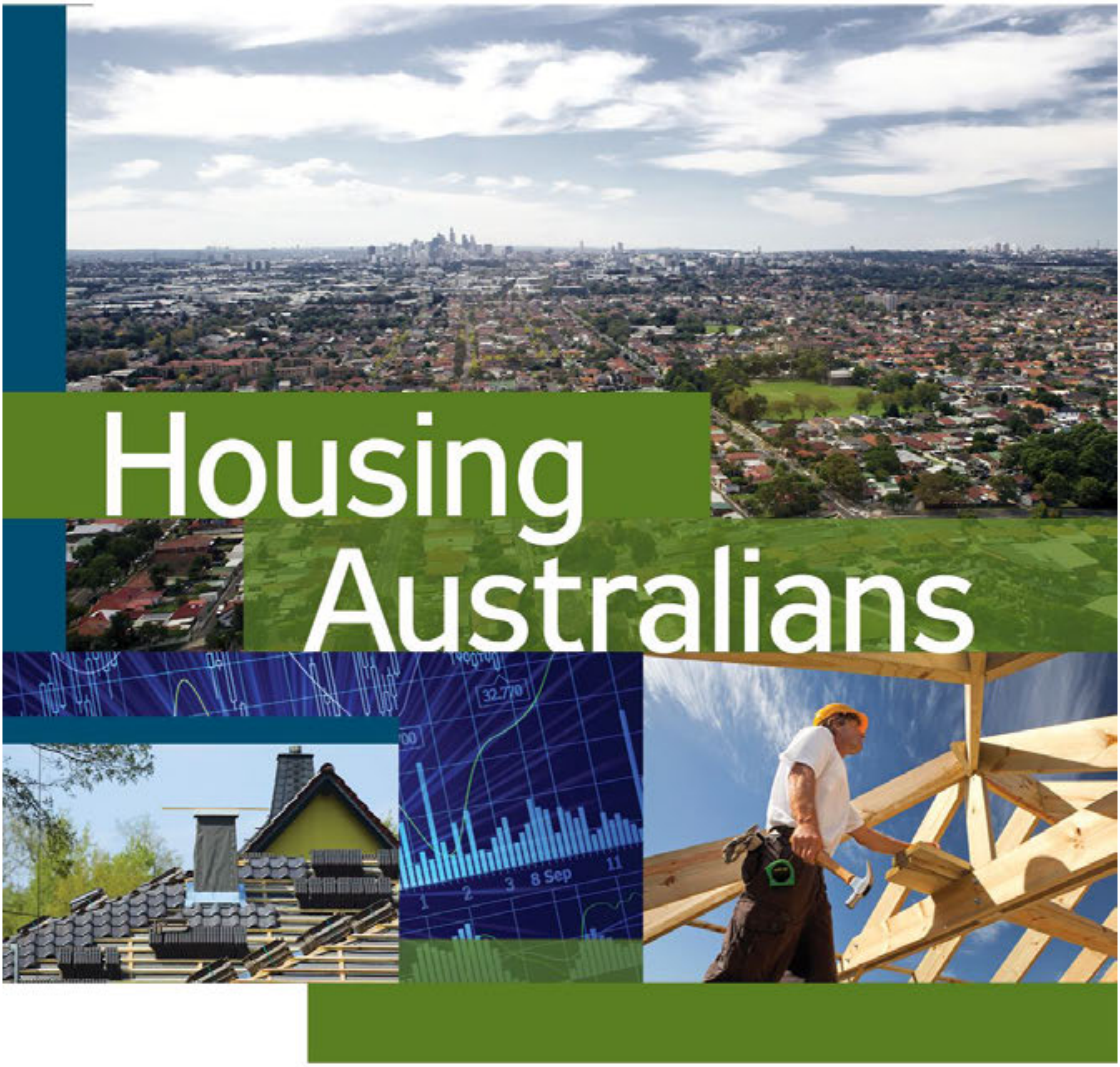
HOUSING INDUSTRY ASSOCIATION



Submission to the
Productivity Commisson

National Housing and Homelessness Agreement

March 2022

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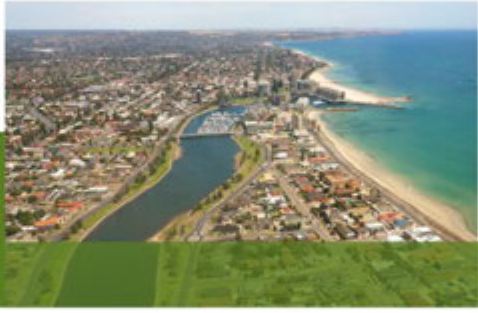
contents



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ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry.

As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia. Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply and retail sectors.

Contributing over $100 billion per annum and accounting for 5.8 per cent of Gross Domestic Product, the residential building industry employs over one million people, representing tens of thousands of small businesses and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

> *"promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."*

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population. New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The association operates offices in 22 centres around the nation providing a wide range of advocacy, business support services and products for members, including legal, technical, planning, workplace health and safety and business compliance advice, along with training services, contracts and stationary, industry awards for excellence, and member only discounts on goods and services.

1. INTRODUCTION

The National Housing and Homelessness Agreement (the Agreement) is one of the longest standing federal financial relations agreements in operation today. HIA believes that the ongoing operation of such an Agreement is fundamental given the federation and therefore it should be renewed.

Changes made to the Agreement of the last three iterations have acknowledged that there is purpose in addressing not solely the delivery of social housing linked directly to funding under the Agreement, but also to the broader operation of the housing market. HIA believes this extension of scope is appropriate and should be retained. However, it is critical moving forward that the housing market aspects of the Agreement are in some way linked to funding outcomes if they are to be realised.

