12 January 2022

The Hon Stephen Jones
Assistant Treasurer, Minster for Finance
Parliament House
CANBERRA ACT 2600

via email: prebudgetsubmissions@treasury.gov.au

Dear Assistant Treasurer,

UDIA National Pre-Budget Submission 2023-24

Thank you for the opportunity to provide our Pre-Budget Submission for FY2023-24.

UDIA National strongly supports Federal Government initiatives which bolster home ownership, and deliver more affordable and social housing, whilst also recognising the critical role the housing development sector plays in Australia's economic success.

Delivering these initiatives for any category of housing requires robust development-ready land supply, a vibrant skilled labour force, ready access to investment capital, growth in population for economic prosperity and productivity, efficient planning and environmental systems as well as timely enabling/major infrastructure.

It is troubling that many of these necessary fundamental market components have experienced steady decline over past decades. This is, deeply impacting housing affordability and jeopardising Government initiatives.

Despite several rapid interest rate rises and accelerating cost of living, national dwelling values remain 19% higher in December 2022 than they were pre-COVID period (based on CoreLogic's Monthly Hedonic Home Value Index).

While the national housing market saw declines in dwelling values between April and December 2022, we are still seeing supply of housing pull back almost as fast as demand. This means dwelling prices increased overall by 19% against the 12 month rolling median house price despite recent price reductions. Consumer borrowing capacity has been reduced by 25-30% with interest rate increases which deeply impacts creation of new dwelling supply. The capacity for people to enter the housing market has reduced faster deepening the affordability crisis across the country. This points to an ongoing housing supply scarcity that is overwhelming all other factors.

Declining new housing supply pipelines, coupled with ongoing labour and productivity challenges mean Australia is set to experience further deterioration in housing affordability, unless immediate measures are taken to stimulate supply to meet demand. As population growth continues to return to normal levels – critically necessary to underpin labour growth and employment levels - housing demand will only increase further.

This combination of challenges is leading to an ever-widening housing supply gap across at-market, affordable and social housing. Government and Community Housing Providers will be unable to make a meaningful impact on this gap without harnessing the capacity, expertise and capital of the private development market.

UDIA National's recommendations, if adopted, will not only help deliver the increased supply and housing needed to ameliorate a spiralling affordability crisis, but will also help underpin Australia's economy as we recover from the pandemic years.

These recommendations cover the following areas:

1. **A Home for Everyone** – A national housing strategy with incentives for greater housing supply, development-ready land, choice and affordability across the spectrum.
2. **Population for Prosperity** - Restart immigration, close the pandemic population gap and plan for growth.
3. **Core Infrastructure for More Liveable Communities** – Overhaul planning, funding and delivery of infrastructure for fit-for-purpose cities, regions and grow housing supply.
4. **Make Planning Systems Work More Effectively** - Incentivise better planning for efficient delivery of cities and housing.
5. **Streamline Environmental Approvals** - Design a single point of contact system to improve environmental, social and economic outcomes.
6. **Keep Capacity & Create Efficiency** - Keep credit available with smart lending practices, deliver home ownership initiatives that balance supply. Develop broad based tax reform including incentivising increased stamp duty thresholds to bring down costs for median priced houses.

UDIA looks forward to working with the Federal Government to help shape the future of Australia's housing sector and to ensure new housing development continues to play a vital role in securing Australia's economy.

Please do not hesitate to contact the UDIA National Director of Policy and Government Relations - Andrew Mihno on 0406 454 549 to discuss any aspect of this submission further.

Maxwell Shifman
UDIA National President

2023-24 FEDERAL PRE-BUDGET SUBMISSION

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

JANUARY 2023

Executive Summary

The Urban Development Institute of Australia National (UDIA) is pleased to provide its Pre-Budget Submission for the 2023-24 Commonwealth Budget.

UDIA National strongly supports Federal Government initiatives which bolster home ownership, and deliver more affordable and social housing, whilst also recognising the critical role the housing development sector plays in Australia's economic success.

The development industry's role as an engine room for jobs and the economy is in jeopardy, due to the historically low forward-pipeline of new housing supply. Each dollar spent on property and construction is shared between 40+ trades and businesses, with significant secondary boosts to manufacturing, delivering a 2.9x multiplier into the wider economy for every dollar invested into housing.

Constrained supply undermines productivity and affordability which are core factors impacting economic prosperity.

Rising inflation and interest rates are contributing to these challenges, with significant increases in many basic building costs (by up to 20-30% in the past 12 months - ABS Producer Price Indexes) and with skilled labour shortages undermining capacity and productivity.

Despite several rapid interest rate rises and accelerating cost of living, national dwelling values remain 18% higher in December 2022 than they were pre-COVID period (based on CoreLogic's Monthly Hedonic Home Value Index).

While the national housing market saw declines in values between April and December 2022, we are still seeing supply of housing pull back almost as fast as demand. This means dwelling prices increased overall by 19% against the 12 month rolling median house price, despite recent price reductions. Consumer borrowing capacity has been reduced by 25-30% with interest rate increases which deeply impacts creation of new dwelling supply. The capacity for people to enter the housing market has reduced faster deepening the affordability crisis across the country. This points to an ongoing housing supply scarcity that is overwhelming all other factors.

Australia's capital cities remain amongst the least affordable cities in the world, and these challenges have now spread to many regional markets. The next generation is increasingly becoming locked out of the great Australian dream of home ownership and rentals are becoming more unaffordable in the heightened demand.

Shortages of land for new dwellings drives up prices and ordinary Australians are forced to rent for longer, at higher rates, inevitably pushing more into social and affordable housing that suffers the same scarcity.

Affordability issues in regional/urban areas are largely the result of a chronic lack of development-ready land. The causes are well known: a lack of enabling/major infrastructure, insufficient zoned land and clogged approval systems.

The issues are causing an ever-widening housing supply gap:

- Current dwelling shortfalls are circa 200,000 for at-market, 173,000 for affordable, 102,883 for social housing.

