2018/2019 Pre-Budget Submission

prepared by the Urban Development Institute of Australia (UDIA)

December 2017

Urban Development Institute of Australia
NATIONAL

1 EXECUTIVE SUMMARY

The Urban Development Institute of Australia (UDIA) is the leading peak national body representing the property development industry interests with more than 2,100 member companies across the country, promoting the responsible and sustainable growth of our cities. UDIA welcomes the opportunity to provide a pre-budget submission to Treasury.

The property development industry makes a significant contribution to Australia's economy. Every $1 million invested in the property development industry generates 11.8 full-time jobs, $146,474 in taxes, and $885,880 in wages. In 2010, over half of all Australian private investment was undertaken by the property development industry and 16.1% of the workforce was either directly engaged in the development industry or engaged in other industries due to the development industry.

UDIA welcomes the recent focus on cities policies by the Federal Government and the continued focus on infrastructure. This is critical to ensuring the continued success of the industry, and supporting State and Federal Governments to deliver critical housing, transport, and progressive 'liveability' outcomes for our cities.

UDIA calls on the Federal Government to increase its focus on supporting Australians into new houses. In many capital cities in Australia there is a housing affordability crisis which needs to be addressed through increasing housing supply, planning reform and stamp duty taxation reform.

Industry requires certainty from the Federal Government to maintain the taxation regime with respect to negative gearing and capital gains. This is particularly important so that new sectors, such as build-to-rent can be supported in a commercial manner. This enables supply to remained unpinned, while population policy can help encourage sharing population growth between major east coast cities and the rest of Australia.

Attached to our submission is a series of policy papers suggesting additional areas of reform relating to a range of policy issues, which the Federal Government needs to address to further support the delivery of critical housing supply and access to jobs within 30 minutes to improve productivity in our cities.

If you require any additional information relating to any matter raised in the submission or supporting documentation please contact Steve Mann, Chief Executive Officer, on 02 9262 1214 or udia@udia.com.au.

2 UDIA RECOMMENDATIONS

UDIA makes the following recommendations to Government:

1. Government focuses its policies to address housing affordability by boosting supply and providing a certain regulatory environment for the development industry.

2. The National Cities Performance Framework be closely tied to how and where future City Deals are struck, by highlighting locations where additional accommodation, liveability, productivity and future prosperity can be enhanced through alignment of planning, investment and governance between the three levels of government, the community and the private sector.

3. Restart and reform the National Housing Supply Council to benchmark costs and provide leadership in planning a national housing supply strategy to address the housing affordability crisis.
4. Support foreign investment that assists unlocking supply of new housing.
5. Increase funding to the National Housing Infrastructure Facility to further catalyse housing supply.
6. The Commonwealth to use its balance sheet to catalyse investment in public and social infrastructure using sound infrastructure prioritisation methodologies.
7. Value Capture needs to consider the totality of taxes and charges and must not hurt the supply of dwellings aimed at resolving the housing affordability crisis.
8. The Federal Government should work with State governments to reduce their reliance on inefficient, narrow based taxes such as stamp duty, in favour of broad based efficient taxes such as consumption and land taxes.
9. The Federal Government should assist state governments with phasing out stamp duty and broadening the base of the GST, retain the current 10% rate of GST so as not to further increase the tax burden on new housing.
10. Include state and local government levies in GST cost base calculations to improve the integrity of the tax system and reduce the incidence of double taxation.
11. The UDIA recognises the importance of GST from residential property, however compliance measures introduced in the Federal Governments Tax Integrity Package for GST should not unfairly disrupt cashflow for the vast majority of developers that seek to comply with legislation.
12. Maintain existing arrangements for negative gearing and capital gains tax.
13. The Government should examine the effect of capital adequacy requirements for banks on the supply and affordability of housing, and move immediately to remedy any unintended consequences.

The following sets out UDIA's position in relation to the following thematic areas:

- Development and Economic Growth;
- Boosting Housing Supply;
- Infrastructure; and
- Certainty & Tax.

We have also appended our UDIA national policy position statements for:

- Land Supply;
- Population;
- Infrastructure Financing;
- Cities & Urban Policy;
- Affordable Housing;
- Taxation; and
- Value Capture.

3 DEVELOPMENT AND ECONOMIC GROWTH

In 2010, UDIA commissioned Property Insights to undertake an economic impact study of the property development industry in Australia. The study confirmed the sector's considerable influence on the Australian economy, as evidenced by the below findings:

- The direct impact of $1 million invested in the property development industry results in:
  - 6.7 full-time equivalent jobs generated in the property development industry;
  - State and federal taxes increasing by $73,458; and
  - An addition of $235,733 to wages and salaries.
- The total (direct and indirect) impact of the $1 million invested generates in Australia:
  - 11.8 full-time equivalent jobs;
  - State and federal taxes of $146,474; and
  - An addition of $885,880 to wages and salaries.
- An investment of $1 billion in the development industry in each state would directly add 0.4% to nominal GDP, while a further 0.3% would be added to nominal GDP as a result of the impact on associated industries.

3.1 DEVELOPMENT SUPPORTS A STRONGER ECONOMY

Expenditure and tax policies that enhance, rather than punish new home buyers and the development industry, should be a priority for Government. Commonwealth, state and local policies have exacerbated the chronic undersupply of housing, which is causing prices to climb higher and higher in our largest cities, and if not resolved, threatens Australia's social cohesion and egalitarian society. Undersupply of housing in well-serviced locations also contributes to congestion, which in turn lowers Australia's productivity and economic potential. Getting housing right means getting the economy right, as we have seen with the development sector doing the heavy lifting in the economy in recent years and getting the economy right means getting housing right.

