

18 March 2022

Mr Malcolm Roberts and Romlie Mokak  
Commissioners Housing and Homelessness Agreement  
Productivity Commission  
GPO BOX 1428  
CANBERRA CITY ACT 2601

via email: [housing.agreement@pc.gov.au](mailto:housing.agreement@pc.gov.au)

Dear Mr Roberts and Mr Mokak,

**UDIA National, Housing and Homelessness Agreement Review (NHHA) Submission**

Thank you for the opportunity to provide our comments on the NHHA review.

The NHHA is a critical piece of inter-government collaboration to ensure Australians can access affordable, safe and sustainable housing across the spectrum.

As the Australian economy recovers post pandemic, the new NHHA must incentivise and coordinate delivery and access to housing across the spectrum from homelessness, affordable/social housing, through to at-market rental and home ownership.

In a complex, interconnected system like housing, unresolved problems have cascading effects across the housing spectrum. For example, shortages of suitable land to deliver new dwellings, drives up prices and ordinary Australians are forced to rent for longer at higher rates, inevitably pushing others into social and affordable housing. And on it goes.

Access to housing is impacted by a myriad of factors. With limited funds, it is critical for Governments to target factors that touch as many aspects of the housing spectrum as possible for the greatest impact.

The common thread impacting across the entire housing spectrum is the imbalance of supply and demand, which ultimately feeds into housing affordability. Balancing supply and demand across the housing spectrum will have the greatest impact on access to housing. The solutions touch all core concerns of the NHHA and provides cumulative benefits by reducing pressure on government social programs.

Critically, the robust strategy pursued by the Federal Government over the past two years, which sustained Australia's economy through the COVID-19 pandemic, included construction as an economic driver and job creator. It positioned the nation for a strong post-pandemic recovery.

Both population growth, (to underpin employment), and property development & construction, will be vital elements for economic recovery. Development & construction is an engine room of the economy and critical to boosting productivity, delivering some 9% of Australia's GDP. They are also key factors for access to housing and a focal point for issues impacting the success of the NHHA.

Historically thin and declining supply pipelines, together with pandemic-driven material and labour shortages means that Australia is set to experience further deterioration in housing affordability as Australia recovers, unless we can stimulate supply across the housing spectrum to meet that demand.

Already, much of Australia is experiencing an unchecked housing affordability crisis. Our own State of the Land Report 2022, confirms critically low housing supply in key cities of Sydney, Brisbane and Melbourne is restricting housing delivery and holding back families from finding a home. This is evidence enough that the NHHA needs to be recalibrated to better deal with a post-pandemic economy.

Solving these issues requires strategies and multi-faceted solutions that address problems across the housing spectrum. Nothing short of a nationwide housing strategy can achieve this aim.

The NHHA is critical to the future prosperity for Australians. UDIA National is recommending clear and implementable policy solutions for the Federal Government to lead a nationwide housing strategy to incentivise step change solutions that:

- 1. Drive change across Government** – development of land/housing supply targets across the spectrum, metrics that create meaningful solutions for key problems and incentivise change.
- 2. Deliver Durable Strategic Planning and Infrastructure** – measures that give National Housing Finance and Investment Corporation (NHFIC) a mandate to monitor the housing market and the performance of Governments under the NHHA.
- 3. Deliver Core Infrastructure** – measures that unlock enabling infrastructure to free up supply across the housing spectrum.
- 4. Unlock new housing across the spectrum** – measures for a permanent annual allocation of 15,000 places for the First Home Loan Deposit Scheme matched by State/Territory Government schemes to drive growth.
- 5. Prioritise Affordable Housing** – measures to incentivise outcomes for affordable housing including securing ongoing funding from existing Federal, State and Territory tax bases.
- 6. Strip away taxes holding back affordability** – measures for all governments to facilitate a broad-based reform of inefficient taxes to drive economic growth, productivity and improved housing affordability.
- 7. Streamline Environmental Approvals** – measures to improve the administration and effectiveness the Environmental Protection and Biodiversity Conservation Act (EPBC).
- 8. Make Planning Systems Work Effectively** – develop better strategic planning, land use, integrated approvals and housing supply outcomes.

UDIA looks forward to working with the Government to build Australia's economic recovery. We are keen to meet with you to explore how the NHHA can develop a balanced national housing strategy.

Please do not hesitate to contact the UDIA National Director of Policy and Government Relations - Andrew Mihno on 0406 454 549 or me on 02 4415 9170 to discuss this submission.



**Maxwell Shifman**  
UDIA National President

# SUBMISSION: PRODUCTIVITY COMMISSION – NATIONAL HOUSING AND HOMELESSNESS AGREEMENT REVIEW

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

18 March 2021

## About UDIA National

The Urban Development Institute of Australia National (UDIA) is the development industry's most broadly representative peak body with more than 2,500 member organisations - spanning top tier global enterprises, consultants, small-scale developers and local governments.

A poorly appreciated but critical fact is that the new housing development industry already creates the majority of "affordable" housing across Australia – not government. Most new house & land packages, townhouses and apartments created by our membership are sold to the market at or below the prevailing median house price, allowing new entrants into areas which they otherwise cannot afford to purchase. Further, our industry develops the majority of affordable and social housing made available for Community Housing Providers.

As an industry, construction and development contributes 9% of Australia's GDP, creates 1.145 million jobs and generates \$360 billion of annual economic activity<sup>1</sup>.

UDIA has a long history of engaging positively with the Federal Government and its agencies on critical issues relating to the property and development industry.

UDIA advocacy is defined by our state-representative National Council and informed by a diverse membership base, giving UDIA the most extensive network of state councils 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 and dialogue with governments, opposition and the bureaucracy.

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<sup>1</sup> <https://nationalindustryinsights.aisc.net.au/industries/construction>

## Executive Summary

The Urban Development Institute of Australia (**UDIA**) is pleased to provide its response to the Productivity Commission's National Housing and Homelessness Review (**NHHA**).

The UDIA is supportive of the NHHA as a vehicle to drive reforms to improve access to secure, safe and affordable housing across the spectrum, through Federal, State and Territory Government collaboration.

As the Australian economy recovers post pandemic, the new NHHA must incentivise and coordinate delivery and access to housing across the spectrum from homelessness, affordable/social housing through to at-market rental and home ownership.

In a complex, interconnected system like housing, unresolved problems have cascading effects across the housing spectrum. For example, shortages of suitable land to deliver new dwellings, drives up prices and ordinary Australians are forced to rent for longer at higher rates, inevitably pushing others into social and affordable housing which itself suffers from the same land scarcity. Continued imposts on the sector, levied predominantly by state governments, local Councils and authorities, increase the input costs and prices paid by end purchasers for a project to be viable. The escalating prices and housing scarcity push more Australians towards Government support for basic shelter. And on it goes.

Access to housing is impacted by a myriad of factors. With limited funds, it is critical for Governments to target solutions that touch as many aspects of the housing spectrum as possible for greatest impact.

The common thread impacting across the entire housing spectrum is the imbalance of supply and demand, which ultimately feeds into housing affordability. Balancing supply and demand across the housing spectrum, with policies to sustain development-ready pipelines, will have the greatest impact on access to housing for Australians and help short circuit a cycle of Government support for many.

Critically, it also means acknowledging that solving affordability, housing and homelessness, requires co-ordinated policies across affordable, social and at-market housing with consistent funding from Federal, state and territory Governments.

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 respond quickly and efficiently 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 access to housing across the spectrum and meet the demands of a growing population?

Unfortunately, in reality there is:

- A consistent imbalance between supply and demand saw the aggregate national dwelling gap widen to as much as 200,000 dwellings by circa 2010, as calculated by the National Housing Supply Council in their Housing Supply and Affordability, Key Indicators report 2012 - it continues to grow.
- The underlying demand for new dwellings in 2019, prior to pandemic was circa 192,400 (NHFIC).

- In 2020 a total of 180,340 new homes were delivered, followed by approximately 157,600 in 2021, which means at least an additional 46,000 dwellings shortfall.
- An additional shortfall of new dwelling supply across 2020 and 2021 of approximately 46,000 new homes, based on the pre-pandemic annual dwelling demand of 192,400 new dwellings (NHFIC).
- The Productivity Commission Housing and Homelessness paper itself notes that the proportion of home ownership is at 66% and declining, despite 70% of early adults wanting to own a home.
- Housing affordability continues to deteriorate and is acute for low- and middle-income earners.
- Even if governments hit their social housing targets, there will be a shortfall of 102,883 dwellings this year according to Compass Housing.
- NHFIC has noted that currently 5.5% annual growth in social housing stock is needed which is a significant uptick from recent averages of 0.4% from 2011 to 2020.
- NHFIC estimates 727,000 additional social and affordable dwellings are required between 2016-2036 to meet this demand.
- According to AHURI, the current affordable housing shortfall is about 173,000 dwellings.
- There are currently 116,000 homeless people across the country according to Australian Bureau of Statistics.
- NHFIC's State of the Nation's Housing report 2022, has forecast we are three years away (2025) from demand from household formation alone outstripping supply by approx. 20,000 a year and 163,000 by 2032. This will make the unfolding affordability crisis worse.
- The Australian Government's own forecasts show a looming housing supply shortfall once Australia emerges from the COVID-19 pandemic fuelled by a return of overseas migration.

Historically thin and declining supply pipelines, together with pandemic-driven material and labour shortages means that Australia is set to experience further deterioration in housing affordability as Australia recovers, unless we can stimulate supply to meet that demand. This will have a cascading impact across all housing options.