- The 2021 National Housing Finance and Investment Corporation (NHFIC) Review identified that we need 45,000 affordable/social houses each year over the next 20 years.
- Government and Community Housing Providers (CHPs) combined only produce 8,500 affordable and social houses each year – The National Housing Accord (Accord) and Federal Housing Australia Future Fund (Future Fund) might bring that up to circa 19,000 per year.
- By 2025 Australia needs another 20,000 at-market dwellings each year according to NHFIC - over and above the 180,000-200,000 dwellings we already build each year.

Bridging the growing new housing gap requires private market participation because Government and CHPs are unable to close this housing gap on their own.

Through the Housing Accord, the Federal Government has set out a vision for greater collaboration across all three spheres of government, recognising the need for greater productivity to help resolve the underlying supply and housing problems, to set Australia on the right path. UDIA proposals include:

1) Implement productivity enhancing initiatives including:
   - **Boosting housing supply and infrastructure** by creating a development-ready pipeline that unlocks access to housing – UDIA is developing the Development-Ready Land Pipeline with NHFIC to target, monitor and incentivise housing supply, infrastructure, planning and environmental outcomes.
   - **Fast tracking skilled workers through training and migration** to ensure there is enough labour to reduce delays and bolster capacity to match housing supply to demand.
   - **Streamlining Environmental Reform** to ensure housing supply is not hamstrung by complex/slow approval processes that hold up development and increase housing costs.
   - **Onshoring manufacturing** and ensuring there is industrial land for manufacturing to reduce vulnerability of the supply chain and bring down costs of raw materials for housing supply.
2) Close the housing gap by using private industry's capability/capital to quickly build housing at scale across Build to Sell (BTS) and Build to Rent (BTR) including:
   - **Provide funding incentives that cover the rental gap** and harness the private market's ability to deliver at-scale affordable/social housing and affordable BTR.
   - **Utilise the Federal Future Fund to incentivise delivery of approximately 21,000 social & affordable houses** year on year, substantially more new dwellings than a direct development approach could facilitate.
   - **Drive changes to at-market BTR** so that it can compete as an equal asset class with traditional property investments and build to sell developments.
   - **Free up investment in housing supply** by removing foreign investment charges and rules that impede the supply of at scale housing for ownership and rental.

Our submission focuses on immediate actions to create structural policy reforms and investments that will yield lasting benefits.

The Broader Recommendations at a Glance

A Home for Everyone – measures to provide incentives for greater supply, development ready land, choice and affordability.

Population for Prosperity – measures to bolster immigration, close the pandemic population gap and plan for growth.

Infrastructure for more Liveable Communities – measures to overhaul planning, funding and delivery of infrastructure for fit-for-purpose cities, regions & grow housing supply.

Make Planning Systems Work more Effectively – measures to incentivise better planning for efficient delivery of cities, regions and housing.

Streamline Environmental Approvals – measures to design a single point of contact system to improve environmental, social and economic outcomes.

Capacity & Create Efficiency – measures to keep credit available with smart lending practices, deliver home ownership initiatives that balance supply, develop broad based tax reform.

About UDIA National

The Urban Development Institute of Australia is the development industry's oldest and most representative peak body. UDIA's members span the entire housing market across 2,000+ member organisations – from top tier global enterprises, large and small developers, community housing providers, specialist consultants and local governments.

UDIA's members deliver new homes across the spectrum for all Australians, including the majority of affordable housing. Most housing created by our members is sold near to or below median house prices.

UDIA National's advocacy is defined by our National Council – informed by our diverse membership base, extensive network of state councils, committees and businesses on the frontline of housing.

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

Housing Development Drives Economic Growth

The housing and construction industry's contribution to jobs, activity and wages is historically integral to Australia's ability to recover from downturns and can pull the economy into the next phase of growth with the right policy changes.

The construction and development industry drives 9% of Australia's GDP, creates 1.156 million jobs (11% of the full time workforce), and generates over $360 billion in economic activity each year.

Every dollar spent on housing generates $2.90 in the rest of the economy including an additional boost to GDP across secondary markets like manufacturing and retail.

A healthy development and construction industry generates continuous gains across the economy and makes the industry an effective primer for economic productivity.

State of Housing Markets

Australia's housing markets have been chronically under-supplied for the past two decades, causing spiralling affordability issues across most major housing markets - affordable, at-market, crisis and rental housing.

The UDIA National Housing Market Performance Dashboard (Dashboard - See Appendix 1), shows us that several consecutive rises in interest rates, coupled with accelerating costs of living for ordinary Australians, has dampened demand for housing but housing supply is pulling back nearly as sharply. Despite this, construction prices have escalated significantly which has led to a slowdown in new dwelling commencements, constraining supply still further, even though new dwelling sales have declined.

In times of high cost of living pressures, at-market housing demand and supply drops due to poor affordability, increasing the demand for affordable and social housing.

Shortages of land for new dwellings drives up prices and ordinary Australians are forced to rent for longer, at higher rates, inevitably pushing more into social and affordable housing that suffers the same scarcity. This increases the costs for government – in rental subsidies, greater need for social housing, and additional burden on the pension system as fewer people can generate a savings "nest egg" through home ownership.

Specifically, the Dashboard shows a 65% annual decline in housing hard leads (i.e. enquiries on listed detached houses), which simply means a precipitous reduction in people in the market to buy houses. Greenfield land purchaser enquiry is down 66, and apartment enquiries are down 40%.

Approvals for new homes have dropped by 24% and 8% for both apartments and semi-detached dwellings (off an already low base). This means the forward supply pipeline is dropping further still, at a time when more housing is desperately needed to address existing dwelling shortfalls.

Settled sales of new apartments across the country are currently down 37%, while owner occupier lending for the construction of new dwellings is down 40% (rolling annual average to October 2022) and loan approvals for purchasing newly built dwellings is down 27%. That means consumers have withdrawn from the market which having flow on impact constraining building of new supply.

Critically, nationwide construction costs are up 16% across all house construction input categories, driven by particularly steep cost escalations for critical building materials including timber, board and joinery. Building material price hikes and labour shortages is putting extreme pressure on many developers and builders to remain viable, driving various operators into receivership.