Notwithstanding the industry's concerns over the high burden of taxation that new home buyers face, by supporting growth of new housing through the Commonwealth Budget, the Government will also increase the overall tax base, and thereby increase its revenue at a time when new revenue sources are difficult to implement.

The development industry is also one of the powerhouses of employment generation. When the development industry is able to fulfil the demand that is asked of it, employment in the industry, related industries, and economy-wide, will grow rapidly. The development industry[1] has almost 6 times the employment of the mining industry and nearly 1.5 times the employment of manufacturing in Australia.

3.2 CITY SHAPING DEVELOPMENT BOOSTS PRODUCTIVITY

The benefits of well-located development near jobs, services, education and leisure either through co-location or transport is well documented by:

- Planning Agencies
- Federal Government

[1] The "development industry" is defined as "building construction", "construction services", "construction nfd" and "property operators and real estate services" in ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly

- Reserve Bank, and
- Industry

This underlines the importance of the "30-minute city", building homes close to transport and jobs enhances productivity through agglomeration effects i.e, as people get closer to jobs, goods and services markets, competition, innovation and specialisation is promoted.

Over the medium term, poor transport links can drive the cost of housing up. Where there is a shortage of well-located land, the price of this land (and the houses that sit upon it) is driven up. By ensuring that there is a wider geographic spread of land close to good transport links means greater choice for consumers in where to live, closer to their work environments and at more affordable prices.

In addition, it has been shown that long commutes can affect workers' mental and physical health, making them both less productive workers, but also potentially causing harm in areas such as family cohesion.

Governments can increase the productive capacity of the economy by increasing the supply and diversity of well-located new communities and homes by reducing planning and zoning restrictions that limit the potential to increase supply and diversity of housing options in these areas. In doing so, it will move people closer to where they want to be, reduce congestion (which has the further effect of reducing the costs of moving goods and services around our cities) and thereby increase productivity and lower the costs of housing and doing business.

3.3 HOUSING AFFORDABILITY

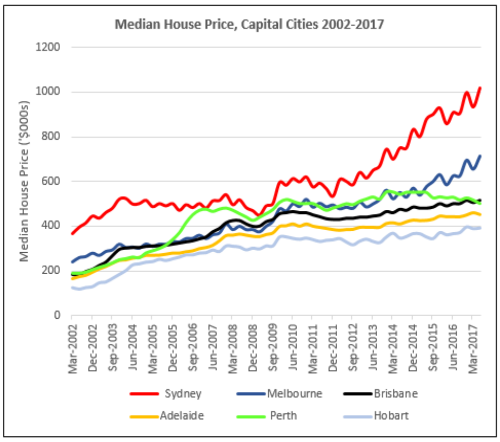
Housing affordability is a key challenge faced by many governments across the globe. Ensuring that a sufficient supply of housing is available to citizens to buy or rent at various price points is an enduring policy issue which almost always requires a multi-pronged policy approach to deliver sustainable economic outcomes.

Housing Affordability refers to the relationship between expenditure on housing and household incomes, which is different to the concept of Affordable Housing, which refers to housing for very low, low or moderate-income households.

In 2017 the Demographia survey ranked Sydney as the second least affordable housing market in the world (trailing only Hong Kong) and the remainder of Australia's capital cities were also ranked in the top 20 least affordable markets.

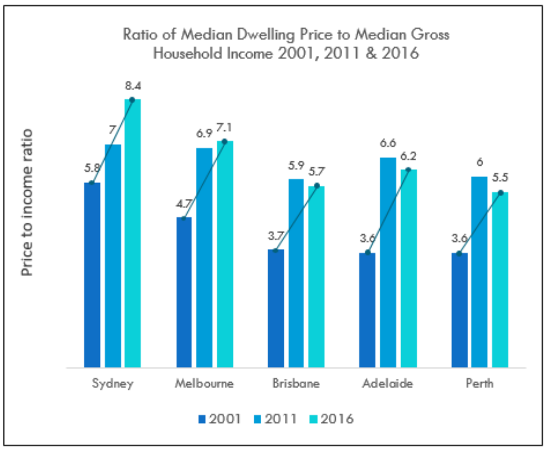
The impact of deteriorating housing affordability is well documented. House prices have grown dramatically in Sydney (circa +70%) and Melbourne (circa +47%) over the 2012-2017 period. While growth has been relatively more benign in other capitals (and indeed prices have been retracting in Perth), housing affordability is considerably worse now than it was in 2001 across all Australian capital cities.

Australian Capital City House Prices, 2002-2017



Source: ABS

Ratio of Median Dwelling Price to Median Gross Household Income 2001, 2011 & 2016



Source: CoreLogic

The affordability 'crunch' is particularly acute in Sydney – and getting worse. According to CoreLogic it currently requires x8.4 the median household income to afford (i.e. pay no more than 30% of gross income) the median house price in Sydney ($1,020,000) which is up from x5.8 in 2001.

