Urban Taskforce AUSTRALIA

2022 COMMONWEALTH PRODUCTIVITY COMMISSION – PRODUCTIVITY INQUIRY

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Urban Taskforce Australia Recommendations

1.	**Urban Taskforce recommends the Commonwealth Productivity Commission notes the links between productivity, housing and Planning systems and reasserts the reform directions it recommended in its 2021 Information Paper, *Plan to Identify Planning and Zoning Reforms***
2.	**Urban Taskforce recommends, that the Commonwealth Productivity Commission support the NSW Productivity Commission's recommendation for a more flexible planning approach to the use of dilapidated or under-utilised industrial lands in Sydney**
3.	**Urban Taskforce recommends the Commonwealth Productivity Commission should pro-actively re-affirm the work of the NSW Productivity Commission and its 2021 recommendations for boosting productivity through reform of the planning system in NSW and apply relevant lessons to other states through a pool of payments which are dependent upon achieving or over-achieving housing supply targets**
4.	**Urban Taskforce recommends that Commonwealth Productivity Commission, or the new National Housing Supply and Affordability Council (or an expanded NHFIC), should undertake quantitative research on the impact of regulation on housing supply in an Australian context**
5.	***Urban Taskforce recommends that the Commonwealth lead a policy focus on Housing Supply across all market segments and actively highlight retrograde policy regulations like the current NSW regulatory prohibition of land lease developments and manufactured homes in Greater Sydney, that work against housing supply and housing affordability. The Commonwealth should actively promote and support this form of market housing solution to the address the housing supply and affordability crisis***
6.	***Urban Taskforce recommends the Commonwealth establish a Local infrastructure fund (for Community, Green and Hard infrastructure) targeted at Councils to drive new housing supply above that which was planned through existing published strategies. This would (by design) result in commensurate reductions in local infrastructure fees and charges while ensuring that Councils and communities are motivated to over-achieve on housing supply and housing approvals***
7.	***Urban Taskforce recommends that the Commonwealth drive an immediate focus from the States to maximise and deliver State-led planning opportunities for new housing under current planning legislation***
8.	***Urban Taskforce recommends the Commonwealth use all means available to secure the removal of affordable housing levies and ensure Government bear the burden of regulatory failure and provide for GFA bonuses to encourage the delivery of affordable housing***
9.	***Urban Taskforce s supports the Commonwealth's decision to open up access to NHFIC bond aggregator funding to the delivery of affordable housing by the private sector and encourages the Commonwealth to expand this model while working with the States to develop a fast-track planning assessment process for all development types where there is a shortage in supply which impacts on a disadvantaged group including seniors housing and housing for people with a disability***
10.	***Urban Taskforce supports the increased targets for permanent overseas immigration. Further, in light of the current shortage of housing supply across Australia, Urban Taskforce recommends that the Productivity Commission actively progress all available measures to promote housing supply in all sectors of the market***
11.	***Urban Taskforce recommends the Commonwealth amend the tax schedule to treat foreign investment in Build to Rent residential property in the same way as an investment into other classes of property where the asset is established for the purpose of deriving a long-term rental return (ie. Reduce the withholding tax rate from 30% to 15% and the tax on capital gains also be reduced from 30% to 15%)***

12.	***Urban Taskforce recommends the Commonwealth change the GST treatment of Build to Rent residential assets, NDIA compatible housing and seniors living, to allow the construction costs to be instantly off set on the provision that the asset is held for a minimum period as rent deriving asset***
13.	***Urban Taskforce recommends that the Commonwealth create a $3Bn fund, similar to the Housing Acceleration Fund (HAF), to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated***
14.	***The Urban Taskforce recommends that the Commonwealth government take the lead in discussions with the States to abolish Stamp Duty and replace it with a broad-based tax, which will stimulate housing market transactions and activity, and more fairly generate funds for new infrastructure that will enable growth and stimulate the economy***
15.	***The Urban Taskforce recommends the Commonwealth and States should reconsider their tax on foreign investors prepared to invest in property. This discriminatory taxation is anathema to resolving the housing supply and affordability crisis***

1. Introduction

Urban Taskforce Australia is a not-for-profit peak industry representative for the property development industry. It represents Australia's most prominent property developers and equity financiers. Urban Taskforce membership is primarily focus on development in the NSW market, though many members operate throughout Australia.

Housing, its supply, affordability and location are critical factors that impact of government and private sector efforts to boost productivity, especially in our cities.

Productivity underpins concepts such as 30-minute cities that have been embedded in NSW urban planning documents over the past 2 decades. As the Commission notes in its interim report, working smarter is crucial to productivity gains. We need the workforce to work smarter, not necessarily harder or longer. And the location of one's home to one's place of work is critical.

Urban Taskforce strongly supports concepts like the 30-minute city and believes that Governments need to pursue policies that just don't leave such concepts on a document – it needs to be delivered.

As such, the delivery housing supply close to transport infrastructure and closer to where people work is fundamental.

The problem with the realisation of this ideal lies at the jurisdictional control of the States through their respective planning systems.

NSW represents one third of the population of Australia.

One third of overseas migrants settle permanently in New South Wales.

However, in NSW, we have a planning system that is failing to deliver housing supply to meet demand. In many important respects, legislative and regulatory framework works against these principles.

The lessons from the NSW experience can be applied, to a greater or lesser extent, to other jurisdictions across Australia. In NSW, since 2017, this has been a notable shift in decision making on planning matters away from the State Government agencies and to independent panels and local councils. Market housing in particular, no matter the size, complexity or scale, is not managed through a State Significant Development pathway.

By leaving the strategic decision making to local councils, many of which are antithetical to height and density, Sydney is simply not building the number of houses which its growing population requires.

In a typography and geography which renders Sydney surrounded by National parks to the North and the South, the Blue Mountains to the West and the Pacific Ocean to the East, the opportunities for further development in Greenfield locations is limited. This has been exacerbated by recent floods and increased concern for the protection of natural flora and fauna in the Cumberland Plans. While every opportunity for flood free housing should be progressed with alacrity, the cost of infrastructure and servicing means that this alone will not meet the demand for housing. That means Sydney must reconsider height and density controls in all locations that are serviced by mass public transport options.

This impact of a consistent under-supply of housing has a direct result in reducing the relative affordability of housing in what is the economic engine of the nation. This, over time, has an impact on the productivity of the nation.

As the NSW Productivity Commission found in its 2021 White Paper, "**In the long run, productivity is almost everything."**[1] It drives wealth, prosperity and quality of life. The flipside of this statement holds true as well – that everything affects productivity.

As housing is one of the fundamental building blocks of an economy, it stands to reason the nature of housing, supply, location, price, will have a major bearing on the efficiency of any particular economy

Housing supply is critically linked to housing affordability. While this might seem like basic economics, the fact that many in the planning community do not accept this maxim is one of the reasons we have such a problem today.

The dogmatic denial from some planners that they have any part to play in causing the problem causes reform paralysis. In recent years in NSW, denial has come from the very top. Former senior leaders in DPIE, as well as the former Minister for Planning and the Planning Institute of Australia have all sought to deny away the problem of the lack of housing development approvals and the consequent lack of supply.

To illustrate the point, consider the response to a serious attempt to assess the impact of the planning system, its rules and regulations, on the price of apartments in different jurisdictions, Keaton Jenner and Peter Tulip published a paper on the subject. The opening paragraph of the paper captured the issue neatly. It stated:

> *"Australian cities face a shortage of apartments. The severity of this shortage can be gauged by the difference between what home buyers will pay for an apartment and what it costs to supply. For example, we estimate that the average new apartment in Sydney sells for $873,000 but only costs $519,000 to supply, a difference of $355,000 or 68 per cent of costs. The wedge is 20 per cent of costs in Melbourne and 2 per cent in Brisbane. Why don't builders and developers exploit these profitable opportunities? The standard answer is that planning regulations stop them."*[2]

According to the Frontier Centre for the US Public Policy for the Urban Reform Institute: Demographia International Housing Affordability Report 2022 Sydney is the second-least affordable city for housing. This is a deterioration since last year, with Sydney moving from third least affordable to second. The analysis takes into account after tax household income and compares that to housing prices. A score under 3.0 shows an affordable housing market – 5.1 and over reflects a severely unaffordable market.

The analysis found:

> *"The least affordable market is Hong Kong, with a median multiple of 23.2, **followed by Sydney at 15.3**, Vancouver at 13.3, San Jose at 12.6 and Melbourne at 12.1."*[3]

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[1] NSW Productivity Commission, White Paper 2021, p.29
[2] Jenner, K and Tulip, P, 'Research Discussion Paper – 'The Apartment Shortage'', Reserve Bank of Australia., 2020, p.1
[3] Cox W, 'Demographia International Housing Affordability Report 2022', Urban Reform Institute and the Frontier Centre for Public Policy, Canada, March 2022, p.2

There is an important role to be played by the Commonwealth Productivity Commission in detailing the lessons from the Intergenerational Report and the clear need for population growth to sustain what we know will be a growing demand on a shrinking number of taxpayers for the funding of government services for an aging population. The entire Jobs Summit agreed that we need to rapidly return to pre-COVID levels of permanent migration, and beyond that expand those numbers, as well as promote the return of temporary visas and foreign students. The fact remains, however, that this influx of population growth will require housing and it takes time to deliver significant additional housing numbers.