Already, in many parts of the country, an unchecked housing affordability crisis is beginning to unfold. These cumulative factors are evidence enough that the NHHA needs to be recalibrated to better deal with a post-pandemic economy.

**The market lacks the development-ready land (provision of enabling infrastructure – water, sewer, power and roads and with environmental approvals in-place) to build the pipeline needed to service pre-pandemic levels of housing demand. Further, we will soon face a surge of additional pressures once our immigration and population trajectory returns to business-as-usual settings.**

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.

**NHFIC forecasts make it clear that underlying demand from household formation alone, will soar to 194,900 within two years – which is well in excess of the long-run average production of 166,400 homes per annum. The distortionary effect on prices will inevitably be severe, if we do not act now.**

The UDIA National State of the Land Report 2022, confirms critically low housing supply in key cities of Sydney, Brisbane and Melbourne is now restricting housing delivery and holding back families from finding a home.

In short, the data shows that less homes are being sold, but prices continue to rise because there simply isn't enough houses to sell. Very basically, market demand is outstripping market supply and there isn't even enough supply to sustain last year's activity level. Sales of green field lots could plummet as much as 43% but will be sold at ever increasing prices.

Solving these issues requires strategies and multi-faceted solutions that address problems across the housing spectrum. **Nothing short of a nationwide housing strategy can achieve this aim.**

**Our submission seeks to do three things:**

1. Explain the impact of COVID on 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. Recommend clear and implementable policy solutions for the Federal Government to lead a step change across the nation that can resolve these issues.

Our recommendations provide a broad outline of strategies to formulate a National Housing Strategy.

## RECOMMENDATIONS:

**UDIA Recommendation 1: The NHHA 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.**

**UDIA Recommendation 2: The NHHA agree the Commonwealth Government make 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 Recommendation 3: A dedicated process be established to allow project proponents to make a direct, merits-based application for support under the \$1 billion Fund to unlock new housing.**

**UDIA recommendation 4: The NHHA agree the Commonwealth Government make permanent the annual allocation of 15,000 places available under the First Home Loan Deposit scheme exclusively for the purchase of new homes and this should be matched by State and Territory government schemes.**

**UDIA Recommendation 5: The NHHA agree 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. The data will be part of NHHA's metric monitoring process with State and Territory Governments.**

**UDIA Recommendation 6: The NHHA incentivise all governments to prioritise specific outcomes for affordable housing including secure ongoing funding from the existing Federal, State and Territory tax base.**

**UDIA Recommendation 7: The NHHA agree all governments facilitate a broad based reform of inefficient taxes to drive economic growth, productivity and improved housing affordability.**

**UDIA Recommendation 8: The NHHA agree the Commonwealth Government incentivises state and territory Governments to increase stamp duty thresholds and ensure median house prices attract materially lower rates.**

**UDIA Recommendation 9: The NHHA agree the Commonwealth Government reform the administration and effectiveness of EPBC framework to include a single point of contact process.**

**UDIA recommendation 10: The NHHA be used by the Commonwealth Government to develop 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.**

## 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:

- **9 percent of national economic activity is generated by development construction** – and was higher at the peak of the housing construction cycle<sup>2</sup>.
- **1,450,000 total jobs employed in the construction sector.**
- The combination of direct and indirect output from new housing and construction alone equalled a mammoth **\$360bn in economic output** (not including associated infrastructure).



**9%**

of **national economic activity** is generated by development construction (and was higher at the peak of the housing construction cycle).



**1,145,000**

**total workers employed in the construction sector** - making it one of the largest employers in the nation.



**\$360bn**

in direct and indirect **economic output** from new housing and construction (not including associated infrastructure).

Every dollar spent in housing and construction delivers **\$2.90** to the Australian Economy

Supports 11% of Australia's workforce

Every dollar spent on housing and construction is distributed between **40+ trades and businesses**

The industry significantly **boosts secondary markets** including manufacturing and retail

Critically, the robust strategy pursued by the Federal Government over the past two years, which sustained Australia's economy through the COVID-19 pandemic included construction as an economic driver and job creator and positioned the nation for a strong post-pandemic recovery.

The Federal Government's early focus on the housing and construction sector has paid dividends, with the Commonwealth Government's housing stimulus package - HomeBuilder - serving as a centrepiece, particularly for detached housing. The initiative has been a public policy success, with more than 130,000 applications – driving jobs and investment up and down supply chains. Together

<sup>2</sup> [Construction | National Industry Insights Report \(aisc.net.au\)](https://www.aisc.net.au/national-industry-insights-report)

with the Home Deposit Guarantee, these initiatives have also helped foster a short-term "renaissance" in Australian's being able to purchase their own homes more easily.

The post pandemic focus will be on kickstarting economic growth. Property and construction is the engine room of the economy. Each dollar spent on property and construction is shared between 40+ trades and businesses with significant secondary boosts to manufacturing and retail jobs, nationwide, with a 2.9x multiplier into the wider economy for every dollar invested into housing.

Given the economic effects of the last wave of the pandemic, the lockdowns, border closures and other impacts, there is a clear urgency to the task of ensuring every policy lever available is geared towards sustainable growth and better outcomes for housing and homelessness.

## State of Housing Markets

Australia's housing markets have been beset by a continuous under-supply for the past two decades – causing an erosion of development-ready land pipelines, housing affordability and equity of access to home ownership. Consistent analysis of housing data shows that:

- Since 2001 the total stock of Australia's residential property has grown by 34% or 2.8 million dwellings, according to ABS data. This represents an average yearly increase of approximately 142,700 dwellings and is the most significant 20-year growth in our nation's history.
- This still failed to meet demand - with an undersupply problem emerging 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 - underlying dwelling demand across Australia was at around 192,400 per annum in 2019, prior to the pandemic.
- Over the last 10 years, median dwelling prices have escalated dramatically with all capital city markets recording strong aggregate price growth:

| <b>10 Year Growth - Median House Price</b> |                              | <b>2011-2021 Aggregate Growth</b> | <b>Median House Price (Dec-2021)</b> |
|--|------------------------------|-----------------------------------|--------------------------------------|
| ACT  | Australian Capital Territory | 84%                               | \$875,000                            |
| NSW  | Greater Sydney               | 116%                              | \$1,230,000                          |
| NT   | Greater Darwin               | 21%                               | \$570,000                            |
| QLD  | Greater Brisbane             | 47%                               | \$647,750                            |
| SA   | Greater Adelaide             | 38%                               | \$550,000                            |
| TAS  | Greater Hobart               | 92%                               | \$652,000                            |
| VIC  | Greater Melbourne            | 79%                               | \$870,000                            |
| WA   | Greater Perth                | 14%                               | \$525,000                            |

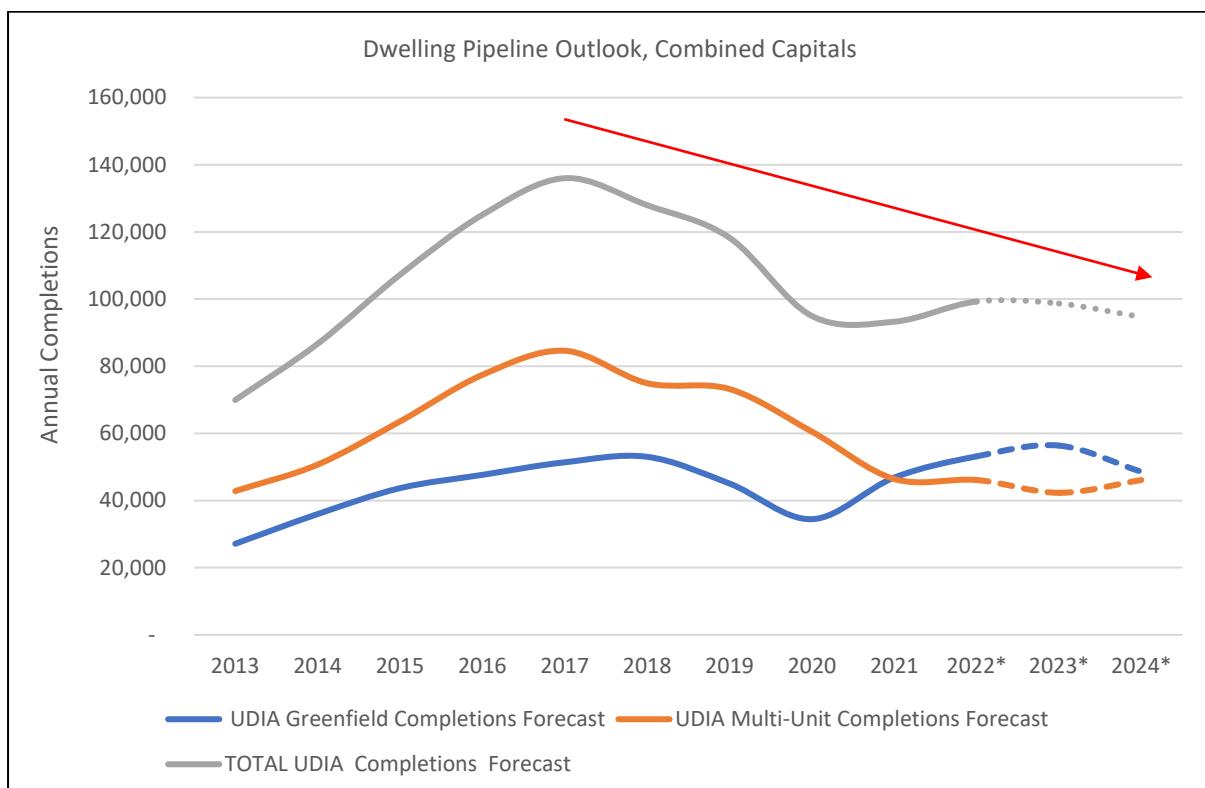
Source: CoreLogic

- Access to home ownership across different socio-economic groups is shrinking, with just 17.6% of the nation's housing stock affordable for low-income households, and 57% for medium income households.
- Post-pandemic, Australia faces another gap between supply and demand – with expected underlying demand picking up to 158,600 dwellings in 2023 on the back of a strengthening

economy and the necessary positive net overseas migration needed to deliver growth and meet the expanding skills shortage. Demand is forecast to escalate to about 181,500 dwellings in 2025 – a similar aggregate demand quantum to pre-COVID levels. 181,500 based on NHFIC 2022 estimations.

