2016/17 Pre-Budget Submission

Prepared by the Urban Development Institute of Australia (UDIA)

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Contents

EXECUTIVE SUMMARY

The Urban Development Institute of Australia (UDIA) is a national body representing the interests of more than 2,000 development companies across the country. We promote responsible growth of our cities. UDIA welcomes the opportunity to provide a pre-budget submission to Treasury.

Although the Commonwealth government has little direct responsibility for cities, the Commonwealth Budget has a material impact on how cities are shaped. At the broadest level, fiscal policy and its impact on interest rates will affect housing affordability. Taxation policy, infrastructure spending and regulations will also have an impact on delivery of housing. Health care, child care and education funding are also city shapers.

UDIA encourages the Commonwealth Budget to take a responsible fiscal stance, focussing on reducing unnecessary expenditure while also investing in areas with the highest growth impacts in the longer term. Responsible public policy should be at the forefront of all considerations. Over recent years, cities – primarily through housing construction – has been a major contributor to economic growth and jobs. UDIA encourages the Commonwealth government to be particularly mindful of the impacts of fiscal policy on cities and growth.

There are some threshold public policy issues covered in the UDIA submission that require consideration.

1. BROADEN THE BASE BUT DO NOT INCREASE THE RATE OF THE GST
The impact of increasing the GST from 10% to 15% would be damaging to housing affordability, economic growth, jobs and state and Commonwealth tax receipts in the short term. As it is a value added tax, we estimate that it would add at least 7.4% to the cost of a new house and land. In Sydney that would represent more than an additional $100,000 on the median house price. We appreciate that much discussion has involved talking about using some of the proceeds to remove stamp duty. However, stamp duty applies to all homes and GST only applies to new homes. The growth multipliers from new housing are far greater than existing housing and the impact on the economy would be significant. UDIA supports the removal of stamp duty but that should be funded by either broadening the base of GST or introducing a broad based land tax at the state and territory government level.

2. RETAIN THE CURRENT NEGATIVE GEARING AND CAPITAL GAINS REGIMES
Negative gearing and capital gains tax need to be recognised as a perfectly rational economic policy instrument that work in tandem. Negative gearing is applied to assets that deliver long term capital growth and low short term yields. Negative gearing allows an investor to support the low short term yields with preferred tax treatment. However, on disposal of the asset and realisation of profit capital gains tax claws back a large proportion of that yield support. Changes to negative gearing will have a significant impact on investment decision making.

3. DO NOT PURSUE "VALUE CAPTURE" POLICIES THAT INCREASE THE PRICE OF NEW HOUSING
The way that "value capture" is being promoted is of major concern and will impact on the way our cities are developed especially around transport oriented developments. Unless designed and specified properly it may have the unintended consequence of stopping development around infrastructure. "Value capture" should model tax increment financing where the incidence of the tax is incremental rather than upfront and the application is universal within a specified area. The system should be anchored by a bond to fund infrastructure development upfront. As it stands has been advocated by some so far, "value capture" is simply another tax on new property.

4. THE COMMONWEALTH SHOULD TAKE AN ACTIVE ROLE IN THE DEVELOPMENT OF CITIES

The Commonwealth government should consider ways that it can influence the development of cities. As a start, the Commonwealth should link competition payments to the states and territories on progress of planning reform and housing delivery.

5. REMEDY THE UNINTENDED EFFECTS OF BASEL III ON HOUSING AFFORDABILITY

The Financial Services Inquiry has had a major impact on investment in the property development industry. UDIA considers that further impacts will be felt throughout 2016 as financial institutions are required to hold more cash on their balance sheets to cover their property loan books (despite the fact that mortgage defaults are at an historical average). The effects are being felt on the ground as payments on property finance are being brought forward and provisions for uncertainty are being increased forcing lending to property developers to decrease. We are concerned that capital available for development and new houses is being constrained and this will place even further downward pressure on housing supply and consequently more upward pressure on prices. The Commonwealth government should immediately look at the market impact of its policies as they relate to capital adequacy ratios and BASEL III.

6. MAINTAIN ENVIRONMENTAL PROTECTIONS AND IMPROVE ENVIRONMENTAL ASSESSMENTS

The environment is critical to the amenity and liveability of our cities. The *Environmental and Biodiversity Protection Act* is the Commonwealth's major policy instrument to protect urban environments. Offset regimes between Commonwealth and state governments are also markedly different and confusing. While the integrity of the policy is supported the way it interacts with state and territory legislation creates major compliance issues. UDIA encourages the Commonwealth to continue to negotiate bilateral agreements with the states and territories to remove unnecessary red tape while maintaining the integrity of the EPBC Act.

