SUBMISSION ON THE ISSUES PAPER - REVIEW INTO OPERATION OF NHFIC ACT

URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA

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Executive Summary

The Urban Development Institute of Australia National (UDIA) is pleased to provide a response to the Issues Paper currently on exhibition into the Review of the *National Housing Finance and Investment Corporation Act 2018*.

UDIA National has consistently welcomed the formation of the National Housing Finance and Investment Corporation (NHFIC) since its inception, including:

- The expanded mandate for the organisation announced in 2019 to revitalise the policy role previously advanced via the National Housing Supply Council
- The facilitation of the First Home Loan Deposit initiative
- The work to foster greater investment in social and affordable housing, and
- Its endeavours to encourage infrastructure investment that enables greater housing supply.

UDIA National has also made prior submissions relating to its work – including the investment mandate direction released for feedback in November 2019, the legislative provisions that supported the establishment of the First Home Loan Deposit scheme in 2019, and various Pre-Budget submissions.

The work of NHFIC is arguably more important than ever, with the lingering economic effects of COVID-19 demands governments work to stimulate housing supply as a central pillar of Australia's economic recovery. Initiatives taken to date – particularly *HomeBuilder* – have greatly assisted in the task.

UDIA National also believes, however, that there is an urgent need to lift the pace of reforms that address underlying, structural imbalances in housing markets. Australia has long suffered from cumbersome and inefficient planning regimes and deficient housing supply – and without action now, the nation risks emerging from the COVID-19 downturn with greater problems.

In context, the return of 'business-as-usual' dwelling demand when economic conditions further recover, immigration returns and population growth is restored to normalised levels, will conflict with anaemic supply pipelines that currently exist and exaggerate the affordability woes that have plagued Australia's housing markets for the past two decades.

This is made clear in NHFIC's *State of the Nation's Housing 2020* report – which forecasts that despite the temporary reprieve from these pressures that has been created by a downturn in immigration and population due to COVID-19, demand will again outstrip supply from 2023 and beyond. With home ownership occurring much later in life there is also pent-up demand of young people still living in their family home into their 30s. This change may create a hidden demand which could cause some markets to feel pressure much sooner.

In March 2018 the Reserve Bank of Australia published a research discussion paper – The Effect of Zoning on Housing Prices. The paper showed that the zoning impact of restricted supply for housing development had a major impact on physical input costs of between 42% – 73% for Australia's major capital cities.

Table 3: Average House Price Decomposition
$'000 (per cent of total), 2016

	Perth	Brisbane	Melbourne	Sydney
Dwelling structure	242 (41)	267 (49)	268 (34)	395 (34)
Land	346 (59)	275 (51)	524 (66)	765 (66)
Physical land	*140 (24)*	*116 (21)*	*201 (25)*	*276 (24)*
Zoning effect	*206 (35)*	*159 (29)*	*324 (41)*	*489 (42)*
Total	588 (100)	542 (100)	793 (100)	1 160 (100)
Zoning effect as a percentage of physical input costs	54	42	69	73

Sources: Authors' calculations; CoreLogic

This deep problem significantly impacts our global competitiveness, with all our capital cities in the top 20 or so least affordable cities to purchase a house in the world. The final paragraph of the RBA paper outlines the challenge for government to deliver a coordinated planning and infrastructure response to open up pathways to increase land and housing supply:

> *'If housing demand continues to grow, as seems likely, then existing zoning restrictions will bind more tightly and place continuing upward pressure on housing prices. Policy changes that make zoning restrictions less binding, whether directly (e.g. increasing building height limits) or indirectly, via reducing underlying demand for land in areas where restrictions are binding (e.g. improving transport infrastructure), could reduce this upward pressure on housing prices.'*

The work of the cities Reference Group in 2018 began to deliver data in the National Cities Performance Framework which could be used and expanded with performance benchmarks to drive better planning alongside City Deals and NIFIC Grants.

UDIA National is urging the Commonwealth to use the opportunity provided by the review to ensure NHFIC's legislative framework is fit-for-purpose and accelerate a vigorous agenda to boost housing supply supported by robust infrastructure and increased access to home ownership.

OUR RECOMMENDATIONS ARE:

1. **An allocation of $1 billion be made under NHFIC's investment mandate – to be matched by each state and territory – to unlock regional-scale enabling infrastructure matched to specific new housing supply targets set at the outset.**
2. **Establishing a dedicated process be established to allow project proponents to make a direct, merits-based application for support under the Fund to unlock new housing.**
3. **NHFIC make 10,000 places available on an annual basis under the First Home Loan Deposit scheme exclusively for the purchase of new homes or newly constructed homes.**
4. **Commencing a robust research agenda to improve the quality of data on housing market dynamics, develop and set binding housing quotes, produce 'league tables' on the performance of states in achieving targets, achieve planning reform via incentives, reduce red and green tape, transform and reduce the tax burden on housing and improving housing diversity.**
5. **Deploy NHFIC's investment mandate to fund the delivery of 20,000 social and affordable homes over the next three years.**
6. **Identify surplus government-owned land for social and affordable housing. The land would be sold through an EOI process and at a value that recognises that 20-30% of the site would be either returned to government or donated to a community housing provider for the purposes of community housing**

About UDIA National

UDIA is the development industry's most broadly representative industry association with more than 2,500 member companies – spanning top tier global enterprises and consultants to local governments and small-scale developers.