In Melbourne it currently requires x7.1 the median household income to afford the median home (up from x4.7 in 2001), x5.7 in Brisbane, x6.2 in Adelaide and x5.5 in Perth. This reflects the lack of housing affordability in the market. [2]

Recent ANZ Research (published in 2016) estimated that despite the recent residential building boom, there remains a shortage of circa 250,000 dwellings across Australia based on Australia's underlying housing market balance. This translates into a required investment of circa $170b to rectify this grave situation.

The largest dwelling supply gap has centred on Sydney with a current deficit of circa 100,000 dwellings – with the backlog having built steadily from 2002. UDIA is of the view that the chronic undersupply of dwellings in Sydney has had a demonstrable impact on price growth pressure.

To address the circa 100,000 dwelling backlog, it is forecast that Sydney requires 41,250 new dwellings each year between now and 2036, in order to meet the current population growth demand profile and close the supply gap. This level of housing completions has never been achieved before in Sydney. Accordingly, it is contended that new mechanisms are required to 'turbo charge' supply – over and above the various measures which the NSW government is currently pursuing.

Challenges for supply addressed in the paper include:

- A lack of consistent federal government leadership to direct supply, population growth, and supporting foreign investment.
- Lack of infrastructure.
- Uncertainty in taxes and charges.

[2] CoreLogic's benchmark medians are slightly different than that used by Demographia hence the divergent median multiples reported. The key point however is the order of magnitude of the median multiples and relativities between markets and changes over time

UDIA Recommendations

1. Government focuses its policies to address housing affordability by boosting supply and providing a certain regulatory environment for industry.

4 BOOSTING HOUSING SUPPLY

4.1 FEDERAL GOVERNMENT LEADERSHIP

UDIA welcomes the re-introduction of Federal government leadership and a commitment to the built environment. It also welcomes the Smart Cities Plan and the implementation of a framework for benchmarking the performance of our cities and establishing a Cities Reference Group. UDIA has called on these initiatives to be fully funded so that they achieve what the Government has set out for them.

There is a critical role for the Commonwealth Government to play in advancing our cities given its ability to provide funds directly, support innovative and alternative funding options, and ensure infrastructure projects are subject to rigorous selection criteria. With a clear entry point for industry into discussions about cities policy, and by benchmarking cities not just against each other but with world's best practice, we will be able to see where we are doing well and where our cities need to do better to become more liveable, affordable and connected. By ensuring sufficient investment in the right type of urban infrastructure, the Government can measurably improve the productivity and quality of life in our cities.

UDIA considers the Commonwealth Government can contribute to urban policy by providing leadership, assisting State Governments with reform through the use of financial incentives and coordinating and facilitating action on urban policy between different levels of Government.

The City Deals program is therefore applauded by UDIA as a promising model to deliver economic growth, affordable housing and new infrastructure while devolving decisions away from federal government towards state and local government. The City Deals' objective of striving for a shared vision for growth, reform and improvement across the whole of government is long overdue, and we acknowledge the early outcomes of the first two City Deals and strongly encourage the announcement of the details for the Western Sydney City Deal which was expected mid-2017.

The overarching Smart Cities Plan aiming to reposition our cities to flourish in the rapidly evolving 21st Century economic landscape is also encouraging. UDIA recognises the Smart Cities Plan as the latest iteration of a cogent national urban strategy.

It is critically important that the urban benchmarking that is foreshadowed under the National Cities Performance Framework (NCPM) is rigorous and consistent – in a similar fashion as the benchmarking metrics produced by the former Major Cities Unit and its annual State of Australian Cities. UDIA considers that there are various dimensions that the NCPM Interim Report needs considerable strengthening, with an overarching requirement that a clear articulation of 'what success looks like'. To this end benchmark comparisons with international cities will provide worthwhile analysis.

The NCPM also needs to ensure that intra-city as well as inter-city benchmark comparisons are presented. Cities Deals ought to be implemented on a regional basis and therefore performance reporting through the NCPM should be clearly linked to these reporting geographies.

UDIA Recommendations

2. The National Cities Performance Framework be closely tied to how and where future City Deals are struck, by highlighting locations where additional accommodation, liveability, productivity and future prosperity can be enhanced through alignment of planning, investment and governance between the three levels of government, the community and the private sector.

4.2 LAND SUPPLY

Releasing a steady stream of serviced land is a key to addressing Australia's housing supply and affordability challenges. The trend of declining levels of serviced land not properly coordinated with long term land release programmes in most capital cities threatens future supply, and has a severe negative impact on housing affordability. The inability to bring sufficient, well serviced land to the market has direct consequences for the supply of housing in our cities.

While the barriers to supply vary from state to state, there are commonalities nationwide. For one, the roll out of infrastructure occurs in a patchwork and inconsistent fashion in most jurisdictions, thereby holding up vast areas of developable land. In addition, planning approval processes throughout Australia are characterised by delays and uncertainty. Another common barrier in most jurisdictions is ever-increasing infrastructure charges or homebuyer levies, which are adding to the cost base of developments, and rendering many projects too expensive to pursue.

UDIA considers that all levels of government must work together to maintain a steady stream of urban land for development. In the context of continued population growth and household formation, it is essential that well-planned, sequenced land release programs are implemented in all jurisdictions throughout Australia. Future growth areas must be identified early in the planning process with a commitment to the provision of the appropriate infrastructure, particularly transport infrastructure, ahead of development and including for regeneration areas.

UDIA considers a body such as a revived National Housing Supply Council to benchmark costs and provide leadership in planning a national housing supply strategy would help support the development of future growth areas.

