Sky High

What's really driving high costs and declining infill development

November 2024

Acknowledgement of Country

The Property Council acknowledges the tens of thousands of years of continuous custodianship and placemaking by First Nations peoples and their proud role in our shared future.

We thank them for their custodianship of Country – land, seas and skies.

We acknowledge the diversity of First Nations cultures, histories and peoples, and we pay our deepest respects to Elders past, and present.

Contributions

The Property Council has prepared this report with the assistance of Bridge42 and input from our members.

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Cover image:
Civic Heart by Finbar, Perth WA

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Foreword

Australia is in the middle of a housing crisis.

Decades of failed housing policy from successive governments – at all levels – has led to a chronic undersupply of housing over many years. In Western Australia, this has been exacerbated by the strongest population growth of all Australian states and territories and has driven rapid house price increases.

Recent data shows house prices rose by 7.1 per cent nationally over the past year.[1] Perth had the fastest annual increase of 24 per cent, far exceeding wage growth over the same period of 4.1 per cent.[2] With strong demand and marked undersupply, Perth has seen an incredibly 'hot' property market – evidenced by the average time a house spends 'on the market' sitting at a record low in October 2024 of just nine days according to REIWA.

Meanwhile, rents have risen by 30 per cent over the past three years in Perth – faster than anywhere else in the country – with rental vacancy rates remaining below 1 per cent over the same period.[3]

Affordability is at an all-time low with median house prices more than 7 times median annual household income and weekly rents consuming above 30 per cent of median disposable household income.[4]

While greenfield development remains an important part of the housing mix, WA needs far more medium and high-density infill development to meet its housing targets and ease the housing crisis for Western Australians.

This report unpacks some of the reasons infill development is falling well short of targets and provides recommendations to the WA Government that are designed to address the current economic barriers to more infill development.

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Montreal Commons, Fremantle WA

Introduction

In response to the growing crisis, the Federal Government's National Housing Accord set a new ambitious target of 1.2 million new well-located homes by 2029.

For Western Australia, this represents an average completion rate of about 26,000 dwellings each year – a rate that has not been achieved since 2016.[5]

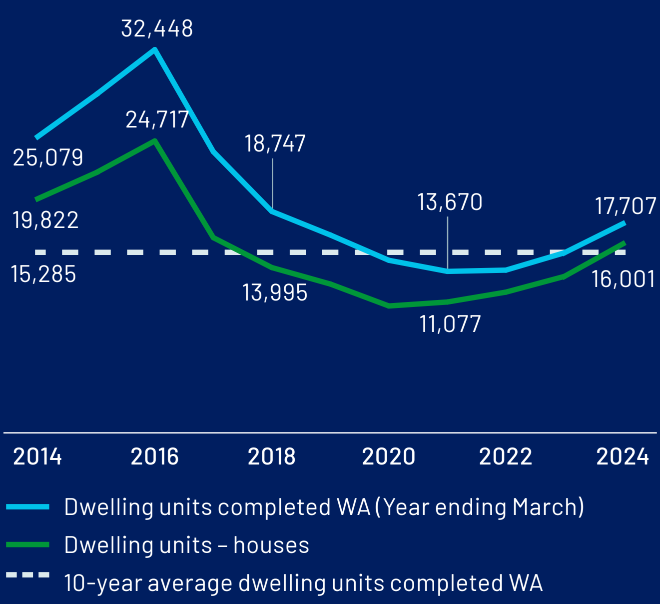
New dwellings in WA remain dominated by greenfield developments despite the State Government's infill target of 47 per cent. In 2022 the net infill rate was 31 per cent, only slightly higher than 2021 at 29 per cent, and still well short of the target.[6]

Perth is currently one of the world's lowest density cities with only 1.1 per cent of homes being apartments compared to Sydney's 6 per cent and Melbourne's 3.8 per cent.[7]

To meet housing accord and infill targets WA would need to be delivering around 11,000 apartments per year – more than five times what is currently being achieved.

Figure 1

Total dwellings completed vs separate houses



For simplicity in this report, we use the term 'infill' to refer to medium and high-density development, rather than the broader definition which includes any new development in an established suburb (e.g. subdividing a suburban block).

Aside from being able to deliver new housing quickly and at scale, infill has significant economic and environmental benefits, particularly when development is focused around existing public transport infrastructure (known as Transport Oriented Development or TOD).

Unfortunately, completion rates for these developments are headed in the wrong direction. While 2024 is expected to see around 2,366 apartments completed, this is due to projects that were planned four or more years ago now being delivered. Projections for 2025 fall dramatically to just over 600 apartment completions.

