



SUBMISSION ON THE HOUSE OF REPRESENTATIVES
STANDING COMMITTEE ON TAX AND REVENUE – HOUSING
AFFORDABILITY AND SUPPLY IN AUSTRALIA

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

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TABLE OF CONTENTS

About UDIA National	3
Executive Summary	4
The Economic Significance of the Housing and Construction Industry	6
Housing Supply, Demand and Affordability – An Analysis	7
- A Legacy of Missed Opportunities	
Regulatory Practices in Australia	15
- The Regulatory Maze	
- The Land Supply Drought in Effect	
Case Examples	20
- The Sydney Megaregion	
- Poor Strategic Planning v1 – South Australia	
- Poor Strategic Planning v2 – Western Australia	
- South East Queensland’s Master Planned Communities	
Zoning Effects – The Costs	23
Taxation on Property	24
- Case Example – Victorian Taxes and Charges	
- Value Capture – Double Taxation	
- Infrastructure Charges	
Recommendations	27
1. Tax Reform	
2. EPBC Reform	
3. Leveraging Commonwealth investment in infrastructure	
4. The Role of National Housing Finance and Investment Corporation	
5. A new framework for incentives	

About UDIA National

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

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

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

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

Executive Summary

The Urban Development Institute of Australia (UDIA) is pleased to provide a response to the House of Representatives Standing Committee on Tax and Revenue's Inquiry into Housing Affordability and Supply in Australia.

The inquiry is both welcomed, and arguably overdue. Housing affordability has remained a public policy, economic and social challenge in Australia – that has been left largely untouched for two decades. There have been marginal endeavours, but these have meant little to homebuyers facing escalating house prices.

Housing markets are notionally complex – full of interrelationships between supply and demand, the regulatory and tax policies governing production, access to capital (for both developers and purchasers), the capacity of markets to quickly and efficiently respond to demand, and the ultimate ability to produce a consistent and predictable level of supply that delivers housing choice and diversity.

However, in practice, the policy thinking should be simple. That is, how do governments foster balance between supply and demand to assist in keeping home ownership affordable and meet the demands of a growing population?

Right now, that test is being failed:

- A consistent imbalance between supply and demand that has seen the gap widen to as much as 200,000 dwellings;
- Housing affordability continues to deteriorate and is acute for low and middle income earners, and;
- The Australian Government's own forecasts show a looming supply shortfall once Australia emerges from the COVID-19 pandemic fuelled by a return of overseas migration.

This is why there is urgency to the task. The goal of home ownership is intrinsic to the Australian psyche, yet it has never been more out of reach. The market already lacked flexibility and the development-ready pipeline needed to service pre-pandemic demand but will soon face a surge of additional pressures once our immigration and population trajectory returns to business-as-usual settings.

The Government's own forecasts make clear demand will soar to 178,800 within two years – which is well in excess of the long-run average production of 142,700 homes per annum. The distortionary effect on prices will inevitably be severe, if we do not act now.

The failure to have a development-ready pipeline also stymies the capacity of the housing and construction industry – already one of the nation's largest contributors to employment and economic prosperity – to generate the jobs, wages, supply chain activity and productivity it can so clearly do, as it showed in sustaining Australia through the past 18 months as it dealt with the economic effects of COVID-19.

Our submission seeks to do three things:

1. Clearly chart the long-term supply, demand and affordability trends that define Australia's housing markets;
2. Profile the barriers, at all levels of government that contribute to the dysfunction; and
3. Recommending clear and implementable policy solutions that can resolve the issues at hand.

In particular, our recommendations provide a blueprint to follow to finally construct a robust road map to remedying housing markets in Australia.

RECOMMENDATIONS

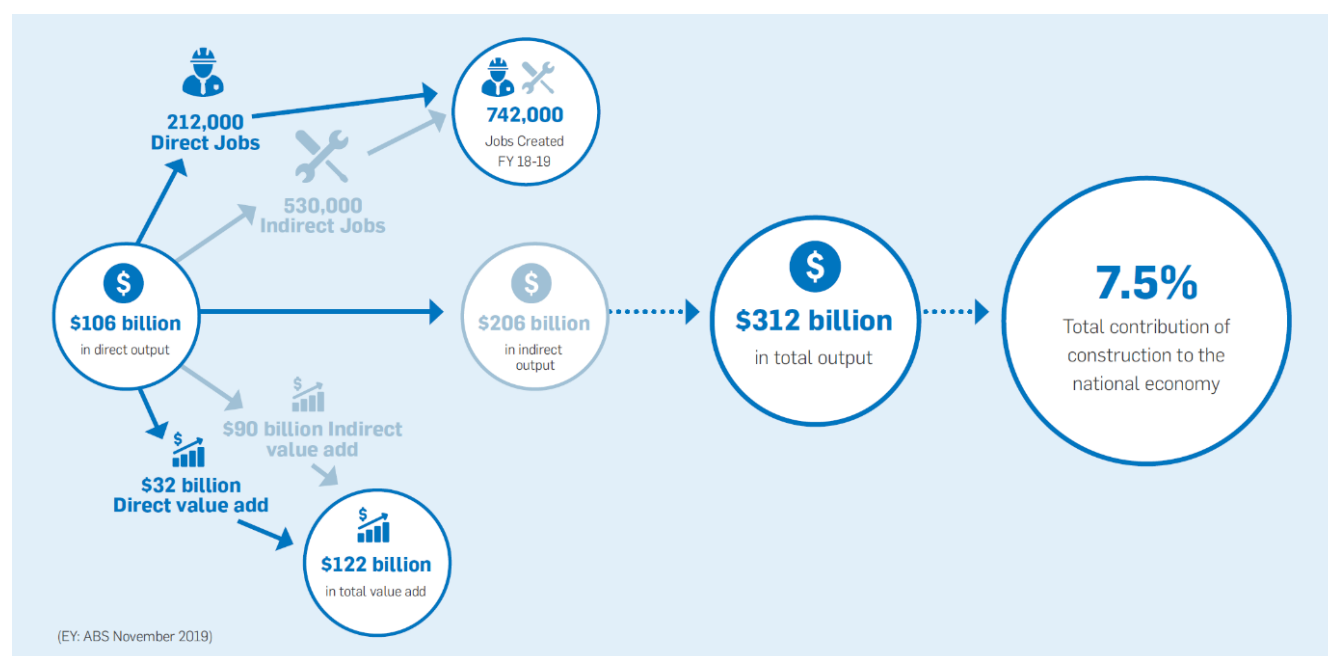
UDIA summarises the following recommendations which are further expanded at the conclusion of this submission.

1	The Commonwealth seize the opportunity presented by the NSW Government's taxation reform agenda to leave Stamp Duty behind and facilitate in partnership with the states a holistic reform to drive economic growth, productivity and improved housing affordability.
2	Creation of a specific package targeted to support the transition to an efficient new EPBC regime including a full Regulatory Impact Statement to test new National Environmental Standards, single touch approvals, national and regional scale planning, and the efficient delivery of state-based Strategic Assessments.
3	The Commonwealth Government seeking a better return on its substantial outlay on infrastructure via project partnerships across the states and territories to demand better strategic planning, land use, integrated approvals and housing supply outcomes.
4	An allocation of \$1 billion be made under NHFIC's investment mandate – to be matched by each state and territory – to unlock regional-scale enabling infrastructure matched to specific new housing supply targets set at the outset.
5	The Commonwealth Government make permanent the annual allocation of 10,000 places available under the First Home Loan Deposit scheme exclusively for the purchase of new homes or newly constructed homes.
6	NHFIC commence a robust research agenda to improve the quality of data on housing market dynamics, reduce red and green tape, account for the tax burden on housing and improving housing diversity.
7	Develop new financial incentives to boost housing supply and affordability, ensuring states are focused on meeting dedicated supply targets and produce metrics and league tables to measure and account for performance.

THE ECONOMIC SIGNIFICANCE OF THE HOUSING AND CONSTRUCTION INDUSTRY

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

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



The industry's significance has never been more evident than the past 18 months, as Australia battled both the health and economic effects of COVID-19.

In large part due to the stimulus derived via the *HomeBuilder* initiative – as well as record low interest rates and pent-up demand – the nation's greenfield housing market has delivered near-record levels of activity. This came after the market had been in gradual decline for the preceding two years, and back into a position of under-supply.

