



PRIME MINISTER

CHECK AGAINST DELIVERY

EMBARGOED UNTIL DELIVERY

**SPEECH BY THE PRIME MINISTER
NATIONAL HOUSING CONFERENCE
CANBERRA - 13 MARCH 1989**

I want first of all to congratulate the organisers of this conference.

You have rightly recognised the importance of housing as an issue - important to the economy, and important to Australian families - and your meeting, very appropriately, coincides with the recent upsurge in the community's concern about the future of housing in Australia.

That community concern is rooted in a number of factors, some of them seeming paradoxes.

In a year when the housing industry is working at virtually its maximum capacity, many people, including young couples starting out in life, are finding home ownership beyond them.

Booming house prices are creating two classes of Australians: those who, in owning a home, are sitting inside what in some cases is a spectacularly improving asset; and those who don't own a home and who feel they are missing out.

Some people are struggling, in a period of temporarily high interest rates, to meet their home loan payments to the banks and building societies. They despair that they are, in an all-too-literal sense of the word, mortgaging their futures.

But more disturbing still is the plight of those who aspire, in vain, not to home ownership, but to the more basic requirement of a roof over their heads.

At a time of record Government spending on public housing, too many people - even, tragically, including young teenagers - are sleeping in the streets.

So the questions being asked throughout the community about the future of housing are important questions and I hope that conferences such as this will be able to contribute to the continuing process of developing answers to them.

For the Government's part, we saw, just over a week ago, the convening of a special Premiers' Conference which focused attention on the important issues surrounding the supply side of the question.

Given the rough and tumble nature of politics the constructive attitudes that the Premiers brought to this meeting bode very well for the development of useful and meaningful solutions on this supply side of the housing equation.

I want initially to outline to you my perspective on the importance of the housing industry in Australia's growing economy.

Put simply, we can't look at any single feature of the housing issue in isolation.

Housing is a very large sector of the national economy.

It makes a strong, and an increasingly strong, contribution to gross domestic product.

And as an employer, the housing and construction industry provides jobs and income security for more than half a million Australians.

Investment in housing - which includes new dwellings as well as the burgeoning market in alterations and renovations - accounts for between 4 per cent and 4.5 per cent of total GDP.

Over the year to the 1988 September quarter, real housing investment grew by an astonishing 25 per cent.

In that period, real GDP grew by 2.9 per cent. Just over one-third of that total increase in GDP came from housing investment.

This considerable contribution of course reflects the strong upturn in new dwelling starts that has occurred since the beginning of 1987/88.

The Indicative Planning Council forecasts around 165,000 commencements in 1988-89 - up by more than one-fifth on the previous year.

This will bring the annual average number of new starts over the years of my Government to around 140,000 - compared with around 129,500 a year in the Fraser years. On average around 10,000 more new dwellings are being built every year over the whole life of this Government than under the previous Government.

Next year, according to the Indicative Planning Council, we should see about 142,000 starts - still above the 140,000 average achieved under my Government.

Ladies and gentlemen,

By any standards, the Housing industry is a giant of the Australian economy.

I want today to outline some of the challenges that this giant is going to have to face over the coming years - not to imply that the industry alone bears the responsibility for the resolution of these challenges, but to urge you, and the broader community, to recognise them and to begin working together to meet them.

Some of these challenges are all-too-familiar. Some I think have not yet received the attention they deserve, from within the industry or within the broader community.

Let me begin by sketching in the background - in particular, the implications of the current boom in housing prices and the related question of high interest rates.

A few years ago, before financial deregulation, controls on mortgage interest rates meant that the supply of housing finance was closely linked with Government monetary policy. This meant there was a marked cycle to the availability of home finance: when monetary policy was relaxed, finance was plentiful; when it was tight, finance was scarce.

In those days, the key constraint on efficient activity in the housing industry was not, as it is today, the supply of resources, but the housing finance constraint, with this cycle of plenty and scarcity.

The resultant inefficiencies were staggering. Whenever the industry had geared up for a peak in activity, there was a collapse. Thousands of skilled workers lost their jobs and left the industry. Thousands more had to be trained for the next peak.

Financial deregulation has changed all of this, because interest rates can now adjust to bring the supply and demand for housing finance to equilibrium.

This has led to an unprecedented period of stability in the flow of finance to the housing industry.

But it has also of course created the potential for people to be squeezed by periods when interest rates are high.

That is what we are seeing at present, but it must be kept in perspective.

Over the twelve months to January, median housing prices increased Australia-wide by some 40 per cent, with increases in Sydney and Perth of some 60 per cent.

Over roughly the same period of time, interest rates have increased from around 14 per cent to around 15 per cent - an increase of about 7 per cent.