In recent years, the Commonwealth has not taken a strong position in supporting or encouraging the States to ensure that the planning systems deliver housing supply which meets demand. Despite COVID 19 and the virtual cessation of immigration to Australia for two years, there is a housing supply crisis across Australia, including in many regional locations.

The impact is on young first home buyers and also on the choices of skilled migrants. Many are simply choosing not to live in Australia. Sydney faces a particular problem with ABS interstate migration numbers to March 2022 showing that the annual net outflow from NSW to the other states of Australia was over 40,000. Table 1 below shows the massive boom in the exodus from NSW to the other States:

Beyond supply constraints and fundamental issues within the NSW Planning System Urban Taskforce has identified migration levels and the replacement of Stamp Duty with a Broad-based land tax as two other areas where the Federal Government needs to lead and deliver the productivity gains offered by these two matters.

2. Housing Supply and productivity– establishing the links

> *"A poorly functioning housing market, one where supply is constrained from fully responding to sustained demand, will also lead to lower productivity and lower welfare. In this case, the resources that would otherwise be put to satisfying demand for housing will ultimately be used on less valued activities. At the same time the higher prices paid for housing reduce households' capacity to purchase other goods and services."*
>
> Steven Kennedy, 2010 [4]

The current Secretary of Treasury gave a speech, 12 years ago, which set out the linkages between productivity and housing supply.

Responding to a view that the forces of supply and demand will ultimately resolve housing crisis in the longer term, Dr Kennedy urged policy makers to not be "so sanguine" and that supply shortages detracted from the efficiency of the housing market, directly resulting in productivity losses.

Australia can no longer simply rely on high commodity prices to maintain the health and productivity of the economy. Significant effort must be expended on the micro- and macroeconomic reform to fine tune our economic levers to assist productivity growth.

[4] Kennedy, S., Housing Supply and Affordability, Address to the Council of Capital City Lord Mayors' Towards a National Urban Policy Summit, 27 May 2010

Table 1 – Interstate migration into and out of NSW

	Interstate Arrivals ; New South Wales*	Interstate Departures ; New South Wales**	Net gain or loss per Qtr - NSW	Annual gain / loss from NSW
Jun-2011	19,801	23,813	-4,012	
Sep-2011	19,414	23,112	-3,698	
Dec-2011	24,734	29,733	-4,999	
Mar-2012	21,108	26,056	-4,948	-17,657
Jun-2012	20,549	25,019	-4,470	
Sep-2012	18,230	22,016	-3,786	
Dec-2012	21,103	24,821	-3,718	
Mar-2013	21,723	25,448	-3,725	-15,699
Jun-2013	21,937	25,353	-3,416	
Sep-2013	19,931	21,644	-1,713	
Dec-2013	25,640	28,106	-2,466	
Mar-2014	24,041	24,998	-957	-8,552
Jun-2014	21,674	23,289	-1,615	
Sep-2014	18,396	19,580	-1,184	
Dec-2014	24,018	25,844	-1,826	
Mar-2015	22,429	24,091	-1,662	-6,287
Jun-2015	23,268	25,372	-2,104	
Sep-2015	20,044	22,050	-2,006	
Dec-2015	25,117	28,248	-3,131	
Mar-2016	23,721	26,983	-3,262	-10,503
Jun-2016	25,215	28,355	-3,140	
Sep-2016	20,575	22,967	-2,392	
Dec-2016	26,806	31,059	-4,253	
Mar-2017	23,307	27,688	-4,381	-14,166
Jun-2017	23,780	27,915	-4,135	
Sep-2017	21,659	25,645	-3,986	
Dec-2017	26,812	33,609	-6,797	
Mar-2018	23,892	29,480	-5,588	-20,506
Jun-2018	23,671	28,972	-5,301	
Sep-2018	21,642	26,069	-4,427	
Dec-2018	27,830	34,411	-6,581	
Mar-2019	23,919	29,605	-5,686	-21,995
Jun-2019	24,336	29,705	-5,369	
Sep-2019	21,307	25,916	-4,609	
Dec-2019	25,753	32,536	-6,783	
Mar-2020	21,005	26,545	-5,540	-22,301
Jun-2020	21,808	25,763	-3,955	
Sep-2020	17,775	22,033	-4,258	
Dec-2020	22,682	28,058	-5,376	
Mar-2021	23,406	28,133	-4,727	-18,316
Jun-2021	32,677	35,138	-2,461	
Sep-2021	30,955	44,595	-13,640	
Dec-2021	24,012	38,521	-14,509	
Mar-2022	21,083	30,530	-9,447	-40,057

* ABS Spreadsheet 3101016A
** ABS Spreadsheet 3101016B

There is an emerging body of research demonstrating the adverse productivity impacts of inadequate or unaffordable housing in Australia.

AHURI's 2017 Report, Inquiry into housing policies, labour force participation and economic growth, highlighted how "*housing policies might promote labour force participation and economic growth through four channels—housing supply responsiveness, labour mobility, employment decisions and consumption*."[5]

The report urged Governments to bring housing policy to the centre of their economic deliberations and looked towards a "co-ordinated policy treatment of housing as an economic asset" as a key factor in promoting (or limiting) economic growth[6].

Danielle Wood of the Grattan Institute, addressing the recent Australian Government's Jobs and Skills Summit, noted that housing and its cost had direct impact on productivity:

> *"The two-decades-long run up of house prices relative to incomes means that any young person hoping to get on the property ladder can expect to take on vastly more debt than a young homebuyer 20 years ago. High household indebtedness constrains the capacity of young people to take on the risk of starting a business or even considering a mid-life career change."*[7]

Housing, along with the regulatory and tax environment surrounding it, must be addressed. Beyond economic theory – the community and one would assume Governments at all levels should be able to appreciate this is a more practical sense.

Shortages in housing supply lead to higher prices – where more and more of workers' weekly wages are being directed into housing, and away from other sectors in the economy.

The lack of availability of appropriate housing in areas close to transport infrastructure means that workers spent more time travelling to and from work with the trade-off being less efficient work time.

As pointed out in Dr Kennedy's 2010 speech, failures in an inefficient housing supply leads to lower well-being. The lower wellbeing of workers has a direct impact on their productivity.

To put it bluntly - unhappy or dissatisfied workers are less productive.

Yet Governments at all levels and of all political persuasions have, by and large, resisted taking any significant role in encouraging the States (or sanctioning as may be the case) to deliver a timely supply of market delivered housing. This, in turn, has had a significant impact on productivity and the NSW economy and this, in turn, flows onto the national economy.

The politics of housing affordability, housing supply and their roles in boosting productivity have been fraught for decades. It is a battle over defending the rights of future residents who want to live in an area of high amenity, closer to transport linkages and jobs, against

[5] Ong, R., Wood, G., Whelan, S., Cigdem, M., Atalay, K., &Dodson, J., Inquiry into housing policies, labour force participation and economic growth | AHURI, 2017, p.1
[6] Ibid., p.1
[7] Wood, D, Address to the Jobs and Skills Summit, Canberra, September 1, 2022

the vested interests of existing residents who for various reasons do not wish these future residents to become their neighbours.

Politicians and election results rely on the votes of existing residents, thus when it comes to supporting new housing and future residents, politicians tend to instinctively back the views (and votes) of their current constituents.

The lack of private sector delivered affordable housing is a significant deterrent to mobile, global talent attraction. Migrants who are skilled and educated are weighing up these costs when deciding where to reside every day. All States spend considerable sums promoting the virtue of their cities in efforts to attract migrants to our shores. But the reality is there is now global demand for educated, young migrants. We won't attract the talent we need to grow our economy and improve our productivity without being able to deliver housing in all locations at a fair price relative to other global cities, no matter how good our visa processing and universities are.

As "the war for talent" goes global, we have to focus our attention on our own weakest link. Housing supply and affordability.

2.1 Commonwealth Productivity Commission – a wakeup call/call to arms?

Urban Taskforce Australia acknowledges the previous work of the Commonwealth Productivity Commission is seeking to raise the links between productivity, planning systems and housing.

Various reports have served as a wake-up call for Governments at all levels. Unfortunately, 5 years after the review, little has been done – in fact in NSW the housing supply crisis has worsened significantly.

2.2 2017 Report - Shifting the Dial

The Urban Taskforce supports the aims and intentions of the Commonwealth Productivity Commissions 2017 report - Shifting the Dial.

The report noted the importance of urban agglomeration for productivity and innovation. It called for: flexibility through lighter zoning controls and responsive housing supply; mobility through replacement of stamp duty; better infrastructure choices through robust project selection and more cost-reflective pricing.

2.3 2021 Information Paper – Plan to Identify planning and zoning reforms

In March 2021, the Australian Government's Productivity Commission's Information Paper was highly critical of "*how 'planning and land use regulations, and regulatory practices, can adversely impact housing affordability, the cost of doing business and the economy generally*"[8]

Building on elements of the 2017 Shifting the Dial Review, the Productivity Commission made a number of recommendations in its 2021 Paper, "Plan to Identify Planning and Zoning Reforms" as a positive step to identify planning regulations that were holding back the nation's recovery from the COVID-19 Pandemic and identify quick wins.