7. PROMOTE INNOVATION IN CITIES AND REGIONAL AREAS

One of the most important issues confronting cities at the moment is innovation and exponential growth in technology. Most states have planning systems that haven't been updated since the Commodore 64 was the computer of choice. Further, there are now affordable technological solutions to deliver sustainable outcomes to cities and especially homes. Solar panels, batteries and new design technologies can deliver off the grid housing with three phase power. The NBN and driverless cars hold out the hope of reducing the number of people who need to be on our roads and the way in which our roads are used. The Commonwealth should consider a specific program for promoting innovation in our cities, regional centres and towns.

UDIA looks forward to discussing these issues with the Commonwealth Treasury and the Government. The following submission provides more detailed recommendations and analysis of the public policy issues.

1. INTRODUCTION

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

The Commonwealth Budget touches on all areas of policy relating to urban development.

In coming to the 2016-17 Budget, the government has made a commitment to restrain expenditure responsibly, while supporting economic growth to lift revenues. The UDIA considers, as the mining boom continues to unwind, policies that support development will assist the government in achieving this goal. The UDIA supports the government in its commitment to build new infrastructure, support cities and urban areas where the majority of Australians live and work, and in working to deliver a more growth-friendly tax system.

As a means to achieve a prosperous Australian economy and a sustainable Federal Budget, we urge the Government to consider the recommendations put forward in this pre-budget submission.

2. A STRONG ECONOMY

2.1. Industry Contribution to the Economy

UDIA commissioned Property Insights to undertake an economic impact study of the property development industry in Australia. The study confirmed the sector's significant influence on the Australian economy, as evidenced by the below findings:

- The direct impact of $1 million invested in the property development industry results in:
  - 6.7 full-time equivalent jobs generated in the property development industry.
  - State and federal taxes increasing by $73,458.
  - An addition of $235,733 to wages and salaries.
- The total (direct and indirect) impact of the $1 million invested generates in Australia:
  - 11.8 full-time equivalent jobs.
  - State and federal taxes increasing by $146,474.
  - An addition of $885,880 to wages and salaries.
- An investment of $1 billion in the development industry in each state would directly add 0.4% to nominal GDP, while a further 0.3% would be added to nominal GDP as a result of the impact on associated industries.

2.2. How supporting the development industry can lead to a stronger economy

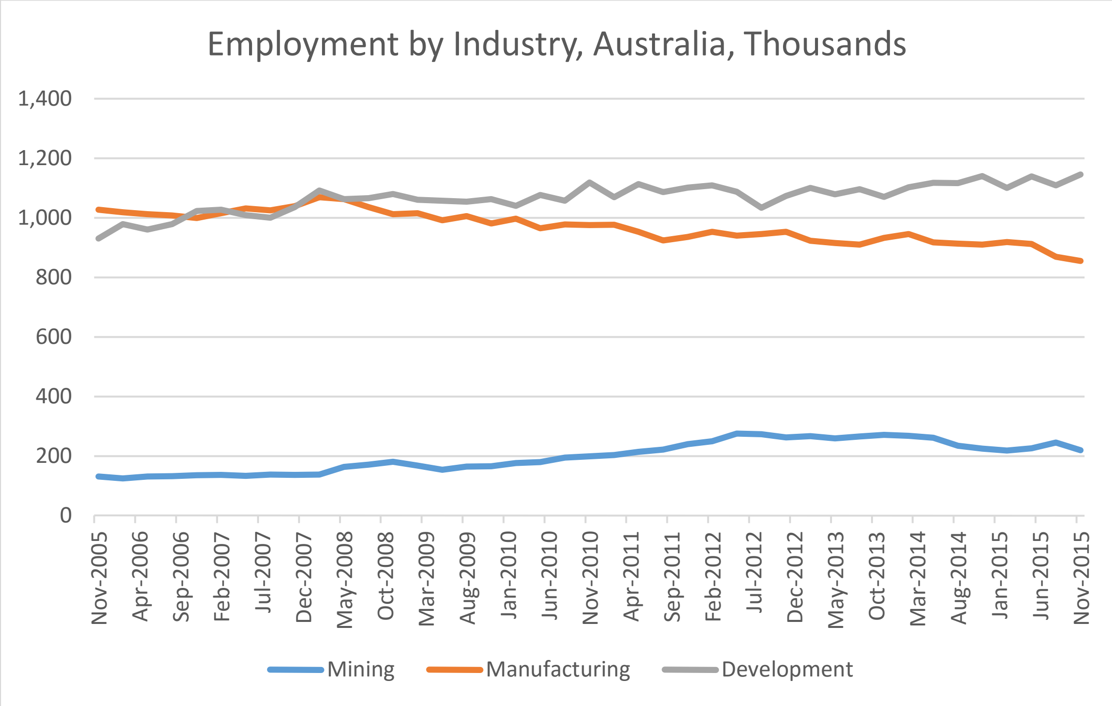
Expenditure and tax policies that enhance, rather than punish, new home buyers and the development industry that provides them, should be a priority for government. Commonwealth, state and local policies have exacerbated the chronic undersupply of housing, which is causing prices to climb higher and higher in our largest cities, and, if not resolved, threatens Australia's social cohesion and egalitarian society. Undersupply of housing in well-serviced locations also contributes to congestion, which in turn lowers Australia's productivity and economic potential. Getting housing right means getting the economy right, and getting the economy right means getting housing right.

