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Michael Brennan
Chair, Productivity Commission

By email: productivity.inquiry@pc.gov.au

Dear Michael

National Productivity Inquiry –
Property Council Submission - *the Urban Dimension to Productivity*

Thank you for the opportunity to contribute to the excellent work of the Productivity Commission. The Property Council represents the leaders of Australia's property industry, which shapes our cities by investing in every type of property asset class and directly employs more than 1.4 million people.

<u>In this first submission, we ask the Commission to again elevate the future productivity of Australian cities and towns in the minds of government decision-makers at all levels.</u>

The seminal *Shifting the Dial: 5 year productivity review* identified *Better functioning Cities and Towns* as one of five key ways to enhance national welfare. *Shifting the Dial* noted "about 80 per cent of Australia's GDP is produced in cities, and 40 per cent in Australia's two largest, Sydney and Melbourne."

In 2018 renowned urbanist Professor Greg Clark also wrote about the vital importance of our major cities as engines of growth and about Australia's city-governance deficit in his landmark report for the Property Council, *Creating Great Australian Cities.*[1] A large part of this governance deficit is the failure to focus on the connectivity and productivity of our capital and regional cities.

The 2020 Urbis *Planning to Prosper* report, commissioned by the Property Council, found the Australian economy could gain up to 39,200 additional jobs and almost $5.6 billion in added value over the forward estimates if key planning reforms were adopted. See report attached.

In the meantime, very little has improved about the urban dimension to productivity in one of the most urbanised nations in the world. State planning systems are generally getting more and more complex, with some exceptions, and are increasingly politically vulnerable to those exploiting NIMBYism and even xenophobia.

Likewise there is no institutional framework to foster best practice planning. In fact, with the move to a 'National Cabinet' model the willingness of States to 'go it alone' on regulation has been on full display during the pandemic.

There is low commitment to achieving regulatory and policy consistency. Weak institutional processes and temporary political advantage sometimes encourages governments to act against the interests other states and business. This is a strong handbrake on future productivity.

[1] https://advocacy.propertycouncil.com.au/great-cities-advocacy-priorities

In proposing the Productivity Commission revisit the theme of 'well functioning cities' from the previous five yearly review (term of reference seven) we will also broadly touch on the other six terms of reference.[2]

As you yourself have succinctly defined the concept,

'In broad terms, [productivity] comes through fostering flexibility so that labour and capital can move easily across industries and firms, by having even-handed policy settings that avoid locking in an inefficient or just a rigid allocation of resources, having strong credible public institutions to set the rules of the game and deliver public goods efficiently, creating the right incentives for innovation and risk taking and boosting the capability of the workforce through general education and targeted skill formation as well as physical and mental health…

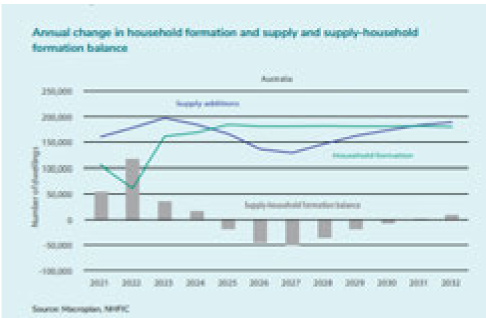
Productivity growth is ultimately about living standards, broadly conceived. In other words, better outcomes at lower overall cost to the community.'[3]

The efficient deployment of labour and investments in the built environment across the country, across our cities, industries and firms is thwarted by Australia's low productivity planning systems. State planning systems are a 'spaghetti bowl'[4] not properly tuned to their role as enablers of liveability, connectivity, mobility and job creation across geographic areas. State planning systems are inefficiently taxed and neither designed or administered with a culture of meeting community demand for well-planned cities, including least-input cost housing supply, that are highly commercially productive and support the maximum possible number of jobs.

The Victorian Planning Authority is a notable exception.

What is the scale of the urban productivity challenge for our cities?

