2021-22 FEDERAL PRE-BUDGET SUBMISSION

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

JANUARY 2021

Executive Summary

The Urban Development Institute of Australia National (UDIA) is pleased to provide its Pre-Budget Submission for the 2021-22 Commonwealth Budget which builds on our Pre-Budget Submission lodged for the October 2020 Budget.

UDIA National values the robust strategy the Government has pursued over the past year to help sustain Australia's economy through the COVID-19 pandemic and position the economy for recovery. We recognise that the Government's leadership on health and safety makes that more possible.

Amongst a broader range of measures, we particularly appreciate the focus on the housing and construction sector, with the Commonwealth Government's housing stimulus package - *HomeBuilder* - serving as a centrepiece, particularly for detached housing. The initiative has been a public policy success, with more than 70,000 applications to date.

The initiative – and the decision to extend its application into 2021 – recognises the centrality of housing and construction to the nation's economic health, its capacity to generate jobs and wages up and down supply chains, the very strong economic multiplier and important ability to foster the opportunity for home ownership for young and new Australians.

Given the unprecedented nature of the pandemic, the Government's endeavours have cushioned Australia from the worst economic effects of COVID-19 and represent a world-leading response on both the health and economic aspects.

However, it is clear from the Government's own forecasts that the road to full recovery will take several years and be hindered by the absence of business-as-usual immigration levels and population growth.

There are also ongoing risks that need to be managed – the potential for the slow return of business-as-usual immigration and low population growth to act as a continued economic drag; the need to ensure regulatory frameworks are fit-for-purpose given the urgency of the moment; and dislocation between housing supply and demand adding to the affordability woes that already plague Australian housing markets.

This is made clear in the National Housing Finance & Investment Corporation's (NHFIC) *State of the Nation's Housing 2020* report – which forecasts that despite the temporary reprieve from these pressures that has been created by a downturn in immigration and population due to COVID-19, demand will again outstrip supply from 2023 and beyond. Depending on the pace of any housing led recovery, the imbalance between demand and supply could occur even earlier than 2023.

That is why our submission focuses on further actions that can and should be taken to bolster the pace of recovery and foster sustained growth, jobs and prosperity. Moreover, these endeavours will have the dual benefit of not just boosting the economy but also helping to lift home ownership. The 4.1 percent decline in home ownership among Australians over the past four years can be reversed. Both the First Home Loan Deposit Scheme and *HomeBuilder* are working to advance this goal but there is more room for sound policies that can help keep the Great Australian Dream alive.

Our submission focuses on three core themes:

- Continue making **new residential construction a public policy priority** due to the economic significance of the sector;

- Prioritise policies that both help with the economic recovery, and provide **lasting benefits well beyond the period of the pandemic**;

- Ensure a holistic approach to policy and regulatory reforms that deliver a **systematic reduction in the barriers to investment in infrastructure, housing and more productive cities and regions**.

RECOMMENDATIONS AT A GLANCE

Recommendation #1: Continue to Stimulate the economy via housing construction

1. Confirm a further extension to HomeBuilder of 15,000 places (with an associated adjustment to timeframe eligibility) to ensure its continued role in sustaining jobs, wages and construction activity until NOM returns.
2. Begin immediate design of a specific version of *HomeBuilder* tailored to support the multi-unit segment of the market, including:
    a. Adjusting the timelines applying to the scheme to provide for greater participation by apartment and townhouse projects, via:
        i. Extending the timeframes for <u>sales contract execution</u> for semi-attached and multi-unit projects to 30 June 2022.
        ii. Extending <u>construction commencement timeframes</u>, for semi-attached and multi-unit housing (ie: townhouse and apartment projects) to have a new commencement timeframe of 30 June 2023.
3. Redefining 'commencement' to allow for flexibility which accounts for differences in staging and timing for detached, semi-detached and attached housing products.
4. Incorporate provision for land lease communities to be captured as part of the scheme, recognising their current exclusion due to requirements around certificate of title.

Recommendation #2: Streamlining Green Tape

1. Funding to conduct a full Regulatory Impact Statement to test the proposed new National Environmental Standards – including case studies on 'live' projects – for their effects on housing development.
2. Sufficient funding to support the detailed and careful design of proposed new National Environmental Standards that suitably respond to the challenges of urban land use and housing development.
3. A partnership with the states to give effect to 'single-touch' approvals and ensuring the data and technology that underpins them is robust.
4. Investment in national and regional-scale planning needed to appropriately manage threats, competing land uses and provide certainty to industry proponents.
5. Funding to support the efficient delivery of state-based Strategic Assessments.

Recommendation #3: Boosting the Scale and Pace of NHFIC's agenda

1. Allocate sufficient funding beyond the initial $25 million to assist NHFIC produce expanded research and reporting on the need to reduce planning and taxation barriers for new housing – including land release and planning barriers, tax imposts and the production of league tables to impose greater transparency on systemic performance.
2. Commence a housing tax reform process to improve the equity and efficiency of taxes on new housing development; better scrutinise proposals for new taxes and charges; only consider value capture in the context of holistic tax reform; and remove the tax barriers to build-to-rent.
3. Make 10,000 places available on an annual basis under the First Home Loan Deposit Scheme exclusively for the purchase of new or newly constructed dwellings.
4. Allocate an additional $1 billion under NHFIC's investment mandate – to be matched by each state and territory – to unlock regional-scale enabling infrastructure matched to specific new housing supply targets set at the outset.
5. Boost the delivery of social and affordable housing by 20,000 over the next three years.

Recommendation #4: Reduce the Red Tape on Housing

1. National Cabinet be tasked with designing and establishing the appropriate funding envelope and system needed to adequately incentivise state, territory and local governments to support population growth, fix planning systems and reform the tax base.