Additionally, the level of projects that have started construction this year and last year remain well below historical levels so supply will continue to be low in coming years. This is despite substantial reforms to the planning system, with WA widely considered as having one of the best planning frameworks in the country.[8]

According to Urbis data, since 2020 there have been 12,550 apartments approved, but only a small portion of these (2,140) have actually commenced construction. This leaves a staggering 10,410 apartments that have been approved but are effectively 'on hold'.

So, what's going wrong? Why aren't these apartments being built?

Why are there not enough homes?

There are many misconceptions about why house prices are growing at unsustainable levels. Some blame ultra-low interest rates over the last decade, others have blamed immigration and foreign investment, as well as favourable tax settings for domestic investors.

But in simple terms, it's an issue of supply and demand – the construction of new homes has not kept pace with population growth and changing demographics that have put significant pressure on demand.

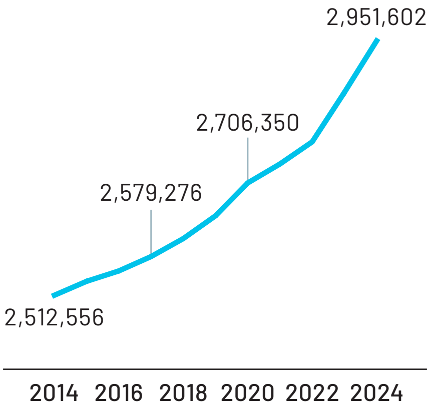
Projecting population growth is not an exact science. In 2002 the Howard government commissioned the first Intergenerational Report that predicted Australia's population would hit 25 million people by 2042.[9] In fact, Australia's population reached the 25 million milestone in 2019, some 23 years earlier than expected.[10]

For Western Australia, population was predicted to reach 3.5 million in 2050, however more recent government modelling predicts we will now reach that figure as early as 2036.[11]

In addition to higher-than-expected population growth, the make-up of Australian households has changed with lower average household sizes, higher proportions of single person households, and higher divorce rates and single parent families.[12]

Declining household size caused by changing demographics has resulted in higher demand for new dwellings.[13]

Figure 2
Total population WA



Can't we just cut immigration and slow population growth?

Skilled migration is fundamental to economic growth and addressing widespread labour shortages. Reducing skilled migration at a time when tight labour markets are driving higher construction costs and slowing delivery of housing would be disingenuous.

While in the short term the impact of immigration on population growth contributes to an increase in demand, when supply is elastic and can accommodate growth in demand immigration is not a problem.

The core challenge is not demand – it comes down to supply.

New Zealand provides a nearby example. Despite significant population growth and immigration and fiscal settings similar to those in Australia, median house prices and median rents have fallen.[15] This result is largely attributable to the rapid growth in dwelling completions since 2016, bringing supply more in line with demand.[16]

In addition to increased demand, several supply side factors have contributed to the growing gap between housing supply and demand including sluggish delivery of critical infrastructure needed to support new housing and poor policy responses from governments.

In an infill context, restrictive planning policies and regulatory obstructions to density have also slowed development of apartments and townhouses. This 'red tape' can severely restrict housing supply, which in turn results in increased property prices and reduced affordability.[14]

While much has been done to improve the planning settings in WA, is it a case of 'too little too late'?

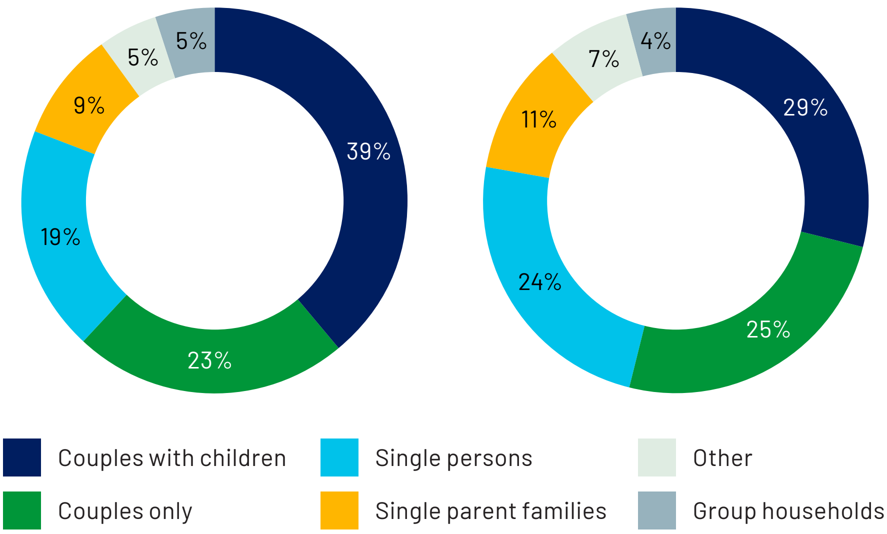
Figure 3

Household types, 1991

Total households:	**5.8 million**
Total population:	**16.8 million**
Pop. per household:	**2.9**