While permanent and skilled visas were up by 54% and 64% respectively in the month of October, they are now down 2% for permanent skilled visas and temporary skilled visas are down 4% for the month to November (against last month) - being 24,100 and 112,470 visas respectively. This result is down 46% from the pre-pandemic average of 44,800 permanent skilled visas and 29% of the long run average of temporary skilled visas, so we are not yet achieving the number we need for stable capacity across industries including construction.

Of particular interest however is the nationwide new housing median price which has increased 19% over the year and the nationwide new unit median price has increased 1%. This is despite a 37% drop in unit sales and a 16% drop in house sales from last year. While particular suburbs or regions may experience price falls, the market nationwide is still rising.

The Core Logic Daily Home Value Index has noted that Australian home values have recorded the largest decline in value, but it is still only 8.4% for April to December 2022. Against the background of astounding drops in demand and supply of housing, (as noted above), median house prices still rose 19% despite the recent falls. While falls are predicted to continue, it is clear that constrained supply is still holding up values despite the sales of new dwellings shrinking by 21%.

Overall, we are seeing the power of housing supply scarcity overwhelming all other factors putting a dampener on national demand and supply.

The current housing shortages are stark – with an at-market housing shortfall of circa 200,000 dwellings[i], an affordable shortfall of about 173,000[ii] and a social housing shortage of around 102,883[iii].

Just to prevent further deterioration, the 2021 NHFIC review estimates the need for 30,000 social and 15,000 affordable homes per year alone over the next 20 years[iv] - 45,000 in total.

NHFIC also estimates further annual shortfalls of 20,000 at-market dwellings per year from 2025 onwards. These too need to be met by expanded housing supply.

In all, by 2025, the broad estimate of at-market, affordable and social housing needed to cope with increases in demand is an extra circa 65,000 dwellings per year. This is over and above the existing shortfalls in each housing category.

In the last five years, ABS data shows there has been a national at-market dwelling completion of 974,700 in total – an average of 195,000 a year.

Historically an average of just 8,500 affordable and social houses[v] are built every year, by State and Federal Governments together with funding of CHPs. Critically, an average of only 3,000 net additional affordable dwellings are being added to the national stock after taking into account demolitions of ageing stock.

Against this background, Australia still has significant shortfalls across at-market, affordable and social housing.

The Albanese Labor Government has committed to additional programs intended to increase access to home ownership and to deliver additional Affordable and Social Housing, including:

- $10 billion Housing Australia Future Fund to deliver 30,000 Affordable and Social dwellings over 5 years;
- Home Deposit Guarantee Scheme for 50,000 new homes p.a. (including a dedicated regional allocation);
- NHFIC loans sufficient to deliver 10,000 affordable dwellings;
- 10,000 new homes annually under the Regional First Home Buyer Support Scheme;

- 10,000 new homes annually under the Help to Buy Scheme;
- National Housing Infrastructure Facility supporting an additional 5,500 new homes;
- $350 million 10,000 new affordable homes matched by states and territories for a total increase of 20,000 homes; and
- The Accord for 1 million homes over 5 years from 2024 (to maintain current total housing delivery at 200,000 homes a year).

The Federal Government's new $10B Housing Future Fund is planned to deliver some 30,000 houses over 5 years, (6,000 pa) with a further 4,000 pa for five years under the Accord – a positive step but not enough to cover the annual shortfall. Government and CHPs, currently have no practical way to close the gap on their own.[vi]

All in all, an estimated $290 billion[vii] is required to solve Australia's affordable and social housing problem over the next 20 years alone.

This problem is made significantly worse when we take into account Government[viii] estimates that discontinuing the National Rental Affordability Scheme (NRAS), will see the remaining circa 25,000 affordable homes exiting the scheme by 2026. Over 13,000 of these affordable houses are private affordable dwellings at risk of being lost to needy Australians because the subsidies will cease. Unless the NRAS is extended, it undoes the supply gains made by the Future Fund.

With Government looking to build a million homes over 5 years to essentially maintain 200,000 dwelling delivery each year, there will be ever increasing demands for development-ready land.

Unfortunately, these escalating demand numbers face perpetually tight supply pipelines. There is an ever-reducing availability of development-ready land 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.

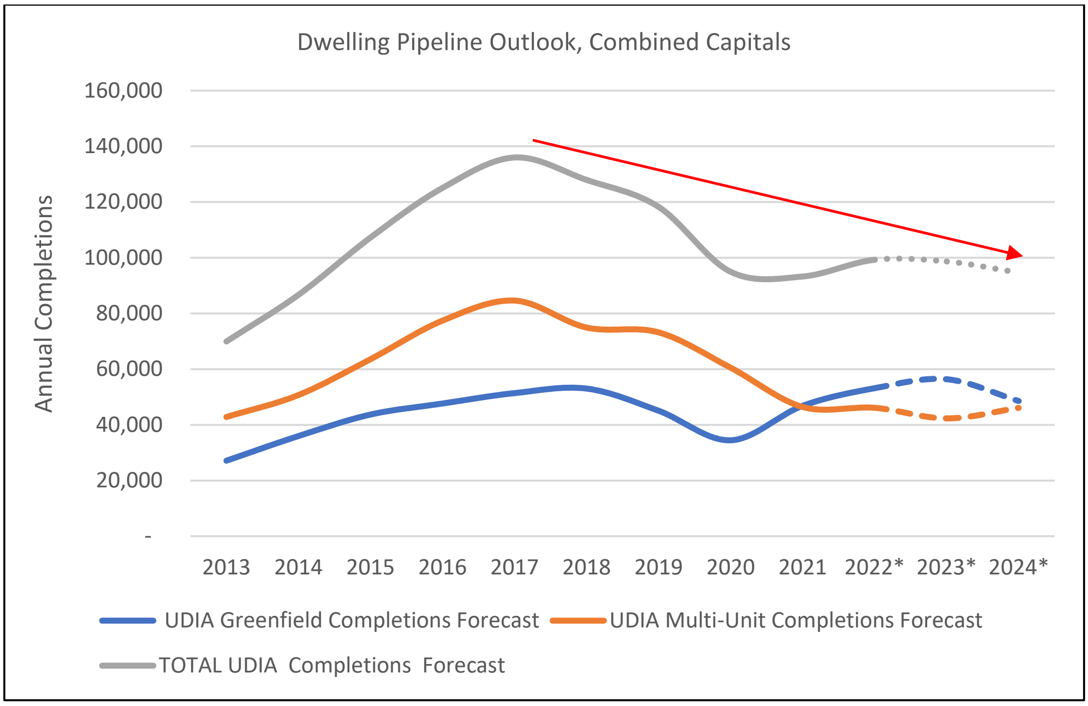
For Australia to get back on track with economic growth, both markets and immigration will need to expand back to previous levels. The Albanese Government has already expanded migration intake to 195,000 for 2022/2023 and it will need to rise still higher to overcome the jobs deficit and the economic gap created by the pandemic freeze. Population growth will mean stronger housing demand yet at the same time, housing supply is declining across the country.