Recommendation #5: Leveraging Infrastructure to Diversify Housing Stock

1. The Commonwealth Government seek a better return on its substantial outlay on infrastructure via project partnerships across the states, territories and local government by demanding better strategic planning, land use and housing supply outcomes.
2. This should include auditing all current infrastructure projects to interrogate whether land use opportunities are being maximised.

About UDIA National

UDIA is the development industry's most broadly representative industry association with more than 2,500 member companies – spanning top tier global enterprises and consultants to local governments and small-scale developers.

UDIA has a long history of engaging positively with the Federal Government and its agencies on issues critical to the property industry – spanning tax, population, infrastructure and land use planning.

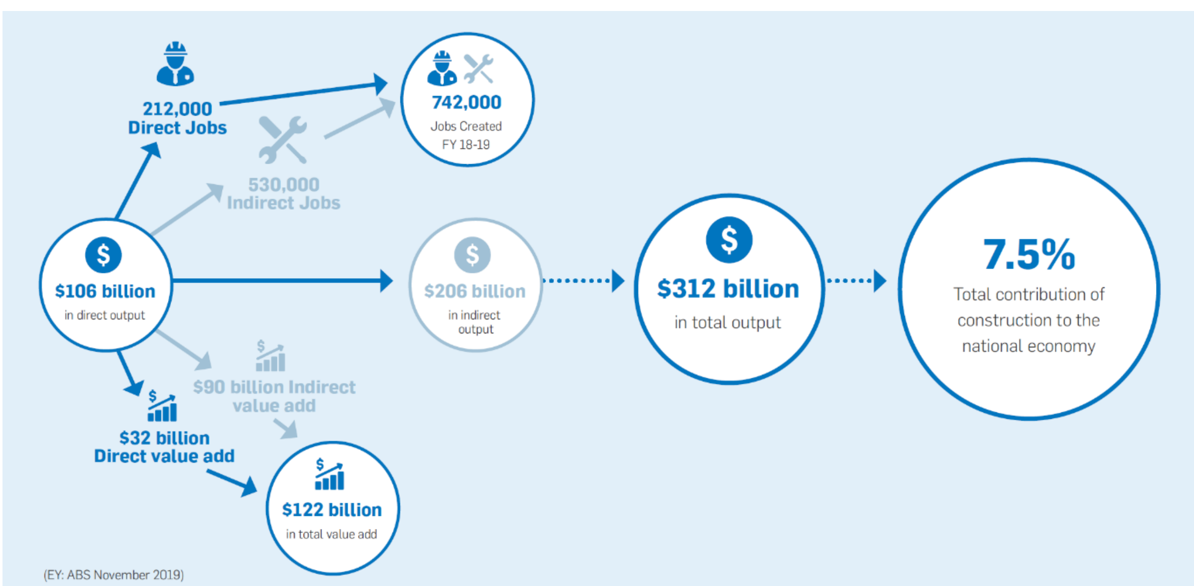
UDIA advocacy is defined by our state-representative National Council and informed by a diverse membership base, extensive network of state councils and committees and businesses on the frontline of housing and city development around the country.

Our voice is backed by real experience and quality research designed to support good policy making and dialogue with governments, oppositions and the bureaucracy.

Housing Drives Economic Growth

The critical role that construction and new housing development plays in fuelling economic activity is evident in independent research undertaken by EY on behalf of UDIA National which was released in November 2019. The research shows that:

- **7.5 percent of national economic activity is generated by development construction** – and was higher at the peak of the housing construction cycle;
- **750,000 direct and indirect jobs** were created in FY18-19 from new housing and construction;
- The combination of direct and indirect output from new housing and construction alone equalled a mammoth **$312bn in economic output** (not including associated infrastructure).



Context – Housing Markets in a COVID Economy

Australia entered 2020 with weaknesses across the fundamentals that define housing markets. Both new dwelling approvals and commencements had fallen by almost 25 percent from their peak – sitting at a seven-year low. The thinning of development and construction pipelines represented a two to five-year risk to forward supply of housing.

The collision between rising demand, increasing price growth momentum and insufficient future supply risked fuelling another cycle of diminishing affordability should those trends have continued. This would also have led to reduced employment in this vital sector as the volume of construction eased back.

COVID-19 has changed the picture significantly, with a backdrop of suppressed immigration and population growth. Treasury's forecasts show Net Overseas Migration (NOM) will sit at -72,000 for F2021 and -22,000 for F2022 – a huge drop from the pre-pandemic target 160,000 and the 200,000+ levels of previous years.

The recent report from the National Housing Finance and Investment Corporation (NHFIC) - *State of the Nation's Housing 2020* – adds to this dynamic. It forecasts that despite the temporary reprieve from these pressures that has been created by a downturn in immigration and population growth due to COVID-19, demand will again outstrip supply from 2023 and beyond.

Its headline conclusion is:

