in relation to the Master Builders Association of South Australia. Date range 1/10/2018 to 26/04/2019”

Determination under review

DTF did not make a determination on your initial application or your internal review application within the time period required by the Freedom of Information Act 1991 (the Act). Accordingly, DTF was deemed to have refused access in full to all documents relevant to your application. In accordance with section 19(2a) of the Act, an agency may continue to give access to documents after the period within which it is required to deal with an application.

Outcome of internal review

Under section 29(3) of the Act, on an application for internal review, as principal officer I may, confirm, vary or reverse the determination under review. In doing so, I am required to give fresh consideration to the decision under the Act.

I have determined to **vary** the original deemed refusal.

A total of 7 documents were identified as answering the terms of your application and I have determined to grant you access in full to these documents, copies of which are enclosed. Please refer to the attached schedule that describes each document and sets out my determination and reasons in summary form.

Please note, in compliance with Premier and Cabinet Circular PC045 - *Disclosure Logs for Non-Personal Information Released through Freedom of Information (PC045)*, DTF 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: <http://dpc.sa.gov.au/what-we-do/services-for-government/premier-and-cabinet-circulars> Please visit the website for further information.

External review

If you remain dissatisfied with this determination, you have the right to apply to the Ombudsman for external review under section 39 of the FOI Act. You have 30 days from the date on which you receive this letter to apply for an external review. If you have any questions about an application to the Ombudsman, please contact the office on (08) 8226 8699.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Stuart Hocking', with a small dot at the end of the signature.

Stuart Hocking
PRINCIPAL OFFICER

Schedule of Documents

T&F19/0230 - Hon. Stephen Mulighan MP - All DTF advice provided to the Treasurer in relation to the Master Builders Association of South Australia.
 [Date range 1/10/2018 to 26/04/2019]

Doc. No.	Date	Description of Document	# of pages	Determination	Exemption Clause
1	7/11/2018	Minute - Correspondence from Master Builders SA	4	Released in full	
2	18/11/2018	Letter (attachment to document 1)	3	Released in full	
3	13/02/2019	Minute from Deputy Chief Executive, DTF to Treasurer re meeting with Master Builders SA	7	Released in full	
4	4/02/2019	DTF Economic brief: Building approvals, December 2018 (attachment to document 3)	2	Released in full	
5	16/01/2019	DTF Economic brief: Dwelling unit commencements, September qtr 2018 (attachment to document 3)	1	Released in full	
6	12/02/2019	DTF Economic brief: Housing finance commitments, December 2018 (attachment to document 3)	2	Released in full	
7	12/02/2019	DTF Economic brief: Housing construction (attachment to document 3)	2	Released in full	

MINUTE



Government
of South Australia
Department of Treasury
and Finance

MINUTES forming ENCLOSURE

File T&F18/0349

Doc No A956944

To The Treasurer

(Ref: TRS18D2030)

CORRESPONDENCE FROM MASTER BUILDERS SOUTH AUSTRALIA

Timing: ROUTINE — For information only

Recommendations/Issues: It is recommended that you:

1. Consider and sign the attached draft reply to correspondence from Mr Ian Markos, Chief Executive Officer of Master Builders South Australia.
2. Discuss with the Premier the potential for a future inquiry by the South Australian Productivity Commission into the cost of building regulations.

Approved / Not Approved

Hon Rob Lucas MLC
Treasurer

18/11/18

BACKGROUND

On 15 October 2018 the Chief Executive Officer of Master Builders South Australia (MBSA) wrote to you expressing concern around declining building approvals for private sector houses.

MBSA also made representations about the economic impact of the residential construction industry, population growth and interstate migration, housing affordability and labour market conditions.

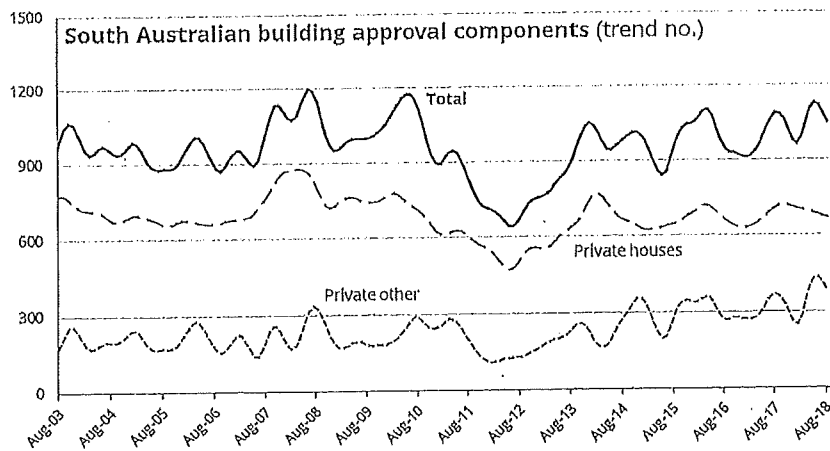
Current level of building activity in South Australia

MBSA points to South Australia's 10 consecutive months of declining building approvals for private sector houses as an area of concern.

Building approvals for private detached houses in South Australia have been falling over the past year, with the trend figure in September (651) being 6.9% below the 10 year average – but total private dwelling approvals (including semi-detached, town houses,



units and apartments) were 9.0% above the 10 year average. These 'other' dwelling types are gradually increasing as a share of total approvals, in South Australia and nationally.



Deloitte Access Economics commented in its recent Business Outlook (23 October) that in South Australia "housing construction is rising at a time when it's falling elsewhere".

MBSA's proposals

MBSA presents a "five point plan to rejuvenate housing and help get more first homebuyers into the market". Advice on these proposals has been developed in consultation with DPTI.

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

Your government has articulated clear priorities in relation to tax reform, within the context of sustainable and prudent management of the State Budget.

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. Any benefit is likely to be captured by developers and vendors, rather than flowing through to first homebuyers.

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).

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. Also, it is likely that any additional new first home purchases in the short term would reflect a pull forward of purchase activity from future years (on the assumption that any relief scheme would be time limited).

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.

First homebuyers in South Australia who purchase a newly constructed home are currently eligible for a grant of up to \$15,000. Prior to 2012, a grant of up to \$7000 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.

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.

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.

Removing the state-level supplementary water requirement would only be effective if local councils also followed suit in removing similar requirements from their Development Plans.

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 (which is a requirement specific to South Australia).

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.¹



David Reynolds
CHIEF EXECUTIVE

7/1/2018

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¹ Productivity Commission (2011), *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments*, Research Report, Canberra (p. xxii)

The Hon Rob Lucas MLC



Government
of South Australia

TRS18D2030

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Mr Ian Markos
Chief Executive Officer
Master Builders South Australia
PO Box 10014
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Dear Mr. ^{Ian}Markos

Thank you for your letter dated 15 October 2018, about the level of dwelling approvals and construction activity in South Australia.