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.

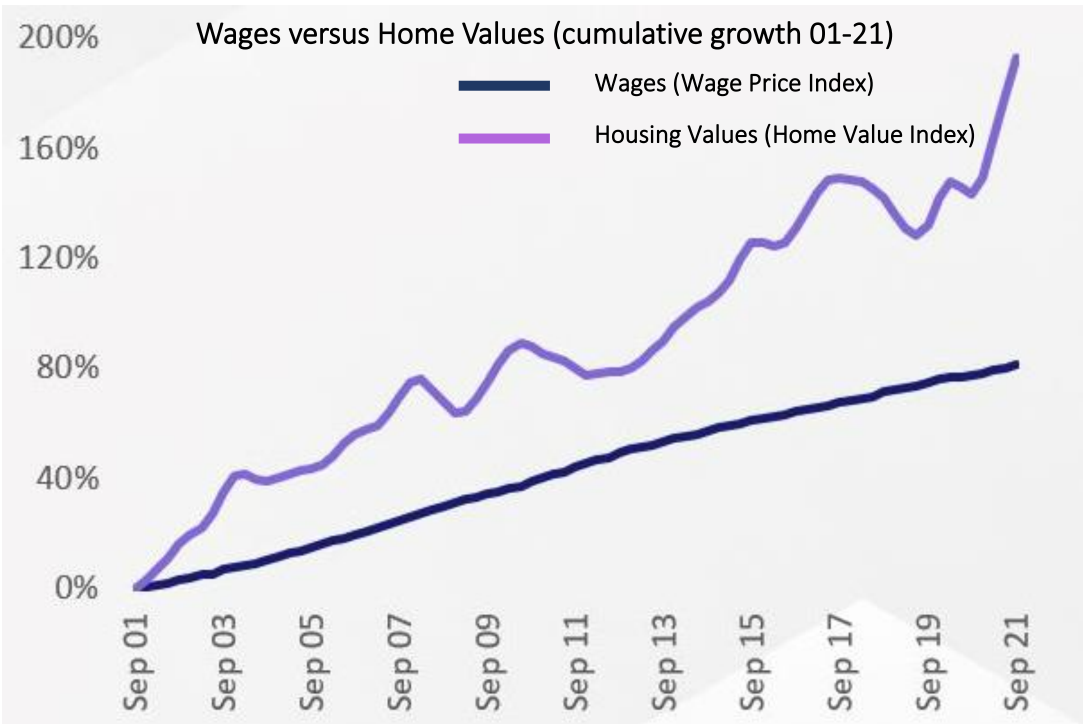
The Federal Government has an important role to play in a national housing strategy in coordination with the states across key areas.

BOOST HOUSING SUPPLY: DECLINING NEW HOME PIPELINE SINCE 2017



Source: Dwelling Pipeline Outlook, Combined Capitals (Source: UDIA State of the Land 2022)

TO BREAK THE SPIRALLING AFFORDABILITY CRISIS



Policy Priorities – 2023-2024 Budget

1: A Home for Everyone

Access to housing is integral to the economic and social fortunes of every Australian but is becoming increasingly out of reach.

Historically thin and declining supply pipelines, with pandemic driven material and labour shortages, threaten to stall economic recovery, constricting the housing market and accelerating unaffordability.

Shortages of land for 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 that suffers the same problem.

Affordability issues in regional and urban areas are largely the result of a chronic lack of development-ready land – land caught in regulatory systems which limit industry capacity to meet demand spikes. The causes are well known: a lack of enabling/major infrastructure, insufficient zoned land, clogged approval systems and the weight of regulation and taxes adding to the time, cost and complexity of projects.

Boosting supply and infrastructure across the housing spectrum to create development-ready pipelines, will have the greatest impact on access to housing and help short circuit the need for Government support for many households.

The UDIA is working with NHFIC and the Australian Bureau of Statistics to develop the Development-Ready Land Pipeline Monitor (Monitor), to identify how much actual development ready land is available across states.

The Monitor was identified as a critical indicator of Australia's ability to deliver supply across the housing spectrum. It tracks several problems that hold back housing supply – Lack of enabling infrastructure, inadequate zoning & planning, delayed development & building approvals, land banking and slow environmental decisions.

The introduction of the Monitor, will be essential for the Federal Government to monitor, target problems and incentivise housing supply across their at-market, affordable and social housing policies.

Importantly, solving affordability and the ever-widening housing gap requires a coordinated policy across affordable, social and at-market housing with consistent funding from federal, state and territory Governments.

The growing annual housing shortfalls across at-market and affordable housing mean we need to quickly build capacity to deliver new housing at significant scale for sale as well as rental. This will ensure we have a pathway for all Australians from affordable through to market rental and home ownership. Otherwise, Australia will only fall further behind on housing its population.

Government and CHPs currently have no practical way to close the affordable and social housing gap on their own and equally, we need to boost at-market housing supply by 2025, to cope with projected increasing demand.

This problem is made significantly worse when we take into account Government[ix] estimates that discontinuing the National Rental Affordability Scheme (NRAS), will see the remaining circa 25,000 affordable homes exiting the scheme by 2026. Over 13,000 of these affordable houses are private affordable dwellings at risk of being lost to needy Australians because the subsidies will cease. Unless the NRAS is extended, it undoes the supply gains made by the Future Fund.