The latest report by the National Housing Finance and Investment Commission (NHFIC)[5] notes growth corridors housing supply is currently at crisis levels in NSW and Queensland. The NHFIC report also reveals that between 2025 and 2032, Australia will find itself 163,400 homes short of demand.[6]

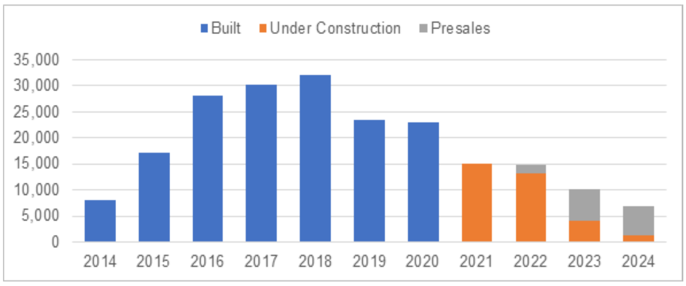


[2] *1. Analyse Australia's productivity performance in both the market and non-market sectors, including an assessment of the settings for productive investment in human and physical capital and how they can be improved to lift productivity.*
2. Identify forces shaping Australia's productivity challenge as a result of the COVID-19 pandemic and policy response.
3. Consider the opportunities created for improvements in productivity as a result of Australia's COVID-19 experience, especially through changes in Australia's labour markets, delivery of services (including retail, health and education) and digital adoption.
4. Identify priority sectors for reform (including but not limited to data and digital innovation and workforce skills) and benchmark Australian priority sectors against international comparators to quantify the required improvement.
5. Examine the factors that may have affected productivity growth, including domestic and global factors and an assessment of the impact of major policy changes, if relevant.
6. Prioritise and quantify the benefit of potential policy changes to improve Australian economic performance and the wellbeing of Australians by supporting greater productivity growth to set out a roadmap for reform.
7. Revisit key recommendations and themes from the previous five yearly review in light of the above, where relevant.
Received by the Productivity Commission from Treasurer Frydenberg, 7 February 2022

[3] Productivity Chair, Speech to CEDA 8 June 2021
[4] https://www.aph.gov.au/Parliamentary_Business/Committees/House/Tax_and_Revenue/Housingaffordability/Report
[5] https://www.nhfic.gov.au/media/1814/nhfic-state-of-the-nations-housing-2021-22-full-final.pdf
[6] https://www.nhfic.gov.au/media/1814/nhfic-state-of-the-nations-housing-2021-22-full-final.pdf

At the same time, capital city apartment shortages loom by 2024.

Urbis research for the Property Council *Jobs and Homes – Australia's looming apartment supply crunch and how to fix it*, page 5, from October 2021, shows 2024 capital city apartment supply will shrink to 21 per cent as against 2018, at the same time as net overseas migration hopefully starts to return to pre-pandemic levels.



Apartment developments typically take between three to five years to come to market from approval to completion, meaning that Australia will continue to have a long lag in supply of high-density housing unless approvals are increased now. This is a looming problem that will further highlight the lack land supply for detached housing.

HomeBuilder and similar state programs helpfully boosted detached housing approvals, however the relatively short eligibility time frames meant these governments' stimuli enhanced detached housing supply pipelines but did not create the momentum for new investment in apartments.

In the meantime our Urbis research shows that without immediate investment in apartments, Australia risks:

- Losing nearly $6bn in construction value;
- Losing up to 30,000 construction jobs over the next three years; and
- Undersupply and so price escalation when international migration recommences.

The solutions include providing relief from foreign buyer surcharges, accelerating planning approvals, extending off-the-plan apartment stamp duty concessions, and removing land tax barriers to Build-to-Rent projects.

They also include providing adequately zoned city and suburban land which is part of the larger supply equation.

Sydney planning productivity in the spotlight

Sydney's planning system consistently has the poorest housing supply and price outcomes in Australia, by the Government's own measures, despite the genuine good intentions of many state and local decision-makers in the planning system.

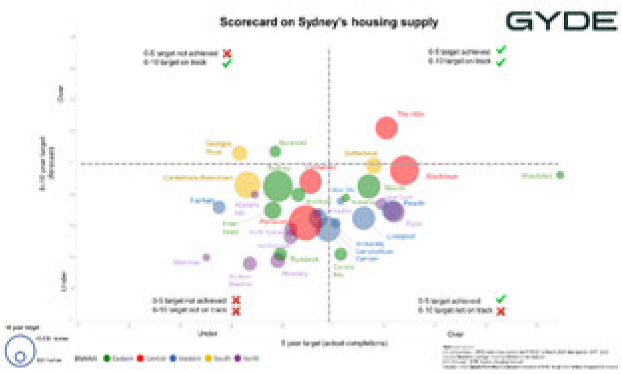
The Greater Sydney Region Plan, *A Metropolis of Three Cities*, identified the need for an additional 725,000 new dwellings over the 20 years to 2036, allocated across five districts (Greater Sydney Commission, 2018a).