UDIA recognises financial stimulus of the scale of *HomeBuilder* was a one-off. UDIA notes that with the right regulatory and tax settings, our industry is poised to sustain high levels of economic growth, continue to generate jobs and ease the pathway to home ownership for more Australians.

Given the economic effects of the latest wave of the pandemic, lockdowns, border closures and other impacts, there is a clear urgency to the task of ensuring every policy lever available to policy makers is geared towards sustainable growth.

The housing and construction sector's contribution to jobs, activity and wages was central to Australia's ability to recover from the first phase of the economic downturn. We can make the same contribution again – and beyond.

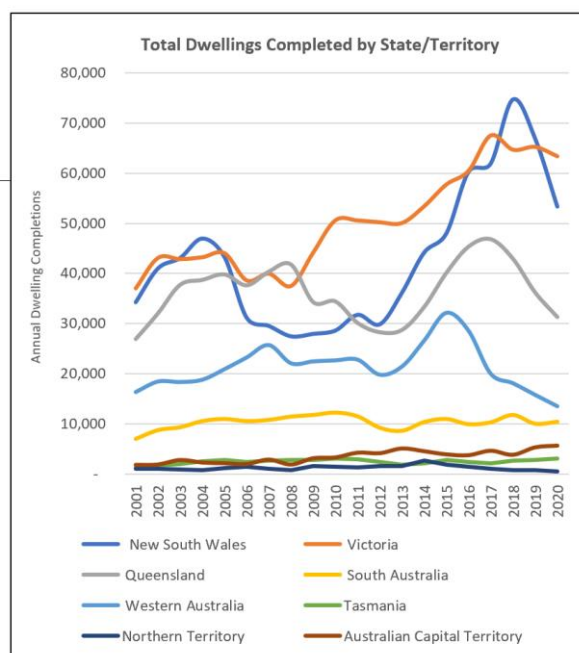
HOUSING SUPPLY, DEMAND AND AFFORDABILITY – AN ANALYSIS

A myriad of factors contribute to housing affordability – but over the long haul, the most fundamental dynamic that has skewed Australia’s housing market is the imbalance between supply and demand. The basic fact is that as a nation, our supply of new housing has been deficient in meeting demand, and prices continue to rise accordingly. Data also points us to the risks of an exaggerated gap as the post-pandemic recovery in population growth begins.

Supply In Context

Since 2001 the total stock of Australia’s residential property has grown by 34% or 2.8 million dwellings. This represents an average yearly increase of approximately 142,700 dwellings and is the most significant 20-year growth in our nation’s history.

New dwelling supply has been particularly focussed on major metropolitan regions with a significant uplift in dwelling completions recorded between 2013 – 2018. The elevated production has been led by heightened multi-unit/apartment completions in Sydney and detached house and apartment completions in Melbourne. According to UDIA’s State of the Land Report 2021, against the peak of supply in 2017, new dwelling supply is down 26 percent in 2021 and forecast to be down 41 percent in 2022.



Source: ABS (2021)

At a surface level, these data points suggest strong supply. However, in the context of demand, they have been clearly insufficient.

Demand in Context

Prior to the onset of the pandemic, underlying dwelling demand across Australia sat at around 162,000 per annum – revealing a gap of almost 20,000 homes against the long-run average of supply of 142,700.

This conclusion is reinforced by the observation by the former National Housing Supply Council (NHSC), the National Housing Finance and Investment Corporation (NHFIC), ANZ and others that over the 2000-2020 period the national housing market has been undersupplied relative to underlying demand in at least 11 of these years, was in demand-supply balance in three years and notionally over supplied in six of the years.

This historic undersupply problem emerged acutely from the 2005-2012 period when the then-National Housing Supply Council (2012, 2013) determined that a national accumulated dwelling supply shortfall was north of 200,000 dwellings.

Australia has been playing catch-up ever since, and despite the record levels of residential construction over the 2017-2019 period, supply outpaced demand by only 4,500 dwellings on an annual average, according to NHFIC.

Drivers of Demand

New dwelling demand is a primarily the function of population growth, and the allied rate of household formation. Other major influences on the residential demand profile includes the movement of dwelling prices and rents, the cost and availability of lending, general economic conditions, the unemployment rate and household income growth.

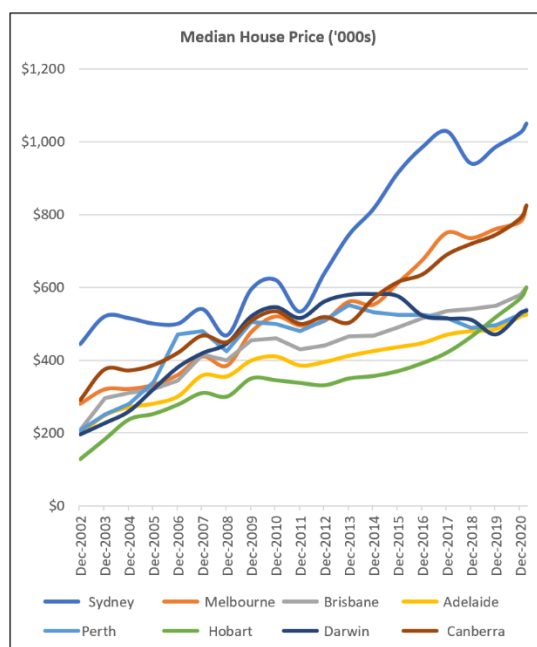
Over the last twenty years (2001-2020) Australia's population has grown by 6.4m at an average annual growth rate of 1.5%. Net Overseas Migration (NOM) has been the major component driving Australia's strong population growth and has been driving the bulk of underlying housing demand.

The Federal Government significantly increased annual immigration intake quotas in 2008 which lifted NOM from average circa 138,000 per annum (2001-2007) to 228,000 per annum (2008-2019).

Housing Affordability

At a macro level, the imbalance between supply and demand has produced rapidly escalating house prices across the nation.

Over the last 20 years, median dwelling prices have escalated dramatically with all capital city markets recording strong aggregate price growth led by Hobart (+369% to a median dwelling sale price of \$600k) Melbourne (+194% to \$825k), Brisbane (+188% to \$600k), Canberra (+184% to \$825k) and Sydney (+136% to \$1.05m).



Source: ABS (2021)

A more detailed deep dive into these headline numbers, however, reveals more stark issues.

House prices versus income

As a consequence of the rapid house price growth recorded over the last 15 years, Australia remains one of the least affordable housing markets in the world, according to the OECD.

The National Housing Finance Investment Corporation's (NHFIC) State of the Nation's Housing report 2020 articulates the crux of Australia's housing affordability crisis:

"Over the past 15 years, new housing constructed in cities like Sydney has typically fallen well short of agreed housing targets, which has helped exacerbate affordability problems, and reflects the challenges of building enough homes in areas of need."

The long-run deterioration of housing affordability in our largest population centres relates to substantial increases in dwelling values, while wage growth has been relatively benign.

There are a host of drivers underpinning house price growth, including the inability of supply to adequately match the year-on-year demand profile. Another major factor is the on-going increase of government taxes and charges on development, which ultimately flows to retail pricing.

The latest housing affordability indicators from CoreLogic demonstrate a worsening of the ratio between median dwelling values and median incomes across all capital city markets over the 12 months to March 2021.

Sydney remains the most unaffordable housing market in Australia with the value to income ratio of 9.4 at March 2021 up from 8.9 a year earlier. Melbourne's affordability also worsened by a similar proportion to record a ratio of 8.3 for March 2021.

