



MASTER BUILDERS
A U S T R A L I A

Housing Legislation: Exposure draft consultation Housing Australia Future Fund Bill 2023, National Supply and Affordability Council Bill 2023, Treasury Laws Amendment Bill (Housing Measures No. 1) Bill 2023

Master Builders Australia submission to the
Federal Treasury Department, 11 January 2023

Master Builders Australia welcomes the opportunity to provide input to the Treasury Department's Housing Exposure draft consultation on the Housing Australia Future Fund Bill 2023, National Supply and Affordability Council Bill 2023, Treasury Laws Amendment Bill (Housing Measures No. 1) Bill 2023.

The legislation gives effect to the Government's housing election commitments to establish the \$10 million Housing Australia Future Fund, National Housing Supply and Affordability Council and Housing Australia.

The combination of the Housing Future Fund to finance investment, the National Housing Supply and Affordability Council to coordinate national research, reporting and advice, and Housing Australia to deliver the government's housing programs, provides the opportunity to embed housing as a core infrastructure priority for the Federal Government.

Master Builders Australia supports the continuation of the work of the National Housing Finance Investment Corporation (NHFIC) as Housing Australia and the key role it plays in delivery of housing programs. NHFIC is best placed to lead the delivery of the Albanese Government's housing agenda and new functions that are developed in the years ahead.

This submission responds to the Housing Australia Future Fund Bill and National Housing Supply and Affordability Council Bill. The Treasury Laws Amendment Bill is considered complementary to these measures and will not be commented on by Master Builders. This submission in regard to the first bill makes recommendations on expanding the Housing Australia Future Fund; and for the second bill provides views on additional inputs to the research/reporting/advisory functions and processes for stakeholder collaboration/consultation.

Housing Australia Future Fund Bill 2023

Master Builders is part of the National Affordable Housing Alliance (NAHA) of peak bodies, unions, the superannuation and community housing sectors. This alliance supports the objective of enabling a perpetual pipeline of investments that delivers annual additional supply of housing that leverages taxpayer and private investment.

To deliver on the \$290 billion investment and creation of 800,000 net additional dwellings by 2035 identified by NHFIC will require taxpayer and private investment. The NAHA has previously identified that a Housing Future Fund would require a \$20 billion capital investment together with other initiatives such as financial and tax incentives to address the gap between risk and investment return for institutional investors; and reprioritising one per cent of development taxes and charges (\$157 billion annually) into social and affordable housing.

NAHA has identified that annual additional supply of between 12,000-15,000 social and affordable dwellings per annum and in the mainstream market between 170,000–220,000 dwellings per annum is needed to meet Australia's housing needs.

The Housing Australia Future Fund starts delivering on this framework with a \$10 billion investment to deliver 30,000 new social and affordable dwellings in its first five years. The funding is targeted at areas of greatest need including crisis housing for women and children leaving/experiencing domestic violence, improving housing in indigenous communities, specialist services for veterans and frontline worker accommodation.

To meet the \$290 billion investment needed by 2035, the government should consider expanding capital investment in the Fund, providing further support through financial/tax incentives and incentivising states, territory and local government to redirect one per cent of annual development taxes and charges to social and affordable housing preferably into the Housing Australia Future Fund - so one national fund is established to leverage investment and support a more coordinated national approach to housing investment.

Recommendation 1: Go further with measures by implementing recommendations developed by the National Affordable Housing Alliance so a wider scope of investment can be leveraged, including:

- **Expanding the size of Housing Future Fund capital investment from \$10 billion to \$20 billion.**
- **Introducing tax incentives to address the gap between risk and return for major institutional investors.**
- **Commitment from all levels of government to redirect one per cent of development taxes and charges to social and affordable housing.**

National Supply and Affordability Council Bill 2023

The strength in the Albanese Government's housing policy agenda is establishing a formal mechanism for collaboration and coordination of options to improve housing supply and affordability. The fragmented nature of data collection, reporting and policy development is a significant barrier to getting better results in the delivery of housing.

The National Supply and Affordability Council exposure draft Bill establishes an independent statutory body to provide independent advice to government on options to improve housing supply and affordability. It will report on matters that have potential to materially impact housing supply and affordability. It will also provide advice to government on disbursements from the Housing Australia Future Fund.

There are significant practical issues that need to be coordinated in a coherent and consistent way. It will be important for the Council to recognise these as core elements on the journey to

improving housing supply and affordability. The Council should as a priority undertake a deeper dive into these issues to define a scope and focus of early work.

The NAHA has identified these issues as including access to land, construction risk, program risk, labour supply, cost of funds, access to offshore capital, mainstream housing supply, and organisational accountability. Attached to this submission is a summary of these issues and responses that might be considered in the work of and generation of advice from the Housing Supply and Affordability Council.

Section 9 of the Bill outlines the functions of the Council in regard to research reporting and advising government on matters that materially impact housing supply and affordability, as well as grants for financial assistance. It will do this by monitoring housing sector conditions including home ownership, rental affordability, homelessness and the numbers of new social and affordable housing being built annually. The Council may also consider other matters such as performance of the housing sector; building a strong evidence base; specific impacts on the sector including credit conditions, taxation, macro-prudential regulation, rental market regulation, other regulation (land use planning, zoning and building codes), climate and demographic change, social policy; availability and quality of data, role of intergovernmental forums, improving housing outcomes for vulnerable groups, climate resilience and supply.

The draft legislation effectively defines the functions of the work of the Council but should be clearer on the state of existing housing to support ongoing reporting on what's needed in the future. In the execution of the work of the Council, a necessary first step in the process will be to undertake a stocktake of the status quo – including the state of existing housing, committed pipeline of new housing, government incentives for investment in housing, barriers to investment (regulatory/land/finance/sector capability), cost impacts/shocks (economic, weather, regulatory transformation), library of existing key data sources and gaps in data. This might be a consistent feature in each annual report to provide a baseline for the state of the sector report specified in draft legislation Part 2, Section 10 (2).