To meet the dwelling need for the first five years, councils and the Greater Sydney Commission agreed on an allocation of '0–5 year' targets reflecting the existing housing construction pipeline.

At the request of the Property Council, Gyde consulting used the NSW Planning Department's own housing supply data to track how each Sydney council was progressing towards achieving the 0-5 year and 6-10 year housing targets identified in the Greater Sydney Commission's Regional and District Plans.

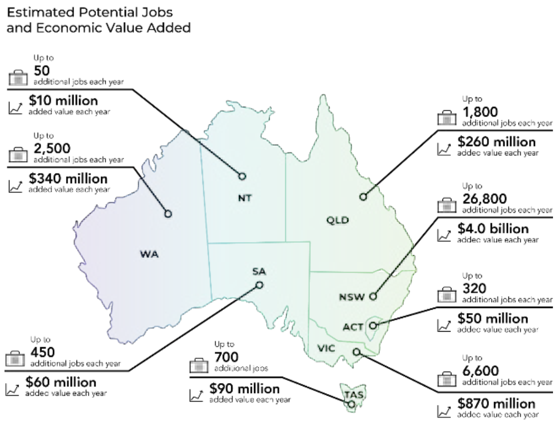
The graph below shows that only one council – The Hills – is set to achieve their targets. The vast majority of councils will fail to deliver both their 0-5 year and 6-10 year housing targets, with some achieving their 0-5 year target but failing to deliver their 6-10 year housing requirement.

All this delay adds to the cost of new housing: higher land holding costs, higher labour costs and inefficiencies in project delivery are all eventually passed on to the home buyer.



Pursuing the national city productivity dividend

The Property Council Urbis research, graphic summary below and report attached, found that there were three strategic reform areas that would help city productivity across Australia.



1. Transparent and rapid processes around re-zonings. This includes ensuring local governments are accountable for helping the state meet its housing needs. Rezonings are a major pain point on the urban fringe and for delivering housing in areas close to transport where the strongest benefits in liveability and urban productivity are available.

2. Accountability for inter-agency referrals, especially decision-making timeframes.

3. Ensuring simple proposals undergo simple assessment processes including 'complying development' and private certification pathways, to accelerate approvals and release capacity within consent authorities to assess non-complying developments.

Equally, as first proposed in the 2016 Property Council Deloitte report *A Federal Incentives Model for Housing Supply*, undertaken by Professor Ian Harper AO, National Competition Policy-style supply and housing incentives could boost state housing supply and spur state housing production within three years.

> *"A similar scorecard would be developed for each State at the commencement of the framework, potentially with weighting of the metrics determined in collaboration with each State to reflect the focus of reforms and current perceived problems. An annual scorecard comparing the States across consistent metrics would be created to provide comparability and establish best practice outcomes chosen."* See report attached.

The DAE Report goes into some detail about practical metrics but ultimately a contemporary process would need to be negotiated.

NHFIC, Commonwealth Treasury, the Productivity Commission, states and local governments, industry and Community Housing Providers would establish delivery metrics and incentives.

Federal demographic and population forecasts would form the basis of discussions on performance metrics for:

- Strategic state plans that include housing targets;
- The translation of these strategic objectives into statutory planning frameworks, with more streamlined planning systems that provide state and local agencies with the tools required to deliver on housing targets in a timely and efficient manner, so that housing can be delivered at lower cost;
- The nature of the housing targets themselves, including the type, number, location and the relative affordability of the housing supply; and
- Other important features of housing, such as density and access to infrastructure.

Overall 'dashboards' of metrics would be agreed between the Commonwealth and the States, reflecting both national and state-specific metrics.

Data measurement, collection and reporting would form part of any agreement, as would the framework for tying payments to the specific metrics.

As the Harper Report points out, see table excerpted from the attached report overpage, the benefits from incentives that would drive real reform accrue to all governments.