UDIA Recommendations

3. Restart and reform the National Housing Supply Council to benchmark costs and provide leadership in planning a national housing supply strategy to address the housing affordability crisis

4.3 Foreign investment

UDIA remains fundamentally of the opinion that foreign investment into residential property development should continue to be supported due to its role in stimulating Australia's housing and construction industries.

Foreign investment into new residential property also has the desirable outcome of adding to Australia's dwelling stock, and increasing the number of properties in the private rental pool. The existing foreign investment regime provides a sound framework for expanding Australia's housing stock, by restricting foreign investment into existing properties, and directing it into new supply. This is a particularly valuable outcome in the context of Australia's ongoing housing affordability problems.

UDIA Recommendations

4. Support foreign investment that assists unlocking supply of new housing.

5 Infrastructure

5.1 STRENGTHENING COMMONWEALTH INVOLVEMENT IN INFRASTRUCTURE FUNDING

UDIA has supported the growth of Commonwealth involvement in infrastructure funding. With the current vertical fiscal imbalance caused by the tax split between State and Federal Governments, the Federal Government is best placed to provide funding for critical infrastructure projects.

In the last budget the Federal Government provided $1 billion for the National Housing Infrastructure Facility to support the delivery of local infrastructure. Local infrastructure is an area that has been neglected and often forced on new home buyers, despite increasing costs. While welcomed, additional funding is required to further catalyse critical projects through debt financing for local government and grants to provide local government with incentives to accelerate projects.

By catalysing projects, the Federal Government can increase tax revenue and support critical supply to address housing affordability issues and support the development of affordable housing.

UDIA Recommendation:

5. Increase funding to the National Housing Infrastructure Facility to further catalyse housing supply

UDIA recommends utilising the Commonwealth balance sheet to support investment into a range of infrastructure, particularly purely public or social infrastructure. UDIA recommends continued investment into infrastructure that will have the highest growth impact in the longer term.

While recurrent expenditure should be met within current taxation, there is a case for investment infrastructure that will help the economy grow and increase productivity, lower the cost base, and provide additional revenue in future.

UDIA Recommendation:

6. Commonwealth uses its balance sheet to catalyse infrastructure investment for public and social infrastructure using sound infrastructure prioritisation methodologies.

5.2 Value capture/Infrastructure contributions

If properly developed, value capture has potential to support the delivery of infrastructure projects. However, government must ensure "value capture" policies are not just another upfront tax or levy on new housing that effectively increases the price of new housing and deepens the affordability crisis.

Many developments already provide significant infrastructure contributions, where in the order of 35% of the cost of a new home is made up in Federal, State, and Local Government taxes and charges. Value capture regimes must not additionally add to the tax burden for new home buyers, as otherwise they will damage housing affordability.

UDIA Recommendation:

7. Value Capture needs to consider the totality of taxes and charges and must not hurt the supply of dwellings aimed at resolving the housing affordability crisis.

6 Certainty and Tax

Whilst taxes are essential to fund the government services our communities depend on, inefficient and inequitable taxes unnecessarily damage economic activity and disadvantage certain parts of the community. The housing and development industries are some of the most highly taxed sectors in the Australian economy, accounting for over 40% of state and local government revenue, and 12% across all tiers of government. The high level of taxation on new housing damages housing supply and job creation by rendering some projects unviable, and flows through to the cost of new housing, damaging affordability for the community.

6.1 Tax reform

UDIA believes that governments must make a genuine commitment to tax reform and replace outdated and damaging taxes with more reliable and efficient alternatives in order to provide the revenue that will be needed in the coming decades. At the top of the priority list for reform is stamp duty on property, which is one of Australia's most highly inefficient and economically distorting taxes as it limits labour mobility, housing turnover, and penalises households for moving to properties that best suit their needs. It is also a highly unreliable source of revenue for state governments, as it relies on the volume of property transactions which vary substantially over the property cycle.

Among more efficient and reliable alternatives to stamp duty are a broadened and lower rate GST and broad-based land taxes stand out. Both are much less distortive and much more economically efficient than stamp duty. They also have the ability to provide governments with the stable and predictable source of revenue they require. Additionally, removing exemptions to GST and land tax regimes would not only raise additional revenue but also make them both more efficient and simpler to administer.

UDIA recognises the role of taxation in funding infrastructure and providing services to communities. However, UDIA believes that reform is required in the taxation framework for property. UDIA strongly believes that Federal intervention is required to reform the taxation system and drive an agenda for deregulation and microeconomic reform for the property and development sectors.

UDIA Recommendation:

8. The Federal Government should work with State governments to reduce their reliance on inefficient, narrow based taxes such as stamp duty, in favour of broad based efficient taxes such as consumption and land taxes.
9. The Federal Government should assist state governments with phasing out stamp duty and broadening the base of the GST, retain the current 10% rate of GST so as not to further increase the tax burden on new housing.
10. Include state and local government levies in GST cost base calculations to improve the integrity of the tax system and reduce the incidence of double taxation.

The Federal Government has released exposure draft legislation on improving the integrity of GST on property transactions, as announced in the 2017-18 Budget. The exposure draft bill amends the GST law so that from 1 July 2018, purchasers will withhold the GST on the purchase price of new residential premises and new residential subdivisions, and remit the GST directly to the Australian Taxation Office (ATO) as part of settlement. UDIA has expressed the industry concerns that this change will have a significant detrimental impact on housing supply & affordability, as an unintended consequence.