UDIA has a long history of engaging positively with the Federal Government and its agencies on issues critical to the property industry – spanning tax, population, infrastructure and land use planning.

UDIA advocacy is defined by our state-representative National Council and informed by a diverse membership base, extensive network of state councils and committees and businesses on the frontline of housing and city development around the country.

Our voice is backed by real experience and quality research designed to support good policy making and dialogue with governments, oppositions and the bureaucracy.

ISSUES PAPER – PRIORITY AREAS

In responding to the Issues Paper, UDIA National has elected not to respond to every issue raised; rather, we have sought to focus on areas where we believe the mandate of NHFIC can be amplified or strengthened. Some of these elements are anchored in its legislation, but most importantly, the organisation's priorities.

Response to NHFIC's National Housing Infrastructure Facility (p7)

Achieving a Double Dividend in regional enabling infrastructure

Gaps in the delivery of enabling infrastructure – such as new regional roads, water, electricity and wastewater – are often the final delay to the creation of new housing supply. A joint commitment by the Commonwealth and states to close these gaps will yield both stronger housing and investment pipelines.

Such an approach – devised with criteria set by NHFIC, with support from the States & Territories - can result in a strong multiplier – and importantly, delivers a sustained recovery period as housing becomes shovel ready with the delivery of the enabling infrastructure.

These projects are often shovel-ready and can be delivered swiftly to achieve a 'double dividend' of jobs in both the construction of the infrastructure, as well as the new housing supply it unlocks.

Across each of our capital cities, a substantial number of potential land lots sit idle because of the gap in the provision of enabling infrastructure – water, sewer, power and roads. For example, in Sydney, the estimate is as high as 90,000 lots which cannot be developed for this reason.

There is now potential to resolve the issue by deploying capital available to NHFIC under its revised mandate, <u>with an allocation of $1 billion to be matched by the states and territories</u>. This will foster greater progress against dedicated housing supply targets.

This will have the benefit on fuelling jobs and investment across infrastructure and housing construction now, as well as seed the pipeline of housing essential to sustain growth and affordability both during and after the pandemic.

The other potential benefit of such an approach is it will support new housing projects that can be attached to larger infrastructure projects stemming from Infrastructure Australia's priority project pipeline.

These projects often lack integrated land use plans, and the ability to ensure fine-grain infrastructure that is required to enable new housing will ensure a holistic approach is taken to the development of new communities.

We would also encourage NHFIC to establish a dedicated process which allows project proponents, councils and not-for-profit housing providers to make direct, merits-based application for support under the Fund – akin to the process Infrastructure Australia runs allowing states to facilitate the development of business cases from the private sector.

RECOMMENDATIONS

UDIA recommends an allocation of $1 billion be made under NHFIC's investment mandate – to be matched by each state and territory – to unlock regional-scale enabling infrastructure matched to specific new housing supply targets set at the outset.

UDIA also recommends a dedicated process be established to allow project proponents to make a direct, merits-based application for support under the Fund to unlock new housing.

Response to the role of NHFIC in increasing home ownership (p8)

Refine the First Home Loan Deposit Scheme

In prior submissions that related to the role of NHFIC and the First Home Loan Deposit scheme, UDIA National urged the Commonwealth to recognise that the initial tranches of funding and placements were a clear plus – but skewed towards the acquisition of existing stock.

That is why we were pleased that in October 2020, the Commonwealth announced a new round of 10,000 placements that were exclusively available for people seeking to purchase newly constructed housing.

This has the added benefits of boosting housing supply, working in concert with the *HomeBuilder* and various state based initiatives to stimulate construction and broadening the pathways to home ownership.

Given the long-term challenge of rebalancing Australia's housing markets and ensuring a sustainable pipeline of new supply to meet long-term demand forecasts, this should remain a priority and help improve housing affordability for homebuyers.

Accordingly, UDIA National believes the direction of dedicated places under the scheme to support the purchase of a new home or newly constructed home should remain a permanent feature of the First Home Loan Deposit scheme.

RECOMMENDATION

1. **UDIA National recommends that NHFIC make 10,000 places available on an annual basis under the First Home Loan Deposit scheme exclusively for the purchase of new homes or newly constructed homes.**

Response to The Role of NHFIC Research (p8)

NHFIC Research Mandate

UDIA National is pleased that the mandate for NHFIC giving it the license and capacity to conduct research into housing supply, demand and affordability is in place.

