

House Standing Committee on Tax and Revenue

Question on Notice: Tokyo housing reform

17 November 2021

Centre for Independent Studies

Question:

CHAIR: My other question is that Dr Ellis also said that she couldn't think of a single case study globally where an increase in the supply of housing led to a decrease in price. That doesn't seem to make intuitive sense in terms of how we understand microeconomics and macroeconomics. I can think of one example in New Zealand where that wasn't the case. Are you aware of any examples where a liberalisation of the supply chain in housing has led to long-term decreases in price?

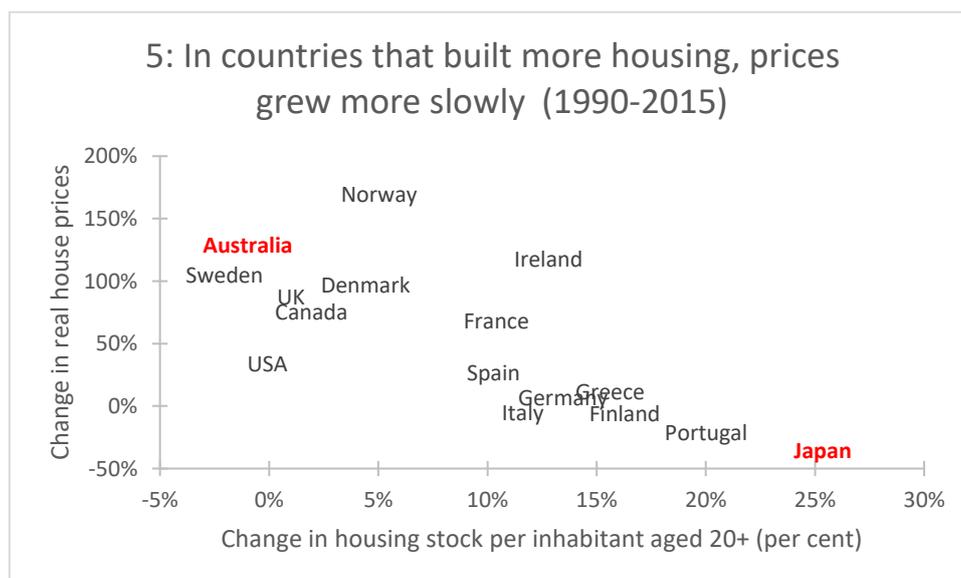
Dr Tulip : Japan is the famous example or, to be more precise, Tokyo. Over the past few decades, they've built a lot of housing and, as a result, housing prices in Tokyo have fallen in real terms.

CHAIR: Can you tell us what they did over there? What are the high points of what they did in the Tokyo market to allow supply to be more responsive to demand?

Dr Tulip : I'm not an expert in the details. I think we cite a few papers discussing the Tokyo land reforms in the paper. If we don't cite them there, it's easy for me to get them. The central issue is that we need planners to stop saying no and start saying yes. The actual institutional reforms that get you there are a lot harder. Rather than trying to remember, I'll take that on notice.

Answer:

As shown in Chart 5 of the CIS Submission to the inquiry, reproduced below, the housing stock in Japan, per adult, increased by 25 per cent between 1990 and 2015 while real housing prices declined 35 per cent. That experience contrasts with Australia and many other countries, where the housing stock struggled to match population growth and prices soared.



Although like-with-like comparisons are difficult, Tokyo is often described as having more affordable housing than many Western cities, despite being the most populous city in the world.

What did Japan do to achieve these favourable outcomes? André Sorensen, Junichiro Okata and Sayaka Fujii (2010) discuss the evolution of Japanese land use regulation in detail. They note that planning restrictions in Japan are primarily set by the national government using a small number of wide-ranging parameters. From the late 1980s to the early 2000s there were a succession of changes to set-backs (or “slant plane restrictions”) and floor-area ratios, each of which permitted greater density. Table 2 of the paper provides a (long) list of the reforms. Tall apartment buildings went from being typically prohibited to typically permitted. The role and power of local government was substantially weakened. The authors argue that these changes instigated the building boom.

That interpretation is shared in the international press, including Robin Harding of the Financial Times, (2013), River Davis of the Wall Street Journal (2019), Scott Beyer of Forbes (2016), The Economist (2020) and Alan Durning of Sightline (2017, 2021). All these articles argue that more permissive land use regulations led to the construction boom and hence to lower prices. The centralisation of responsibility in the national government is often said to have been necessary for the liberalisation. These press reports suggest that a large effect of planning liberalisation on construction and hence prices is not actively disputed. However it has come at a cost: the Tokyo skyline is often considered to be ugly and jumbled and local residents have often been ignored in planning decisions.

References

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Question on Notice: Approval times and prices

17 November 2021

Centre for Independent Studies

Question:

CHAIR: I take it you don't have any data on whether or not there's a correlation between increases in approval times and price increases?

Dr Tulip : Other people have looked at that, but I don't. I'm not familiar with that data, no, sorry.

CHAIR: Would you mind taking on notice who those people may be and we may call them before the committee.

Answer:

Good data on this question are difficult to obtain and we are not aware of direct estimates of the correlation between planning delays and housing prices. Nevertheless, some studies do approach this question indirectly and provide an indication of some of the magnitudes involved.

The Centre for International Economics (CIE) (2013) considers a range of reforms to the NSW Planning system in detail. Their Table 11.5 summarises various estimates that “suggest excessive costs of between \$174 million and \$312 million per year from the development approval system in NSW.” That would be around the order of \$2,000 per new dwelling. Delays in rezoning prior to Development Approval might add a further \$6,000 to greenfields dwellings. The risks imposed by the planning system might increase costs by a greater amount, though quantification of that is difficult. Deloitte Access Economics (2016, Section 3.1.1), discuss the estimates of the CIE and other sources. They suggest that streamlining of planning processes might plausibly reduce waiting times by about 6 months and this might reduce supply costs by about \$6,000 a dwelling.

Lejcek, Rambaldi and Tan (2020) use data on whether planning approval is “complex” (meaning that it takes more than 5 person days to process) or “simple” (5 days or fewer.). They find that complex applications are rejected more frequently than simple applications. High rejection rates (reflecting complex applications) increase housing prices. The effect of planning delays on prices was not a central concern of the paper and they do not report estimates. In any case, the measure of delays is possibly too crude for many purposes.

While the estimates above are significant, they are tiny relative to estimates of the “zoning tax” presented in Tables 2 and 3 of the CIS Submission (2021), which are often several hundred thousand dollars per dwelling. By far the main effect of the planning system on housing affordability comes from the restriction of supply rather than from the administrative burden.

References

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