Urban Development Institute of Australia
NATIONAL

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The Hon Dr Jim Chalmers MP
Treasurer
Unit 2A, Logan Central Plaza 38-74 Wembley Road
Logan Central QLD 4114

Via Email – jim.chalmers.mp@aph.gov.au; ruth.moore@treasury.gov.au

Dear Treasurer

CFMEU Super Profit tax proposal will accelerate the housing crisis, not solve it.

As an active supporter of the Government's housing and economic initiatives, UDIA National wishes to provide our member's insights on the CFMEU's proposed super profits tax for driving affordable and social housing supply.

While the uninformed might find their proposal superficially compelling, there are enormous issues with the application of a "super profits tax" (which is actually a CFMEU turnover tax), in both general economic and fairness terms. We understand that this would already be clear to Treasury and relevant departments.

Instead, the purpose of this letter is to focus specifically on the issues relating to housing and how, perversely, such a tax would increase the cost/reduce the supply of new housing.

Put simply, any turnover-based tax is inherently unfair as it does not relate to actual profit, and such a tax would also disproportionately impact "at scale" housing projects.

Given the current cost of land, development and construction, many mid-large developers (or even single projects) would, at settlement time fall into the $100m+ turnover range – even if the actual project has taken many years to come to fruition, irrespective of profit. This would be an inherently unfair, direct disincentive to the delivery of the very types of projects needed to deliver housing now and into the future.

Higher taxes are ultimately a cost to business - which either need to be passed on to consumers, or alternatively result in lower production of higher cost items (or both) – in the case of mining, the higher cost may be borne by foreign purchasers, in the case of housing, the higher cost is worn by ordinary Australians.

This has been the consistent impact of taxes and charges on business across the entire economy, and housing is already disproportionately impacted by taxes, charges and levies across all levels of government. At a time when the housing industry is already in the grip of a viability crisis, higher costs and tax imposts will simply lower investment, reduce product capacity and will result in a feedback loop, constraining housing supply and pushing prices/rents higher still.

We suggest the Federal Government must continue to drive policy that is directly aimed at creating housing supply where funding is either directly from Government or incentivised from private sources, so there is fresh capital in the housing system that does not come from cannibalising the very same system.

The Issue in detail

Although it has been cast as a "super profits tax", the CFMEU proposal is a tax on relatively ordinary businesses based on "turnover" not profit. It will capture many high cost and low margin businesses, including Australian housing providers (developers, builders, constructors).

In a high-cost industry like housing, $100 million turnover does not remotely translate into "super profits". To put it into perspective, $100 million turnover in property, once you apply the historic average of gross margins of circa 12-20%, translates into a relatively small profit, further reduced once operating costs are considered. Today, $100 million dollars of "turnover" would capture a 100-unit apartment block in Sydney. The tax simply becomes a further cost to delivery of housing, particularly at scale.

The CFMEU specifically recognise that a super profits tax that does not limit market distortions will cannibalise productivity and create social dislocation (our emphasis added below):

> *"Our analysis indicates that an economy-wide super profits tax could raise the $28 billion per annum investment required to close the housing gap in social and affordable housing by 2041. Over the next decade alone, this tax could raise $290 billion. This includes $128 billion from mining projects (excluding those already covered by other resource rent taxes) and $163 billion from non-mining companies with turnover greater than $100 million.*
>
> *Theoretically, a permanent well-designed general excess profit tax is efficient and does not discourage investment.* ***Any super profits tax should be designed to be fiscally stable to ensure confidence in the tax system and limit market distortions, since discouraging investment would in turn reduce economic activity, wages, jobs and therefore the social welfare it was designed to promote.*** *In particular, setting a single threshold across all non-mining companies may not take into account the variation in business models and production structures which can result in less efficient outcomes. These factors should be taken into account when considering the potential design of a super profits tax.*

In addition to the risk of capturing ordinary businesses in the "super profits tax", the economic reality in those circumstances is that any tax will be a cost to business that either needs to be passed on to purchasers to maintain margins for investor finance, or reduces investment and production.

The housing industry is already finding itself fighting an unprecedented viability crisis, with record-low numbers of projects being feasible enough to commence. We are seeing the impact – fewer dwellings and projects commencing. Those that commence are at ever higher prices, leading directly into higher rentals, and pushing more people into social and government subsidised housing.

The addition of a further tax will simply accelerate the growing housing gap, decreasing the supply of scale housing being deliver and push prices even higher on more limited stock.

The Existing Housing Crisis gets worse.

Currently, new housing and land supply is falling as underlying demand continues grow with annual shortfalls of 21,260 at-market houses and 45,000 affordable and social houses expected each year.

All housing markets across the spectrum – whether market, affordable or social - rely on the same land and infrastructure, the same building capacity shortfalls and the same cost structures. Action must be taken to unlock these if any Federal Government initiatives are to properly succeed.