Household types, 2021

Total households:	**9.8 million**
Total population:	**25.4 million**
Pop. per household:	**2.6**



Source: The Demographics Group, Australian Bureau of Statistics Census 1991 and 2021

What about foreign investors buying up all the houses?

Despite a common narrative that foreign buyers are driving up property prices, most property buyers in Perth are locals. Less than 1 per cent of total property sales are from foreign investment.[17]

Australia has significant restrictions on foreign buyers for established dwellings to ensure investment from foreign capital targets new housing supply.

In large scale infill development, where a high volume of pre-sales is required for project finance, foreign investment can be the difference between a project proceeding or not.

In other words, even if a foreign buyer acquired 10 apartments in a 100-apartment development, the other 90 apartments available to local buyers may not have been built at all without that foreign investment.

Further, the 10 apartments bought by foreign investors are likely to end up on the rental market, providing housing to those not in the market to buy.

In reality, the net impact of foreign investment is actually an increase in housing supply, not a decrease.

Density is not a dirty word

The needs of individual households are variable and change over time.

To maximise housing efficiency, it is critical that there is sufficient volume of all housing typologies including single dwellings, medium density, high density, long-term rental accommodation, purpose-built student accommodation, social and affordable housing, and options for retirement living.

Noting that all housing typologies are equally important in the broader housing mix, this report focuses on medium and high-density infill.

Arthouse, Joondalup WA

Community sentiment surveys suggest that most people are supportive of quality infill in the right location with only a small, but vocal, cohort of detractors.[18]

Quality infill and TODs provide significant economic, social and community benefits and can revitalise flailing inner-urban areas. When done well, these developments create vibrant communities with vastly improved amenity and more affordable housing options.

Even those who do not choose to live in apartments or townhouses benefit from greater levels of infill development, as they rapidly increase supply, alleviate pressure on existing stock, and ultimately improve affordability.

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Infill developments also provide substantial benefits to the local community with developer contributions funding a range of improvements including upgrades to roads and other infrastructure, provision of public amenity and improved local government services.

Case study

ONE Subiaco

Following the departure of the AFL and closure of Subiaco Oval in 2017, the Rokeby Rd precinct saw a sharp increase in retail vacancies from 5.9 per cent to a high of 15.2 per cent in 2018. In December 2022 the completion of ONE Subiaco delivered an additional 236 residences and nine retail spaces to the Northern end of Rokeby Rd. Ray White Commercial's latest Insight data shows a drop in retail vacancies post completion of ONE Subiaco to 10.8 per cent – the lowest level since the closure of the oval. With a number of other key retail sites currently under renovation and/or construction, ONE Subiaco has provided the leg-up needed to bring Subiaco's centre back to life.

ONE Subiaco, Perth WA

Why aren't we building more infill?

So with all these benefits on offer, the obvious question is 'why aren't we building more infill?'.

The answer is pretty simple. It's not lack of demand, it's not even planning restrictions, it's all about project economics and the financial viability of these developments in the current environment.

Post-COVID, in greater Perth, the cost of delivering an apartment is generally higher than what the market is willing to pay, meaning that projects are not economically viable. In colloquial terms, they 'don't stack up'.

Higher costs ultimately lead to lower supply. If the costs of a project exceed the expected return, the project will not proceed.

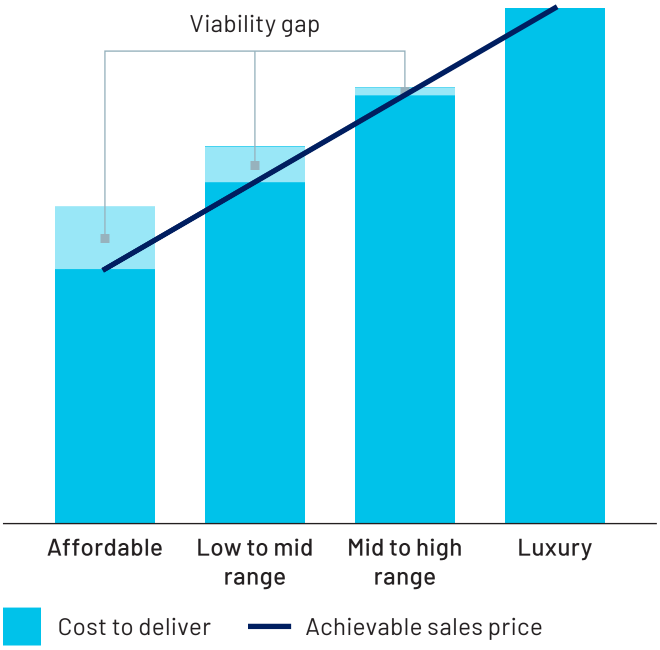
This economic barrier disproportionately impacts infill development and housing diversity, currently favouring lower-density greenfield development on the urban fringe and high-end apartments in premium locations.[19]

