Urban Development Institute of Australia
NATIONAL

2020-21 Federal Pre-Budget Submission

"Building a Better Australia"

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA (UDIA) NATIONAL

December 2019

Executive Summary

The Urban Development Institute of Australia National (UDIA) is pleased to provide its Pre-Budget Submission for the 2020-21 Commonwealth Budget.

In preparing this submission, UDIA welcomes initiatives that have been advanced in the past year to support economic growth, housing markets, infrastructure investment and stronger cities.

These include:

- An expanded mandate and funding for the National Housing Finance and Investment Corporation (NHFIC) to more rigorously analyse housing supply, demand and affordability;

- Passage of legislation to support the commencement of the First Home Loan Deposit Scheme on January 1st, 2020;

- Establishment of a new Centre for Population and National Population Plan to better inform forecasts about populating and immigration rates, settlement patterns and related issues;

- Retention of existing arrangements around negative gearing and the capital gains tax discount;

- A new loan serviceability assessment regime recently announced and implemented by the Australian Prudential Regulation Authority; and

- Initiation of an independent review into the Environment Protection and Biodiversity Conservation (EPBC) Act.

These have collectively conveyed that the Commonwealth Government has a clear eye on the need to build a more robust economy, boost investment in our cities and regions, lift housing supply and improve housing affordability and better align policy making across all tiers of government.

However, our submission also makes clear there are further steps that need to be pursued to consolidate the benefits of reform and accelerate investment in removing barriers to well-functioning housing markets and the delivery of sufficient supply to meet growing population.

Our submission focuses on three core themes:

1. Making **new housing construction a public policy priority** due to the economic significance of the sector;

2. Addressing the emerging risk, the **current state of housing markets** poses to economic growth, housing supply and affordability for homebuyers;

3. Prioritising policies which crucially help **cut red and green tape, transform inefficient and inequitable taxes and secure better dividends from infrastructure investment**.

Recommendations at a glance:

UDIA National Priority #1: Streamline Red and Green Tape

UDIA recommends the creation of a specific package targeted at accelerating housing-related projects that have faced undue delays under the Environment Protection and Biodiversity Conservation (EPBC) Act. This would include:

1. Allocating an additional $5 million – on top of the funding already geared towards resources and infrastructure projects – to support housing-related projects;
2. Giving priority focus to any projects which were initially referred over eighteen months ago;
3. Adopting new time-based and other related performance measures to apply strict deadlines to approvals for current projects in the system;
4. Implementing short-term measures to improve the efficiency of the system while the broader independent review of the EPBC Act occurs;
5. Identifying and eliminating existing duplication with the states and territories in assessments.

UDIA National Priority #2: Busting the Barriers to Housing Supply

National Housing Finance and Investment Corporation

UDIA recommends the allocation of sufficient funding beyond the initial $25 million to help NHFIC produce expanded research and reporting on the need to reduce planning and taxation barriers for new housing.

Tax Reform

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

1. Providing support and incentives to the states and territories to move away from inefficient taxes such as stamp duty and switch to a broad-based land tax;
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; and
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.

First Home Loan Deposit Scheme

UDIA also recommends using the Federal Budget, or at a minimum, the first 12-month review of the First Home Loan Deposit Scheme, as an opportunity to adjust pricing and income thresholds and steer more homebuyers towards new stock which can stimulate supply and contribute more strongly to economic development.

UDIA National Priority #3: Reduce the Red Tape on Housing

UDIA recommends that COAG 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 Priority #4: Leveraging Infrastructure to Diversify Housing Stock

UDIA recommends that the Commonwealth Government seek a better return on its substantial outlay on infrastructure via project partners across the states, territories and local government in order to also accelerate greater housing supply and diversity.

UDIA National Priority #5: More Integrated Government

Centre for Population

UDIA recommends the Centre for Population be properly resourced to achieve an expansive mandate of working across the federal public service and state and territory governments and ensure it is well positioned to:

1. Work closely with Treasury, NHFIC, Infrastructure Australia and other relevant agencies on population, infrastructure, housing and cities-based policy initiatives;
2. Partnering with Infrastructure Australia to better plan the future delivery of economic and social infrastructure needed to support population forecasts and settlement patterns;
3. Work across federal, state and local governments to ensure housing supply targets are developed in concert with population forecasts; and
4. Ensure states, territories and local governments collaboratively devise strategic land use and infrastructure plans based on population forecasts.

