

28 January 2022



The Hon Josh Frydenberg MP  
Treasurer  
Parliament House  
CANBERRA ACT 2600

via email: [prebudgetsubs@treasury.gov.au](mailto:prebudgetsubs@treasury.gov.au)

Dear Treasurer,

### **UDIA National Pre-Budget Submission 2022-23**

Thank you for the opportunity to provide a pre-budget submission for FY 2022-23.

UDIA National continues to support the robust strategy pursued by the Federal Government over the past two years to sustain Australia's economy through the COVID-19 pandemic and position the nation for a strong post-pandemic recovery.

Both population growth and property development & construction are vital elements for the Australian economy. Development & construction is an engine room of the economy and critical to recovery of productivity, delivering some 7.5% of Australia's GDP.

Historically thin and continually declining supply pipelines, together with pandemic-driven material and labour shortages means that Australia is set to experience further deterioration in housing affordability unless the market is primed now to stimulate supply to meet that demand. As population growth returns to normal levels – which is critically necessary to underpin labour growth and employment levels, housing demand will only increase further.

Adopting UDIA National's recommendations will further underpin Australia's recovery after two incredibly challenging years by addressing critical underlying issues that have been allowed to foment for many years prior. These include:

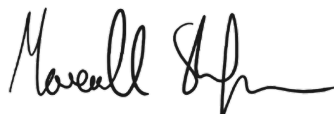
- 1. Turbocharge Housing Supply and Choice** - measures to incentivise land/housing supply targets, better taxation reform and bolstering NHFIC's mandate to create affordable and social housing.
- 2. Durable Strategic Planning and Infrastructure Delivery** – measures to better plan and coordinate infrastructure and cities.
- 3. Streamline Environmental Approvals** – measures to improve the administration and effectiveness the Environmental Protection and Biodiversity Conservation Act (EPBC).
- 4. Make Planning Systems Work Effectively** – measures that give NHFIC a mandate to measure performance of State and Local planning and regulatory systems, and with the Federal Government to incentivise planning targets.

5. **Post-Pandemic Population Planning** – measures to plan and coordinate net overseas migration that close the population growth gap caused by the pandemic.
6. **Keep Credit Available** – measures to expand the First Home Loan Deposit Scheme and design a government finance reference group that monitors the health of the market.

The property development & construction industry has continued delivering its share of prosperity despite these long-term issues; that said, the collective impact of these issues now seriously threatens our ability to do so in future. The time to act is now, to ensure that capacity remains to continue building Australia's success in the long-term.

UDIA looks forward to working with the Government and National Cabinet to build Australia's economic recovery. We are keen to meet with you to understand the key areas of your election campaign and how we could collaborate further on our campaign approach.

Please do not hesitate to contact the UDIA National Director of Policy and Government Relations - Andrew Mihno on 0406 454 549 or me on 02 4415 9170 to discuss this submission.

A handwritten signature in black ink, appearing to read 'Maxwell Shifman'.

**Maxwell Shifman**

UDIA National President

2022-23 FEDERAL PRE-BUDGET SUBMISSION  
URBAN DEVELOPMENT INSTITUTE OF AUSTRALIA  
JANUARY 2022

## Executive Summary

The Urban Development Institute of Australia National (UDIA) is pleased to provide its Pre-Budget Submission for the 2022-23 Commonwealth Budget.

UDIA National continues to support the robust strategy pursued by the Federal Government over the past two years to sustain Australia's economy through the COVID-19 pandemic and position the nation for a strong post-pandemic recovery.

Australia's health response has been first-class by global standards, with relatively few fatalities, and our economy has proved relatively resilient.

The Federal Government's early focus on the housing and construction sector has paid dividends, with the Commonwealth Government's housing stimulus package - HomeBuilder - serving as a centrepiece, particularly for detached housing. The initiative has been a public policy success, with more than 130,000 applications – driving jobs and investment up and down supply chains. Together with the Home Deposit Guarantee, these initiatives have also helped foster a short-term "renaissance" in Australian's being able to purchase their own homes more easily.

The increased demand for housing, however, has exposed historically thin supply lines and together with pandemic-driven materials shortages, has resulted in a further deterioration of supply and affordability.

