2017/18 Pre-Budget Submission

Prepared by the Urban Development Institute of Australia (UDIA)

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Contents

EXECUTIVE SUMMARY

The Urban Development Institute of Australia (UDIA) is a national body representing the interests of more than 2,000 development companies across the country and promoting responsible growth of our cities. UDIA welcomes the opportunity to provide a pre-budget submission to Treasury.

Throughout 2016, the Commonwealth has become much more assertive in cities policy. While in the past, the Commonwealth budget has had little direct impact on cities, the Smart Cities Plan, City Deals and the Government's focus on Value Capture has meant real changes in this area of policy. The Smart Cities Plan, City Deals and Value Capture will have a material impact on ensuring our cities are liveable, affordable and connected.

Value Capture will make an important contribution to infrastructure funding, and UDIA will be responding separately to the Commonwealth's discussion paper *Using Value Capture To Help Deliver Major Land Transport Infrastructure.* However, the current interest rate environment, along with low wages growth and the state of the economy in some parts of Australia, suggest that the Commonwealth should be borrowing large amounts to invest in much-needed infrastructure. The Government has an opportunity to shape cities through mass infrastructure investment in transport, health care, child care, education and housing.

UDIA does not suggest that the Government invest in uneconomic infrastructure. Project selection should remain rigorous to ensure it is well targeted and not wasteful. In this respect, the Commonwealth should invest in areas with the highest growth impacts in the longer term. Responsible public policy should be at the forefront of all considerations.

There are some threshold public policy issues covered in the UDIA submission that require consideration.

1. RETAIN THE CURRENT NEGATIVE GEARING AND CAPITAL GAINS REGIMES

Negative Gearing and capital gains tax need to be recognised as a perfectly rational economic policy instrument that work in tandem. Negative gearing is applied to assets that deliver long term capital growth and low short term yields. In the case of residential property investments, Negative Gearing allows an investor to support the low short term yields with preferred tax treatment. However, on disposal of the asset and realisation of profit, UDIA Macroplan modelling (completed in March 2015 and attached) demonstrates that capital gains tax claws back all of that yield support and delivers a surplus to the Federal Budget of between $43,897 to $71,699 on a median priced home depending on the investor's income tax rate. Changes to negative gearing will have a significant impact on investment decision making, reducing new supply and in turn deepening the housing supply and affordability crisis.

2. ENSURE "VALUE CAPTURE" POLICIES ARE NOT JUST ANOTHER UPFRONT TAX OR LEVY ON NEW HOUSING THAT EFFECTIVELY INCREASE THE PRICE OF NEW HOUSING AND DEEPEN THE AFFORDABILITY CRISIS.

The way that "Value Capture"(VC) is being promoted by some areas of Government is of major concern, but implemented properly, VC could enhance the way our cities are developed especially around transport oriented developments. If specifically linked to value creation and all beneficiaries of VC are defined to contribute, VC may be a boon to infrastructure investment and improve the standard of living in Australia. However, if it is not applied in this manner or if it is overpriced, it could have the unintended consequence of impeding or stopping development around infrastructure, therefore exacerbating the supply and affordability of new infrastructure and housing. If development does not proceed, then VC mechanisms will not be successful in raising funds for infrastructure.

3. USE THE COMMONWEALTH BALANCE SHEET TO INVEST IN TRANSPORT, HEALTH CARE, CHILD CARE, EDUCATION AND HOUSING

The current interest rate environment, along with low wages growth and a slowing economy, mean that it is imperative for the Government to use its balance sheet to invest in economically viable projects. It is unlikely that there will be a better time to invest in much needed infrastructure.

4. FULLY FUND AND QUICKLY IMPLEMENT THE SMART CITIES PLAN

The Commonwealth Government has had a major foray into Cities Policy in 2016 with the launch of the Smart Cities Plan (SCP), which has the opportunity to influence the development of cities. The Commonwealth also has the ability, through the SCP, to use competition payments to encourage the States and Territories to progress critical planning reforms to improve planning productivity, infrastructure strategies and the delivery of new housing. Additionally, the Federal Government needs to use the SCP to incentivise the delivery of other strategic planning outcomes, like bringing jobs (or access to them) closer to housing and the concept of the “30-minute city”.

5. REMEDY THE UNINTENDED EFFECTS OF BASEL III ON HOUSING AFFORDABILITY

Changes to prudential requirements introduced by APRA in December 2014 have forced banks to increase their capital adequacy ratios. This has cut available finance to both purchasers and developer borrowers, despite there having been no marked increase in the level of defaults. The more risk there is in the market that a sale of a house won’t settle, or that a development can’t get off the ground due to lack of funding, the fewer new dwellings are built and the more the housing supply and affordability crisis deepens.

6. USE COMMONWEALTH RESOURCES AND POWERS TO DISINCENTIVISE STATE’S WHO IMPLEMENT POPULIST FOREIGN BUYER AND DEVELOPER TAXES & SURGCHARGES

The Victorian, Queensland and New South Wales State Governments’ have introduced populist and short term thinking policies and penalties on foreign purchasers and developers, such as foreign buyer stamp duty surcharges and foreign owner land tax surcharges. In NSW these surcharges also apply to developers acquiring sites for development which effectively undermines the level of supply and competition in the market. These measures will only damage foreign investment into the housing market which is critical to increasing supply and solving the housing affordability crisis in the longer term. The Commonwealth should use its competition payment leverage to disincentivise States that impose these anti-competitive and closed market measures or seek to implement Federal powers to either abolish or align the foreign buyer’s taxes to ensure a continued supply of housing and to stimulate open market competition among buyers and developers.