City Deals

UDIA also recommends that the City Deals pipeline be expanded and strengthened by using performance benchmarks, aligning with new population projects and embedding housing supply targets.

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.

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

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.

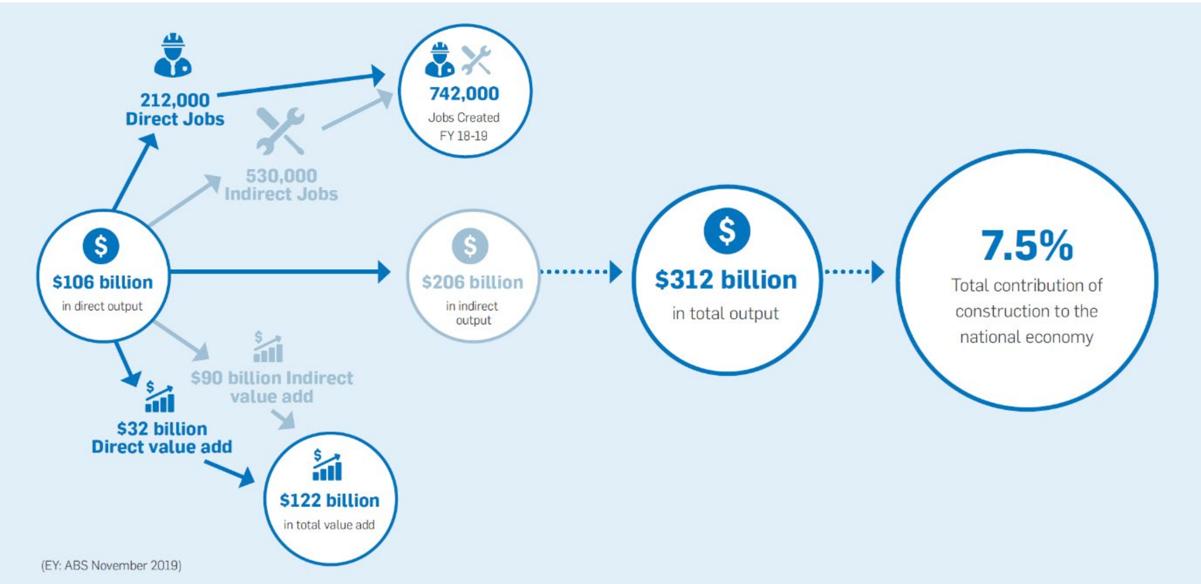
Our voice is backed by real experience and quality research designed to support good policy making and dialogue with governments, oppositions and the bureaucracy.

Housing Drives Economic Growth

The critical role that construction and new housing development play 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 **$312 billion in total economic output (not including associated infrastructure)**.

New housing construction has the benefit of creating confidence-boosting activity, consumption, wages and jobs up and down supply chains.



In a period in which the Government, the Reserve Bank of Australia and Treasury have all highlighted the need to tap additional sources of economic growth, new housing construction can play a major role in lifting the nation's prosperity.

The Government's Mid-Year Economic and Fiscal Outlook (MYEFO), 2019-2020, released in December 2019 underscores the soft economic conditions facing the nation. These include:

- A downgrade in real GDP growth of half a percent to 2.25 percent for 2019-20;
- A further downgrade in wages growth – with the FY20 forecast now down to 2.25 percent and F21 forecast down to 2.5 percent;
- A rise in the unemployment forecast for FY20 from 5.2 percent to 5.25 percent;
- A delay in the return to a five percent unemployment rate to FY22; and
- Wages growth now forecast not to return to above three percent until 2022.

The MYEFO document also notes an essential factor in the softer conditions relates to slower housing construction activity. It states:

"Dwelling investment has fallen over the past year from record highs and is expected to decline further over the forecast horizon as recent weakness in building approvals continues to flow through to activity."