Notwithstanding the industry's concerns over the high burden of taxation that new home buyers face, by supporting growth of new housing through the Commonwealth Budget, the government will also increase the tax base, and thereby increase its revenue at a time when new revenue sources are difficult to identify and implement and the end of the mining boom has affected tax receipts from that sector.

The industry is also one of the powerhouses of employment generation. When the development industry is able to fulfil the demand that is asked of it, employment in the industry, related industries, and economy-wide, will grow rapidly. As can be seen in Chart 1, the development industry[1] has almost 6 times the employment of the mining industry and nearly one-and-a-half times the employment of manufacturing in Australia. Indeed, mining has never been a major employer, only having ever broken through 200,000 total employees in late 2010. In contrast, the development industry employs well over a million people, with 1,145,000 employed in the industry in November 2015.

[1] The "development industry" is define as "building construction", "construction services", "construction nfd" and "property operators and real estate services" in ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly

Chart 1 – Employment in Selected Industries



Source: ABS 6291.0.55.003 Labour Force, Australia, Detailed, Quarterly, Table 06. Employed persons by Industry sub-division of main job (ANZSIC) and Sex

2.3. How supporting the development industry can lead to high productivity

In a speech in November 2013, Deputy Governor of the Reserve Bank of Australia, Philip Lowe, talked of the productivity benefits that come from people having greater access to jobs, goods, services, education and leisure opportunities through better transport networks. Building homes closer to jobs and/or closer to transport connections to those jobs, will enhance Australia's productivity through what are sometimes called "agglomeration" effects.

As people get closer to jobs, goods and services markets, competition, innovation and specialisation is promoted.

Over the medium term, poor transport links can drive the cost of housing up. Where there is a shortage of well-located land, the price of this land (and the houses that sit upon it) is driven up. By ensuring that there is a wider geographic spread of land close to good transport links means greater choice for consumers in where to live, at more affordable prices.

In addition, it has been shown that long commutes can affect workers' mental and physical health, making them both less productive workers, but also potentially causing harm to themselves and their families.

Governments can increase the productive capacity of the economy by increasing the supply and diversity of well-located homes through removing planning and zoning restrictions that limit the potential to increase supply. In doing so, it will move people closer to where they want to be, reduce congestion (which has the further effect of reducing the costs of moving goods and services around our cities) and thereby increase productivity and lower the costs of housing and doing business.

3. CITIES

3.1. Cities and Urban Policy

UDIA welcomes the Turnbull government's commitment to cities and the built environment. The importance of Australia's cities has gained growing recognition at the federal level in recent times, with both major parties now supportive of a dedicated Minister for Cities to oversee Commonwealth involvement in urban policy.

As home to a majority of Australia's population and the source of over 80 per cent of GDP, Australia's major cities are critical to the prosperity of the Australian economy, and the quality of life of most Australians.

Central to the ability of our cities to act as world class places to live, work, and do business is their economic productivity, liveability, and sustainability. These factors have come under increasing strain in recent years, as a result of insufficient investment in urban infrastructure, poor planning, and inefficient taxation, in the face of strong population growth.

Whilst acknowledging that urban policy issues are predominantly the responsibility of state and local government, UDIA consider that there is a strong role for the Federal Government to play in Australia's cities.

In particular, the Federal Government has a key role to play in the delivery of urban infrastructure through its ability to provide funds directly, support innovative and alternative funding options, and ensure infrastructure projects are subject to rigorous selection criteria. By ensuring sufficient investment in the right type of urban infrastructure, the Government can measurably improve the productivity and quality of life in our cities.

Additionally, UDIA considers the Commonwealth Government has the ability to contribute to urban policy by providing leadership, assisting state governments with reform through the use of financial incentives, and by coordinating and facilitating action on urban policy between different levels of government.

Recommendations

3.1.1 Ensure adequate investment in key urban transport infrastructure, including public transport, to ensure communities are well connected.

3.1.2 Investigate innovative and alternative infrastructure funding methods, and ensure infrastructure investment decisions are subject to rigorous selection criteria.

3.1.3 Implement a financial incentives scheme that links federal funding to state government performance on planning system reform, to improve the supply and diversity of new land and housing.

3.1.4 Improve liveability and housing affordability by reducing the reliance of governments on high and inefficient taxes on new construction, such as stamp duty and developer levies, in favour of more efficient taxes such as land tax or a broadened GST.

3.2. Intergovernmental Relations

UDIA considers that housing and development industry issues are a matter of national importance, justifying federal involvement.