I appreciate your concerns regarding the decline in trend approvals for private houses. I note that, while the most recent ABS trend figure for private house approvals (615 in September) is 6.9% below the 10 year average, the latest figure for total private dwelling approvals in South Australia (994) is 9.0% above the ten year average.

This reflects that other types of dwellings (including town houses, semi-detached, units and apartments) now account for a larger share of total dwelling approvals than in the past, in line with the national trend.

At the same time, the total real value of residential work done in South Australia rose by 11% in the June quarter 2018 to be 16% higher than a year earlier (nationally, it rose 0.9% in the quarter to be 3.9% higher than a year earlier). The latest New Home Sales Report published by the Housing Institute of Australia noted that private detached house sales in South Australia nudged higher by 0.4% in September, following a 'very healthy' 6.1% rise in August.

Housing affordability is a topical issue, and as Treasurer I pay close attention to the data. By some measures, housing in South Australia is now more affordable than it was five years ago. According to the Real Estate Institute of Australia, between June 2013 and June 2018, mortgage costs as a proportion of weekly income in South Australia decreased slightly from 27.8% to 27.0%, while nationally, they increased over the same period from 31.0% to 32.2%.

Measured another way, the dwelling price to income ratio (published by Corelogic) in June 2018 was 6.4 in Adelaide, lower than the national capital city average (7.3). Adelaide's ratio of 6.4 was unchanged from the previous year, and is lower than the peak reported in 2011.

Nevertheless there is no room for complacency, and the State Government is conscious of the need to ensure that the cost of living for South Australians remains affordable – particularly for low income rental households, where data suggest affordability has declined. Some of the measures we have taken in this regard include:

- Land tax reforms announced in the recent State Budget, effective from 1 July 2020, to increase the tax-free threshold to \$450,000 from the current \$369,000, and reduce the top marginal tax rate from 3.7% to 2.9% (for holdings valued from just over \$1 million up to \$5 million).
- Reinstatement of the Emergency Services Levy remission (at a cost to the budget of \$360 million over 4 years).

Reducing the costs associated with ownership of rental property provides an incentive for property owners to make their properties available at more affordable rental rates.

At the same time, as part of the Government's \$11.3 billion infrastructure spend over the next four years, \$454 million has been committed towards residential housing, to support the state's housing needs moving forward.

The newly-established South Australian Housing Authority will soon commence working with the housing and homelessness sectors to develop a new State Housing and Homelessness Strategy. The new Strategy will address how we meet current and future housing needs and provide a common vision for the future of housing in South Australia.

Housing affordability reflects not only housing costs but also incomes. This Government is committed to creating more jobs and growing the economy by attracting more people and businesses to the state. The State Budget includes a range of measures to support economic growth and income growth, including:

- \$157.2 million to abolish payroll tax for all small businesses
- \$5.2 million to establish the productivity commission to effectively advise on economic reforms
- \$100 million to establish the Economic and Business Growth Fund
- \$202.6 million to help skill South Australia, an initiative that will support an additional 20,800 apprenticeships and trainees.

I welcome Master Builders SA's contribution of ideas when it comes to housing affordability. In particular, I am sympathetic to the idea of reviewing construction costs to ensure that regulation in this area does not constitute a greater cost than the benefit of the problem it aims to solve. The requirement for a rainwater tank may or may not be in this category. I will raise with the Premier the possibility of a broader examination into the cost impacts of construction regulation, as a potential future inquiry for the South Australian Productivity Commission (which formally commenced

operating in October). I am not inclined to include taxation within the scope of such an inquiry.

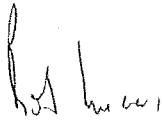
As you know, the Government, together with the State Planning Commission, has embarked on a comprehensive process of reform to implement a new planning system for South Australia – the most significant planning reforms in over 20 years. A key element of this program is the development of a new state-wide Planning and Design Code.

The Commission is responsible for preparing and maintaining the Code, and its development represents a unique opportunity to take stock of the current planning policy environment, including policies relating to residential housing, as well as how such policies are applied in local areas. In this regard, I have referred your letter to the Hon Stephan Knoll MP, Minister for Planning, for consideration.

I also understand the Master Builders SA is represented on a number of planning forums, specifically the Planning Reform Ministerial Liaison Group. I am advised the group is charged with providing advice directly to the Minister for Planning on planning and development issues as they relate to the delivery of the new planning system.

I thank the Master Builders SA for its ongoing contribution to these important debates.

Yours sincerely



Hon Rob Lucas MLC
Treasurer

18 November 2018

cc Hon Stephan Knoll MP, Minister for Planning

MINUTE



**Government
of South Australia**
Department of Treasury
and Finance

MINUTES forming ENCLOSURE

File T&F18/0349

Doc No A1030546

To The Treasurer

MEETING WITH MASTER BUILDERS ASSOCIATION OF SOUTH AUSTRALIA

Timing: ROUTINE — For meeting on 15/02/2019

Recommendations/Issues: It is recommended that you:

- Note the contents of this briefing for your meeting with the Master Builders Association of South Australia.

Noted

Hon Rob Lucas MLC
Treasurer

/ /

Background:

You are meeting representatives from the Master Builders Association of South Australia (MBSA) on 15 February 2019. They have advised they will discuss the industrial relations landscape, the current state of the housing industry, and other issues affecting the building and construction industry.

This brief, prepared by Commercial and Economics Branch and Budget and Performance Branch, covers:

- Hudson Howells taxation modelling undertaken on behalf of MBSA
- Housing construction conditions in South Australia
- Comments on MBSA's five point plan, in particular stamp duty
- Modelled employment impacts of stamp duty concessions (Attachment 1).



Hudson Howells Taxation Modelling

MBSA recently commissioned Hudson Howells to undertake financial and economic modelling to estimate the impact of a stamp duty reduction on GST and taxation receipts as well as the broader economy including employment (discussed in Attachment 1).

In relation to the GST and taxation modelling, DTF considers that the modelling undertaken contains some questionable assumptions and inconsistencies. Further detail is provided below:

Broader Modelling Assumptions

- The modelling undertaken suggests that stamp duty revenue will decline as a result of the relief provided to home purchasers, but this revenue loss is more than offset by additional GST and tax revenue.
- Specifically, the modelling assumes that the number of properties for which relief is assumed to be provided will directly result in an equivalent number of additional new constructed properties from which GST and taxation revenue can be generated. This is not considered to be a plausible scenario.
- It is not possible to limit stamp duty relief to properties that would have not been built in the absence of the measure. A large part of the stamp duty relief would go to those who would have built a property in the absence of any relief, increasing the stamp duty cost of the measure.
- There has also not been an observed increase in other tax revenues from previous stamp duty (or equivalent grant) relief measure which offsets the cost of the stamp duty loss e.g. following the introduction of relief measures such as the abolition of duty on non-residential property transfers.
- The modelling assumes that GST would be collected on the sale of the new properties constructed in response to the relief provided. While the modelling does account for some deductions to be claimed by developers for their building costs (input tax credits), it also assumes that SA would receive 100% of the gross GST collected rather than the relativity-adjusted share of around 10%.
- If the proportion of GST was adjusted in the modelling to more accurately reflect the receipt of a 10% share, there would be no gain to the State under all scenarios presented in the report.
- The modelling also indicates that there would be additional payroll tax collected on the wages associated with FTEs employed to construct the new properties in response to the provision of relief. The major assumption underlying this component of modelling is that there is considerable spare capacity and underemployment to take up these positions with no diversion from other areas of the economy. This is not considered to be a realistic assumption and based on the limited modelling data presented, the proposed FTE/employment outputs appear to be overestimated (further discussed in Attachment 1).

