



Media Release

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Carbon Tax Should Not Punish Energy Efficiency

The introduction of a Carbon Tax should not increase the price of energy efficient new homes, whilst energy inefficient existing homes remain unaffected, according to the Urban Development Institute of Australia (UDIA), the peak body representing the Australian property development industry.

According to UDIA National President Peter Sherrie, “New homebuyers should be compensated for the increased costs of new housing resulting from a Carbon Tax, by a compensation scheme that extends beyond the realm of carbon emissions and rewards sustainable behaviours and practices as a whole.”

The development industry has played a major role in achieving higher levels of environmental sustainability beyond compliance in recent years through nationally recognized sustainability benchmark rating systems such as EnviroDevelopment; however, UDIA does not support any government policies that will adversely and unfairly impact on housing affordability, affordable living or on the industry in general.

“The property development industry’s pursuit of sustainable development practices puts us years ahead of other industries and this must be recognised in any compensation scheme for the Carbon Tax”, said Mr Sherrie.

UDIA is also concerned that the increased costs generated by the proposed Carbon Tax may induce a similar sharp decline in land and housing demand to that which occurred in the aftermath of the implementation of the Goods and Services Tax.

“All indications suggest that the Carbon Tax will lift the price of an average house and land package in the order of six thousand dollars, which will deliver another blow to housing affordability and to the industry as a whole”, said Mr Sherrie.

“New home buyers who make a concerted effort to embrace sustainability, such as the purchasing of energy efficient homes, should not be subject to the effects of a Carbon Tax”, Mr Sherrie concluded.

A copy of UDIA’s Carbon Tax Policy Position is attached.

For further information or comment, please contact:

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UDIA Carbon Tax Policy Position

4 July 2011

The Urban Development Institute of Australia (UDIA) has prepared this paper in response to the Federal Government's stated intention to introduce a Carbon Tax by 1 July 2012, a tax which is scheduled to run for 3 to 5 years before making way for an Emissions Trading Scheme (ETS).

UDIA does not support any Government policies that adversely impact on the delivery of affordable housing. The Institute would like to work alongside the Government in achieving a sustainable outcome for prospective home buyers and the property development industry in general.

It should be mentioned from the outset that the UDIA's membership has increasingly embraced sustainable development. Our growing sustainable approach has been in response to legislation enacted by the various layers of Government and as a result of our own industry-driven sustainable initiatives. The result is an industry which has made significant efforts in achieving high levels of sustainability. We believe our past and current pursuits of sustainable development put us ahead of many other industries and warrants careful consideration by the Government.

In short the development industry has already played a major role in achieving higher levels of all round environmental sustainability and new home buyers or the industry should not be unfairly disadvantaged by an additional tax.

The industry has complied with the increasing stream of environmental legislation which often compromises the ability to offer low cost housing. One such example is the costs associated with improving energy efficiency of residential dwellings. Energy efficiency requirements were brought into the Building Code of Australia in 2003. This process of employing more stringent levels of energy efficiency was most recently underscored by the Council of Australian Government's (COAG) announcement that a minimum six star energy efficiency rating will be required for homes built after May 2011.

According to the Australian Building Codes Board's Regulatory Impact Statement the move to six star will cost the community in excess of \$440 million. The Master Builders of Australia (MBA) believes the figure is somewhat higher. In fact an MBA survey in 2008 in Victoria showed that the then move to a five-star minimum energy rating had added \$7,600 to the cost of a new house. The same survey found that six-star ratings would add \$10,000. The development industry's commitment to sustainability is also evidenced by its adoption and promotion of the EnviroDevelopment initiative, which through an independent certification process recognises sustainable developments.

By the end of 2010 more than 26,500 lots/units and 104 hectares of industrial space had been certified under EnviroDevelopment. These projects represent significant environmental achievements including the contribution of green space in excess of 1,400 hectares (the equivalent to 706 football fields), the reduction of greenhouse gas emissions by approximately 54,000t (equivalent of taking over 10,500 cars off the road per year) and a

