



28 January 2011

Budget Policy Division
Department of the Treasury
Langton Crescent
PARKES ACT 2600
Via email: prebudgetsubs@treasury.gov.au

PRE-BUDGET SUBMISSION

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

The Urban Development Institute of Australia (UDIA) is the peak 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.

UDIA aims to secure the economic prosperity and future of the development industry in Australia, recognizing that national prosperity is dependent on our success in housing our communities and building and rebuilding cities for future generations.

Our members cover a wide range of specialist and industry fields, including: Developers, Valuers, Planners, Engineers, Architects, Marketers, Researchers, Project Managers, Surveyors, Landscape Architects, Community Consultants, Environmental Consultants, Lawyers, Sales and Marketing Professionals, Financial Institutions, State and Local Government Authorities, and Product Suppliers.

UDIA recognises that the 2011/12 Federal Budget will come under immense pressure due to the tragic impacts of the recent flooding in Queensland, New South Wales and Victoria. However, UDIA is of the view that in addition to the flood recovery effort, there are a number of other major priorities that need to be addressed by the Government in this budgetary cycle. UDIA believes that these priorities are more important than returning the Budget to surplus by a self-imposed deadline.

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Federal Government Affordability Initiatives

Australia is suffering from a severe shortage of affordable housing as developers face significant challenges in bringing land to market at reasonable prices. This has been highlighted by the recently released 2011 Demographia International Housing Affordability Survey which found Australian housing markets to be among the most unaffordable in the world.

Although the Federal Government has in recent years launched several initiatives to tackle the housing affordability crisis, a number of these schemes have since been neglected or suffered from funding cuts. UDIA is concerned that the Federal Government is underestimating the severity of the country's affordable housing shortage and we believe that the 2011/2012 Federal Budget needs to make a firm pledge to counteract this crisis by guaranteeing funding for such projects as:

- A more efficient and institutional investor-friendly National Rent Affordability Scheme;
- The work conducted by the National Housing Supply Council, including its *State of Supply Report*;
- A new round of funding for a revised Housing Affordability Fund;
- A more flexible and simpler version of the First Home Saver Account;
- The Building Better Regional Cities program.

The Government needs to reaffirm its commitment to make housing more affordable by revising and refining existing mechanisms. Furthermore, an adequate and certain funding regime should be provided for these programs.

National Rent Affordability Scheme

The National Rent Affordability Scheme (NRAS) has been more slowly embraced by investors than everyone would have liked, however, given the launch of NRAS occurred just before the Global Financial Crisis it is understandable. The GFC and the conservative investment strategies from investors in the two years that followed slowed interest in all new investment products so it should not be seen as a failure. Innovation takes time, particularly for new investment products in financially difficult times. UDIA believes NRAS is a step in the right direction to combating housing affordability and there is growing potential for institutional investors to become involved.

To solve Australia's growing shortage of affordable housing, Governments and the private sector need to work together to invest significantly more capital into affordable housing. NRAS is in its infancy and to function optimally the scheme will need more time along with a commitment to ongoing improvements. As with the HAF, a significant level of funding has unfortunately been redirected from NRAS to regional development initiatives. This is most disappointing as the housing affordability problems are chiefly in our large cities and urban areas.

The Government also recently announced plans to divert funds from NRAS to pay for the flood recovery effort in Queensland. Amid all the funding cuts the original target of 100,000

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rental dwellings over 10 years was lowered to 50,000 and could be cut down to 35,000. For NRAS to make a noticeable impact, the Government will need to demonstrate its long-term commitment to the scheme by implementing a more certain funding regime.

UDIA opposes the Government's decision to cut NRAS funds to help pay for the Queensland flood recovery effort. Nevertheless, we accept that difficult circumstances require difficult decisions and we urge the Government to make a commitment to restore funding to NRAS once the 12 month levy/cost cutting period has passed. This should enable the scheme to reach the previous target of 50,000 homes. Furthermore, for NRAS to be effective the scheme needs to offer institutional investors certainty over time and not be seen as a one off quick fix that failed, or it risks damaging investor confidence about housing, exacerbating the affordability problem. The current strategy will only attract smaller investors which are unlikely to generate the significant capital necessary to achieve affordable rental solutions or mobilise the community housing sector at the scale that is required.