By leveraging private development capability and capital, we can deliver more dwellings across the housing spectrum, partner and boost the capacity of CHPs, and help close the gap faster. This also means encouraging private funding from small as well as institutional investors to ensure there is capital across housing for sale and rent.

In addition to boosting development ready land supply across the spectrum, this means acting quickly to:

1) implement straightforward reforms to take away commercial disadvantages for Market BTR compared to build to sell (BTS) and providing incentives that cover the rental gap for private Affordable BTR, to deliver more housing.

2) funding incentives that cover the rental gap and harness the private market's ability to bring investment to affordable housing, (similar to an NRAS-like scheme). This will accelerate affordable housing by utilising private developer capacity and investment funding, to spread Government dollars further.

   Using for example, the $10bn Future Fund in this way alone, can incentivise private and CHP delivery of up to 21,000 affordable houses year on year.

3) Removing impediments to investment across all housing development by reforming foreign investment rules and charges that impede the supply of at-scale housing for ownership and rental.

While not entirely the direct responsibility of the Federal Government, the Commonwealth can incentivise the states to resolve these issues with frameworks and bilateral/multilateral deals. NHFIC also has an increasing role to play as a Federal agency with the ability to coordinate across states and territories in the affordable and social housing space.

Recommendations

The Federal Government can adopt the following initiatives to incentivise change in co-ordination with states and territories, using the NHHA or other funding structures:

1) **Use the National Housing Supply Council (The Council), NHFIC and the Accord to monitor, map and incentivise boosting supply targets and development-ready land metrics:**
   - **A National Housing Strategy linked to** boosting enabling infrastructure, streamlined planning/ approvals/environmental reforms/taxes, reform of zoning, affordable/at-market housing targets.
   - **Monitor metrics** for housing supply targets - payable upon delivery of development-ready supply.
2) **Use the NHHA** to incentivise housing infrastructure and labour supply across the housing spectrum.
3) **Agree reciprocal income support and investment by Federal, State and Territory Governments from existing revenue,** to incentivise the development industry to ramp up affordable housing.
4) **Limit reliance on Inclusionary Zoning and new property taxes** which jeopardise affordability across the housing spectrum, negatively impacting future ability to deliver affordable housing.
5) **Extend the existing NRAS scheme by 5 years** to ensure current affordable housing remains.
6) **Restart an NRAS-like scheme to boost affordable housing** by funding incentives that cover the rental gap and harness the private market's ability to bring investment to affordable housing.
7) **Incentivise private affordable housing under BTR and for sale** by aligning affordable housing incentives with those received by CHPs and reducing infrastructure contributions.
8) **Fix the legislation impeding more institutional investment in BTR** to make it competitive with other international markets, by allowing projects to claim back GST during development like BTS, and reducing Managed Investment Trust (MIT) withholding tax (WHT) to 15% and affordable housing MIT WHT to 10%.
9) **Establish a new tradable tax credit for delivered affordable housing** that will give CHPs and private developers the ability to generate equity for new affordable housing projects – like the US Low Income Housing Tax Concession (LIHTIC).
10) **Expand NHFIC's ability to act as a private partnership interface with CHPs** to ensure more affordable housing projects are built using private developer capability and funding.
11) **Government's pre-purchase affordable housing in mixed-tenure projects** to make it easier for developers to get bank funding for more affordable housing.
12) **Government's expand grants and loans (e.g. under NHFIC), for affordable housing to private developers** where they are delivering affordable product to the market like CHPs.
13) **Incentivise fast-track approvals and density bonuses** for more affordable housing.
14) **Ensure all foreign surcharges and investment restrictions exclude investment for the supply of housing** at-scale for ownership or rental by others.
15) **Boost Australian construction manufacture** - expand government guaranteed loans to onshore construction material manufacture and manufactured housing - Fast track the "Future Made" government spend on Australian goods and materials.

2: Infrastructure for Liveable Communities

Great cities and regions are productive, liveable and sustainable. They continue to evolve under the influence of demographic change, technology, climate and economic and social factors. But they don't just happen automatically - they demand foresight, planning, investment and the capacity to respond to the needs of people who live in them and aspire to live in them.

The industry's capacity to deliver housing is intrinsically linked to the strategic planning, funding and delivery of core infrastructure. Long term growth corridors should be identified, secured, aligned to population forecasts and strategic plans. Major transport investment needs to be synchronised with long term, strategic land use and infrastructure plans.

Too often, the lack of alignment between all three spheres of government produces disjointed planning for the growth that underpins our cities and regions, as well as the land use and infrastructure pipelines needed to service them. Productivity suffers without an integrated plan and supply is constrained.

Agencies like Infrastructure Australia, the Centre for Population and the National Housing Finance and Investment Corporation provide critical support. However, unless there is a seamless and coherent strategic agenda, it is impossible to efficiently deliver cost-effective new housing. There are examples where future cities have been identified without developing a strategic plan, making it is impossible to anticipate the housing and development needs. This becomes inefficient and costly.

We need robust strategic plans, which blend population forecasts, early infrastructure planning and durable land use frameworks, are needed for each of our major capital cities and regions - and quickly.

The Commonwealth should seize the opportunity to yield a stronger dividend from this investment and accelerate a better mix of housing outcomes when it invests in large projects that lend themselves to urban renewal and city-shaping growth - like urban rail.

We are aware that the Federal Government is currently undertaking initiatives to reform in line with some of our recommendations like Infrastructure Australia, however, we include them because the reform is not yet finalised.

Recommendations

In coordination with State and Territory Governments:

1) **Secure a better return for Commonwealth investments in major infrastructure projects** by mandating dedicated land use plans, including housing supply outcomes and delivering integrated approvals for development (including enabling infrastructure).

2) **Use the Centre for Population's forecasts confirmed with industry as the baseline** for all infrastructure and land use planning across governments.