It should be noted that while there is some variability in costs depending on location and specification of the development, the cost differential for a development in a lower priced area and completed to a lower specification is not analogous to the difference in price that can be achieved for the completed dwelling.

In other words, while it doesn't cost a lot less to build a smaller apartment in a less premium area, the price that people are willing to pay is substantially less. This means that these more affordable developments simply can't proceed in the current environment.

Figure 4

Cost to deliver vs achievable sales price



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What’s driving up construction costs?

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It is estimated that since COVID construction costs have risen by 30 per cent nationally with even higher rates reported in WA.

Anecdotally, developers are reporting that construction estimates are now almost double the cost of similar developments five years ago.

It is expected these costs will escalate even higher as the impacts of union bargaining and the implementation of the new National Construction Code flow through.

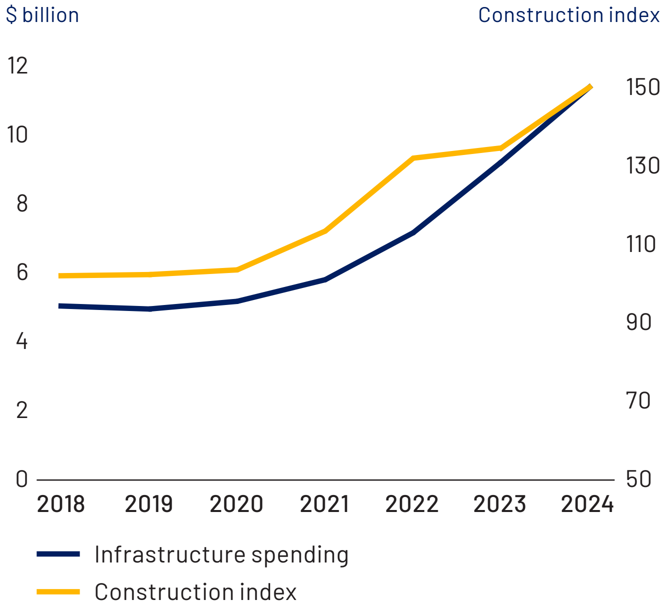
Infrastructure spending in WA has more than doubled in the last five years with large public works projects putting substantial pressure on supply of both materials and labour.

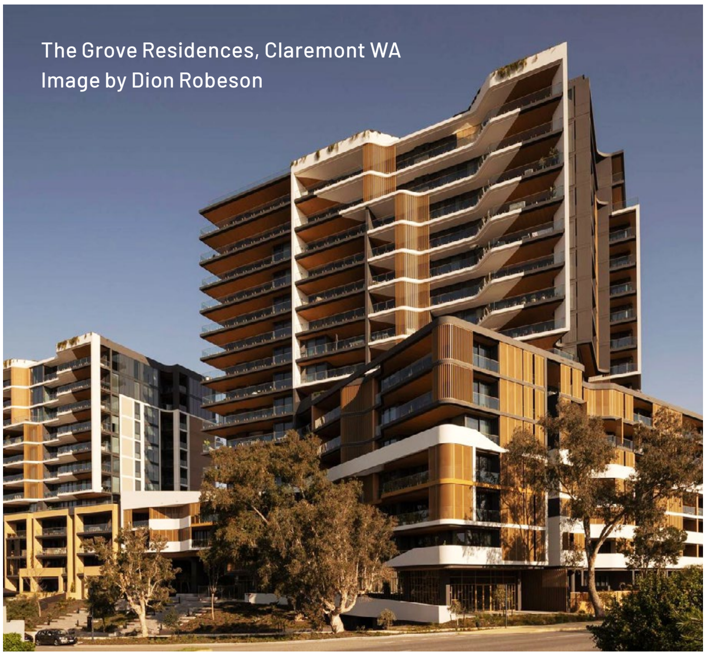
This particularly impacts large multi-residential developments where there is direct competition for the same skills and high volumes of materials like steel and concrete.