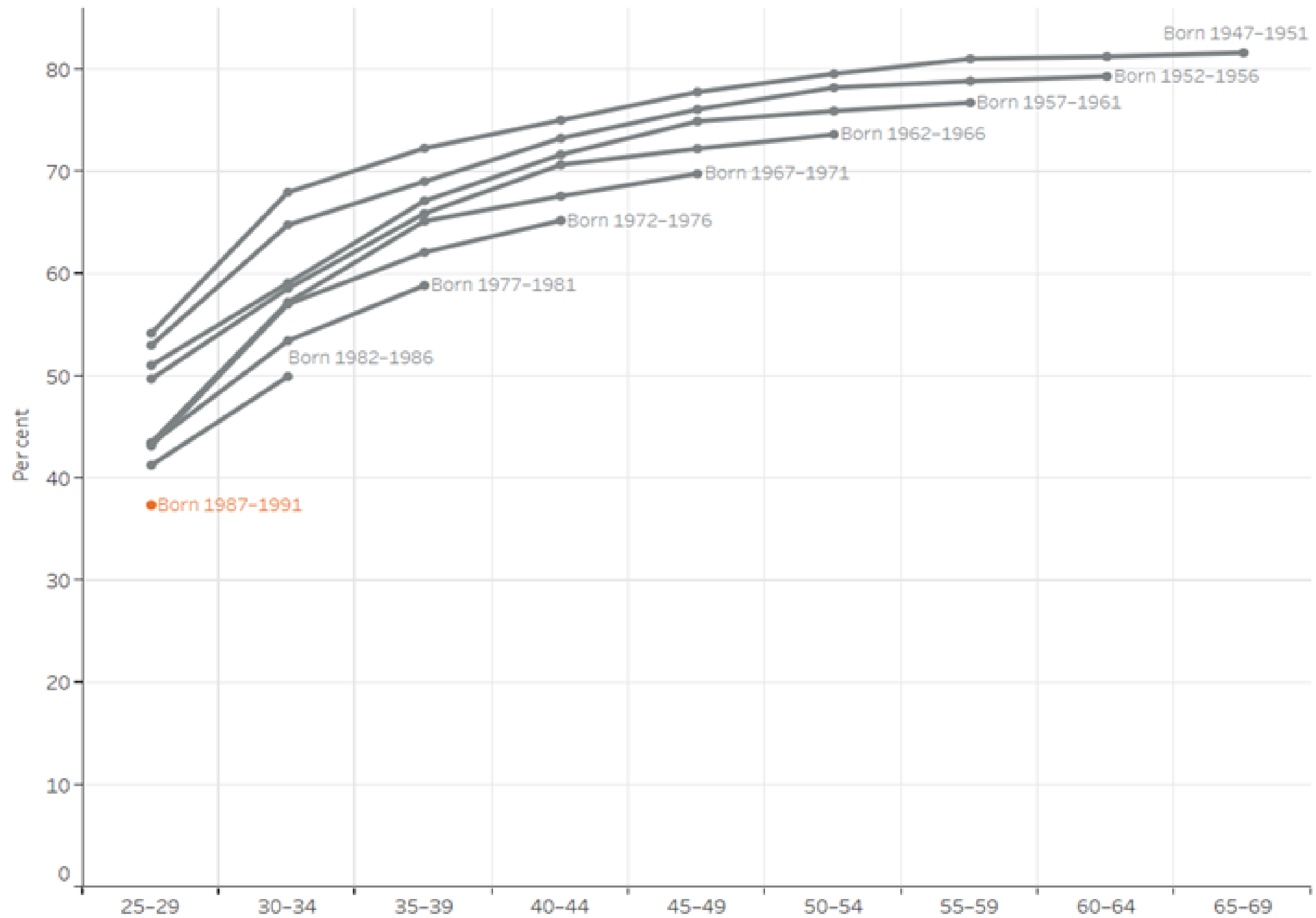
"NHFIC's projections see housing demand bouncing back and will exceed new housing supply between 2023 and 2025. Affordability for renters and prospective first home buyers could deteriorate if supply is not responsive to the strong rebound in demand over this time and beyond."

The pandemic and the consequential dramatic falls in immigration have created a once in a generation opportunity to help people, especially young people, get on the housing ladder and correct the long-term falls in home ownership in Australia which according to ABS data declined by 4.1% between FY2001 and FY2018 to 66.2%. Arresting this decline will require building sufficient new housing, and in the next few years, offer the unique opportunity to make up for earlier shortfalls and keep the Great Australian Dream alive for many more Australians.

The decrease in the home ownership rate has been driven by younger Australians who cannot afford to purchase a home. The chart below shows that only 38 percent of Australians born between 1987 and 1991 owned a home before they were 29, compared to 54 percent of those born between 1947-1951. The proportion of young people (under 35) in the rental market has increased from 47 percent in 2006 to 54 percent in 2016. Considering the impact of the COVID-19 pandemic on industries that employ proportionally more young people, a rapid increase in demand without an accompanying delivery of supply when borders are reopened will likely drive young Australians out of the market for new homes.

Home ownership rate by birth cohort and age group

Select birth cohort to highlight
1987–1991



Notes:
1. Analysis excludes not stated.
2. Home ownership rates reflect the year the household reference person was born.
3. Census data for 1991 has been interpolated.

Source: ABS 2017b.
http://www.aihw.gov.au

The Government's dual initiatives – the First Home Loan Deposit scheme and *HomeBuilder* – have substantially improved the prospects for people seeking to buy or build a home. Extending these endeavours into a holistic push across governments to improve the capacity of the market to supply sufficient levels of new housing to meet demand should be a priority focus.

With the direct economic impact a robust housing industry provides the Australian economy, in addition to the enormous multiplier effect, housing needs to remain central in Australia's economic recovery from the effects of COVID-19. The industry is well positioned to provide a robust stimulus in the short-term – as we have witnessed with the introduction of *HomeBuilder* – as well as partner with governments to overcome the long-term barriers to improved housing supply and affordability.

Population and Net Overseas Migration

UDIA National also recognises that the pathway to full economic recovery depends on the return of pre-COVID immigration levels and population growth. Health protocols will appropriately dictate the precise timing and process for the re-establishment of robust immigration. The world's success in advancing an effective vaccine is a crucial step to doing so.

Immigration is a crucial fuel for the economy - with Net Overseas Migration (NOM) historically accounting for approximately 60 percent of the population growth needed to sustain a vibrant economy, and all its elements. As a result, UDIA National in September 2020 partnered with Urbis to test the impact of reduced demand arising from lower NOM and population growth, and its implications for housing markets and the economy.