Major Housing Market	Global Affordability Rank
Sydney	3rd Least Affordable
Melbourne	6th Least Affordable
Adelaide	13th Least Affordable
Brisbane	18th Least Affordable
Perth	23rd Least Affordable

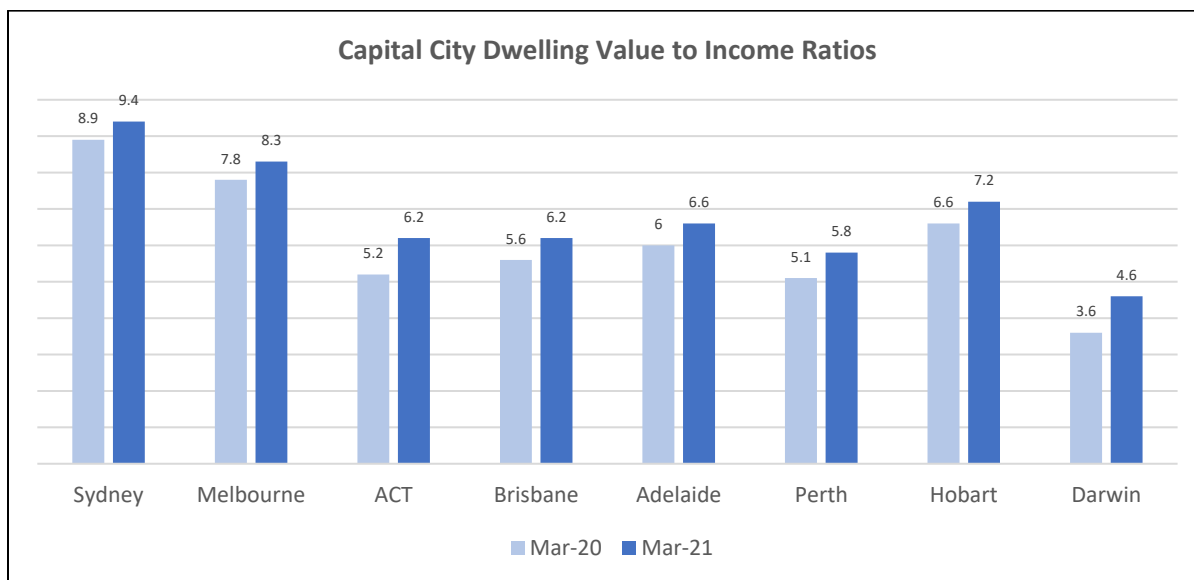
Source: 2021 Demographia International Housing Affordability

While the nation's smaller cities continue to provide considerably more affordable housing than Sydney and Melbourne rapid dwelling price growth over the pandemic impacted period has negatively impacted on each city's affordability profile.

Housing Affordability Measures (as of March 2021)

Capital City	Median Dwelling Value	Dwelling Value to Income Ratio	Years of household income required for a 20% deposit on a dwelling	Mortgage Serviceability	% of household income required to rent a home
Sydney	\$928,028	9.4	12.6	46.1%	30.2%
Melbourne	\$736,620	8.3	11.1	40.5%	26.0%
ACT	\$727,032	6.2	8.3	30.4%	27.3%
Brisbane	\$548,260	6.2	8.2	30.1%	27.1%
Adelaide	\$486,555	6.6	8.9	32.4%	29.7%
Perth	\$505,850	5.8	7.7	28.1%	27.0%
Hobart	\$548,686	7.2	9.6	35.0%	33.1%
Darwin	\$451,408	4.6	6.1	22.3%	27.4%

Source: CoreLogic & ANU Centre for Social Research Methods (2021)



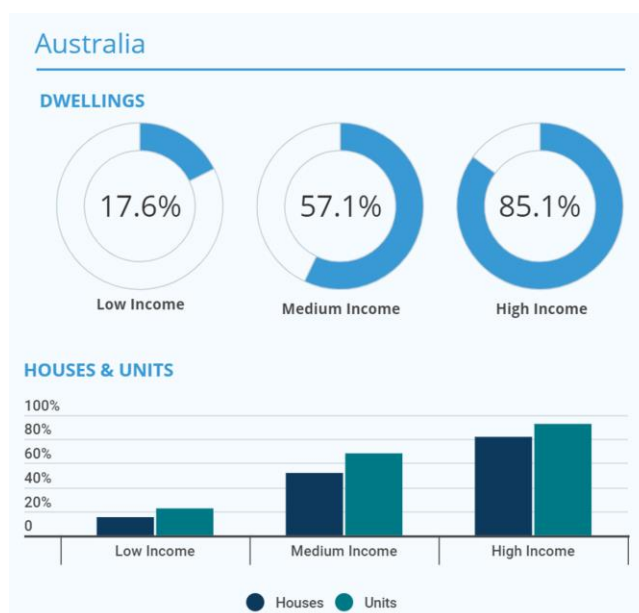
Source: CoreLogic & ANU Centre for Social Research Methods (2021)

With interest rates at record lows, there is short term benefit for affordability, but with the RBA forecasting increases from 2024, this will double down on the affordability concerns we already have.

Equity of access

The shrinking affordability of housing also has the effect of restricting access to the home ownership across different socio-economic groups

For example, CoreLogic has recently analysed the quantum of housing stock that households in different income brackets can 'afford' to purchase at current pricing levels. As per the below, just 17.6% of the nation's housing stock is affordable for low-income households, and 57% for medium income households.



Source: CoreLogic - 2021

Post-pandemic risks

COVID-19 proved a mammoth disruption to business-as-usual population patterns in Australia. The closure of international borders pushed Net Overseas Migration (NoM) into the negative – where it is expected to remain well into 2022 – and population growth has stalled.

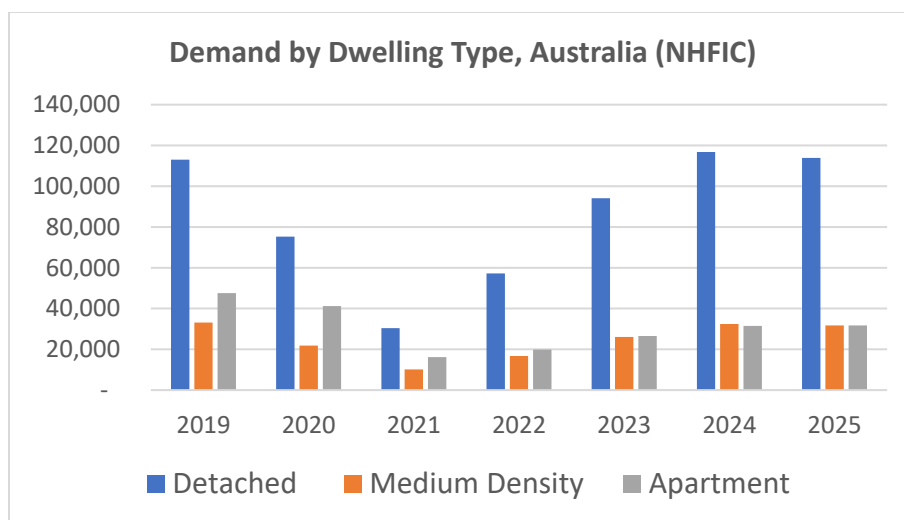
For example, the Centre for Population has forecast Australia's NoM was -97,000 in 2020-21, and will be -77,000 in 2021-22, down from 194,000 in 2019-20.

However, NoM is then forecast to return to an annual average of 235,000 over the medium term.

Driven by the sharp falls in NoM, NHFIC's adjusted underlying demand forecasts for new housing predict a likely fall from pre-COVID forecast levels of 192,400 dwellings in 2019 (nationwide) by 72% to 54,200 in 2021 and remain 52% lower in 2022 with demand for 91,600 dwellings.

The NHFIC projections then foreshadow demand picking back up to 144,700 dwellings in 2023 on the back of a strengthening economy and positive NOM, and then move back to close the pre-COVID demand levels of around 178,800 dwellings in 2024.

In terms of dwelling demand by dwelling type NHFIC projections anticipate a significant moderation in all dwelling types.