Australia's capital cities remain amongst the least affordable cities in the world, and these challenges have now spread to many regional markets. The next generation is increasingly becoming locked out of the great Australian dream of home ownership.

Now is time to begin the hard work needed to sustain great cities and regions, bring forward policies to counter Australia's housing affordability crisis, and ensure our institutions and policies are fit-for-purpose.

The post pandemic focus will be on kickstarting economic growth. Property and construction is the engine room of the economy. Each dollar spent on property and construction is shared between 40+ trades and businesses with significant secondary boosts to manufacturing and retail jobs, nationwide, with a 2.9x multiplier into the wider economy for every dollar invested into housing.

There is a limited window to get our house in order and accelerate post-pandemic growth which will set up the nation for the next decade and beyond. The decisions taken today will shape access to home ownership and housing choice for the next generation of Australian's, define the productivity and liveability of our cities and lay the "foundation" for our nation's prosperity.

Achieving this goal will require a sustained investment in policy settings and reforms that can seed the next era of growth, success, and productivity across the nation. The measures outlined below will underpin Australia's rejuvenation after two difficult years and address underlying issues that have been allowed to foment for many years prior.

The Government's own forecasts reveal that the reprieve created by a downturn in immigration and population due to COVID-19 will be short-lived and the imbalance between demand and supply could

be exacerbated as soon as 2023 – potentially an even greater imbalance than what has been seen before.

Our submission focuses on immediate actions to create structural policy reforms and investments that will yield lasting benefits.

## Recommendations at a Glance

- 1. Turbocharge Housing Supply and Choice** - measures to incentivise land/housing supply targets, better taxation reform and bolstering NHFIC's mandate to create affordable and social housing.
- 2. Durable Strategic Planning and Infrastructure Delivery** – measures to better plan and coordinate infrastructure and cities.
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- 5. Post-Pandemic Population Planning** – measures to plan and coordinate net overseas migration that close the population growth gap caused by the pandemic.
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## About UDIA National

The Urban Development Institute of Australia National (UDIA) is the development industry's most broadly representative peak body with more than 2,500 member organisations - spanning top tier global enterprises, consultants, small-scale developers and local governments.

UDIA has a long history of engaging positively with the Federal Government and its agencies on critical issues relating to the property and development industry.

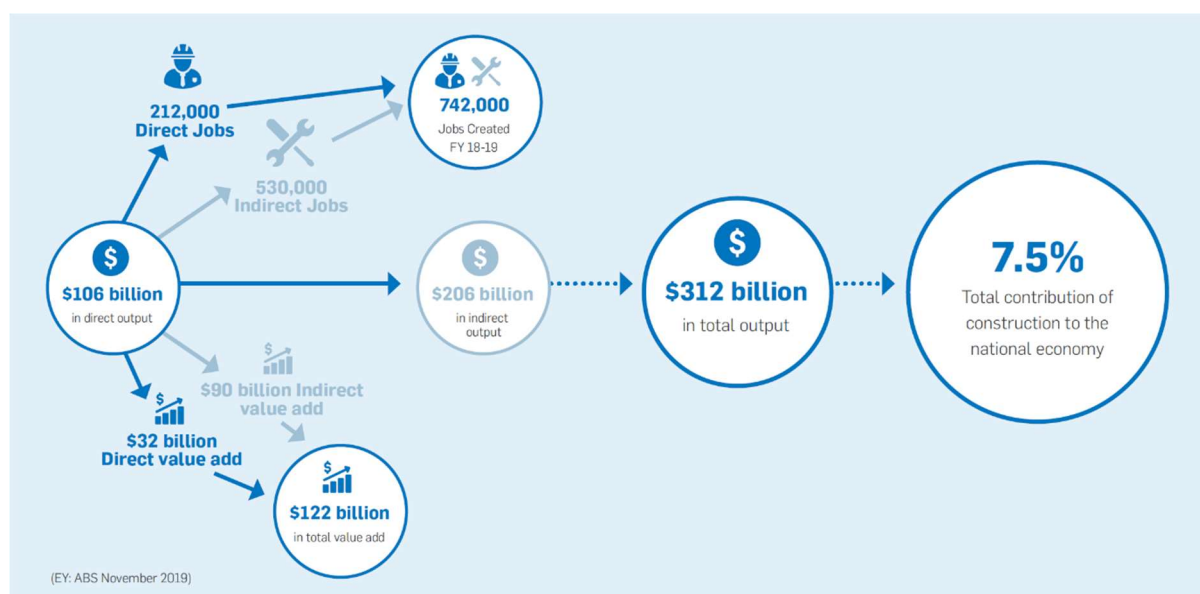
UDIA advocacy is defined by our state-representative National Council and informed by a diverse membership base, the extensive network of state councils and committees and businesses on the frontline of housing and city development around the country.