Master Builders is commissioning work to model the cost layers for the sector to establish a clearer picture on the impacts for housing affordability and industry viability. The cumulative cost burden of regulatory change and impact of economic shocks is a missing piece of data that would provide policy makers with a clearer picture on how these events impact housing affordability and industry viability.

Collaboration between Commonwealth bodies, state/territory and local governments and other stakeholders is a consistent theme in the draft legislation. A process for engagement with industry might be best supported through the establishment of an industry reference group. Formal mechanisms are established between the levels of government and with universities through AHURI but not with industry stakeholders.

Recommendation 2: The draft legislation effectively defines functions but should be clearer on defining the status quo as a baseline for ongoing Annual reporting on the state of the market.

Recommendation 3: Establish an industry reference group as a vehicle for engagement with industry. Formal mechanisms are established with government, and with universities through AHURI but not with industry.

Master Builders welcomes the opportunity to provide input to this consultation.

If the Treasury Department has questions or would like to further discuss any of the points raised in this submission, please contact:

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Master Builders Australia

Master Builders Australia is the nation's peak building and construction industry association. Master Builders' members are the Master Builder state and territory associations.

Over 130 years, the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors of the industry – residential, commercial, and engineering/civil construction.

New home building activity hit very high levels during the pandemic. During 2021-22, a total of 207,510 new dwellings were started across Australia. However, activity is in reverse gear as a result of higher interest rates, labour shortages and weak inward migration. We project that new home building starts will drop by 18.3 per cent to 169,630 during 2022-23 with detached house starts likely to bear the brunt of the fall. However, this is likely to represent a trough and we are anticipating that total dwelling commencements will return to about 210,000 by the end of our forecast horizon in 2026-27. Both detached house building and higher density home construction will share in this growth. However, apartments and units are likely to perform particularly well as a result of stronger inward migration to Australia and the strong commitment by all levels of government to greater social and affordable housing provision over the coming years.

Australia's building and construction industry comprises 1.24 million workers across more than 445,000 businesses. In 2021-22 work undertaken in the building and construction industry totalled \$217 billion.

National Affordable Housing Alliance (NAHA) Initiatives

NAHA has identified a number of practical issues that need to be addressed in a coordinated, coherent and consistent way to improve the supply of affordable housing. The NAHA has identified these as relating to access to land, construction risk, program risk, labour supply, cost of funds, access to offshore capital, mainstream housing supply, organisational accountability. NAHA has proposed the following responses to these issues:

- Land. The cost of gaining access to land suitable for the development of social and affordable housing in appropriate forms is prohibitive almost everywhere. Government support/subsidies to achieve an increase in social and affordable housing in new development and up zoning projects should be considered early in the land use planning process.
- Construction Risk. The management of construction risk creates a significant impost on the cost structure of any development activity, especially at present. This will not dissipate any time soon. Risk transfer mechanisms need to price risk using a risk sharing structure that allocates risk where most appropriately managed rather than the proponent being obliged to accept all risk unilaterally.
- Program Risk. Supply chain and procurement risks are forecast to remain in the economy for several years to come and will require a staged approach to mitigation given the uncertainty that remains in world logistics and procurement markets.
- Labour Supply. Much of the risk in both construction & supply chain procurement relates to a lack of capacity and distribution of skilled trades people. The lead times for re-building the Australian construction workforce will require a concerted investment and focus to accommodate additional demand.
- Cost of Funds. The cost of funds has risen significantly over the course of 2022. The corresponding impact on property markets, investment yields and investment outlook will require a “through the cycle” perspective as part of the investment analysis process. FY23 & FY24 are forecast to experience significant impacts flowing from cost of living rises and cost of capital impacts. Pricing of debt and equity, as well as the decisions around subordination will be critical to institutionalising the provision of social and affordable housing in the medium to long term, notwithstanding shorter-term headwinds.
- Offshore Capital. Penalties upon offshore capital investment at both Federal (Thin Cap & FIRB policies) and State (Surcharges & Ownership restrictions) should be reviewed to ensure that foreign capital markets remain open to Australia in general and made attractive for the provision of social and affordable housing in particular.
- Mainstream Housing Supply.
 - o Reform of state and local planning processes are necessary to streamline:
 - Forward planning processes that lead to the release of new urban development well in advance of demand e.g. minimum 10-year urban development program.
 - Housing Strategies forecast demand and infrastructure investment required to deliver supply – municipality by municipality - using transparent and up to date demand, infrastructure, and land use data. These strategies to be aggregated at the State level and assessed for their adequacy in sustaining housing activity at levels designed to minimise undersupply as a basis for house price escalation.
 - The consolidation of these State based strategies then form the basis of a national strategy that integrates and overlays the economic and broader social objectives within the purview of the Federal Government.

- Incentives designed to encourage urban consolidation incorporated into planning processes that deliver effective benefits over conventional greenfield development activity.
- Land use activities that limit the availability of established housing stock (e.g. Short Stay, withholding stock from the market) for housing purposes need to be aligned with the overarching objective of increasing housing supply.
- o Alignment of regulatory restrictions on the financial sector e.g. APRA should be reviewed so that it takes account of the overarching objective of increasing housing supply as part of its mandate to regulate the banking sector and financial institutions.
- o Increasing the availability of Government land to assist in increasing land supply is desirable as an ongoing initiative but will not, of itself, make sufficient difference to supply at the scale necessary to meet the overall need. This policy must be matched by mechanisms that secure land contributions (or cash equivalents) from the private market to broaden and scale up land availability.