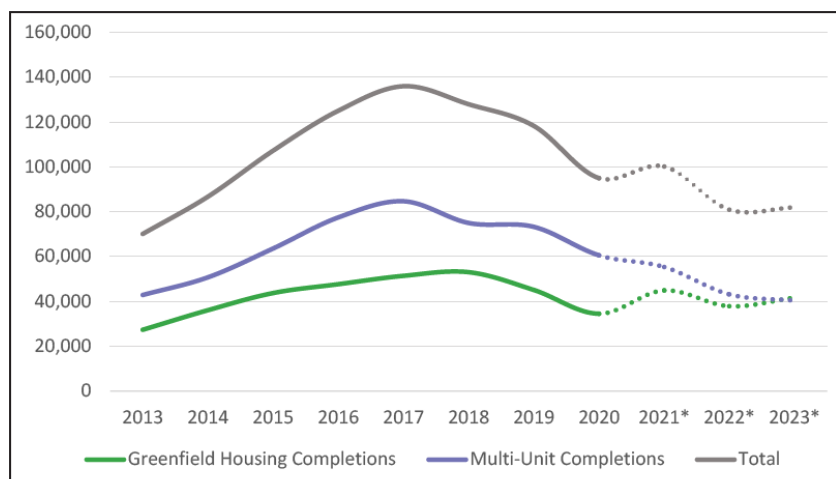


Source: NHFIC: State of the Nation - 2020

These numbers however need to be seen in the context of what is happening in housing supply markets. As outlined further in the submission, supply pipelines are diminishing – both across greenfield land, and apartment markets.

This is a function of *HomeBuilder* accelerating buyer decisions, poor strategic planning and land release practices, and apartment projects stalling due to the lack of pre-commitments, given the sector is heavily shaped by the purchasing decisions of new arrivals.

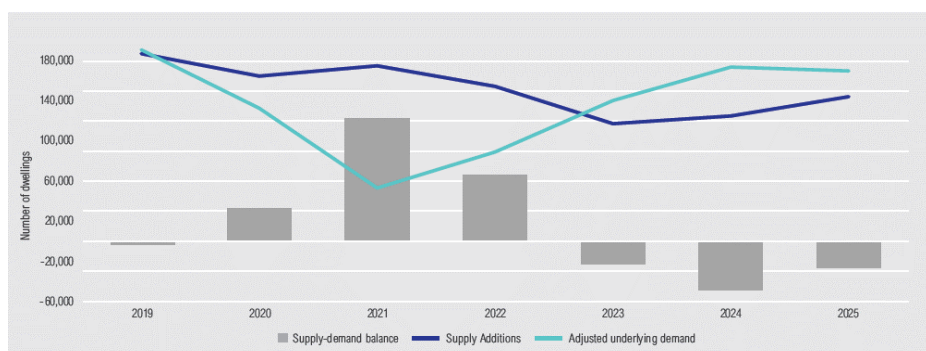
Dwelling Pipeline Outlook, Combined Capitals



Source: UDIA; ABS; CoreLogic; Research4

Pre-pandemic, Australia averaged production of 142,700 homes per annum. If demand returns to 178,800 within two years, and the market lacks the flexibility and the ‘development ready’ pipeline needed to service that demand, the annual gap will be almost 36,000 homes a year. It will inevitably lead to more pressure on affordability.

NHFIC’s own forecasts, as referenced above, clearly illustrate Australia will dive back into an era of under supply once more ‘business-as-usual’ settings apply to the nation’s immigration and population projections.



Year	2019	2020	2021	2022	2023	2024	2025
Change in adjusted underlying demand	192,400	136,400	54,200	91,600	144,700	178,800	175,300
Change in annual underlying demand	177,600	142,500	58,200	69,900	111,600	150,700	155,100
New net annual dwelling supply	188,900	170,000	180,900	159,600	120,500	128,300	148,300
Supply-demand balance	-3,500	33,600	126,700	68,000	-24,200	-50,500	-27,000

Source: NHFIC

A LEGACY OF MISSED OPPORTUNITIES

UDIA National welcomes this Inquiry, but in some ways, it shouldn't be necessary.

It is not just industry that has long proclaimed a crisis in supply, demand and affordability as a function of the litany of issues facing the housing and construction sectors.

There is a long history of analysis of housing supply, demand and affordability . . . from the Australian Parliament, the Australian Government, its own agencies, regulators and policy review advisors, who have all arrived at the same conclusion

"The dominant source of the widespread escalation in process has been a general surge in demand to which supply was inherently incapable of responding."

- *Productivity Commission Inquiry Report, First Home Ownership, 2004.*

"State and territory governments need to do more to adequately address land supply and ensure that existing policies and processes are not necessarily causing an undersupply."

- *Report on the inquiry into home ownership, House of Representatives Standing Committee on Economics, 2016.*

"Since the late 1990s, dwelling completions have not increased in line with population growth. Improving housing supply is primarily about removing regulatory impediments imposed by state and local governments' planning, land use and housing infrastructure policies."

- *Treasury Submission, Inquiry into Home Ownership, House of Representatives Standing Committee on Economics, 2016.*

"Stamp duties on property transfers raise the cost of housing, discourage people from moving, and prevent the freeing up of properties for more valued uses . . . [and] . . . depending on the sequence and pace of states undertaking reform the Commonwealth may need to be involved in facilitation."

- *Productivity Commission, Shifting the Dial Report, 2017.*

"The underlying driver in our housing market is the balance between supply and demand . . . It is hard to escape the conclusion we need to address the supply side if we are ever to avoid ever-rising housing costs relative to our incomes."

- *Dr Philip Lowe, Governor, Reserve Bank of Australia – Remarks at Reserve Bank Board Dinner, April 2017.*

"Our results suggest that development restrictions (interacting with increasing demand) have contributed materially to the significant rise in housing prices in Australia's largest cities since the late 1990s."

- *The Effect of Zoning on Housing Prices, Research Discussion Paper, Reserve Bank of Australia, 2018.*

"Australian cities face a shortage of apartments. The severity of this shortage can be gauged by the difference between what home buyers will pay for an apartment and what it costs to supply. Why don't builders and developers exploit these profitable opportunities? The standard answer is that planning regulations stop them."

- *The Apartment Shortage, Research Discussion Paper, Reserve Bank of Australia, 2020.*

Unfortunately, this consistent level of scrutiny has not been matched by an urgency of policy response, so we hope this Inquiry can spur a new wave of reform, action and outcomes that make it easier to build the homes Australians need, and truly end the affordability woes facing homebuyers.

REGULATORY PRACTICES IN AUSTRALIA

The design and application of regulatory systems that dictate Australia's capacity to provide sufficient level of housing supply is both seemingly simple in structure, but mind-boggling in practice.

In theory, the essential elements should be:

Long-Term Strategic Plans

. . . for our capital cities and regions, that set a 30-year framework for land use, infrastructure planning, and economic, social and environmental objectives – and are informed by long-term population forecasts.

Medium-Term Integrated Plans

. . . that begin to prioritise housing targets, land use, land release, social and economic infrastructure requirements, corridor protection and environmental outcomes – and are regularly reviewed to adjust to changing population and demographic forecasts

Short-to-Medium Term Local Plans

. . . that provide clear direction on zoning, density, local housing targets, economic land uses, local infrastructure and local environmental outcomes – matched by clear accountability for performance against outcomes.

Rezoning pathways

. . . that effectively and efficiently unlock the land identified for development (both greenfield and brownfield) in higher order strategic plans or can facilitate market innovation – and include clear deadlines for decision-making.

Infrastructure Funding Regimes

. . . that provide efficient and equitable methods for sharing the costs of delivering new infrastructure to service growth, and provide transparency around the delivery program which seeks to maximise the value of public and private investment in infrastructure

Development assessment pathways

. . . defined by objective rules and tests, feature track-based assessments based on the impact of the proposal, are restricted to a single point of assessment, subject to depoliticised decision-making, and have limited third-party appeal rights.

Limited regulatory duplication

. . . to ensure the level of duplication between different tiers of government, or across differing agencies within a government, is avoided at all costs.

Unfortunately, the experience in practice is vastly different – with myriad and inconsistent regimes across the nation, an incapacity of governments to deliver on their own stated objectives, institutional unresponsiveness, and a failure to improve systems that have consistently under-performed.

The end result for proponents is a confusing ‘rat-run’ defined administrative duplication, creep, inflexibility, poor accountability – and endless time, red tape and costs imposed on new projects that are ultimately baked into the cost of new housing, raising the price for homebuyers.

Insights from various jurisdictions around the country provides a lens into the scope, scale and breadth of the failings of the current system and can start to inform where policy makers can direct their attention to drive meaningful, durable reform.

The Regulatory Maze

Before exploring the practical impacts of poor strategic planning and development assessment frameworks further below, it is worthwhile seeking to understand the legislative framework that shapes outcomes.