These escalating demand numbers face perpetually tight supply pipelines, with an ever-reducing availability of development-ready land (ie: provision of enabling infrastructure – water, sewer, power and roads and with environmental approvals in-place), in major capital cities, approval timeframes continuing to blow out and the weight of regulation and taxes adding to the time, cost and complexity of new projects.

**On current trends, supply pipelines will continue to dwindle in the face of increasing demand.**



The Graph above shows market supply of greenfield and multi-unit completions for the combined capitals. **Critically it shows that since 2017 (pre-pandemic), dwelling supply (houses and units), has been in a steady decline.**

**The pre-pandemic the long run average for total new dwelling supply nationwide is 166,400 (ABS) which is almost 26,000 below the annual pre-pandemic demand of 192,400 for new residential dwellings estimated by NHFIC (2020), as noted previously.**

In combination with these statistics, this chart shows that dwelling supply is diminishing and is unable to exert any significant downward pressure on housing prices especially once the economy recovers.

This has massive impacts on the total housing spectrum. As prices accelerate, more and more Australians are pushed away from home ownership towards rental. Rentals also increase as a factor of the lack of supply and increasing demand of new renters. Ultimately, without major changes to

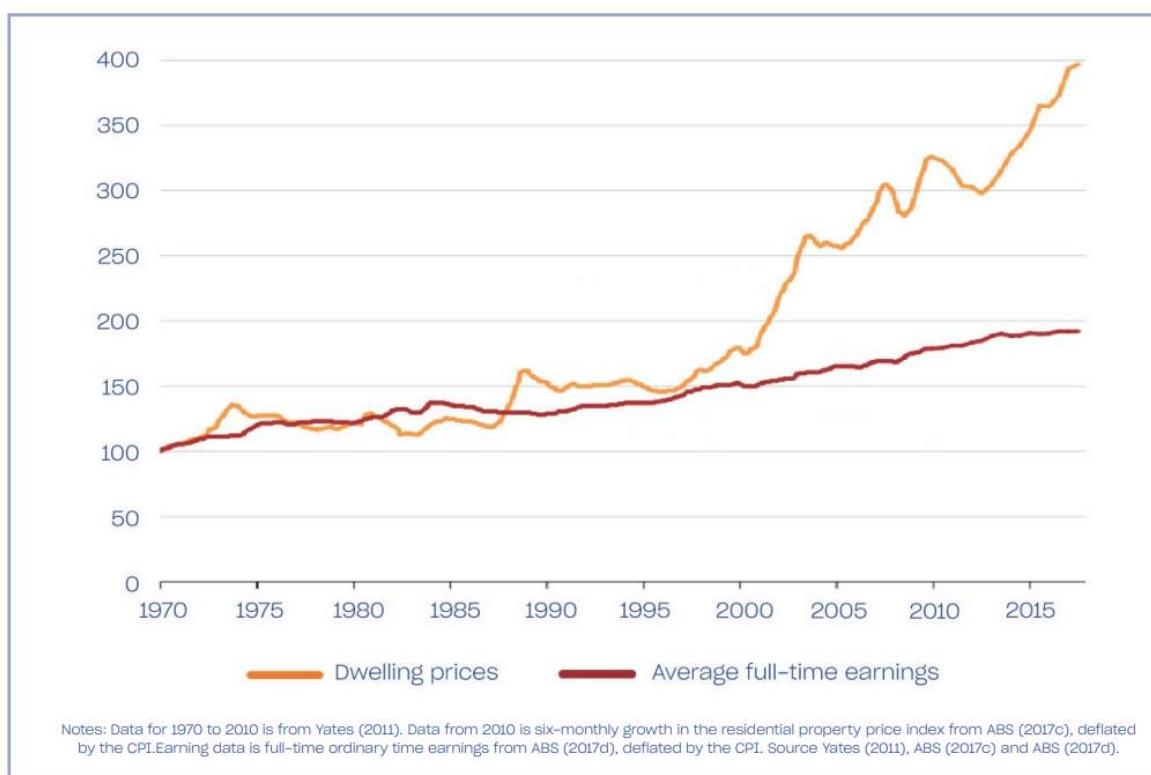
supply, more Australians are pushed by circumstances into affordable housing and onto social housing waitlists, or worse still homelessness.

In effect, unless Australia can bring supply and demand into reasonable balance while maintaining growth and productivity, the funding of affordable, social and crisis housing, (and associated support services), will simply become a larger task year on year without hope of stemming the tide of Australians falling further behind.

**Critically, despite high residential construction in 2017-2019, overall supply only outpaced demand by 4,500 dwellings per annum on average according to NHFIC, so this had negligible effect on relieving the imbalance.**

**NHFIC is currently forecasting demand from house formation alone, will outstrip supply from 2025, by over 20,000 dwellings each year – 163,000 dwellings by 2032.**

## Australian Dwelling Price v Full Time Weekly Earnings 1970-2020



Daley, J. and Coates, B, Housing Affordability: re-imagining the Australian Dream, 2018

In context, it is immediately obvious why housing prices have continued to rise without interruption in Australia since 2012-2013. The problem of housing affordability is clearly worsening with significant flattening of full-time weekly earnings in Australia at the same time as housing prices bounced back after the GFC in 2012.

In the post pandemic environment, for Australia to get back on track with economic growth, immigration will need to open. Population growth will mean stronger housing demand, yet at the same time housing supply is declining across the country.

**Critically, housing affordability issues are not a problem of increased population, but simply the symptom of failing to plan for growth.** The lag time in developing new housing supply means that,

unless the housing market is primed now with strategies to stimulate supply to match demand, we will see increasingly chronic affordability issues across the Australian housing spectrum.

Critically, even if there is a delay in growth, the diminishing supply pipeline, means Australia will still face increasing housing affordability issues.

**All Governments have an important role to play in a national housing strategy to better plan and execute housing strategies that anticipate growth.**

**Importantly delivering housing supply to balance demand involves complex interplay of many factors including timing, but fortunately, not every solution involves money and not every solution is complex.**

## HOUSING SUPPLY, DEMAND AND AFFORDABILITY – THE DETAIL

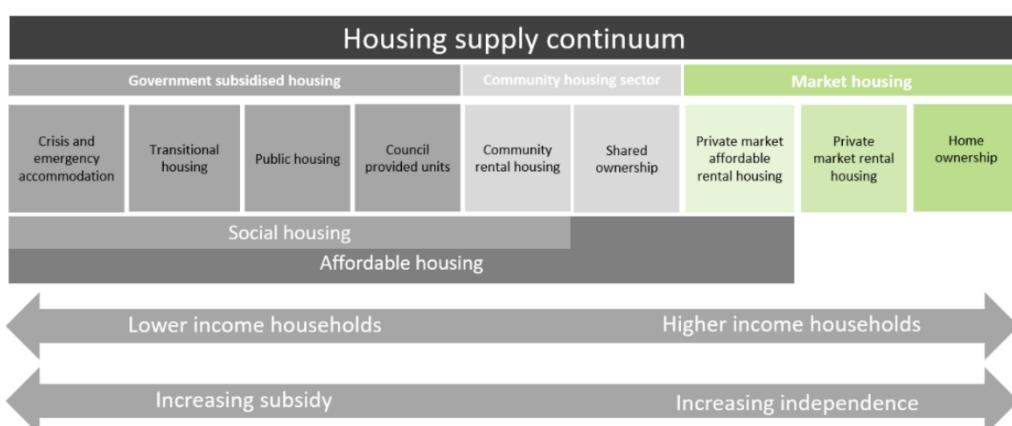
A myriad of factors contribute to housing affordability – but as can be seen from the above graphs, long term, the most fundamental dynamic that has skewed Australia's housing market is the imbalance between supply and demand. Our supply of new housing has been deficient in meeting demand, and prices continue to rise accordingly. Data also points us to the risks of an exaggerated gap as the post-pandemic recovery in population growth begins again.

### *The Market Impact on the Housing Spectrum*

It is important to understand market supply and demand because affordability heavily impacts the availability and price for affordable housing, the cost of social housing/crisis housing and it has the effect of eroding the value of government spend on other initiatives.

For supply of housing, it is not as simple as announcing more product for the market. It is heavily impacted by timing of delivery, the cost of materials/land, taxes/charges, delays to market, suitability of product and location.