The graph on the right shows a direct correlation between increasing infrastructure spend and rising construction costs.

Figure 5

WA construction and infrastructure growth





The Grove Residences, Claremont WA
Image by Dion Robeson

While households struggle under extreme cost of living pressures, and infill developers sit in a holding pattern unable to deliver much needed housing supply, rapidly escalating house prices result in a financial gain for both federal and state governments who apply taxes, fees and charges to new housing at every stage of development.

Over the last five years, revenue from state-based property related taxes has almost doubled from $2.6 billion in 2018/19 to $4.5 billion in 2023/24 representing a substantial windfall to the WA government.

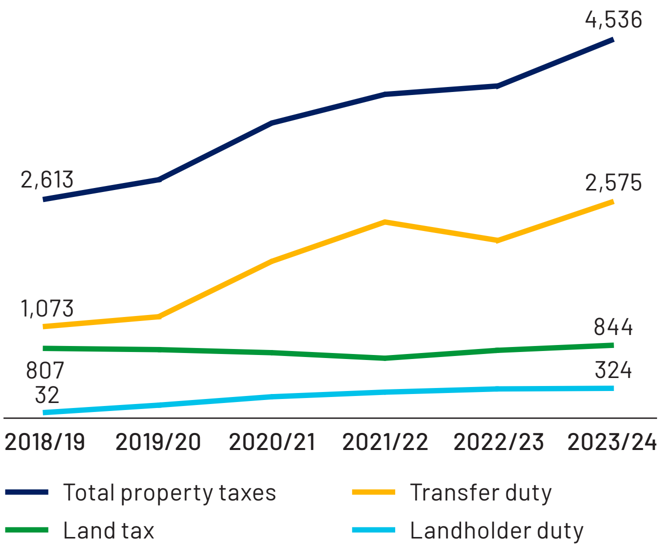
It seems only right that some of this windfall revenue should be reinvested into initiatives that boost housing supply. These initiatives must target all sectors of the market, not just social and affordable options.

Without intervention, supply of moderate to sub-premium housing will continue to fall putting upward pressure on prices and driving more households into 'housing stress'. Middle-income households are then forced into more affordable markets displacing lower income households who might otherwise have been able to purchase a home without government support.

Figure 6

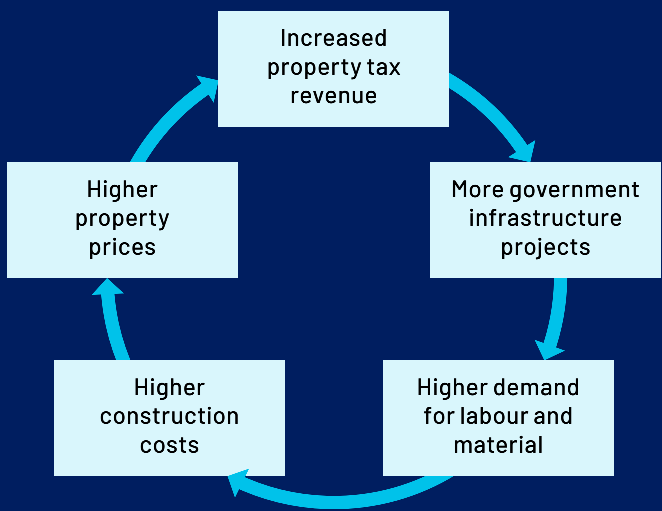
Revenue from property taxes

$ million



The vicious cycle

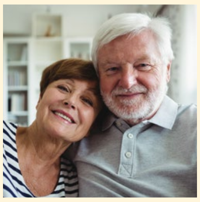
Increased revenue from property taxes enables ever larger spends on more government infrastructure projects. These projects eat into available labour supply, meaning there are fewer workers and materials available, leading to higher construction costs. Higher construction costs drive higher prices, which in turn means more revenue for government from property taxes. And on it goes.



How housing supply affects everyone

Meet our cast of characters in this example of housing choice and affordability, demonstrating why all housing supply is good supply and why, in the context of a housing crisis, it is entirely appropriate for government to intervene and support the private sector where there is clear market failure.

Note: All characters are entirely fictional



Barb and Barry are retired and living in a four bedroom house in Subiaco. Barry's hips hurt and he's sick of having a high maintenance garden. Barb spends hours cleaning rooms that never get used. They'd love to downsize but there are so few apartments in their local area. Although they're asset rich they don't have the same regular disposable income they did before, and transaction costs are a barrier to moving.