In the context of housing supply, the Commonwealth is responsible for population policy, foreign investment, macroeconomic policy, federal taxation, financial regulation and stability, and, through the Reserve Bank of Australia, monetary policy. State governments are responsible for infrastructure, planning, land supply, land tax and stamp duty. Local government is responsible for approvals, levies and rates.

Each level of government faces different political incentives. For example, the Commonwealth (and to a lesser extent, the states) has an incentive to increase population growth as it benefits the economy in both the short-term and the long -term. However, local governments have a disincentive to accept growth, as it is politically unpopular (e.g. infill) or expensive to cater for (new infrastructure). In effect, the Commonwealth does not pay for the issues it creates.

In addition, vertical fiscal imbalance means that state governments (and subsequently local governments) rely on the Commonwealth as a source of a majority of their funding. Therefore, the Commonwealth is already indirectly involved in almost every aspect of state government activity. This has created both overlaps and blind spots in the urban policy landscape.

UDIA welcomes the move to create a Ministry for Cities. This, and other reform processes, creates an opportunity to reduce the waste, duplication and second guessing that currently occurs between different levels of government.

UDIA considers that the federation should be reformed so that the Commonwealth government has responsibility for providing funding, coordination, major infrastructure investment and setting benchmarks.

Reform should achieve agreement between the Commonwealth and state governments about their mutually exclusive responsibilities, and subsequent funding sources.

Recommendation
3.2.1 The Commonwealth and states should recognise housing and the development industry as matters of national importance and work together to reduce overlap and uncertainty.

3.3. Land supply

Releasing a steady stream of serviced land is a key to addressing Australia's housing supply and affordability challenges. The trend of declining levels of serviced land in most capital cities threatens future supply, and has a severe negative impact on housing affordability. The inability to bring sufficient land to the market has direct consequences for the supply of housing in our cities.

While the barriers to supply vary from state to state, there are commonalities nationwide. For one, the roll out of infrastructure is delayed in most jurisdictions, and is holding up vast areas of developable land. In addition, planning approval processes throughout Australia are characterised by delays and uncertainty. Another common barrier in most jurisdictions is ever-increasing infrastructure charges or homebuyer levies, which are adding to the cost base of developments, and rendering many projects too expensive to pursue.

UDIA considers that all levels of Government must work together to maintain a steady stream of urban land for development. In the context of continued population growth and household formation, it is essential that well-planned, sequenced land release programs are implemented in all jurisdictions throughout Australia. Future growth areas must be identified early in the planning process with a commitment to the provision of the appropriate infrastructure, particularly transport infrastructure, ahead of development.

Recommendations

3.2.1 Governments should establish a national strategic plan, requiring cities to maintain a specified rolling supply of development-ready land to meet demand driven by population growth.

3.2.2 Federal funding to be linked to state governments establishing comprehensive land-use plans which are aligned with detailed, costed infrastructure plans, and underpinned by delivery timeframes.

3.2.3 Governments must comply with the COAG Reform Council's criteria, stating that strategic planning systems are integrated across:

a) Functions, including land-use and transport planning, economic and infrastructure development, and environmental assessment and urban development; and

b) Government agencies.

3.2.4 Regularly audit Commonwealth owned land, including Defence land, to determine if ongoing possession by the Commonwealth is its best use, and if not, make it available for urban development.

4. POPULATION

4.1. Population policy

The Australian community benefits from a growing population. It increases our wealth and standard of living immensely. It is likely that Australia's population will continue to grow well in to the future, with the Australian Bureau of Statistics projecting that our population will approximately double over the next 50 years, with most growth occurring in our capital cities. Given the inevitability of a growing population, governments must ensure that the opportunities population growth presents are fully realised.

When managed well, population growth can be a boon for both the economy and existing residents. Population growth enlarges the labour force to support businesses and helps offset Australia's aging workforce, whilst the new skills and abilities new workers bring help improve economic productivity and innovation.

By balancing the needs of the economy, the environment, and the Australian community, UDIA considers that a larger Australian population can also be a "sustainable" population. Australia's population policy should balance these issues, to ensure a prosperous economy with a high quality of life, whilst maintaining social cohesion and environmental protection.

UDIA supports the Federal and State Governments establishing short/medium/long term population forecasts to allow for the orderly planning of infrastructure and land release. Governments must focus on infrastructure investment in order to keep pace with population growth. They must also remove the burden of increasing and unsustainable charges placed on new home buyers for infrastructure that benefits the whole community.

Recommendations

4.1.1 Federal and State Governments must collaborate to establish regular short/medium/long term population forecasts to support land-use and infrastructure servicing plans.

4.1.2 The Commonwealth government should identify the base level of service expected for key elements of liveability: affordability, congestion, environment, business investment, to accommodate a larger population.