3) **Put in place short, medium and long-term strategic plans** for each of our major capital cities and regional centres (e.g. population greater than 30,000) that map the infrastructure and land use requirements to properly and quickly service growth.

4) **Ensure infrastructure pipelines sit beyond the political cycle** by mandating all major Federal investments be subject to business case scrutiny by Infrastructure Australia.

5) **Allow Infrastructure Australia to consider and advise on the contribution of major infrastructure to meeting housing supply**, in addition to the direct economic benefits.

6) **Clearly chart the base level of services expected for key elements** of liveability, including housing, transport, social/major infrastructure and the environment, as documented in the National Strategic Population Plan. Include delivery on statutory obligations in a timely manner, by Governments and private sector.

7) **Review the City Deals framework** to ensure it is more effectively delivering a streamlined system for better infrastructure and integrated city outcomes.

8) **Prioritise further City Deals** to stimulate growth and kickstart productivity.

3: Streamlining Environmental Approvals

The industry strongly supports Government efforts to preserve and protect the environment. The Development and Construction industry is one of Governments primary vehicles for transforming and restoring environments.

We congratulate Government on the approach it is taking towards developing the Environment Protection and Biodiversity Conservation (EPBC) Act reforms and Environmental Protection Authority (EPA). We note that consistent lock-step consultation on the detail of the reforms will be key.

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

As the single largest user (by project volume) of the EPBC assessment system, the development industry needs a simple, clear framework that can be efficiently navigated for quick decisions before committing to projects.

The failure of the EPBC system deeply impacts planning and approvals of new housing developments due to the interdependency of the State and Federal systems. Equally, if any one of the EPBC, planning or approvals systems either stalls or fails, the entire framework is undermined.

The 2022 Budget package of $128.5 million towards environmental reforms sets Australia on a trajectory towards a better system in line with many UDIA recommendations including, streamlining environmental approvals, creation of a one touch system to remove double handling, evidence-based proposed listings and transparency.

Critically, managing climate change and the need to improve environmental performance, will also require government and industry to shrewdly balance environmental outcomes with the increased cost for housing and affordability. This required Government to resolve two key reform issues:

- **Reverse the low supply of housing** threatening to worsen the spiralling affordability crisis; and
- **Streamline the operation of the EPBC** to improve environmental outcomes & quick, simple decisions.

The objective is relatively simple. Industry wants to know clearly, upfront and before they commit to projects, whether land is open & available for development. Nobody including Government, wants complex decisions-making/retrospective bans/decision reversals/delays impacting projects.

Equally, at this stage, balancing all the objectives of the EBPC and EPA means any rules surrounding the EPBC and any EPA, needs to include a clear statement of core objectives that, along with protecting the environment, also enshrine the goal of ensuring efficient and effective processes that promote client business efficacy.

Together with robust data collection on environmental performance and business performance, the goals will help maintain the necessary balance.

While we are aware many of our recommendations are being actioned as part of Government reforms, they are all outlined below as it will be an ongoing process.

Recommendations

UDIA recommends development and implementation of an EPBC framework that is informed by robust processes, contemporary standards and comprehensive analysis for good environmental and urban development outcomes, including:

1) **Ensure the EPBC and EPA legislation enshrine core objectives** that state specifically the environmental and business performance outcomes the rules should support.
2) **Ensure the data collection and monitoring includes both environmental and business performance** measures.
3) **In line with previous Budget measures, create a single touch assessment system** that avoids duplication between different tiers of governments and invest in the data and technology needed to ensure they are robust.
4) **In line with the previous Budget measures, fund and develop the precise design of new environmental standards** to underpin the potential new EPBC system.
5) **Implement clear unambiguous response timeframes** with “deemed to comply” approvals if timeframes are not met.
6) **Use the budgeted $62.3 million for delivery of 10 regional plans to include housing** related projects which are desperately needed.
7) **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.
8) **Ensure 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.
9) **Investment in national and regional-scale planning** needed to appropriately manage threats, resolve competing land uses and provide certainty to industry proponents well before development is proposed. Funding to support the efficient delivery of state-based Strategic Assessments.

4: Make Planning Systems Work More Effectively

Housing supply pipelines remain out of sync with short and long-term demand and population projections in most areas of Australia, as well as increased pressure for housing diversity to satisfy demographic shifts.

Many state and local planning systems are inefficient and unmanageable. Our industry, which is tasked with the actual delivery of new development, is stymied by conflict and poor processes - all of which contribute to a lower and ever-diminishing supply.

It now takes some six years for the first house to be built on rezoned land, meaning supply cannot respond quickly enough to demand. The endless and ever-growing processing timeframes, red tape and costs imposed on new projects are ultimately baked into the cost of new housing, increasing the time it takes to deliver housing and raising the price for home buyers.

Jurisdictions also often overestimate supply - working from broad area assessments, lacking fine-grained data on true capacity. Instead, approximations are made of “zoned land” supply not “development-ready land” which are fundamentally different measures.

UDIA supports the Government’s expansion of NHFIC’s mandate to set targets, collect, monitor and report on housing supply and land use, together with the new National Housing Supply and Affordability Council (Council) mandate to manage supply boosting incentives, targets and data.

We need to incentivise planning reform and develop accurate broad-based data to measure the performance of the housing and planning systems. This can be achieved through NHFIC/NHSAC using the NHHA to fund incentives.

As noted previously, the UDIA is working with NHFIC and the Australian Bureau of Statistics to develop the Development Ready Land Pipeline Monitor, to identify how much actual development-ready land is available across states.

The Monitor was identified as a critical indicator of Australia’s ability to deliver supply across the housing spectrum. It tracks several problems that hold back housing supply – Lack of enabling infrastructure, inadequate zoning & planning, delayed development & building approvals, land banking and slow environmental decisions.

The introduction of the Monitor, will be essential for the Federal Government to identify, target problems and incentivise housing supply across their at-market, affordable and social housing policies.

The Commonwealth is uniquely placed to incentivise necessary changes in coordination with States and Territories, to guide the refocus of planning systems through bilateral and multilateral deals as well as the operation of the NHHA and the Council.