UDIA National has long supported such a function being available to the Commonwealth Government – and it is important to recognise that the former National Housing Supply Council conducted important work providing much needed analysis of housing markets during its period of existence.

However, we would encourage the Corporation to accelerate and broaden the scope of its work given the need to break down the barriers to housing supply that need to be eliminated before Australia is able to meet underlying demand and in doing so, improve affordability.

Given Australia has one of the least affordable housing markets in the world, an aggressive agenda is needed to transform market engagement, policy settings, accountability, the performance of lower tiers of government and housing diversity.

There is a particular need for focusing on the cost of new housing – both via the regulatory barriers that inhibit projects, but also tax reform, given taxes, charges and fees can account for more than 40 percent of the cost of new housing for purchasers in major capital cities.

Housing policy will be better informed through the availability of such research. The *State of the Nation's Housing 2020* report is a robust analysis of supply, demand and affordability. However, the next iteration of the report needs to go further and focus on policy solutions that fix our housing markets.

That is why we are keen to ensure the mandate supports a host of priorities that will improve access to housing.

This includes:

- Inviting private sector leadership and dialogue to the table, given the prior and well-regarded National Housing Supply Council benefitted from private sector leaders being appointed. We are aware that private sector representatives have been included among appointments to the NHFIC Board, but there are further opportunities to engage with market leaders through the design and implementation of initiatives covered in the mandate.

- Ensuring the population data and assumptions that underpin research undertaken or commissioned by NHFIC should align with equivalent baseline information used elsewhere within government. This should include ensuring the data sets align with those used in the refresh of the Intergenerational Report to be undertaken next year, and the equivalent used by the new Centre for Population, and Infrastructure Australia.

- Devising binding quotas on the states (and local government) for new housing and land release, based on the agreed population assumptions referenced above. This should be matched by the production of annual 'League Tables' that monitor progress against the new minimum supply targets and fix the current limitations in the metrics incorporated in the Cities Framework.

- Developing a framework of financial incentives that link to state and local performance on planning reform and achieving housing supply targets. These could potentially be tied to an array of Commonwealth-led programs, such as City Deals or infrastructure investment.

- Identifying and recommending removal of inefficient red and green tape, as well as statutory charges, that act as both a handbrake and a cost impost on the delivery of new housing.

- Mapping the existing mix of taxes and charges that are imposed on new housing, their relative efficiency (or inefficiency) and equity (or inequity) and recommend a pathway of reform that converts them via a more broad-based and equitable revenue model - given taxes, charges and fees can account for more than 40 percent of the cost of new housing for purchasers in major capital cities.

- Establishing a pathway for the removal of federal tax barriers, including the Managed Investment Trust (MIT) and GST rules, that can be unlocked to encourage rapid expansion of Build-to-Rent and complement endeavours by some state jurisdictions to encourage its development.

- Facilitating the development of a mix of housing and right-sizing options for a range of demographics including seniors, as well as understanding changing economic, social and demographic demands and their implications for housing diversity and typology requirements.

- Assess whether there is potential to support other schemes that widen the opportunity for home ownership, such as shared equity.

RECOMMENDATION

1. **UDIA recommends NHFIC commences a robust research agenda to improve the quality of data on housing market dynamics, develop and set binding housing quotes, produce 'league tables' on the performance of states in achieving targets, achieve planning reform via incentives, reduce red and green tape, transform and reduce the tax burden on housing and improving housing diversity.**

Boost social and affordable housing

Clearly, a range of industry stimulus measures are important to save jobs and ensure the financial security of households across the country. But an equally important opportunity is emerging to address housing for those less able to thrive in the current property market. The Commonwealth Government should implement a range of measures to boost the delivery of social and affordable houses across the country. These measures are needed to deliver homes for every Australian who needs one and can't afford to purchase or rent in the current market and will deliver an enduring housing legacy for generations to come.

We believe that the delivery of social and affordable housing can be guided by the following objectives:

- Delivering immediate economic stimulus and medium to long term triple-bottom line outcomes;
- Support new partnerships pathways between industry and the not-for-profit sector;
- Utilising idle government-owned land assets and infrastructure and financing levers;
- Supporting the attraction of institutional and other third-party investment to maximise return on public investment;
- Supporting progression to a scaled and sustainable community housing industry; and
- Delivering high quality, diverse housing in the right locations.

Doing so at scale means the Government can harness the industry's capacity and expertise in planning, design, project management, and construction; the ability to offer efficient procurement and contracting practices and mechanisms; and access to pre-existing equity and debt facilities.

RECOMMENDATIONS

1. **Deploy NHFIC's investment mandate to fund the delivery of 20,000 social and affordable homes over the next three years.**
2. **The identification of surplus government-owned land for social and affordable housing. The land would be sold through an EOI process and at a value that recognises that 20-30% of the site would be either returned to government or donated to a community housing provider for the purposes of community housing.**