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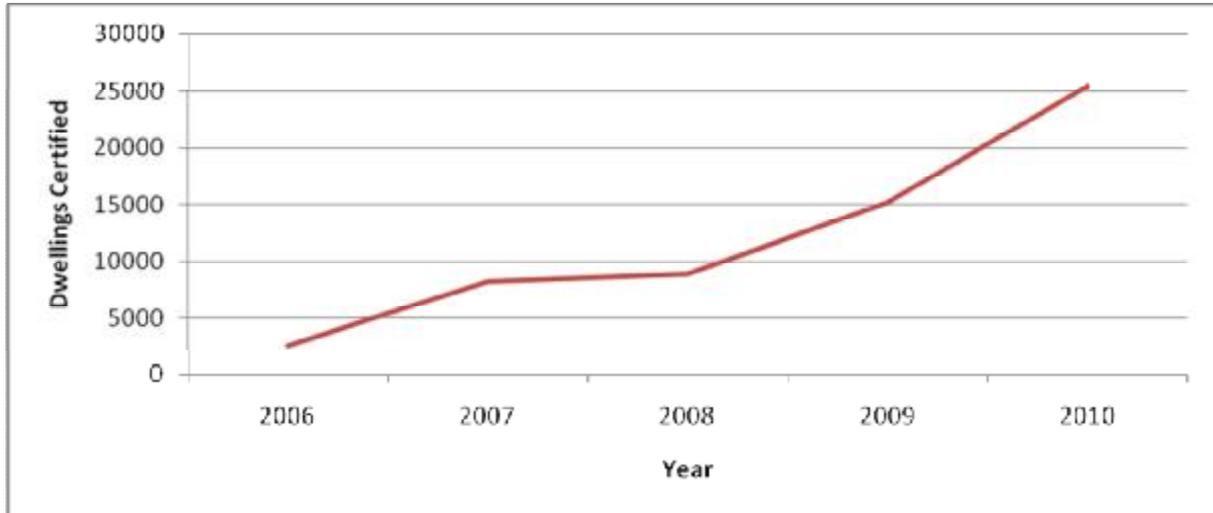
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reduction in potable water usage of 3,175ML/yr (equates to nearly 1,600 Olympic sized swimming pools). Furthermore, the below graph indicates that these gains are only likely to escalate into the future as EnviroDevelopment continues its impressive growth.

Lots certified under EnviroDevelopment



Source: UDIA

While we are determined to work with the various layers of Government in achieving favourable sustainable outcomes, UDIA believes that environmental, social and economic factors should all be taken into consideration when regulating the development process. In the case of the proposed Carbon Tax/ETS, UDIA urges the Government to take due consideration of the economic factors at play.

UDIA believes that the proposed Carbon Tax poses a potential threat to the supply of affordable housing in Australia. We are already suffering from an acute shortage of affordable housing and the Government should not compound this fragile situation. Over the years the development industry has been hit with a raft of taxes and regulations which only serve to increase house prices and disadvantage would-be buyers. It is essential that the Carbon Tax/ETS scheme does not become yet another inequitable tax burdening the new home buyer.

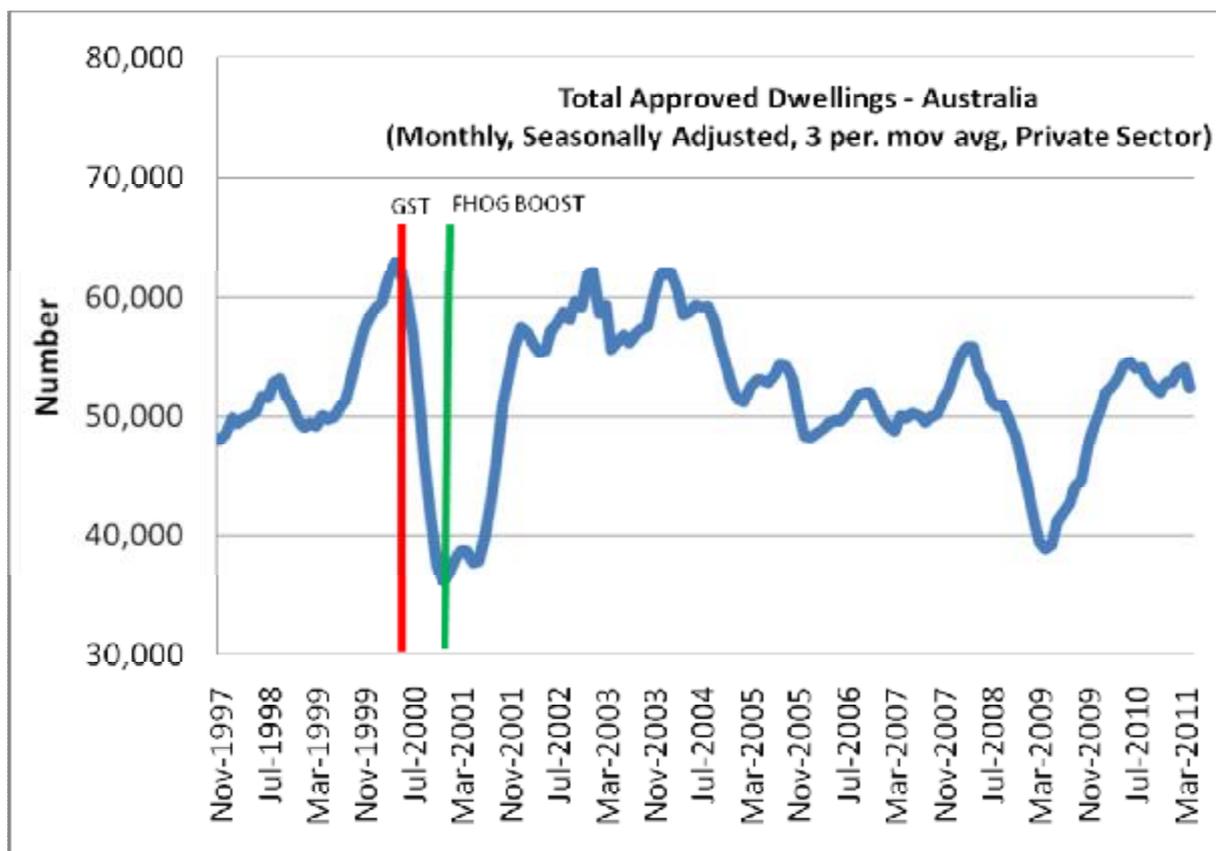
In addition to protecting new home buyers, UDIA urges the Government to take steps to avoid this tax from adversely affecting the broader property development industry. Every effort should be taken to limit the economic impact which this new tax will have on the sector.