National Housing Supply Council

The National Housing Supply Council was established in 2008 to monitor housing demand, supply and affordability. To date it has released two (2008 and 2010) *State of Supply Reports* which have highlighted the ongoing shortage of affordable housing in Australia. UDIA believes that the work of the Council is extremely valuable and that it should continue to receive future Federal funding.

Housing Affordability Fund

The Housing Affordability Fund (HAF) has been relatively well received by the development industry. However, the fund has failed to make the intended impact on affordability due to its limited application. The Government's recent decision to redirect a large share of the fund to regional development risks neglecting the cities, where the bulk of housing is required. While any future funding rounds would be welcomed, the Government should consider extending the HAF to allow private developers to apply for funding. The HAF would also benefit from a narrower focus and many of UDIA's members believe that the scheme should be primarily focused on funding infrastructure for the purpose of speeding up the release of land.

First Home Saver Account

The First Home Saver Account (FHSA) scheme also needs to be reconsidered. The scheme has thus far failed to attract the interest which the Government hoped it would when it was launched in October 2008. The chief complaint is the scheme's lack of flexibility. Although the Government tried to address this concern at the last Federal Budget, it appears the main sticking point is the scheme's requirement to keep savings in the account for a minimum period of four years. Furthermore, a public awareness campaign is needed to tackle the confusion and better explain the functioning of the FHSA.

Building Better Regional Cities

The *Building Better Regional Cities* initiative was launched with the goal of creating some 15,000 affordable houses in regional cities across Australia. While UDIA disagreed with the previous cuts to the HAF and NRAS which funded *Building Better Regional Cities*, we believe that development in regional areas has role to play in diminishing housing affordability. Although the demand for affordable housing will always be far greater in

Australia's urban areas, it is important to pursue development of alternative regional centres. UDIA is therefore somewhat sceptical of the Government's proposal to divert funds from the *Building Better Regional Cities* scheme for the reconstruction of flood affected Queensland.

Cities and Infrastructure

Australia continues to experience high levels of immigration and population growth in cities. With more than 75 % of Australians living in cities of 100,000 people or more, urban development is clearly a matter of national importance. The demands placed on cities will need to be reciprocated by an effective strategy to expand housing; provide new and upgrade existing infrastructure; and seek alternative regional and urban centres.

UDIA acknowledges the Federal Government's renewed focus on cities and infrastructure in recent years and we are in the process of preparing a submission on the National Urban Policy discussion paper, *Our Cities - building a productive, sustainable and liveable future*.

UDIA believes the Commonwealth Government should provide funds to implement a long-term national urban strategy. This strategy should commit to identifying a fixed supply of land for future development, for example 25 years of zoned residential supply. The strategy should also encourage the integration of infrastructure provision and land supply pipelines across the nation. Furthermore, Australia's future urban landscape will also benefit from a program which ensures the delivery of major urban renewal projects that would not be possible without significant initial public investment, similar to the previous *Building Better Cities* program.

As major cities grow there is an increasing gap between the demand and supply of suitable residential land. The selling off of Commonwealth land for housing purposes may partly ease the current shortage. The recent introduction of the Register of Surplus Commonwealth Land Potentially Suitable for Housing is to be commended. This, however, needs to be subject to regular updating so potential opportunities are not missed. UDIA recommends that the Federal Government conduct a thorough bi-annual audit of all Commonwealth-owned land in order to regularly update its Register of Surplus Commonwealth Land.

It is acknowledged that most of the decision-making powers in these matters are devolved to the State/Territory Governments. With this in mind UDIA reiterates our call for Federal funding to the States/Territories to be linked to the effective provision of infrastructure by States/Territories.

Planning Reform

There is an urgent need for planning reform throughout Australia. Development is currently being hamstrung by a complicated regulatory framework which has fostered a time-consuming approvals process.

This has been confirmed by the Henry Review on Australia's Future Tax System as well as by the recently released Treasury Red book.