This reinforces the risks to the economy of a weak housing construction sector and that support for the industry through good policy consistent with the Government's agenda to drive productivity and growth through reducing the barriers to business can help fill a void in activity.

Context – Housing Markets

A backdrop to the Annual Federal Budget is the state of housing markets, particularly new home construction and its consequences for housing affordability.

The origins of Australia's housing affordability woes can be traced back to the supply deficiency that accumulated in the lead-up to, and through the Global Financial Crisis. The gap between supply and demand was estimated to have reached almost 160,000 dwellings by 2010.[1]

As Australia emerged from the financial crisis, credit was easier to access, population and net migration increased, and housing demand subsequently expanded. However, the mismatch between supply and demand never closed and this 'supply gap' fuelled rapid price growth especially along Australia's eastern seaboard.

Even at the peak of the construction cycle that followed, housing approvals and construction barely touched the underlying level of demand. A generation of homebuyers are now suffering with our capital cities now regularly ranked amongst the least affordable in the world. The most severe challenges exist in our Sydney and Melbourne markets; but they also exist to different degrees in other capital cities.

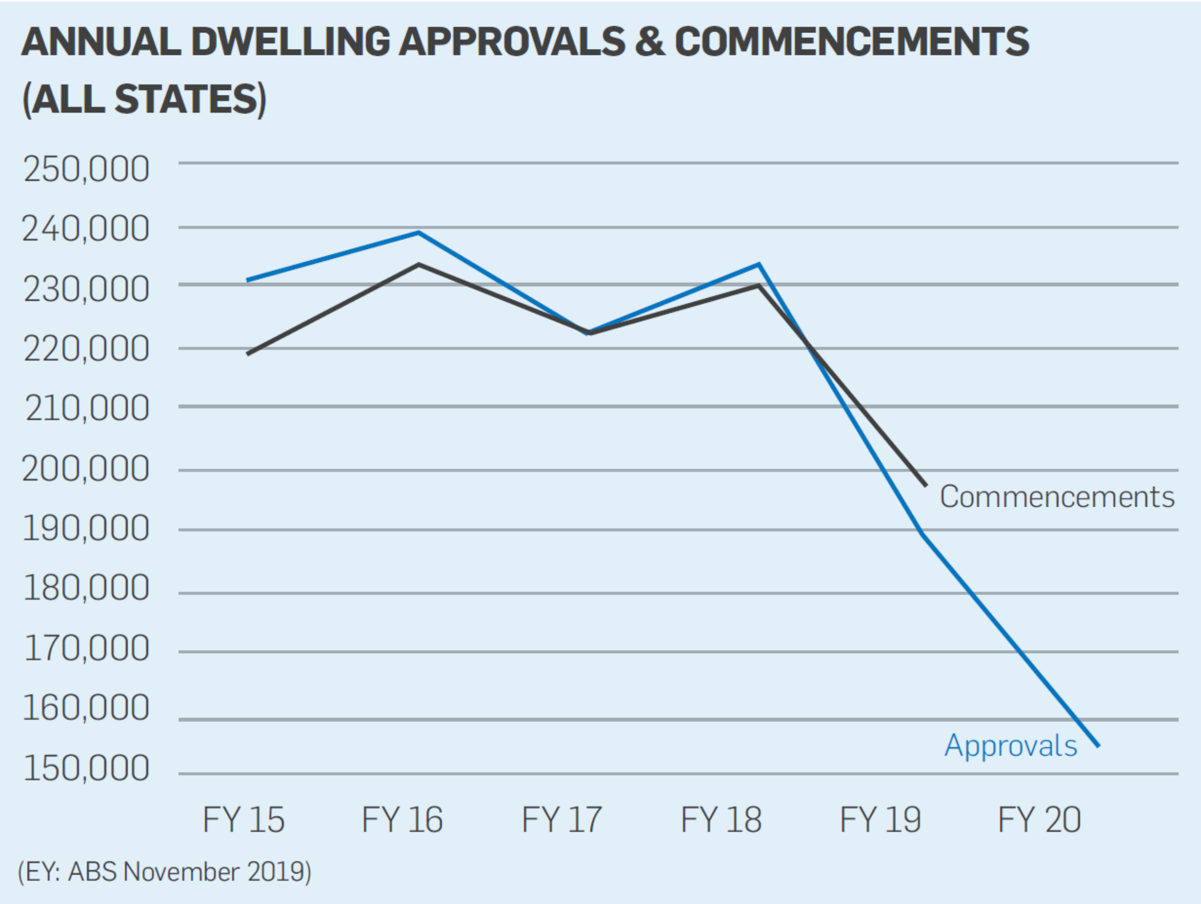
[1] National Housing Supply Council – State of Supply Report 2011