Queensland is emblematic of the regulatory maze that projects need to navigate to reach fruition. The table below shows just some of the national and state Acts, Codes, Standards and Regulations that apply to the industry in the state – let alone all their hundreds of subsidiary provisions or instruments, which are in turn subject to interpretation by agencies, or application in differing ways by local government.

Each state and territory has its own labyrinth that applies to new projects – a mix of planning, environmental, tax, geotechnical and other laws and standards that need to be considered, resolved and navigated on the road to completion.

But the Queensland example provides an insight into the complexity of systems that govern housing supply across the nation.

<i>Planning Act 2016</i>	<i>Planning Policies</i>	<i>State Regional Plans</i>
<i>Local Government planning schemes</i>	<i>Temporary Local Planning Instruments</i>	<i>Planning scheme policies</i>
<i>Development Assessment System</i>	<i>Queensland Heritage Act 1992</i>	<i>Queensland Building and Construction Commission Act 1991</i>
<i>Queensland Development Code</i>	<i>National Construction Code</i>	<i>Building Act 1975</i>
<i>Building Regulations 2006</i>	<i>A New Tax System (GST) Regulations 2019 (Federal)</i>	<i>Land Title Act 1994</i>
<i>Land Sales Act 1984</i>	<i>Professional Engineers Act 2002</i>	<i>Chartered Engineers Australia (Royal Charter)</i>
<i>National Engineering Register</i>	<i>Queensland Urban Drainage Manual</i>	<i>Australian Standards</i>
<i>SEQ Water Act 2009</i>	<i>Water Supply Code of Australia</i>	<i>Gravity Sewerage Code of Australia</i>
<i>Water Authorities Standards</i>	<i>Workplace Health and Safety Act 2003</i>	<i>Workplace Health and Safety Codes</i>
<i>Austroroads</i>	<i>Manual of Uniform Traffic Control Device</i>	<i>Economic Development Act 2012</i>
<i>Manufactured Homes Act 2003</i>	<i>Local Government Act 2009</i>	<i>Electoral Act 1992</i>

No doubt – some of these provisions have individual merit. Our industry is highly conscious of the need for clear and concise rules that dictate, for example, health and safety laws, environmental considerations or building standards.

Our industry understands the need to balance economic, social and environmental factors too. Australia's property companies are pioneers in sustainability across the built form. They have rigorous standards and reporting regimes for health and safety.

In short, the social license to operate is taken seriously, given the industry exhibits professionalism in its approach and understands the responsibilities it holds.

However, as an industry that is a workhorse for the nation – delivering jobs, great cities and regions, prosperity and a role in fulfilling the aspiration of home ownership – the gap between our willingness to do heavy lifting and the regulatory hurdles placed in front of us is significant.

THE LAND SUPPLY DROUGHT IN EFFECT

As outlined in our earlier analysis of the medium and long-term analysis of housing demand, supply and affordability, Australia has endured two decades (at least) of disconnection between supply and demand.

This continues to present itself time and again – so it should be no surprise that we are currently facing a land supply shortage that will inhibit our capacity to meet near and medium-term demand for new housing. There is a temporary element to some of the shortages, but they need to be seen in context of the long-term trend.

For example, according to the UDIA [State of the Land 2021 report](#), the demand driven by the combination of record low interest rates, pent up demand and stimulus initiatives like *HomeBuilder* exhausted large amounts of supply.

In greenfield markets, national residential annual lot releases increased by an average of 47% in 2020, with a total of 54,860 lots released across the capital city markets. In fact, by the December 2020 quarter, the national greenfield lot clearance rate was 105%, with sales exceeding releases by 5% (taking into account carry-in unsold stock into the quarter).

The hangover effect is that land supply is at near historic lows in many key regions across Australia and new land releases continue to sell out in quick time with upward pressures on pricing. The time frame from sales to delivery of land titles to purchasers is out to approximately 12 months in many jurisdictions.

In a recent submission to the National Housing Finance and Investment Corporation (NHFIC), UDIA detailed land supply constraints across the nation – based on member feedback, up to date sales results, new project and stage releases and a strong understanding of future supply pipelines.

For example:

- **In Sydney**, our estimate is the available supply of unconstrained lots is 20,000 – against an annual average consumption of 11,500 lots. In fact, the UDIA's NSW Division estimates there are as few as 350 lots for sale in mid-2021.
- **In Brisbane**, there were just 5905 approved lots in the pipeline at the end of December 2020, which represents just 3.1 years of average supply – against the industry benchmark of four years being needed to sensibly sustain markets.
- **On the Gold Coast**, the estimated number of lots (3,372 as at December 2020) represented just 1.7 years of average supply.
- NHFIC's own report suggests **Adelaide** is soon to enter a period of under-supply against demand and forecasts 'supply is likely to remain soft and below demand from 2022' – which reinforces the need for quick responses by governments and councils
- **In Perth**, the heightened activity of 2020 led to a reduction in the stockpile of available stock from 9.8 months in December 2019 to 3.4 months in December 2020.
- **In Melbourne**, the availability of stock continues to reduce, with 8,500-9,000 lots sales in the March 2021 quarter across greenfield areas – well above the long-term average and diminishing the capacity of active estates to create reasonable competition that keeps lot prices affordable when demand surges.

CASE EXAMPLES FROM AROUND THE NATION

As stated above, there are temporary elements to some of these shortages. However, they are emblematic of a chronic inability of state and local governments to build durable land supply programs, aligned with infrastructure investment, that can meet medium and long-term market demands.

A few insights and case examples from differing jurisdictions put the impediments and their effects up in lights.

Greater Sydney Megaregion – A Flag Bearer for The Crisis

In June 2021, UDIA NSW released a new report detailing the scale of the existing and future shortfalls facing land supply and greenfield housing markets across the Greater Sydney Megaregion – stretching from Wollongong to Newcastle, and inclusive of Australia’s largest capital city and 90 percent of new housing supply in NSW.

The 2021 [Greenfield Land Supply Pipeline Report](#) placed the shortages in the context of historical and future demand. It identified that:

- The NSW Government’s own Intergenerational Report said **NSW needed to build 42,000 new homes per year** for the next 30 years.
- The benchmark for **demand in greenfield housing markets was 14,000 new homes** on an annual basis – yet Sydney failed to reach the target even during the peak of the building boom in 2016.
- Against that annual demand for 14,000 lots per annum, **the prospects for success are low**.

Even if all expected lots are delivered up until FY29, including those currently requiring rezoning or facing infrastructure constraints, supply will still fall short of demand by 3,200 lots per annum. **At the current expected rate of land release there will be over 25,600 greenfield homes of additional unmet demand in the Greater Sydney Megaregion by FY30.**

That, however, is the best case scenario.

Just to achieve that result, however, the report identified:

- 32 locations that have estates which need to be rezoned by FY24 – and 13 of those locations are now urgent
- As well as rezoning, 80 percent of lots that are hoping to be delivered between FY22 and FY29 require enabling infrastructure
- Across a range of 16 major precincts identified as priority for rezoning by the NSW Government, they have faced an average wait of 5.6 years since their announcement
- Across some sub-regions, more than two-thirds of lots to be delivered are constrained by basic enabling infrastructure such as state roads, sewer and water infrastructure.

In reality, the shortfall will be much, much higher causing escalating prices, lower rates of home ownership and a loss of economic activity. In NSW it takes around 7-10 years from identifying land for housing to secure rezoning and trunk infrastructure, before the first home is built in a major residential subdivision.

NSW has a miserable history – across political, economic and financial cycles – in servicing housing demand and the effects have never been felt more acutely.

Poor Strategic Planning V1 – South Australia

In 2016, South Australia's Parliament passed the Planning Development and Infrastructure (PDI) Act. Amongst other things, the PDI Act introduced and outlined the process for reviewing the Environment and Food Production Areas (EFPA) for Greater Adelaide.

Under the PDI Act the State Planning Commission is required to conduct an independent review every five years to assess future housing requirements. It is to consider available supply having regard to the principle of urban renewal and consolidation of existing urban areas and whether adequate provision cannot be made within Greater Adelaide to accommodate housing and employment growth over the longer term.