The headline findings include:

- Australia's **average annual population growth will reduce by approximately 32 percent** to 2025 compared with pre-pandemic forecasts.
- **Net Overseas Migration (NOM) accounts for 56 percent of Australia's dwelling demand**, with natural domestic population increases accounting for 44 percent.
- **An average per annum reduction of over 50,000 homes per year** will occur in the number of new homes being constructed over the next five years, with the greatest reductions occurring in FY2022 and FY2023.
- **$17.9 billion less direct gross value added** (GVA) being contributed to the Australian economy between 2020 and 2025 from the decline in residential construction.

[More details on the research are available via our submission to the Commonwealth – entitled HomeBuilder Mark 2.]

As part of the development of its Budget and broader policy settings, UDIA National urges the Commonwealth to have a robust plan in place to efficiently and effectively restore NOM to healthier levels – including seeking to lift NOM above the pre-pandemic levels of 160,000 per annum as part of an endeavour to 'fill the breach' on population growth lost during the past year and until NOM is again normalised.

The ongoing need to acknowledge the risks of COVID-19 will remain until population-wide immunity is achieved via a vaccine. This will include solutions that allow Australia to safely re-establish pathways for international arrivals.

However, there is potential to go further. Australia has established itself as a world-leader in its response to the pandemic. Our health and economic measures, consistent and stable governance and messaging, and national sense of 'shared purpose' positions us at the front of the global pack.

The ability to attract human and financial capital due to Australia's gold-standard response (particularly compared to other major developed countries) should be seized. The Commonwealth Government has already appointed, in August 2020, a Special Envoy for Global Business and Talent Attraction, Peter Verwer AO.

His role is strategically targeted at driving a whole-of-government effort to attract high-value enterprises and exceptionally talented individuals to help Australia turbo-charge our economic recovery.

This is a clear positive, however UDIA National encourages the Government to go further by developing and implementing a strategy that can accelerate the re-integration of traditional strengths – such as high rates of international students – with other opportunities that can be unlocked by our gold-standard reputation.

Recommendation

UDIA recommends that the Commonwealth Government develop a population strategy to return to long term net overseas migration levels in a COVID-19 Safe manner as soon as practical.

Net overseas migration has contributed more than a third of annual GDP growth over many years and likely assisting to avoid recessions. It also underpins the economic benefits and substantial multiplier effects of housing construction.

Overseas student numbers on their own contribute substantially to GDP but also flow through to housing demand. Urgent action to safely allow overseas students and migrants into the country should be developed and implemented.

Policy Priorities – 2020-21 Budget

UDIA National Policy Priority #1: Continue to Stimulate the economy via housing construction

The Commonwealth Government sensibly responded to the economic downturn caused by COVID-19 by allocating $680 million to seed *HomeBuilder* in June 2020, followed by the announcement of a second tranche in November 2020.

HomeBuilder had the following positive features:

- Recognising the pivotal role that the housing and construction sector plays in underpinning the health of the broader economy – supporting jobs, wages and investment up-and-down supply chains in response to an initial period of uncertainty and fear;
- Responding to the ongoing need to maintain and grow housing supply pipelines to ensure we emerge from the downturn with a greater balance between supply and demand;
- Securing a strong return on investment - with Treasury forecasts originally suggesting the economic output from the initial round of *HomeBuilder* totalling circa $1.6 billion, which will now be exceeded given demand;
- Adapting to industry concerns on scheme design – with the second round setting price thresholds more aligned to median house prices in Sydney and Melbourne.

The scheme was originally initiated to play a role in sustaining economic growth during the second half of 2020, and first quarter of 2021. However, the subsequent deterioration in national economic forecasts – as well as the program's success – supported the case for extending it via a second round of funding.

Despite success to date (specifically for detached housing products), there remains a major challenge to supporting the economy until Australia resumes business-as-usual immigration levels and population growth. UDIA National's research partnership with Urbis (referenced earlier) found there was strong residual demand for housing, and evidence that it can play a critical role in fostering Australia's economic recovery.

Under the COVID-Adjusted Population Projections for Australia, Urbis forecast:

- 345,600 additional detached dwellings will be required by 2025.
- 100,000 additional semi-detached dwellings will be required by 2025.
- 171,700 additional attached dwellings will be required by 2025.

While this represents a 26-43% decrease (depending on dwelling type) compared to the pre-COVID scenario, it is clear that there is still forecast to be significant domestic-driven (non NOM) demand for housing across the nation over the next five years. This can continue to act as a bridge between the immediate need for stimulus, the case for maintaining industry capacity over the short-term and avoiding a long-term build-up of affordability pressures from imbalances in the market.

UDIA National believes there is capacity to commit to a further extension of *HomeBuilder* to amplify its role in supporting jobs and growth. Given the likelihood of extended economic softness, there is a strong case for matching the November 2020 announcement with an additional funding stream to support the construction of a further 15,000 new homes.

This would recognise that *HomeBuilder* has been superbly successful in motivating activity across the detached housing market – with more than 70,000 applications to date, compared to an original forecast of approximately 27,000. It is a proven policy solution that can continue to act as a bridge through the economic gap that will exist till normal NOM and population growth is restored.