4.1.3 Through COAG, the Commonwealth and state governments should establish a national strategic plan, requiring cities to maintain a specified rolling supply of development-ready land to meet demand driven by population growth

4.1.4 Federal funding should be linked to State Governments establishing comprehensive land use plans which are aligned with detailed, costed infrastructure plans and underpinned by delivery timeframes.

5. TAX

5.1. Tax Reform

UDIA is actively participating in the discussions around tax reform. In September 2015 UDIA made a submission on the tax discussion paper *re:THINK* and will continue to support changes to the tax system that abolishes inefficient and inequitable taxes, such as state stamp duty and developer levies, that place an unfair burden on new home buyers.

Whilst taxes are essential to fund the government services our communities depend on, inefficient and inequitable taxes unnecessarily damage economic activity and disadvantage certain parts of the community. The housing and development industries are some of the most highly taxed sectors in the Australian economy, accounting for over 40% of state and local government revenue, and 12% across all tiers of government. The high level of taxation on new housing in particular damages housing supply and job creation by making some projects unviable, and flows through to the cost of new housing, damaging affordability.

UDIA considers that governments must make a genuine commitment to tax reform, to replace outdated and damaging taxes with more reliable and efficient alternatives, in order to provide the revenue that will be needed in the coming decades.

Recommendation
5.1.1 The government should continue to work with industry to ensure that the tax system is efficient and equitable, and to ensure that an unfair tax burden does not reduce the supply of new housing, nor fall to new home buyers.

5.2. Commonwealth Support for Changes to State Taxes

At the top of the priority list for reform is stamp duty on property, which is one of Australia's most highly inefficient and economically distorting taxes as it limits labour mobility, housing turnover, and penalises households for moving to properties that best suit their needs. It is also a highly unreliable source of revenue for state governments, as they rely on the volume of property transactions, which vary substantially over the property cycle.

Recommendations
5.2.1 Stamp duty on property purchases should be phased out, and replaced with more efficient taxes.
5.2.2 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 timeframes.
5.2.3 Governments should commit to broadening the base and reducing the rate of land tax regimes, as an efficient way to raise revenue and reduce reliance on up front developer charges.
5.2.4 Governments should ensure land taxes apply per land holding, not on an aggregate basis, in order to promote large scale land development.

5.3. GST

The GST is one of the most efficient taxes available to government, by virtue of its relatively broad base and simplicity of administration. It is also typically the largest single tax applied to new housing, and thus has a considerable impact on housing affordability and the level of housing construction in Australia.

Consumption taxes such as the GST are less costly to the economy by virtue of their broad bases, which limit economic distortions relative to narrow and more easily avoided taxes. However a number of exemptions to the GST's base mean it is only paid on 47% of all goods and services consumed, which distorts economic activity.

In addition to creating economic distortions, exemptions to the GST also create additional compliance costs for business, with this burden falling disproportionately on small businesses. By broadening the base of the GST, its economic costs can be reduced, and additional revenue can be raised more efficiently for governments.

Proposals for a broadened GST are often criticised as having a proportionally larger impact on lower income households, however the additional revenue from a broadened GST could be used to compensate lower income households for increases in the cost of essential goods and services, whilst still delivering a net benefit to efficiency and revenue raised. Modelling by the Grattan Institute[2] shows that broadening the base of the GST could deliver an additional $17 billion a year to governments, including the cost of compensation to lower income households.

A broadened GST would also provide revenue that could be used to assist with the phase out of inefficient state taxes such as stamp duties.

Proposals to raise the rate of the GST must take into account the impacts such a change would have on the price and supply of new housing, and housing affordability. At the current GST rate of 10%, a new home sold at Australia's median dwelling price of $571,500 includes a GST component of $51,955. Were the GST doubled to around the OECD average VAT rate of 20%, the GST burden on a median new home would double to over $100,000. This would undoubtedly increase the price of new housing, and also lead to a considerable reduction in new housing supply, which would be a highly undesirable outcome given Australia's poor housing affordability and dwelling undersupply.

UDIA considers that should changes to the GST rate be considered, it is essential that there is no net increase in the taxation burden on new home buyers as they are a critical component of the new housing supply equation. Any change to the GST rate should only be considered where there is formal commitment by all state governments to conduct concurrent tax reform that reduces taxation on new housing.

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. 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

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[2] Grattan Institute Report No. 2015-12, 2015 *A GST Reform Package*

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.

Recommendations
5.3.1 Broaden the base of the GST to improve tax system efficiency, with the additional revenue used to replace inefficient taxes.
5.3.2 The rate of GST should not be increased, as a higher GST rate would have a major negative impact on housing affordability.
5.3.3 Exclude state and local government taxes and charges from GST calculations on land development, to reduce double taxation and improve tax system integrity.

5.4. Negative Gearing and Capital Gains Tax

In recent years, the practice of negatively gearing residential property has generated some controversy, with growing concerns around the impact it has on housing affordability. There have been a number of calls to limit or otherwise modify the tax concessions available to negatively geared property investors.