HIA's responses to the Issues Paper set out below focuses on those matters HIA has a clear position on and that relate to the housing market more generally, housing supply and affordability and the necessary data to understand all the moving parts in Australia's extremely complex housing supply arrangements. HIA's responses address many of the questions posed in the Issues Paper and are presented under the relevant chapter headings. There are several questions regarding aspects of the Agreement that relate to the delivery of social and affordable housing, homelessness services and indigenous housing. HIA has not directly responded to these as other parties are better placed to do so.

2. ASSESSING THE PERFORMANCE AND SUITABILITY OF THE AGREEMENT

2.1 THE PURPOSE OF THE NATIONAL HOUSING AND HOMELESSNESS AGREEMENT

The purpose of the National Housing and Homelessness Agreement is to provide a framework for managing the vertical fiscal relationship between states and territories and the Commonwealth with respect to ensuring that states are adequately resourced to respond to the housing needs of the community. The agreement rightly recognises the mutual interest of the Commonwealth, state and territory governments to improving housing outcomes across the 'housing spectrum'. However, the focus of the Agreement is traditionally skewed towards addressing the issues that align with measures involving public expenditure i.e. the delivery of homelessness services and social housing.

In HIA's view the corollary is that the Agreement has too little focus on issues that could improve housing outcomes for the community more broadly. This can partially be attributed to the policy areas that fall outside the scope of the financial relationship between the parties. This is reflected disappointingly in the purpose of the agreement, where the range of important factors that impact the housing market outcomes fall outside the scope of the Agreement, particularly tax settings.

Australia should have a national housing strategy that is agreed to by the Australian Government and states and territories. Such a strategy should set out the collective aspiration for housing the population, now and in the future and the intended role of different housing tenures across the housing spectrum. The Agreement could then become the document that guides and sets benchmarks for the implementation of a national housing strategy. Recognising that many of the issues that a national housing strategy would address will require actions at a state level and be appropriate for each jurisdiction, funding arrangements should be designed in such a way that there are appropriate incentives for the parties to progress implementation. Such an agreement would likely require a broader scope than the existing agreement.

It would be possible for the scope of the Agreement to be narrowed to be solely a funding agreement focused on social housing and homelessness services. However, if this were to occur, HIA would consider it necessary to develop an additional agreement, as has previously be the case, to address measures that apply across other parts of the housing spectrum and those related to land and housing data.

2.2 IS THE OBJECTIVE APPROPRIATE AND HAS IT BEEN ACHIEVED?

As noted in the discussion paper, several key terms in the objectives lend themselves to interpretation and this should be addressed in any future housing agreement to eliminate ambiguity.

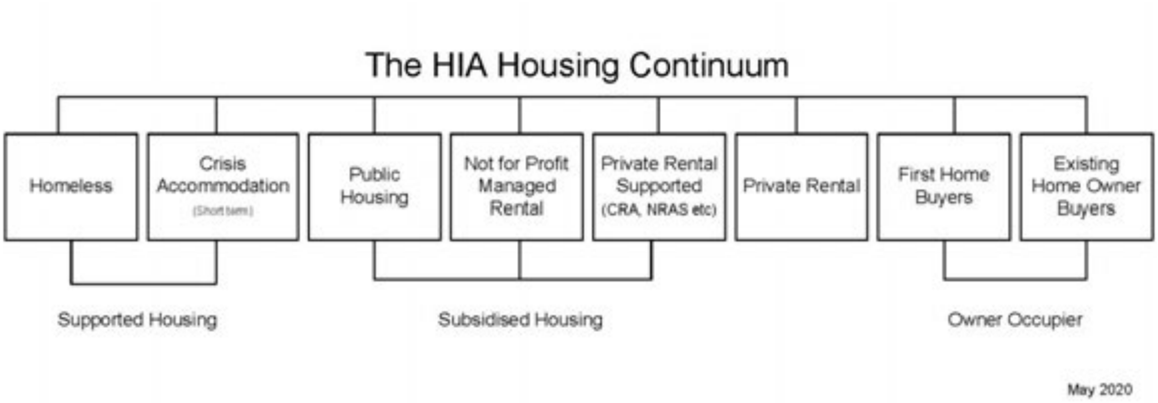
It may be necessary to have multiple definitions of 'affordable' which apply to different segments of the housing spectrum. Such definitions already exist and apply variations of a rule of thumb that housing costs should not consume any more than 30 per cent of a household's income. This definition has different applications for low-income households than it does for higher income households, and differently for households in rental housing when compared to owner-occupier households servicing a mortgage. Indeed the 'housing spectrum' which is a representation of HIA's

Housing Continuum (2015) was developed for the specific purpose of creating clarity around the housing segments or cohorts of occupants in Australia's housing market.

The term 'sustainable' should be further defined. It is unclear whether the term relates to a housing tenure that is workable for a household over the long term, or relates to the contemporary vernacular associated with the environmental impact of a home. While both are desirable outcomes, the latter interpretation should not be a matter addressed in a future Agreement. The agreement should not reach outside its ability to influence and sustainable design and construction is a matters that sits within state and territory planning systems and the national building code. Retaining this term as an undefined term inadvertently encourages the view that adopting further environmental measures that impose additional costs on housing may be the intended outcome. This is not HIA's understanding of the reference and should not be the understanding given to the term in this context.

The framework of the 'housing spectrum' is appropriate. If the Agreement is intended to comprehensively improve housing outcomes for all Australians it is important that measures are designed to improve the housing outcomes for households in different circumstances across all segments of the spectrum.