[8] Australian Government Productivity Commission, 'Information Paper Plan to identify planning and zoning reforms', Commonwealth of Australia, March 2021, p.2

A better alignment of planning at different levels of government, along with more flexible and adaptive land use regulation underpins a better and more efficient planning system, Urban Taskforce strongly supports the priority reform areas identified in the paper, including:

- Move to few zones with broadly stated allowable and as-of-right uses
- Defined and efficient processes for rezoning applications
- Increase use of fast, streamlined assessment processes,
- Reduce time to assess DAs
- Promote faster appeals and review processes. [9]

Importantly, the Paper calls for simplified planning functions and responsibility which would underpin these reforms, recommending roles and responsibilities for the Planning Minister, Planning Department/State Government and Local Government. The Urban Taskforce points out that in NSW there is a reluctance of the NSW Government to "call in" development.

2.4 Commonwealth Parliamentary Inquiry into Housing Affordability and Supply 2021

In August 2021, the Commonwealth House of Representatives Standing Committee on Tax and Revenue commenced an inquiry into housing affordability and supply.
Chaired by the former Member for Mackellar, Jason Falinski, the inquiry noted the concerns of the RBA and others (such as the Commonwealth Productivity Commission) that "*regulatory settings are directly responsible for the unresponsive nature of housing supply in Australia*."[10]

The Urban Taskforce made an extensive submission to the inquiry, with 14 submissions that would address housing supply and affordability.

The report found systemic issues with the various planning systems in Australia, and NSW was held up as the worst.

> *"The primary driver of growing house prices is the lack of market response. We need to reform broken planning systems, fix inefficient regulation, and stop new home buyers unfairly bearing the brunt of taxes and charges that are designed to raise funds, not living standards. This report identifies opportunities for all levels of government to unlock more housing supply, create more affordable homes and increase home ownership*."[11]

Urban Taskforce recommends the Commonwealth Productivity Commission notes the links between productivity, housing and Planning systems and reasserts the reform directions it recommended in its 2021 Information Paper, Plan to Identify Planning and Zoning Reforms

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9 Commonwealth Productivity Commission, Plan to Identify Planning and Zoning Reforms, 2021, p.6
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https://www.aph.gov.au/About_Parliament/House_of_Representatives/About_the_House_News/Media_Releases/The_Australian_Dream_Committee_finds_opportunities_to_improve_housing_affordability_and_supply

2.5 NSW Productivity Commission – Green and White Papers

When he was NSW Treasurer, the current NSW Premier had the vision to establish the NSW Productivity Commission to help NSW steer through the challenges of climate change and COVID and place the economy on a better footing.

The NSW Government's own Productivity Commission commenced its invaluable work in highlighting the barriers to productivity represented by a failing planning system.

The NSW Productivity Commissioner (an arm of NSW Treasury) published a Green Paper (August 2020) entitled*: "Continuing the Productivity Conversation"* and devoted an entire chapter to the NSW Planning system and how it was failing NSW in terms of it responsiveness, its slowness and the costs, while not delivering supply to meet demand at any point over the past 15 years.[12]

The final White Paper (May 2021) entitled "*Productivity Commission White Paper 2021 - Rebooting the economy*" identified that there is a need to *"pursue policies and regulation to increase the supply of the right types of housing, in the right places, at the right times"* [13]

The White Paper also found:

> *"Housing supply has failed to keep up with demand. That has led to an undersupply of housing, increasing the cost of living for households and making New South Wales a less attractive place to live and work".*[14]
> *and;*
>
> *"Overly prescriptive and complex planning regulations stifle business competition and reduce housing supply."*[15]

The White Paper noted the links between planning systems and productivity

> *"Planning system are enablers of productivity. In cities, they pool together talent, capital and suppliers of goods and services. At the same time, they must manage the many costs of this process… Overly prescriptive and complex planning regulations stifle business competition and reduce housing supply."*[16]

The 2021 White Paper made a number of recommendations with respect to the NSW Planning System to boost productivity:

- Establish a whole of Government housing supply council (Rec 7.1)
- Reduce red tape associated with building design regulation (Rec 7.2)
- Consolidate employment zones and optimise industrial land use (Recs 7.4 &7.5)
- Deliver housing where there is transport capacity (Rec 8.1)
- Review of Infrastructure Contributions (Rec 7.7)

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[12] NSW Productivity Commission, 'Green Paper – Continuing the Productivity Conversation', NSW Treasury August 2020.
[13] NSW Productivity Commission, 'Productivity Commission White Paper 2021 - Rebooting the economy' NSW Treasury, May 2021, p.15
[14] Ibid., p.14
[15] Ibid., p.26
[16] NSW Productivity Commission, White Paper 2021, p.26

The NSW Government's response to the White Paper's recommendations has been piecemeal and patchy. There exists stiff resistance within parts of the NSW Public Service (and indeed members of the Government itself) that resist and undermine the recommendations of the NSW Productivity Commission.

There has been political, bureaucratic and community opposition/ resistance to many of the recommendations contained within the White Paper.

The resistance of the inner north, west and eastern suburbs of Sydney, benefitting from decades of investment in water, sewerage and public transport infrastructure and areas of high amenity, to increased housing supply, is well documented.
The scourge of NIMBYism, fanned by political operators who need the votes of current residents, not future ones, is something that planning systems and governments in general must look beyond. These problems are compounded when resistance to much needed planning reform occurs within Government.

An example is evident when it comes to a more flexible approach to industrial lands (Recommendations 7.5 in the White Paper). The NSW Productivity Commission, backed by an independent analysis undertaken by Deloitte, recommended the Government embrace a more flexible approach to old industrial lands, many of which were tired and underutilised. The Productivity Commission recommended that while National and State Significant Industrial Lands would be untouched, a case by case to other industrial lands, subject to a merit-based assessment, should be undertaken to see whether a more flexible zoning approach would be appropriate.

To the dismay of many stakeholders, the Greater Cities Commission undertook their own assessment into their own failed policy. Despite commissioning an independent Cost Benefit analysis from Deloitte, and the subsequent recommendation to adopt a more flexible classification approach to the rezoning of industrial and urban services land, the Greater Sydney Commission then overturned this independent recommendation and preferred instead the status quo and further review in the context of the preparation of the next Greater Sydney Regional Plan due at the end of next year (2023).

To date, this matter remains unresolved, but it reflects the institutional resistance to ensuring a better planning system that underpins a more productive State. There is an opportunity for the Commonwealth Productivity Commission to re-emphasise the value and importance of the work of its NSW counterparts and ensure Federal support for initiatives arising in NSW.

Urban Taskforce recommends, that the Commonwealth Productivity Commission support the NSW Productivity Commission's recommendation for a more flexible planning approach to the use of dilapidated or under-utilised industrial lands in Sydney

Urban Taskforce recommends the Commonwealth Productivity Commission should pro-actively re-affirm the work of the NSW Productivity Commission and its 2021 recommendations for boosting productivity through reform of the planning system in NSW and apply relevant lessons to other states through a pool of payments which are dependent upon achieving or over-achieving housing supply targets

3. Regulation and Housing supply

State and local government planning regulations influences the amount, location, and shape of residential development.

Planning regulation emerges and evolves in response to multiple factors - role of homeowners in the local political process, the influence of historical density and the threat of future density, as well as the fiscal and exclusionary motives for zoning. In terms of the effects of regulation, most studies have found substantial effects on the housing market in the form of restricted supply and higher prices. [17]

As reflected in earlier work undertaken by the Productivity Commission, there are correlations between housing supply and the State's planning systems.
There have been several publications that have identified linkages between housing prices and the planning system.

Jenner and Tulip estimate the gap of what homebuyers pay for a new apartment and the supply cost to equate to approximately 68% of cost in Sydney.[18] This contrast with Melbourne (20% on top of supply costs) and Brisbane (a mere 2%). Higher prices paid for housing has flow on implications to economic activity and associated impacts on productivity.

Complexity, lack of flexibility and time all had major impacts on the delivery of housing. More recently, the 2022 Demographia Report, where Sydney was ranked the second worst in terms of unaffordability of housing, the links between regulation and supply/price was reaffirmed,

> *"Academic research associates the declining housing affordability over recent decades with stronger land use regulation. In particular, urban containment regulation can produce substantially higher costs. In Rethinking Urban Sprawl: Moving Toward Sustainable Cities, OECD concludes that the urban growth boundaries and greenbelts of urban containment must be accompanied by sufficient land for urban expansion to maintain affordability. This land needs to be competitively priced to keep house prices from rising disproportionately to incomes. In housing markets with the least affordable housing, urban containment policy is typical. "*[19]

In particular, regulation appears to raise house prices, reduce construction, reduce the elasticity of housing supply, and alter urban form. Other research has found that regulation influences local labour markets and household sorting across communities. Finally, we discuss the welfare implications of regulation.

Although some specific rules clearly mitigate negative externalities, the benefits of more general forms of regulation are very difficult to quantify. On balance, a few recent studies suggest that the overall efficiency losses from binding constraints on residential development could be quite large.

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[17] Gyourko, J., and Molloy, R., "Regulation and Housing Supply" in , Handbook of Regional and Urban Economics, Volume 5B, 2015, p. 1289

[18] Jenner, K. and Tulip, P., The Apartment Shortage, Reserve Bank of Australia, 2020 p.1

[19] Cox W, '<u>Demographia International Housing Affordability Report 2022</u>', Urban Reform Institute and the Frontier Centre for Public Policy, Canada, February 2021, p.2

NSW Productivity Commission White Paper makes a number of recommendations based on their analysis and conclusions that there are quite a number of inefficiencies and negative externalities as a result of aspects of the NSW Planning system (such as the GCC Retain and Manage policy for Industrial and Urban Service lands), insufficient residential development density approvals and ultimately, insufficient housing supply.