Sal and Simon both grew up around Subiaco and love the area. They've got two small kids and rely on their retired parents for childcare so they can't afford to move too far away. They own a smallish two bedroom place but as the kids are getting older and need their own rooms they've been looking for something bigger. They can afford a slightly bigger mortgage and their parents have offered to help out. They've been looking in their area for months but prices just keep going up so they start looking in neighbouring areas like Wembley and Leederville.

Deb and Dave recently got married but they've been together for a while. When they first moved in together they bought an older apartment in Mount Hawthorn which they renovated. Both are early in their career earning average wage. They're thinking about having a baby but need to move into a bigger place. They've been looking around but there are so few houses on the market and the good ones get snapped up straight away.

Ken and Kath live in Alkimos. They bought a house and land package when the area was first developed and they've managed to pay down a good chunk of their mortgage. The kids have moved on and they don't need a big house anymore. Kath has just landed a promotion and a nice pay rise but it will mean longer hours. They would really like to move closer to her work to shorten the daily commute.

Jane and Jim live around the corner from Ken and Kath in Alkimos. Jane is a preschool teacher and Jim works in a smash repairs spray painting cars. They've been saving for years to buy a house in one of the subdivisions close to where they currently live and work. But prices of both existing houses and new house and land packages are increasing faster than they can save.

Taylah is a single mum, working night shifts as a cleaner at a hospital on the days her kids are with their dad. Rents have gone up so much she can no longer stay afloat and has gone on the wait list for social housing. If something doesn't come up soon she'll end up living in her car and might lose her kids.

Andrew had a rough start in life but has worked hard to pull himself out of the rut and recently completed a hairdressing apprenticeship. He has been living in community housing but is doing pretty well and has just started a new relationship so he is keen to move out into a private rental.

Ripple effect

The ripple effect is the negative impact of limited housing supply. Regardless of where it is built, if housing supply is low, people's choices are limited.

People like **Bob and Barb** don't want to move out of their neighbourhood so they decide to stay put even though the house is too big, preventing new families from buying into their area.

Or if people do move, it's bit further out. Like **Sal and Simon** who find a place they like in a neighbouring suburb and make an offer well above asking just to secure something.

This means **Deb and Dave** can't afford a bigger place unless they move further out increasing demand and putting pressure on prices in the outer suburbs.

What comes next?

This ripple expands, pushing prices up for both sales and rentals alike, as people chase available supply and affordability.

… and domino effect

What about if the opposite happens?

A new premium development gets built in Subiaco.

Bob and Barb buy an apartment, as do others like them, freeing up their homes.

With more houses on the market prices stabilise a bit and **Sal and Simon** snag Barb and Bob's house.

This frees up their two bedroom place which **Deb and Dave** are just able to afford.

Ken and Kath chance upon Deb and Dave's nicely renovated apartment and snap it up.

A new development is opening up near Ken and Kath's place so prices for older established homes are a bit more reasonable. **Jane and Jim** are finally able to get into the market by buying off Ken and Kath.

Andrew has landed a full time job and is able to afford to rent the house that Jim and Jane have just vacated.

Just in time Andrew's place is offered to **Taylah**.

So, although the new apartments that were built were on the higher end price-wise, they have freed up other existing homes which will eventually help stop constant price increases in the outer suburbs.

This isn't trickle-down economics; it's the positive domino effect of increased housing supply at work.

What are you really paying for when you buy an apartment?

Apartment development costs are complex, but they can be broken down into several main components: land acquisition, planning and design, construction costs, sales and marketing, and transaction costs. There are government related taxes, fees and charges associated with each of these components.

In addition, there are holding costs such as interest on finance and property taxes, which accumulate over time. Delays caused by protracted approvals processes, presales requirements for finance, and difficulty contracting builders all increase holding costs, adding to the overall 'whole-of-project' cost.

Of course, like any other business supplying goods and services, developers also need to make a profit. Contrary to the common rhetoric, margins are not driven by 'greed' there are minimum thresholds necessary for securing project finance and managing risks.

Montreal Commons, Fremantle WA

Based on aggregated data from a range of actual developments either recently constructed, under construction or due to commence, a hypothetical development with 152 apartments and a whole-of-project cost of just over $183 million would incur more than $6 million in government taxes, fees and charges including:

Transfer duty on land	$ 667,645
Land tax	$ 1,418,236
Council rates	$ 313,241
Development application fees	$ 57,841
Percent for art scheme	$ 813,633
Construction Training Fund levy	$ 254,544
Other contributions (e.g. POS)	$ 1,750,000
Headworks (inc. Western Power, Water Corporation and NBN)	$ 583,300

This adds more than $39,000 to the average cost of an apartment.