That seven per cent increase is roughly in line with the increase in average weekly earnings.

In other words, the massive lift in housing prices reflects the simplest lesson of a supply and demand curve - that even with the massive output of the housing industry at present, supply of housing has not kept pace with demand.

That is why, as I have said on a number of occasions, an artificial reduction in housing interest rates, while it might make it easier in the short run for people to pay their mortgages, would not solve the overall imbalance in supply and demand.

Indeed it would worsen the imbalance, putting further upward pressure on house prices.

I make this point about interest rates, too.

It is wrong, both economically and socially, to make a simple comparison between the current level of interest rates in a deregulated environment and the alleged good old days when there was a fixed ceiling on rates of 13.5 per cent.

We must remember that the 13.5 per cent housing loans rarely covered the full purchase price, and had to be topped up with 'cocktail' loans that attracted interest rates much higher than those that now generally prevail.

I don't seek to run away from the fact that housing interest rates are causing distress out there in the community.

No Government wants interest rates a point higher than absolutely necessary - especially this Government, whose highest priority has been, ultimately, the protection of the living standards of ordinary Australians. Interest rates will have to stay high to reduce spending on imports. But as soon as it's economically responsible to reduce them, it will be done.

The present degree of monetary policy tightness, coupled with continuing tight fiscal policy and a responsible wages policy, will be sufficient to restore the economy to a sustainable level of demand growth - that is, a level which will permit good progress in reducing our current account deficit relative to our GDP.

I have already mentioned that housing activity is forecast to fall. Overall, I am confident that demand pressures will moderate over calendar 1989. That will create some scope for moderation in interest rate pressures.

Ladies and gentlemen,

Demand for housing will remain strong for some time to come. The Indicative Planning Council suggests there will be about 153,000 new starts a year for the next five years.

If action is not taken now to improve the supply of resources to the industry, housing prices will continue to increase and more people will find houses unaffordable.

None of us can accept that.

So we must tackle the longer-term supply questions.

The first challenge therefore that I wish to address today concerns the supply of suitable housing land.

Australia is one of the most urbanised nations in the world. Our capital cities have grown so much that land that was once on the outskirts is now being advertised in the Real Estate pages as inner city. Clearly, we need to reassess the use we make of our scarce urban land.

In many senses this is a special challenge for Government - because rising land prices have already transformed most of the private sector's land holdings from vacant lots into shopping centres, factories and houses.

Governments, both Commonwealth and State, have been slower to reassess the use of their sometimes extensive city land holdings.

The Commonwealth has now done this seriously. At the Premiers' Conference, the Federal Government announced a major program of land releases for housing development - around 27,000 blocks, the equivalent of 15 new suburbs, over the next five years.

In the following five years, a further 31,000 blocks will be released.

This is a significant step forward, and I pay tribute to the Housing Industry Association for the role it played in stimulating this issue and identifying some of these blocks.

I now urge other Governments in Australia to follow the example set by the Commonwealth.

A second challenge relates to another supply issue - the supply of skilled labour through improved housing industry training.

I referred earlier to the effects of financial deregulation, particularly on lessening substantially the boom and bust cycle that previously used to plague the housing industry.

I hope in this new environment, now more conducive to long run planning, that long term solutions to our training needs will be found.

Recent sharp increases in subcontracting costs for some trades show that skilled labour is now, as it has been, in short supply.

In Sydney, rates for bricklayers increased by more than 60 per cent between 1987 and late 1988.

The Federal Government recently concluded arrangements with the New South Wales division of the Housing Industry Association which provided for the immigration of up to 225 building trades workers before mid-1990. This arrangement involves an increased apprenticeship training commitment by the industry.

In February we began consultation with industry groups, the HIA, the ACTU and building unions with a view to developing a national arrangement along similar lines.

But more needs to be done. The challenge must be taken up by industry and unions.

A third challenge concerns the vexing question of developing more innovative pattern to our housing development.

As our cities continue to sprawl, there is a lot of people for whom the attainment of a house on a suburban block comes not only at a high price in dollar terms but also at too high a social price: isolation, distance from transport and other amenities, length of commuter travel times.

Having acknowledged these problems, however, we must remember that ours is a unique way of life.

Foreign visitors to Australia often comment with awe on the quality of life generated by our deep-seated preference for separate houses each occupying quarter-acre blocks in suburb after green leafy suburb.

And it is true that Australian suburbs provide a quality of life which is the envy of much of the world.

We should be jealous of our achievement. We do not want, in Australia, to duplicate the failures of inner city Tokyo, London or New York.

We need a uniquely Australian solution to these issues.