Implementing changes from reviews however require legislative amendment for which the UDIA argued against because it leaves the process hostage to legislative politics. This now presents a great risk for South Australia in its capacity to quickly respond to affordability challenges like we are now seeing in certain parts of Adelaide. In June this year the SPC completed its first review and under this infrequent and slow responding model a declaration has been made that there is sufficient land supply:

- Without the benefits of the most up-to-date available data, including using the State's electronic titling systems to undertake informed analysis
- Using population forecasts that pre-date the effects of COVID-19, and its effects on overall population growth, including the influence of Net Overseas Migration and interstate migration
- Failed to consider land use patterns within the EFPA to assess availability by, for example, neglecting the swell of demand across southern greenfield and infill micro-markets – and instead made a city-wide assessment of demand and supply.

The consequence is that Adelaide now faces assessment of its long-term strategic planning and housing needs made based on outdated assumptions, with outcomes that will be cemented in place until a future review, and even then, it will be subject to a political process which does not guarantee an outcome.

Poor Strategic Planning V2 – Western Australia

The *Perth and Peel @3.5 million* planning frameworks set out a strategic plan for Perth and Peel that intends to support a population of 3.5 million – which it predicts will be met in 2050. UDIA supports the aims and objectives of the framework, but the application of pseudo urban growth boundaries is stalling progress.

Many of Perth's larger development estates are now reaching their full development capacity. These estates will not be replaced, as across the Perth and Peel Regions, zoned and serviced large land parcels with workable development constraints are becoming increasingly scarce. Across Perth and Peel, we estimate that there is now just 6.4 years' worth of lot supply remaining (at long-term average rate of consumption).

The capacity to properly test and plan for future housing requirements is further undermined by the absence of high-quality information to inform policy makers. For example, the Western Australian Planning Commission's Urban Growth Monitor (UGM) plotted the gross availability of land

However, once the UGM was scrutinised – with land allocated for other uses such as parks, environmental purposes, and highly-fragmented land that couldn't be effectively developed – it meant there had been an over-estimation of actual supply for new housing development by as much as 37 percent.

South-East Queensland's Master Planned Communities

Large, master-planned communities with over 10,000 lots are an integral component of sustainable land supply pipelines. They deliver housing at scale, smooth housing supply and usually service the first home buyer market by providing affordable product.

Unfortunately, the delays in bringing them to market in Queensland are now acute. Master planned communities can now take 12-14 years to move from acquisition to delivery, and the opportunities for new ones are now almost nil.

The South-East Queensland urban footprint is now a restriction on the industry, as is the drift away from a developer-led framework for identifying, acquiring and seeking approval of new sites to one almost exclusively in the hands of government.

The issues are complicated further by:

- The need to obtain approval for rezonings from both local and state governments
- The slow pace of approvals
- Environmental overlays in growth corridors diminishing the yield, and capacity for contiguous sites, and
- The absence of coordinated planning for enabling infrastructure, such as sewer, stormwater and traffic in many areas.

The diminishing pipeline of master planned communities is already being felt in tight land supply opportunities but will escalate over time as future opportunities dry up further.

ZONING EFFECTS – THE COSTS

In March 2018 the Reserve Bank of Australia published a research discussion paper – The Effect of Zoning on Housing Prices. The paper showed that the zoning impact of restricted supply for housing development had a major impact on physical input costs of between 42% – 73% for Australia’s major capital cities.

Table 3: Average House Price Decomposition				
\$'000 (per cent of total), 2016				
	Perth	Brisbane	Melbourne	Sydney
Dwelling structure	242 (41)	267 (49)	268 (34)	395 (34)
Land	346 (59)	275 (51)	524 (66)	765 (66)
Physical land	140 (24)	116 (21)	201 (25)	276 (24)
Zoning effect	206 (35)	159 (29)	324 (41)	489 (42)
Total	588 (100)	542 (100)	793 (100)	1 160 (100)
Zoning effect as a percentage of physical input costs	54	42	69	73
Sources: Authors’ calculations; CoreLogic				

This deep problem significantly impacts our global competitiveness, with all our capital cities in the top 20 or so least affordable cities to purchase a house in the world. The final paragraph of the RBA paper outlines the challenge for government to deliver a coordinated planning and infrastructure response to open up pathways to increase land and housing supply:

‘If housing demand continues to grow, as seems likely, then existing zoning restrictions will bind more tightly and place continuing upward pressure on housing prices. Policy changes that make zoning restrictions less binding, whether directly (e.g. increasing building height limits) or indirectly, via reducing underlying demand for land in areas where restrictions are binding (e.g. improving transport infrastructure), could reduce this upward pressure on housing prices.’

TAXATION ON PROPERTY

The weight of taxation that falls on housing production is high – and ultimately baked into the cost of new housing paid by homebuyers.

The entire supply chain is taxed by **all three tiers of government**; on each of the **land acquisition, project development and acquisition phases** of housing; and on both the **ownership and transfer** of land and housing

From the moment a developer acquires a site and pays stamp duty on the transaction, costs begin to accrue. They include ongoing land tax costs on the site through its development phase; state and local infrastructure charges (often tied to the development approval itself); foreign investment surcharges by federal and state governments; myriad open space, environmental and other levies; stamp duty (again) on the final transaction; and of course, GST on new housing is input taxed.

The precise costs incurred from taxation as a proportion of new housing varies – from state to state, even by local government area, and depending on the type of housing (i.e. greenfield vs infill).

What's inescapable is the cumulative cost is an excessive weight that needs to be carried by homebuyers, both at the purchase phase, as well as over the life of mortgages inflated by these costs.

Case Example – Victorian Taxes and Charges

In March 2021, UDIA Victoria released a report commissioned via Urban Enterprise to analyse the cumulative quantum and impact of development contributions, fees and charges on the cost of new housing. This included both greenfield and infill housing projects.

Under a **brownfield housing scenario** modelled, the additional burden baked into an apartment valued at \$600,000 included:

- The cost of **contributions, fees and charges** on a new project - estimated at **\$66,900 per dwelling**
- The cost of **taxes** on the apartment - estimated at **\$98,300 per dwelling**
- The total cost of taxes, contributions, fees and charges - equalling **\$164,200 per dwelling**

The share of the final price due to these costs equated to **28 percent of the price paid by the purchaser**.

Under a **greenfield housing scenario** modelled, the additional burden baked into a lot valued at \$330,000 included:

- The cost of **contributions, fees and charges** on a new project - estimated at **\$52,000 per lot**
- The cost of **taxes** on the apartment - estimated at **\$94,100 per dwelling**
- The total cost of taxes, contributions, fees and charges - equalling **\$146,100 per dwelling**

The share of the final price due to these costs equated to **44 percent of the price paid by the purchaser**.

The table below gives insight into the collation of taxes, charges, fees and contributions which are (or can be) paid on new projects in these examples.

GST on transaction	Land tax on land holding	Stamp duty – on site acquisition, and again on sale
Vacant residential land tax	Council rates	Metropolitan Planning Levy
Planning Permit Fees	Subdivision Fees	Development Contributions
Drainage Contributions	New Customer Contributions	Building Permit Levies
Cladding Rectification Levy	Public Open Space Contributions	Affordable Housing
Transport Levy	Community and Recreation Levy	

Value Capture – Double Taxation

There has been increased dependence on value capture, in its myriad forms, as a new revenue source by governments, particularly at a state and local level – but it has also been contemplated at a federal level.

In most scenarios, value capture is double-dipping on other taxes already imposed on new housing development. For example:

- Both land tax and council rates are already designed and structured to capture any increase in the valuation of land and assets (depending on the jurisdiction) from infrastructure investment or unlocked development potential
- There are a plethora of taxes – such as the Growth Areas Infrastructure Contribution in Victoria or Special Infrastructure Contributions in NSW – that capture the benefit of rezoning and seek to support infrastructure investment
- Local government taxes and charges are already geared towards funding local infrastructure.

Moves to expand value capture should be resisted at all costs. Victoria’s recent example to introduce a so-called windfall gains tax is the latest emblem of the trend. It will add substantially to the cost of acquiring and holding land, stifles projects or render them unviable to proceed, makes it harder to develop new homes and, where projects proceed, it will add to the cost of the reduced number of dwellings that will be built.