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

## Housing Development Drives Economic Growth

The critical role that construction and new housing development plays in fuelling economic activity is evident in the independent research undertaken by EY on behalf of UDIA National which was released in November 2019. The research shows that:

- **7.5 percent of national economic activity is generated by development construction** – and this was higher at the peak of the last housing construction cycle;
- **750,000 direct and indirect jobs** were created in FY18-19 from new housing and construction;
- The combination of direct and indirect output from new housing and construction alone equalled a mammoth **\$312bn in economic output** (not including associated infrastructure).



## State of Housing Markets

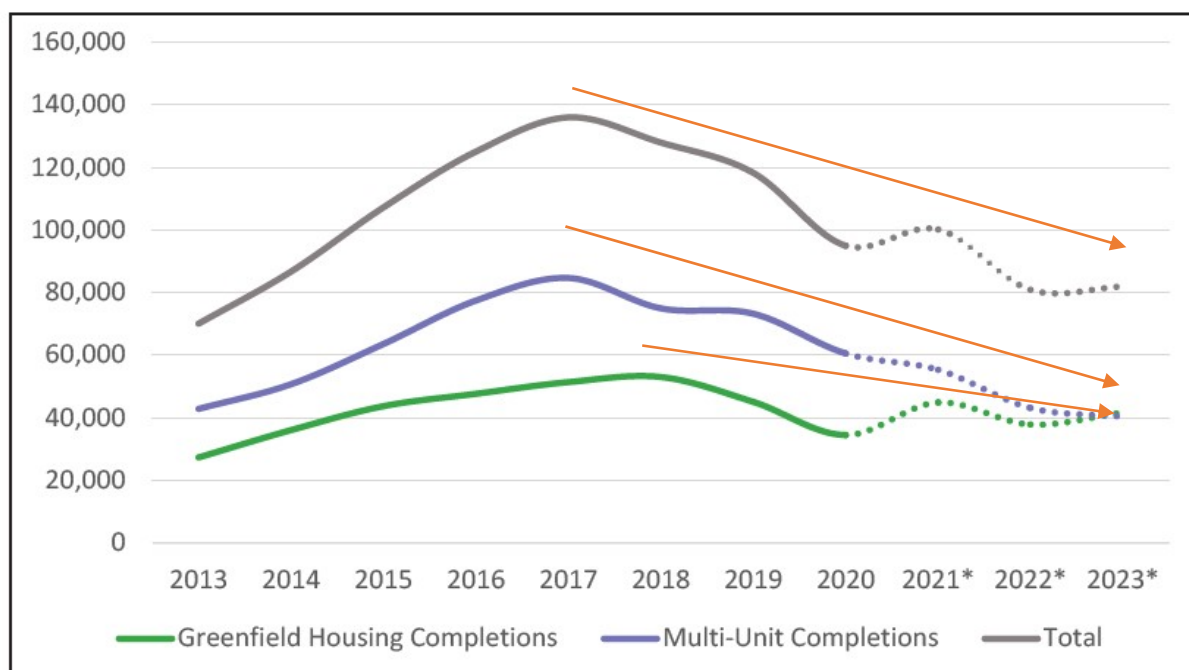
Australia's housing markets have been beset by a continuous under-supply for the past two decades – causing an erosion of development-ready land pipelines, housing affordability and equity of access to home ownership. Consistent analysis of housing data shows that:

