Submission to the Inquiry into Home Ownership

Prepared by the Urban Development Institute of Australia (UDIA)

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UDIA in Brief

The Urban Development Institute of Australia (UDIA) is the peak body representing the interests of the development industry around Australia, acting on behalf over two thousand members across the country from a wide variety of fields.

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

The property development industry is a major contributor to the Australian economy.

- It is the fourth largest industry in Australia in terms of its contribution to GDP. It 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.

- Almost one in ten Australian workers are employed in property development, with the industry directly accounting for over 975,700 jobs (9.1% of the workforce). In comparison, the mining industry employs less than 2% of the workforce. Property development employs a further 749,600 people through its indirect impact on the rest of the economy.

- As a conservative estimate, the property development industry, both directly and through associated industries, generates in excess of $29.7 billion in State and Federal taxes annually.

Introduction

The Urban Development Institute of Australia (UDIA) welcomes the opportunity to provide this submission to the House of Representatives Inquiry into Home Ownership.

Culturally, Australians have a strong preference for home ownership, and widespread access to affordable home ownership has long been a fundamental tenet of modern Australian society. It offers greater security, financial self-sufficiency, enhanced social capital and a greater sense of connection to the community.

In addition to the social benefits, there are widespread economic benefits to strong levels of home ownership. Construction of new homes for owner occupation supports Australia's multibillion development and construction industries, with enormous flow on benefits in employment and economic growth.

Home ownership is also a policy area with major implications for both state and federal governments. High levels of affordable home ownership have helped constrain government expenditure on social services such as rent assistance, public housing, homelessness services, and old age pensions, whilst generating billions in tax revenue.

Unfortunately, the dream of home ownership is becoming increasingly out of reach for a growing number of Australians, as the price of homes have dramatically outstripped growth in incomes over the last several decades. The potential for younger generations to be priced out of home ownership poses some serious questions about the future of long held Australian values, and the likely impacts on our society, economy, and government policies.

Despite the gravity of the situation, and its critical importance to Australia's social and economic fabric, successive governments at both state and federal levels have failed to undertake meaningful action to address falling access to affordable home ownership. The causes of, and solutions to Australia's housing affordability problems have been outlined comprehensively in multiple past inquiries and reports into housing affordability and home ownership undertaken by the Productivity Commission, COAG and the Australian Parliament on multiple occasions.

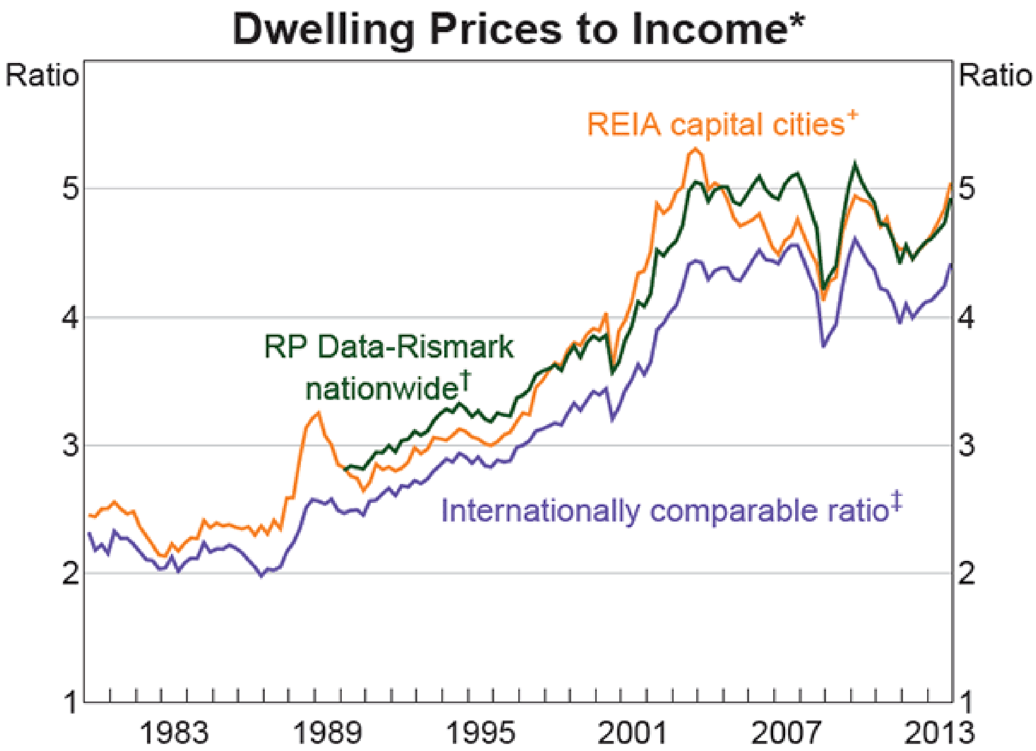
In short, Australia does not build enough new housing to support its growing population, creating a severe housing shortage, which is exacerbated by inadequate investment in urban infrastructure, high taxes and charges, and excessive red tape on new housing construction and development.