7. PROMOTE STRATEGIC PLANNING, INFRASTUCTURE PLANNING AND DELIVERY PRODUCTIVITY TO MEET ENEVITABLE POPULATION GROWTH

Given the inevitability of the long-term population forecasts (~15m people over next 30 years), Australian Governments of all levels must ensure that the economic and higher standard of living opportunities that population growth presents are fully realised and that the required supply of housing, community, employment and retail lands is strategically planned. The Commonwealth Government should identify the base level of service expected for key elements of liveability: affordability, congestion, environment, business investment, to accommodate a larger population and incentivise States and Territories who pro-actively plan for this growth and deliver the highest levels of productivity for the delivery of the required growth (not just re-zonings).

8. MAINTAIN ENVIRONMENTAL PROTECTIONS AND IMPROVE ENVIRONMENTAL ASSESSMENTS

The environment is critical to the amenity and liveability of our cities. The *Environmental and Biodiversity Protection Act* is the Commonwealth's major policy instrument to protect urban environments. Offset regimes between Commonwealth and State Governments are also markedly different and confusing. UDIA encourages the Commonwealth to continue to negotiate bilateral agreements with the States and Territories to remove unnecessary red tape while maintaining the integrity of the EPBC Act. This is critical for investment certainty, development productivity and housing affordability.

9. USE THE SMART CITIES AND SUBURBS AGENDA TO PROMOTE INNOVATION IN CITIES AND REGIONAL AREAS

One of the most important issues confronting cities at the moment is innovation and exponential growth in technology. Most States have planning systems that haven't been updated since the last man walked on the moon. Further, there are now affordable technological solutions to deliver sustainable outcomes to cities and especially homes. Solar panels, batteries and new design technologies can deliver off the grid housing with three phase power. Off-grid water and sewer innovations are constantly undermined by conservative and anti-competitive regulation and the protection of incumbent utility provider monopolies. The NBN and driverless cars hold out the hope of reducing the number of people who need to be on our roads and the way in which our roads are used. The Commonwealth's Smart Cities and Suburbs Agenda, part of the Smart Cities Plan, should implement policies and programmes to promote innovation in our cities, regional centres and towns. These policies need to address road blocks from out of date regulation and Government's supporting the sustaining of monopolistic and inefficient existing Government and privatised utilities.

UDIA looks forward to further discussing these issues and opportunities with the Commonwealth Treasury and the Government. The following submission provides more detailed recommendations and analysis of the public policy issues.

1. INTRODUCTION

The Urban Development Institute of Australia (UDIA) welcomes the opportunity to provide this Pre-Budget Submission to the Treasury.

The Commonwealth Budget touches on all areas of policy relating to urban development.

In coming to the 2017-18 Budget, the Government has suggested that it will retain a commitment to deficit reduction while supporting economic growth to lift revenues. UDIA recommends policies that support development, which will assist the Government in achieving this goal.

As a means to achieving a prosperous Australian economy and a sustainable federal Budget, we urge the Government to consider the recommendations put forward in this pre-budget submission.

2. A STRONG ECONOMY

2.1. Industry Contribution to the Economy

UDIA commissioned Property Insights to undertake an economic impact study of the property development industry in Australia. The study confirmed the sector's significant influence on the Australian economy, as evidenced by the below findings:

- The direct impact of $1 million invested in the property development industry results in:
    - 6.7 full-time equivalent jobs generated in the property development industry;
    - State and federal taxes increasing by $73,458;and
    - An addition of $235,733 to wages and salaries.
- The total (direct and indirect) impact of the $1 million invested in Australia generates:
    - 11.8 full-time equivalent jobs;
    - State and federal taxes of $146,474;and
    - An addition of $885,880 to wages and salaries.
- An investment of $1 billion in the development industry in each state would directly add 0.4% to nominal GDP, while a further 0.3% would be added to nominal GDP as a result of the impact on associated industries.

2.2. How supporting the development industry can lead to a stronger economy

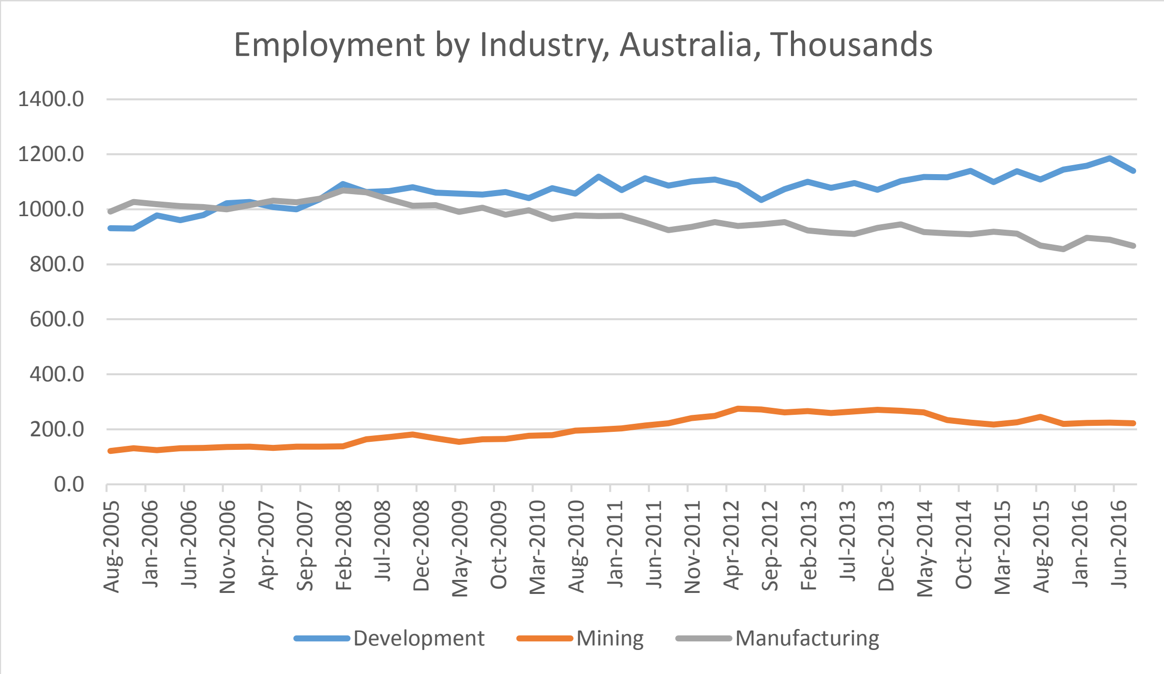
Expenditure and tax policies that enhance, rather than punish, new home buyers and the development industry that provides them, should be a priority for Government. Commonwealth, state and local policies have exacerbated the chronic undersupply of housing, which is causing prices to climb higher and higher in our largest cities, and, if not resolved, threatens Australia's social cohesion and egalitarian society. Undersupply of housing in well-serviced locations also contributes to congestion, which in turn lowers Australia's productivity and economic potential. Getting housing right means getting the economy right, and getting the economy right means getting housing right.