- Since 2001 the total stock of Australia's residential property has grown by 34% or 2.8 million dwellings, according to ABS data. This represents an average yearly increase of approximately 142,700 dwellings and is the most significant 20-year growth in our nation's history.
- This still failed to meet demand - with an undersupply problem emerging acutely from the 2005-2012 period when the then-National Housing Supply Council (2012, 2013) determined that a national accumulated dwelling supply shortfall was north of 200,000 dwellings.
- Australia has been playing catch up ever since - underlying dwelling demand across Australia was at around 192,400 per annum in 2019, prior to the pandemic.
- Over the last 20 years, median dwelling prices have escalated dramatically with all capital city markets recording strong aggregate price growth led by Hobart (+445% to a median house sale price of \$672k) Melbourne (+275% to \$903k), Brisbane (+268% to \$680k), Sydney (+334% to \$1.22m) Adelaide (+255% to \$590k), Canberra (+283% to \$937k) and Perth (+174% to \$520k). Source: ABS (December 2021).
- Access to home ownership across different socio-economic groups is shrinking, with just 17.6% of the nation's housing stock affordable for low-income households, and 57% for medium income households.
- Post-pandemic, Australia faces another gap between supply and demand – with expected demand picking up to 144,700 dwellings in 2023 on the back of a strengthening economy and the necessary positive net overseas migration needed to deliver growth and meet the expanding skills shortage. Demand is forecast to escalate to about 178,000 dwellings in 2024, well above pre-COVID levels.

These escalating demand numbers face perpetually tight supply pipelines, with an ever-reducing availability of development-ready land in major capital cities, approval timeframes continuing to blow out, and the weight of regulation and taxes adding to the time, cost and complexity of new projects.

**On current trends, supply pipelines will continue to dwindle in the face of increasing demand.**

### Dwelling Pipeline Outlook, Combined Capitals



Source: UDIA; ABS; CoreLogic; Research4

For Australia to get back on track with economic growth, both markets and immigration will need to open. Population growth will mean stronger housing demand yet at the same time, housing supply is declining across the country. Housing affordability issues are not a problem of increased population, but simply the symptom of failing to plan for growth. The lag time in developing new housing supply means that, unless the housing market is primed now with strategies to stimulate supply to match demand, we will see increasingly chronic affordability issues across the Australian housing spectrum.

Critically, even if there is a delay in growth, the diminishing supply pipeline, means Australia will still face increasing housing affordability issues.

The Federal Government has an important role to play in a national housing strategy in coordination with the states across key areas.



## Policy Priorities – 2022-2023 Budget

### 1: Turbocharge Housing Supply and Choice

Access to housing is integral to the economic and social fortunes of every Australian.

Home ownership is deeply ingrained in the Australian psyche, and as demographic trends accelerate, housing diversity has never been more important. It has been a key catalyst to build independent wealth and personal security for Australians over many decades.

Yet the gap between the aspirations of people and our capacity to meet them has never been wider. Housing affordability continues to worsen, housing supply pipelines are thin, policy settings stymie housing choice, and the urgency to fix the underlying issues is missing, particularly between the policies of the three levels of government in Australia. These costs are compounded by lost economic opportunity. The housing and construction sector is one of the nation's most significant industries – creating 750,000 direct and indirect jobs, creating a very high economic multiplier of 2.9 times investment.

**Our industry helped sustain Australia's economy during COVID-19, but with the right policy settings, could deliver so much more again for our future prosperity.**

Australia needs a wholesale transformation of our institutional and policy frameworks to unlock the development industry's potential, accelerate supply pipelines, improve affordability and unlock housing diversity.

While not the direct responsibility of the Federal Government, the Commonwealth can incentivise the states to resolve these issues with frameworks and bilateral/multilateral deals. The National Housing Finance and Investment Corporation (NHFIC) also has an increasing role to play as a Federal agency with the ability to coordinate across states and territories in the affordable and social housing space.

### Recommendations

UDIA National recommends the Commonwealth Government invest in new initiatives needed to build durable housing supply pipelines, including:

1. Establish clear land and housing supply targets for each state and territory – and tie actual performance to a new incentives-based system linked to Federal funding. NHFIC can be tasked with benchmarking progress.
2. Deliver a roadmap with timeframes to progress broad-based tax reform via a partnership with the states to retire inefficient taxes like stamp duty. This will drive economic growth and productivity, stabilise government revenues, and improve mobility, housing affordability and choice.
3. Regear NHFIC's investment mandate to offer \$1 billion per annum – matched by states, territories and local governments – to unlock regional scale enabling infrastructure needed to boost housing supply.