UDIA believes there is an urgent need for governments at all a levels to take the necessary action to resolve these problems, and restore housing affordability and support affordable home ownership.

Home Ownership in Context

To gauge the current state of home ownership in Australia, it is worthwhile examining how it has changed over time. UDIA believes that home ownership is an increasing challenge for many households, particularly those looking to enter the market, and that access to home ownership has declined significantly over the last few decades.

A common indicator of trends in access to home ownership is the ratio of house prices to household income, which has grown considerably over recent decades by most measures. Estimates range from current house prices at 4-6 times median household income depending on income assumptions, but most indicate an approximate doubling in the ratio since the early 1990s.



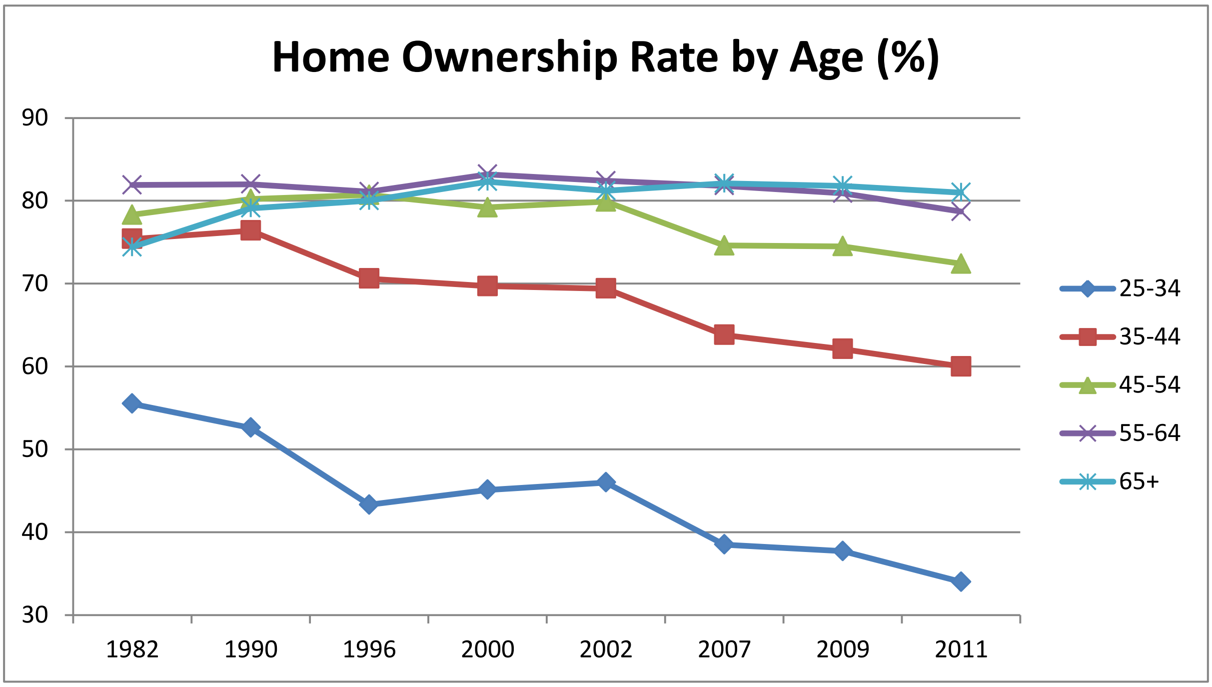
Reserve Bank of Australia Submission to the Inquiry into Affordable Housing, February 2014, available <http://www.rba.gov.au/publications/submissions/inquiry-affordable-housing/index.html>
Sources: ABS; RBA; REIA; RP Data- Rismark