House Price Benchmark Used for Modelling

- The modelling assumes a median house price for Adelaide in estimating the impact of a stamp duty relief scheme that would be comparable to those administered in New South Wales and Victoria.
- New South Wales and Victoria provide stamp duty exemptions (\$650,000 and \$600,000 respectively) with concessional phaseout ranges (\$800,000 and \$750,000 respectively) on established/new properties for first homebuyers.
- Based on the September Quarter 2018 Real Estate Institute of Australia Real Estate Market Facts Report, Sydney and Melbourne median house prices were \$1.1 million and \$834,000 respectively.
- This means that the relief band provided in these jurisdictions is considerably below their respective median capital house prices. As such, using the metropolitan median house price for Adelaide as a benchmark for modelling purposes is not comparable to the schemes in New South Wales and Victoria.

Housing construction – key indicators

There are indications that housing construction activity levels and forward outlook have softened in the second half of 2018, in South Australia and nationally.

Building approvals

- Trend dwelling approvals in South Australia in December 2018 were 1.5% lower than the previous month, 15% lower than a year earlier (see attached brief *Building Approvals*, Table 1).
- Nationally, trend dwelling approvals were 25% lower than a year earlier. All states other than Tasmania recorded greater falls in dwelling approvals than South Australia, through the year.
- In South Australia, the decline of 1.5% in the month reflected a fall of 8.3% in 'private other dwellings' – despite a monthly rise of 0.6% in 'private sector (detached) house' approvals (private detached houses account for about three quarters of total dwelling approvals in South Australia).
- MBSA has previously highlighted 14 consecutive months of decline in approvals for private (detached) houses. According to most recent data (December 2018), private sector house approvals rose in the month by 0.6% (trend) – and in seasonally adjusted terms, rose by 5.7% in December – the third consecutive monthly rise. If this rise in approvals is sustained, it should translate to a rise in commencements, in the months ahead.
- While through-the-year trend approvals to December fell by 15%, this was not uniform in all regions of the state. Original data for approvals over the 12 months to November 2018 indicate that, over the year, approvals increased in some local government areas (such as Norwood Payneham St Peters, Campbelltown, Alexandrina, and West Torrens) but declined in areas such as Charles Sturt, Holdfast Bay, Tea Tree Gully, and Onkaparinga (see attached brief *Housing Construction*).

Dwelling commencements

Dwelling commencement numbers are published quarterly, and there is a three-month time lag between the end of the quarter and publication of data.

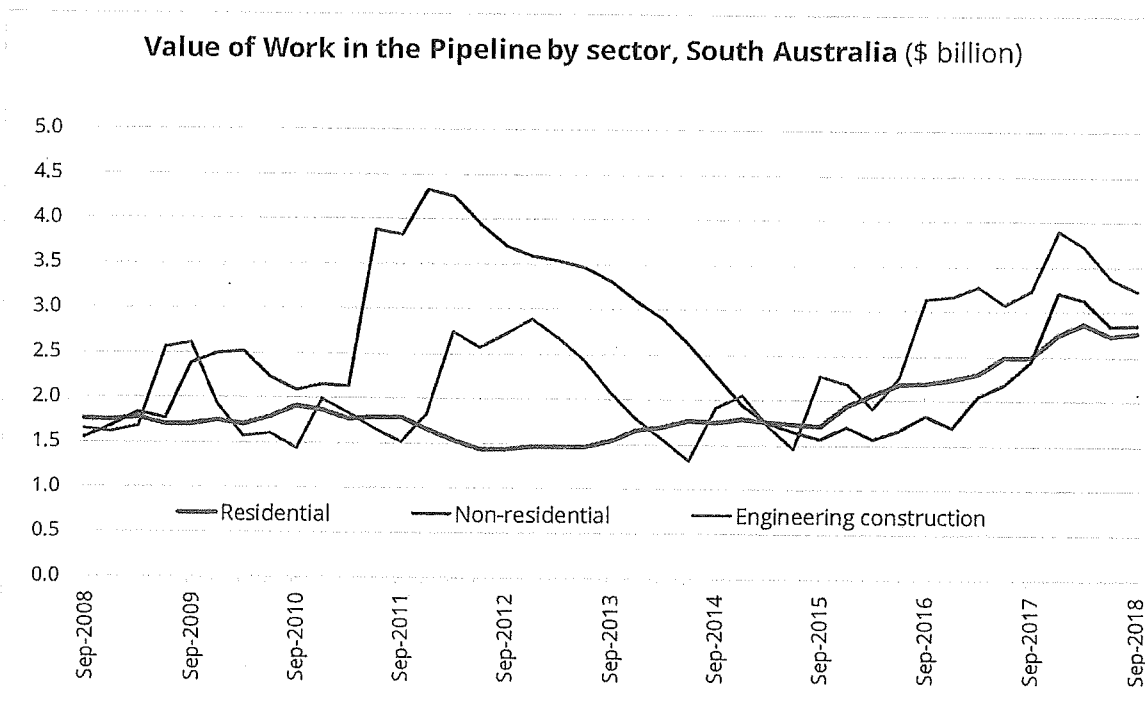
- In September quarter 2018 (latest available data), trend dwelling commencements in South Australia fell 7.7% over the quarter to be 15% lower than a year earlier. In seasonally adjusted terms, commencements fell 19% over the quarter, compared to a national fall of 5.7% (see attached brief, *Dwelling unit commencements*, Table 1).
- Despite the large fall in the September quarter in South Australia, trend commencements remain 40% higher than the low point recorded in the June quarter 2012.
- The Housing Industry Association (HIA) in the State Outlook (Spring 2018) forecasts seasonally adjusted commencements to recover over the short-term in South Australia, rising gradually through to June 2020. HIA notes that multi-unit activity was "abnormally high" in 2017-18, and is expected to moderate in 2018-19 "to levels closer to what is typical of [the] SA market." HIA forecasts detached housing commencements to ease in 2018-19 falling 4%, before recovering in 2019-20 and 2020-21 with growth of 4% and 3% respectively.