Recommendations

UDIA recommends investment in an expanded mandate for NHFIC that will allow the Commonwealth to accelerate reforms to planning and regulatory systems, including:

1. **In line with Government announcements, NHFIC and The Council should design a new incentive based framework** to assess performance of all housing markets. The UDIA Monitor for development-ready land pipeline is specifically designed to easily dovetail into this framework.

2. **Housing supply targets should include the major capital cities and regional growth areas** and be informed by population projections that each state and territory needs to meet, to maintain affordability.

3. **Independent metrics that measure performance and identify barriers** – e.g.: development-ready land supply, manufacturing and worker capacity, more enabling infrastructure, streamlined/reform planning/approvals, affordable/at-market housing, streamlining stamp duty, charges and taxes.

4. **Map the red tape barriers, as well as the taxes and statutory charges**, that add to the time, cost and complexity of delivering new housing.

5. **NHFIC to Produce a series of 'league tables' to chart the performance of states, territories and local governments** across the metrics, including housing supply, infrastructure servicing and approval times.

6. **Introduce a pool of financial incentives to reward states for productivity** inducing reforms that ensure they meet housing supply targets, improve housing affordability and choice. NHHA is a possible incentive mechanism across all governments.

7. **Ensure incentive payments are made available on delivery of key metrics** that boost supply e.g.: upon actual increases in development ready supply or real reductions in approval times, rather than the preparation of "plans" or "processes".

5: Population for Prosperity

Population growth is intrinsic to Australia's prosperity as the least populated continent in the world. Australia enjoyed 27 years of continuous economic growth, the longest period recorded globally, and immigration was one of the key drivers of this success.

Immigration remains crucial for the economy - Net Overseas Migration (NOM) historically accounts for about 60% of the population growth needed to sustain a vibrant economy in Australia.

Migrants own one in three Australian small businesses. That is 620,000 businesses, employing 1.41 million Australians. Critically, migrants have a fiscally positive impact on the economy - the 2018-2019 Treasury data shows permanent migrants each contributed $127,000 more to the GDP than the general population. The Migration Council of Australia's reports that migrants add 15.7 per cent to our workforce participation rate, and 5.9 per cent in GDP per capita growth.

COVID-19 represents the biggest disruption to Australia's population trajectory since World War II. Net Overseas Migration (NOM) plunged into the negative during the – reaching (-100,500) in F2021. 2022 Budget forecasts expect 195,000 new migrants in 2022/2023 however we need to make up for the lost NOM during the pandemic. The pandemic has also seen a marked decline in the underlying birth rate, a statistic exacerbated by cost of living and housing affordability pressures.

The Centre for Population estimates that Australia's population will be 855,200 lower by 2031 than pre-COVID forecasts. This translates to approximately 342,000 fewer homes built, with the linked reduction in economic activity and higher house prices.

UDIA/URBIS research shows NOM accounts for 56 percent of Australia's housing demand, and up to 50,000 fewer homes per year will be built over the next five years due to the contraction in population growth. This represents about $17.9 billion of economic activity lost forever.

The development industry (like many) is experiencing major cost increases and delays from skilled worker shortages. The economy will struggle if bold migration targets are not established.

We congratulate Government on expanding the immigration policy in recognition of the problem, but with immigration levels averaging a 226,000 pa increase between 2007 and 2020, we have to take bolder steps if we want to regain lost economic productivity.

Population growth is critical to the expansion of the Australian economy and immigration will need to restart for Australia's economic productivity to return to normal. This will also unlock property and construction which is the engine room of the economy - Each dollar spent is shared between 40+ trades and businesses with significant secondary boosts to manufacturing and retail jobs, nationwide.

Australia needs a roadmap that respects the objective of safely reopening international borders but provides a pathway to restoring robust immigration and population growth for economic prosperity.

Recommendations

UDIA recommends investment in short, medium and long-term initiatives to recapture strong migration flows and boost population growth, including:

1. The **Commonwealth develop short, medium and long-term targets** to restore net overseas migration and population growth.
2. **Australia should set a new target for NOM**, well above the pre-pandemic averages of 226,000 between 2007 and 2020 – and seek to double NOM in the short term until it has closed the gap caused by the pandemic.
3. **Prioritise preferred migrants** - foreign students & skilled migrants to overcome worker shortages.
4. **Prioritise Skilled Visas across in-demand regions as well as skills** – This would include creation of skilled rural and remote visas for in-demand skills, that have four-year terms with a pathway to citizenship (say by staying an extra two years).
5. **Provide an additional training space to match each migrant skilled worker entering Australia** – to ensure we encourage long term skilled workers.
6. **Develop Education and Aptitude Programs for Skilled Trades and in demand jobs** – in alignment with migrant and employment demands, start programs at high school to ensure trades and skilled jobs outside of University are equally promoted with an emphasis on identifying the aptitude of male and female students.
7. **Increasingly use Labour agreements between Australian employers and Government** – to enable skilled overseas workers to work in skilled occupations for five years as:
    a. a temporary skill shortage (TSS) visa subclass 482; or
    b. a permanent residence pathway under skilled employer sponsored regional (SESR) (Provisional) visa (subclass 494); or
    c. employer nomination scheme visa (subclass 186).
8. **The Centre for Population should produce fresh projections** built around these goals to inform land use and infrastructure planning by all spheres of government.
9. **Through NHFIC, NHHA and the Council, monitor and incorporate NOM and population movements** as part of setting and incentivising state and territory supply targets and development-ready land metrics.

6: Keep Capacity and Create Efficiency

The supply of housing across the spectrum is shackled and dragged down by:

- taxes and charges that create a costly distortion of housing decisions; and
- increasing uncertainty in availability of credit that jeopardises the market's ability to deliver critical supply at scale.

The current tax system is not sustainable and represents a disproportionately heavy burden on new home buyers. Further, Reserve Bank of Australia interest rates hikes will continue until inflation flattens, introducing further uncertainty into the market.

Together, these issues erode confidence and the purchasing capacity of people wanting to buy a home or seeking development funding. They add to spiralling housing affordability. Taxes, statutory charges and levies combine with regulatory barriers to add as much as 42% to the cost of new housing. With the average price of a dwelling being between $475,083 and $994,298, that means $190,000 to $397,700 is being scooped up by government taxes and charges from new home buyers.