To assist in highlighting the connection between each cohort of the housing supply chain, HIA's concept of the 'housing continuum' was developed. This allows stakeholders to better describe the broad variety of housing types but more importantly to realise that there is movement along the continuum, whether up or down. The message for governments of recognising this is that any action to support housing supply for one cohort can have an impact on housing supply for another cohort. In essence, HIA's position is to see households move to the right (in the diagram below) and any actions that detract from market housing supply will see households slide to the left placing pressure on support accommodation of all types.



Housing affordability is generally accepted as a term that refers to the relationship between housing costs (rent, mortgage repayments) and a household's total income. It can be applied at the individual dwelling level, but often refers to the conditions across the overall housing market.

Housing affordability is improved as a consequence of an adequate housing supply at an appropriate price for each cohort of the housing continuum.

For the housing industry, housing affordability is intended to focus attention on achieving an outcome – that is, to create an environment where a person not currently in the private housing market has the ability to enter it, whether to rent or own.

When affordability is low, the ability to enter the market is restricted for those on low and moderate incomes. When affordability improves, the ability to enter the market, and remain in the market, for these households also improves.

Attempts to address Australia's housing affordability challenges first requires a clear definition and scoping of the problem. The housing affordability challenge has numerous cohorts, looking through different prisms:

- those on public housing waiting lists;
- those waiting on community housing providers;
- those requiring specialised housing support (housing for the disabled and for emergencies)
- those in private rental housing, supported by Commonwealth rental assistance payments;
- those experiencing unsustainable increases in private rental costs; and
- those saving for a first home.

2.3 OUTCOMES OF THE AGREEMENT

The reference to a 'well functioning housing market' is problematic. The imprecise language makes it difficult to determine whether the Agreement has made an effective difference in its functioning. Since 2018 there have been many positive developments in the market that can be attributable to the actions of governments under the Agreement, such as an increase in the proportion of first home ownership through ongoing first home owner grants, the introduction of the first home loan deposit scheme and the federal and state home building grants. However housing costs remain high for many reasons, not the least being the impact of COVID-19, which means that many households continue to face challenges accessing housing that meets their needs.

With respect to the housing data commitments under the Agreement, HIA contends that there is still much to do in this space. While we acknowledge the work that has been undertaken by the Housing and Homelessness Data Working Group, no meaningful change in the public availability of housing data has occurred over the life of the Agreement. HIA is actively involved in a nationally coordinated project seeking to address these data gaps, but a much stronger commitment is needed in a future Agreement to make this outcome a real priority.

With respect to the delivery of additional social and community housing places across Australia, HIA would defer to other parties, such as National Shelter and the Community Housing Industry Association, to speak to this outcome.

2.4 OUTPUTS OF THE AGREEMENT

The outputs of the Agreement remain relevant. However, the scope of those outcomes remains tied to the historical purpose to support social housing supply. This tends to mean that in operation, states and territories are not taking the other aspects of the 'well functioning' housing market as a genuine priority. States and territories remain focused on their existing pathways of zoning, subdivision and development assessment which have created the slow pipeline of land for housing. Planning reforms that can make a meaningful difference in the time to move from pasture to shovel ready land are worthy of closer attention in a future Agreement.

2.5 THE ROLES AND RESPONSIBILITIES OF GOVERNMENTS UNDER THE AGREEMENT

The roles and responsibilities for housing supply of all types across all levels of government are well entrenched and the Agreement is unlikely to be the vehicle that changes this. In this regard, the Agreement represents a collective acknowledgment of responsibility and commitment to deliver the outcomes that each level of government is responsible for. HIA does not consider that the roles and responsibilities per se should be altered, but rather that the commitments made should be honoured, taken seriously and that a meaningful change, being a positive increase in supply of all housing types, should be identifiable at the end of each term of this Agreement.

2.6 PERFORMANCE MONITORING AND REPORTING

Performance monitoring and reporting against the Agreement is inadequate. Performance monitoring relates primarily to ensure that public expenditure is achieving it's intended outcome. In the case of the Agreement this relates to efficacy of expenditure on housing and homelessness services. The performance and monitoring does little to identify progress towards improving housing affordability more broadly.

Objective market-based indicators that track the real cost of housing for households in each part of the housing spectrum should be included in a future monitoring framework. Performance monitoring should also include a metric tracking the sale price of newly created residential lots.

2.7 FINANCIAL AND GOVERNANCE ARRANGEMENTS

On the basis of the comments above that there has been little evidence of transparent reporting of outcomes and potential achievement of outcomes, there is insufficient information to determine whether the governance structures are adequate. Whether this be at the national level in respect to oversight, or at the state level in respect to knowledge and sharing of that knowledge, is difficult to gauge.

The Agreement notes that states and territories are not at risk of losing funding should they not meet the outcomes. While HIA understands the reasoning behind such an approach it remains disappointing to see this and the reality is without such a risk, little is likely to change.

It may be appropriate for a future agreement to identify other funding pathways beyond that for social housing, that could be used as levers between the Australian government and the states and territories. Whether these be tax reforms, incentive payments, adjustments to the first home owners grants, it appears clear that stronger levers are required.

3. ISSUES ACROSS THE HOUSING SPECTRUM

3.1 THE PRIVATE RENTAL MARKET

Aside from a brief disruption to the rental market at the onset of COVID, the rate of vacancy in the private rental market has remained very low around the country. In many parts of the country, rental price growth has exceeded growth in household income which suggests that demand is exceeding the supply for private rentals.

Rental market conditions have vary around the country. The supply of housing in the private housing market is delivered by a large number of small 'mum and dad' investors, who in most instances supply one or two properties to the market. Investors are typically middle-income households and an investment in rental property represents a substantial part of their total wealth. In this context, individual investors make investment decisions reflecting their risk appetite and return expectations.