Urban Taskforce recommends that Commonwealth Productivity Commission, or the new National Housing Supply and Affordability Council (or an expanded NHFIC), should undertake quantitative research on the impact of regulation on housing supply in an Australian context

4. The NSW Planning System's Impact on housing supply

Urban Taskforce Australia has consistently contended that we need greater supply, less red tape, greater flexibility, faster approvals and urgent reform of the NSW planning reform. The States need to address planning constraints on new housing supply or prices will continue to go up.

The NSW Government's Housing Strategy "Housing 2041" targets that call for 40,000 new dwellings (on average) in Greater Sydney, each year, from 2016 till 2041 (The NSW Housing Strategy 2041 says that 1 million new homes are needed in Greater Sydney between 2016 and 2041[20] based on a conservative forecast of Net Overseas Migration numbers).

Recently the Commonwealth Government at the Jobs and Skills summit announced that it would be setting the permanent migration intake for 2022-23 to 195,000 (up by 35,000 from160,000 pa). This is critical to the growth of the Australian economy, to increasing the declining participation rate in the workforce and to supporting our ageing population and to paying off the debt incurred in the COVID period.

Just under one third of all overseas migrants settle in NSW. The current housing affordability crisis, driven as it is (in part) by a lack of housing supply, poses a real threat to the Commonwealth's budget position.

There is a very real imperative for the Commonwealth Government to take a pro-active stance and to drive the States to deliver changes to the planning system to increase housing supply. The Commonwealth should also investigate strategies and programs to incentivise Local Government to deliver more housing. There is no doubt that it is not the Commonwealth that has caused the problem, but they have control of the bulk of the finances and are well placed to establish an incentive-based system to push for increased market based housing supply.

The numbers in Table 2 below show that even before the return of migration to the marketplace, Greater Sydney and the NSW Planning System is already well short of this target. DPE's Urban Development Program Dashboard predicts the supply of only 151,490 new homes in Greater Sydney over the next 5 years (Source DPE Greater Sydney Urban Development Program Dashboard) – well short of even the GCC targets for aggregate of housing growth for each LGA across Greater Sydney.

[20] Department of Planning, Industry & Environment, "Housing 2041 – NSW Housing Strategy", NSW Government, March 2021.

This is significantly below the Housing Strategy 2041 analysis which DPE have been seeking to downplay since the day it was published because it says Greater Sydney needs 40,000 new homes pa (or 1 million new homes across 25 years).

The data above shows a quite logical lag between approval numbers and completion outcomes. Suffice to say, you can't build a new home without a planning approval. If approvals are low now, completions will be low in two to three years' time.

It should also be noted that Table 2 demonstrates that not all approvals lead to completions due to changes in demand arising from exogenous shocks like rising interest rates, or the imposition of new fees, taxes or charges, or the time taken to convert a DA approval into a construction certificate that enables the commencement of work. Over the last ten years, only 70% of new home approvals have been developed and converted into new home completions. This is in fact, typical.

Table 2 – NSW performance on Approvals and Completions

Greater Sydney	Approvals	Completions
June 2011/12	24,460	15,104
June 2012/13	30,375	20,341
June 2013/14	39,090	22,741
June 2014/15	46,766	27,305
June 2015/16	54,854	30,190
June 2016/17	55,959	34,393
June 2017/18	53,371	42,183
June 2018/19	39,645	42,414
June 2019/20	32,444	32,464
June 2020/21	39,890	29,785
March 2021-March 2022	40,613	24,747
Data Source: DPE UDP		

5. A Focus on NSW

5.1 A faster planning system in NSW

The NSW planning system is complex. It has a poor and limited capacity to efficiently manage rezonings. Planning staff throughout the system bemoan the obligations for endless rounds of public exhibition, of design review, of negotiations over ever-increasing infrastructure fees and charges.

The RBA and the NSW Productivity Commission – all point to the extra costs and the slowness of the NSW planning system. As the engine room for the Australian economy, allowing the NSW planning system to effectively and progressively turn the bulk of Greater Sydney into a retirement village for wealthy retirees who can afford to live here and protest against any change, is not an option. Yet that is what is happening, and it is working against the productivity of our nation.

A 2019 report prepared by Mecone[21] (July 2019) for the NSW Treasury as an initial input to the NSW Productivity Commission Discussion Paper on Productivity entitled *"Kickstarting the Productivity Conversation"* (Oct 2019). This report found that across all the development types, NSW has the longest Development Application timeframes on the eastern seaboard. In some cases, more than double the next slowest State. The report also found the average time for a Development Application decision in NSW grew by 44 per cent between 2015 and 2018. The jurisdictional differences are substantial, are not improving and point to serious inefficiency in the NSW planning system.

DPE initiated a number of programs to improve the efficiency of the system, however, they have eschewed the real task of reforming what is a broken planning system. Tinkering at the edges will not overcome the over-representation of objectors and objections that are embedded, through multiple opportunities for "community consultation or engagement" in the current system. It is designed to fail, and it is.

Further, the re-zoning process in NSW is too slow to respond to demand and enable efficient supply. This concern is articulated in the Commonwealth Productivity Commission's March 2021 research report - Plan to identify planning and zoning reforms:

> "*Rezoning can be a time consuming, costly and uncertain process, particularly for infill development where there is greater potential for delays due to community objections — in major cities such as Sydney and Melbourne the process can take several years."*[22]

Excessive delays can occur when the process is used by councils to stymie new development as a means of pandering to the small, but vocal, calls for 'no change' to local character that are heard in many communities.

Nonetheless, at all stages, particularly at the Planning Proposal for the rezoning of land stage, too much information is being requested.

However, it must be acknowledged that since the change in Planning Minister in NSW, there has been movement to improve the efficiency, consistency and quality of strategic planning decision making (which includes consideration and assessment of rezoning applications).

5.2 A more responsive Planning system

The NSW Productivity Commission found that *"we need a more responsive and flexible planning system"* and *"one of the fundamental determinants of housing supply in NSW is the strict regulation of land use"*.[23]

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[21] Mecone) "State Development Comparisons – A comparative review of the NSW Planning System", NSW Treasury, July 2019
[22] Australian Government Productivity Commission, 'Information Paper Plan to identify planning and zoning reforms
[23] NSW Productivity Commission, 'Productivity Commission White Paper 2021 - Rebooting the economy, pp 265 & 274

As referred to above, in NSW it can take 5 years (often more) to have a planning proposal for the rezoning of land finalised. As a consequence, the pipeline of zoned land supply is constantly in a state of 'catch-up' – both in terms of volume and locational responsiveness.

The NSW planning system is over regulated and inflexible.

The system is over-regulated in terms of the key players the - Department of Planning and councils as well as the requirements of the NSW EP&A Act. As referenced in the introduction to this submission, the cost impost of the rigidity of the NSW system was exposed in a Reserve Bank of Australia research paper. The paper found that NSW's planning restrictions boosted Sydney apartment prices by 68 per cent of costs, compared to 20 per cent in Melbourne and 2 per cent in Brisbane.[24]

This lack of flexibility is endemic in the NSW Planning system and is the root-cause of many of the housing supply and affordability issues that brought about the need for this Inquiry.

5.3 A focus on housing supply – NSW is heading in the wrong policy direction

Urban Taskforce has called for a renewed focus from the NSW Government on policy initiatives and processes that support housing supply and the reduction of costs to new home buyers.

We have seen some evidence of the restoration of this imperative through the Government's abandonment of the draft, Design and Place SEPP which would have resulted in less, not more, lower cost housing supply.

Further, changes to the Housing SEPP significantly undermined the feasibility of existing affordable housing types. The SEPP has effectively killed the feasibility boarding houses, an important contributor to lower cost or affordable housing.

All the new provisions proposed by the former Minister for Planning in NSW (now the Cities and Infrastructure Minister) added cost and reduced the very measures that made their development feasible.

It is important to note that Urban Taskforce, along with other peak industry representatives, supported the progression of the updated version of BASIX, NABERs and NatHERS, along with the NCC moves towards national consistency and the new updated Building codes.

From a productivity perspective, planning policy reform must focus on the main game – that of improving housing supply, reducing DA processing timeframes and increasing new home affordability.

5.4 Land Leased Homes and Manufactured Homes – two missed opportunities for affordable housing due to regulatory myopia

Two areas of the market for which the NSW Legislation is woefully outdated is that which relates to Land Leasing and the regulations surrounding manufactured homes. These housing types are most often utilised by those on lower incomes and seniors.

[24] Keaton J and Tulip P (2020)

In some cases, the two come together, but this is not necessarily the case.

Land Leased housing estates now dominate market growth in Queensland and has been taken up by leading industry players. These homes are effectively "build to rent" homes, where land is leased from the developer and leased over a defined period. The purchaser then pays for the home to be built. In some cases, the lessee chooses to erect a high-quality manufactured home on the leased land on it.

Both manufactured homes and Land Leased homes are **not permitted** within the Greater Sydney Region. There is an outdated presumption that new homes build on land that is leased from a single landowner will be of low quality (akin to a caravan park). This is a case study in how regulation can hinder productivity. Land leased homes offer both private housing diversity and affordability, particularly for greenfield housing development areas.