Housing finance commitments

- Trend owner-occupier finance commitments for the construction or purchase of new housing in South Australia have been fairly constant over 2018; in December 2018 they were 4% lower than a year earlier (13% lower nationally).

Value of building work in the pipeline

- The outlook for South Australian building work in the immediate term is supported by high values of work in the pipeline¹.
- The residential, non-residential and engineering sectors have all experienced substantial increases in the size of their respective pipelines over the past three years:
 - residential is 62% higher (than three years earlier)
 - non-residential is 82% higher
 - engineering is 42% higher.



Comments on Master Builders SA's five point plan

MBSA presents a "five point plan to rejuvenate housing and help get more first homebuyers into the market". As per previous advice, the following comments are made in relation to MBSA's proposals.

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.

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.

¹ The pipeline for the residential and non-residential sectors consists of two components — 'work approved but not yet commenced' and 'work yet to be done' (on projects already underway). For the engineering sector, the pipeline is 'work yet to be done'.

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.

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.

Removing the state-level supplementary water requirement would only be effective if local councils also followed suit in removing similar requirements from their Development Plans.

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



Stuart Hocking
DEPUTY CHIEF EXECUTIVE

3 February 2019

Attachments:

- Modelled employment impacts of stamp duty concessions
- DTF economic briefs: *Building approvals, Dwelling unit commencements, Housing finance commitments, Housing construction.*

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

Attachment 1: Modelled employment impacts of stamp duty concessions

MBSA recently commissioned Hudson Howells to review South Australian stamp duty, incorporating the financial and economic impacts of exemptions on new house/land packages and state taxation generated from the housing sector associated with potential stamp duty reduction. One of the key findings of the report stated:

"...stamp duty exemptions on new housing will increase demand and supply of new housing with consequent socio-economic impacts of increased GSP, net State Government financial gains and associated jobs from 3,400 FTEs up to 9,200 FTEs."

This modelling reflects an implicit employment impact multiplier of 7.2 FTE per \$1 million of expenditure. DTF has reviewed this modelling and advises that the reported employment impacts are significantly overstated, for a number of reasons:

- In allocating a change in final demand as an input to the model, it appears that the entire purchase price of a house and land package has been used. This is misleading. Only the construction cost component should be used; there are virtually no employment impacts associated with the sale of land. The construction cost would typically be closer to 50% of the total cost of a house and land package.
- The proposal assumes construction of new builds will all be at the threshold (i.e. \$470,000 and \$650,000), while in reality there would be a distribution of new builds at different values. Assuming all builds will be at the upper limit, similarly over-estimates the modelled impacts.
- The employment multiplier used by Hudson Howells is higher than the equivalent employment multiplier in the REMPLAN model (6 FTE) or recommended by the South Australian Centre for Economic Studies (5.5 FTE).
- A key employment assumption is that the state has spare capacity such that additional housing construction does not divert resources from existing work – implying all jobs associated with the policy are 'new'. I-O model employment impacts cannot be interpreted as "creating new jobs", rather as "supporting a number of jobs" given there is no way to determine what proportion are 'new'.

BUILDING APPROVALS

December 2018

SUMMARY

During December 2018, the number of new dwellings approved:

- fell by 1.5% in South Australia in trend terms (nationally, new dwelling approvals fell 4.1%); and
- rose by 5.6% in South Australia in seasonally adjusted terms (nationally, new dwelling approvals fell 8.4%).

FURTHER ANALYSIS

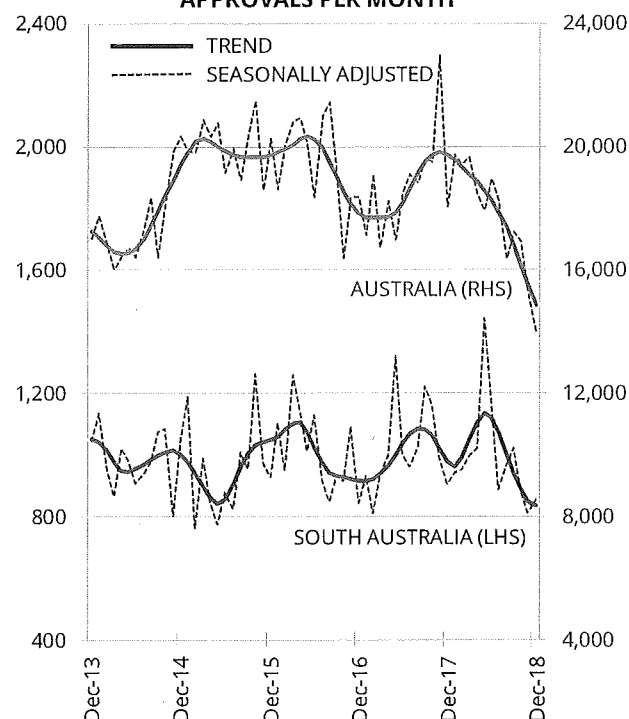
TREND DATA

The total number of dwelling approvals in South Australia in December 2018 was 15% lower than a year ago. Nationally, the number of dwelling approvals was 25% lower than a year ago – see Chart 1 and Table 1.

The number of private sector houses approved for construction in South Australia rose by 0.6% during December but was 13% lower than a year ago — see Chart 2.

Private 'other' dwelling approvals in South Australia fell by 8.3% during December to be 20% lower than a year earlier.

CHART 1: TOTAL NUMBER OF DWELLING APPROVALS PER MONTH

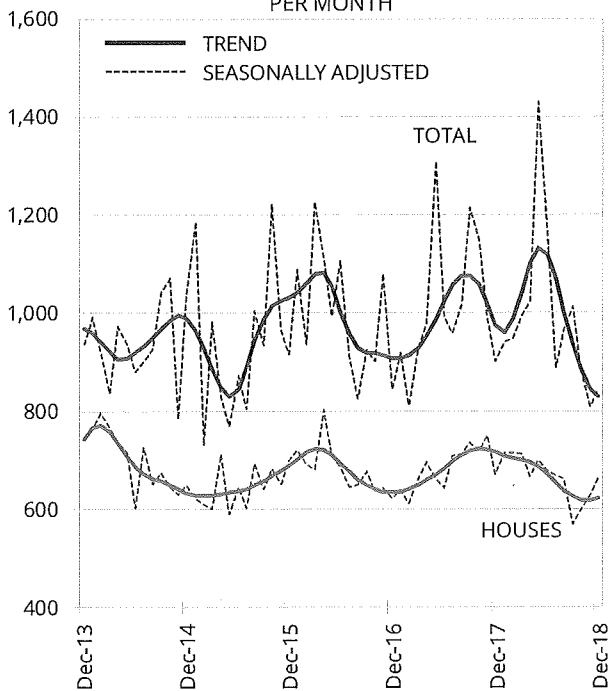


Nationally, the number of private sector houses approved for construction fell by 1.1% during December, while the number of private 'other' dwelling approvals fell by 8.5%.