The Federal Government should listen to the industry concerns and simplify the proposed process to minimise the impacts on the vast majority of developers who have been compliant.

UDIA Recommendation:

11. The UDIA recognises the importance of GST from residential property, however compliance measures introduced in the Federal Governments Tax Integrity Package for GST should not unfairly disrupt cashflow for the vast majority of developers that seek to comply with legislation.

6.2 NEGATIVE GEARING AND CAPITAL GAINS

UDIA considers that negative gearing and the 50 per cent discount on capital gains tax are a fundamental economic policy instrument in the Australian housing model.

The Australian 'housing model' dictates a major role for privately owned rental property to service a wide range of lower, medium and high-income households. Australia is unlike many countries where significant public funding, of not only social housing, but also low-income housing occurs. Funding for social housing in Australia has declined in comparative terms over the past 30 years.

The Australian housing model relies on negative gearing and capital gains tax as an incentive for private investment in rental housing, with rental housing subsidies where appropriate. The negative gearing/capital gains tax treatments of rental housing fulfils a major public policy role in Australia because it generates the supply of rental housing essential for housing a fast-growing population. The negative gearing/capital gains tax framework has been essential to increase the supply of rental housing.

Negative gearing and capital gains tax need to be recognised as a perfectly rational economic policy instrument that work in tandem. Negative gearing is applied to assets that deliver long term capital growth and low short-term yields. In the case of residential property investments, Negative Gearing allows an investor to support the low short-term yields with preferred tax treatment. However, on disposal of the asset and realisation of profit, modelling undertaken for UDIA by Macroplan completed in March 2015 demonstrates that capital gains tax claws back all of that yield support and delivers a surplus to the Federal Budget of between $43,897 to $71,699 on a median priced home depending on the investor's income tax rate. Changes to negative gearing will have a significant impact on investment decision making, reducing new supply and in turn deepening the housing supply and affordability crisis, and ultimately reducing capital gains tax payments to the Federal Government.

This is particularly important with the new build-to-rent sector being developed, which has the potential to provide long-term rental housing and a mix of tenure types for affordable housing for those on low and moderate incomes, in addition to market rental housing.

The fundamental cause of poor housing affordability in Australia is insufficient new housing supply, caused in the main by bureaucratic planning regimes that result in significant delays, and as such, efforts by the Government aimed at improving affordability are better placed in addressing supply side constraints.

UDIA Recommendation:

12. Maintain existing arrangements for negative gearing and capital gains tax.

7 PRUDENTIAL REQUIREMENTS

The continued delivery of new housing is critical to the Australian economy and relies principally on debt financing. The development industry is disproportionately impacted by liquidity requirements and the interest rate at which banks can lend.

Changes to prudential requirements, introduced by APRA in December 2014, have forced banks to increase their capital adequacy ratios, with banks being brought up to the level of non-banks, despite there having been no increase in the level, or risk, of defaults. This has cut available finance to both purchasers and developers and as a result, property settlements and new housing supply are now under considerable risk.

Many developers are finding it extremely difficult or even impossible to finance their new developments, even when they have a substantial track record in delivery and significant pre-sales. The more risk there is in the market that a sale won't settle, or that a development can't get off the ground, fewer new dwellings will be built and more pressure on affordability will result. Supply is the most important long-term solution to the housing affordability crisis.

Developers have started to look to alternative funding, such as new wholesale funds (outside APRA's regulatory reach) and mezzanine funding (which can be at interest rates in excess of 20% per annum), which UDIA considers may pose systemic risks to the financial system.

In addition, some banks are not providing adequate finance to purchasers at settlement on new apartments and new homes. When these settlements fail, the homes are subsequently sold at reduced prices, which has a potential contagion effect on values throughout a development, affecting all loan-to-value ratios and putting other settlements at risk.

UDIA Recommendation:

13. The government should examine the effect of capital adequacy requirements for banks on the supply and affordability of housing, and move immediately to remedy any unintended consequences.

8 ATTACHMENTS

UDIA National Policy papers

- Land Supply
- Population
- Infrastructure Financing
- Cities & Urban Policy
- Affordable Housing
- Taxation
- Value Capture

LAND SUPPLY

BACKGROUND

Releasing a steady supply of serviced land in a coordinated and structured manner is a key to addressing Australia's housing supply and affordability challenges. The trend of declining levels of serviced land in most capital cities threatens future supply, and has a severely negative impact on housing affordability. The inability to consistently bring sufficient land to the market has direct consequences for the supply of housing in our cities, as highlighted by the (now disbanded) National Housing Supply Council's (NHSC) 2013 *State of Supply* report. The report found that Australia had a cumulative shortage of 228,000 dwellings, which could rise to over 640,000 over the forthcoming 20 years.

While the barriers to supply vary from state to state, there are commonalities nationwide. For one, the roll out of infrastructure is delayed in most jurisdictions, and is holding up vast areas of developable land. In addition, planning approval processes throughout Australia are characterised by excessively long lead times, delays and uncertainty. Another common barrier in most jurisdictions is ever-increasing infrastructure charges or homebuyer levies, which are adding to the cost base of developments, and rendering many projects too expensive to pursue.