Notwithstanding the industry's concerns over the high burden of taxation that new home buyers face, by supporting growth of new housing through the Commonwealth Budget, the Government will also increase the tax base, and thereby increase its revenue at a time when new revenue sources are difficult to implement and the end of the mining boom has affected tax receipts from that sector.

The development industry is also one of the powerhouses of employment generation. When the development industry is able to fulfil the demand that is asked of it, employment in the industry, related industries, and economy-wide, will grow rapidly. As can be seen in Chart 1, the development industry[1] has almost 6 times the employment of the mining industry and nearly one-and-a-half times the employment of manufacturing in Australia. Indeed, mining has never been a major employer, only having ever broken through 200,000 total employees since 2010. In contrast, the development industry employs well over a million people, with 1,139,500 employed in the industry in August 2016, an increase of 2.9 per cent from the same time in 2015.

[1] The "development industry" is define as "building construction", "construction services", "construction nfd" and "property operators and real estate services" in ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly

Chart 1 – Employment in Selected Industries



Source: ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 06. Employed persons by Industry sub-division of main job (ANZSIC) and Sex

2.3. How supporting the development industry can lead to high productivity

In a speech in November 2013, Deputy Governor of the Reserve Bank of Australia, Philip Lowe, spoke of the productivity benefits that come from people having greater access to jobs, goods, services, education and leisure opportunities through better transport networks. Building homes closer to jobs and/or closer to transport connections to those jobs, will enhance Australia's productivity through what are sometimes called "agglomeration" effects.

As people get closer to jobs, goods and services markets, competition, innovation and specialisation is promoted.

Over the medium term, poor transport links can drive the cost of housing up. Where there is a shortage of well-located land, the price of this land (and the houses that sit upon it) is driven up. By ensuring that there is a wider geographic spread of land close to good transport links means greater choice for consumers in where to live, at more affordable prices.

In addition, it has been shown that long commutes can affect workers' mental and physical health, making them both less productive workers, but also potentially causing harm.

Governments can increase the productive capacity of the economy by increasing the supply and diversity of well-located homes through removing planning and zoning restrictions that limit the potential to increase supply in these areas. In doing so, it will move people closer to where they want to be, reduce congestion (which has the further effect of reducing the costs of moving goods and services around our cities) and thereby increase productivity and lower the costs of housing and doing business.

3. TAX

3.1. Negative Gearing and Capital Gains Tax

Negative gearing and capital gains tax – which should be seen as a suite of tax measures – became a heated issue during the 2016 election campaign. Some political parties called for it to be restricted or abolished. UDIA considers that negative gearing and the 50 per cent discount on capital gains tax are a fundamental economic policy instrument in the Australian housing model.

The Australian 'housing model' dictates a major role for privately owned rental property to service a wide range of lower, medium and high income households. Australia is unlike many countries where significant public funding, of not only social housing, but also low income housing occurs. Funding for social housing in Australia has declined in comparative terms over the past 30 years. The Australian housing model relies on negative gearing and capital gains tax as an incentive for private investment in rental housing, with rental housing subsidies where appropriate. The negative gearing/capital gains tax treatments of rental housing fulfils a major public policy role in Australia because it generates the supply of rental housing essential for housing a fast-growing population. The negative gearing/capital gains tax framework has been essential to increase the supply of rental housing.

Negative Gearing and capital gains tax need to be recognised as a perfectly rational economic policy instrument that work in tandem. Negative gearing is applied to assets that deliver long term capital growth and low short term yields. In the case of residential property investments, Negative Gearing allows an investor to support the low short term yields with preferred tax treatment. However, on disposal of the asset and realisation of profit, UDIA Macroplan modelling (completed in March 2015 and attached) demonstrates that capital gains tax claws back all of that yield support and delivers a surplus to the Federal Budget of between $43,897 to $71,699 on a median priced home depending on the investor's income tax rate. Changes to negative gearing will have a significant impact on investment decision making, reducing new supply and in turn deepening the housing supply and affordability crisis.

The existing negative gearing and capital gains tax arrangements have been long established in Australia's property market, and any modifications would create inconsistencies in the tax treatment of different asset types and additional tax system complexity. It would also cause a reduction in the level of investment in residential property which would result in a decline in the supply of new dwellings, less activity in the development and construction industries, lower government revenue from housing related taxes and a deepening of the housing affordability crisis.

Given the importance of new housing development and construction to the Australian economy, particularly in the current context of slowing mining investment, lower levels of new housing investment would be a highly undesirable outcome.

The fundamental cause of poor housing affordability in Australia is insufficient new housing supply, and as such, efforts by the Government aimed at improving affordability are better placed in addressing supply side constraints.