Housing markets are once again at a critical juncture. Housing approvals are slowing, and development and construction pipelines are thinning – representing a two to five-year risk to supply.

Yet signs of demand have re-emerged. Prices have stabilised and are in an upswing, at least in established markets. Credit flows for home lending have eased but have still not recovered to the levels of pre-Royal Commission times.

But against a backdrop of rising building demand and more ready access to housing credit, both new dwelling approvals and commencements have fallen by almost 25 percent since their peak. In fact, ABS data shows housing approvals have declined for 23 consecutive months. They now stand at a seven-year low and are not meeting the required levels to satisfy underlying demand.

If these trends continue, the collision between rising demand, increasing pricing and stalled supply will fuel another cycle of diminishing affordability.



Note: Approvals is a forecast into balance of FY20

Policy Priorities – 2020-21 Budget

UDIA National Policy Priority #1: Streamline Red and Green Tape

Fast-track environmental planning approvals

In November 2019, the Commonwealth Government commenced an independent review of the Environment Protection and Biodiversity Conservation (EPBC) Act. The review is 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 supports the review and will be active participants in the process of crafting a better balance between environmental, social and economic objectives. However, it needs to be recognised that the review is a 12-month process, and the need to subsequently legislate and implement reforms will take longer.

In the meantime, housing projects face considerable delays from the lengthy, complex and inefficient approvals system that exists today. The cumulative costs are embedded in the price paid by new homebuyers for finished product.

The Commonwealth Government recently announced $25 million in funding to reduce needless delays within the existing assessment system, including the establishment of a major projects assessment team to ensure assessments can be completed efficiently and thoroughly in accordance with the Act.

This is a sensible recognition of the need to cut assessment times. However, the funding allocation largely relates to mining, resources and infrastructure projects and is unlikely to assist new housing construction – when in fact, by volume, housing projects arguably outnumber projects from other sectors.

UDIA recommends the creation of a specific package targeted at accelerating housing-related projects that have faced undue delays. This would include:

1. **Allocating an additional $5 million – on top of the funding already geared towards resources and infrastructure projects – to support housing-related projects;**
2. **Giving priority focus to any projects which were initially referred over eighteen months ago;**
3. **Adopting new time-based and other related performance measures to apply strict deadlines to approvals for current projects in the system;**
4. **Implementing short-term measures to improve the efficiency of the system while the broader independent review of the EPBC Act occurs;**
5. **Identifying and eliminating existing duplication with the states and territories in assessments.**

UDIA National Policy Priority #2: Busting the Barriers to Housing Supply

An expanded mandate for NHFIC

The Federal Government has sensibly 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 we have consistently advocated for a replacement vehicle.

That is why we applaud the Commonwealth's decision to commit $25 million over the next four years to scrutinise and commission research into housing supply, demand and affordability. This should provide a rich set of data to understand short, medium and long-term market trends.

It will also be crucial to ensure the data and assumptions used by NHFIC align with the population projections that underpin the work of other government agencies – including the new Centre for Population, Infrastructure Australia and the National Cities Performance Framework.

The refresh of the Intergenerational Report in 2020 provides a trigger for enabling an easy alignment. The refresh results can also inform the work of state, territory and local governments in devising strategic land use and cohesive infrastructure plans.

However, there is potential to go substantially further 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** – that is, are they delivering a sufficient amount of zoned and developable land and diversity of stock to meet population and housing demand? Too often, state and local governments depend on simply zoning land, when the better measure is that land must be actually developable for new housing and supported by the right infrastructure;

   ii. **The time of production** – that is, 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** – that is, are they applying red tape reduction targets and capping 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 or not 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 or not 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</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).