Residential property markets around the country have different characteristics which determine the risk/return profile of each market and thereby influence the willingness of investors to supply homes for rent. The characteristics of property markets in metropolitan areas, where there are large population bases supported by diverse drivers of economic activity, have provided a more compelling investment proposition. In contrast, regional and rural property markets often have narrower economic bases and property markets are exposed to risks and business cycles of key local industries.

Generally, this is likely to result in the supply of rental properties being relatively more abundant in metropolitan areas relative to regional areas. However, there are situations where local business cycles have been sufficiently large as to generate excess investment in the supply of additional rental housing. This occurred in several towns exposed to the cycles of mining investment.

The private rental market receives insufficient attention within the Agreement and coverage is limited to the extent that it interacts with government policy measures support households to access and remain in rental housing. With private rental housing being the second largest type of housing tenure and that a large number of households who live in rental housing receive fiscal support, this segment of the housing spectrum warrants greater prominence in the Agreement.

The discourse in recent years, fostered by deteriorating affordability and growing housing inequality, has encouraged a perception that investors are detrimental to housing market outcomes. This provided a situation where some stakeholders forward policy measures that discourage investor activity as solutions to housing affordability challenges, rather than policies that could improve the supply of rental housing and put downward pressure on rental prices. It is necessary for the Agreement to encourage governments to undertake difficult reforms required to improve the supply of housing across the housing spectrum, including the private rental market.

Governments have been adjusting policy settings to activate the Build-to-Rent (BTR) sector in recent years. However, the purpose of reforms to create BTR market remains unresolved. The role of a BTR market within Australia's broader housing market has not been well articulated, particularly the different roles for a subsidised BTR market (supplying below market rate) and a market based BTR market.

BTR proponents have put forward a view that there is a significant opportunity for growth in Australia's BTR market, yet many concurrently lobby government for favourable reforms to facilitate this reality. Advocates highlight the need for tax settings to provide a level playing field for all property market investors, noting the different tax settings that apply to individual investors, domestic institutional investors and foreign investors. While HIA recognises that such a differential does exist, it is unclear whether advocacy to change these settings will deliver an increase in subsidised, low cost rental housing, or more likely, provide an avenue for market rate, higher service rental accommodation.

The case for reforms to support the viability of the BTR sector is based on the premise that establishing a BTR sector will boost the supply of housing, create an opportunity for longer term tenancies and improve security of tenure for residents. It is possible that the BTR model becomes a substitute for the conventional build-to-sell model, with little additionality. Regulatory oversight and reform is warranted to promote and facilitate longer leases and greater security of tenure. However whether this travels hand in hand with reforms that will increase the supply of market rate BTR is not clear.

Reforms that incentivised supply of subsidised BTR projects may be more likely to contribute additional housing supply, rather than substitute one sales model for another. The flow of capital into the sector should facilitate delivery of affordable housing supply that would not have otherwise been financially viable.

It would be prudent for a thorough analysis and evaluation to be undertaken to better understand the potential impact of reforms that incentivise institutional investment in the Australian housing market. Institutional investment in housing represents a significant deviation from a longstanding market structure that is comprised of a large number of small scale 'mum and dad' investors.

3.2 HOME OWNERSHIP

Home ownership continues to be the foundation that has helped build a stable and vibrant Australian society. While the opportunity to own a home in Australia can be challenging, and the type of home many families aspire to changing shape, evidence shows that an overwhelming majority of Australians agree; home ownership matters.

Home ownership rates in Australia peaked in 1966 at 71 per cent. This outcome was the result of federal government actions to support housing for all as Australia's population growth began to increase, combined with a strong commitment to home ownership as a path to growing the wealth of Australians and the economy. Prior to the COVID-19 pandemic, home ownership rates had dropped to 66 per cent with renters, young and old, not seeing themselves ever realising their home ownership dream.

First home buyer activity dropped to the lowest level on record in 2011, when the annualised number of first home buyers dropped below 80,000. First home buyer activity was similarly weak during 2015 to 2017 when the market share of first home buyers dipped below 24 per cent.

One of the primary reasons for the decline in home ownership and first home buyer activity has been the prolonged undersupply of new housing, in all forms, driving a deterioration in housing affordability.

The Agreement references support for home ownership, however this is only noted in 'Schedule A' and is not referenced in the main body of the agreement. Given the importance of home ownership in Australian society and the economic significance of owner-occupied housing, this issue is deserving of greater prominence.

The Issues Paper notes the decline in home ownership over recent decades, despite home ownership remaining a desirable housing tenure for most households. Research commissioned by HIA showed that 85% of renting households aspire to own their own homes, yet only 42% feel they will achieve it.

As noted in the Retirement Income Review (Australian Treasury, 2020), home ownership is a significant determinant of living standards in retirement. HIA's research supports this finding: Australians view home ownership as important to their financial security and consider home ownership in retirement to be of equal importance to superannuation savings.

Governments around the country have responded with a range of measures to support home buyers enter the market. The majority of these measures aim to assist buyers overcome the 'deposit-gap' by reducing the time that it takes to save a deposit through cash grants, concessional lending, tax concessions and loan guarantees. These programs have played an important role in an environment where home prices have grown much faster than the capacity of households to save. However, the cost of such programs has risen over time which has led to a rationing of support through a tightening of eligibility criteria and caps on the number of participants.

A common criticism of these programs is that they merely bring forward home purchasers into an earlier period and that there is little evidence that they result in an increase in the number of households becoming homeowners. Further research is required in order to assess the additionality. The pull-forward effect has become important in facilitating home ownership. The average age of first home buyers has increased overtime and so too has the term of a mortgage. Larger home loans take longer to repay and older home buyers have fewer remaining years in the workforce earning sufficient income to repay loans.