The simple explanation for this is that whilst income growth over the last 15-20 years has been strong, growth in house prices have been much stronger, which other things equal, would lead to lower access to home ownership.

Part of the increase in house price to income ratios can be attributed to a structural shift to lower interest rates through the 1990s, which have allowed households to carry higher levels of debt.

Thus the affordability impacts of higher house prices relative to incomes have been counteracted to a significant extent by lower interest rates, particularly for those already in the market. However for households yet to enter the market, lower interest rates combined with higher house prices have made it harder to save the necessary deposit, by simultaneously increasing the size of the deposit required, and lowering the rate of return on savings.

Lower access to home ownership is strongly reflected in falling rates of home ownership, with fewer households owning their homes outright, and an increasing proportion of households forced to rent. Whilst the overall rate of home ownership has only declined by a relatively modest 7%, from 71.3% of households in 1982 to 64.3% of households in 2011, it masks the disproportionate decline experienced by younger generations, where rates of home ownership have collapsed.



Wood G, Rachel, O, *The Facts on Australian Housing Affordability,* available https://theconversation.com/the-facts-on-australian-housing-affordability-42881
Source: ABS Survey of Income and Housing

The 25-34 and 35-34 year old demographics have seen the largest declines in the rate of home ownership, falling by 39% and 20% respectively. Older cohorts have seen much more modest falls in the rate of home ownership, with those aged 45-54 and 55-64 seeing falls of only 6% and 4%. Those over the age of 65 are the only demographic to have experienced increasing levels of home ownership, with the rate increasing by 9% for those 65 or older.

Why is Access to Home Ownership Important?

Access to affordable housing, and in particular affordable home ownership, is critically important to the long term sustainability of households, the Australian economy, and government finances.

Affordable home ownership provides individuals with financial and social stability, allowing them to plan for long term decisions such as having children or forming a household, and provides an added measure of certainty and security to their future. Households that struggle to meet their housing needs are likely to have a lower quality of life, and may struggle to satisfy their need for other essentials such health care, education, and social engagement.

Highly un-affordable housing has significant and damaging impacts on the economy. The need for households to spend increasing proportions of income on housing reduces spending on other goods and services in the economy, and high housing and land prices flow through to businesses, increasing their cost base and reducing their international competitiveness. Poor levels of affordability also reduce activity in the development and housing construction industry, threatening economic growth and employment.

Finally, affordable home ownership will be a major factor in limiting the demands of population aging on Government finances. Government spending on pensions in Australia is able to be considerably lower than in many other countries because high levels of home ownership amongst retirees have made their housing costs very low[1]. Increasing numbers of people entering retirement reliant on social housing or private rental as a result of their inability to achieve home ownership will result in rapidly escalating costs for government.

[1] OECD (2013), "The role of housing, financial wealth and public services for adequate living standards in old age", P81, in Pensions at a Glance 2013: OECD and G20 Indicators, OECD Publishing.

Factors Affecting Home Ownership

UDIA is strongly of the view that Australia has not built enough new dwellings to support population growth for many years, and that the country now suffers from a significant underlying shortage of homes, pushing up both rents and house prices.