UDIA recommends the allocation of sufficient funding beyond the initial $25 million to help NHFIC produce expanded research and reporting on the need to reduce planning and taxation barriers for new housing.

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; large and small statutory charges and levies imposed at a local government level; and product-specific barriers, such as the Managed Investment Trust (MIT) rules applying to Build-to-Rent.

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

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

1. **Providing support and incentives to the states and territories to move away from inefficient taxes such as stamp duty and switch to a broad-based land tax;**
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.**

Refine the First Home Loan Deposit Scheme

UDIA has consistently supported the Commonwealth Government's move to introduce a new initiative that recognises closing the deposit gap is one of the largest challenges people looking to enter the housing market face.

As the concept has evolved this year, UDIA has engaged with NHFIC on its design, as well as provide submissions in response to both the draft legislation and the draft investment mandate. This reflects our concerns regarding the gap between market conditions and the proposed arrangements in the legislation (which is only likely to widen as prices for existing product continues to surge).

For each of the nation's five largest capital cities – Sydney, Melbourne, Brisbane, Perth and Adelaide – the proposed house price caps sit under the current median house price which is currently trending upwards and is variably each month. For example, in the CoreLogic Home Value Index results in October 2019, median dwellings values are:

- Sydney $817,886 (vs $700,000 price cap)
- Melbourne $650,197 (vs $600,000 price cap)
- Brisbane $493,426 (vs $475,000 price cap)
- Adelaide $433,140 (vs $400,000 price cap)
- Perth $435,119 (vs $400,000 price cap)

There is much to welcome in the scheme; however, UDIA recommends three residual issues that require priority attention:

1. The need to **amend the house price thresholds** proposed in the Scheme to better reflect median house prices in each of the five major capital cities, and align with thresholds embedded in state-based first homebuyer stamp duty exemption regimes;

2. The need to **amend the income thresholds** proposed in the Scheme to allow for variable thresholds across capital cities, given the incompatibility in Sydney and Melbourne in particular between the income thresholds, median house prices and the application of loan assessment methodology imposed by banks; and

3. The need to re-gear (or expand) the Scheme **to give clearer incentives and pathways for people to purchase new stock**, which would assist in accelerating supply at a time when development pipelines are thinning and overcome the current favour granted towards purchasing existing stock in the scheme as it is currently designed. The current design of the

Scheme restricts the purchase of new house and land packages and ''off the plan" products on untitled land because of the need for finance approval to be secured. Consideration by the Commonwealth could be directed to enabling First Home Buyers purchasing "off the plan'' products to gain acceptance into the Scheme upon provisional finance approval.

UDIA urges the Commonwealth to use the review process to ensure the investment mandate's provisions that purchasers be provided with competitive loan product is being fulfilled to ensure buyers can access the full benefit of the scheme.

Our submissions to both the draft legislation and draft investment mandate expand further on these issues and are available here and here.[2]

UDIA recommends using the Federal Budget, or at a minimum, the first 12-month review of the Scheme as an opportunity to adjust pricing and income thresholds and steer more homebuyers towards new stock which can stimulate supply and contribute more strongly to economic development.

2.
http://www.udia.com.au/_literature_251333/UDIA_National_Submission_National_Housing_Finance_and_Investment_Corporation_Amendment_Bill_2019
http://www.udia.com.au/_literature_251785/Submission_to_NHFIC_on_Investment_Mandate

UDIA National Policy Priority #3: Reduce the Red Tape on Housing

Introducing financial incentives to boost housing supply

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.

Modelled on the competition-style payments introduced under the Hilmer Reforms of the 1990s, financial incentives would be made available to the states, territories and local government for out-performance 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;
- 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;
- Demonstrated reductions in the **time taken to progress developments** throughout each phase of the approval process (ie: subdivision to development approval); and
- **Red tape reduction targets** to reduce the regulatory and cost imposts on new housing.

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.