Our industry’s exposure to existing versions of value capture at state and local government level is why we seek extremely tight guard rails if any version was to emerge federally. In our view, some basic principles need to guide any value capture policy. These include:

- **Value is captured from all landowners only where and when it actually occurs**, because:
 - Some versions of value capture seek to estimate the amount of gain that is forecast to arise, rather than as it actually accrues as a result of government investment;
 - It provides a better incentive for governments to properly align land use and infrastructure planning and delivery to unlock the value it seeks to achieve;
 - It better recognises the challenges of development, including land amalgamation, planning risk, availability of finance and investment in local infrastructure;
 - It is more likely to see any value capture ‘rate’ set at a level that does not diminish the ability for value to be realised;
 - There is a need to recognise that all landowners, not just those involving in a rezoning or new housing development, benefit from infrastructure investment.

- Any federal contemplation of value capture come with a clear commitment that **existing infrastructure based taxes and charges be eliminated or offset**, and the capacity of state and local government to create new taxes or charges to fund further infrastructure or policy objectives (i.e. affordable housing levies) be constrained.
- That preferably, any consideration of value capture be done as part of a **holistic review of federal, state and local taxation**.

Infrastructure Charging

The National Housing Finance and Investment Corporation (NHFIC) recently a research paper in August 2021 analysing the costs and effectiveness of local infrastructure charges and levies. The report correctly identified that both the quantum of charges adversely affects housing affordability, and the regime for distributing revenue raised from them is ineffective in delivering timely enabling infrastructure needed to unlock housing supply.

In some of the scenarios modelled, the costs of developer contributions were as high as \$85,000 per house, and as much as 20 percent of the price paid for finished product by homebuyers. (See the table below).

The report also acknowledged homebuyers were effectively subsidising – via the infrastructure charges they carry the cost of – infrastructure that benefits the entire community, and there was little transparency in the calculation, collection and distribution of revenue.

Figure 1a: Greenfield Development Costs (\$)

	NSW 1	NSW 2	NSW 3	NSW 4	NSW 5	NSW 6	VIC 1	VIC 2	VIC 3	QLD 1	QLD 2	QLD 3	QLD 4
Total costs ^{(a)(b)}	579,000	892,000	464,000	429,000	460,000	366,000	509,000	449,000	544,000	409,000	399,000	424,000	365,000
<i>Of which:</i>													
Land Cost ^(c)	22,000	280,000	255,486	205,335	230,159	138,462	38,250	45,000	71,000	35,000	33,000	46,956	30,690
Construction	350,000	425,000	66,071	62,338	101,801	123,642	248,370	250,000	306,000	249,325	249,325	270,598	257,367
Services and Finance	159,000	76,500	65,889	65,443	59,999	67,902	143,333	108,000	113,900	88,000	85,000	54,498	45,510
Developer Contributions	25,000	85,000	63,000	85,000	52,000	25,000	76,664	37,000	52,000	35,000	29,300	41,579	29,300
Other Govt Charges	22,500	25,500	13,612	11,154	15,975	10,675	2,260	8,500	1,000	2,000	2,000	10,213	2,000

(a) GST is excluded and total costs are rounded to the nearest thousand.

(b) Source: Macroplan, NHFIC, developers

(c) Land values are all based on purchase cost, and not necessarily reflective of current fair valuation of land.

With regional infrastructure contributions and other taxes and charges, the total tax bill ranges from 33% to 44% of the price of a new home.

UDIA RECOMMENDATIONS - HOUSING SUPPLY AND AFFORDABILITY SOLUTIONS

In responding to the crisis the nation finds itself in, UDIA encourages policy makers to act with urgency and finally seize the opportunity to transform the policy landscape governing housing production.

That is why UDIA recommends a series of clear and implementable solutions spanning tax, regulation, legislative reform, financial support and market research that are collectively needed to fix housing affordability.

Cherry picking one or choosing components of these recommendations will not be sufficient. It requires a full-throated endeavour on behalf of governments, across the political aisle, and at all levels.

1. Tax Reform

The Commonwealth Government has – in recent years – taken a hands-off approach to tax reform, particularly those involving substantial state taxes that burden property. This is neither purposeful, nor logical.

Meaningful tax reform is achievable, but it requires a whole-of-federation endeavour. The central purpose of tax reform is to lift economic growth, productivity and prosperity right across the economy – so naturally, it needs to involve all tiers of government.

In the case of a switch from stamp duty to land tax, for example, the entire national economy would benefit from the elimination of one of the most inefficient and perverse taxes in our system. Stamp duty distorts economic choices and mobility, burdens homebuyers, reduces housing choice and compromises the stability and reliability of government balance sheets given stamp duty fluctuates wildly with housing cycles.

Put simply, the nation would be better off with its abolition and broad-scale tax reform is required to achieve it.

NSW Tax Reform – An Opportunity For Collaboration

The NSW Government has embarked on a process of seeking to modernise its tax base, improve economic productivity, reduce the barriers to entry to home ownership and boost choice across housing markets.

Its [Progress Paper](#) – released in June 2021 – detailed myriad reforms, but the centrepiece is a shift from stamp duty and annual land tax to an annual property tax, with phasing provisions to offer homebuyers choice on the way through.

However, the paper also highlights there are substantial transitional costs, and NSW would lose up to \$1 billion in GST revenue per year if it proceeds with the reforms, whilst the Commonwealth stands to gain from the economic uplift they deliver.

NSW has support Commonwealth support for the changes, potentially via a new fund that uses the fiscal dividend accrued to the Commonwealth to reward states that engage in productivity-boosting reform.

However, to date, the Commonwealth has not responded favourably – saying the states will need to fund tax reform from their own balance sheet. This ignores the benefits that flow to the national economy and the Commonwealth's own balance sheet and should be revisited.

UDIA Recommendation: The Commonwealth should seize the opportunity presented by the NSW Government's taxation reform agenda and facilitate a holistic partnership with the states to drive economic growth, productivity and improved housing affordability.

2. EPBC Reform

The single largest drag – at a Commonwealth level, and in some cases, overall – on new housing projects is the Environment Protection and Biodiversity (EPBC) Act. That is why we welcomed as timely and important the commencement of the Act’s review in November 2019, as the current system neither facilitated efficient urban development outcomes, nor good environmental outcomes.

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

Case Example: Perth

Land identified by the State Government for development purposes is becoming increasingly constrained by environmental challenges. Within the Perth and Peel Regions the number of ‘Matter of National Environmental Significance’ (MNES) listings have doubled since 2000 adding further complexity to the process. This together with the absence of strategic assessment or a single environmental approval body, means the strategic planning framework is not supported by a strategic environmental approval framework. This adds uncertainty, regulatory costs and time to the production of new homes.

To date, the contours of the pathway to reform are encouraging. However, there will need to be continuous, robust and dedicated focus on the design and transition to a new, more efficient and streamlined system to fulfil the Government’s stated goals. This includes supporting the precise design of new environmental standards to underpin the potential new EPBC system, creation of a ‘single-touch’ system and sufficient investment in the creation of national and regional landscape planning.

Each element of the reform agenda is essential, and the risk is if one pillar either stalls or fails, the interdependency of the framework governing the EPBC means the entire system will fail.

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

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

3. Leveraging Commonwealth Investment in Infrastructure

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

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

The Commonwealth should be seizing the opportunity to yield a stronger dividend from this investment and accelerating a better mix of housing outcomes when it invests heavily in large projects like urban rail that lends itself to urban renewal and city-shaping growth.

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;
- Synchronising investments with the objectives of the long-term strategic land use and infrastructure plans in place for each of our major capital cities;
- Ensuring integrated approval regimes are applied to infrastructure to also accommodate housing (and other uses) which are attached to them;
- Linking infrastructure funding to local regions prepared to accept their fair share of population growth and synchronised with increases in housing supply;
- Greater focus on local-scale infrastructure which can generate significant improvements based on a relatively small spend and in turn kickstart new housing;
- Charting and removing the barriers to the delivery of roadblocks to the delivery of more diversified housing stock, particularly support for Build-to-Rent as a viable asset class and encouraging mixed tenure affordable housing; and
- Planning for an ageing population by ensuring the diversity and facilitation of housing choices for seniors is accommodated.

