



# HELPING AUSTRALIA BOUNCE BACK

Sustaining Australia's economy with a vibrant  
urban development industry



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# 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 on issues critical to the property industry – spanning tax, population, infrastructure, land use planning and beyond.

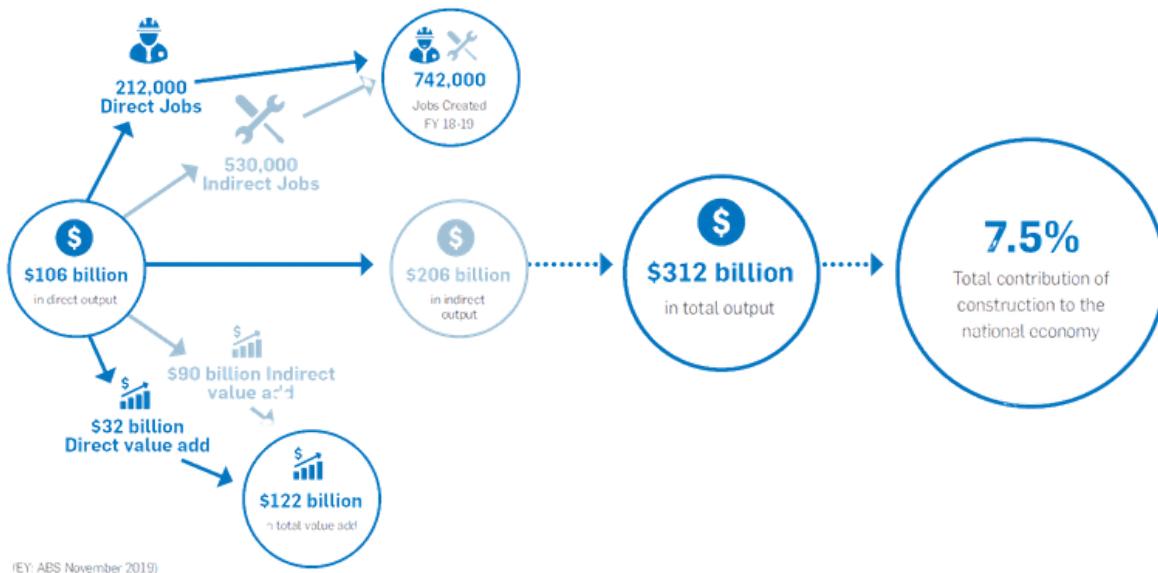
UDIA National's advocacy is defined by our National Council – but informed by a diverse membership base, extensive network of state councils and committees and businesses on the frontline of housing development. Our voice is backed by real experience and quality research designed to support good policy making and dialogue with governments, oppositions and the bureaucracy.



# OVERVIEW

Australia's urban development industry recognises the enormous economic effects posed by the spread of COVID-19. Every aspect of the economy is being impacted, and it is imperative the nation unites in an effort to limit the economic damage, as well as ensure the recovery is as swift and vibrant as possible.

The nation's residential development sector is well placed to play a vital role in these endeavours – and its ongoing health and vitality needs to be front-and-centre in the thinking of policy makers right now.



## HOUSING AND CONSTRUCTION FUEL ECONOMIC GROWTH

Construction generates 7.5 percent of the nation's economic output according to independent research undertaken by EY on behalf of the Urban Development Institute of Australia (UDIA) – along with 750,000 direct and indirect jobs.

The multiplier effect for demand and services generated across supply chains is crucial for domestic consumption and economic growth with \$122 billion in direct and indirect output across the economy.

Prior to the arrival of COVID-19, there were some reasons for optimism following a period of downturn in the housing sector – with lending beginning to flow, house prices in most capital cities on an upward trajectory and actions by governments and regulators beginning to take hold.

However, there were also some warning signs beginning to show, with development pipelines and approvals starting to thin, and falling out of sync with population growth and buyer demand.

What's clear is that the residential construction sector can move quickly to respond to demand, if the industry is sustained with the right policy decisions through the COVID-19 crisis. We are well-capitalised, innovative, resourceful and central to Australia's economic health.

# STIMULATE HOUSING TO POWER THE ECONOMY

Our industry's success will be at the epicentre of Australia's ability to manage the downturn, and swiftly return to business. Other industries will seek a hand-out; we simply want to be unshackled from excessive red tape that stalls projects and ultimately hurts homebuyers.

Surgical policy initiatives that free industry from impediments that usually stall approvals and project commencements have the potential to unleash construction, jobs, provide employment and generate economic activity, will underwrite the 'Bounce Back' at a time the nation needs it most.