Recommendation

3.1.1 Existing tax arrangements in relation to negative gearing and the capital gains tax should not be changed, to maintain tax consistency and support investment in the property industry.

3.2. Commonwealth Support for Changes to State Taxes

UDIA supports ongoing moves towards tax reform in certain areas. UDIA's top priority for reform is stamp duty on property, which is one of Australia's most highly inefficient and economically distorting taxes as it limits labour mobility, housing turnover, and penalises households for moving to properties that best suit their needs. It is also a highly unreliable source of revenue for state governments, as they rely on the volume of property transactions, which vary substantially over the property cycle.

Recommendations

3.1.1 Improve liveability and housing affordability by reducing the reliance of Governments on high and inefficient taxes on new construction, such as stamp duty and developer levies, in favour of more efficient taxes such as land tax.

3.2.2 Governments should avoid revenue raising through the application of up front developer charges, and should seek to fund infrastructure through recurring charges directly related to specific infrastructure investment, over extended time frames.

3.2.3 Governments should commit to broadening the base and reducing the rate of land tax regimes, as an efficient way to raise revenue and reduce reliance on up front developer charges.

3.2.4 Governments should ensure land taxes apply per land holding, not on an aggregate basis, in order to promote large scale land development.

4. VALUE CAPTURE

The Minister for Urban Infrastructure and the Assistant Minister for Cities have called for submissions in response to a discussion paper on value capture. Submissions are due on 3 February 2017. UDIA will be making a submission, which should be seen as an addendum to this submission when it is lodged.

While the concept of value capture has been around for a long time – more so in other jurisdictions than Australia – it has recently come to prominence with all levels of Government. Governments are viewing it as a way to offset the rising costs of infrastructure. Property developers have general misgivings because they see the potential for additional taxes being placed on an industry that is already very heavily taxed.

The main concern currently is that there is a lack of understanding about the history of value capture and a contemporary definition of the term. What has arisen is a great deal of policy uncertainty and revenue opportunism that, together have the potential to stifle investment viability and decision making.

However, unpacking the concept of "value capture" leads to complications. The issue of value and the interaction of time, geography and new developments near a parcel of land make valuation of land, both before and after the building of new infrastructure problematic. Valuing the "windfall" gain, identifying the valuation base data to use, isolating the beneficiaries, and ensuring equity will be difficult.

There are many methods that can be used to capture the value that accrues when new infrastructure is built. The most problematic value capture mechanisms will be those that seek to reappropriate to the government some of the "windfall" gains that accrue to private land owners, to fund the infrastructure. It is likely that capturing the "windfall" gain that accrues with new infrastructure will be very difficult in practice, and the UDIA cautions, therefore, that governments should look to mechanisms that indirectly capture the value uplift. Further, where governments are looking to capture the "windfall" gains via a direct mechanism, it should be set out in a City Deal-type contract that ensures the acknowledgement of all contributions and the opportunity for "earn back" or an investment return.

"Direct" value capture occurs where the government takes a percentage or fixed dollar amount of the value uplift of land that would otherwise be a "windfall" for the private sector. "Indirect" methods of value capture are those that do not skim a portion of the "windfall" gain, but rather rely on:

- the increase in the tax base that comes from the increase in the value of the land;
- the increase in the value of government land; or
- the reward that comes through private sector risk-taking to build infrastructure.

UDIA considers that value capture can only work where there is a rate of return attached to what is being funded. Without a rate of return, it is likely that measures will be "value capture" in name only and will really just be new levies. The following are typical examples of "value capture":

- collateralisation of future revenues or tax increment financing
- sale or development rights over Government owned lands
- private infrastructure delivery agreements
- asset recycling

UDIA considers that taxes, charges and levies based only on land use changes should not be included in the definition of “value capture”. Pure planning gain (change of land use without accompanying infrastructure investment) is a “betterment tax” and should not be seen as value capture. Planning gain relates to a pure zoning or regulatory change, not a private gain created by a public investment in infrastructure. The important point is that the only time master planning or rezoning should be included in value capture is when it is anchored with infrastructure investment that demonstrably adds value to private land.

There will be many occasions where “value capture” will not work. These include for infrastructure where the beneficiaries cannot be identified or the benefits are spread across a wide geographic area. City-wide special infrastructure levies are more appropriate here and should not be confused with the concept of “value capture”.

Not every value capture technique will be applicable for every infrastructure project. Before implementing a value capture mechanism for a project, the Government and the private sector will need to match the infrastructure project with the characteristics of the land where the project will be built to design the correct funding mechanism.

Recommendations

4.1.1 Governments should not impose, induce or encourage any new upfront development levies or charges for general infrastructure and move toward true value capture mechanisms

4.1.2 The following principles must be considered in designing a value capture mechanism:

a. additional value has been generated through government investment that increases the capacity for uses;
b. value is only captured from land owners when and where it is generated;
c. the proportion of value captured does not diminish the ability for value to be realised;
d. value is not captured after it has already been realised; and
e. value is not captured in full "up-front";

4.1.3 "Value Capture" is not:

a. an upfront tax, levy or charge for general infrastructure funding;
b. pure "planning gain" (betterment tax). "Value Capture" is separate in concept and implementation from new taxes, charges and levies; or
c. a mechanism to fund major trunk and social infrastructure. This is a clear responsibility for Government and should always be funded through general revenue.

4.1.4 Governments should consider the following as examples of "value capture":

- **Collateralisation of Future Revenues or Tax Increment Financing** – using future tax receipts growth from the incremental increase in property values in a declared area as a result of increased amenity brought about by new public infrastructure
- **Government Owned Lands** – where government has acquired land, or already owns land, that benefits from new infrastructure investment, it sells the lands surplus to that required for the infrastructure, for development, at a higher price due to the increased amenity that has or will be delivered
- **Private Infrastructure Delivery Agreements** – where the Government enters transparent development agreements, on government land, with the private sector, in exchange for the developer part or fully funding and delivering public infrastructure
- **Asset recycling** – where the government uses sales of its assets to the private sector to fund new infrastructure. The benefit, or "value" is that the government de-risks the asset in building it before selling it.