In order to address the root of Australia's housing affordability problems, Governments must address the supply side constraints on new housing production, such as the insufficient supply of new urban land, inadequate investment in urban infrastructure, high taxes and charges, and burdensome red tape and regulation.

Population Growth and Land Supply

Australia currently has one of the highest population growth rates of any developed country, and this is likely to remain the case into the foreseeable future. UDIA believes that well managed population growth can provide many benefits to the Australian economy, such as creating economic growth and opportunity, alleviating labour and skills shortages, and offsetting the fiscal pressures of Australia's aging workforce.

However to realise these benefits, population growth must be planned for, with the necessary land, new housing and infrastructure to support population growth. Doing so will ensure that population growth is managed sustainably and for the benefit of the entire community.

Timely and sufficient provision of new urban infrastructure, such as transport, utilities, and community facilities is a particularly important factor for ensuring an adequate supply of new land. Infrastructure investment can act as a critical catalyst for development and new supply, by improving access and opening up new areas for urban growth.

Unfortunately, state and federal governments have largely failed to support Australia's rapidly growing population, by failing to ensure sufficient new land is available for housing development, and by not investing sufficiently in new urban infrastructure. This has meant that the supply of new housing has struggled to keep up with increasing demand, and both rents and house prices have risen dramatically as a result.

In addition to damaging housing affordability, inadequate land supply and investment in infrastructure risks damaging Australia's international competitiveness and productivity, through increased congestion, and higher land prices.

UDIA believes that there is a critical need for the Commonwealth and State Governments to collaborate to establish a national strategic plan, providing funding for new urban infrastructure, and requiring cities to maintain a rolling supply of development-ready land to meet demand driven by population growth.

RECOMMENDATION – The Commonwealth should work with state governments to prepare comprehensive strategic plans for future urban infrastructure, land-use planning, and land supply, to align with forecast population growth.

RECOMMENDATION – Provide additional funding for investment in new urban infrastructure, in order to unlock land for development.

RECOMMENDATION – Facilitate non-traditional methods of funding infrastructure, to increase the level of funding available for infrastructure investment at both a federal and state level.

Red Tape and Regulation

Excessive and unnecessary regulation and red tape is another significant contributor to the cost of new homes, and acts as a considerable barrier to new investment. Areas of particular concern for the development industry are costs associated with the application of the EPBC Act and delayed and restrictive planning regimes.

State and Local Government Planning, Zoning and Approvals Processes

Delayed, complex, and restrictive planning regimes at the state and local government level are often a major barrier to the supply of new housing, and can contribute considerably to the affordability problem by increasing costs. The holding costs involved in the urban development process are often very high, which means that development projects are usually very sensitive to time delays, as they blow out holding costs.

Unfortunately planning, zoning and approvals processes in many cities can be extremely slow, adding considerably to the cost of new housing. The 2011 Productivity Commission Report on planning, zoning and development assessment found that across Australia's five largest cities, it can be as long as a decade from the commencement of rezoning to subdivision approval and the installation of infrastructure, indicating the need for planning system reform.

There is an urgent need for state and local governments around the country to work together to undertake major planning system reform, to increase the supply of urban land and reduce delays and uncertainty associated with zoning, planning and approvals processes.

RECOMMENDATION – The Commonwealth should work with State Governments to undertake planning system reform to reduce delays and increase certainty in planning, zoning, assessment and approval systems, and increase the flexibility with which they operate.

EBPC Act

UDIA is fully supportive of the goals of the Environment Protection and Biodiversity Conservation (EPBC) Act, and we believe that if applied efficiently this legislation can contribute towards achieving the triple bottom line of sustainability.

Currently, under the EPBC Act, development projects impacting on any matters of national environmental significance (MNES) must be approved by the Federal Government, as well as undertake the approvals process required at both state and local government levels. This duplication of the approvals process can add considerable delays and costs, yet the same outcomes can be achieved through a streamlined, comprehensive state approvals process.