This document outlines **six key focal areas** that represent a **low barrier-to-entry for government** because they do not require major legislative, administrative or even financial action. Rather, they can be instituted quickly and in doing so, act to provide impetus to a crucial sector in the economy now.

They are **scalable, use existing administrative mechanisms, proportionate and can be easily mobilised**. They are also placed in the context of medium to long-term policy goals that the industry seeks to work with governments to achieve. Acting now on the short-term goals will establish a clear reform agenda for governments that can cut red tape and foster productivity.

In the meantime, we look forward to working with governments to continue to keep development, construction and building activity open and operational as long as it is safe to do so, particularly given the industry is highly-versed in health and safety and has characteristics which make ongoing work compatible with many of the current containment measures.



Simon Basheer  
UDIA National President



# THE SIX ESSENTIAL STEPS TO HELP AUSTRALIA BOUNCE BACK

1. Release a second tranche of the **First Home Buyers Deposit Gap Scheme**, but exclusively geared towards new stock.
2. Introduce **guaranteed deadlines** for major projects currently caught in the EPBC assessment regime.
3. Pull forward **projects** on the Infrastructure Australia priority list that have the dual benefit of stimulating infrastructure development and 'shovel ready' housing construction.
4. Encourage the **states** to cut assessment times in half and remove red tape barriers for major project approvals and 'shovel-ready' housing projects stuck in the system.
5. The Government, financial regulators and financial institutions maintain vigilance over measures to keep improving the flow of credit to borrowers – including bank acceptance of valuations developed in the current operating environment.
6. Commonwealth and states to expand stamp duty exemption schemes, roll back barriers to foreign investment and boost build-to-rent to underpin new land releases and off-the-plan stock.

# 1. RELEASE A SECOND TRANCHE OF THE FIRST HOME BUYERS DEPOSIT GAP SCHEME GEARED TO NEW STOCK

UDIA National 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.

We were intimately involved in consultation on the legislative and administrative design of the First Home Buyers Deposit Gap Scheme and heralded its commencement.

The strong response from lenders to participate in the first tranche was matched by a clear appetite from homebuyers to utilise the initiative.

In short, we know the scheme works – and can be quickly adapted to further entrench its benefits and meet the economic moment at hand.

Under its current design, the scheme actively favours existing stock as it 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.

There is now a compelling case to re-gear (or expand) the Scheme to give clearer incentives and pathways for people to purchase new stock, which would assist in accelerating construction activity and supply at a time when it is desperately needed. The current value caps are potentially restrictive for major capital cities and should remain under active review to ensure they reflect existing and future trends in house prices.

Releasing a second tranche of places specifically targeting new housing stock would have a dual benefit – inducing construction activity which will keep people in jobs during the slowdown and ensuring supply is better balanced against demand as the recovery takes hold.

# IMMEDIATE ACTION

- The Commonwealth Government release a second tranche of 10,000 places under the First Home Buyers Deposit Gap Scheme exclusively geared towards new housing stock.
- Better align the price caps with median house prices to broaden the choice available to homebuyers and ensure they are better positioned to buy housing stock appropriate to their needs.

# MEDIUM-TERM POLICY GOAL

- The Commonwealth Government commit to three years of an expanded First Home Buyers Deposit Gap Scheme – with a minimum of 10,000 places guaranteed each year towards buyers seeking new housing stock.

## 2. ACCELERATED APPROVALS FOR EPBC-RELATED PROJECTS

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 National supports the review and are 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 year-long 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 and bottlenecks 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, we believe there is potential to go one step further and introduce guaranteed timelines for projects currently stuck in the system.

This will ensure a stream of major projects are flowing into the construction phase over the next year to support Australia's economy.

# IMMEDIATE ACTION

- The Commonwealth Government accelerate a series of deadlines for major projects currently caught in the EPBC assessment regime.
  - All projects that entered the assessment regime prior to July 1, 2019, be guaranteed a decision by July 1, 2020
  - All projects that entered the assessment regime prior to January 1, 2020, be guaranteed a decision by October 1, 2020; and
  - All projects that entered the assessment regime post January 1, 2020, be guaranteed a decision by January 1, 2021.

# MEDIUM-TERM POLICY GOAL

- Use the review of the EPBC Act to finally deliver on the promise of a single, streamlined environmental assessment regime for major projects (note: UDIA National will be lodging its response to the review of The Act in April).

### 3. ACCELERATE PROJECTS ON THE INFRASTRUCTURE AUSTRALIA PRIORITY LIST THAT CAN BOOST HOUSING

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 (IA) 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.

IA recently released its updated Priority List – inclusive of 37 new infrastructure proposals, and a total of 147 nationally significant infrastructure projects. These provide a roadmap for future infrastructure spending pipelines, but also highlight opportunities to be seized immediately.