Multi-Unit Developments/Products

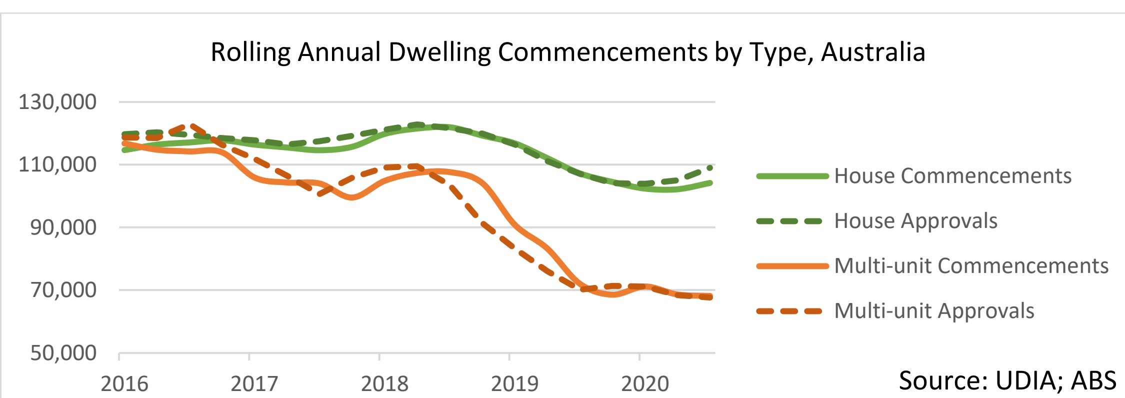
There is however, a more substantial and elongated risk across a broader range of housing typologies and markets that were unable to access the initial scheme given its design parameters. This is particularly true of the apartment and townhouse sectors which do not easily fit within the time constraints currently imposed.

Multi-unit developments (semi-attached and attached, ie: townhouses and apartments) are a crucial element of the overall housing market. The data varies from state to state, but for example - according to ABS and Urbis data – between 2015 and 2019:

- Semi-attached and attached housing accounted for 58 percent of all new housing in NSW;
- Accounted for 47 percent and 45 percent in Victoria and Queensland respectively;
- In most states and territories, NOM accounted for over half of the demand for new housing stock.

Multi-unit developments that are enabled now will reach completion in the next 2-4 years, in line with the expected resurgence in immigration-driven housing demand in the post-COVID period. Signs of severe decline in the apartment sector in particular pre-date, but were exaggerated by, COVID-19.

According to ABS data, there were 117,000 new multi-unit dwellings that commenced construction in the year to September 2020, down 5% over the year and 35% below the peak in 2018. Multi-unit approvals fell by 3% to number 68,000 over the year to November 2020 across key capital city markets and are now 38% below the mid-2018 peak of 110,000. The new detached house market has been stronger (with approvals up 2% over the year and commencements down just 3%) but it is not generating enough dwellings to make up for the significant decline in the multi-unit dwelling pipeline.



The table below also illustrates that in at least the three largest states, the demand for attached housing is as strong or stronger than detached housing – even allowing for the overall downturn in demand due to lower immigration and population growth over the next five years.

Dwelling Demand Forecasts by State and Type, 2020-2025

		ABS		Urbis		*Change*	
	Dwelling Type	Additional Dwellings (No.)	Avg Annual Growth (No.)	Additional Dwellings (No.)	Avg Annual Growth (No.)	*Additional Dwellings (No.)*	*Avg Annual Growth (No.)*
NSW	Detached	112,080	18,680	70,700	11,780	-41,380	-6,900
	Semi-Detached	36,120	6,020	20,510	3,420	-15,610	-2,600
	Attached	141,370	23,560	74,990	12,500	-66,370	-11,060
VIC	Detached	149,430	24,910	103,540	17,260	-45,890	-7,650
	Semi-Detached	60,380	10,060	38,280	6,380	-22,100	-3,690
	Attached	90,100	15,020	53,390	8,900	-36,710	-6,120
QLD	Detached	110,370	18,400	93,800	15,630	-16,570	-2,760
	Semi-Detached	30,650	5,110	22,650	3,780	-8,000	-1,330
	Attached	47,170	7,860	30,620	5,100	-16,560	-2,760
SA	Detached	22,760	3,790	17,820	2,970	-4,940	-820
	Semi-Detached	2,140	360	1,220	200	-930	-150
	Attached	4,430	740	2,430	410	-2,000	-330
WA	Detached	56,410	9,400	46,560	7,760	-9,850	-1,640
	Semi-Detached	20,560	3,430	13,870	2,310	-6,690	-1,120
	Attached	10,820	1,800	6,210	1,040	-4,610	-770
TAS	Detached	4,030	670	4,910	820	+870	+150
	Semi-Detached	910	150	880	150	-30	0
	Attached	1,460	240	1,320	220	-140	-20
NT	Detached	4,070	680	2,070	340	-2,000	-330
	Semi-Detached	1,370	230	310	50	-1,070	-180
	Attached	2,690	450	330	60	-2,360	-390
ACT	Detached	8,820	1,470	6,400	1,070	-2,420	-400
	Semi-Detached	3,620	600	2,310	390	-1,300	-220
	Attached	4,380	730	2,460	410	-1,920	-320
TOTAL AUS	**Detached**	**467,990**	**78,000**	**345,620**	**57,600**	**-122,370**	**-20,400**
	Semi-Detached	**155,750**	**25,960**	**99,990**	**16,670**	**-55,760**	**-9,290**
	Attached	**302,410**	**50,400**	**171,720**	**28,620**	**-130,680**	**-21,780**

UDIA National sees a clear risk that given the current circumstances, developers will not have the confidence to restock their apartment project pipeline in the absence of NOM and population growth, and when it does return, there will be a significant lag between the re-emergence of demand and the ability to start and deliver projects due to the long lead-times involved in planning and construction.

Governments should work now to design and apply solutions that can reduce that risk, stimulate the construction of semi-attached and attached projects, and work towards a redesign and tailored application of HomeBuilder appropriate to that section of the market.

In ensuring that demand and supply are aligned, we mitigate now against the risk of affordability issues re-emerging in the semi-attached and attached housing markets – which are so crucial, particularly in major east coast cities where they strongly dominate supply – in the mid- to long-term.