While the rate of home ownership is likely to be higher now than it would otherwise be if these fiscal support measures were not in place, these measures address a symptom of the housing affordability challenge facing Australian households. These measures do not address the factors causing the persistent deterioration in housing affordability and hence declining rates of home ownership.

The factors contributing to the deterioration in affordability are multifaceted. Inter alia, these include low interest rates, high rates participation in the labour force, modest wage growth, tax settings, constrained supply of additional housing, liberalisation of credit markets and population growth.

The impact and relative importance of these issues at various points of economic cycles have been intensely debated.

The next iteration of the Agreement should encourage signatories to address the factors contributing to the deterioration in housing affordability and decline in home ownership. It should include increasing the rate of home ownership as a specified outcome in the agreement and be given equal prominence to outcomes relating to social housing and homelessness.

There is evidence that housing preferences changed during the COVID-19 pandemic. Demographic statistics produced by the Australian Bureau of Statistics that internal migration patterns changed with slower population growth in metropolitan areas and stronger growth in regional areas. This redistribution was also evident in the demand for housing, with acute housing shortages and rapid growth in housing costs becoming evident in many regional markets. During the initial lockdown in early 2020 there was evidence of an increase in rental vacancy in some metropolitan areas (e.g. around universities) and rental price declines were also recorded. Vacancies and rental prices subsequently reverted to previous levels.

There were changes in the way that households used their homes during the pandemic. Homes had to function as a workplace and as a school. While it is unlikely that home-based schooling will persist outside of forced lockdowns, it is likely that working from home arrangements will be more common than it was prior to the pandemic. Builders have reported changes in the design elements requested by clients in order to create environments that are conducive to working from home.

Monetary policy settings remained highly accommodative throughout the pandemic which lowered the cost of mortgage finance. Despite a period of hesitancy during the initial stages of the pandemic, confidence in the housing market recovered quickly following the announcement of the Government's fiscal support package. In addition, the HomeBuilder program and other state government schemes supported very strong demand for new homes and the level of first home buyer activity was particularly strong during the pandemic.

Demand for new homes has remained strong since the end of HomeBuilder scheme. Throughout this cycle demand was particularly strong for detached houses which is a stark contrast to the previous housing cycle that had seen strong growth in higher density housing.

There are signs that new home sales may have slowed in early 2022 but it is as yet unclear as to whether this relates to softening in demand or supply chain uncertainty, with respect to land availability and prices of building materials. Growth in median house prices also slowed in early 2022 which likely reflects an expectation that borrowing costs are likely to rise.

4. THE SUPPLY SIDE OF THE HOUSING MARKET

4.1 SUPPLY AND DEMAND IMBALANCE

Throughout much of the last 20 years, the supply of housing has not kept pace with demand. Housing costs are extremely high across the spectrum of housing types and tenure. The prices of transacted properties are high and have grown rapidly over an extended period of time, well in excess of growth in household incomes. There are very low rates of rental vacancy and rental prices have also grown at rates that exceed the rate of household income. Despite indexation, the real value of Commonwealth Rent Assistance has been diminished by rental price inflation.

The high cost of housing has not only impacted the supply of housing in the private marked but has also limited growth in the stock of public and community housing and contributed to long waiting lists. Furthermore, many Australians reside in overcrowded households and this issue is particularly prevalent in the indigenous community.

The experiences during COVID-19 suggested that the pent-up demand for housing was real, with local residents taking up the spare capacity left by outward migration. HIA's estimates are that household occupancy has declined during COVID-19 in a beneficial way and that this reflects people having capacity to move into a home more suited to their needs.

Is the Agreement national performance indicator on 'total number of dwellings relative to the population' the right measure of how well housing need is being met?

Metrics tracking the number of dwellings relative to the population is a crude measure of how well housing supply has kept pace with demand as it does not consider how the average household size changes over time or whether the housing supplied is appropriate for the community. Research undertaken by the National Housing Finance Investment Corporation has developed more sophisticated model that track the relativity of new housing supply and population growth which builds upon the earlier work done by the National Housing Supply Council. Despite the evolution of these measures, they remain incomplete measures of how well housing need is being met.

The Australian community is diverse and the housing requirements mirror this. In order to assess whether the communities' needs are being met the communities' needs must first be defined. It is not clear whether this has been satisfactorily achieved. Assessing the performance of Australia's housing economy in meeting community needs must assess each segment along the housing spectrum independently and consider the interdependencies between the segments across geographic areas.

A national housing strategy should identify a target for the rate of home ownership that is consistent with community expectations, which includes targets for priority groups. The capacity to track movements in the rates of home ownership should be improved to enable the rate of home ownership to be evaluated more accurately between the five year census intervals.

4.2 PLANNING AND LAND USE REGULATION

In order to improve housing affordability we must be better at managing urban land supplies. It is vital that governments maintain an adequate supply of land for housing, in all forms, in both Australia's major cities and regional centres. Australia's population will continue to grow and governments must reasonably plan for this.

In many areas state and territory governments have introduced policies designed to curb urban sprawl which have directly led to an increase in medium density dwellings and apartments. But adequate long term land supplies for both infill and greenfield housing should be an essential element of every state government housing and planning policy.

Metropolitan planning strategies have attempted to map out the way each city or region will manage urban growth in the last two decades and generally they have supported, if not specifically required consolidation of housing supply within existing urbanised areas, actively limiting further urban growth.