UDIA supports the creation of a single, streamlined environmental approvals system to reduce the red tape associated with duplicated systems, without harming environmental outcomes. The Government should continue with its plan to streamline the environmental approval process to create a 'one stop shop'.

RECOMMENDATION – The Commonwealth should reduce duplication with state and local government processes, including continuing to streamline federal and state environmental assessment and approval systems.

Airport Planning

The Australian Noise Exposure Forecast (ANEF) system is the principal system currently used for making planning decisions in the vicinity of airports. It has existed for over 30 years, and continues to provide developers, land owners, planning officials and airports with clear, consistent and predictable planning outcomes.

UDIA remains concerned by continued attempts by the Commonwealth Department of Infrastructure to undermine the ANEF system by introducing new and additional noise metrics. UDIA believes the introduction of the metrics outlined in the National Airports Safeguarding Framework and proposed by the Department would increase delays, complexity, and uncertainty in the planning system, and would unnecessarily sterilise vast tracts of land from development for little benefit.

The noise contours currently used in the ANEF system are based on research originally undertaken by Australia's National Acoustic Laboratories to establish acceptable levels of noise disturbance, and are a highly scientific and sound methodology. In contrast, the proposed noise metrics are subjectively defined and not based on any technical analysis.

UDIA strongly maintains the view that the existing ANEF system has been very effective in delivering certainty and consistency in land use planning around airports across all Australian jurisdictions. The Federal Government should end attempts to unnecessarily modify what is already a highly successful system.

RECOMMENDATION – The Commonwealth should stop attempts to restrict development around airports and airport corridors beyond the current and existing standards.

Taxes and Charges on New Housing

A major contributor to the high cost of housing in Australia, and subsequently affordability pressures in recent years is the escalating level of taxes and charges on new homes. The development and construction industry is one of the most heavily taxed sectors in the Australian economy, with various government taxes and charges accounting for up to 44% of the price of a new house in some cities[2]. Many of these taxes are economically inefficient and inequitable, further discouraging investment, contributing to Australia's housing shortage, and worsening housing affordability. The damaging nature of much of the taxation on new property has been recognised in a number of housing and tax reviews undertaken in recent years, such as the Henry Review of Australia's taxation system, and the 2008 Senate Inquiry into affordable housing.

Whilst a large proportion of the taxation on property is levied by state and local governments, their replacement with more equitable and efficient taxes will only be achieved with cooperation and leadership from the Commonwealth, due to the vertical fiscal imbalance experienced between Australian Governments.

Stamp Duty

Stamp duties are a highly economically inefficient tax that contributes considerably to the cost of new homes. In 2010, the Henry Tax Review stated that "there is no place for stamp duty in a modern Australian Tax system", and recommended the Commonwealth Government facilitate the transition to less costly and more equitable taxes. More recently, both Tax and Transfer Policy Institute and the Australian Treasury have identified stamp duties as among the least efficient taxes available to governments.

When levied on property, stamp duties distort the efficient allocation of housing and land by penalising owners for moving to properties that best suit their needs. This has the effect of damaging economic productivity by constraining labour mobility, which negatively impacts on the efficiency of labour markets. This propensity to lock people into certain locations also has the potential to increase transport congestion and costs, as individuals are forced to commute rather than move to areas closer to employment.

Stamp duties distort investment in both existing and new housing. With Australia's population rapidly aging, they act as a disincentive for retirees to relocate to housing that may better suit their needs, and prevent larger sized housing stock from being released to the market for new families. This leads to significantly more large dwellings being constructed than would occur in a system that actively supported mobility of the population into housing that is fit-for-purpose.

[2] The Centre for International Economics, 2011, "*Taxation of the Housing Sector*"

Additionally, by increasing incentives to renovate rather than relocate, stamp duties divert investment towards making existing housing larger, rather than into more affordable and newer housing. The burden of stamp duty also falls disproportionately heavily on those who hold property for a short time, such as developers, which further discourages investment in new housing.