4.1.5 Government should recognise that value capture may not be a relevant infrastructure financing mechanism in certain circumstances

4.1.6 Governments should accept that value capture mechanisms will not fully fund new infrastructure in the majority of cases as the value gain may not be large enough to fund the infrastructure.

4.1.7 If the Commonwealth seeks to capture the uplift in value:

a. this must be done through a mechanism like a City Deal, in order to influence or control land use planning where new major land transport infrastructure is being built;
b. a rigorous and robust valuation methodology must be developed, in consultation with industry and stakeholders, to ensure that any increases in property prices, unrelated to the infrastructure is netted out; and
c. any value captured must be offset by any existing State or Regional infrastructure contributions.

5. USING THE COMMONWEALTH'S BALANCE SHEET TO INVEST IN INFRASTRUCTURE

Value capture is not the only means by which infrastructure can be funded. Purely public infrastructure, which has been found to be inappropriate for value capture, should be funded through the Commonwealth's balance sheet.

The current interest rate environment, along with low wages growth and a slowing economy, mean that it is imperative for the Government to use its balance sheet to invest in economically viable projects. It is unlikely that there will be a better time to invest.

While it is important that recurrent expenditure is met with current taxation, the government should strongly consider making investments in infrastructure that increase productivity, make the economy grow and lower the economy's cost base.

UDIA does not suggest that the Government invest in uneconomic infrastructure. Project selection should remain rigorous to ensure it is well targeted and not wasteful. In this respect, the Commonwealth should invest in areas with the highest growth impacts in the longer term. Responsible public policy should be at the forefront of all considerations.

Recommendations

5.1.1 Federal and state governments should provide more funding to local governments and relevant state agencies for the financing of local infrastructure.

5.1.2 All governments must commit to rigorous and comprehensive cost benefit analysis of major infrastructure projects, to ensure that Australia gets the right infrastructure, and taxpayers get value for money.

5.1.3 Governments should favour funding and financing approaches that spread the cost of infrastructure out over extended timeframes, rather than impose it upfront, such as through developer contributions.

6. CITIES

6.1. Cities and Urban Policy

UDIA welcomes the Turnbull government's commitment to cities and the built environment. It also welcomes the Smart Cities Plan and the recent announcements of benchmarking the performance of our cities and establishing a Cities Reference Group. UDIA calls on these initiatives to be fully funded so that they achieve what the government has set out for them.

As home to a majority of Australia's population and the source of over 80 per cent of GDP, Australia's major cities are critical to the prosperity of the Australian economy, and the quality of life of most Australians.

Central to the ability of our cities to act as world class places to live, work, and do business is their economic productivity, liveability, and sustainability. These factors have come under increasing strain in recent years, as a result of insufficient investment in urban infrastructure, poor planning, and inefficient taxation, in the face of strong population growth.

As discussed elsewhere in this submission, there is a critical role for the Commonwealth government to play, given its ability to provide funds directly, support innovative and alternative funding options, and ensure infrastructure projects are subject to rigorous selection criteria. With a clear entry point for industry into discussions about cities policy, and by benchmarking cities, not against each other but with world's best practice, we will be able to see where we are doing well and where our cities need to do better to become more, liveable, affordable and connected. By ensuring sufficient investment in the right type of urban infrastructure, the Government can measurably improve the productivity and quality of life in our cities.

Additionally, UDIA considers the Commonwealth Government has the ability to contribute to urban policy by providing leadership, assisting State Governments with reform through the use of financial incentives, by coordinating and facilitating action on urban policy between different levels of government and by using the Smart Cities Plan to incentivise strategic planning outcomes, like bringing jobs (or access to jobs) closer to housing and the concept of the "30-minute city".

The recently announced City Deal for Townsville should be built upon with new projects and a pipeline available for investors in this sort of instrument.

Recommendations

6.1.1 Ensure that the Smart Cities Plan is fully funded.

6.1.2 Ensure adequate investment in key urban transport infrastructure, including public transport, to ensure communities are well connected.

6.1.3 Implement a financial incentives scheme that links federal funding to state government performance on critical planning system reform, to improve planning productivity, infrastructure strategies and the delivery of new housing.

6.1.4 Build on the City Deals model and ensure a pipeline of investment opportunities.

6.2. Intergovernmental Relations

UDIA considers that housing and development industry issues are a matter of national importance, justifying federal involvement.

In the context of housing supply, the Commonwealth is responsible for population policy, foreign investment, macroeconomic policy, federal taxation, financial regulation and stability, and, through the Reserve Bank of Australia, monetary policy. State governments are responsible for infrastructure, planning, land supply, land tax and stamp duty. Local government is responsible for approvals, levies and rates.

Each level of Government faces different political incentives. For example, the Commonwealth (and to a lesser extent, the states) has an incentive to increase population growth as it benefits the economy in both the short-term and the long -term. However, local governments have a disincentive to accept growth, as it is politically unpopular (e.g. infill) or expensive to accomodate (new infrastructure). In effect, the Commonwealth does not pay for the issues it creates.

In addition, vertical fiscal imbalance means that state governments (and subsequently local governments) rely on the Commonwealth as a source of a majority of their funding. Therefore, the Commonwealth is already indirectly involved in almost every aspect of state government activity. This has created both overlaps and blind spots in the urban policy landscape.

UDIA considers that the federation should be reformed so that the Commonwealth government has responsibility for providing funding, coordination, major infrastructure investment and setting benchmarks.