Post construction, further federal and state government related costs are passed directly to the purchaser.

In our hypothetical development, and assuming a single development like this would contain a mix of apartment types and price points, even an individual apartment at a low-end final advertised purchase price of $750,000, would attract GST of $68,181 and buyer transfer duty of just under $30,000.

That's over $130,000 of government related costs alone.

To buy our hypothetical apartment Mike and Mandy will need a deposit of $150,000 and a combined income of $185,000 to service a $600,000 loan. Their repayments will be $3,635 per month of which $630 is paying off state and federal government related taxes, duties, fees and charges.

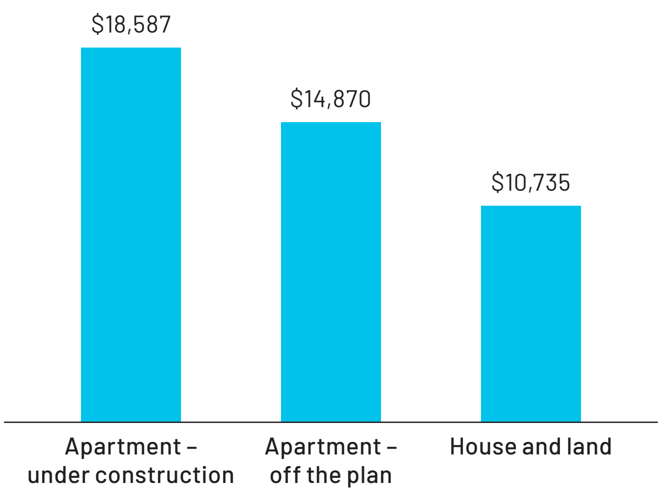
- Based on a 30 year loan at 6.09% P&I and assuming no other debt
- This example is specific to WA and excludes indirect taxes, fees and charges

Under the current concessions scheme, if this apartment was purchased off the plan (pre-construction) the buyer would receive a concession of $14,870 bringing the transfer duty down to $14,870. If the apartment was already under construction the concession would reduce to $11,152 leaving a duty of $18,587 (based on settlement on 7 October 2024).

Comparatively, a house and land package of the same total value with a land component of $350,000 would only attract buyer transfer duty of $10,735, substantially less than an equivalent apartment even with the current concessions.

Figure 7

Transfer duty costs



*Off the plan and under construction duty concessions are due to expire in June 2025.

How can government help?

State government and local planning policies have a significant impact on the feasibility of housing developments.

The cost of a development is directly affected by taxes such as transfer duties, land tax, and developer contributions. These costs are ultimately passed on to the purchaser.

Prolonged approval processes and regulatory barriers tie up development capital and delay delivery of desperately needed housing.

We acknowledge that to date the State Government has taken considerable action to address the housing crisis in Western Australia, including significant planning reforms; building the pipeline of construction workers through reduced TAFE fees and apprenticeship subsidies; investing heavily in social and affordable housing; and a range of other initiatives to increase housing supply.

More needs to be done, however, to address the viability of infill development and provide better housing choice for the 50 per cent of the population who do not own a home outright and do not meet the eligibility criteria for social and affordable housing.

The State Government's current Infrastructure Development Fund has approved rebates of up to $10,000 per apartment for 5,441 apartments across 79 projects. To date less than a quarter of these have commenced construction. Current limitations on the costs to which these rebates can be applied means most developments are not able to utilise the full approved amount.

As noted earlier in this report, in the greater Perth area, there are currently more than 10,000 apartments with DA approval that are ready to be built.

With targeted measures to reduce costs and bridge the viability gap, this 'low hanging fruit' could substantially improve completion rates between 2026 and 2029 and put WA on a path to actually meet its housing accord targets.

While sales prices continue to grow, holding costs continue to accumulate while projects are on hold effectively absorbing any increase in sales revenue. There is no 'silver bullet' or single measure that will make these projects viable.

We recommend the WA Government considers the following immediate measures:

High priority recommendations

01

Extend and top up the existing Infrastructure Development Fund (IDF), increasing the cap per apartment to $20,000 and expanding eligible costs to include the Construction Training Fund levy, Development Application and Design Review Panel fees incurred through the Significant Development Pathway, and NBN related costs.