Similarly, the NSW the Manufactured Homes and Estates SEPP has recently been incorporated (unchanged) into the new Housing SEPP. It maintains the historic bias against such homes arising from the outdated view that they are nothing more that permanent caravan parks. This outdated view belies the fact that sophisticated players, like Sekisui House and many of Australia's most prominent property developers are now actively focussing on precisely this housing supply option. Sekisui House has brought from Japan design and manufacturing techniques and systems that produce extremely high quality, effectively permanent manufactured homes.

Manufactured homes, by being more affordable and quicker to deliver, have the capacity to almost immediately provide the new homes for essential and new workers greatly needed in many parts of NSW. The Land Leasing option makes them an attractive build to rent option that shifts this concept away from apartments.

A review was first promised by DPE in a discussion paper in 2015. Increased permissibility of manufactured homes (which are located on large parcels of land which are leased to the occupants), need to be seriously considered in the context of the current housing affordability crisis.

Urban Taskforce recommends that the Commonwealth lead a policy focus on Housing Supply across all market segments and actively highlight retrograde policy regulations like the current NSW regulatory prohibition of land lease developments and manufactured homes in Greater Sydney, that work against housing supply and housing affordability. The Commonwealth should actively promote and support this form of market housing solution to the address the housing supply and affordability crisis

5.5 Apartment Approvals threaten significant under supply in coming years

Urban Taskforce is very concerned about the drop off in NSW planning approvals for the Greater Sydney apartment market.

Over the past 25 years, an explicit planning policy of Urban Consolidation has seen 65%-70% of all new homes in Greater Sydney delivered in the form of apartments. This policy was established in recognition of the high cost of infrastructure in the growth areas that are relatively distant from the Sydney's urban centres. This ratio will not change in the short to medium term as the cost of infrastructure is simply too great.

Urban Taskforce is concerned that the NSW Government is not ensuring that Councils meet them. Targets need to be regularly monitored against performance. There can be no excuse for Councils refusing to accept the targets.

LGA Housing Strategies must come with sanctions for those Councils that selfishly refuse to contribute to housing supply, resulting in rising new home prices inflicted on those least able to afford them. However, they should also come with rewards when targets are exceeded.

The data released by the ABS in August shows that NSW housing approvals reached their peak in 2015/16 2016/17 and 2017/18 at around 73,000 approvals each year. Then, in the lead up to the NSW State election (2018/19) approvals dropped off to 58,000 and stayed low in 2019/20 with only 48,000[25], despite "fast track" schemes and a flurry of DPE activity.

After a slight reversal in 2020-21, the total number of approvals has again decreased in the 12 months to June 2022. The data reveals the problem. Apartment approvals across NSW have dropped significantly (most of these in Greater Sydney) while new separated house approvals have remained relatively flat.

NSW Approvals	**Apartments**	**Houses**	**Total Approvals**
2015/16	44,001	29,351	73,352
2016/17	43,757	29,231	72,983
2017/18	43,218	30,480	72,798
2018/19	29,954	28,097	58,051
2019/20	23,989	24,076	48,065
2020/21	28,964	30,435	59,399
2021/22	25,924	29,620	55,544

The table above, based on the ABS data, clearly shows that there has been a significant drop off in *apartment approvals* (in particular) and this started before COVID-19 hit. Further, the conversion from an approval to a building start is typically less than 70% (within 5 years). The data above is for all of NSW (not just greater Sydney). This data confirms that without an immediate change to NSW policy, there will be a housing supply crisis.

5.6 Reduction in new home fees and charges

The NSW Productivity Commission's Review of Infrastructure Contributions in New South Wales – Final Report states:

> *"Infrastructure contributions are not supporting efficient development. The Sydney metropolitan area has the highest prices for residential, commercial and industrial space of any Australian city. This is in part due to zoning restrictions, which reduce the supply of developable land. There is also evidence a lack of infrastructure can delay development, leading to more restricted supply and higher prices (Centre for International Economics, 2020). Where infrastructure contributions support efficient and timely delivery, the community will be more supportive of growth, and the supply of residential and commercial property will be enhanced. This outcome is not supported by the current system. It is complex, inefficient, inconsistent and lacks transparency. Infrastructure planning is often disconnected from rezoning*

[25] Australian Bureau of Statistics, "Building Approvals, Australia - July 2021"

decisions, with contributions not known until late in the development process. This means contributions fail to provide market signals favouring development in lower cost areas. It also prevents developers from properly accounting for these costs in their investment decision, increasing risk and reducing project feasibility."[26]

Not only does NSW have the slowest and most complicated planning system in the nation, it also has the highest fees and charges in the country.

In Greater Sydney, the total cost of fees, charges and taxes (Local, State and Federal) for a $1 million apartment (sale price to the buyer) is circa $300,000 – significantly more than in Melbourne (circa $220,000) or Brisbane (circa $180,000).

The cumulative impact of the various cost imposts simply adds to the already high cost of new homes in NSW. The current under supply has combined with the high taxation regime and low interest rates to result in the cost of new housing prices escalating to such an extent that maintaining the feasibility of new development has been at the expense of the new home buyer.

The NSW Government is quite rightly boasting a much-needed record infrastructure spend – but this must not be at the expense of young families who are already priced out of the suburban Sydney marketplace, Government needs to do more, not just tax more.

A reduction in fees, taxes, state and local infrastructure charges will also directly reduce housing prices. These matters now need to be considered in the context of the unprecedented COVID-19 pandemic and the current reality of a housing supply and affordability crisis.

Recent research released by the National Housing and Finance Investment Corporation (NHFIC – August 2021) confirms that the NSW Government allowed the scope of local infrastructure contributions to grow to such an extent that they alone now account for between 8-11% of the total cost of a new home – with NSW being the highest at up to $85,000 per dwelling (compared to $77,000 in Vic and $42,000 in Qld).[27]

The Report notes that developer contributions began as a contribution to augment local infrastructure. However, this has morphed over time to simply become another tax on new homes. The Report is very clear that these contributions represent a tax on new homes – often to pay for infrastructure that is not related to the new home.

The Report also reveals the extent to which the system of local infrastructure contributions has failed the community and has failed property development by highlighting some of the Sydney Councils that have collected the money from developers but have effectively banked it.

Urban Taskforce has proposed a system of rewards for Councils that deliver higher than targeted new dwelling approvals. This is an area where Commonwealth assistance would be strongly supported and is very much needed.

Public open green space and improved community infrastructure are all critical to any community's acceptance of increased density. However, the current practice of

[26] NSW Productivity Commission, "Final Report of the Review of Infrastructure Contributions in New South Wales", November 2020, NSW Treasury

[27] National Housing and Finance Investment Corporation, "Developer Contributions: How Should We Pay For New Local Infrastructure?", August 2021

continually increasing the fees and charges imposed on new home development simply increases the cost for the end consumer, or, it kills the feasibility of the development and the new home is not produced.

To promote competitive tension among infrastructure delivery agencies, the Commonwealth should allow **Private Developers access to Federal Infrastructure Bonds** in order to roll out core infrastructure such as water and sewer. This would unlock available and zoned land utilising private infrastructure companies, rather than waiting for government agency timetables. This would bring forward the supply of housing and the bonds could be repaid through access to the relevant State Government utility charges once the dwellings are occupied. Where a clear contribution to housing supply and more affordable housing can be shown this could be undertaken through an expansion of the NHFIC bond aggregator funding arrangements.

Urban Taskforce recommends the Commonwealth expand access to Federal Government bonds for the purpose of delivering local or core infrastructure. The Commonwealth should also establish a Local infrastructure fund (for Community, Green and Hard infrastructure) targeted at Councils to drive new housing supply above that which was planned through existing published strategies. This would (by design) result in commensurate reductions in local infrastructure fees and charges while ensuring that Councils and communities are motivated to over-achieve on housing supply and housing approvals

5.7 Targeted Commonwealth support for States that fast track housing supply

In representations to the NSW Treasurer and Minister for Planning, the Urban Taskforce has called on the NSW Government to:

- Establish a State Significant Development planning pathway for high value high yield housing projects – thus removing those assessments from the hands of Councils and local community activists
- Reduce infrastructure fees and charges (which ultimately add to the cost of new homes) and not see infrastructure charges reform as an opportunity to raise more revenue
- Spread the burden of additional housing right across Sydney so there is increased supply in all areas
- Accelerate and expand State-led precinct and corridor planning
- Hold State Government agencies and Councils accountable for the delivery of infrastructure to support housing supply.

State Governments have a suite of planning tools available to fast-track housing supply. NSW has the state led precinct planning process which aligns increased opportunities for new homes with major infrastructure investment in transport along corridors and corresponding precincts.

The state led precinct planning process should be used boldly by the State Government when there are opportunities for significant urban renewal coming out of major transport investment. However, it is critical that when an area is identified for renewal and uplift - that the Government follows through.

Developers are increasingly criticised for "land-banking" development sites. But in many cases, developers invest in a property on the basis of an expectation of timing and yield of the rezoning only to have the development potential reduced to the point that it is no longer feasible. In NSW numerous precincts and corridors were identified to be the subject of a state led rezoning process but many of these have since been returned to local government to 'progress' and/or have had the available yield reduced to the point that the project is commercially unviable.

State Governments must avoid giving and then removing market signals. This situation is tantamount to sovereign risk and is contrary to encouraging investment in the housing market.