The property development industry directly accounts for 7.3% of GDP and, taking into account indirect impacts on the rest of the economy delivers an additional 6.2% of national output. As a result, the industry directly accounts for 975,700 full time equivalents (FTEs) (9.1% of the workforce) and a further 749,600 FTEs (7% of the workforce) in the broader

economy.¹ Any significant economic contraction in the industry would certainly result in reciprocal job losses.

UDIA is concerned that the industry might endure a similar fate to that which it suffered in the aftermath of the implementation of the Goods and Services Tax (See attached Dwelling Approvals Graph). Demand for new housing dropped off significantly following the introduction of the GST in July 2000. Although a First Home Owners Grant (FHOG) was introduced alongside the GST it failed to boost demand and dwelling approvals fell sharply. Confidence in the market was restored some nine months later with implementation of a FHOG boost, which helped dwelling approvals to eventually rise to pre-GST levels. The Government needs to learn from this example and allow for adequate compensation measures from the very start of any proposed Carbon Tax.

The Government has to send a strong message, backed up by economic modelling and a detailed and well communicated compensation programme, that the Carbon Tax will not affect the economic welfare of Australians; if done properly this would go some way to avoiding a disruption in the new housing market such as the one experienced following the introduction of the GST.



Source: UDIA

¹ *The property development industry economic impact*, Property Insights, 03/2010

The Government needs to act swiftly to finalise the proposed details of the Carbon Tax and eventual ETS. For industry to support and offer productive input on this legislation, the Government will have to provide full details of the scheme well in advance of any attempt to make it law through the Parliament.

Indications from the Housing Institute of Australia are that a Carbon Tax priced at \$20 per tonne would increase the cost of a new home by around \$6,000. This includes both the cost of construction as well as the cost of developing the land. The figure is based on the estimated amount of CO₂ as embodied energy used in the production of new dwellings and related infrastructure requirements which is approximately 240 tonnes.

To gain greater understanding of the effects for the development and housing industry, Treasury should complete thorough economic modelling, demonstrating the effect which the tax will have on new house prices.

Although the issue of compensation will need to be discussed in greater detail once the effects of the Carbon Tax/ETS are put forward, UDIA favours a compensation scheme that supports the Government's broader sustainability agenda and mitigates potential unintended consequences of the Carbon Tax.

It is critical that the emissions for the whole of life of a building are considered rather than simply focusing on specific building products such as cement, brick or steel. Building products with a high level of embodied energy can provide positive sustainability outcomes such as thermal mass that reduces the need for mechanical heating and cooling over the life of the building.

To support the Government's agenda of improving the sustainability of our built form UDIA believes that homebuyers building energy efficient homes should be isolated from the cost impact of the Carbon Tax. Such a rebate or grant should extend beyond the realm of carbon emissions and should reward sustainability as a whole. Home buyers which make a concerted effort to embrace sustainability should not be subject to the effects of a Carbon Tax.