The Commonwealth and the states should agree about their mutually exclusive responsibilities, and subsequent funding sources.

Recommendation

6.2.1 The Commonwealth and states should recognise housing and the development industry as matters of national importance and work together to reduce overlap and uncertainty.

6.3. Land supply

Releasing a steady stream of serviced land is a key to addressing Australia's housing supply and affordability challenges. The trend of declining levels of serviced land in most capital cities threatens future supply and has a severe negative impact on housing affordability. The inability to bring sufficient land to the market has direct consequences for the supply of housing in our cities.

While the barriers to supply vary from state to state, there are commonalities nationwide. For one, the roll out of infrastructure is delayed in most jurisdictions, and is holding up vast areas of developable land. In addition, planning approval processes throughout Australia are characterised by delays and uncertainty. Another common barrier in most jurisdictions is ever-increasing infrastructure charges or homebuyer levies, which are adding to the cost base of developments, and rendering many projects too expensive to pursue.

UDIA considers that all levels of government must work together to maintain a steady stream of urban land for development. In the context of continued population growth and household formation, it is essential that well-planned, sequenced land release programs are implemented in all jurisdictions throughout Australia. Future growth areas must be identified early in the planning process with a commitment to the provision of the appropriate infrastructure, particularly transport infrastructure, ahead of development.

Recommendations
6.3.1 Governments should establish a national strategic plan, requiring cities to maintain a specified rolling supply of development-ready land to meet demand driven by population growth.
6.3.2 Federal funding should be linked to state governments establishing comprehensive land-use plans which are aligned with detailed, costed infrastructure plans, and underpinned by delivery timeframes.
6.3.3 Governments should comply with the COAG Reform Council's criteria, stating that strategic planning systems are integrated across:
a) Functions, including land-use and transport planning, economic and infrastructure development, and environmental assessment and urban development
b) Government agencies.
6.3.4 Regularly audit Commonwealth owned land, including defence land, to determine if ongoing government possession is its best use, and if not, make it available for urban development.

6.4. Airport Planning

The Australian Standard AS2021-2000 and the Australian Noise Exposure Forecast (ANEF) system are the principal tools currently used for making planning decisions in the vicinity of airports. They have existed for over 30 years and have been adopted by planning authorities in most jurisdictions around Australia. They continue to provide developers, land owners, planning officials and airports with clear, consistent and predictable planning outcomes.

The approval and development of the new western Sydney airport at Badgerys Creek should not be used as a façade for introduction of additional noise metrics, particularly the introduction of noise metrics outside the existing ANEF20 contour.

UDIA remains deeply concerned by repeated attempts to undermine the ANEF system by introducing new and additional noise metrics. UDIA considers the introduction of the metrics outlined in the National Airports Safeguarding Framework and proposed by the Department of Infrastructure would unnecessarily sterilise vast tracts of land from development, and increase delays, complexity and uncertainty in the planning system for little benefit to the community. These concerns have also been supported by state and local governments.

The noise contours currently used in the ANEF system are based on research originally undertaken by Australia's National Acoustic Laboratories to establish acceptable levels of noise disturbance, and are a highly scientific and sound methodology. In contrast, the proposed noise metrics are subjectively defined and not based on any technical analysis.

UDIA strongly maintains the view that the existing ANEF system has been very effective in delivering good planning outcomes around airports, and continues to provide certainty and consistency in land use planning decisions across Australia.

Recommendation
6.4.1 The government should end ongoing attempts to introduce new noise metrics into the process for planning around airports, retaining AS2021-2000 and ANEF as the primary planning tools.

7. INVESTMENT

7.1. Changes to Prudential Requirements

The banking sector plays a pivotal role in the Australian property development industry. APRA has recently finalised the new liquidity requirements for banks to make the financial system as resilient as possible. As the banks have to pay for the capital they raise, this has had an effect on how much, and at what interest rate, banks can lend.

These changes to prudential requirements, introduced by APRA in December 2014 have, forced banks to increase their capital adequacy ratios, with banks being brought up to the level of non-banks, despite there having been no increase in the level, or risk, of defaults. This has cut available finance to both purchasers and developers and as a result, property settlements and new housing supply are now under considerable risk.

Many developers are finding it extremely difficult or even impossible to finance their new developments, even when they have a substantial track record in delivery and significant pre-sales. The more risk there is in the market that a sale won't settle, or that a development can't get off the ground, the fewer new dwellings are built and the more pressure on affordability. Supply is the most important long-term solution to housing affordability crisis.

Finance issues are exacerbated further by state governments' introduction of penalties on foreign purchasers, such as surcharges for foreigners on stamp duty and land tax.

Developers have begun to look to alternative funding, such as new wholesale funds (outside APRA's regulatory reach) and mezzanine funding (which can be at interest rates in excess of 20% per annum), which we consider may pose systemic risks to the financial system.

In addition, some banks are not providing adequate finance to purchasers at settlement on new apartments and new homes. When these settlements fail, the homes are subsequently sold at reduced prices, which has a potential contagion effect on values throughout a development, affecting all loan-to-value ratios and putting other settlements at risk.

Recommendation

7.1.1 The government should examine the effect of the new capital adequacy requirements on the supply and affordability of housing, and move immediately to remedy any unintended consequences.

8. FOREIGN INVESTMENT

The effects of changes to prudential requirements have been exacerbated even further by the Victorian, Queensland and New South Wales state governments' introduction of populist and short term thinking policies and penalties on foreign purchasers, such as foreign buyer stamp duty surcharges and foreign owner land tax surcharges. In NSW these surcharges also apply to developers acquiring sites for development which effectively undermines the level of supply and competition in the market. These measures will only damage foreign investment into the housing market which is critical to increasing supply and solving the housing affordability crisis in the longer term. The Commonwealth should use its competition payment leverage to disincentivise States that impose these anti-competitive and closed market measures or seek to implement Federal powers to either abolish or align the foreign buyer's taxes to ensure a continued supply of housing and to stimulate open market competition among buyers and developers.