UDIA National believes there is a clear case to yield a stronger dividend from this investment and accelerating a better mix of housing activity and outcomes. This should include:

- Auditing all current infrastructure projects (as well as proposals from states and territories) to interrogate whether land use opportunities are being maximised
- Prioritising projects which have the potential to either service new urban development precincts or be leveraged to generate new housing
- Increasing the focus on local-scale infrastructure which can generate significant improvements based on a small spend, speed to market and which will kickstart new housing.

This will ensure governments, industry and local communities are positioned to capitalise on the benefits of the spending by federal and state governments on infrastructure as we move into the recovery phase.

# IMMEDIATE ACTION

- Prioritise and accelerate investment in infrastructure projects that can also be leveraged to immediately stimulate “shovel ready” housing construction.

# MEDIUM-TERM POLICY GOAL

- Better align population plans, infrastructure planning and strategic land use to boost the productivity, liveability and sustainability of our cities and regions – and reward areas that take on a fair share of population growth.
- Wrap these endeavours into an expanded program of City Deals to maximise the benefit.

## 4. STREAMLINING PLANNING APPROVALS

UDIA National has consistently urged the Commonwealth Government to design and implement a system of financial incentives that encourages state, territory and local governments to transform broken planning systems.

Modelled on the competition-style payments introduced under the Hilmer Reforms of the 1990s, financial incentives could be made available to the states, territories and local government for out-performance against key measures.

This would eventually span an overhaul of strategic plans and land release programs, major project assessment regimes, reinforce housing supply targets and reduce the time taken to progress developments through each phase of the approval process.

There is a clear case for still doing so; however, UDIA National understands to fully implement and give effect to such a scheme will take time – and right now, there is an imperative in moving quickly.

As a result, we recommend the Commonwealth partner with state and territory governments to surgically target elements of the planning system that are placing a brake on projects currently in the system.

In particular, large projects that can generate activity, jobs and wages should be prioritised – and are often subject to major project assessment regimes that operate in each state and territory.

UDIA National urges the Commonwealth to place incentives on the table that rewards them for moving immediately to cut in half assessment timeframes in their major project assessment regimes and eradicating other immediate barriers blocking projects in the pipeline.

As part of its expanded mandate to develop solutions for housing markets, the National Housing Finance and Investment Corporation (NHFIC) could manage the initiative.

# IMMEDIATE ACTION

- Implement a 'congestion-busting' fund that allows NHFIC to reward states and territories that cut major project assessment regime timeframes in half and eradicate red tape barriers currently stalling "shovel ready" housing projects that could be moved from concept to construction.

# MEDIUM-TERM POLICY GOAL

- Design and implement an incentives-based system that rewards states and territories to boost housing supply, land use and fix planning systems – with performance-based measures established by NHFIC to hold the states to account.

## 5. MAINTAIN STRONG LENDING

UDIA National appreciates the early and substantial work between the Commonwealth Government, Reserve Bank (RBA), Australian Prudential Regulation Authority (APRA) and financial institutions to focus on continued liquidity across the economy.

This includes strong intervention between them to maintain vibrant capital markets, cut the official cash rate, ease prudential requirements and capital buffers for financial institutions, and underpin the flow of credit to small business and other initiatives – alongside direct government stimulus measures.

In response, early indications are that financial institutions have responded favourably and are seeking to work with both existing small business and household mortgagees to respond to the challenge.

There will need to be continued vigilance to ensure these initiatives work as intended, and that lending for residential mortgages continues to be made available – including property settlements and transactions currently imminent.

This will also need to include working with the valuation industry and financial institutions to ensure a balanced approach is adopted on how they assess project developments and new homes where the capacity to undertake physical inspections is constrained.

Also, there is potential to revisit a provision of APRA's Prudential Practice Guide APG 223 Residential Mortgage Lending – which relates to loan serviceability requirements for authorised deposit taking institutions (ADIs).

In our submission to the Guide, UDIA National argued it did not see merit in switching the requirement for an ADI's serviceability policies to incorporate an interest rate buffer of at least two and a half percent – an increase from the prior guidance of a buffer of two percent.

APRA itself noted the bulk of ADIs had already used a 2.25 percent buffer in their assessments, nor did it lay out a specific case for recommending a 2.5 percent buffer (beyond asserting it will help maintain produce in overall serviceability assessments).

Any buffer needs to be anchored in logical risks attached to potential future movements in interest rates. Using the RBA cash rate as a proxy, there have been only two increases in rates above the two percent buffer in the past 25 years. One occurred as far back as 1994. The only other increase in the cash rate since above the 2 percent buffer occurred over almost a six-year period – from April 2002 to February 2008 – and saw the cash rate increase by 2.75 percent over a span of 70 months.