Housing supply is dropping, investors are exiting the rental provider market, leading to quite predictable house price/rental rate blow outs. The exodus and tightening supply has been accelerated by cost increases - cost of living, construction costs and interest rate rises:

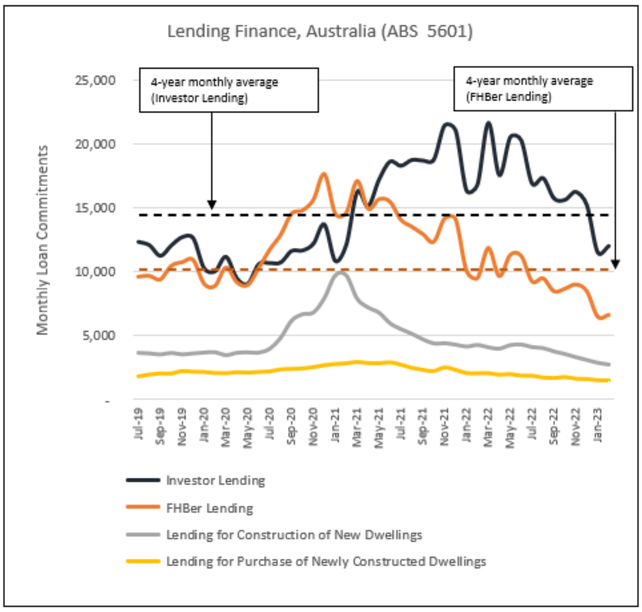
- National dwelling commencements are down 21% on a 12-month rolling average.
- Rental listings are down 32% on the long run average.
- This has all seen residential land prices jump 24% since last year and national house rental pricing has grown 45% since March 2020.
- Building has dropped by 20% for houses and 22% units.
- Construction costs have increased by at least 28% on pre-covid and are set to settle into a "new normal" high.
- Job vacancies in the construction sector are 82% higher than the long run average.
- Permanent skilled visa arrivals currently 30% lower than the pre-pandemic levels and temporary skilled visas 24% lower than the long run average.
- Greenfield housing lot prices continue to rise (by 24%), even though demand for greenfield land has plummeted by 50% all because new supply has dropped by 40% since last year.

A closer look at the rental market shows that Australia needs every rental property it can attract. Rental spikes have been caused by tightening supply, an exodus of rental investors and dropping new investment lending:

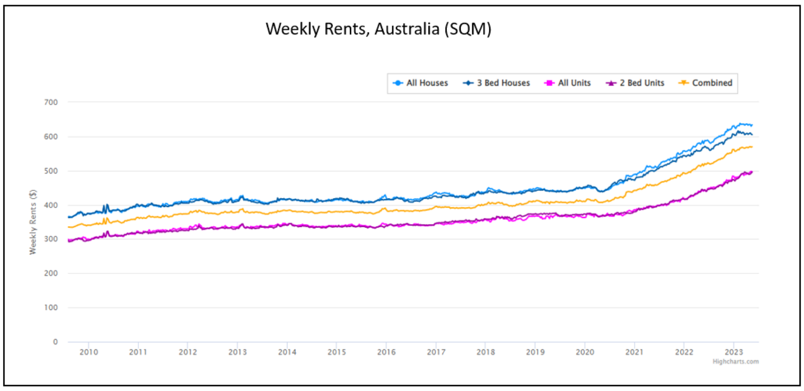
- investor lending nationally is down 19% on a 3-month rolling basis and is now 18% lower than the long run monthly average.
- lending for the construction of new dwellings and the purchase of newly constructed dwellings both down 28% on a 12-month rolling basis.
- 45% inflection in asking rents across all types of residential dwellings since march 2020 – the biggest three year rental price growth on record.
- The shortage of rental property across the nation is precipitating a massive rental price spike, which is being led by a drop in new investor and owner occupier properties.

- mum and dad investors are the primary mechanism for delivering new rental property to the market, this is creating a constraint on supply.

Investor Lending Down 19%, FHBer down 43%, Construction/purchase down 28%:



Rental has spiked 45% since March 2020 as rental supply drops:



Recommendation

While funding for affordable and social housing is critical for the housing future of Australians, the funding must not impact the very market it is trying to repair. Narrow-based and poorly-designed taxes, and in particular taxes that impact housing markets, must be avoided in favour of incentivising investors, state and territory governments and private/community housing providers to build an increasing supply of housing.

Government should continue to drive policy that is directly aimed at improving housing supply where funding is either directly from Government, or incentivised from private sources, to ensure capital remains in the housing system without cannibalising that very same delivery system.

We do not expect the Government to seriously consider an ill-founded proposal such as this, but if there are any points that require further explanation we would welcome the opportunity to meet to discuss any aspects.

Please do not hesitate to contact UDIA National's Head of Policy and Government Relations, Andrew Mihno, on 0406 454 549 to discuss any aspect of this submission further.

Maxwell Shifman
UDIA National President