The shortage in housing supply is now a matter which is holding back Australia's post COVID economic recovery, there is clearly an interest for the Commonwealth in sponsoring the improved performance of the States in this field, notwithstanding that they did not cause this problem.

Urban Taskforce recommends that the Commonwealth drive an immediate focus from the States to maximise and deliver State-led planning opportunities for new housing under current planning legislation

5.8 Affordable Housing and housing that serves a social need

The NSW Productivity Commission Infrastructure Contributions Final Report found that:

> "Local contributions should be used to fund development-contingent costs; that is costs that would be avoided if a development did not go ahead. Affordable housing does not fall within this definition… The limited uptake of affordable housing schemes by councils suggests the contributions system plays a minor role in affordable housing supply. Moreover, it is not clear that housing is being made more affordable as a result of these schemes, as some stakeholders noted: the creation of a small quantity of "affordable housing", may be at the cost of making other housing more expensive."[28]

Affordable housing contributions impact the ability of the planning system to increase housing supply in general. Any additional contribution affects project feasibility which leads to an impact on supply when projects do not go ahead. Affordable housing contributions actually push up the price of new homes as the price of 'market' homes is increased to off-set the cost of the affordable housing.

Affordable housing is best addressed by more approvals and faster re-zonings of land to boost supply, not the application of affordable housing levies.

Increased supply will result in the slowing of price escalation – not a new tax that produces only a miniscule number of new dwellings. The failure of States to ensure that housing approvals do not meet the demand for new housing in all areas of the market has resulted in an affordability crisis. It is ironic indeed that some see the solution to this failure in government policy and practice as a tax on the very group that are working to solve the problem. The affordable housing levies are akin to placing a tax on bakers to solve a shortage in bread supply. It is similar to placing a tax of farmers because of a food shortage. Put simply, it is ludicrous as it actually increases the price of the very commodity you are seeking to make more affordable.

[28] NSW Productivity Commission," Review of Infrastructure Contributions in NSW – Final Report", NSW Treasury, November 2020

As was the case when former Prime Minister John Howard negotiated the removal of many inefficient State taxes and charges with the introduction of the GST, the Commonwealth should take the lead in pushing the States not to add new, inefficient taxes that work against the private sector delivery of housing supply. This can be by way of "carrots" (or incentive payments) or a stick (withholding grants or other payments).

Urban Taskforce members strongly assert that the solution to rising new home prices and rising rents is the production of more housing supply. This is not achieved through the mass-delivery of social housing. Social Housing is expensive to deliver and costly to maintain. Social Housing certainly has a role (alongside affordable Housing provided through Community Housing Providers), but Urban Taskforce commends support for the private sector in delivering more housing at an affordable price for key workers, new entrants to the housing market and those needing some level of support. Access to this funding should be flexible – where 10% or more discounted housing is to be made available.

A successful initiative introduced by the Turnbull Government was making access to low-cost capital available to Community Housing Providers and the not-for-profit sector through the National Housing Finance and Investment Corporation (NHFIC) bond aggregator funding model.

At the conclusion of the Jobs Summit, the Treasurer, Jim Chalmers, announced an expansion of private funding access the NHFIC "bond aggregator" funding scheme to deliver affordable housing. Urban Taskforce urges the Commonwealth to further expand this scheme to allow access to NHFIC bond aggregator funding for affordable housing (20% discount to full market rent) delivered by the "for profit sector" and work with State Agencies to establish a pathway to provide fast tracked State led approval.

Access to this fast-track would assist in the delivery of market housing as well resulting in the production of a greater number of affordable homes than any levy will produce.

Access to this type of Commonwealth underwritten funding (and the associated finance costs) should also be applied to seniors housing and housing for those people with a disability. Further, the GST treatment of the delivery of the development of these housing types effectively discriminates against investment in these desperately needed housing types. In the same way that the GST treatment of Build to Rent by considering BTR, Seniors Living and Homes for people with disabilities, to be simply investments in residential housing, this means that the GST input credit can not be claimed for 5 years where the developer holds that property. By contrast, the GST input credits can be immediately claimed for investments in commercial property, which includes student accommodation or serviced apartments.

Given that Build to Rent housing is typically built and owned by longer term investors like Superannuation funds and pension funds, why would the tax system effectively discriminate against them? This needs to change so as to encourage investment in these much-needed housing types.

Urban Taskforce recommends the Commonwealth use all means available to secure the removal of affordable housing levies and ensure Government bear the burden of regulatory failure and provide for GFA bonuses to encourage the delivery of affordable housing

Urban Taskforce s supports the Commonwealth's decision to open up access to NHFIC bond aggregator funding to the delivery of affordable housing by the private sector and encourages the Commonwealth to expand this model while working with the States to develop a fast-track planning assessment process for all development types where there is a shortage in supply which impacts on a disadvantaged group including seniors housing and housing for people with a disability

6. Migration Matters for the Australian economy

Urban Taskforce welcomes the outcome of the Commonwealth Jobs Summit and the boost to permanent migration intake target from 160,000 to 195,000pa. As we face the post COVID-19 recovery, Australia is in need of economic growth for two reasons: firstly, the Australian Government (and the States) have incurred record levels of debt to get us through the impacts of COVID-19 in 2020. But this will need to be re-paid. Secondly, the principal contributor towards economic growth since the early 1990s has been population growth and without migration, we would be going backwards.

Urban Taskforce commissioned an independent analysis from BIS Oxford Economics to establish a core set of base facts relating to migration and the Australian economy. This research paper seeks to unpack the economics of immigration and its contribution to economic growth.

The independent economic analysis undertaken by BIS Oxford Economics finds that migration has played a pivotal role in Australia's economic development.

Net Overseas Migration has been responsible in the first generation of migrants, for 20% of the nation's increase in productive capacity over the last 20 years. In the years prior to the COVID-19 pandemic Net Overseas Migration accounts for around 60% of annual population growth.

This number substantially increases once you include the economic contribution of second-generation migrants who have permanently settled in Australia.

The findings paint a grim economic picture for those who would advocate for a smaller Australia through a reduction in migration, even on a temporary basis. The report also debunked the assertion that migrants are a burden on the financial resources of government. To the contrary, due to their high levels of workforce participation and lower average age (compared to the existing Australian population), and higher levels of skills and education, they are significant contributors to the government coffers.

- Increased Population – with declining rates of natural births, migration has been the key source of population growth. The BIS Oxford analysis finds that 57% of annual population growth between 2000 and 2020 was due to migration.

- Increased Participation Rate: we need more migrants to improve the ratio of tax-payers to non-tax-payers (which is in long term decline across Australia). Skilled migrants have a participation rate in the workforce of 92% (compared to only 66% of the entire Australian population of working age

- Increased Productivity - Migrants create jobs – they don't take them - migrants generate more tax revenue because of their high levels of tertiary education, income, skills and relatively low age. The BIS Oxford Economics report finds that migrants positively contribute to the productive capacity of the economy, thus increasing per capita income and average household incomes.

6.1 Impact of COVID-19

COVID-19 saw Net Overseas Migration turn negative with a near complete drop off in all forms of permanent migration, the return to home of many temporary migrants (students, skilled workers on 457 visas and seasonal workers), offset by Australia citizens working overseas (ex-patriots) returning to Australia.

Prior to COVID-19, the cap on permanent migrants was reduced from 190,000 to only 160,000. In 2020, this number reduced to almost zero. Further, Australia has not been meeting its cap since 2016. This had a negative impact on economic growth in that period.

Given the clear evidence of the positive contribution of migration to Australia's economy, it follows that a permanently lower level of migration after the COVID-19 recovery is complete will be a drag on economic growth. If migration broadly returns to its pre-COVID trajectory the impact on the pace of growth in the long run will be limited.

But if it settles at a permanently lower rate of 100,000 (similar to the level in the late 1990s, before reforms were implemented to attract skilled workers and international students) the impact will be pronounced. The growth rate of GDP would be reduced 0.6%pts, to just 1.3% pa. This is equivalent to output being $460bn less in 2050, when compared to a path consistent with the Centre for Population's latest projections.

Skilled migrants make up the vast majority of permanent migrants to Australia. Overseas students contribute significantly to the economy. The not only bolster the education sector, but the pay rent and are high consumers of good and services.

The cut in Net Overseas Migration with the associated gradual forecast return to pre-COVID levels will result in a reduction in the working age population of a massive 822,000 by financial year 2024, relative to the pre- COVID-19 predictions. The loss of economic potential from the drop in immigration is substantial. The clear policy imperative is for Governments, at state and federal level, to pro-actively return to pre-COVID levels of Net Overseas Migration as soon as safely possible. The decision to progress precisely this will help make up for the lost economic potential during the COVID lockdown period, boost taxation revenue and assist in paying for the services that will be demanded by the ageing baby boomer generation of pre-compulsory superannuation retirees.

Some in the planning community, led by the former Minister for Planning in NSW, Rob Stokes, have speculated that planning Ministers should consider a low immigration low growth future for Australia. The BIS Oxford paper examines the economic impact of a long-term reduction in immigration numbers. While lower immigration numbers might be attractive for proponents of the "Australia's cities are full" theory, the consequences for the economy and for our capacity to fund the fiscal gap created by our ageing population are profound. Thankfully, the National Jobs Summit saw a comprehensive and near unanimous rejection of this low population growth option.