Foreign investment has long been a key driver of economic growth and opportunity in Australia, creating jobs and enhancing productivity. In particular, the additional demand for dwellings created by foreign investors generates billions of dollars of economic activity and jobs in the construction and development industries, increases tax revenue at all levels of governments, and also adds to Australia's dwelling stock.

Concerns around Australia's foreign investment regime have focused on anecdotal claims that foreign investors may be leaving their homes vacant, and the impact that foreign investment may be having on the price of housing. The discussion has been muddied by the lack of reliable data on the extent of foreign investment into residential property.

UDIA remains fundamentally of the opinion that foreign investment into residential property should continue to be supported due to its role in stimulating Australia's housing and construction industries.

Foreign investment into new residential property also has the desirable outcome of adding to Australia's dwelling stock, and increasing the number of properties in the private rental pool. The existing foreign investment regime provides a sound framework for expanding Australia's housing stock, by restricting foreign investment into existing properties, and directing it into new supply. This is a particularly valuable outcome in the context of Australia's ongoing housing affordability problems.

UDIA considers that the underlying cause of Australia's housing supply and affordability problems continues to be supply side barriers to new land and housing supply. The solution is not to further restrict foreign investment, but for all levels of government to remove supply side constraints on housing to ensure that foreign investor demand is able to be most effectively transformed in to more homes for Australians.

Recommendations

8.1.1 The Commonwealth should use its powers to either abolish or align the states' various foreign buyer's taxes to ensure a continued supply of housing.

8.1.2 The Government must continue to support jobs, economic growth and new housing supply through Australia's existing foreign investment regime, which encourages foreign investment into new dwellings.

8.1.3 All levels of Government must work to remove supply side barriers to new housing, to ensure that demand from foreign investors and other buyers is transformed into greater housing supply.

8.2.4 The Government should ensure more detailed and regular reporting of data on foreign investment activity, to improve transparency and confidence in Australia's foreign investment policy.

9. POPULATION

9.1. Population policy

The Australian community benefits from a growing population, which increases our wealth and standard of living immensely. It is likely that Australia's population will continue to grow well in to the future, with the Australian Bureau of Statistics projecting that our population will approximately double over the next 50 years, with most growth occurring in our capital cities. Given the inevitability of a growing population, governments must ensure that the opportunities population growth presents are fully realised.

When managed well, population growth can be a boon for both the economy and existing residents. Population growth enlarges the labour force to support businesses and helps offset Australia's aging workforce, whilst the new skills and abilities new workers bring help improve economic productivity and innovation.

By balancing the needs of the economy, the environment, and the Australian community, UDIA considers that a larger Australian population can also be a "sustainable" population. Australia's population policy should balance these issues, to ensure a prosperous economy with a high quality of life, whilst maintaining social cohesion and environmental protection.

UDIA supports the Federal and State Governments establishing short/medium/long term population forecasts to allow for the orderly planning of infrastructure and land release. Governments must focus on infrastructure investment in order to keep pace with population growth. They must also remove the burden of increasing and unsustainable charges placed on new home buyers for infrastructure that benefits the whole community.

Recommendations

9.1.1 Federal and State Governments must collaborate to establish regular short/medium/long term population forecasts to support land-use and infrastructure servicing plans.

9.1.2 The Commonwealth Government should identify the base level of service expected for key elements of liveability, affordability, congestion, environment, business investment, to accommodate a larger population.

9.1.3 Through COAG, the Commonwealth and State Governments should establish a national strategic plan, requiring cities to maintain a specified rolling supply of development-ready land to meet demand driven by population growth.

9.1.4 Federal funding should be linked to State Governments establishing comprehensive land use plans which are aligned with detailed, costed infrastructure plans and underpinned by delivery timeframes.

10. SUSTAINABILITY

10.1. Preserving our Environment

In recent years Australia has experienced rapid population growth, and there is clearly a need to develop our urban areas in a way that reduces the environmental impact, while conserving our resources. Developers have increasingly adopted a sustainable approach to urban development. Indeed, developers are in the best position to bring degraded land and ecosystems back to a state that is beneficial to native flora and fauna, especially where land has been contaminated in the past by heavy manufacturing or has been deforested. Developers do this to ensure that they can market their properties to potential buyers, and therefore are a cost-effective way for governments to rehabilitate fragile ecosystems, although where state environmental agencies go too far, this can hurt housing supply and affordability.

Sustainability seeks to resolve the tension between environmental, economic and social improvement, and true sustainability assessment relies on consideration being given to each of the elements on merit. In practice, environmental considerations often take precedence over all other factors, even in cases where the environment is already well protected, than enhanced economic or social outcomes which have greater significance for a project.

UDIA supports higher levels of sustainability, and our members have been at the forefront of embracing sustainable development principles and applying them to urban development. While we are committed to working alongside the various layers of Government in achieving favourable sustainability and environmental outcomes, UDIA considers that environmental, social and economic factors should all be taken into consideration throughout the development process.

However, UDIA also considers that there needs to be greater consideration of impact of all sustainability and policy changes which have the potential to affect the development industry. Achieving higher standards of sustainability can have significant cost implications for developers and homebuyers. Until the market value of sustainability measures are realised, incentives to industry should be considered.

Further, there are now affordable technological solutions to deliver sustainable outcomes to cities and especially homes. Solar panels, batteries and new design technologies can deliver off the grid housing with three phase power. Off-grid water and sewer innovations are constantly undermined by conservative and anti-competitive regulation and the protection of incumbent utility provider monopolies. The NBN and driverless cars hold out the hope of reducing the number of people who need to be on our roads and the way in which our roads are used. The Commonwealth's Smart Cities and Suburbs Agenda, part of the Smart Cities Plan, should implement policies and programmes to promote innovation in our cities, regional centres and towns. These policies need to address road blocks from out of date regulation and Government's supporting the sustaining of monopolistic and inefficient existing Government and privatised utilities.