Recommendations

As a result, UDIA National recommends the Commonwealth Government:

1. **Confirms a further extension to HomeBuilder of 15,000 places (with an associated adjustment to timeframe eligibility) to ensure its continued role in sustaining jobs, wages and construction activity until NOM returns.**
2. **Begin immediate design of a specific version of *HomeBuilder* tailored to support the multi-unit segment of the market, including:**
    a. **Adjusting the timelines applying to the scheme to provide for greater participation by apartment and townhouse projects, via:**
        - **Extending the timeframes for <u>sales contract execution</u> for semi-attached and multi-unit projects to 30 June 2022.**
        - **Extending <u>construction commencement timeframes</u>, for semi-attached and multi-unit housing (ie: townhouse and apartment projects) to have a new commencement timeframe of 30 June 2023.**
3. **Redefining 'commencement' to allow for flexibility which accounts for differences in staging and timing for detached, semi-detached and attached housing products.**
4. **Incorporate provision for land lease communities to be captured as part of the scheme, recognising their current exclusion due to requirements around certificate of title.**

UDIA National Policy Priority #2: Streamline green tape

In November 2019, the Commonwealth Government commenced an independent review of the Environment Protection and Biodiversity Conservation (EPBC) Act. The review was timely and important given the Act's design and administration serves as the largest regulatory drag – at a Commonwealth level and in many cases overall - on new housing projects.

UDIA supported the instigation of a review and have been active participants in the process, led by Professor Graeme Samuel, of crafting a better balance between environmental, social and economic objectives. However, it needs to be recognised that the review is an ongoing process and the pathway to design, implement and efficiently administer a new system will take longer.

UDIA believes a dedicated stream of funding is needed to support the design and transition to a new, more efficient and streamlined system. This includes supporting the precise design of new environmental standards to underpin the potential new EPBC system, creation of a 'single-touch' system and sufficient investment in the creation of national and regional landscape planning.

Recommendations

UDIA recommends the creation of a specific package targeted to support the transition to an efficient new EPBC regime including:

1. **Funding to conduct a full Regulatory Impact Statement to test the proposed new National Environmental Standards – including case studies on 'live' projects – for their effects on housing development.**
2. **Sufficient funding to support the detailed and careful design of new National Environmental Standards that suitably respond to the challenges of urban land use and housing development.**
3. **A partnership with the states to give effect to 'single-touch' approvals and ensuring the data and technology that underpins them is robust.**
4. **Investment in national- and regional-scale planning needed to appropriately manage threats, competing land uses and provide certainty to industry proponents.**
5. **Funding to support the efficient delivery of state-based Strategic Assessments.**

UDIA National Policy Priority #3: Boosting the Scale and Pace of NHFIC's agenda

The National Housing Finance and Investment Corporation (NHFIC) has successfully shepherded a series of initiatives into existence during its three-year tenure. These include the First Home Loan Deposit Scheme, funding to support affordable and social housing, and other programs designed to boost housing supply and home ownership.

However, there is now an opportunity to rapidly expand the scope, pace and urgency of its mandate to better address the full barriers to housing production and supply, exact greater performance by state and local governments, and establish a holistic work agenda to systematically transform the regulatory and tax systems that govern housing markets.

An expanded mandate for National Housing Finance and Investment Corporation (NHFIC)

The Federal Government has recognised the case for better analysing housing markets through robust research into housing supply, demand and affordability. UDIA supported its prior iteration, the National Housing Supply Council, and consistently advocated for a replacement vehicle.

Backed by a $25 million commitment over the next four years, NHFIC's expanded mandate will allow it to scrutinise and commission research into housing supply, demand and affordability. This should provide a rich evidence base to understand short, medium and long-term market trends.

However, to date, the outputs from the research element of NHFIC's mandate have been slow to emerge.

Its recent report – *State of the Nation's Housing 2020* – was a welcomed analysis of the underlying forecasts for supply, demand and affordability. Yet, UDIA would argue that further work is needed to define the policy solutions that respond to the long-term challenges facing housing markets.

The Government's own forecasts show dwelling investment will fall by 11 percent in 2020-21 (following a seven percent decline in 2019-20). This will be particularly acute in infill housing markets (multi-unit/apartments), given *HomeBuilder* has been heavily skewed towards greenfield markets, and given medium and high-density projects are even more sensitive to immigration levels.

NHFIC should invest time in exploring the range of policy levers and incentives that can be applied to ensure the medium and high-density development markets are revitalised to absorb immigration and population growth as they return to normalised levels.

Overall, substantive work is needed to both identify the roadblocks to efficient delivery of new housing stock, and design policy solutions that help address and remedy the problem of housing affordability.

The above endeavours should focus on three priorities:

1. <u>State, territory and local planning systems</u>

   State, territory and local government planning systems should be assessed against a series of benchmarks revolving around three critical measures, namely:

   i. **The volume of housing** – are they delivering sufficient of zoned and developable land and stock diversity to meet population and housing demand? Too often, state and local governments depend simply on the quantum of zoned land, when the better measure is the amount of land actually "shovel-ready" for new housing and supported by enabling infrastructure.

ii. **The time of production** – do they have appropriate measures of the time it takes to approve new housing projects, and are they on a trajectory to reduce them? Creation of a "deemed approval" trigger which can act as a circuit-breaker when the bureaucratic process breaks down would provide an incentive for states, territories and local governments to fix broken planning systems.

iii. **The cost of new housing** – are they applying red tape reduction targets and capping/managing per-dwelling taxes and charges to reduce the quantum of regulatory costs imposed on new housing?

For each element, the specific hurdles to achieving better outcomes should be identified and fed into an action plan tied to incentive payments (refer below).

2. <u>Taxes and charges</u>

Mapping the current mix of taxes, charges and levies which are imposed on new housing and baked into the final cost of housing product should be part of the mandate of NHFIC.