Critically, these issues affect the entire housing spectrum (or continuum), both directly (with concessional treatments where warranted), and indirectly by market failures shifting Australians across the housing spectrum/continuum. **Positive changes to these drivers to support the entire housing spectrum/continuum are needed.**



Source: City of Sydney, 2015, Housing Issues Paper.

It is also important to note on the other hand, that the demand drivers for market housing are almost reversed for community and Government subsidised housing in comparison. As the economy gets tighter, demand for market housing may reduce, but demand for community and Government subsidised housing almost invariably increases.

This means that unless supply side drivers are well planned to anticipate changes in demand, in times of economic downturn, Government's across Australia tend to be hit with the double funding complexity of keeping the economy moving and supporting increasing funding to Government subsidised housing and community housing.

Therefore it is crucial for any National Housing strategy to address the whole of the market to:

1. understand, monitor and ameliorate supply/demand/affordability imbalances in housing, to reduce the pressure on the rest of the housing spectrum; and

- properly fund, and support sustained supply of affordable, social and crisis housing, including appropriate support services.

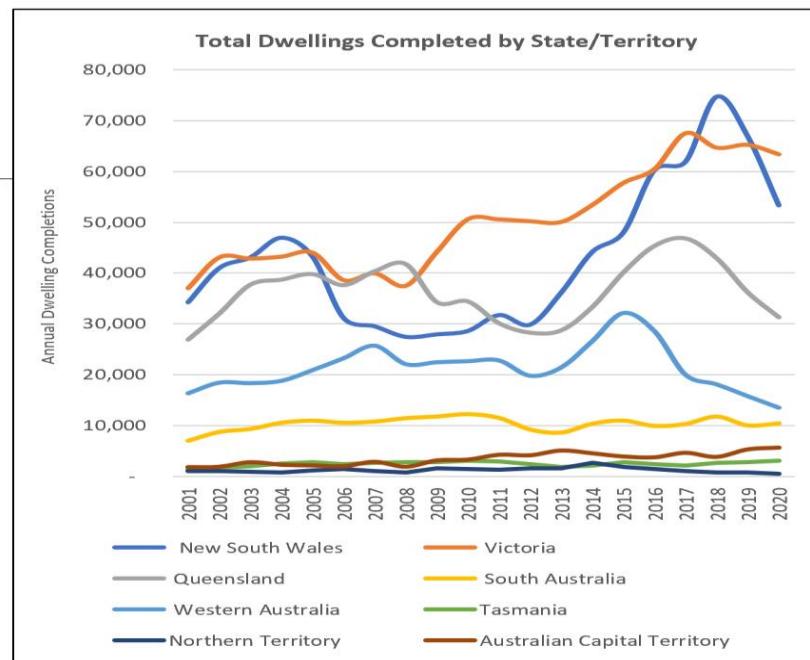
## Supply In Context

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 was 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 2022, multi-unit sales are now down 60% against a peak of 2015 while greenfield is up 33% on last year (which was 26% down on the 2017 high).

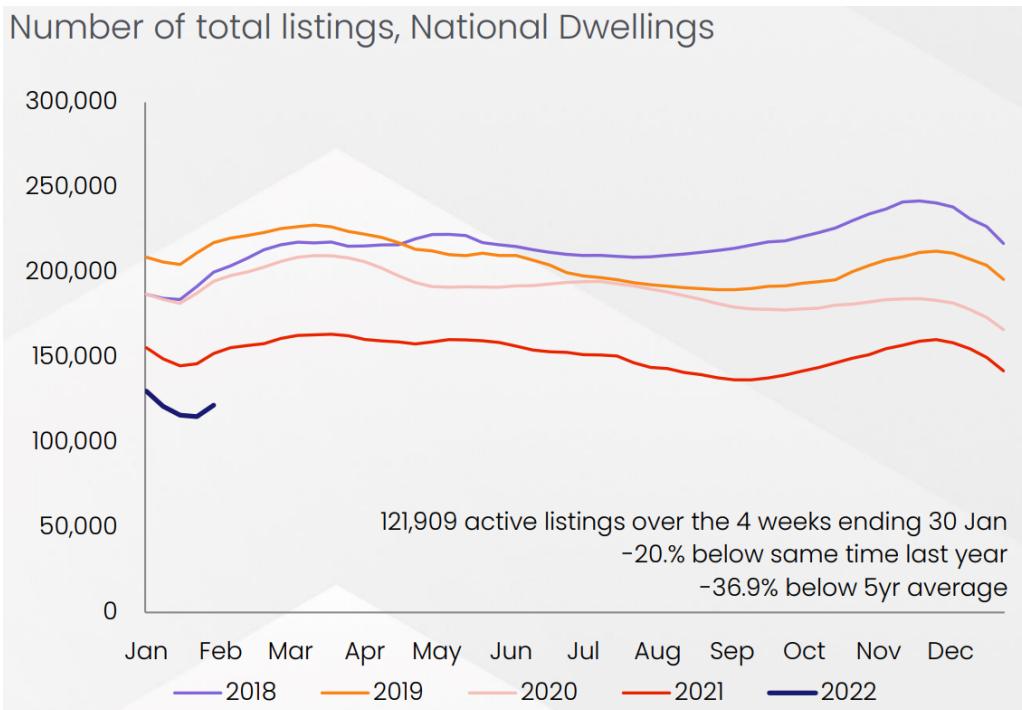
State of the Land 2022 confirms critically low housing supply in key cities of Sydney, Brisbane and Melbourne is now restricting housing delivery and holding back families from finding a home.

In short, the data shows that less homes are being sold, but prices continue to rise because there simply isn't enough houses to sell. Very basically, market demand is outstripping market supply and there isn't even enough supply to sustain last year's performance. Sales of green field lots could plummet as much as 43% but will be sold at ever increasing prices.



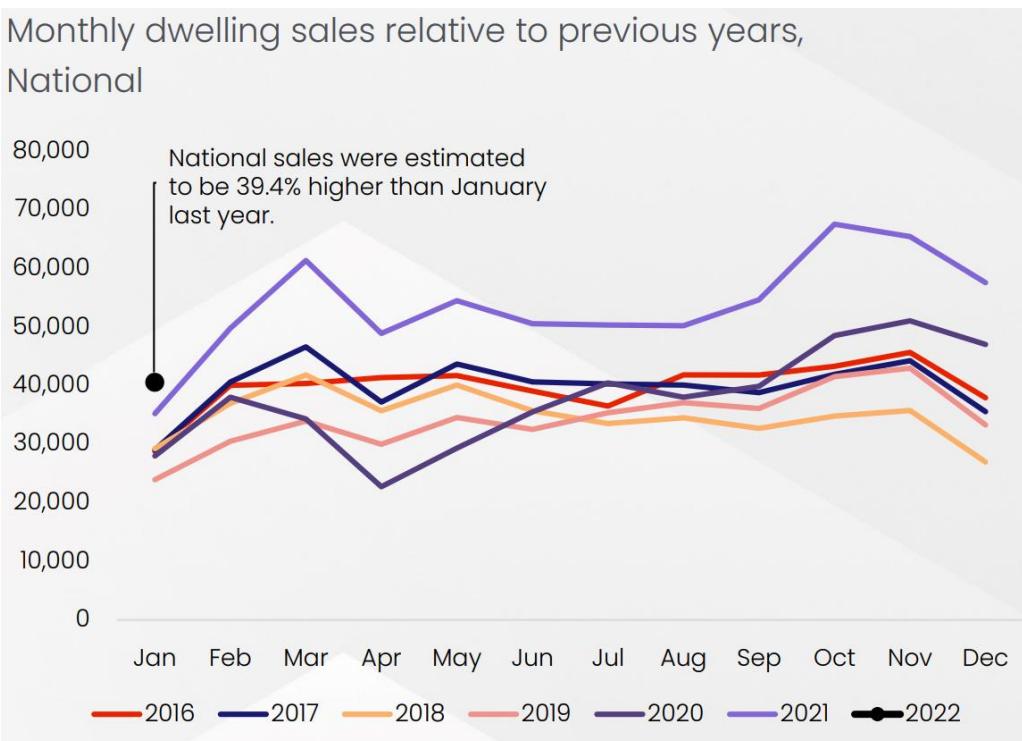
At a surface level, these data points suggest strong supply. However, in the context of demand, they have been clearly insufficient.

In particular, new dwellings and units are only around one third of the entire property market (based on new dwelling sales percentage of all annual sales across capital cities – CoreLogic data series). The demand and supply of existing dwellings shows starkly the reality of the imbalance which must be addressed.



Corelogic 2021

What we are seeing above is in fact since 2017, less (new and existing) dwellings are coming onto the market for sale year on year, with 2022 being the lowest yet. But we are also seeing in the graph below (with the exception of 2018 and 2019), demand rising higher each year with 2022 being forecast as higher still.



CoreLogic 2021

## *Demand in Context*

Prior to the onset of the pandemic, underlying dwelling demand across Australia sat at around 192,400 per annum – revealing a gap of almost 26,000 homes per annum against the long-run average of supply of 166,400 (ABS).

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 (total housing across cities and regions), 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 but only marginally 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 partly 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.