02

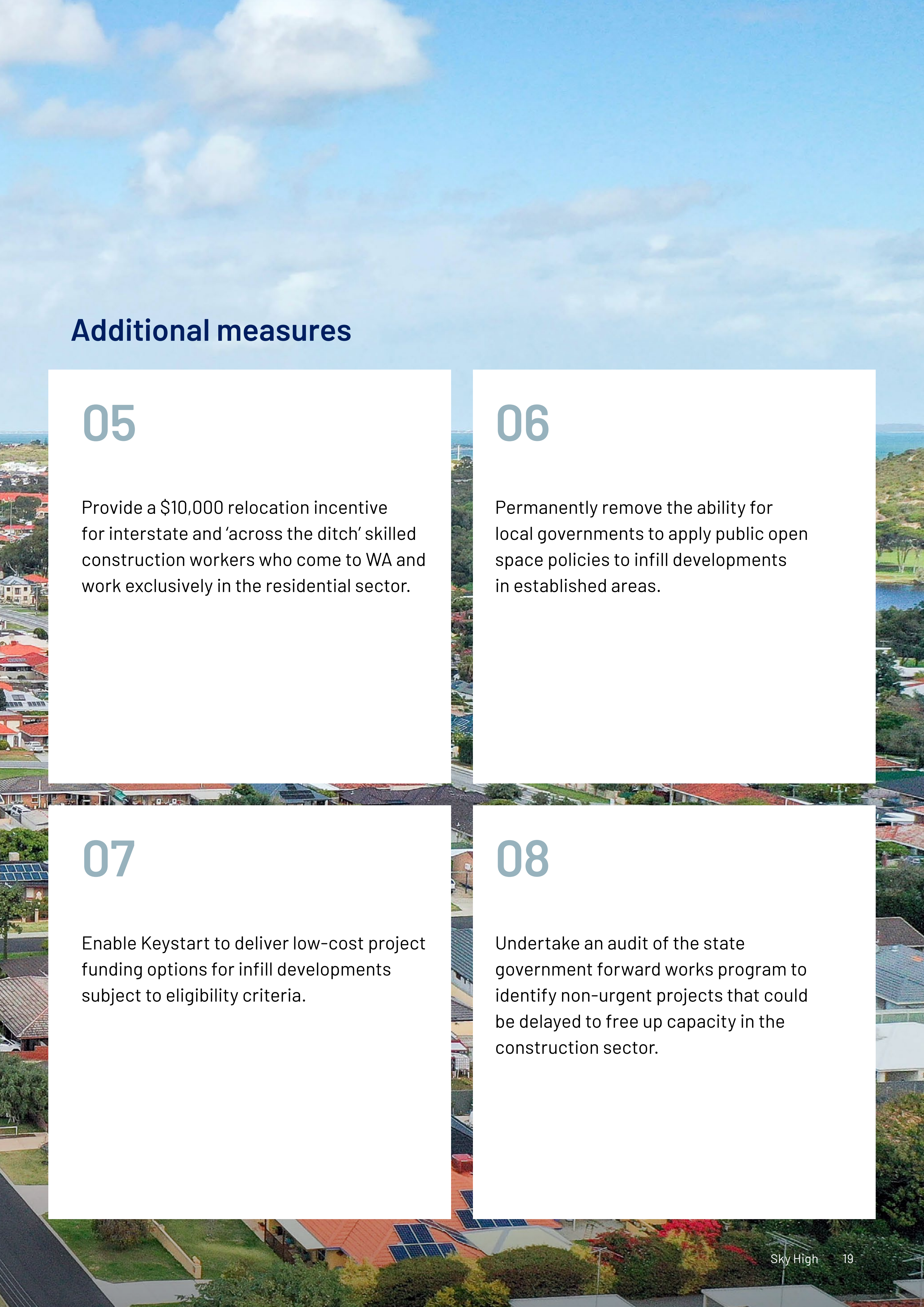
Provide land tax rebates for a period of up to three years from development approval to completion, with the ability to extend for an additional two years in circumstances where delays are directly related to contractor availability.

03

Establish a 'community benefit fund', enabling the WA Government to make public art and other contributions such as public open space in lieu of developer contributions.

04

Make current transfer duty concessions for 'off the plan' and 'under construction' permanent, expanding the eligibility to include grouped dwellings and removing the purchase price threshold so buyers of all new apartments and townhouses benefit.



Additional measures

05

Provide a $10,000 relocation incentive for interstate and 'across the ditch' skilled construction workers who come to WA and work exclusively in the residential sector.

06

Permanently remove the ability for local governments to apply public open space policies to infill developments in established areas.

07

Enable Keystart to deliver low-cost project funding options for infill developments subject to eligibility criteria.

08

Undertake an audit of the state government forward works program to identify non-urgent projects that could be delayed to free up capacity in the construction sector.

Endnotes

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