The mapping should include both:

The efficiency (or inefficiency) of individual taxes, charges and levies – and whether they assist in the production of a sufficient volume and diversity of housing at the right price; and

The equity (or inequity) of individual taxes, charges and levies – and whether they unfairly add to the burden carried by new homebuyers, or would they be best captured through more equitable and broad-based revenue measures.

3. <u>Scorecards & League Tables</u>

NHFIC should be charged with producing a series of benchmarking reports and scorecards that map the performance of each state and territory government (and over time, local government) against the key performance measures for the strategic planning, land release, housing approvals, planning systems and taxation of new housing identified above.

Transparency can help drive change - let consumers see the cost of inaction, and this work can inform the development of an incentives-based system that rewards good performance (refer below).

Recommendation

1. **UDIA recommends the allocation of sufficient funding beyond the initial $25 million to assist NHFIC produce expanded research and reporting on the need to reduce planning and taxation barriers for new housing – including land release and planning barriers, tax imposts and the production of league tables to impose greater transparency on systemic performance.**

Fairer, more efficient taxation

Taxes, statutory charges and levies combine with regulatory barriers to add as much as 40 percent to the cost of new housing. These additional costs span the imposition of the GST on new housing at a federal level; the baked in costs associated with land tax, stamp duty and infrastructure charges at a state level; and large and small statutory charges and levies imposed at a local government level.

There are also product-specific barriers, such as the rules applying to Build-to-Rent. Build-to-Rent (BTR) is a unique form of stock that can help mobilise institutional capital to improve the quality, security and experience of renters in Australia. Overseas experience shows BTR can be used as a vehicle for incorporating affordable, community housing (noting our separate section below on social and affordable housing). However, the Managed Investment Trust (MIT) rules for BTR remain inconsistent with other commercially oriented asset classes, and there is also a strong case for reviewing the GST arrangements on BTR to make it more viable. This would include lowering the withholding MIT rate to 15 percent to provide consistency with other income-generating asset classes and ensuring developers could claim back the GST on build-to-rent in the same way they can on conventional build-to-sell products.

There are also new taxes emerging, such as imposts on foreign investment and value capture. Collectively, they have added to the affordability woes facing homebuyers.

That is why UDIA recommends a holistic review of property taxes as an essential part of a broader overhaul of the national tax system. Collective action by governments on reducing the heavy tax burden on new property will assist homebuyers and accelerate new housing development.

Recommendations

UDIA recommends that the Commonwealth Government commence a housing tax reform process that includes:

1. **A sustained tax reform agenda that improves the equity and efficiency of taxes imposed on new housing, including stamp duty, foreign investor taxes and developer charges;**
2. **Introducing a requirement to conduct economic and regulatory impact statements to be publicly disclosed on proposals for all existing and any new statutory charges and levies;**
3. **Ensuring any proposal for federally sponsored value capture is only considered in the context of wholesale tax reform.**
4. **Removing tax-related barriers to new or emerging product, such as the rules that discourage institutional investment in Build-to-Rent over other asset classes (including reducing the withholding MIT rate to 15 percent on build-to-rent and allowing claim-back of the GST component).**

Maintain a focus on new housing stimulus in the First Home Loan Deposit Scheme

In prior pre-Budget submissions and direct submissions on the First Home Loan Deposit scheme, UDIA National urged the Commonwealth to recognise that the initial tranches of funding and placements were a clear plus – but skewed towards the acquisition of existing stock.

That is why we were pleased that in October 2020, the Commonwealth announced a new round of 10,000 placements that were exclusively available for people seeking to purchase newly constructed housing.

This has the added benefits of boosting housing supply, working in concert with *HomeBuilder* and various state-based initiatives to stimulate construction and broadening the pathways to home ownership.

Given the long-term challenge of rebalancing Australia's housing markets and ensuring a sustainable pipeline of new supply to meet long-term demand forecasts, this should remain a priority and help improve housing affordability for homebuyers.

Accordingly, UDIA National believes the direction of dedicated places under the scheme to support the purchase of a new home or newly constructed home should remain a permanent feature of the First Home Loan Deposit scheme.

Recommendation

1. **UDIA National recommends that NHFIC make 10,000 places available on an annual basis under the First Home Loan Deposit scheme exclusively for the purchase of new or newly constructed dwellings.**

Achieving a Double Dividend in regional enabling infrastructure

Gaps in the delivery of enabling infrastructure – such as new regional roads, water, electricity and wastewater – are often the final delay to the creation of new housing supply. A joint commitment by the Commonwealth and states to close these gaps will yield both stronger housing and investment pipelines.

Such an approach – devised with criteria set by NHFIC with support from the States & Territories - can result in a strong multiplier – and importantly, delivers a sustained recovery period as housing becomes shovel ready with the delivery of the enabling infrastructure.

These projects are often shovel-ready and can be delivered swiftly to achieve a 'double dividend' of jobs in both the construction of the infrastructure, as well as the new housing supply it unlocks.

A substantial number of lots across our capital cities sit idle because of the gap in the provision of enabling infrastructure. For example, in Sydney, the estimate is as high as 90,000 lots which cannot be developed for this reason. Delivery of infrastructure that opens growth areas has a larger economic multiplier effect than other infrastructure projects and can safeguard the delivery of a consistent pipeline of housing supply.

There is now potential to resolve the issue by deploying capital available to NHFIC under its revised mandate, with an allocation of $1 billion to be matched by the states and territories. This will foster greater progress against dedicated housing supply targets.

This will also fuel jobs and investment across infrastructure and housing construction now, as well as seed the pipeline of housing essential to sustain growth and affordability both during and after the pandemic.

The other potential benefit of such an approach is it will support new housing projects that can be attached to larger infrastructure projects stemming from Infrastructure Australia's priority project pipeline.