As a source of revenue for state government, stamp duties are highly unreliable, as they rely on the volume of property transactions, which are highly variable. Whilst providing a boost in heated property markets, in slow markets with fewer transactions, lower stamp duty receipts hit state government budgets. A more reliable source of revenue is needed.

RECOMMENDATION – Stamp duty on property purchases should be phased out, and replaced with more efficient taxes, such as a broadening of the GST.

Developer Levies/Charges

Developer charges are upfront charges levied on developers for the provision of new or upgraded infrastructure by both state and local governments. Not all states (e.g. South Australia) have set developer charges, but instead rely on negotiation between stakeholders for charges reflective of the cost of infrastructure provided.

The implementation of developer charges is justified based on the belief that those who directly benefit from infrastructure should cover the costs of its construction. Unfortunately in many cases developer charges do not reflect the cost of the infrastructure being provided, and have subsequently taken on the characteristics of a tax rather than an end user charge.

Developer charges are often opaquely applied, with no clear connection between the cost of the infrastructure provided and the charge, to the extent that the charges may be well in excess of the cost of the infrastructure it is supposed to pay for. In many cases developer charges are used to pay for infrastructure that benefits the wider community (for example trunk roads and utilities infrastructure upgrades), replacement of previously ill-maintained community assets, or other government expenses. In this case, developers and ultimately new home buyers are being forced to subsidise the rest of the community.

A further problem with developer charges is that where the developer is required to build and bear the upfront cost of public infrastructure, local governments and councils have a strong incentive to set unnecessarily high engineering and construction standards in order to minimise their ongoing maintenance and replacement costs. Where these reduced costs aren't reflected in lower council rates, new home buyers effectively end up paying for their infrastructure twice, once through a higher up front house price, and again through recurring rates.

Fundamentally, the use of developer charges as a revenue raising tool for governments rather than as a pure user charge is inequitable to new home buyers, and unnecessarily increases the cost of new housing. This acts to prevent investment in new housing that would have otherwise occurred. UDIA believes that Governments should favour other forms of revenue raising over developer charges.

RECOMMENDATION – Governments should avoid revenue raising through the application of up front developer charges, and should seek to fund infrastructure through recurring charges directly related to specific infrastructure investment, over extended time frames.

Provision of NBN Infrastructure in Greenfield Areas

UDIA has serious concerns with the government's current Policy to levy additional charges on new home buyers for new NBN connections, network infrastructure, and backhaul.

Developers, and subsequently new home buyers, already make enormous up front contributions to the cost of providing the infrastructure to service new developments, both through existing directly levied infrastructure charges/levies/contributions, infrastructure provided in kind, and also through taxes such as stamp duty and GST.

New home buyers already cover the significant cost of installing pit and pipe infrastructure, which existing households do not have to pay. In this context, the proposal to impose yet more costs on new home buyers whilst simultaneously providing the associated infrastructure to existing households at no cost is highly inequitable. It is also particularly concerning given that many new home buyers are some of the least financially able to bear this cost (for example young families and first home buyers).

Furthermore, the introduction of new charges on top of the multitude already levied is likely to have a perceptible impact on housing affordability, and will drag on jobs and activity in the development and construction industries, at a time when supporting new housing activity is of great economic importance. The impact is likely to be particularly pronounced at the lower and 'affordable' end of the market, which is highly price sensitive.

Fundamentally, UDIA believes that savings to the Government in rolling out the NBN must come from improving efficiency and reducing costs, not by inequitably and unjustly cost shifting to new home buyers. The Government must cease plans to shift the cost of rolling out NBN infrastructure to new home buyers.

RECOMMENDATION – The Commonwealth should cease plans to shift the cost of providing the National Broadband Network to new home buyers through up front connection, network and backhaul charges.