Urban Growth Boundaries (UGBs) in various forms are a key strategy employed by state governments to manage urban growth. UGBs introduce a severe distortion in the market for development land. As a result landowners and governments either withhold or control the supply of land to the private development market. Where UGBs are in place, there should be a transparent and regular review process that does not rely on legislative change or Parliamentary consideration and involves consultation with the community and the housing industry. Currently Melbourne and Adelaide have legislated and inflexible UGBs in place. All other capital cities have less rigid but still clearly set boundaries for future growth.

Planning for future housing supply should be a primary function of government. In order to achieve this governments should streamline the planning process, provide key infrastructure to facilitate well planned residential growth; and ensuring adequate land supply to meet growing demands for new housing.

To promote efficiencies within the housing supply pipeline government strategies should aim to deliver certainty of land supply. Metropolitan strategies must identify a rolling minimum of 15-25 year forward land supply (to be reviewed every 5 years) to meet long term demand. Within this long term strategy land supply, government should work with industry to ensure adequate land with development approval to meet short term demand (e.g. 5 year supply).

Governments should ensure metropolitan strategies have a focus on implementation and communication with communities so there is a clear expectation of the type of residential development that may be allowed in an area.

In order to give industry confidence in the supply of land there must also be transparent and regular reporting on the number of allotments at key stages of the subdivision process being:

- Zoned for urban development (prior to subdivision planning approval)
- Subdivision (Planning) Approval

- Subdivision Works (Operational) Approval
- Subdivision Completion Approval

Infrastructure unlocks the land that can be developed for residential use. While residential land development is primarily a private sector undertaking, development can only occur where government investment in infrastructure facilitates urban growth, and there is a commitment to provide public infrastructure to support new communities.

Governments have a responsibility to implement infrastructure investment programs to sustainably support anticipated growth in a manner that ensures costs are equitably shared across the community. Since the early 1990s state governments have pursued a policy to reduce public debt which has constrained investment, part of which is evident in under investment in infrastructure to support adequate housing supply today.

The provision of infrastructure that promotes efficient supply of new housing must be a priority for governments. Funding of infrastructure that benefits the broader community must be equitably shared across the community, and must not be borne exclusively by those purchasing new homes.

Governments have numerous funding options that would enable infrastructure programs to be equitably funded. Inter-alia, this includes funding infrastructure from general revenue, government borrowings, issuing tax effective infrastructure bonds, public private partnerships, general levies across the whole community, or user charges.

Further to this, there has been a proliferation of additional development levies and charges over the last decade for complementary rather than essential infrastructure. Most states and territories, through the planning system, can apply a charge on new residential developments via an infrastructure development contribution scheme.

Levies and charges applied to development to cover physical and social infrastructure significantly affect new housing affordability. The charges being applied through development levy schemes have become increasingly significant. This is partially due the large range and high quality of facilities being requested by authorities and in many cases a decision to shift the majority of the upfront costs of these types of infrastructure onto new developments. Councils apply their own approach to the types of infrastructure deemed essential which results in more levies and variations in the amounts being charged.

The levies are now so significant they are impeding supply of housing and significantly adding to the upfront costs of new homes.

State governments, in particular, NSW, Victoria and Queensland, have recognised the negative impact these levies have on residential land and house prices and have moved to introduce measures to slow and justify their use through either standard development levies or capped development levies. However, there is no clear evidence this approach has lowered the charges payable and improved the final cost of a new home.

Development charges and levies can encompass two types of infrastructure provision: Development specific infrastructure, and Community, Social and Regional Infrastructure. HIA defines 'Development specific infrastructure' as including items which are directly attributable to new development, without which the development could not proceed. This includes local roads, drainage, stormwater, utilities provision, land for local open space and the direct costs of connecting to local water, sewerage and power supplies, to a block of land. These are core requirements for housing development and the costs of these items is rightly considered by the developer as part of the cost of development.

In contrast HIA defines 'Community, Social and Regional Infrastructure' as items of broader physical, community and social infrastructure which are ancillary to the direct provision of a house on a new allotment. These items generally support residents outside a development. Examples are many and varied, but include headworks for water, sewerage and power supplies, community facilities such as schools, libraries, child care facilities, medical centres, district and regional facilities such as parks, open space, social improvements such as library books, public art, transport capital improvements, district and regional road improvements, subsidised housing, and conservation of natural resources.

In the last decade, two states, NSW and Victoria has copied this approach and implemented a levy to deliver state community infrastructure which clearly services a greater number of people than those buying a new home each year. In NSW, the state infrastructure contribution, now known as the special infrastructure contribution (SIC) can be applied in any area identified by the state to fund services that are used by those that pay, and by those that don't. Similarly, in Victoria, the Growth Area Infrastructure Contribution (GAIC) applies a charge for state services on a small cohort of home buyers each year.

Levies for community, social and regional infrastructure are now applied by both local and state governments through the planning system. In many cases the levies are charged without the establishment of a nexus between the infrastructure item and the community who will benefit. Furthermore, collection and use of funds raised through these levies lacks transparency and they are imposed without consideration of their impact on housing affordability as a fundamental added cost on the price of new land and hence new housing.

Levies of this kind are being viewed as a primary funding source for community, social and regional infrastructure. Where there is not a direct nexus between the levy and infrastructure provided to support a specific development, these charges are in effect taxes on new housing supply. This is inequitable as the cost of providing community, social and regional infrastructure should always be funded through broad based taxes.

The upfront nature of these taxes is also a key factor in the added cost they place on new land and housing. While certainty of costs is critical, the approach runs contrary to the delivery of all other types of infrastructure where the first user pays the full cost of the charge and in most cases, funds the charge by personal borrowing. Whereas infrastructure delivery by state and local governments had traditionally taken an approach to save public funds and borrow as appropriate, given the ability to amortise the costs over decades.