4. Expand NPHIC's role to foster better partnerships with the private sector to participate in the creation of more affordable and social housing, including affordable market housing for purchase.
5. Resist introducing new taxation or regulation which add to the cost of housing or jeopardise projects – including those in the form of value capture, so-called “windfall” taxes or inefficient statutory charges.
6. Support opportunities to deliver greater housing diversity via pathways to support new concepts such as Build-to-Rent, or shared equity initiatives like KeyStart in WA or the Victorian Homebuyer Fund.

## 2: Durable Strategic Planning and Infrastructure Delivery

Great cities and regions are productive, liveable, and sustainable. They continue to evolve under the influence of demographic change, technology, climate and economic and social factors. But they don't just happen automatically.

They demand foresight, planning, investment, and the capacity to respond to the needs of people who live in them and aspire to live in them.

That's why we need to begin the hard work now to plan for what our major cities and regions look like in 2030 and the decades beyond. Too often, the lack of alignment between all three tiers of government produces disjointed planning around the trajectory of growth that will underpin our cities, as well as the land use and infrastructure pipelines needed to service them. We also note that planning at bureaucratic level often fails to tie-in with market demands, and the very businesses tasked with their implementation – the development industry.

Agencies like Infrastructure Australia, the Centre for Population and NPHIC are all doing valued work; however, there is a need for a more seamless and strategic agenda - one that avoids conflict, has clear accountability, authority, and timeframes, and creates a partnership approach across the levels of government and with industry to enable the delivery of a development ready pipeline for new housing.

A Federal population settlement strategy requires robust strategic plans that blend population forecasts, infrastructure pipelines and durable land use frameworks for each of our major capital cities and regions - and quickly. The Federal Government is able to incentivise changes where they do not have direct responsibility, in order to maximise the value of its investment.

### Recommendations

UDIA recommends an overhaul of the way we plan, fund and deliver future growth across our cities and regions:

1. Use the Australian Government Centre for Population's forecasts, informed by a settlement strategy for immigration, as the baseline for all infrastructure and land use planning across governments.

2. Incentivise State Governments to put in place short, medium, and long-term strategic plans for each of our major capital cities and major regional centres (i.e.: population greater than 40,000) that map the infrastructure and land use requirements to properly and rapidly service growth.
3. Ensure infrastructure pipelines sit beyond the political cycle by mandating that all major investments are subject to business case scrutiny by Infrastructure Australia and are linked to housing growth targets (where appropriate).
4. Secure a better return on its investment in major infrastructure projects by requiring dedicated land use plans, integrated development approvals, commitment to the role out of enabling infrastructure and the plan for housing supply outcomes.
5. Clearly chart the base level of services expected for key elements of liveability, including housing, transport, social infrastructure, and the environment documented in the National Strategic Population Plan, including, where relevant, that governments at all levels deliver their statutory obligations in a timely and comprehensive manner in conjunction with the private sector completing its own undertakings.
6. Review the City Deals framework to ensure it delivers a more effective, streamlined system for tripartite agreements that enable better infrastructure delivery, urban planning and the comprehensive plan for the delivery and oversight for future cities.
7. Prioritise a further phase of City Deals to stimulate growth and kickstart productivity.

### 3: Streamlining environmental approvals

The single largest drag on new housing projects at a Commonwealth level, and in some cases overall, is the Environment Protection and Biodiversity (EPBC) Act. It undermines project viability due to inconsistent application, interpretation and governance. It adds substantially to the time and cost of new projects.

In 2019, the Commonwealth commenced a welcome review of the Environment Protection and Biodiversity Conservation (EPBC) Act. The review was timely given the current application of the Act is delivering neither good urban development outcomes, nor sound environmental outcomes.

The urban development industry is the single largest user of the EPBC assessment system, and peri-urban development is vital to Australia's capacity to meet its housing requirements, particularly in the post pandemic economy. UDIA has been an active participant in the process of crafting a better balance between environmental, social and economic objectives.