An asset is said to be negatively geared when the interest payments on borrowings used to finance the asset exceed the income it generates net of other expenses, resulting in a loss. Such an investment strategy relies on future capital gains to offset ongoing losses and generate a net profit. Negatively geared investors may deduct losses against other forms of income such as wages, and receive a 50% discount on capital gains if the asset is held for more than one year.

An often overlooked aspect of negative gearing is that it is a tax concession that applies to a broad range of investments, not just investment property. Therefore, any changes to negative gearing or capital gains tax as it pertains to property investment would result in inconsistent tax treatment of different asset types. This would add complexity to the tax system, and distort individual investment decisions. It would also likely disadvantage investors who have invested under the current arrangements in good faith.

Additionally, the existing negative gearing and capital gains tax arrangements have been long established in Australia's property market, and any modifications would likely reduce certainty and cause a reduction in the level of investment in residential property. This would result in a decline in the supply of new dwellings, activity in the development and construction industries, and lower government revenue from housing related taxes.

Given the importance of new housing development and construction to the Australian economy, particularly in the current context of slowing mining investment, lower levels of new housing investment would be a highly undesirable outcome.

UDIA considers that the existing tax arrangements in relation to negative gearing and capital gains tax should not be modified, as doing so would create inconsistencies in the tax treatment of different asset types, additional tax system complexity, and would likely result in a decrease in new housing investment to the detriment of the broader Australian economy.

The fundamental cause of poor housing affordability in Australia is insufficient new housing supply, and as such, efforts by the government aimed at improving affordability are better placed in addressing supply side constraints.

Recommendation

5.4.1 Existing tax arrangements in relation to negative gearing and the capital gains tax should not be changed, to maintain tax consistency and support investment in the property industry.

6. INVESTMENT

6.1. Basel III Reforms

The banking sector plays a pivotal role in the Australian property development industry. APRA has recently announced new liquidity requirements for banks to make the financial system as resilient as possible. As the banks have to pay for the capital they raise, this has had an effect on how much, and at what interest rate, banks can lend.

There is some evidence that this has begun to hurt the property development industry. Some banks are requiring higher pre-sales and are charging higher interest rates. To the extent that this is a general trend across the industry, it could lead to a fall in supply and worsening housing affordability.

Recommendation
6.1.1 The government should examine the effect of Basel III capital adequacy requirements on the supply and affordability of housing.

6.2. Foreign investment

Foreign investment has long been a key driver of economic growth and opportunity in Australia, creating jobs and enhancing productivity. In particular, the additional demand for dwellings created by foreign investors generates billions of dollars of economic activity and jobs in the construction and development industries, increases tax revenue at all levels of governments, and also adds to Australia's dwelling stock.

Concerns around Australia's foreign investment regime have focused on anecdotal claims that foreign investors may be leaving their homes vacant, and the impact that foreign investment may be having on the price of housing. The discussion has been muddied by the lack of reliable data on the extent of foreign investment into residential property.

UDIA remains fundamentally of the opinion that foreign investment into residential property should continue to be supported due to its role in stimulating Australia's housing and construction industries.

Foreign investment into new residential property also has the desirable outcome of adding to Australia's dwelling stock, and increasing the number of properties in the private rental pool. The existing foreign investment regime provides a sound framework for expanding Australia's housing stock, by restricting foreign investment into existing properties, and directing it into new supply. This is a particularly valuable outcome in the context of Australia's ongoing housing affordability problems.

UDIA considers that the underlying cause of Australia's housing supply and affordability problems continues to be supply side barriers to new land and housing supply. The solution is not to further restrict foreign investment, but for all levels of government to remove supply side constraints on housing to ensure that foreign investor demand is able to be most effectively transformed into more homes for Australians.

Recommendations

6.2.1 The government must continue to support jobs, economic growth and new housing supply through Australia's existing foreign investment regime, which encourages foreign investment into new dwellings.

6.2.2 All levels of government must work to remove supply side barriers to new housing, to ensure that demand from foreign investors and other buyers is transformed into greater housing supply.

6.2.3 The government should ensure more detailed and regular reporting of data on foreign investment activity, to improve transparency and confidence in Australia's foreign investment policy.

7. SUSTAINABILITY

7.1. Preserving our Environment

In recent years Australia has experienced rapid population growth, and there is clearly a need to develop our urban areas in a way that reduces the environmental impact, while conserving our resources. Developers have increasingly adopted a sustainable approach to urban development. Indeed, developers are in the best position to bring degraded land and ecosystems back to a state that is beneficial to native flora and fauna, especially where land has been contaminated in the past by heavy manufacturing or has been deforested. Developers do this to ensure that they can market their properties to potential buyers, and therefore are a cost-effective way for governments to rehabilitate fragile ecosystems, although where state environmental agencies go too far, this can hurt housing supply and affordability.