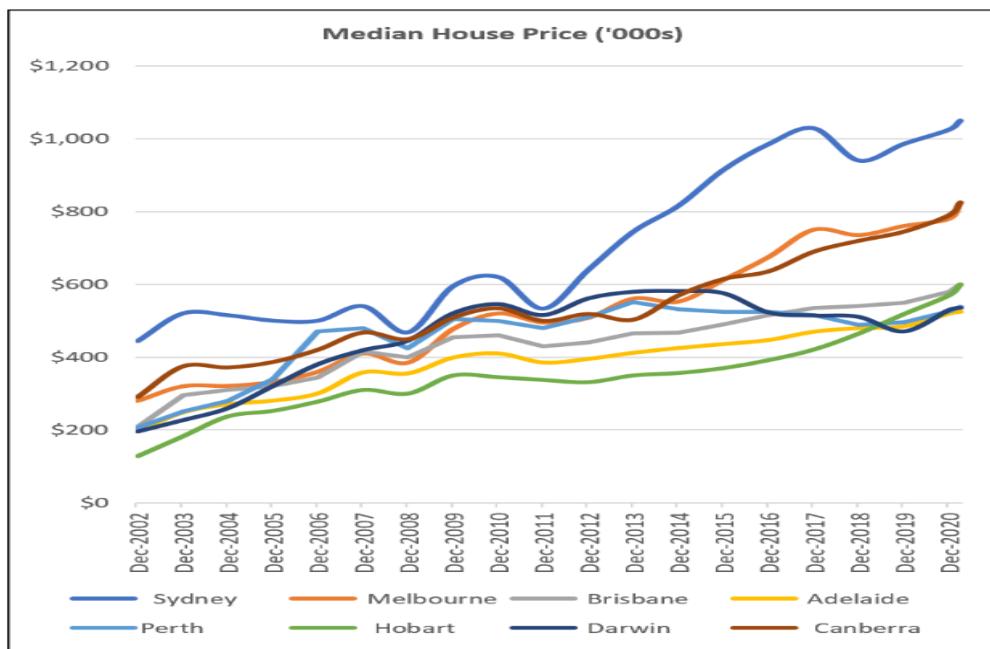
Over the last twenty years (2001-2020) Australia's population has grown by 6.4m, at an average annual growth rate of 1.5%. Net Overseas Migration (NOM) has been the major component driving Australia's strong population growth and has been driving the bulk of underlying housing demand.

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). This was pivotal to Australia's 20-year global record of continuous economic growth.

It is important to note that during the pandemic, as in normal markets, there will be times when prices and demand dips for a period due to externalities and changes in markets. The pandemic was an illustration of these principles and Government did an excellent job of providing stimulus to remove the worst of those impacts. Overall, however, when you look at the rolling average across recent decades, the drivers of demand have seen a broadly uninterrupted upward trend.

## 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 reveals more stark issues discussed below.

### 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 flat.

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     |

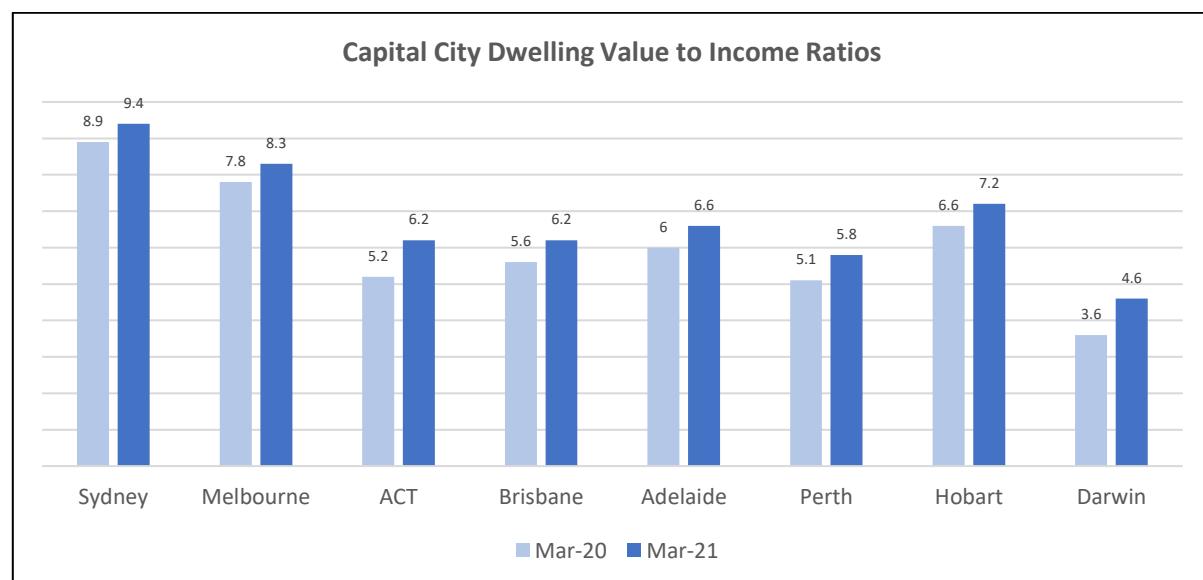
Source: 2021 Demographia International Housing Affordability

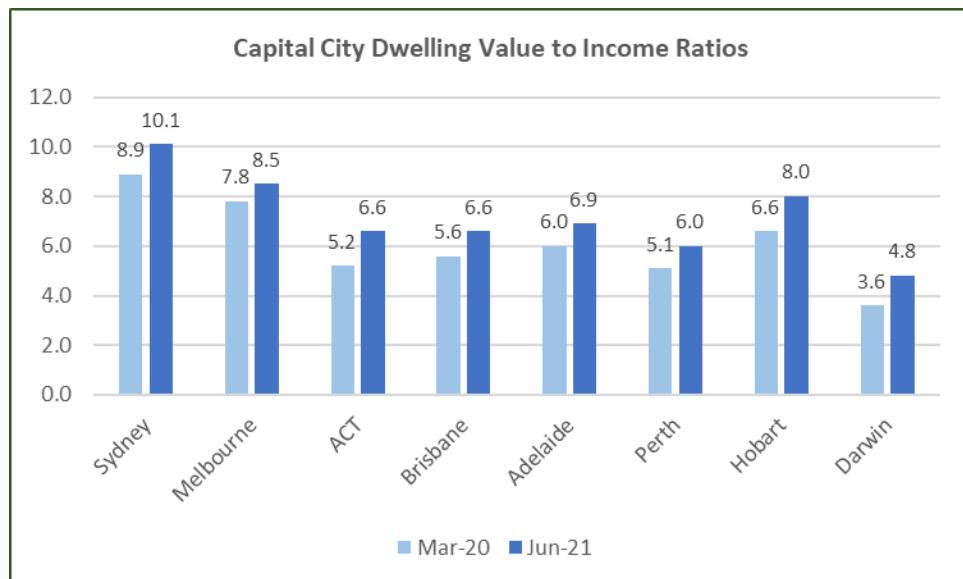
While the nation's smaller cities continue to provide considerably more affordable housing than Sydney and Melbourne rapid dwelling price growth over the pandemic impacted period has negatively impacted on each city's affordability profile.

#### Housing Affordability Measures (as of June 2021)

| Capital City | Median Dwelling Value | Dwelling Value to Income Ratio | Years of household income required for 20% deposit on a dwelling | Mortgage Serviceability | % of household income required to rent a home. |
|--------------|-----------------------|--------------------------------|--|-------------------------|--|
| Sydney       | \$994,298             | 10.1                           | 13.5   | 49.10%                  | 30.80%   |
| Melbourne    | \$753,100             | 8.5                            | 11.3   | 41.20%                  | 26.10%   |
| ACT          | \$770,873             | 6.6                            | 8.8  | 32.00%                  | 27.70%   |
| Brisbane     | \$586,142             | 6.6                            | 8.8  | 32.00%                  | 27.90%   |
| Adelaide     | \$508,712             | 6.9                            | 9.3  | 33.70%                  | 30.50%   |
| Perth        | \$523,673             | 6.0                            | 8  | 29.00%                  | 28.00%   |
| Hobart       | \$607,960             | 8                              | 10.6   | 38.60%                  | 33.90%   |
| Darwin       | \$475,083             | 4.8                            | 6.4  | 23.40%                  | 28.90%   |

Source: CoreLogic (2021)





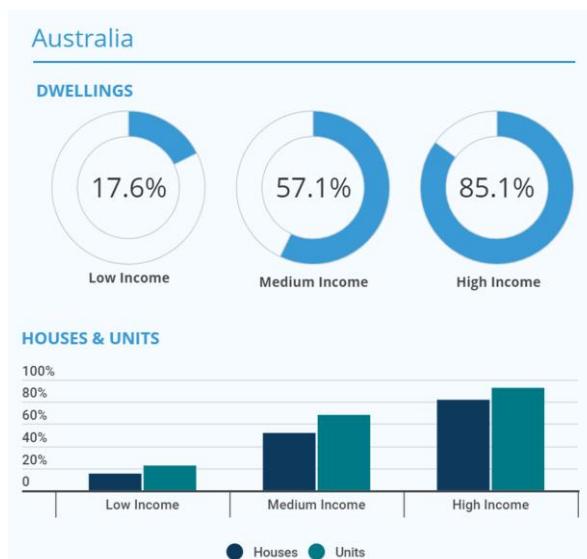
Source: CoreLogic & ANU Centre for Social Research Methods (2021)

With interest rates at record lows, there is short term benefit for housing affordability, but with the RBA forecasting increases in 2022, 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