We need to ensure that we are not creating a millstone around our necks by requiring, as many local zoning and other regulations virtually do, that no housing pattern other than the quarter-acre block is allowed to exist in our cities.

It is this kind of thinking which lies behind the Green Street Project - or, to give it its formal title, the Joint Venture for More Affordable Housing. This is a co-operative program, run by industry and the Federal, State and Local Governments, which has been particularly effective at demonstrating that a wider range of housing choices exists, and that more innovative building and land development techniques can usefully be employed.

Its success is measured by the savings of up to 24 per cent which have been achieved on house and land development.

But, again, more needs to be done.

At the recent Special Premiers' Conference, the Commonwealth announced a package of five measures costing an estimated \$8.8 million over the next three years.

These measures are:

- first, a three year program to redress inadequacies in the availability of data on land supply and the composition of demand;
- second, a joint program under which financial and technical assistance will be provided over the next three years to Local Government for a review of technical residential land development regulations;
- third, a program to promote improvement in the administrative aspects of approval processes at local government level, which will include demonstration studies, research and information dissemination;
- fourth, the setting up of an expert task force to examine the scope for significant reforms of technical regulation of building codes and standards, which will draw on the Commonwealth, State and Local Government, the design professions and the building industry; and
- finally, the promotion of analysis and policy development in relation to housing supply within the Department of Industry, Technology and Commerce.

These measures will, I hope, provide a necessary framework within which innovative design can flourish. It is then up to you, the people involved in all aspects of the industry, to provide the practical ground-level solutions.

At the same time, as we begin to formulate answers to this third challenge, we must recognise a fourth: that new patterns of life are being created by technological growth and the changing nature of Australian society and industry.

High technology may have a profound impact on the kinds of housing people might choose in two decades time.

New developments in transport, such as the proposed Very Fast Train, may make it possible for people to commute to city centres more rapidly from much further away.

Computers and new communications equipment may actually reduce the need for people to travel to city centres at all; they are certainly making it possible for major corporate offices to operate in a small town or provincial centre instead of in the middle of a capital city.

At the same time, let us recognise early that an increasingly prosperous Australia, and an Australia that is attracting increasing numbers of tourists from overseas, is going to have to provide recreational accommodation in unprecedented numbers.

Let us make sure that this is provided in a way that our coastlines, our mountains, our deserts are not vandalised by insensitive development that allows a well-off minority to despoil the natural beauty which is the heritage of us all.

Finally, my fifth challenge is that we must ensure that decent, affordable housing is within the means of all Australians.

This is a challenge to us all.

And at each level of the community's housing needs, the Federal Government is proud of its record of assistance and leadership.

We have offered an additional \$40m over 3 years to the States under the Supported Accommodation Assistance program to provide additional and improved services for the homeless.

-To assist the large number of Australians whose incomes are below the level necessary to achieve home ownership in the private market place, we have doubled funding for public housing in real terms in the five years to 1987-88 compared to the previous five years to 1982-83.

And for young home buyers, the First Home Owners Scheme is widely regarded as the most successful home ownership assistance scheme ever introduced. From October 1983 to February 1989, FHOS assisted over 320,000 households into home ownership at a cost of \$1.4 billion.

And FHOS continues to help people achieve home ownership. Around 42,000 applications will be approved this year - down somewhat on the 54,000 applications approved last year but about the same number as was approved in 1986-87.

I have mentioned the Indicative Planning Council's measure of underlying demand for housing starts at 153,000 per year. At the current approval rates, FHOS accounts for over a quarter of this group - a wide coverage by any standard.

Another important recent initiative was the establishment of the National Review of Housing Policy in June 1988. This review, being conducted by my colleague Peter Staples, the Minister for Housing and Aged Care, will assess the performance of housing assistance programs and develop strategies for improving these programs.

Ladies and gentlemen,

The Australian dream of a home of one's own is still a desirable one, and it is still an attainable one.

It is still part of the promise of life in this great country of ours.

We must not let the peak of the house price cycle convince us otherwise.

But as Australia develops, so must our strategies for realising the dream.

My Government's commitment to housing is deep and long standing. We have a proud record in housing - because we have kept our sights on finding the proper longterm solutions, not the wrong, short-term, knee-jerk reactions.

Through financial deregulation, we have taken the most important step possible towards ending the boom-bust nature of housing. Effective housing planning can now take place.

We have dramatically improved access to affordable housing for all Australians.

And those efforts have now been supplemented by supply side measures.

I have tried to indicate today the range of challenges facing us in the future.

But if we are to be successful in meeting any of those challenges we will need co-operation and commitment from all of us: the Commonwealth, States and Local Government, industry, unions, planners, architects and others.

In declaring this Conference open I can do no better than to wish you success in finding common ground and building that co-operation.