Land Taxes

Land taxes have the potential to be highly efficient and stable source of revenue for governments, owing to the immobility of land, and the relative simplicity with which they can be administered. In particular, where land taxes are applied to a broad base and to the unimproved value of land, they have very low economic costs. Australia has existing land taxes in the form of state land tax and local government rates, however the way in which they are currently levied is inconsistent, and has the potential to distort land use:

- Most states that levy land tax currently calculate the liability on the basis of aggregate land holdings, rather than per land holdings, with the rate increasing with the size of holdings. This leads to higher taxes on large landholders, which unnecessarily discourages large scale investment in land.
- Some state and local governments levy tax on the market value of land or total property value, rather than the unimproved land value. Where buildings and improvements are taxed, the economic efficiency of the tax is reduced, by creating a disincentive to undertake investment in improvements.
- The land tax base is narrowed by exemptions and tax free thresholds, creating the potential for distortion, and increasing the administrative complexity.

Any changes to the rate and base of state and local government taxes on land should be supported by well-considered transitional arrangements, recognising that households and businesses will need a significant period to adjust.

RECOMMENDATION – Governments should commit to broadening the base and reducing the rate of land tax regimes over a number of years, as an efficient way to raise revenue and reduce reliance on up front developer charges.

RECOMMENDATION – Governments should ensure land taxes apply per land holding, not on an aggregate basis, to in order promote large scale land development.

RECOMMENDATION – Land taxes should be levied on only the unimproved value of land, to avoid distorting disincentives to invest in improvements.

Application of GST on State and Local Government Taxes and Charges

As a principle, the tax system should seek to avoid instances of double taxation, whereby a tax is levied on top of an existing tax.

The GST exhibits characteristics of double taxation in the case of land development. When developed land is sold by a developer, GST is incurred on top of stamp duty paid on the initial purchase of the undeveloped land, as well as other state and local government taxes and charges levied on development. This creates a higher tax burden on development than necessary, and amplifies the distorting effects of inefficient state based taxes such as stamp duty.

Removing this instance of double taxation would have the triple benefit of improving the integrity and efficiency of the tax system, easing affordability pressures by reducing the tax component of new housing, and supporting housing supply, economic growth, and jobs in the construction and development industries.

RECOMMENDATION – Exclude state and local government taxes and charges from GST calculations on land development, to reduce double taxation and improve tax system integrity.

Conclusion

In summary, UDIA makes the following recommendations to the Standing Committee on Economics on home ownership.

- **The Commonwealth should work with state governments to prepare comprehensive strategic plans for future urban infrastructure, land-use planning, and land supply, to align with forecast population growth.**

- **Provide additional funding for investment in new urban infrastructure, in order to unlock land for development.**

- **Facilitate non-traditional methods of funding infrastructure, to increase the level of funding available for infrastructure investment at both a federal and state level.**

- **The Commonwealth should work with State Governments to undertake planning system reform to reduce delays and increase certainty in planning, zoning, assessment and approval systems, and increase the flexibility with which they operate.**

- **The Commonwealth should reduce duplication with state and local government processes, including continuing to streamline federal and state environmental assessment and approval systems.**

- **The Commonwealth should stop attempts to restrict development around airports and airport corridors beyond the current and existing standards.**

- **Stamp duty on property purchases should be phased out, and replaced with more efficient taxes, such as a broadening of the GST.**

- **Governments should avoid revenue raising through the application of up front developer charges, and should seek to fund infrastructure through recurring charges directly related to specific infrastructure investment, over extended time frames.**

- **The Commonwealth should cease plans to shift the cost of providing the National Broadband Network to new home buyers through up front connection, network and backhaul charges.**

- **Governments should commit to broadening the base and reducing the rate of land tax regimes over a number of years, as an efficient way to raise revenue and reduce reliance on up front developer charges.**

- **Governments should ensure land taxes apply per land holding, not on an aggregate basis, to in order promote large scale land development.**

- **Land taxes should be levied on only the unimproved value of land, to avoid distorting disincentives to invest in improvements.**

- **Exclude state and local government taxes and charges from GST calculations on land development, to reduce double taxation and improve tax system integrity.**

UDIA thanks the Standing Committee on Economics for the opportunity to provide this submission in response to the Inquiry into Home Ownership.

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.