Recommendations
10.1.1 All levels of Government should apply a triple bottom line of sustainability test to policy proposals aimed at promoting sustainable urban development.
10.1.2 All levels of Government should develop and consider a Regulatory Impact Statement before introducing sustainability policy and regulations that impacts the urban development industry
10.1.3 Government should make incentives for sustainability accessible during the development application phase. This is a far more efficient process which will deliver a far greater commitment to sustainable urban development.

10.2. EPBC Act

The Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) is the Federal Government's primary piece of legislation for protecting nationally and internationally important flora, fauna, ecological communities and heritage places. Under the EPBC Act, development projects which have an impact on matters of national environmental significance are required to undergo an environmental impact assessment. In the past, the application of the EPBC Act has often resulted in duplication of Federal and State processes, delaying the delivery of development projects and adding to the cost base of housing.

UDIA considers that protecting Australia's natural environment for future generations is a critical part of building a healthy and prosperous society, and as such, is fully supportive of the goals of the EPBC Act. However, the current application of the act unnecessarily duplicates state and federal approval and assessment processes, creating additional regulatory burden, without necessarily increasing environmental standards.

This additional regulatory burden and inefficiency can have a marked impact on development activity by increasing risk and uncertainty, causing delays, and adding administrative cost to the development process. These additional costs and delays are ultimately built into the price of new housing, resulting in, declining housing supply, reduced economic growth, worsening housing affordability, and an increased burden borne by new home buyers.

UDIA considers that there is significant potential to reduce the regulatory burden and costs associated with the EPBC Act through greater utilisation of strategic assessments, bilateral agreements, and other measures under the Act, to create a 'one stop shop' for assessments and approvals. This can be done in a way that retains and even strengthens existing environmental standards.

Recommendations
10.2.1 Federal and State Governments to develop bilateral agreements which give effect to a streamlined, integrated environmental approval 'one stop shop' to avoid duplication and reduce costs.
10.2.2 The Federal Government to enhance the capacity for strategic assessments and other strategic approaches under the EPBC Act to reduce duplication and improve environmental outcomes.
10.2.3 The conservation status of listed species of national environmental significance to be reviewed regularly using the best available science.

11. INNOVATION

The development industry is one of the most innovative in the economy, but it is often stifled by outdated regulation and red tape. As a result, the development industry is unable to meet market demand or is forced to endure unnecessary costs.

Our cities are changing and are likely to undergo fundamental change over the next 20 to 50 years. Populations are increasing in each of our cities, and with it congestion and increasing commuting times.

UDIA welcomes the Smart Cities and Suburbs agenda, as part of the Smart Cities Plan. The development industry is keen to work with government to ensure that innovation can make these things happen. But it is commonplace that, despite the rhetoric, state government policies stand in the way of this becoming a reality.

The NBN has the potential to make fundamental changes to the way we work and the way cities operate. As viable telecommuting becomes a reality, it will effectively mean that people can be as close to their job as their laptop or smartphone. The daily commute, and the congestion that comes with it, could be a thing of the past. Driverless and automated cars will also change the dynamics of road congestion. These new ways of living and working will need to be embraced and any regulation that stands in its way will need to be removed.

The competitive nature of the development industry means that developers need to constantly evolve, with new processes, new construction and development techniques being developed. However, regulation can stand in the way. For example, in NSW, it is almost impossible to make a manufactured home, as pre-fabrication is in a regulatory grey area. This sort of red tape has a material impact on housing affordability.

Recommendation

11.1.1 The Commonwealth's Smart Cities and Suburbs Agenda, part of the Smart Cities Plan, should be well funded so that it can implement policies and programmes to promote innovation in our cities, regional centres and towns.

12. About The UDIA

The Urban Development Institute of Australia (UDIA) is the peak industry body representing the property development industry throughout Australia. Established at a state level in 1963, the Institute evolved to become a national body with a number of state-based divisions in 1970.

All UDIA State Divisions have developed comprehensive strategies to represent the urban development industry at the state level, address the economic conditions and market dynamics facing the industry, and tackle current issues that are of interest to members.

What we do

We aim to secure the economic prosperity and future of the development industry in Australia as we recognise that national prosperity is dependent on the success of housing our communities and building and rebuilding cities for future generations.

UDIA aims to:

- Promote the achievement of high standards of urban development;
- Promote respect for the inherited and natural environment while creating quality, dynamic, built environments;
- Ensure the skills that make up the membership of the Institute will be applied to principles of good planning, efficient land utilisation and sustainability of resources for future generations;
- Deliver a broad range of ongoing education and research programs to support and assist the industry and for the benefit of others associated with the urban development industry; and
- Promote a greater understanding in the community of the role and the achievements of the industry.

Membership

UDIA members cover a wide range of specialist and industry fields, including developers; valuers; planners; surveyors; engineers; architects; marketers; researchers; project managers; landscape architects; community consultants; environmental consultants; lawyers; sales and marketing professionals; financial institutions; state and local government authorities; product suppliers; and students.

Fulfilling our role

With an expanding population, ageing housing stock and ever-changing demography, there is an ongoing need in Australia for the provision of residential, commercial, retail and industrial property in existing and new centres.

UDIA's primary role is to ascertain impediments to the efficient and effective operation of the industry as a whole, and to assist in the rectification of those problems. Concurrently the industry strives to deliver outstanding products to consumers, and UDIA assists in the achievement of this objective by providing a comprehensive range of member benefits including education programs, information dissemination, and the holding of awards programs at a state and national level.

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