A future Agreement should be seen as a vehicle to incentivise timely and affordable delivery of infrastructure that has a nexus with new housing and to disincentivise the collection of levies and charges from just new housing where that infrastructure has no direct nexus, meaning it is unrelated broad community infrastructure that should be funded through board based whole of community funding avenues.

Moreover, the Agreement should be seen as a way to disincentivise specific levies or taxes for the delivery of social housing. This may be achieved through terms that would see a reduction in federal funding under the Agreement to a state or territory that choses to introduce a new tax solely on new housing for the purpose of funding social housing.

There has been limited success in implementation of inclusionary zoning policies in the Australian context. While reference is often made to other countries that adopt this approach, it is critical that the use of such a lever without warning, or without a transition over the period of time that it takes for land to move from pasture to shovel ready land, being a decade. Introduction of such a lever without appropriate transition will in fact create a new distortion in the price of all new housing and lead to the opposite outcome, being to make housing less affordable and push people away from home ownership back towards subsidised housing options.

To date in Australia there has been limited use of the inclusionary zoning tool. Early experiences in metropolitan Sydney were fraught with levies collected outside a functioning framework for oversight of the homes to be delivered, the occupants eligible for the homes and the future ownership of the homes.

HIA is unaware of any examples of this mechanism being used in Australia to deliver ‘social’ housing. Were this to occur, as stated previously, this would be more akin to a direct tax for the supply of social housing that addresses a community need and therefore should be funded through other mechanisms.

Similarly, HIA is unaware of any examples of this mechanism being used to supply housing for sale that maintains the integrity of the purpose, being to support those in greatest need of housing to access a home. In HIA’s view this approach should not be entertained where the outcome is saleable homes with no controls over future sale or ownership.

The use of a zoning tool to deliver ‘affordable’ rental housing is the more appropriate intention. However, without the necessary and critical support mechanisms, this will still not achieve the desired result. HIA has not seen evidence of a holistic approach being taken by local governments as this falls outside their skills and expertise. Community housing providers should be leading this response and the direction of any future funds from state, territory and local governments, for the purposes of subsidised housing should be limited to rental stock.

It is often assumed that if there is adequate land zoned for residential use then there must be adequate land on which to supply housing. This is not the case. The supply of land for housing development is influenced by three phases - zoning, the subdivision process, and the development process.

In isolation, the number of dwellings permitted by zoning is simply not a good or right indicator of the actual number of dwellings that can realistically be delivered. Within existing metropolitan areas it is very difficult to increase the housing density, regardless of whether it is permitted by zoning. In the development of greenfield growth areas, zoning provides an imprecise indication of the potential carrying capacity. While land may be zoned for residential use, this does not mean that all land within a zoned area is suitable for residential development. Zoning occurs at a very early stage in the development process, many years before a site becomes available for construction of lots to commence.

At this early stage the many factors that impact the extent to which land can be developed for housing remain unknown. Zoned land may include habitats of threatened flora and fauna, contamination and sites of cultural and historic significance. Constraints arise at each stage of the pipeline and can have a cumulative effect on the development that can ultimately take place on a parcel of land. In some cases, planning constraints can render land zoned for residential use as unviable for that use effectively removing it from the supply pipeline much later in the process.

Too often the issues that planning constraints seek to address are identified and imposed by regulatory authorities at inappropriate stages of the development process. They are also frequently applied retrospectively. This causes delays and results in additional costs throughout the development process. These costs become embedded in the cost of residential land purchased by consumers.

The potential for adverse planning constraints to impact the commercial viability of developments is a risk that developers must contend with. This is a financial risk for the businesses undertaking land development. In managing this uncertainty, developers supply fewer lots than they otherwise would if there was greater confidence in the regulatory environment.

Governments (including relevant authorities) should provide certainty in the application of planning controls on residential land. In applying planning and environmental controls to land, Governments should firstly verify and then disclose all known constraints which they intend to apply and at which stages of the development process.

The known constraints should only be applied by governments at the appropriate stage in the development assessment process. If a constraint is omitted, or unknown, by a government at an earlier stage of development, it should only be retrospectively applied if appropriate compensation is provided to the property owner for the reduced development rights.

All major constraints on land should be accounted for by the stage that a residential lot is titled, leaving builders, and home buyers, to only account for site layout, setback matters and known environmental constraints that can be managed by the built form. Requests from councils to apply constraints that have no foundation in state planning schemes or strategic documents incorporated within planning schemes should be rejected outright.

The interaction between the planning system and legislation to manage known constraints, such as to protect native vegetation and threatened species, is an example of where these issues commonly arise. The Australian Government, state and territory governments, along with local governments, and designated regulatory authorities all have a role to play in protecting flora and fauna. Navigating the process is complex and often duplicative.

In addition, governments and regulatory authorities do not give adequate consideration to their obligations to protect native flora and fauna under the legislation at the time that land is zoned for urban development. Too often these obligations are being discharged at later stages of the planning process when development applications for homes have been lodged. Applying constraints at this stage leads to the home owner carrying the burden of protection as opposed to the original land owners and always comes at a cost. Authorities should give consideration to the environmental constraints that will apply to a given parcel of land at the time that it is zoned for urban development to provide the industry with greater certainty.

With respect to the tracking of land through the zoning and subdivision pipeline, the number of lots available once land has been zoned is a misleading indicator of the final outcome. Examples such as the West Australian land supply monitoring data clearly show the significant reduction in the number of lots available at any one point in time, when moving from zoned land to shovel ready land. The future number of homes that will flow from the rezoning of hundreds of hectares in a decades time, has no relationship to the number of shovel ready lots available for the construction of a home today.