Australia would be better off abolishing inefficient taxes that distort choices, and this needs broad-scale tax reform across Governments. In the meantime, reduction of tax burdens is a valuable step.

Equally, lenders and borrowers need certainty that credit rules will not radically change in times of uncertainty. Prior efforts to curb perceived risks in lending practices had the effect of substantially stalling the availability of finance for new projects, particularly apartments.

Recommendations

1. Deliver a roadmap for **broad based tax reform** in partnership with state, territory and local governments to retire inefficient taxes on housing like stamp duty and foreign investor taxes.
2. **Removing tax-related barriers** on new or emerging housing product to ensure all similar housing products are on a level playing field. Remove rules that discourage institutional investment in Build-to-Rent, equalise treatment for all affordable product and ensure CHP tax treatment allows disposal without GST.
3. Incentivise (under NHHA or other agreements) **increasing the stamp duty thresholds** across the States and Territories to ensure median house prices attract materially lower rates.
4. Maintain (in line with Budget/election measures) a substantial annual allocation of the **Home Guarantee Scheme, First Home Loan Deposit Scheme and Help to Buy Scheme** - for use on homes across cities and regions.
5. Establish a **Property Finance Reference Group** comprised of the Federal Government, RBA, APRA, API, and industry representatives including the UDIA to monitor and examine property market indicators and headwinds.

Implement requirements for **financial regulators to draft a regulation impact statement** on major, regional and local housing markets for any lending regulation changes - to avoid disproportionate impacts and blanket changes that worsen circumstances for regional markets.

Appendix 1: The UDIA National Housing Market Performance Dashboard

		Movement		
Metric Type	*Metric*	*MoM*	*QoQ/3M change*	*Annual Change/Rolling 12M change*
Demand	Population Growth (National - Quarterly)	N/A	0.34%	1.13%
Demand	Hard Leads: House (whole of market - National)	-12%	-33%	-65%
Demand	Hard Leads: Units (whole of market - National)	-9%	-20%	-40%
Demand	Hard Leads: Greenfield Lots (whole of market - National)	-11%	-31%	-66%
Demand	Hard Leads: Total Residential (whole of market - National)	-11%	-28%	-59%
Demand	New House Sales (Combined CCs) Rolling 12 month	-3%	-5%	-16%
Demand	New Apartment Sales (Combined CCs) Rolling 12 month	-6%	-10%	-37%
Demand	New Loan Commitments: Total Housing - Owner Occupier (#)	1%	-12%	-14%
Demand	New Loan Commitments: Total Housing - Investor (#)	10%	-13%	17%
Demand	New Loan Commitments: Total Housing - FHB (#)	1%	-6%	-28%
Demand	New Loan Commitments: Construction of dwellings (Owner Occupiers)	-4%	-10%	-40%
Demand	New Loan Commitments: Purchase of newly erected dwellings (Owner Occupiers)	7%	-10%	-27%
Demand	New Loan Commitments: Purchase of existing dwellings (Owner Occupiers)	-5%	-9%	-9%
Supply	House Listings (whole of market - National)	3%	14%	16%
Supply	Unit Listings (whole of market - National)	3%	2%	-3%
Supply	Greenfield Lot listings (National)	7%	32%	53%
Supply	Detached House Approvals (National) #	6%	-6%	-24%
Supply	Semi-Detached Approvals (National) #	-9%	-13%	-8%
Supply	Apartment Approvals (National) #	-20%	11%	-8%
Supply	Total Dwelling Approvals (National) #	-1%	-4%	-19%
Supply	House Commencements (National) #	N/A	8%	-6%
Supply	Unit Commencements (national) #	N/A	-1%	5%
Supply	Total Dwelling Commencements (National) #	N/A	5%	-2%
Supply	Residential Construction Work Done (value - national)	N/A	8%	7%
Industry Profile	Input prices to house construction (National index)	N/A	3%	16%
Industry Profile	Construction Sector Jobs (total employed)	N/A	3%	12%
Industry Profile	Construction Sector Job Vacancies (National)	N/A	-11%	0%
Industry Profile	Permanent Skilled Visas (all classes)	-2%	-5%	413%
Industry Profile	Temporary Skilled Visas (all classes)	-4%	9%	399%

Dashboard LEGEND

Change Range
10%+
5% to 9.9%
0.1% to 4.9%
0% (No Change)
10%+
5% to 9.9%
0.1% to 4.9%

ENDNOTES

[i] Del Bon, N (2020), State of the Nation's Housing 2020 National Housing Finance and Investment Corporation,2020, p21.

[ii] Gurran N, Hulse K, Dodson J, Pill M, Dowling R, Reynolds M, Maalsen S, (2021) Urban productivity and affordable rental housing supply in Australian cities and regions, AHURI Report 353, March 2021 p 1.

[iii] Meeting Social Housing Need A Tipping Point for Federal Intervention, Compass Housing, August 2021, p3.

[iv] Leptos C, (2021), Statutory Review of the Operation of the National Housing Finance and Investment Corporation – Final Report, Australian Government, 13 August 2021, Appendix 1.

[v] ABS; AIHW; AHURI

[vi] The fact that no one sector can address the need alone is supported by AHURI see Benedict R, Gurran N, Gilbert C, Hamilton C, Rowley S, Liu S, (2022) Private Sector involvement in social and affordable housing, AHURI Final Report 388, October 2022, p2 & Lawson J, Pawson H, Troy L, Van Den Nouwelant R, Hamilton C, (2018) Social Housing as infrastructure: An investment Pathway, AHURI Final Report 306, 2018.

[vii] Leptos C, (2021), Statutory Review of the Operation of the National Housing Finance and Investment Corporation – Final Report, Australian Government, 13 August 2021, Appendix 1.

[viii] september-2022-nras-quarterly-performance-report.pdf (dss.gov.au)

[ix] september-2022-nras-quarterly-performance-report.pdf (dss.gov.au)