It needs to be recognised that the pathway to design, implement and efficiently administer a new system will take time. The intent of proposed reforms is encouraging, however, there needs to be a continuous focus on the design and transition to a new, more efficient and streamlined system.

Any reform agenda related to the EPBC Act needs to recognise the interdependency of overall planning and approval systems. This means recognising that the risk is if one pillar either stalls or fails, the entire framework is weakened.

A clear roadmap to sustained reform is essential in balancing economic, social and environmental objectives. It is critically important that the EPBC review deliver on promises to streamline red and green tape.

## Recommendations

UDIA recommends development and implementation of an EPBC framework that is informed by robust processes, contemporary standards and comprehensive analysis for good environmental and urban development outcomes, including:

1. Create an assessment system with a single point of contact that avoids duplication between different tiers of governments, together with suitable investment in the data and technology needed to ensure they are robust.
2. Implement clear, unambiguous response timeframes with “deemed to comply” provisions for approvals.
3. Fund a full Regulatory Impact Statement to test the proposed National Environmental Standards – including case studies on ‘live’ projects – for their impacts on housing development.
4. Provide sufficient funding to support the detailed and careful design of new National Environmental Standards and reform of the environmental offsets framework that suitably respond to the challenges of urban land use and housing development.
5. Invest in national and regional-scale environmental plans and Strategic Assessments to appropriately manage threats, resolve competing land uses and provide certainty to industry proponents well before development applications are submitted.

## 4: Make Planning Systems Work Effectively

Housing supply pipelines remain out of sync with short and long-term demand and population projections in most areas of Australia, as well as increased pressure for housing diversity to satisfy demographic shifts.

State and local planning systems are, dysfunctional. Invariably, the groups tasked with the actual delivery of new development are stymied by process, conflict and poor decision making - all of which feed directly into an ever-diminishing development pipeline.

Australia lacks the development-ready land across greenfield and infill markets needed to service growth. State and local government estimates of land availability are mostly disconnected from the “on the ground” reality of available land. Some jurisdictions often severely overestimate true supply capability.

The inclusion of a research mandate into the role of NHFIC to better analyse housing supply, demand and affordability is a clear plus.

NHFIC’s initial work to scope the state of housing markets, research the inefficiency of infrastructure charging regimes and other analysis represents a step forward. However, to meet the needs of our

communities we need a deeper and richer understanding of the dynamics of housing markets across Australia, the barriers to supply and the incentives needed to remedy the situation.

Australia's housing markets are already some of the least affordable in the world, so there is no time to waste. A seismic shift will be needed to refocus planning systems towards outcomes and offer greater accountability and transparency on their performance – to deliver a more sustained supply over time and hopefully a reduction in the rate of price increase.

The Commonwealth is uniquely placed to incentivise changes necessary to guide the refocus of planning systems through bilateral and multilateral deals.

## Recommendations

UDIA recommends investment in an expanded mandate for NHFC that will allow the Commonwealth to accelerate reforms to planning and regulatory systems, including:

1. NHFC to map the existing red tape barriers, as well as the taxes and statutory charges, that add to the time, cost and complexity of delivering new housing.
2. Produce a series of 'league tables' to chart the performance of states, territories and local governments across a range of metrics, including real housing supply pipelines, infrastructure servicing and approval times.
3. Design housing targets informed by population projections and settlement plans that each state and territory needs to meet to maintain affordability.
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5. Introduce a pool of financial incentives to reward states for productivity-inducing reforms that ensure they meet housing supply targets and improve housing affordability and housing choice.
6. Ensure payments for reforms and infrastructure are only available when states actually deliver the targeted "development ready" housing supply – not simply in implementation of "plans". "Pay-on-performance" must be the guiding principle.

## 5: Post-Pandemic Population Planning

Population growth is intrinsic to Australia's prosperity as the least populated continent in the world. It powers our economy, improves our global competitiveness, supports the growth of new markets, balances our demographic profile and sustains the tax base.

Australia's economic growth has always been underpinned by immigration and their positive impact on the economy is impossible to overstate. Since 1945 immigrants and their immediate family have accounted for half our population growth, (over one in four workers were born overseas). Migrants own one in three Australian small businesses. That is 620,000 businesses, employing 1.41 million Australians. Critically, migrants have a fiscally positive impact on the economy - the 2018-2019 Treasury data shows permanent migrants each contributed \$127,000 more to the GDP than the general population.