To address the imbalance between the supply of and demand for housing, which leads to reduced housing affordability, government policies need to:

1. Recognise that a continuing undersupply of housing stock contributes to the unaffordability of housing in Australia – across numerous segments of the community.
2. Support and enable industry to meet overall housing supply targets by creating the right environment to incentivise a wide variety of housing to be built in the marketplace.
3. Support industry to voluntarily assist governments to improve the supply of low and moderate income housing stock (affordable housing), for rent or sale, as a supplement to governments own social and crisis accommodation provision (for example NRAS programs).
4. Support and promote initiatives that improve housing supply and therefore housing affordability for all households including:
    a. Maintaining abundant land supplies including short, medium and long term land supply in the pipeline for detached housing sites in conjunction with medium density opportunities.
    b. Setting clear land supply targets for authorities to ensure land supplied for housing in both greenfield and infill sites are maintained.
    c. Addressing the excessive taxation burden on housing.
    d. Restricting any further development contributions being levied on housing, particularly those which levy for community infrastructure items that should be funded by general taxation measures.
    e. Continuing to support and implement housing based infrastructure rather than place that responsibility back onto industry to fund this.
    f. Ensuring a streamlined planning approvals process where constraints on the land are clearly identified in the first instance and standards for the subsequent design

and construction of housing are specified in single residential housing codes for all jurisdictions.

g. Allowing the private sector to assist with the heavy workload of authorities in planning and ensuring better statutory time frames are delivered for housing development.

h. Identifying surplus land for residential development and facilitate its release in a timely manner.

i. Actively promoting policies which to allow for a range and mix of housing to be developed at all price points.

j. Making new housing supply and housing affordability an objective of state planning legislation.

By facilitating housing supply in all forms in all locations, a diverse range of housing should be available at all times. Where supply is adequate, affordability will improve.

The supply of defined 'low cost' housing can be a more complex matters. The impediments to smaller lot housing and multiple dwelling developments in existing urban areas often faces the traditional 'NIMBY' effect. In addition, these projects are traditionally required to have both planning and building approvals, meet an array of design standards that go beyond affordable and controls which limit how small 'small' can be.

The Agreement is unlikely to be the vehicle that can deliver the type of planning reform needed to improve the speed to market and affordability of 'low cost' housing. But it is critical that attention be placed on this issue if the full range of housing choices are to be provided across Australia.

4.3 THE BUILDING AND CONSTRUCTION INDUSTRY

The cost of buying a new home (excluding land costs) has increased steadily over time, fractionally outpacing broader inflation. Over the last 20 years the consumer price index has increased by 59.5 per cent while the component of the CPI which tracks the price of a new house purchased by an owner occupier (excluding land) has increased by 79.9 per cent.

The contribution that changes in technical standards for home building design and construction make to the cost of new housing is often overlooked or dismissed. The homes built today are drastically different to those built by previous generations. Homes built today are safer for occupants, more appropriate for climatic conditions, more resilient to extreme conditions such as cyclones, floods and bushfires, are more accessible and consume less energy than homes built by previous generations. Many of these outcomes have been delivered as a consequence of changes to building regulations.

While many of these changes have delivered positive outcomes, each incremental reform to the building code has added to the cost of construction. For example, double glazed windows required to meet thermal efficiency requirements are more costly than a single glazed alternative, materials that satisfy the requirements of higher Bushfire Attack Levels are more costly than non-rated products, and homes that resist the air pressure variations experienced during a cyclone event need additional strengthening elements.

These additional costs have accumulated over time and are set to increase further with changes under consideration for the 2022 edition of the NCC. These include higher standards for energy efficiency and requirements for greater accessibility. The NCC is an integral element of the housing supply pipeline and changes have the potential to be highly disruptive in addition to the direct costs added.

Historically the NCC has sought to set minimum standards for the integrity of the built form, however over time changes have increasingly motivated by a desire to achieve political and social objectives. In context of building regulation being a state government responsibility, differing views amongst jurisdictions with respect to the importance of the issues being addressed and the appropriate regulatory response has caused states to opt in/out or vary aspects of the NCC.
The efficiencies that have been facilitated through having a national construction code are being eroded. State and local governments are also facilitating deviations from the national code through alternative legislative or regulatory measures. These typically lack the due consultation and do not give adequate consideration to the additional costs that deviations from the NCC impose on construction and the impact on overall housing affordability.

It is necessary that any proposed regulation that seeks to influence building design or construction techniques for new homes is held to the same standard as the processes adopted at a national level.

Australia has a regulatory framework for new housing that ensures buildings are of a high standard, and there are procedures to minimise opportunities to circumvent the regulatory oversight. Nevertheless, from time-to-time problems arise and it is important that there are appropriate mechanisms to investigate and respond.

The Building Confidence Report authored by Peter Shergold and Bronwyn Weir (2018) investigated the compliance and enforcement systems for the whole building and construction industry, but with a focus on high rise, high risk buildings and provided a range of recommendations. Regulators and industry are now several years into implementing a program of reforms that stem from the review.

Innovation in design will always be a matter for industry and building owners. The settings in place under the National Construction Code (NCC) as a performance based building code, along with the state and territory technical building frameworks continue to offer a pathway for innovation.

Residential building work is also closely controlled through consumer affairs legislation in all states and territories which seeks to provide a level of assurance that a project will be completed and any defects arising are adequately managed.

The obligations referenced under clauses 23(d), 23(e), 25(f) and 25(g) are unnecessary and tangential to the purpose of the Agreement. Any government procurement that occurs as a consequence of the Agreement should adhere to the procurement processes set out by the relevant government. Undertaking due diligence to ensure that providers have the capability to deliver on contractual agreements, operate legally and within the relevant regulatory environment are part of the procurement processes.