Sustainability seeks to resolve the tension between environmental, economic and social improvement, and true sustainability assessment relies on consideration being given to each of the elements on merit. In practice, environmental considerations often take precedence over all others factors, even in cases where the environment is already well protected, and enhanced economic or social outcomes have greater significance for a project.

UDIA supports higher levels of sustainability, with UDIA members at the forefront of embracing sustainable development principles and applying them to urban development. While we are committed to working alongside the various layers of Government in achieving favourable sustainability and environmental outcomes, UDIA considers that environmental, social and economic factors should all be taken into consideration throughout the development process.

However, UDIA also considers that there needs to be greater consideration of impact of all sustainability and policy changes which have the potential to affect the development industry. Achieving higher standards of sustainability can have significant cost implications for developers and homebuyers. Until the market value of sustainability measures are realised, incentives to industry should be considered.

Recommendations

7.1.1 All levels of government should apply a triple bottom line of sustainability test to policy proposals aimed at promoting sustainable urban development.

7.1.2 All levels of government should develop and consider a Regulatory Impact Statement before introducing sustainability policy and regulations that impact the urban development industry

7.1.3 Government should make incentives for sustainability accessible during the development application phase. This is a far more efficient process which will deliver a far greater commitment to sustainable urban development

7.2. EPBC Act

The Environment Protection and Biodiversity Conservation Act 1999 (EPBC Act) is the Federal Government's primary piece of legislation for protecting nationally and internationally important flora, fauna, ecological communities and heritage places. Under the EPBC Act, development projects which have an impact on matters of national environmental significance are required to undergo an environmental impact assessment. In the past, the application of the EPBC Act has often resulted in duplication of Federal and State processes, delaying the delivery of development projects and adding to the cost base of housing.

UDIA considers that protecting Australia's natural environment for future generations is a critical part of building a healthy and prosperous society, and as such, is fully supportive of the goals of the EPBC Act. However, the current application of the Act unnecessarily duplicates state and federal approval and assessment processes, creating additional regulatory burden, without necessarily increasing environmental standards.

This additional regulatory burden and inefficiency can have a marked impact on development activity by increasing risk and uncertainty, causing delays, and adding administrative cost to the development process. These additional costs and delays are ultimately built into the price of new housing, resulting in declining housing supply, reduced economic growth, worsening housing affordability, and an increased burden borne by new home buyers.

UDIA considers that there is considerable potential to reduce the regulatory burden and costs associated with the EPBC Act through greater utilisation of strategic assessments, bilateral agreements, and other measures under the Act, to create a 'one stop shop' for assessments and approvals. This can be done in a way that retains and even strengthens existing environmental standards.

Recommendations

7.2.1 Federal and State Governments to develop bilateral agreements which give effect to a streamlined, integrated environmental approval 'one stop shop' to avoid duplication and reduce costs

7.2.2 The Federal Government to enhance the capacity for strategic assessments and other strategic approaches under the EPBC Act to reduce duplication and improve environmental outcomes.

7.2.3 The conservation status of listed species of national environmental significance to be reviewed regularly using the best available science.

8. INNOVATION

The development industry is one of the most innovative in the economy, but it is often stifled by outdated regulation and red tape. As a result, the development industry sometimes is unable to meet market demand or is forced to endure unnecessary costs.

Our cities are changing and are likely to undergo fundamental change over the next 20 to 50 years. Populations are increasing in each of our cities, and with it congestion and increasing commuting times.

It is welcome that the Commonwealth is part of the conversation about the future of our cities, including the Acting Minister for Cities recently commenting about getting jobs closer to where people live and people to live closer to where there are jobs, and driving affordability. The development industry is keen to work with government to ensure that innovation can make these things happen. But it is commonplace that, despite the rhetoric, state government policies stand in the way of this becoming a reality.

The NBN has the potential to make fundamental changes to the way we work and the way cities operate. As viable telecommuting becomes a reality, it will effectively mean that people can be as close to their job as their laptop or smartphone. The daily commute, and the congestion that comes with it, could be a thing of the past. Driverless and automated cars will also change the dynamics of road congestion. These new ways of living and working will need to be embraced and any regulation that stands in its way will need to be removed.

The competitive nature of the development industry means that developers need to constantly evolve, with new processes, new construction and development techniques being developed. However, regulation sometimes stands in the way. For example, in NSW, it is almost impossible to make a manufactured home and pre-fabrication is in a regulatory grey area. This sort of red tape stifles innovation and has a material impact on housing affordability.

UDIA would like to take any opportunity to discuss innovation both in the industry and in cities more broadly with government.

Recommendations
8.1 The Commonwealth should establish forums to discuss innovation in the development industry.