Given the risks attached to rapid increases in the cash rate as Australia emerges from the coming period are low, we believe the serviceability buffer could be reduced to 2 percent.

# IMMEDIATE ACTION

- The Government, financial regulators and financial institutions maintain vigilance over measures to keep improving the flow of credit to borrowers – including bank acceptance of valuations developed in the current operating environment.

# MEDIUM-TERM POLICY GOAL

- APRA to reconsider the serviceability buffer in 'Prudential Practice Guide APG 223 Residential Mortgage Lending'.

## 6. EXPAND STAMP DUTY EXEMPTION SCHEMES, RE-ENGAGE FOREIGN INVESTORS AND BOOST BUILD-TO-RENT

As outlined earlier, creation of a second tranche of the First Home Buyer Deposit Gap Scheme allows the Commonwealth to easily tweak and utilise an existing program to drive investment in new stock.

This is a clear plus; but will need to be matched by other initiatives at a federal and state and territory level to pull forward investment that generates construction, jobs and wages.

At the moment, most states have a scheme that gives targeted relief to first home buyers from stamp duty – long-recognised as one of the most inefficient and punitive taxes.

However, there is an opportunity to go further in a focused, time-limited way that recognises the unique challenge at hand:

- By lifting the thresholds on most of the schemes, via relief directly provided by the states or via a supplement provided by the Commonwealth, and
- Recognising investors play a crucial role in driving the creation of new stock, particularly off-the-plan multi-unit housing, and expanding the concessions to them.

Similarly, in recent years, the Commonwealth and states and territories have applied a new regime of special taxes and charges on foreign investors in new housing. The charges ultimately represented little more than revenue raising, and it is arguable that any increase in revenue would have been more than offset by the reduction in construction activity; now there is a clear case for eradicating the impost of these charges at a time when global capital begins to flow again and the need to stimulate the development sector remains.

The other area for immediate attention is the tax barriers, including rules around Managed Investment Trusts and the GST, that act as a brake on scaled investment into build-to-rent.

# IMMEDIATE ACTION

- Expanding the thresholds and application of stamp duty exemptions for investment in new housing.
- Eliminate foreign investor charges to recapture offshore capital as the global economy recovers, with a 12-month review trigger.
- Tax barriers that inhibit investment in build-to-rent housing need to be addressed.

## MEDIUM-TERM POLICY GOAL

- Advance a sustained tax reform agenda that improves the efficiency and equity of taxes imposed on new housing, including stamp duties, foreign investor taxes and developer charges.

# SUMMARY OF IMMEDIATE ACTIONS

The Commonwealth Government release a second tranche of 10,000 places under the First Home Buyers Deposit Gap Scheme exclusively geared towards new housing stock.

Better align the price caps with median house prices to broaden the choice available to homebuyers and ensure they are better positioned to buy housing stock appropriate to their needs.

The Commonwealth Government accelerate a series of deadlines for major projects currently caught in the EPBC assessment regime.

Prioritise and accelerate investment in infrastructure projects that can also be leveraged to immediately stimulate “shovel ready” housing construction.

Implement a ‘congestion-busting’ fund that allows NHFIC to reward states and territories that cut major project assessment regime timeframes in half and eradicate red tape barriers currently stalling “shovel ready” housing projects that could be moved from concept to construction.

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Eliminate foreign investor charges to recapture offshore capital as the global economy recovers, with a 12-month review trigger.

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# SUMMARY OF MEDIUM-TERM POLICY GOALS

The Commonwealth Government commit to three years of an expanded First Home Buyers Deposit Gap Scheme – with a minimum of 10,000 places guaranteed each year towards buyers seeking new housing stock.

Use the review of the EPBC Act to finally deliver on the promise of a single, streamlined environmental assessment regime for major projects (note: UDIA National will be lodging its response to the review of The Act in April).

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Wrap these endeavours into an expanded program of City Deals to maximise the benefit.

Design and implement an incentives-based system that rewards states and territories to boost housing supply, land use and fix planning systems – with performance-based measures established by NHFIC to hold the states to account.

APRA to reconsider the serviceability buffer in 'Prudential Practice Guide APG 223 Residential Mortgage Lending'.

Advance a sustained tax reform agenda that improves the efficiency and equity of taxes imposed on new housing, including stamp duties, foreign investor taxes and developer charges.



Level 25, Tower 3, 300 Barangaroo Avenue  
Sydney NSW 2000

[www.udia.com.au](http://www.udia.com.au)  
[udia@udia.com.au](mailto:udia@udia.com.au)