## Migration Post-pandemic

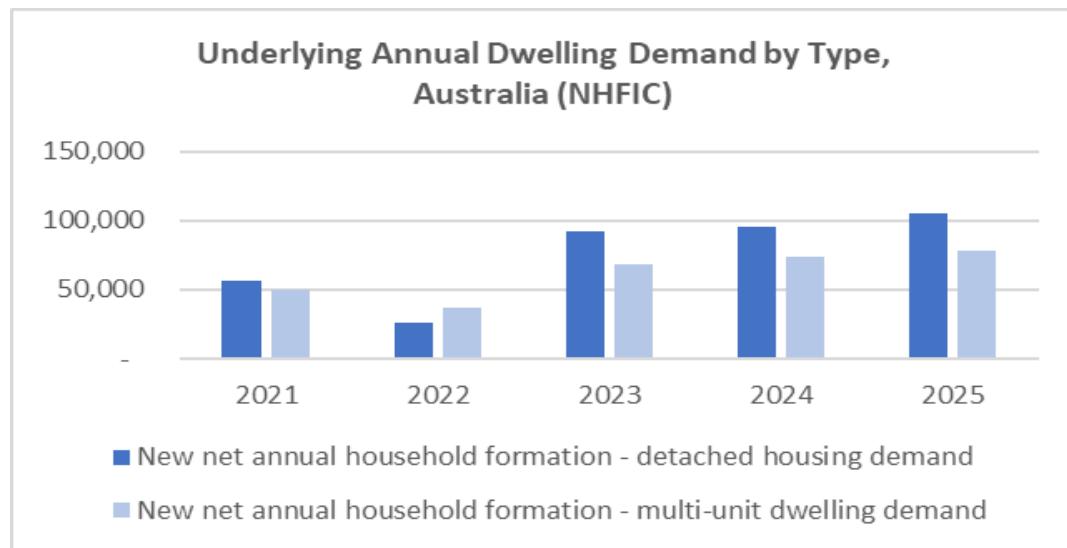
COVID-19 stopped business-as-usual population trends in Australia. The closure of international borders pushed Net Overseas Migration (NoM) into the negative – where it is expected to remain well into 2022 – and population growth has stalled. The Centre for Population has forecast Australia's NoM was -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 latest release projections adjusted underlying demand forecasts for new housing (described in the NHFIC 2022 State of the Nation's Housing 2021/22 as 'new household formation' predict a likely fall from pre-COVID forecast levels of 192,400 dwellings in 2019 (nationwide) by 46% to 103,300 in 2021 and then dropping a further 42% in 2022 with new household formation demand for just 60,400 dwellings.

The NHFIC projections then foreshadow underlying demand picking back up to 158,600 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 181,500 dwellings in 2025.

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



Source: NHFIC: State of the Nation's Housing 2021-22

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 across both greenfield land and apartment markets.

This is a function of *HomeBuilder* helping buyers into the market earlier, poor strategic planning and suboptimal land release practices. Critically apartment projects are stalling due to the lack of pre-commitments, as the sector has relied heavily by the purchasing decisions of new arrivals.

The flow on effect of the apartment downturn is important to understand. Pre-commitments of up to one third of a project was standard pre-covid and effectively meant that for every new arrival pre-committed, two other homes were built for Australians. That has largely ceased in the current environment and overall presales have fallen well below 50% making financing projects more difficult.

Between 2000 and 2019 Australia averaged production of 166,400 homes per annum. If underlying demand returns to 181,500 within three years, and the market lacks the flexibility and the development-ready pipeline needed to service that demand, the annual gap on long run average annual production will be approximately 15,000 homes a year. It will inevitably lead to more pressure on affordability.

NHFIC's forecasts, above, illustrate that Australia (already with a significant imbalance), will drive towards an era of even larger undersupply once more 'business-as-usual' settings apply to the nation's immigration and population projections. At this point, the NHFIC undersupply forecast looks very conservative considering the demand for new dwellings has already overtaken supply – leave aside the demand and supply of the existing stock.

## THE NHHA OPPORTUNITIES

What is clear from the analysis, is that while the NHHA has made inroads to ameliorate the worst issues in the housing spectrum in Australia, the overwhelming problem of imbalanced supply and demand is feeding an ongoing affordability crisis, that is swamping those efforts.

If supply/demand and affordability issues run unchecked, the funding impact of Government subsidised housing and community housing is significantly eroded, because there will be more vulnerable Australians today than yesterday.

This is what we are seeing in the data noted above.

Fortunately, while the issue seems mammoth, once you examine the drivers of supply constraints and affordability issues, there are numerous initiatives that can be done, quickly, simply and with great effect without deeply impacting Government spending. Crucially, they also have dividends across the housing spectrum.

**It is however critical that strategies and multi-faceted solutions to address problems across the housing spectrum need to be well planned, coordinated across all governments and well monitored.**

UDIA is recommending clear and implementable policy solutions for the Federal Government to lead a step change across the nation that can resolve these issues.

Nothing short of a nationwide housing strategy can achieve this aim.

For this to happen, it is critical that the NHHA:

1. Agree a detailed and broad-based approach that encompasses the entire housing spectrum to ensure effectiveness of initiatives are not undermined by other factors.
2. Develop better measures and forecasts of the market's actual supply and demand so that adverse market impacts can be anticipated and acted on swiftly.
3. Undertakings by Federal, State and Territory Governments tie funding to actual measures that impact housing – this does not mean success-based funding, but it does mean tying funding to meaningful measures such as development ready land, rather than (say) just land rezoned.
4. There needs to be continuous dialogue between the NHHA with all governments as well as the market itself to ensure timely reaction to market changes so that supply/demand imbalances can be minimised.

It is important to note that the UDIA National does not consider itself a subject matter expert on necessary services or societal and economic factors impacting social infrastructure and homelessness, however, we recognise that there are common problems impacting across all housing and that it is crucial that the whole of the housing spectrum has sufficient, reliable and affordable supply.

Critically, many of our members include Community Housing Providers who recognise the need to work together to further develop the strong delivery capability of the development and construction sector.

Often the greatest impediments to supply and erosion of affordability (that Government has direct control over), come down to the simplest things including:

1. Multiple layers of tax, charges and fees increasing housing costs.
2. Complex and unwieldy government mechanisms for planning, approvals and regulation delaying supply which increases costs directly for purchasers and indirectly to the rest of the market as demand increases.
3. Delays in enabling infrastructure making it impossible to deliver supply, which increases costs directly on the project and indirectly to the rest of the market as supply languishes and demand increases.
4. Poor timing or mismatching market incentives which mean supply cannot be put in place.

## 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. This has caused untold difficulties in Australian markets through delay which increases costs directly on the project and indirectly to the rest of the market as demand increases.

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 in an integrated plan 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 publicly available 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 and governments finding it challenging if not impossible to deliver on their own stated objectives. In many states it has been difficult 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.

Given the lag time for supply of new product to market is (according to NHFIC), up to 6 years, this exacerbates the supply demand mismatch, pushing prices still higher.

Each state and territory has its own labyrinth of rules 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.

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.

These hurdles have a direct and cascading impact on housing supply and affordability. These costs, imposts and delays are then also backed into development of affordable and social housing.

Critically, many of these problems are avoidable. What is most telling about the examples below, is that massive changes to access new housing is possible with virtually no spend by Government – just better organisation and efficient processes.

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 NHHA where to incentivise changes that will have meaningful impact on access to housing:

### *a) Greater Sydney Megaregion*

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 this region represents 90 percent of the 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 if we continue in the same approach to policy.**

Even if all expected lots are delivered to the developers forecast 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.

UDIA National recognises that enabling the sustained supply of housing is the best, most cost-effective way to assist moderate- and low-income renters and owners. Funding of key critical enabling infrastructure would release over 140,000 homes into the Sydney mega region.

Unfortunately, zoning and infrastructure restraints are stalling supply that will ultimately push more Australians into Government and Community Housing.

### *b) Poor Strategic Planning – 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 requires 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 stated 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.

- Failing 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 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.

There needs to be better measures and monitoring and public transparency or approaches to improve access to housing will be unlikely to succeed long term.

### *c) Poorly informed and inflexible Strategic Planning – 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. Whilst UDIA supports the aims and objectives of the framework, the frameworks introduce a pseudo urban growth boundary which limits the supply of new land to the market in a timely manner.

Many of Perth's larger development estates are now reaching their full development capacity. These estates will not be replaced, as 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).

Historically these estates have carried the heavily lifting and responded efficiently to heighten levels of housing demand in market peaks enabling Perth to remain one of the most affordable capital cities in Australia.

Without a proponent led pathway supported by statutory timeframes, the release of further land under the frameworks is effectively controlled by the State Government. However, the capacity to properly test and plan for future housing requirements is undermined by the absence of high-quality housing demand information to accurately inform policy makers.

Instead, the WA Planning Commission's considerations are informed by the Urban Growth Monitor (UGM) which examines the gross availability of land available for urban development over the very long-term. These gross estimates fail to consider the allocation for other uses such as parks, environmental purposes, and highly-fragmented land which has resulted in an over-estimation of actual supply for new housing development by as much as 37 percent.

#### *d) 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)    |
| <i>Physical land</i>                                     | 140 (24)  | 116 (21)  | 201 (25)  | 276 (24)    |
| <i>Zoning effect</i>                                     | 206 (35)  | 159 (29)  | 324 (41)  | 489 (42)    |
| Total  | 588 (100) | 542 (100) | 793 (100) | 1 160 (100) |
| Zoning effect as a percentage<br>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 dwelling production is high – and ultimately baked into the cost of new dwellings paid by homebuyers and passed on to renters.