In the property sector, the impact of COVID-19 has been most severely felt among the providers of student accommodation, the rental property sector (particularly apartments located close to universities), in the demand for serviced apartments (often the first point of landing for temporary and permanent migrants as well as business visitors).

But despite this, confounding many, prices of new free-standing homes rose sharply across the cities and regions of Australia.

As detailed above, price rises for new homes have been driven by a number of factors, not least the historically low interest rates, but low planning approval numbers and the resultant low levels of supply are certainly significant factors, and this is something that is under the direct control of policy makers.

Now that there is broad consensus on the need for more permanent migrants, the need for housing becomes particularly acute. The policy conundrum must be resolved. Given the economic importance of immigration, particularly given the ageing population and the diminishing size of the Australian workforce, we must change the planning system to build in flexibility to cater for a rapid return of migrants to our economy.

In addition to underpinning a significant proportion of economic growth, migrants are also a significant net contributor to the government's fiscal position. The focus of the migration program on relatively young (under 40), highly skilled workers, results in migrants typically earning above-average salaries (and so paying above-average income tax) and requiring below-average levels of government support. The cost of their education has already been born by their home country, and for temporary workers their access to government services while they are in-country is restricted.

Urban Taskforce welcomes the Commonwealth's moves to re-introduce both temporary and permanent migration at higher than pre-COVID levels and this is already having an impact.

Urban Taskforce supports the increased targets for permanent overseas immigration. Further, in light of the current shortage of housing supply across Australia, Urban Taskforce recommends that the Commonwealth Productivity Commission actively progress all available measures to promote housing supply in all sectors of the market

6.2 – Jobs and Skills Summit

In light of the above research and comments, the Urban Taskforce has welcomed the Australian Government's commitment to lifting the permanent migration into the nation to 195,000 in 2022/23.

This will have an invaluable positive impact of the economy, address labour and skill shortages and lift productivity.

The Urban Taskforce too welcomes the commitment of $575 million to the National Housing Infrastructure Fund (NHIF), announced by the Treasurer as part of the Government's response to the Summit. While more funding is needed, opening up the fund to the private sector and the Super funds is an important change, and the Federal Government needs to closely follow the outcomes realised by this change to the NHIF.

Yet an increase in immigration (noting that Australia experienced a decrease of 100,000 people during COVID) begs the question of where this additional individuals and families will be housed. Besides the changes to the NHIF, there was little comment at the Jobs and Skills Summit on the additional housing needed.

NSW is likely to accept approximately one-third of the additional migration – Sydney a large majority of the NSW figure. Yet we are already experiencing a chronic housing supply crisis in NSW, where there is already an acknowledged deficit in the housing stock.

7. Build to Rent – an opportunity lost caused by tax treatment of this investment class

Urban Taskforce members are concerned about the missed opportunity to secure capital investment from international institutional investors who have direct experience and desire to build new apartment stock for the purpose of deriving a long-term steady rental return.

Urban Taskforce members are at the forefront of progressing the Build to Rent asset class. Apartment approvals have dropped significantly in NSW (primarily in Sydney) and there is a need to stimulate this market.

When the rules surrounding the MIT taxation rates were last amended in 2017, the housing market was very different. The NSW Government has recognised the opportunities available through Build-to-Rent and have taken steps to establish a fast-track planning assessment process (State Significant Development planning pathway – provided the development meets the financial threshold and the building is held for at least 15 years). The NSW Government has reduced the foreign investor Stamp Duty surcharge and also applied a 50% reduction in Land Tax to encourage investment in the asset class.

Urban Taskforce sees the post COVID recovery as an opportunity to adjust both the Company and withholding taxation rates for institutional investors which wish to build an asset and hold it whole (not able to Strata) for a defined period. Young professionals frequently move from city to city following specialised work. Have a high quality, high amenity BTR option suits the lifestyle of many younger Australians.

As a general principal, the taxation system should not discriminate between asset types. This is particularly the case when one considers the current housing affordability and housing supply problems outlined in this submission.

A change to the taxation rates to realise equality between residential buildings and retail centres or commercial towers would stimulate significant investment from foreign institutions from around the world. Further, this would encourage Australian Superannuation funds to allocate more money to the Australian market rather than looking for residential rental returns through off-shore investments.

The table below shows that equalising the MIT at a 15% rate for foreign investors would stimulate new investment and new economic activity. It would also result in additional taxation revenue compared to "build for sale" investments.

BtR results in an additional ~$400m in Federal tax revenue

Federal Tax Proceeds	Total	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5	Yr 6-10
BtR	$1,243m	$113m	$91m	$215m	$190m	$17m	$618m
GST	$688m	$113m	$91m	$215m	$190m	$16m	$63m
MIT[1]	$556m	-	-	-	-	$1m	$555m
For-Sale Development	$852m	-	-	-	-	-	$852m
GST	$852m	-	-	-	-	-	$852m

$626m accelerated Federal Tax

1. 15% MIT Withholding Tax rate for foreign investors

See below a summary of the Managed Investment Trust (MIT) withholding tax rates that apply to distributions to non-residents (in an Exchange of Information country) where the distribution does not relate to a "clean building" MIT.

	Ordinary income	Capital gains
Office / retail / industrial – third party	15%	15%
Office / retail / industrial – cross staple	15% (de minimis) 30% (other)	15%
Hotels	30%	15%
Residential (Build to Rent)	30%	30%
Student accommodation	15%	15%
Serviced apartments/Hotels (if leased to a third-party operator)	15%	15%

The current tax provisions effectively exclude investment from foreign pension funds from the Australian residential housing sector. This is a missed opportunity. This has a direct impact on housing supply and can easily be reversed.

Urban Taskforce recommends the Commonwealth amend the tax schedule to treat foreign investment in Build to Rent residential property in the same way as an investment into other classes of property where the asset is established for the purpose of deriving a long-term rental return (ie. Reduce the withholding tax rate from 30% to 15% and the tax on capital gains also be reduced from 30% to 15%)

7.1 GST Treatment of BTR, Seniors Living and Housing for those with a Disability

A second related adjustment in the **GST treatment of "Build to Rent"** assets which actually discriminates against the production of new rental properties. "Build to Sell" residential assets benefit from instant write off (or off-set) provisions. By contrast, Build to Rent assets are required to be held for 5 years before the GST can be offset.

This would be on the basis that the asset must be held for a minimum period of 5 years. This simple measure alone would make BTR investment more attractive for both foreign investors as well as home grown superannuation funds.

Similarly, GST inputs should immediately be able to be claimed in the case of the development of housing for seniors living and for those that meet NDIS (through NDIA) criteria.

Urban Taskforce recommends the Commonwealth change the GST treatment of Build to Rent residential assets, NDIA compatible housing and seniors living, to allow the construction costs to be instantly off set on the provision that the asset is held for a minimum period as rent deriving asset

8. Housing Prices and Housing Supply in Regional NSW

While the undersupply of housing in NSW has historically been most pronounced in Greater Sydney, the dramatic escalating cost implications of supply not keeping pace with demand in Sydney, together with changes to settlement preferences has seen this housing supply and affordability crisis shift to Regional NSW.

This too has productivity impacts, particular in the difficulties the agricultural sector has in attracting and retaining a labour force for its seasonal work.

The inability of regional NSW to provide housing for current and future residents continues to place pressure on the cities, with the concomitant impacts on productivity due to congestion etc

Since the arrival of COVID-19 population growth in many regional communities has accelerated. People are remaining in or relocating from metro areas to many regional centres. The subsequent lack of housing supply thus arising in regional NSW has inflated prices and squeezed locals out of the rental market.

The Domain Rent Report for the June quarter, 2021 states that weekly rents in more than 20 major regional markets have jumped by 10 per cent or more in the space of one year[29]. The table below shows that this escalation in prices reflects an under supply across NSW.

Regional NSW LGA	% change in last 12 months
Snowy Monaro	28.6
Bellingen	26.8
Byron	26.2
Wingecarribee	20.0
Parkes	16.7
Orange	15.8
Yass	14.5
Port Macquarie / Hastings	12.9
Bega Valley	12.5

[29] Domain, powered by APM, June 2021, 'Domain Rental Report', accessed 25th August 2021, <https://www.domain.com.au/research/rental-report/june-2021/#sydney>

Lismore	12.5
Richmond Valley	12.3
Bathurst	11.1
Dubbo	10.0
Singleton	10.0

Data taken from Domain Rent Report (June Quarter 2021)

Given the recent significant uptake of available, zoned land lots in the regions, Councils have been caught out with a very narrow rezoned land pipeline.

While many have been caught unawares, this has been exacerbated by a simultaneous shortfall arising from the lack of long-term strategic planning, including the identification of land suitable for future rezoning.

Many regional communities have suffered from not having the funds available to commit to the construction of critical infrastructure (water, sewerage, roads). This causes local Councils to be conservative when it comes to planning. However, the changes in demand as reflected by the current supply shortage across NSW is clear evidence that support for regional infrastructure is greatly needed.

Urban Taskforce recommends that the Commonwealth create a $3Bn fund, similar to the Housing Acceleration Fund (HAF), to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated

Most regional councils are slow in processing planning proposals. Some councils use the process to stymie new development as a means of pandering to the small, but vocal, calls for 'no change' to local character that are heard in many communities. More often however, Council staff are daunted by the complexity of the rezoning process under the NSW Planning system as well as the need for funding to deliver critical infrastructure.