Table 1: Trend Dwelling Approvals By State

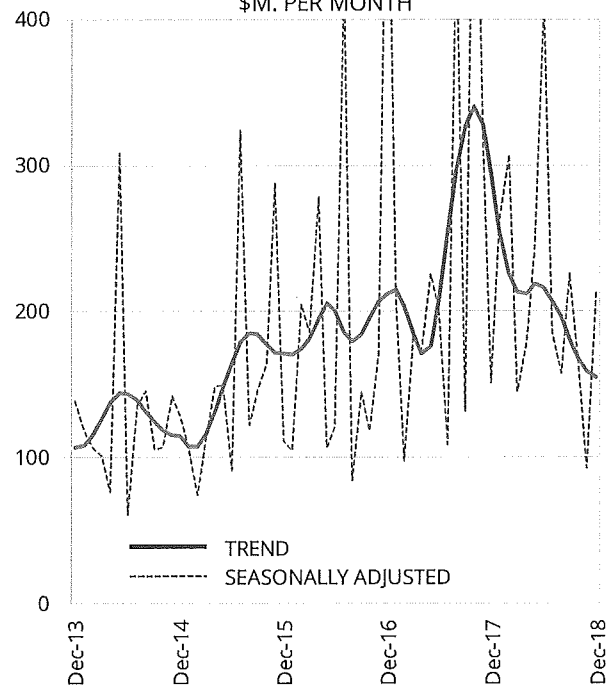
	Dec 18 (no.)	Dec 18 vs. Nov 18 (% change)	Dec 18 vs. Dec 17 (% change)
NSW	4,379	-5.0	-27.0
VIC	5,204	-1.4	-24.7
QLD	2,601	-6.5	-29.6
SA	836	-1.5	-14.6
WA	1,140	-3.8	-27.7
TAS	281	1.1	10.6
AUS	14,875	-4.1	-24.7

CHART 2: SOUTH AUSTRALIAN PRIVATE SECTOR—NUMBER OF DWELLINGS APPROVED PER MONTH



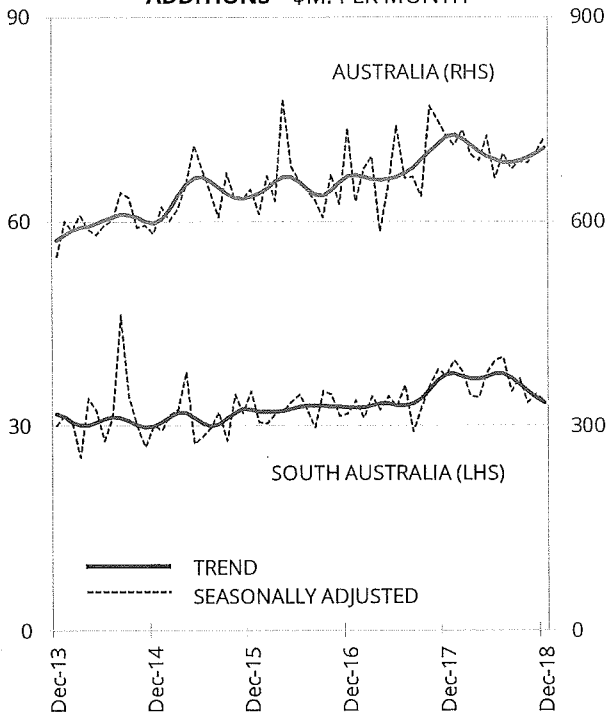
The value of renovation approvals in South Australia fell by 2.1% during December and was 11% lower than a year ago. Nationally, the value of renovation approvals rose 1.2% in December but was 2.2% lower than a year earlier—see Chart 3.

CHART 4: SOUTH AUSTRALIAN NON-RESIDENTIAL BUILDINGS APPROVED - \$M. PER MONTH



During December, the value of non-residential building approvals fell by 2.7% in South Australia, to be 48% lower than a year earlier—see Chart 4. Nationally, the value of non-residential building approvals rose by 0.2% during December, but was 14% lower than a year ago.

CHART 3: APPROVALS FOR ALTERATIONS & ADDITIONS—\$M. PER MONTH



Note: The ABS excludes large irregular movements in a seasonally adjusted series when calculating a trend series. This is pertinent in this brief where seasonally adjusted private sector 'other dwellings' has recorded large irregular movements in South Australia, and explains why there is a large difference in the movement of these series.

Next release of ABS cat. no. 8731.0 is 4 March 2019



SUMMARY

During the September quarter 2018, the number of dwelling unit commencements:

- fell 7.7% in South Australia in trend terms (nationally, the number of dwelling unit commencements fell 2.0%); and
- fell 19% in South Australia in seasonally adjusted terms (nationally, the number of dwelling unit commencements fell 5.7%).

TABLE 1: Total Dwelling Unit Commencements (% changes, Trend)

	Sep Qtr 18 (no.)	Sep qtr 18 v Jun qtr 18 (%)	Sep qtr 18 v Sep qtr 17 (%)
NSW	18,188	-0.6	5.8
VIC	17,256	-8.6	1.0
QLD	11,141	1.1	7.8
SA	2,762	-7.7	-14.8
WA	4,101	-3.6	-15.9
TAS	717	-0.4	10.5
AUS	56,722	-2.0	3.3

CHART 1: QUARTERLY DWELLING UNIT COMMENCEMENTS ('000)