UDIA POSITION

All levels of Government must work together to maintain a steady stream of urban land for development. In the context of continued population growth and household formation, it is essential that well-planned, sequenced land release programs are implemented in all jurisdictions throughout Australia. The failure to do so will have severe consequences for affordability as the upward trend in land prices is partly attributable to inadequate levels of supply. Future growth areas must be identified early in the planning process with a commitment to the provision of the appropriate infrastructure, particularly transport infrastructure ahead of development.

ACTION FOR GOVERNMENT

- Reinstate the National Housing Supply Council to monitor market housing supply pipelines & require cities to maintain a specified rolling supply of development-ready land to meet short/medium/long term demand driven by population growth and changing household formation patterns and identify blockages within the system.
- Federal funding to be linked to State Governments establishing and regularly updating comprehensive land-use plans which are aligned with detailed, costed infrastructure plans, and underpinned by delivery timeframes.
- Governments to comply with the COAG Reform Council's criteria stating that strategic planning systems are integrated across:
    a) Functions, including land-use and transport planning, economic and infrastructure development and environmental assessment and urban development

    b) Government agencies
- Regular audit of all Commonwealth owned land, including defence land, to determine if ongoing possession by the Commonwealth is necessary, and if not, make available for urban development.

POPULATION

BACKGROUND

The Australian community has benefited from a growing population since Federation, during which time our wealth and standard of living has increased immensely. Australia's population will continue to grow well into the future, with the Australian Bureau of Statistics projecting that our population will approximately double over the next 50 years, with most growth occurring in our capital cities. Given the inevitability of a growing population, it is up to governments to ensure that the opportunities which population growth presents are fully realised.

UDIA POSITION

Well managed population growth can be a boon for both the economy and existing residents. Population growth enlarges the labour force to support businesses and helps offset Australia's ageing workforce, whilst the new skills and abilities new workers help improve economic productivity and innovation.

By balancing the needs of the economy, the environment, and the Australian community, UDIA believes that a larger Australian population can also be a sustainable population. Australia's population policy should balance these issues to ensure a prosperous economy with a high quality of life, while maintaining social cohesion and environmental protection.

UDIA supports the Federal and State Governments establishing short/medium/long term population forecasts to allow for the orderly planning of infrastructure and land release. Governments must focus on infrastructure investment in order to keep pace with population growth. They must also remove the burden of increasing and unsustainable charges placed on new home buyers (who represent less than 1% pa of the population) for infrastructure that benefits the whole community.

ACTION FOR GOVERNMENT

- Federal and State Governments to collaborate to establish and regularly update regular short/medium/long term population forecasts to support land-use and infrastructure servicing plans.

- The Federal Government should expand the National Cities Performance Framework to measure improvements in Australia's largest cities and identify the base level of service expected from key elements of liveability, affordability, congestion, environment, business investment, to accommodate a larger population.

- Reinstate the National Housing Supply Council to monitor market housing supply pipeline requiring cities to maintain a specified rolling supply of development-ready land to meet short/medium/long term demand driven by population growth and to identify blockages within the system.

- Federal funding to be linked to State Governments establishing comprehensive land use plans which are aligned with detailed, costed infrastructure plans and underpinned by delivery timeframes.

- The Federal Government should maintain the current immigration policy and develop a settlement framework which encourages immigrants to settle in a broader range of locations that can accommodate population growth.

INFRASTRUCTURE FINANCING

BACKGROUND

Efficient and effective infrastructure provides the fundamental framework that allows modern economies to operate. Urban development by its very nature requires large investments in new urban infrastructure, supporting businesses, economic growth and providing individuals with access to employment, education and other opportunities. In recent years Investment in key infrastructure has struggled to keep up with strong growth in the Australian economy and population, particularly in our capital cities. This has led to heightened congestion, significant delays in new housing supply, reduction in productivity and overall a deterioration in the quality of life in our major cities.

An additional problem specific to urban development is the growing trend among governments to charge for infrastructure 'up front' through developer levies and charges. Much of these costs are ultimately built into the price of a new home which reduces housing affordability and overall housing supply pipelines. This shift has been justified based on the 'user pays' principle, however in many instances infrastructure charges applied on new homes are more akin to an inequitable tax, with new home buyers funding infrastructure that benefits the wider community.

UDIA POSITION

The solution to Australia's infrastructure investment problems will require a concerted effort by all levels of government to increase the available funds and ensure that they are spent wisely on the infrastructure we really need.

With increasing pressures on public finances, governments need to investigate alternative methods of funding infrastructure, such as tax increment financing and increased use of public-private partnerships to ensure that enough funding is available. Governments also need to ensure that infrastructure spending is efficiently targeted by employing cost benefit analysis on major new projects.

The burden of funding new infrastructure cannot continue to be shifted to new home buyers. In addition to reducing housing supply and affordability, this approach is inequitable, with new home buyers representing less than 1%pa of the population, being forced to pay for infrastructure of benefit to the broader community. Federal and State Governments must provide more funding for local infrastructure, and must also favour funding approaches that spread the cost of new infrastructure out over time, rather than imposing it upfront through developer levies and charges.