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 and Council rate 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), but generally sits in the range of 30% to 45% of the cost of a home.

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 **\$154,200 per dwelling**
- **The holding / interest cost on these charges and taxes is \$32,400 per dwelling**
- The total cost of taxes, contributions, fees, charges and holding costs - equalling **\$ 253,500 per dwelling**

The share of the final price due to these costs equated to **42 percent of the price paid by the purchaser**. The analysis also indicated that the project was not viable due to the Windfall Gains Tax the State Government announced in 2021 which taxes 50 per cent of the value uplift in land resulting from a rezoning event.

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 lot**
- The total cost of taxes, contributions, fees and charges - equalling **\$146,100 per lot**

The share of the final price due to these costs equated to **44 percent of the lot 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.

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.

Value capture should be amended in the states because it adds to the cost of acquiring land, impacts viability and ultimately reduces the number of homes available for Australians. The industry is seeking only that value capture be fairly aligned to ensure equity that guarantees more houses for homeowners and renters across the housing spectrum.

**Specifically, value should only be captured from all landowners 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 new value capture rules should include 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.

### *Infrastructure Charging*

The National Housing Finance and Investment Corporation (NHFIC) released 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 infrastructure that benefits the entire community – via the infrastructure charges they carry the cost of, 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 <sup>(a)(b)</sup>  | 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 <sup>(c)</sup>       | 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        |
| <b>Developer Contributions</b> | <b>25,000</b> | <b>85,000</b> | <b>63,000</b> | <b>85,000</b> | <b>52,000</b> | <b>25,000</b> | <b>76,664</b> | <b>37,000</b> | <b>52,000</b> | <b>35,000</b> | <b>29,300</b> | <b>41,579</b> | <b>29,300</b> |
| 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 30% to 45% of the price of a new home.**

## UDIA RECOMMENDATIONS – THE NEW NHHA

UDIA National encourages the Federal Government to ensure the new NHHA adopts a series of clear implementable solutions related to issues that impact the broad delivery of housing across the spectrum and helps to quarantine further affordability impacts.

### 1) THE NHHA FRAMEWORK TO INCENTIVISE REFORM

The Federal Government's capacity to drive reforms in a National Housing Strategy primarily comes via the Commonwealth's funding and the partnerships in place with states and territories.

The NHHA provides around \$1.6 billion annually to states and territories to help improve access to secure and affordable housing across the spectrum. The money needs to be spent carefully and with effective outcomes supporting the whole of the housing continuum in mind.

Within this agreement, it is necessary to strike a balance that delivers effective programs that “move the dial” for access to housing while giving governments the flexibility to respond as needed to the market. This means understanding the measures you need to implement and monitor, to understand the market and then incentivise those measures.

It is clear that there is a need to create better measures to monitor the true state of the market and the health of the development-ready pipeline over longer term 3, 5 and 10 year horizons, without this any efforts are at best hit and miss.

By way of example, it is abundantly clear that many Government measures of supply, does not mean the supply is development-ready. Any number of issues may impede this stock including:

1. lack of trunk infrastructure.
2. delayed rezoning and approvals.
3. incompatible zoning laws, fragmented land.
4. Planning without consideration of population growth and movement; or
5. simply measuring necessary supply using outmoded data.

These issues and ones like them, work against efforts to boost access to housing across the spectrum or resolve long-standing planning and zoning barriers.

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 coordinate and resolve the underlying issues that hold back access to housing across the spectrum and that place greater strain on the non-profit segment of the market.

At present, the NHHA require evidence of a strategy, not outcomes; nor do they produce sustainable reforms that yield results.

Undertakings by Federal, State and Territory Governments need to tie funding to actual measures that impact housing – this does not mean “success-based funding”, but it does mean tying funding to meaningful measures such as “development-ready land” rather than (say) land rezoned.

Our proposal resolves that:

| Objective |  | Outcome   |
|-----------|--|---|
| <b>1</b>  | The Commonwealth Government set housing targets with each state and territory to meet              | They should relate to measures like availability of “development-ready land – provision of trunk water, sewer, power, roads and with environmental approval” and tied to project population growth, tested against actual completions, and transparently and independently tested (see below for more information). |
| <b>2</b>  | A pool of financial incentives made available to states and territories that achieve these targets | Rewarding states for productivity-inducing reforms that will ultimately boost housing supply and affordability.   |
| <b>3</b>  | States and territories that promote additional growth should be supported                          | Using the incentives to help fund infrastructure that is needed to support new or growing communities, and enabling infrastructure needed to unlock development.  |
| <b>4</b>  | Payments only made for performance against reasonable measures                                     | States and territories are rewarded for meeting housing supply outcomes, such as “development ready land” 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 growth in housing subsidies.

### *Potential framework of incentives*

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

This should include:

#### **Headline Affordable, Social and Market Housing and Homelessness Supply Targets**

- Each state and territory should agree with the Federal Government two “development-ready land” supply targets for each of Affordable, Social and Market housing and crisis accommodation – 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.
  - Based 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, which 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 the 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.
- Reporting the cumulative cost of taxes, charges and levies built into new housing.

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

The NHHA would need to monitor and incentivise across key metrics which would be incorporated into the overall agreement. These would include:

- Targets and incentives for providing enabling infrastructure tied to population growth.
- Targets and incentives to reform housing taxes.
- Incentives for provision of first home loan deposit schemes and/or deposit reduction schemes like Keystart in WA.
- Incentives to use a portion of existing rates or broad taxes to reinvest in social infrastructure (affordable, social, crisis, disability housing, indigenous housing, homelessness) providing those funds are equally tied to support services needed by social infrastructure to ensure they are effective.
- Incentivise to stop governments from using inclusionary zoning to boost social infrastructure without commensurate compensation – otherwise it forces further costs onto buyers and renters worsening affordability.
- Targets and incentivises matched investment in social infrastructure by all Australian Governments as an ongoing funding stream through redirected receipts from their tax base.
- Incentives to stop adhoc local government policies seeking agreement to allocate affordable and social housing as a condition of obtaining planning permission – there needs to be harmonised, formal state led affordable funding and delivery mechanisms.
- Incentivises provision of actual, affordable build to rent as an additional diverse housing option along-side traditional rental.
- Target and Incentivise capability building programs for social infrastructure; and
- Target and incentivise streamlining of the Environmental Protection and Biodiversity Act including reframing it as a single point of contact experience to avoid duplication.

There are no doubt more options, but the list gives you an idea of the length and breadth of what reform would look like and should be possible. In particular, the recommendations from this paper would all be suitable for a target and an incentive to ensure a coordinated approach.

**UDIA Recommendation 1: The NHHA 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.**

## 2) EXPANDING NHFIC TO TACKLE PRIORITY ISSUES AND MONITOR AFFORDABILITY

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 for Australia 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.

NHFIC is uniquely placed to coordinate this across all governments on key issues impacting the housing spectrum to the extent they are a positive impact. **These priorities would be targeted and incentivised under the NHHA.**

*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 can be delivered swiftly to achieve a ‘double dividend’ of jobs in 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 a revised mandate, **with an allocation of \$1 billion to be matched by the states and territories (the Fund).** 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 now, allowing states to facilitate the development of business cases from the private sector.

**UDIA Recommendation 2: 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 Recommendation 3: A dedicated process be established to allow project proponents to make a direct, merits-based application for support under the \$1 billion Fund to unlock new housing.**

## **2) *Refine the First Home Loan Deposit Scheme and State New Home Schemes***

In prior submissions that related to the role of NHFIC, in 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 with all the economic benefits – 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.

During the pandemic, States and territories such as Northern Territory had mixed take up of State and Federal incentive schemes. In the example of the NT, while there was up to \$73,600 in four grants available to a home purchaser, they could not be taken up because there were no available lots on the market to make use of the scheme. By the time there was supply, the schemes had largely ended. They were essentially wasted and only added to the housing issues in the NT.

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 and any state-based schemes.

Where the incentive is targeted directly at new homes, it leaves the majority of the existing market for housing un-impacted while it does its job of driving growth and productivity.

**UDIA recommendation 4: The NHHA agree the Commonwealth Government make permanent the annual allocation of 15,000 places available under the First Home Loan Deposit scheme exclusively for the purchase of new homes and this should be matched by State and Territory government schemes.**

## **3) *Expand NHFIC's Research Mandate to Monitor Housing Supply and Affordability***

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 also 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 data could be made available under the NHHA to all states managed by NHFIC and form the basis for ongoing monitoring of the NHHA, including:

- 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 affordable 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 Recommendation 5: Under the NHHA, 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. The data will be part of NHHA's metric monitoring process with State and Territory Governments.**

### 3) COORDINATED, SUSTAINED, AFFORDABLE HOUSING AT SCALE

UDIA National considers affordable housing to be critical social infrastructure that has direct economic outcomes for Australia's productivity, liveability, and international competitiveness.

Affordable housing is most impacted by changes in supply and demand of at-market housing and the affordability pressures that result, because it depends in large measure on the market while obtaining some concessional treatment from Governments.

UDIA National seeks to ensure policy and planning decisions prioritise housing affordability by providing investment certainty, facilitating a robust housing supply, and ensuring that State and Local Government policy considers affordability impacts.

We are also aware that state memberships are concerned that some state and territory Governments do not currently have a coordinated, sustainable or scaled system for delivering affordable housing, which is compounded by under-investment in social and affordable housing stock by successive governments.