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This issue seems to be gaining traction at the Federal level; the Council of Australian Governments (COAG) has undertaken a review of capital cities strategic planning systems with the findings due to be released in November 2011. In addition, the Productivity Commission (PC) is running a project on *Performance Benchmarking of Australian Business Regulation: Planning, Zoning and Development Assessments* and the final report is due to be released in April 2011. UDIA has been active in the consultation processes of both of these projects.

Although the renewed attention on matters of planning is welcomed, it is imperative that these reviews and studies are translated into genuine policy outcomes and UDIA believes the Government should set aside funds for the pursuit of genuine planning reform.

Taxation

The property and development industries continue to bear the brunt of a string of inequitable taxes and levies. The industry has been subjected to land taxes, stamp duty, GST, and excessive infrastructure charges ('developer levies') to name a few. These have all served to discourage investment while negatively affecting housing delivery and affordability.

Although the majority of these taxes are levied by State Governments and local councils, the Federal application of the GST has also sought to distort prices.

The Henry Review made a number of astute observations regarding the plight of the country's property and development industries. Among the inquiry's recommendations was that COAG review the appropriateness and transparency of infrastructure charges. Similarly, UDIA has been advocating for the PC to undertake an inquiry into 'developer levies' and alternative methods of financing infrastructure.

The Government has committed to arraign a 'Tax Summit' before 30 June 2011 in order to discuss the Henry Review. UDIA believes this meeting presents a unique opportunity for the Government to commit itself to an overhaul of the existing taxation framework.

UDIA believes that Australia would benefit from a property development industry in which investment is encouraged through lower taxation and in which high levels of production are taxed more efficiently.

Environment and Sustainability

UDIA supports higher levels of sustainability and our members have been at the forefront of embracing sustainable development principles. In addition, our organisation is committed to environmental conservation. While we are determined to work alongside the various layers of Government in achieving favourable sustainable and environmental outcomes, UDIA believes that environmental, social and economic factors should all be taken into consideration in the development process.

The Institute's commitment to sustainability has been evidenced by its adoption and promotion of the EnviroDevelopment initiative, which through an independent certification process recognises sustainable developments. Government and industry must work together

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to improve consumers' understanding of sustainable living practices and in this regard, UDIA is strongly committed to EnviroDevelopment as a community education tool.

Although UDIA is supportive of high standards of sustainability, it is important to note that achieving such standards have significant cost implications for developers. Government incentives for sustainability should see developers be able to access subsidies or grants during the development application phase. This is a far more efficient process which will deliver a far greater commitment to sustainable urban development.

The Environment Protection and Biodiversity Conservation Act (EPBC) covers matters of national environmental significance. The Act is a Federal piece of legislation which has primacy over State/Territory environmental laws. However, the onus to fund the protection of this flora and fauna usually falls on the various State/Territory Governments and developers. The Federal Government needs to release funding to help manage the conservation of species listed under the EPBC Act.

UDIA also believes that the Federal Department of Sustainability, Environment, Water, Population and Communities should release funds to establish or revise bilateral agreements with all State/Territory Governments in relation to the EPBC Act. These agreements should create an integrated policy framework between the different levels of Government enabling single assessments to take place prior to urban zoning.

Population

Australia's future population policy continues to illicit strong debate. UDIA is preparing a submission on the recently published issue paper, *A Sustainable Population Strategy for Australia*, prepared by the Department of Sustainability, Environment, Water, Population and Communities. UDIA believes that a growing population is inevitable and that appropriate and expanding infrastructure to service this growth is good for the economic and social welfare of Australia.

UDIA does not support a target population and considers that the economic fundamentals and the labour market should drive our immigration, population and employment policy. Of particular concern to UDIA is the current shortage of skilled labour in the building and construction sector.

UDIA believes that all Australian Governments should work with the development industry to ensure that there is an adequate supply of good housing, connected to high quality infrastructure, of the type and location where people want to live.

Concluding Comments

UDIA thanks The Treasury for the opportunity to provide this Pre-Budget submission to the Commonwealth Government. UDIA would welcome the opportunity to discuss any aspect of this submission in greater detail. For further information, please contact UDIA National on 02 6230 0255 or at udia@udia.com.au.

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Yours Sincerely



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