To highlight the significance of the housing supply shortage, many regional communities have businesses ready to invest in new business activities in regional NSW. The biggest problem is there is no-where to accommodate the staff. Urban Taskforce is also aware of Councils struggling to get the staff required to address the planning requirements needed for new housing because they are unable to offer appropriate housing options for potential staff. This is a real chicken and the egg conundrum that is having real impact in terms of housing and the local economic development in many parts of regional NSW. Rental prices are risen rapidly. The housing supply shortage in the regions represents a serious bottleneck for economic development and productivity. Regional Australia can play a key role in boosting the nation's economic productivity. The planning system in NSW is one key reason why it is struggling to fulfil its potential and not play its part.

9. Stamp Duty v Land tax

Urban Taskforce acknowledges at the outset that Stamp Duty is a State Government tax responsibility. Nonetheless, every report on tax reform published in the last two decades has called for the abolition of Stamp Duty, otherwise known as a conveyance or transfer tax, which is paid up front when a property is transacted. Stamp Duty is highly inefficient and fosters intergenerational inequity as it:

- Reduces potential housing market transactions and limits the supply of existing homes for sale by deterring people from changing homes when they otherwise would, to down-size for example
- Simultaneously punishes first home buyers, who can least afford to pay.

The Henry Tax Review established that the "welfare loss", or inefficiency, associated with Stamp Duty is between 30-40% because of its distortionary impact on behaviour, which reduces productive activity).[30]

> "Stamp duty more than doubles most transaction costs. This deters transactions, results in significant under-utilisation of the housing stock and has an estimated loss of benefit to the community in the order of $375 million per annum. Replacing stamp duty with a broad-based land tax could release a significant amount of under-utilised housing and reduce house prices by about 6% after several years".[31]

The Review argued a powerful case for the broadening of the property tax base that would see a shift away from Stamp Duty towards a broad-based land tax:

> "*Stamp duties are a highly inefficient tax on land, while land tax could provide an alternative and more stable source of revenue for the States. When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue. This efficiency arises from the immobility of the tax base and, unlike most other taxes, levying different rates of land tax in different States has very low efficiency costs.*"[32]

Importantly, replacing stamp duties with a broad-based land tax would increase the volume of housing market transactions and improve the utilization of land.

The Henry Report summarised the problem with Stamp Duty as follows:

> "*Stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of State tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue.*
>
> *Conveyance stamp duty is highly inefficient and inequitable. It discourages transactions of commercial and residential property and, through this, its allocation to its most valuable use.*
>
> *Conveyance stamp duty can also discourage people from changing their place of residence as their personal circumstances change or discourage people from making lifestyle changes that involve a change in residence. It is also inequitable, as people who need to move more frequently bear more tax, irrespective of their income or wealth.*"[33]

In December 2016, Infrastructure Australia found that "a broad-based land tax can provide an efficient, sustainable and permanent approach to value capture … This approach would provide a fairer, more efficient way of raising infrastructure funding, and

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[30] Australia's future tax system – Final Report, (Henry Tax Review), p13.
[31] Abelson, P., "Housing Costs and Policies: With special reference to Sydney" Paper prepared for NSW Treasury, Applied Economics PL, May, 2016, p91 (also see p.63)
[32] Ibid., p46.
[33] Ibid., p49.

move away from the many challenges posed by the volatility and unpredictability of property prices".[34]

It is easy to see why state governments have been slow to wean themselves off Duty. It's delivered 'rivers of gold' to treasuries during the boom times of high property inflation we've more or less enjoyed since the 1991 recession. But this transaction tax has worked against housing supply and the efficient allocation of housing.

Nonetheless, a broad-based land tax is less volatile and more predictable than any transfer duty. An analysis by Coates and Nolan for the Grattan Institute found that an annual flat rate tax of 0.05% ($5.00 on every $1,000) on unimproved land value would be sufficient to fund the abolition of Stamp Duty in NSW.[35]

A broad-based land tax is an efficient mechanism for funding infrastructure, as it is based on the underlying land value, which will increase with the delivery of new publicly funded infrastructure or rezoning. It is more effective in this respect than forms of 'value capture' that focus on individual sites or projects with implications for equity and implementation, particularly given the complexity and subjectivity associated with identifying and quantifying the factors that contributed to the value uplift.

Land tax is the only tax on property that keeps pace with economic growth[36]. It facilitates infrastructure contributions from all of society that benefits from economic growth and subsequent general land value increase, and from owners close to new infrastructure, who enjoy a higher value uplift and therefore would pay more land tax.

Land tax would also encourage downsizing amongst older homeowners, which fosters the efficient use of housing stock and land, which are our most valuable assets.

The incentive for councils or strategic planners to leverage strategic planning to raise funds would be removed. For example, Councils or strategic planners may include lower FSR or height controls than suggested by sound planning analysis, then offer developers 'bonus' height or density in exchange for contributions to local or state infrastructure implemented through Planning Agreements. Instead, the emphasis would be on creating plans that are transparent and straightforward.

The tax system should automatically generate additional funding when new infrastructure is required because of changes to density or changes in land use. There should be no need to haggle over infrastructure and contributions with developers. The burden of new growth-related infrastructure would be shared between the society as a whole and the purchaser of a new home. Presently new entrants to an area, which often represents younger and migrant populations, pick up a disproportionate high cost of funding the new infrastructure required in new developments.

A broad-based land tax will also help address the well-being and productivity of the labour force. Stamp duty represents a significant financial disincentive to relocate as a result of changing the location of your employment. A worker may have originally settled in a suburb that was either close to or well connected to their place of employment in terms of transport linkages. A change in job may mean that the workplace is now distant

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[34] Infrastructure Australia, "Capturing Value: Advice on making value capture work in Australia", Dec, 2016, pp 6-7. See also pp 23-24.
[35] Coates, B. and Nolan, J., "NSW should swap stamp duties for a broad-based property tax", Grattan Institute, Dec, 2009, p8.
[36] Ibid., p7.

to the home. This will result in increased transport costs, increased congestion in some instances, as well as the worker spending more time travelling to their place of employment.

A broad-based land tax addresses these potential productivity losses by creating no financial disincentive to relocate should their circumstances change. This is particularly true if they were already paying a land tax on their property. A higher tax would only be paid if their new home's land value was higher – in fact moving to an area where land values are comparatively lower (for example in the regions) could act as an incentive for workforce movements to areas where they are needed.

Any broadly applied land tax will pose difficulties in implementation, as seen in the recent decision of the NSW Opposition to oppose even the most meagre of reforms in this space. Urban Taskforce acknowledges there are challenges for people who are asset rich but income poor, but nonetheless think that this can be catered for in a fair and efficient way, such as the ability to defer land tax liabilities to the family estate.

The NSW Government has proposed a solution, but it leaves them with a transition shortfall (followed by substantial growth). However, progress of this genuine reform appears to have stalled. Active support from the Commonwealth Productivity Commission on this reform could genuinely result in improved housing supply.

The Urban Taskforce recommends that the Commonwealth government take the lead in discussions with the States to abolish Stamp Duty and replace it with a broad-based tax, which will stimulate housing market transactions and activity, and more fairly generate funds for new infrastructure that will enable growth and stimulate the economy

10. Foreign Investment levies and surcharges

As at 1 January, 2021, the Commonwealth Government has significantly relaxed the COVID-19 related FIRB thresholds obligations for foreign buyers of residential property. However, State government Stamp Duties and Land taxes continue to discriminate against foreign investors.

Foreign buyers who purchase residential property in NSW must pay an additional 8% surcharge purchaser duty on top of any stamp duty. Further, if you are a foreign resident you are required to pay a 2% surcharge each year on the unimproved value of the land (land tax), on top of any land tax that would ordinarily apply. This tax surcharge is paid on the taxable value of all residential land with some minor exemptions.

These surcharges and levies work against the delivery of housing supply. Many apartment developers rely on off-the-plan sales to enable the start of a construction project. Foreign buyers contribute to these sales and assist in the production of significantly more housing than they buy.

The Urban Taskforce recommends the Commonwealth and States should reconsider their tax on foreign investors prepared to invest in property. This discriminatory taxation is anathema to resolving the housing supply and affordability crisis

11. Conclusion

Just as the NSW productivity Commission's review spurred the NSW Government to belatedly acknowledge failings and start a process designed to arrest the decline in housing supply, the Commonwealth Productivity commission's review is welcomed in its timing and should spur the Federal Government to address productivity and the role of the housing market in creating productivity constraints and how good policy can hopefully overcome these.

In the lead up to the recent Federal election, the then Treasurer-in-waiting Jim Chalmers addressed the National Press Club and in part stated:

> *"We will be investing where it counts to create more opportunities, unlock business investment and drive productivity"* [37]

Housing is not simply a basic human need but if delivered efficiently can be a major driver for a productive nation. Give the size and impact of the industry, its correlations with the economy, as well as the opportunities it offers to lifting productivity and Australia's international competitiveness, it is an area too big and too important for the Commonwealth to ignore.

With a strong and robust report from the Commonwealth Productivity Commission, the Urban Taskforce hopes this is an important step in ensuring housing policy and the housing market contributes to, not detracts from, the nation's quest for greater and more sustainable economic productivity.

[37] Chalmer, J., The Budget and a Better Future, Address to the National Press Club, 5 April, 2022