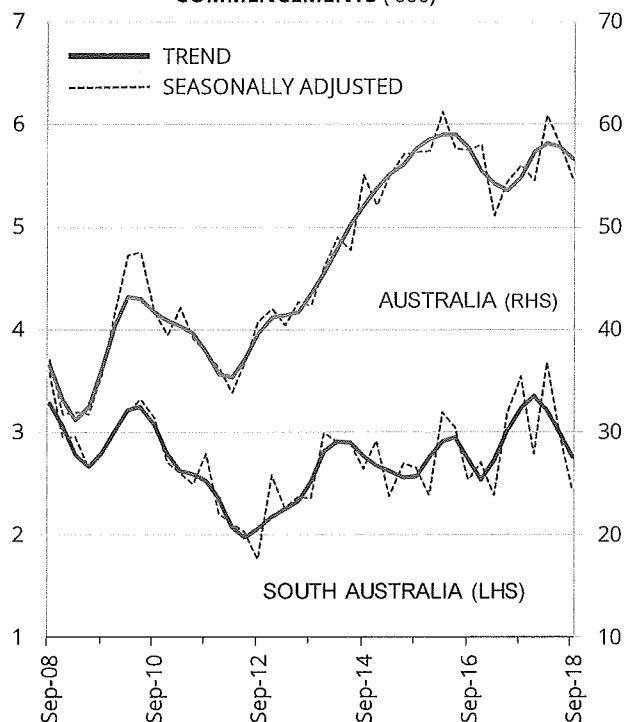
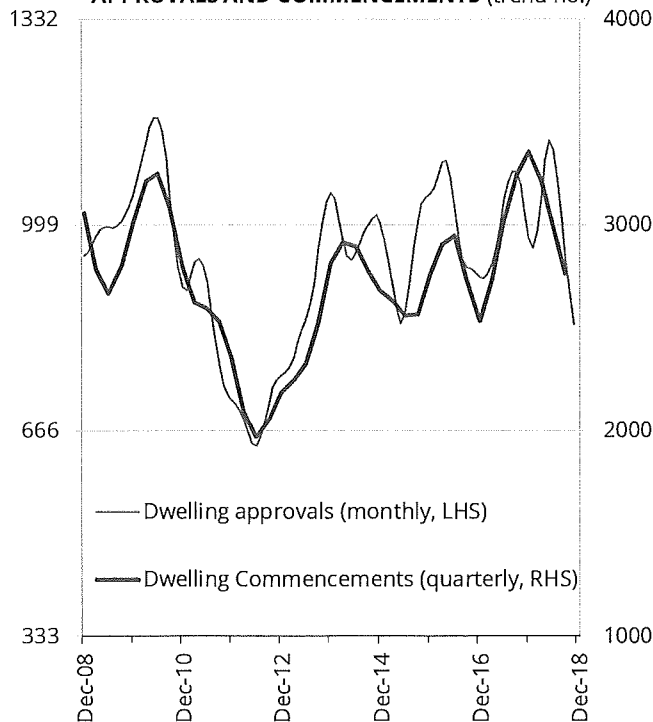


CHART 2: SOUTH AUSTRALIAN DWELLING APPROVALS AND COMMENCEMENTS (trend no.)



Next release of ABS cat. no. 8752.0 is 10 April 2019

HOUSING FINANCE COMMITMENTS December 2018

SUMMARY

In December 2018, the number of housing finance commitments by owner occupiers:

- rose 0.1% in South Australia (in trend terms) to be 0.5% higher than a year earlier.
- fell 1.0% nationally (trend) to be 8.6% lower than a year earlier.
- fell 3.2% in South Australia (in seasonally adjusted terms).
- fell 6.1% nationally (seasonally adjusted).

FURTHER ANALYSIS

COMMITMENT NUMBERS BY TYPE

In December 2018 the number of housing finance commitments by owner occupiers:

- for the construction or purchase of new dwellings rose 0.2% in South Australia but was 3.8% lower through the year (and was 13% lower through the year nationally).
- for the purchase of established dwellings (excluding refinancing) rose 0.1% in South Australia to be 0.2% higher through the year (and was 10% lower through the year nationally)

Table 1: Trend Total Housing Finance Commitments
(owner occupier, % change)

	Dec 18 (no.)	Dec 18 vs Nov 18 (%)	Dec 18 vs Nov 18 (%)
NSW	14,971	-1.2	-11.7
VIC	14,833	-0.8	-9.1
QLD	9,549	-1.3	-9.6
SA	3,618	0.1	0.5
WA	5,034	0.3	-3.5
TAS	1,100	-0.5	7.1
AUS	50,421	-1.0	-8.6

CHART 1: SOUTH AUSTRALIA HOUSING FINANCE COMMITMENTS— OWNER OCCUPIERS ('000)

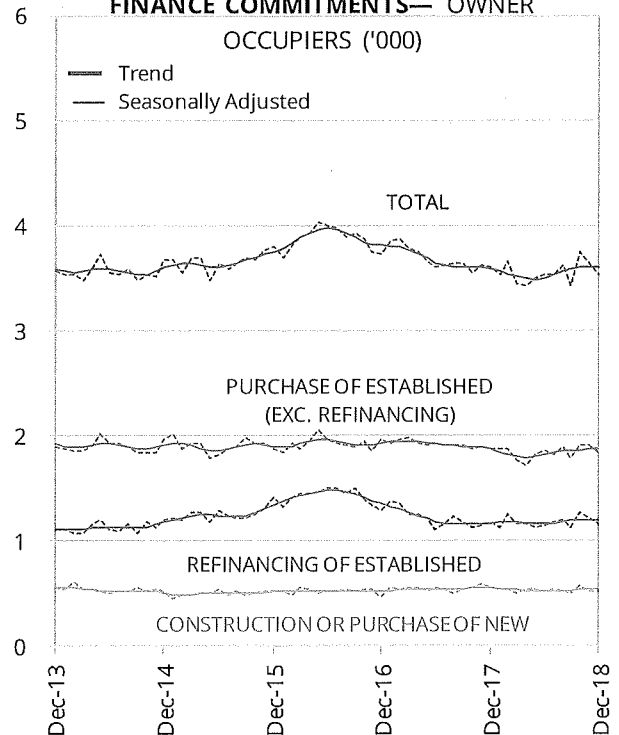
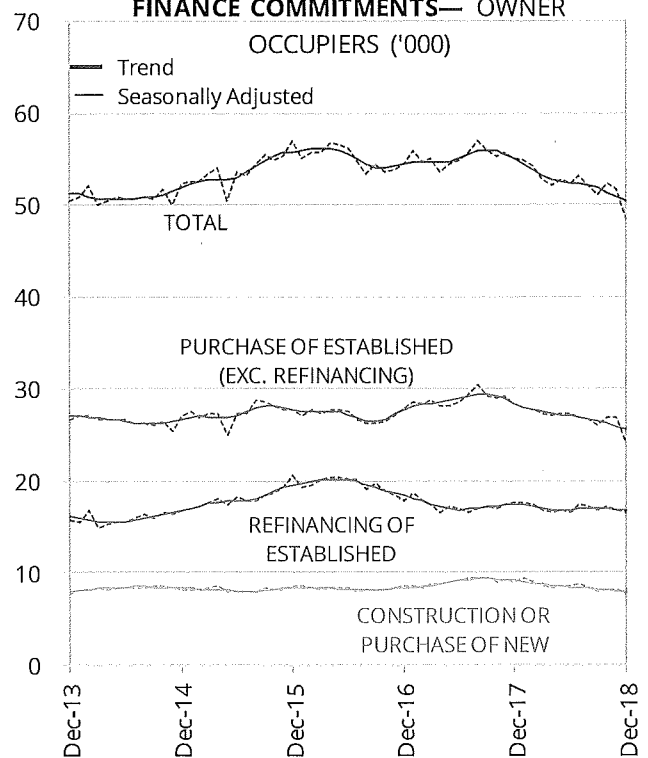