ACTION FOR GOVERNMENT

- Federal and State Governments to provide more funding to Local Governments and relevant state agencies for the financing of local infrastructure. The Federal Government should increase funding to the National Housing Infrastructure Facility up from the $1b in the 2017 Budget.
- Investigate further utilisation of alternative methods of financing infrastructure, such as tax increment financing, public private partnerships, institutional investment and tax incentives.
- Favour funding and financing approaches that spread the cost of infrastructure out over extended timeframes rather than impose it upfront such as through developer contributions.
- Commit to rigorous and comprehensive cost benefit analysis of major infrastructure projects, to ensure that Australia gets the right infrastructure, and taxpayers get value for money.
- Federal and State Governments to collaborate to establish and regularly update regular short/medium/long term population forecasts to support land-use and infrastructure servicing plans

CITIES AND URBAN POLICY

BACKGROUND

Cities are critical to the prosperity of the Australian economy and the quality of life of most Australians. Australia's major cities are home to the majority of Australia's population and are the source of over 80% of GDP. To ensure our cities continue as world class places to live, work and do business their economic productivity, liveability and sustainability must be supported. These factors have come under increasing strain in recent years as a result of insufficient investment in urban infrastructure, poor planning and inefficient taxation in the face of surging population growth.

The importance of Australia's cities has gained growing recognition at the federal level in recent times with both major parties now support a dedicated Cabinet level Minister for Cities to oversee Commonwealth involvement in urban policy.

UDIA POSITION

Whilst acknowledging that urban policy issues are predominately the responsibility of state and local government, UDIA believes that there is a strong role for the Federal Government to play in Australia's cities.

The Federal Government has a key role to play in the delivery of urban infrastructure through its ability to provide funds directly, support innovative and alternative funding options, and ensure infrastructure projects are subject to rigorous selection criteria. By ensuring sufficient investment in the right type of urban infrastructure, the Government can measurably improve the productivity and quality of life in our cities.

Additionally, UDIA believes the Commonwealth Government has the ability to contribute to urban policy by providing leadership, assisting state governments with reform through the use of financial incentives, and by coordinating and facilitating action on urban policy between different levels of government.

ACTION FOR GOVERNMENT

- Federal and State Governments to provide more funding to Local Governments and relevant state agencies for the financing of local infrastructure. The Federal Government should increase funding to the National Housing Infrastructure Facility up from the $1b in the 2018 Budget.
- Ensure adequate investment in key urban transport infrastructure, including public transport, to ensure communities are well connected.
- Investigate innovative and alternative infrastructure funding methods, and ensure infrastructure investment decisions are subject to rigorous selection criteria.
- Implement a financial incentives scheme that links federal funding to state government performance on planning system reform, to improve the supply and diversity of new land and housing.
- Improve liveability and housing affordability by reducing the reliance of governments on high and inefficient taxes on new construction, such as stamp duty and developer levies, in favour of more efficient taxes such as land tax or a broadened GST.
- Federal and State Governments to collaborate to establish regular short/medium/long term population forecasts along with infrastructure servicing plans.
- The Federal Government should expand the National Cities Performance Framework to measure improvements in Australia's largest cities and identify the base level of service expected for key elements of liveability: affordability, congestion, environment, business investment, to accommodate a larger population.

UDIA POLICY PAPER

AFFORDABLE HOUSING POLICY

BACKGROUND

With house prices escalating dramatically across various capital city markets in recent years, Australian cities have become further entrenched as amongst the least affordable cities in the world. The median house price has increased from around four times median income in the early 1990s to over seven times in 2017.

Deteriorating affordability has a broad range of impacts across our urban housing markets and society in general. Aspiring first home buyers are struggling to break into the market and constitute record low proportions of over-all home purchasers. This in turn maintains pressure on the private rental market with growing numbers of households resigned to being life-long renters.

'Affordable Housing' refers to housing for very low, low, or moderate income households, not making market housing more affordable.

While the private rental market serves a great number of households effectively, across Australia there is a serious level of unmet demand for Affordable Housing In June 2011 the National Housing Supply Council estimated that there was a deficit of 539,000 affordable rental properties for lower income renters. Assuming this quantum is roughly equivalent in 2017 (indeed it is more than likely to be a significantly elevated number given the price inflection over recent years) a circa $180b investment would be required to meet this demand. Another telling indicator of unmet demand for Affordable Housing across Australia is the 152,000 households currently on waiting lists for social housing.

UDIA POSITION

Government is not in a position to provide the requisite financial investment needed to deliver the full pipeline required of affordable and social housing. The private sector however is able to deliver these products if it receives sufficient incentives.

UDIA supports the heightened government focus on expanding the quantum of social and affordable housing to address the burgeoning demand profile. While the Affordable Housing sector undoubtedly needs significant investment and growth stimulation through positive policy and regulatory settings there also needs to be significant release and development of new supply in the broader market to close the broader residential supply dwelling gap. Measures to improve affordable housing cannot come at the expense of affordability in the private rental market.

UDIA welcomes incentives for investors to obtain capital gains discounts in affordable rental housing. We consider the incentivisation of affordable housing to be a key part of promoting the development of Affordable Housing across Australia.

ACTION FOR GOVERNMENT

1. Increase immediate Affordable Housing supply and strong pipelines for medium term supply across the housing continuum through a multi-pronged policy framework
2. Support incentives to encourage development to include affordable housing for those on very low, low and moderate incomes.
3. Establish a new asset class in a Build-to-Rent institutional investment market to increase supply of affordable housing in mixed tenure market housing and key worker Affordable Housing.
4. All levels of Government should free up surplus and underutilised land holdings for development of affordable housing.