New models and new collaboration frameworks are necessary to ensure increased supply and diversity of affordable housing in all States and Territories.

As a part of a coordinated Nationwide Housing Strategy to improve access to housing across the spectrum, it is necessary to ensure there are foundations for growth and sustainability of social and affordable housing across the country and an ongoing funding stream for affordable housing in each state and territory.

Specifically, the following principles can be incorporated as incentivised outcomes in the NHHA:

- **Affordable housing should be viewed as social infrastructure** that is a broader community issue and requires broad based funding.
- The current housing affordability crisis cannot be solved through state planning systems alone, or by having various arrangements in place at the Local Government level. The solution requires a **whole-of-government approach** underpinned by significant capital investment from State and Territory Governments which will ultimately result in cost savings to the broader community and the government (for example, through the justice and health spends). This could incorporate:
  - Using a portion of existing rates or broad taxes to reinvest in social infrastructure (affordable, social, crisis, disability housing, indigenous housing, homelessness) providing those funds are equally tied to support services needed by social infrastructure to ensure they are effective.
  - All Australian Governments match investment in social infrastructure as an ongoing funding stream through redirected receipts from their tax base; and
  - Harmonising State and local government funding and delivery mechanisms to prevent adhoc local government policies seeking agreement to allocate affordable and social housing as a condition of obtaining planning permission.
- **A robust supply of new housing will make more houses more affordable to rent and buy for more Australians.** A significant proportion of the new housing delivered to market by UDIA

members is private market affordable housing and boosting supply of new housing boosts supply of private market affordable housing.

- Partnerships with Industry and Community Housing Providers provide greater opportunity to deliver affordable housing in a commercially viable project.
- **Inclusionary zoning is counterproductive and results in cross subsidies/affordability issues if it is not confirmed before land purchase** unless there are appropriate subsidies and incentives to ameliorate the costs. Otherwise, it will simply exacerbate housing affordability issues, making private market housing more unaffordable and pushing more people into social and affordable housing.
- Any requirements introduced that impact development costs **must be phased in gradually**, from a low base, in order to allow the market to adjust. Market cycles take three to five years, and most development approvals are completed within a similar time frame. A faster introduction will detrimentally impact development feasibility and thus is likely to negatively impact housing supply during that period. Concurrently, **capacity building programs** must be provided to all levels of government, residential development and community housing industries, financiers, and the community.
- **Affordable housing delivery on Federal, State and Local Government land must be maximised:**
  - A proportion of profits from the disposal of surplus government land should be dedicated directly towards affordable housing outcomes and should not flow to consolidated State and Local Government revenue.
  - Provide long-term, low-cost leases on surplus government land for Build-to-Rent (BTR) product for use as affordable rental housing. Currently the Build-to-Rent product is skewed towards the very high rental market because the land costs and holding costs are high, but the UDIA believes affordable housing BTR projects could be encouraged with the right planning and incentives.
  - Further to the point above, **government must ensure BTR becomes commercially viable as a private market affordable rental product that is within reach affordable housing tenants**. We consider BTR has the potential to be a key affordable housing option as Australia goes through the journey of housing affordability to housing attainability.
  - Numerical targets should be set for both general housing and affordable housing supply. **Affordable housing targets** must be informed by the quantum of affordable housing required and the preferred location for the housing. These targets should then drive the development and assessment of Local Government housing policy and focus and prioritise both State and Local Government policy efforts and investment for the delivery of affordable housing across a spectrum of initiatives. Affordable housing targets should also consider the relative affordability of product to be delivered to the market by project, especially in the case of medium and higher-density dwellings.
  - Incentivise **Local Government to plan for new housing** by aligning infrastructure investment to housing growth targets.
  - There must be **flexibility to consider and accommodate private sector models** for the delivery and management of affordable housing beyond registered housing associations or providers.

Privately owned affordable housing can be maintained as affordable housing by agreement or another covenant.

- We note the **critical role of institutional investors (increasingly including Environmental, Sustainable, Environmental (ESG) investors) and listed property trusts** in the housing market. Institutional investors, such as superannuation property funds, are key to unlocking scale in the delivery of affordable housing. We are aware of potential issues with this approach, however the State Government could underwrite rents to reduce the risk for institutional investors in exchange for a lower return expectation.
- The Draft Strategy must seek to **build the capacity of key stakeholders**. This capacity building includes the development of a toolkit for the market, and the scaled growth of community housing providers to be able to trade effectively in larger scale public-private partnerships and to gain access to broader ESG funding markets. Important lessons can be learnt from international models at scale, which demonstrate a significant proportion of shared equity participation, BTR models, tax increment financing models, and other such options in comprehensive toolkits.

**UDIA Recommendation 6: The NHHA, should incentivise all governments to prioritise specific outcomes for affordable housing including secure ongoing funding from the existing Federal, State**

#### 4) BROAD BASED TAX REFORM

The current tax system across the country places an enormous weight of taxation on housing production, which impacts across the housing spectrum in various degrees.

The entire supply chain is taxed by all three spheres of Government from land acquisition, project development and acquisition as well as ownership and transfer.

Tax and statutory charges/levies combine with regulatory barriers to add as much as 40% to the cost of a new dwelling. These include taxes such as value capture which fundamentally push additional cost onto homeowners and then renters.

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, for example, the entire national economy would benefit from the elimination of one of the most inefficient and perverse taxes in our system. It actively discourages rightsizing which is necessary to free up stock for families. 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.

States are trying to find a solution to retire inefficient taxes, but it requires a concerted effort across all spheres of Government. Rather than individual state efforts to remove and streamline property taxes/charges, a broad based whole of government tax approach to incentivise and support broader reform will give Australia better reform options.

Critically, while broad based reform is a long haul project, there are meaningful changes that can be made right now to stamp duty as one of the costliest taxes on property that will materially improve the affordability of housing. Incentivising States and Territory Governments to increasing the stamp duty thresholds will ensure median house prices attract materially lower rates. This will make a huge improvement for Australians.

**UDIA Recommendation 7: The NHHA agree all governments should facilitate a broad based reform of inefficient taxes to drive economic growth, productivity, and improved housing affordability.**

**UDIA Recommendation 8: The NHHA agree the Commonwealth Government incentivises state and territory Governments to increase stamp duty thresholds and ensure median house prices attract materially lower rates.**

## 5) ENVIRONMENTAL PROTECTION AND BIODIVERSITY (EPBC) ACT REFORM

The single largest drag on new housing projects at a Commonwealth level, and in some cases, overall, is the Environment Protection and Biodiversity (EPBC) Act. It undermines project viability due to inconsistent application, interpretation and governance. It adds substantially to the time and cost of new projects.

It is unnecessary delay and cost because the industry needs a simple, clear framework that can be efficiently navigated.

In 2019, the Commonwealth commenced a welcome review of the Environment Protection and Biodiversity Conservation (EPBC) Act. The review was timely given the application of the Act is delivering neither good urban development outcomes, nor sound environmental outcomes.

### 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.

The urban development industry is the single largest user of the EPBC assessment system, and peri-urban development is vital to Australia’s capacity to meet its housing requirements, particularly in the post pandemic economy. UDIA has been an active participant in the process of crafting a better balance between environmental, social and economic objectives.

It needs to be recognised that the pathway to design, implement and efficiently administer a new system will take time. The intent of proposed reforms is encouraging, however, there needs to be a continuous focus on the design and transition to a new, more efficient and streamlined system.

Any reform agenda related to the EPBC Act needs to recognise the interdependency of overall planning and approval systems. This means recognising that the risk is if one pillar either stalls or fails, the entire framework is weakened.

A clear roadmap to sustained reform is essential in balancing economic, social and environmental objectives. It is critically important that the EPBC review deliver on promises to streamline red and green tape.

### UDIA Recommendation 9: The NHHA agree the Commonwealth Government reform the administration and effectiveness of EPBC framework to include:

1. **Creating a strategic assessment system with a single point of contact that avoids duplication between different tiers of governments, together with suitable investment in the data and technology needed to ensure they are robust.**
2. **Implementing clear, unambiguous response timeframes with “deemed to comply” provisions for approvals.**

3. **Fund a full Regulatory Impact Statement to test the proposed National Environmental Standards – including case studies on ‘live’ projects – for their impacts on housing development.**
4. **Providing sufficient funding to support the detailed and careful design of new National Environmental Standards and reform of the environmental offsets framework that suitably respond to the challenges of urban land use and housing development.**
5. **Investing in national and regional-scale environmental plans and Strategic Assessments to appropriately manage threats, resolve competing land uses and provide certainty to industry proponents well before development applications are submitted.**

## 6) LEVERAGING COMMONWEALTH INVESTMENT IN INFRASTRUCTURE

The Commonwealth Government's ongoing and expanding infrastructure spending 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 use the NHHA to accelerate 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, including:

- 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.
- Continued use of City Deals to build liveable communities, stimulate growth and kickstart productivity.

**UDIA recommendation 10: The NHHA be used by the Commonwealth Government to develop better strategic planning, land use, integrated approvals and housing supply outcomes. This should include auditing all current Federal infrastructure projects to interrogate whether land use opportunities are being maximised.**

### Contacts:

|                     |   |              |
|---------------------|---|--------------|
| <b>Andrew Mihno</b> | UDIA National, Director Policy and Government Relations | 0406 454 549 |
| <b>Max Shifman</b>  | UDIA National, President                                | 02 4415 9170 |