These projects often lack integrated land use plans, and the ability to ensure fine-grain infrastructure that is required to enable new housing will ensure a holistic approach is taken to the development of new communities.

We would also encourage NHFIC to establish a dedicated process which allows project proponents, councils and not-for-profit housing providers to make direct, merits-based applications for support under the Fund – akin to the process Infrastructure Australia runs allowing states to facilitate development of business cases from the private sector.

Recommendations

1. **UDIA recommends an allocation of an additional $1 billion be made under NHFIC's investment mandate – to be matched by each state and territory – to unlock regional-scale enabling infrastructure matched to specific new housing supply targets set at the outset.**
2. **UDIA also recommends a dedicated process be established to allow project proponents to make a direct, merits-based application for support under the Fund to unlock new housing.**

Boost social and affordable housing

A range of industry stimulus measures are required to save jobs and safeguard the financial security of households across the country. But an equally important opportunity is emerging to address housing for those less able to thrive in the current property market. The Commonwealth Government should implement a range of measures to boost the delivery of social and affordable homes across the country. These measures are needed to deliver homes for Australians who needs them and can't afford to purchase or rent in the broader market, and the outcome will deliver an enduring housing legacy for generations.

We believe a housing-led recovery can be guided by the following objectives:

- Delivering immediate economic stimulus and medium to long term triple-bottom line outcomes;
- Supporting new partnerships pathways between industry and the not-for-profit sector;
- Utilising idle government-owned land assets and infrastructure and financing levers;
- Supporting the attraction of institutional and other third-party investment to maximise return on public investment;
- Supporting progression to a scaled and sustainable community housing industry; and
- Delivering high quality, diverse housing in the right locations.

Doing so at scale means the Government can harness the industry's capacity and expertise in planning, design, project management, and construction; the ability to offer efficient procurement and contracting practices and mechanisms; and access to pre-existing equity and debt facilities.

Recommendations

1. **Deploy NHFIC's investment mandate to fund the delivery of 20,000 social and affordable homes over the next three years.**
2. **Identify surplus government-owned land for social and affordable housing. The land would be sold through an EOI process and at a value that recognised that 20-30% of the site would be either returned to government or donated to a community housing provider for the purposes of community housing.**
3. **Develop strategies and measures (including legislation if required) to ensure leverage of NHFIC funds across Australia.**

UDIA National Policy Priority #4: Reduce the Red Tape on Housing

Based on the work of NHFIC, the Commonwealth Government should design and implement a system of financial incentives that encourages state, territory and local governments to support economic and population growth, boost housing supply and transform broken planning and tax systems. The targets should require at least four years of approved supply to meet local market demand and 15 years of land zoned and able to be serviced in a time efficient manner.

Modelled on the competition-style payments introduced under the Hilmer Reforms of the 1990s, financial incentives would be made available to states, territories and local government for outperforming against key measures including:

- The capacity of **strategic plans and land release programs** to meet population and housing demand projections– including not just zoned land, but fully de-constrained and serviced land – and demonstration of meeting the projected demand through new development;

- Improvements to **major project assessment regimes** to specifically reduce the time and cost of land release and housing development;

- **Housing supply targets** for both greenfield and brownfield housing – again with measurement against actual delivery;

- Demonstrated reductions in the **time taken to progress developments** throughout each phase of the approval process (i.e.: initial application to development approval, development approval to construction approval, construction completion to compliance/title registration);

- **Red tape reduction targets** to reduce the regulatory and cost imposts on new housing.

Planning systems need to be revamped ahead of demand returning to normal levels in coming years as population and immigration growth is re-established, or we risk retreating to the imbalance between supply and demand that have fuelled affordability woes.

UDIA also notes there is also clear capacity to hardwire measures into City Deal Agreements with state and local governments which have the potential to target specific areas of priority reform, when delivering major transport infrastructure.

Recommendation

1. **UDIA recommends that National Cabinet be tasked with designing and establishing the appropriate funding envelope and system needed to adequately incentivise state, territory and local governments to support population growth, fix planning systems and reform the tax base.**

UDIA National Policy Priority #5: Leveraging Infrastructure to Diversify Housing Stock

The Commonwealth Government's ongoing and expanding infrastructure spend is essential for economic prosperity, the liveability of our cities and unlocking potential housing supply.

Infrastructure Australia has made it consistently clear in its suite of reports and audits that the densification of our cities will continue to accelerate, and there is a need to invest in both large and small-scale infrastructure that better connects communities and improves urban amenity.

The Commonwealth should be seizing the opportunity to yield a stronger dividend from this investment and accelerating a better mix of housing outcomes. This should include:

- Identifying and securing long-term growth corridors for housing and related infrastructure to ensure they are aligned to population forecasts and strategic plans;
- Auditing all current infrastructure projects (as well as proposals from states and territories) to interrogate whether land use opportunities are being maximised;
- Ensuring integrated approval regimes are applied to infrastructure to also accommodate housing (and other uses) which are attached to them;
- Linking infrastructure funding to local regions prepared to accept their fair share of population growth and synchronised with increases in housing supply;
- Greater focus on local-scale infrastructure which can generate significant improvements based on a relatively small spend and in turn kickstart new housing;
- Charting and removing the barriers to the delivery of roadblocks to the delivery of more diversified housing stock, particularly support for Build-to-Rent as a viable asset class and encouraging mixed tenure affordable housing; and
- Planning for an ageing population by ensuring the diversity and facilitation of housing choices for seniors is accommodated.

Recommendation

1. **UDIA recommends the Commonwealth Government seek a better return on its substantial outlay on infrastructure via project partnerships across the states, territories and local government by demanding better strategic planning, land use and housing supply outcomes. This should include auditing all current infrastructure projects to interrogate whether land use opportunities are being maximised.**