COVID-19 represents the biggest disruption to Australia's population trajectory since World War II. Net Overseas Migration (NOM) plunged into the negative during the pandemic – reaching -72,000 in F2021 and is forecast to be -22,000 during F2022. The pandemic has also seen a marked decline in the underlying birth rate, a statistic exacerbated by cost of living and housing affordability pressures.

The immigration numbers represent a huge reduction compared with the pre-pandemic annual target of 160,000 per annum. The closure of international borders was the right move for managing the pandemic, however, it comes with a substantial cost to Australia's short and medium-term economic prospects.

The Centre for Population estimates that Australia's population will be 1.1 million lower by 2031 than pre-COVID forecasts. This translates to approximately 400,000 fewer homes built, with the linked reduction in economic activity. The nation is also now facing acute staff shortages across many supply chain and industry sectors from lockdown and housing supply pipelines are continuing to decline.

Immigration is integral to the housing and construction sector's strength as a pillar of economic activity. Research commissioned by UDIA National shows NOM accounts for 56 percent of Australia's housing demand, and 50,000 fewer homes per year will be built over the next five years due to the contraction in population growth. This has not alleviated the historical housing supply shortfall.

Population growth is critical to the expansion of the Australian economy and immigration will need to restart for Australia's economic productivity to return to normal. This will also unlock property and construction which is the engine room of the economy - Each dollar spent is shared between 40+ trades and businesses with significant secondary boosts to manufacturing and retail jobs, nationwide.

Australia needs a roadmap that respects the objective of safely reopening international borders but provides a pathway to restoring robust immigration and population growth for economic prosperity.

## Recommendations

UDIA recommends investment in short, medium and long-term initiatives to recapture strong migration flows and boost population growth, including:

1. The Commonwealth develop short, medium and long-term targets to restore net overseas migration and population growth.
2. The targets should seek to close the gap from population lost due to the closure of international borders.
3. Australia should set a new target for NOM, well above the pre-pandemic goal of 160,000 per annum – and seek to substantially increase NOM in the short term until it has closed the gap caused by the pandemic.
4. Dedicated streams of work be developed to focus on preferred immigrants, with a particular focus on foreign students, as well as skilled migrants in areas of worker shortages. The Australian Government, Centre for Population being tasked with producing fresh projections built around these goals to inform land use and infrastructure planning by all tiers of government.

## 6: Keep Credit Available

The flow of reliable, dependable and consistent credit is the lifeblood of the economy. It sustains economic growth, jobs and most-critically home ownership.

The Reserve Bank has made clear it expects the cash rate to remain unmoved until 2023-24, which is welcome news for mortgage holders, and those seeking to enter the housing market.

There is, however, the need to give greater comfort to borrowers, (both those wanting to buy a home and those seeking development funding), that the rules won't radically change.

Prior efforts to curb perceived risks in lending practices had the effect of substantially stalling the availability of finance for new projects, particularly apartments.

More targeted policy solutions to boost supply and achieve the long-term goal of balancing the market are recommended.

For example, the last two Federal Budgets allocated 10,000 places under the First Home Loan Deposit Scheme for exclusive use on new or newly constructed homes. It is a proven model with potential for expansion.

### Recommendations

UDIA recommends bolstering policy settings that can underpin confidence in housing markets, including:

1. Provide an annual allocation of 15,000 places under the First Home Loan Deposit Scheme for exclusive use on new or newly constructed homes, with the scheme to become a permanent feature of Federal Budget
2. Financial regulators implement rules that ensure changes to lending regulations consider regional and local circumstances beyond major housing markets, to avoid disproportionate impacts and, where possible, avoid blanket changes that worsen circumstances for regional markets. The variability in the Australian property market warrants a granular and targeted approach which considers local market conditions as well as the impact of the demographics across areas to avoid negatively impacting development finance or access to finance for home buyers.
3. Establish a Property Finance Reference Group comprised of the Federal Government, RBA, APRA, API and Industry representatives including the UDIA to monitor and examine property market indicators and headwinds.