UDIA recommends that COAG 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 #4: Leveraging Infrastructure to Diversify Housing Stock

Get a Better Return on Infrastructure Investment

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 however 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;
- Linking infrastructure funding to local regions prepared to accept their fair share of population growth and synchronised increases in housing supply;
- Increasing the focus on local-scale infrastructure which can generate significant improvements based on a 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 the ageing population by ensuring the diversity and facilitation of housing choices for seniors is accommodated.

UDIA recommends that the Commonwealth Government seek a better return on its substantial outlay on infrastructure via project partners across the states, territories and local government in order to also accelerate greater housing supply and diversity.

UDIA National Policy Priority #5: More Integrated Government

Better population forecasting and planning

The Government's new Centre for Population and its National Population Plan are both positive initiatives. They have the potential to foster more sophisticated policy making and ensure the resources of all tiers of government are better directed.

UDIA recognises there is a plethora of existing population data across government, including the Census and Australian Bureau of Statistics. However, much of it is retrospective in its nature. There is now an opportunity to provide a forward-looking approach.

The Centre for Population needs to be properly resourced to ensure:

- That commencing with the refresh of the Intergenerational Report to be commissioned in 2020, there is a common set of data and assumptions used around population policy by agencies including Treasury, NHFIC, Infrastructure Australia, and other major agencies tasked with forecasting the demands of population growth;

- The common data and assumptions are also applied to initiatives such as the National Cities Performance Framework and the ongoing and expanding pipeline of City Deals;

- The baseline data is shared with states and territories to ensure it is applied as strategic land use and infrastructure plans are devised;

- The Centre for Population can produce rolling, annual one-year, three-year and five-year forecasts for net migration, population growth and population settlement patterns;

- The Centre for Population can work with other government agencies including Immigration to ensure skilled migrants can be steered towards key regional centres where there are workforce gaps and associated infrastructure is delivered to accommodate them.

UDIA recommends the Centre for Population be properly resourced to achieve an expansive mandate of working across the federal public service and state and territory governments and ensure it is well positioned to:

1. **Work closely with Treasury, NHFIC, Infrastructure Australia and other relevant agencies on population, infrastructure, housing and cities-based policy initiatives;**
2. **Partnering with Infrastructure Australia to better plan the future delivery of economic and social infrastructure needed to support population forecasts and settlement patterns;**
3. **Work across federal, state and local governments to ensure housing supply targets are developed in concert with population forecasts; and**
4. **Ensure states, territories and local governments collaboratively devise strategic land use and infrastructure plans based on population forecasts.**

Build a pipeline of stronger City Deals

City Deals have been a welcome addition to the public policy landscape in Australia. The Deals have clear merit in aligning the interests of federal, state and local government across land use, infrastructure and housing – as well as population growth and settlement patterns.

City Deals should be viewed as an essential part of the Government's productivity agenda as they recognise a large slice of the nation's prosperity depends on the economic success and sustainability of major capital cities and regions.

So far, the bulk of the City Deals that have commenced have serviced large regional centres but are now moving towards coverage of major capital cities. Western Sydney has ticked past its first year of operation, and City Deals in Perth and South-East Queensland have been announced.

There is now an opportunity to go further by:

- Using the new population data to better understand the underlying needs of each region subject to a City Deal;
- Mapping a future pipeline of City Deals based on forecasts for population growth and settlement patterns;
- Linking the future pipeline of City Deals to the agenda for infrastructure investment outlined by Infrastructure Australia (and the Government's Urban Rail Program);
- Benchmarking the performance of City Deals already underway, and use the lessons to more precisely target performance measures and investment priorities in future ones;
- Adding incentives into City Deals for cities and regions that take on additional population numbers and beat forecasts for housing supply – using the NHFIC scorecard proposed above as a baseline; and
- Ensuring all future City Deals have housing supply targets embedded (noting that only some current ones have this requirement).

UDIA recommends that City Deals be expanded and strengthened using performance benchmarks, alignment with new population projects and embedded housing supply targets.

Conclusion

Thank you for considering the issues outlined. Please do not hesitate to contact my office on 02 8277 4573 or myself at ckirk@udia.com.au if UDIA can assist further.

Yours faithfully,

Connie Kirk

National Executive Director