Table 6.1: Example benefits and costs accruing to different tiers of government

	Federal	State	Local
Benefits			
GDP growth and income tax revenue	✓✓		
GST revenue uplift		✓	
Other property taxes		✓	✓
Planning efficiency		✓	✓
Labour force participation and supply	✓	✓	
Liveability	✓	✓	✓
Costs			
Infrastructure	✓	✓	✓
Political risk in implementing planning reform (e.g. for high density)		✓	✓

The Harper Report identifies four main reasons National Competition style payments for reform and delivery will be good for the nation,

> *"First, housing supply directly relates to a number of issues relevant at the Commonwealth level, such as migration, population growth, infrastructure and economic growth.*
>
> *Second, the efficiency of the planning systems in Australia is a national economic issue. Many housing developments are delivered by businesses that operate across jurisdictional boundaries, so reducing complexity becomes important.*
>
> *Third, the benefits associated with improved housing affordability with respect to increased GDP growth and tax revenue collections are likely to be primarily realised at the federal rather than the state or local level. In contrast, many of the changes to be implemented and the costs to be incurred will fall on State and Local Governments. As such, an incentives framework represents a means to rebalance the flow of benefits.*
>
> *And finally, the Federation is rarely negotiated . . . and this could provide a good opportunity to coordinate intergovernmental policy action to improve land supply and housing affordability in Australia."*

Support for incentives was the general position of the majority report of the House of Representatives Standing Committee on Tax and Revenue '*Inquiry into the contribution of tax and regulation on housing affordability and supply in Australia*,' chaired by Jason Falinski MP and published 18 March 2022.

Of significance, the ALP dissenting report delivers a damning report card for our national planning and cities productivity,

> *'…the historical approach to regulation, planning, funding etc has led to a spaghetti bowl of costs, taxes, rental subsidies, regulatory delays, planning failure, shared across three levels of Government in a system which is arguably not fit for purpose now, that is a major flaw.'*

At the same time the Falinksi Inquiry Report proposes a number of clear solutions.

The Report proposes five key national city productivity-enhancers, among other important recommendations,

- '…the Australian Government should provide **financial assistance to state and local governments to encourage better planning policy and administration** of that policy… A good model is the National Competition Policy, which made payments averaging about $600 million a year from 1997-98 and 2005-06.'

- **'The Australian Government should reward better outcomes with grants for those states or localities that deliver more affordable housing.** Grants could be in the form of cash or infrastructure.'

- 'The Committee recommends that the **Australian Government, led by the Department of the Treasury, implement schemes to facilitate partnership with the private sector to deliver discount-to-market rent-to-own affordable housing.'**

- ‘The Committee recommends that the Australian Government **work with the states and territories to increase the consistency and transparency of developer contributions across the nation**, and to ensure that such contributions are only used to fund useful, value adding infrastructure that is genuinely essential for the development on which they are levied.’

- ‘The evidence the Committee has heard suggests that build-to-rent housing would provide consumers more choice and has the potential to increase security of tenure. As a result, the Committee recommends that **the Australian Government, led by the Department of the Treasury, conduct a review into the build-to-rent housing market and how it is affected by progressive land tax and other tax and regulatory settings.**’

We back these recommendations strongly and taken together, they would help the planning and delivery of all property asset classes in our cities and towns and, most importantly, housing.

This is essential to liveability, mobility and therefore access to opportunity for the overwhelming majority of Australians who live in our cities and towns.

Of particular note, the overall productivity of planning systems is essential to drive downward pressure on the cost of producing all homes, social, affordable and at-market, to-buy and to-rent. In turn, access to affordable housing helps improve longer term indicators of quality of life across society including intergenerational equity and, ultimately, social cohesion.

In his 2018 review of NHFIC[7] Chris Leptos AM noted that meeting the shortfall in social and affordable housing would require $290 billion over a two-decade period. Though the vast deficit of Social housing is a multi-decade responsibility that falls squarely at the feet of successive Federal and State governments, the increasing sophistication of capital markets and not-for-profit housing providers is creating new options for non-government involvement in creating more homes closer to educational and employment opportunities.

A new role for the private and not-for-profit sector in city and housing productivity – The NAHA

The Property Council is a member of the National Affordable Housing Alliance (NAHA). Chaired by Rod Fehring, the Alliance’s other core members include the Australian Council of Trade Unions, the Australian Council of Social Service, the Community Housing Industry Association, Industry Super Australia, Homelessness Australia, the Housing Industry Association, Master Builders Australia and National Shelter.