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

4. The Role of The National Housing Finance And Investment Corporation (NHFIC)

NHFIC has been a welcome addition to the policy landscape – expanding the Commonwealth’s capacity to drive better outcomes via improved market knowledge, infrastructure funding solutions and support for affordable housing.

However, its agenda should be expanded and accelerated, with a greater focus on accounting for performance across housing and planning systems and enabling the reform of policy settings that will help yield a sustained supply of housing and ease pressure on prices.

There is also capacity to better leverage the funding that is deployed by NHFIC to reflect some limitations in how it is currently structured, accessed and maximised.

There are three headline priorities:

1) Achieving a Double Dividend in regional enabling infrastructure

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

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

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

Across each of our capital cities, a substantial number of potential land lots sit idle because of the gap in the provision of enabling infrastructure – water, sewer, power and roads. For example, in Sydney, the estimate is as high as 90,000 lots which cannot be developed for this reason.

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

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

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

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

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

UDIA recommends an allocation of \$1 billion be made under NHFIC's investment mandate – to be matched by each state and territory – to unlock regional-scale enabling infrastructure matched to specific new housing supply targets set at the outset.

UDIA also recommends a dedicated process be established to allow project proponents to make a direct, merits-based application for support under the Fund to unlock new housing.

2) *Refine the First Home Loan Deposit Scheme*

In prior submissions that related to the role of NHFIC, Federal Budgets and the First Home Loan Deposit scheme, UDIA National urged the Commonwealth to recognise that the initial tranches of funding and placements were a clear plus – but skewed towards the acquisition of existing stock.

That is why we were pleased that in October 2020, the Commonwealth announced a new round of 10,000 placements that were exclusively available for people seeking to purchase newly constructed housing – a measure replicated in the May 2021 Budget.

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

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

UDIA recommends that the Commonwealth Government make permanent the annual allocation of 10,000 places available under the First Home Loan Deposit scheme exclusively for the purchase of new homes or newly constructed homes.

3) *NHFIC's Research Mandate*

UDIA National is pleased that the mandate for NHFIC giving it the license and capacity to conduct research into housing supply, demand and affordability is in place.

UDIA National has long supported such a function being available to the Commonwealth Government – and it is important to recognise that the former National Housing Supply Council conducted important work providing much needed analysis of housing markets during its period of existence.

However, we would encourage NHFIC to accelerate and broaden the scope of its work given the need to break down the barriers to housing supply that need to be eliminated before Australia is able to meet underlying demand and in doing so, improve affordability.

Given Australia has one of the least affordable housing markets in the world, an aggressive agenda is needed to transform market engagement, policy settings, accountability, the performance of lower tiers of government and housing diversity.

There is a particular need for focusing on the cost of new housing – both via the regulatory barriers that inhibit projects, but also tax reform, given taxes, charges and fees can account for more than 40 percent of the cost of new housing for purchasers in major capital cities.

This includes:

- Ensuring the population data and assumptions that underpin research undertaken or commissioned by NHFIC should align with equivalent baseline information used elsewhere within government. This should include ensuring the data sets align with those used in the refresh of the 2021 Intergenerational Report, and the equivalent used by the new Centre for Population, and Infrastructure Australia.
- Identifying and recommending removal of inefficient red and green tape, as well as statutory charges, that act as both a handbrake and a cost impost on the delivery of new housing.
- Mapping the existing mix of taxes and charges that are imposed on new housing, their relative efficiency (or inefficiency) and equity (or inequity) as a first step in transforming the tax burden carried by new homebuyers.
- Establishing a pathway for the removal of federal tax barriers, including the Managed Investment Trust (MIT) and GST rules, that can be unlocked to encourage rapid expansion of Build-to-Rent and complement endeavours by some state jurisdictions to encourage its development.
- Ensuring the states and territories are facilitating a sufficient diversity of housing choice to reflect demographic shifts, such as housing choices for an ageing population or the demand for new models of rental stock such as built-to -rent.
- Assess whether there is potential to support other schemes that widen the opportunity for home ownership, such as shared equity or initiatives like KeyStart (which operates in WA).

UDIA recommends NHFIC commences a robust research agenda to improve the quality of data on housing market dynamics, reduce red and green tape, account for the tax burden on housing and improving housing diversity.

5. A new framework to incentivise reform

The Federal Government's capacity to drive reforms of housing markets primarily comes via the leverage it holds from the Commonwealth's financial clout and the partnerships in place with states and territories.

The primary vehicle for collaboration is the National Housing and Homeless Agreement (NHHA) – which provides around \$1.6 billion annually to states and territories to help improve access to secure and affordable housing across the spectrum.

The proviso is that states and territories are to have housing and homelessness strategies that address a spectrum of priority issues. These incorporate social, affordable and community housing, tenancy reform, home ownership and planning and zoning initiatives.

UDIA National recognises homelessness is a unique component of these agreements that is caused by myriad social and economic factors that extend well beyond the functioning of housing markets, and we do not present ourselves as subject matter experts on those societal and economic factors, nor the precise design of services required by homeless people – notwithstanding our view that home ownership gives people essential economic security and can support good social outcomes.

There is little evidence the current system is working to boost home ownership or resolve long-standing planning and zoning barriers. The fact is, as we outlined above housing affordability continues to worsen, the regulatory and tax costs imposed on housing continue to rise, and states (and local government) consistently fail to meet housing supply targets. These failures in turn inevitably lead to greater pressures on the social, community and affordable housing sectors (and the inevitability of future funding demands).

States and territories need to be incentivised to fix the underlying issues that bedevil housing markets and place greater strain on the non-profit segment of the market. An important distinction with the requirements of the current NHHA agreements is that they require evidence of a strategy, not outcomes; nor do they produce sustainable reforms that yield results. Our proposal resolves that.

	Objective	Outcome
1	The Commonwealth Government set housing targets for each state and territory to meet	. . . which is clearly tied to project population growth, tested against actual completions, and transparently and independently tested (see below for more information)
2	A pool of financial incentives made available to states and territories that achieve the targets	. . . to reward states for productivity-inducing reforms that ultimately boost housing supply and affordability
3	States and territories that promote additional growth to be supported	. . . by using the incentives to help fund infrastructure that is needed to support new or growing communities, and enabling infrastructure needed to unlock development.
4	Payments only made for performance	. . . whereby states and territories are only rewarded for meeting housing supply outcomes, not the production of a plan or promise of a strategy.

UDIA National believe this reform would deliver more housing supply, put downward pressure on rents, boost home ownership, lift housing diversity, productivity and economic security across the economy, and reduce the long-term fiscal pressures on the Commonwealth to sustain housing subsidies.

Potential framework of incentives

For the purposes of simplicity, NHFIC should be tasked with designing a benchmark for housing supply targets – as well as a set of reporting metrics on the fundamental elements of planning systems across the nation.

This should include:

Headline Housing Supply Targets

- Each state and territory should be given two housing supply targets – one for the entire jurisdiction, and one for its major capital city (given this is often where the largest pressures and demand fall), that is:
 - Matched to the medium-term population forecasts established independently by the Centre for Population;
 - Measured on a cyclical basis (i.e.: three of five year rolling averages) to remove one-off factors that may influence an outcome, or be dependent on external influences such as fluctuations in interest rates;
 - Tested against actual completions – rather than misleading targets such as approvals.
 - Dependent on independent data, such as the Australian Bureau of Statistics, and transparently reported on a regular basis.
- The development of an independent, concise set of metrics that measure performance and identify barriers to delivering on the targets, and assist states and territories to focus reform endeavours on elements of planning systems that stymie supply, including:
 - The completion of new housing, consistent with the targets-based approach outlined above;
 - The pipeline of zoned and serviceable and (i.e. with enabling infrastructure such as water, sewer, roads and energy in place) that can be developed efficiently to meet the supply targets;
 - Timeframes for approval of rezoning applications and timeframes for development assessment approvals;
 - The cumulative cost of taxes, charges and levies built into new housing.

These metrics should be bundled into the production of annual ‘league tables’ that compare and contrast the relative progress and success (or otherwise) of states and territories.

UDIA Recommendation: The Commonwealth should develop new financial incentives to boost housing supply and affordability, ensuring states are focused on meeting dedicated supply targets and produce metrics and league tables to measure and account for performance.