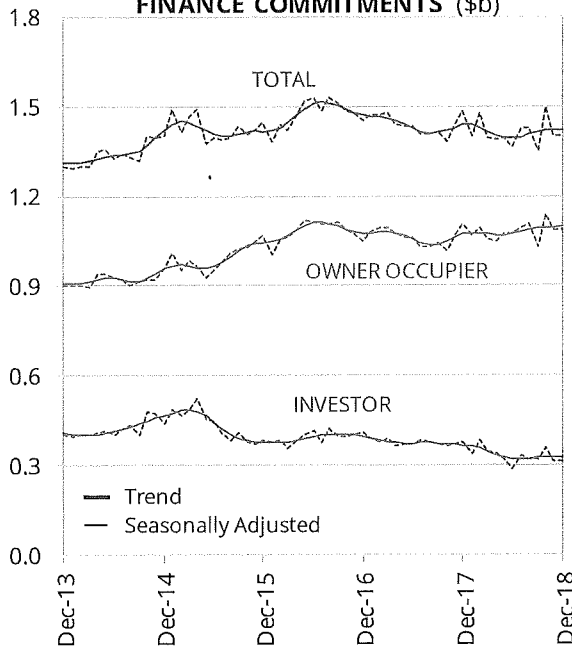
CHART 2: AUSTRALIA HOUSING FINANCE COMMITMENTS— OWNER OCCUPIERS ('000)



COMMITMENT VALUES & INVESTOR FINANCE

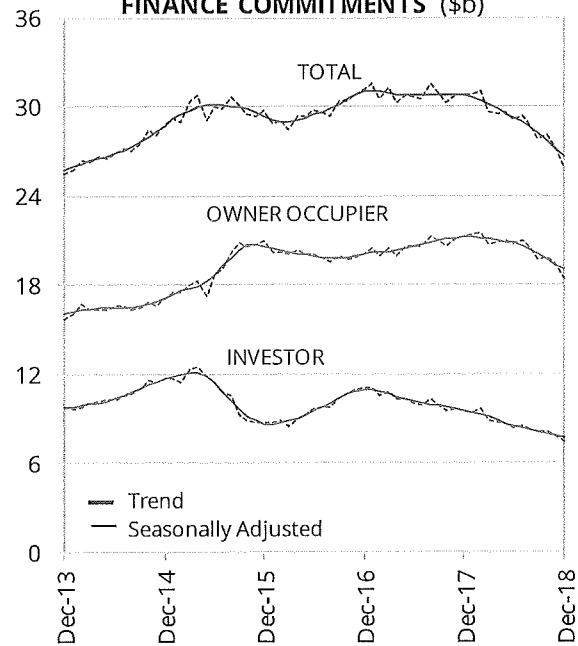
In South Australia the total value of housing finance commitments remained flat in December but was 1.3% lower through the year. Nationally, the value of housing finance commitments fell 5.2% in December.

CHART 3: SOUTH AUSTRALIA HOUSING FINANCE COMMITMENTS (\$b)



In South Australia the annual change in the value of housing finance commitments reflects a 2.3% rise in the value of owner occupier finance commitments and a 12% fall in the total value of investor finance commitments.

CHART 4: AUSTRALIA HOUSING FINANCE COMMITMENTS (\$b)



FIRST HOME BUYERS

In December 2018 the number of first home buyer finance commitments:

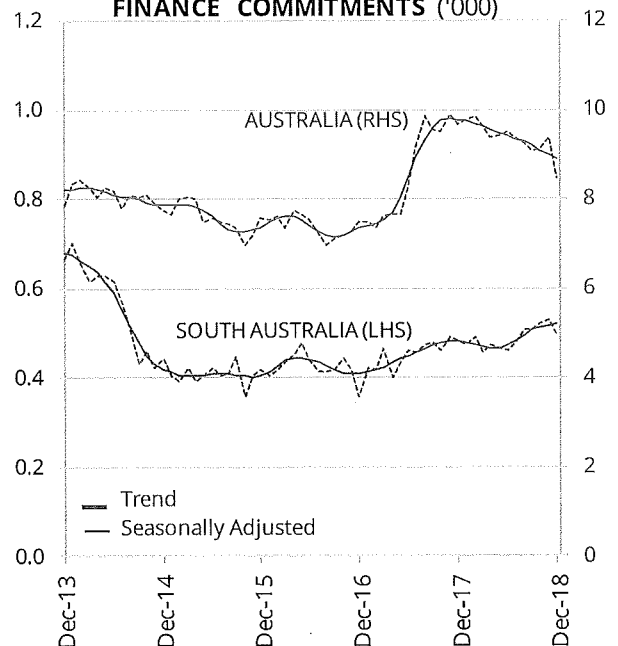
- rose 0.2% in South Australia to be 7.9% higher through the year.
- fell 1.2% in Australia to be 9.2% lower through the year.

The average first-home owner loan size in South Australia was \$282,500 in December, 3.4% higher through the year. This compares with an increase in the average loan size for non-first home buyers of 2.5% through the year to \$323,400.

Note: Figures used in this brief are in trend terms, except where indicated. Seasonally adjusted and trend finance commitments for the construction or purchase of new houses for SA are calculated by DTF from original ABS data.

Next release of ABS cat. no. 5601 is 12 March 2019

CHART 5: FIRTS HOME BUYER FINANCE COMMITMENTS ('000)



HOUSING CONSTRUCTION

DWELLING APPROVALS

Total dwelling approvals in South Australia in December 2018 fell 1.5% to be 15% lower compared to a year earlier.

Over the year, total dwelling approvals fell across all states, with the exception of Tasmania, with approvals falling nationally by 25% (trend).

Total dwelling approvals include:

- 'Private sector (detached) houses' (74% of total) – up 0.6% in the month; and
- 'Private other dwellings' (25% of total) – down - 8.3% in the month.

In original terms, dwelling approvals rose over the year in the local government areas (LGAs) of Norwood Payneham St Peters, Campbelltown, Alexandrina, and West Torrens but declined in Charles Sturt, Holdfast Bay, Tea Tree Gully, and Onkaparinga.

DWELLING COMMENCEMENTS

The total number of dwelling unit commencements in South Australia fell 7.7% in the September quarter 2018, to be 15% lower than a year earlier (trend). South Australia's annual rate of growth was fifth highest across all states, behind Tasmania (10%), Queensland (7.8%), New South Wales (5.8%) and Victoria (1.0%). Nationally, total commencements rose 3.3% on a year earlier (trend).

The Housing Industry Association (HIA) forecasts¹ commencements to soften over the short-term in South Australia, before recovering and rising consistently through to June 2020 (seasonally adjusted terms).

HIA notes that multi-unit activity was "abnormally high" in 2017-18, and is expected to moderate in 2018-19 "to levels closer to what is typical of [the] SA market."

HIA forecasts detached housing commencements to ease in 2018-19 falling 4%, before recovering in 2019-20 and 2020-21 with growth of 4% and 3% respectively.