The NAHA has put forward a number of effective, apolitical policy options that could be adopted individually, or preferably together, to create a pipeline of new affordable and social housing at scale by leveraging non-government sources of capital. The goal is to develop an ongoing viable capability and create a framework that will attract investors and new sources of capital. These options will also assist in enhancing capability in the community housing sector and allowing the construction industry to forward-plan delivery.

If implemented by the Federal Government, it is estimated the NAHA policy options could deliver 11,150 to 14,950 additional social and affordable homes per annum on top of the new supply already being created by state and territory governments through separate initiatives. See attached paper.

[7] Report - Review of the operations of the NHFIC Act (treasury.gov.au)

The NAHA advocates four initial core policies:

1. Implementing a Housing Capital Aggregator supported by refundable Affordable Housing Tax Offsets to incentivise and crowd in institutional investment in new social and affordable housing supply.

   The Commonwealth would first support a market for institutional capital investment in new construction by introducing a refundable Affordable Housing Tax Offset (AHTO), a ten-year term annual refundable tax offset. The Commonwealth would also establish a Capital Aggregator (preferably through an existing entity such as NHFIC) that operates as an interface between institutional investors and project proponents, assisting crowding in of private sector capital for new social and affordable housing supply in exchange for allocated AHTOs.

2. Establishing a Social and Affordable Housing Future Fund with an initial $20 billion in funds under management to close the social and affordable housing funding gap.

   Annual dividends from a Social and Affordable Housing Future Fund could be administered by NHFIC and used to bridge the social and affordable housing funding gaps in two ways, either individually or a combination of, providing: 1. upfront capital grants for new projects 2. ongoing annual availability payments on eligible dwellings.

   The Fund could also be used to increase state and territory governments' social housing investment. For example, NHFIC could allocate funds via a reverse auction thereby encouraging competitive federalism.

3. Activating Affordable Build-to-Rent housing as a vehicle to deliver additional social and affordable housing. Build-to-Rent housing is purpose-built to give people longer-term rental options, a high level of on-site services and amenities and flexible leases that are centrally and professionally managed, often with onsite support.

   This nascent sector has the potential to deliver affordable rental accommodation at scale, in high amenity locations and within apartment complexes that provide superior community services. It is well established across the Northern Hemisphere.

   To incentivise investment, a withholding tax rate of 10% should be applied to the affordable housing components of Build-to-Rent projects held within an MIT. This will facilitate the inclusion of affordable dwellings as part of these new projects.

   At the state and territory level, land tax concessions are also needed to ensure affordable rental housing does not pay commercial property levels of land tax (which would result in returns being insufficient to warrant investment).

4. Enhancing state and territory-based planning and development contributions legislation to prioritise up to 1% of infrastructure contributions and levies to be aggregated and channelled into social and affordable housing provision consistent with state and territory housing policies across Australia.

   Re-prioritising the allocation of 1% of new infrastructure and development contributions made by the private sector towards social and affordable housing initiatives could channel an annual additional capital contribution of $53 million to match state, territory and federal government contributions without impacting existing private housing supply or adding to house cost escalation.

In parallel with these policies, NAHA is also seeking a commitment to the development of an integrated database that tracks the delivery of social and affordable housing delivery at a national and regional level to ensure that capital is deployed where need is greatest.

Of the total net new additional supply created by the application of this policy suite, NAHA' s position is that a minimum of 25% be dedicated to addressing the needs of the most vulnerable households as social housing with rents capped below 30% of household income.

The Alliance is seeking to work with all levels of government and has proposed establishing a joint federal, state and territory government taskforce in partnership with NAHA to progress the development and implementation of the recommended policy suite.

Conclusion

Thank you for this opportunity to contribute to the first phase of this Inquiry.

Australia is a small but perfectly formed powerhouse that has been built by, and continues to benefit from, mobile global talent flows and welcome overseas investment in our cities and towns.

Our future success will be the ongoing success of our key growth engines, our cities and towns.

The Property Council's core recommendation is for the Commission to again elevate the future productivity of Australian cities and towns in the minds of government decision-makers at all levels.

We look forward to the opportunity to engaging further during the public consultation process.

Yours sincerely,

Ken Morrison
Chief Executive