TAXATION

BACKGROUND

Whilst taxes are essential to fund the government services our communities depend on, inefficient and inequitable taxes unnecessarily damage economic activity and disadvantage certain parts of the community. The housing and development industries are some of the most highly taxed sectors in the Australian economy, accounting for over 40% of state and local government revenue, and 12% across all tiers of government. The high level of taxation on new housing damages housing supply and job creation by rendering some projects unviable, and flows through to the cost of new housing, damaging affordability for the community.

UDIA POSITION

UDIA believes that governments must make a genuine commitment to tax reform and replace outdated and damaging taxes with more reliable and efficient alternatives in order to provide the revenue that will be needed in the coming decades. At the top of the priority list for reform is stamp duty on property, which is one of Australia's most highly inefficient and economically distorting taxes as it limits labour mobility, housing turnover, and penalises households for moving to properties that best suit their needs. It is also a highly unreliable source of revenue for state governments, as it relies on the volume of property transactions which vary substantially over the property cycle.

Among more efficient and reliable alternatives to stamp duty are a broadened and lower rate GST and broad based land taxes stand out. Both are much less distortive and much more economically efficient than stamp duty. They also have the ability to provide governments with the stable and predictable source of revenue they require. Additionally, removing exemptions to GST and land tax regimes would not only raise additional revenue but also make them both more efficient and simpler to administer.

UDIA recognises the role of taxation in funding infrastructure and providing services to communities. However, UDIA believes that reform is required in the taxation framework for property. UDIA strongly believes that Federal intervention is required to reform the taxation system and drive an agenda for deregulation and microeconomic reform for the property and development sectors.

ACTION FOR GOVERNMENT

- State governments should reduce their reliance on inefficient, narrow based taxes such as stamp duty, in favour of broad based efficient taxes such as consumption and land taxes.
- The Federal Government should assist state governments with phasing out stamp duty and broadening the base of the GST.
- Retain the current 10% rate of GST so as not to further increase the tax burden on new housing.
- Include state and local government levies in GST cost base calculations to improve the integrity of the tax system and reduce the incidence of double taxation.
- The UDIA recognises the importance of GST from residential property, however compliance measures introduced in the Federal Governments Tax Integrity Package for GST should not unfairly disrupt cashflow for the vast majority of developers that seek to comply with legislation.
- Broaden the base and lower the rate of land tax regimes over a number of years and ensure that land taxes apply per land holding, not on an aggregate basis, in order to promote large scale land development.
- Reduce the use of inequitable and excessive up-front charges and 'developer levies' to raise revenue.
- Retain the existing capital gains tax discount continue to use negative gearing to stimulate the residential market and the supply of rental housing.

VALUE CAPTURE

BACKGROUND

Many Australian cities have developed rapidly beyond the capacity and extent of their transport infrastructure, while governments lack revenue or borrowing capacity to invest in maintaining the amenity of our cities. Governments are therefore looking to capture some of the “windfall” gains that accrue to property owners when new transport infrastructure is built.
However, consistently valuing the “windfall” gain with valuation base data and ensuring equity across time and space will be difficult. Identifying direct and indirect beneficiaries are also problematic.

A cocktail of funding mechanisms will be needed for most infrastructure developments. This is because value capture should only be a contribution to the funding of major projects, may not be applicable to some projects, and it is not only direct beneficiaries that gain from new infrastructure. To overcome the problems of valuation and identifying beneficiaries, indirect value capture mechanisms are preferred.

UDIA POSITION

UDIA only provides in principle support to the concept of “Value Capture” for major land transport infrastructure based on the following policy position:

1. The following criteria must be considered in designing a “Value Capture” mechanism:
   a. additional value has been generated through government investment that increases the capacity for uses;
   b. value is only captured from land owners when and where it is generated;
   c. the proportion of value captured does not diminish the ability for value to be realised;
   d. value is not captured after it has already been realised; and
   e. value is not captured in full “up-front”.

2. “Value Capture” is not:
   a. an upfront tax, levy or charge for general infrastructure funding;
   b. pure “planning gain” (betterment tax) as “Value Capture” is separate in concept and implementation from new taxes, charges and levies; or
   c. a mechanism to fund major trunk and social infrastructure. This is a clear responsibility for government and should always be funded through general revenue.

3. UDIA’s preferred value capture mechanisms are indirect and include:
   a. **Tax Increment Financing** – using future growth in tax receipts, from the incremental increase in property values, in a clearly defined & declared area, as a result of increased amenity brought about by new public infrastructure; or

   b. **Government Owned Lands** – where government has acquired land, or already owns land, that benefits from new infrastructure investment, sells the lands surplus to that required for the infrastructure, for development, at a higher price due to the increased amenity that has or will be delivered. Governments should use the value of infrastructure they have already built through asset recycling to fund new infrastructure.

c. **Private Infrastructure Delivery Agreements** – where the government enters transparent development agreements, on government land, with the private sector, in exchange for the developer partially or fully funding and delivering public infrastructure.

4. If the Commonwealth seeks to capture the uplift in property value:
   a. this must be done through a mechanism like a City Deal, in order to influence or control land use planning where new major land transport infrastructure is being built;
   b. a rigorous and robust valuation methodology must be utilised which has been developed in consultation with industry and stakeholders to ensure that any increases in property prices, unrelated to the infrastructure is netted out; and
   c. any value captured must be offset by any existing State or Regional infrastructure contributions.