¹ Housing Industry Association, SA Outlook, Spring 2018

HOUSING FINANCE COMMITMENTS (OWNER-OCCUPIER)

Total housing finance commitments by owner-occupiers rose 0.1% in South Australia in December 2018, to be 0.5% higher through the year (trend).

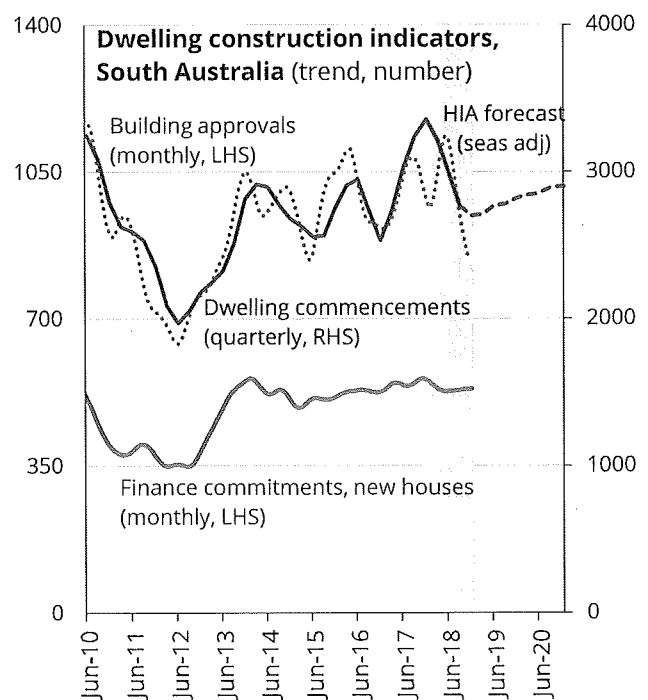
Total owner-occupier finance commitments include:

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

Commitments for new housing in South Australia rose 0.2% in December, but was 3.8% lower compared to a year earlier. Nationally, commitments for new housing fell 1.2% in the month to be 13% lower than a year earlier.

In December:

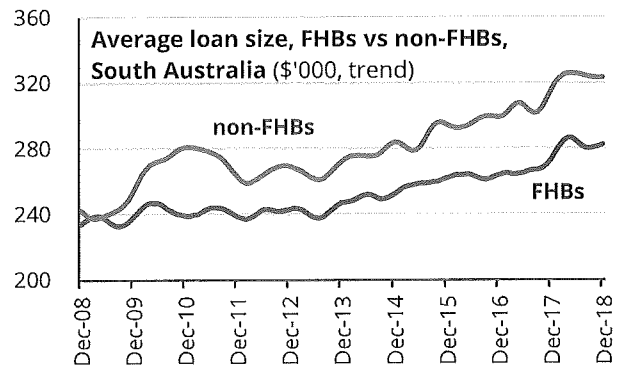
- New housing commitments accounted for 15% of total commitments in South Australia, compared to 16% nationally.
- South Australia's share of national finance commitments for new housing was 6.7%, slightly below the state's share of total housing finance commitments of 7.2%.



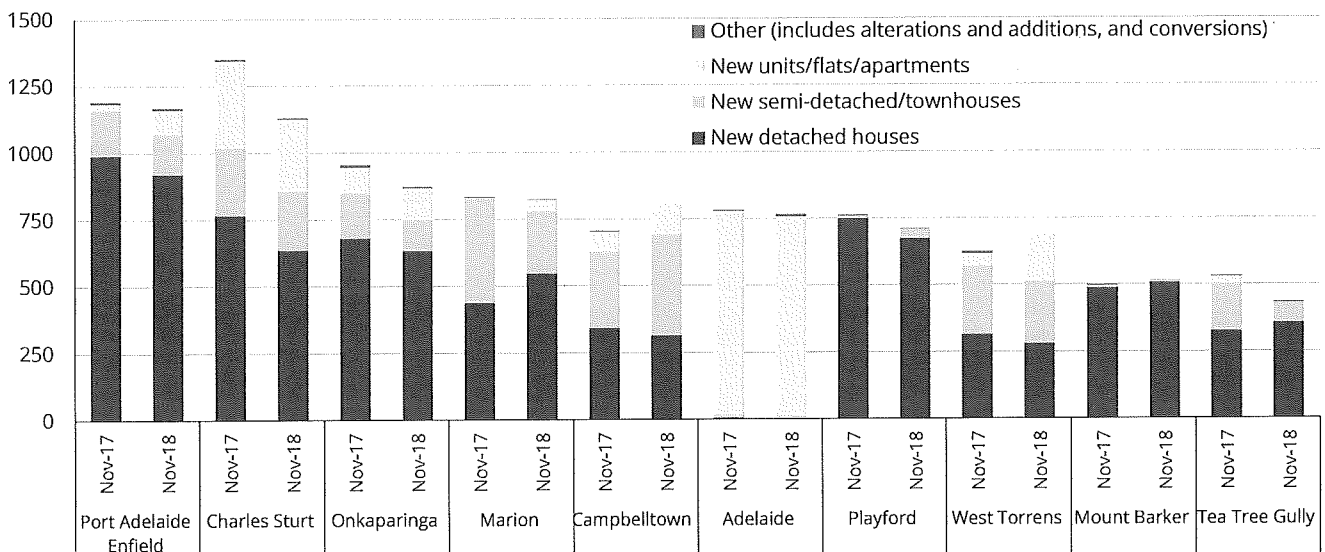
FIRST HOME BUYERS

The total number of housing finance commitments for first home buyers (FHBs) in South Australia rose 0.2% in December 2018 and was 7.9% higher compared to a year earlier (trend terms).

The average loan value for first-home buyers rose 3.4% compared to year earlier, above growth in average loan value for non-first home buyers, which rose 2.5% over the same period (trend terms).



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



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

Key statistics: South Australia			
Monthly data (trend)	Latest month	Compared to previous month	Compared to 12 months earlier
Dwelling approvals (December 2018)	836	-1.5%	-14.6%
Private houses	621	0.6%	-13.1%
Private 'other' dwellings*	209	-8.3%	-19.6%
Owner-occupier finance commitments (Dec 2018)	3,618	0.1%	0.5%
New housing ¹	534	0.2%	-3.8%
Established housing excluding refinancing ¹	1,877	0.1%	0.2%
Refinancing established housing ¹	1,208	0.0%	3.0%
FHB housing finance commitments - trend	519	0.2%	7.9%
FHB average loan value - trend	\$282,500	0.4%	3.4%
Non-FHB average loan value - trend	\$323,400	0.1%	2.5%
Quarterly data (trend)	Latest quarter	Compared to previous quarter	Compared to 4 quarters earlier
Dwelling commencements (Sep 2018 qtr)	2,762	-7.7%	-14.8%

* '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.

Note: this updated brief includes latest data on *housing finance commitments* for December 2018.