9. INFRASTRUCTURE

9.1. Urban Infrastructure Funding and Provision

Efficient and effective infrastructure provides the fundamental framework that allows modern economies to operate. Urban development by its very nature requires large investments in new urban infrastructure, supporting businesses, economic growth and providing individuals with access to employment, education and other opportunities. Investment in key infrastructure has struggled to keep up with strong growth in the Australian economy and population in recent years, creating congestion, holding up new housing supply, reducing productivity and threatening the quality of life in our cities.

An additional problem specific to urban development is the growing trend among governments to charge for infrastructure 'up front' through developer levies and charges. These costs must ultimately be built into the price of a new home, reducing housing supply and affordability. This shift has been justified based on the 'user pays' principle, however, in many instances infrastructure charges applied on new homes are more akin to an inequitable tax, with new home buyers funding infrastructure that benefits the wider community.

The solution to Australia's infrastructure investment problems will require a concerted effort by all levels of government to increase the available funds, and ensure that they are spent wisely on the infrastructure we really need.

With increasing pressures on public finances, governments need to investigate alternative methods of funding infrastructure, such as tax increment financing and increased use of public private partnerships, to ensure that enough funding is available. Governments also need to ensure that infrastructure spending is efficiently targeted, by employing cost benefit analysis on major new projects.

The burden of funding new infrastructure cannot continue to be shifted to new home buyers. In addition to reducing housing supply and affordability, this approach is inequitable, with a small subsection of the community, new home buyers, being forced to pay for infrastructure that benefits the broader community. Federal and State Governments must provide more funding for local infrastructure, and must also favour funding approaches that spread the cost of new infrastructure out over time, rather than imposing it up front through developer levies and charges.

So-called "value capture", where "beneficiaries" pay for infrastructure is similarly flawed. Some proposals in this area would require residents, businesses or new developments in an area to pay the whole costs (or a contribution) for infrastructure that benefits a much broader section of the community. For example, a new railway station does not just service the residents in the immediate catchment, but also visitors and subsequent users. Similarly, a new rail line or road services more than just the immediate residents. "Value capture" of this sort cannot work because people and businesses from outside the area deemed to benefit from the infrastructure cannot be excluded. Other forms of "value capture" should be explored, such as tax increment financing, the sale of development rights over or in the vicinity of new infrastructure (such as level crossings and train stations), and other similar rights where the infrastructure creates development potential that does not exist without it. This way, infrastructure and development can be symbiotic and instead of merely raising the price of new developments, it actively encourages new supply which will have a downward impact on prices.

Recommendations
9.1.1 Federal and State Governments should provide more funding to Local Governments and relevant state agencies for the financing of local infrastructure.
9.1.2 The Commonwealth, along with the states, should investigate further utilisation of alternative methods of financing infrastructure, such as tax increment financing, public private partnerships, institutional investment and tax incentives.
9.1.3 All governments must commit to rigorous and comprehensive cost benefit analysis of major infrastructure projects, to ensure that Australia gets the right infrastructure and taxpayers get value for money.
9.1.4 Governments should favour funding and financing approaches that spread the cost of infrastructure out over extended timeframes, rather than impose it upfront, such as through developer contributions.
9.1.5 All governments should reject any “value capture” initiatives that requires a subsection of users to pay for the new infrastructure that the wider population would benefit from.

9.2. NBN in Greenfields Areas

The government has introduced new charges on new home buyers for new NBN connections, network infrastructure, and backhaul.

UDIA remains opposed to these measures and considers that the new charges for backhaul are inequitable and need to be re-examined. There are two key issues: the inequity of new home buyers paying for backhaul that will service a wider area; and the problems caused by charging the “first mover” in a new development area without it being shared by subsequent developers.

Unlike infrastructure provided within a greenfield estate, backhaul serves as trunk infrastructure that benefits the wider community. Backhaul provided to new estates will be utilised by the established areas along its path as the Government rolls out FTTN to existing households currently serviced by the copper network. It is extremely inequitable to require new home buyers to bear the cost of that backhaul infrastructure upfront, whilst the broader community and established households receive it at no cost.

There are also major practical problems with charging up front for the cost of providing backhaul infrastructure. It is likely that in cases where backhaul must be brought to a new greenfield area, the first developer to that area will have to cover the cost of backhaul to the area, whilst subsequent developments are able to free ride off that initial investment. This creates a first mover disadvantage that is likely to discourage developers from developing new areas, distorting investment, consumer purchasing decisions, and the supply of new housing. This is compounded where state planners have designated an area as a growth area, but development and investment is stalled because backhaul is either too expensive or developers are waiting for each other to move.

Additionally, charging up front for backhaul will particularly disadvantage home buyers in regional Australia, where backhaul requirements to new estates tend to be greater on average. These areas tend to have lower land and house prices than capital cities, so the additional charge will translate into a larger percentage increase in end prices for new home buyers in regional areas, relative to their capital city counterparts.

UDIA considers that NBN Co should be responsible for providing backhaul within its fibre footprint. This is no different to providing backhaul to existing areas that are currently unserviced. Fundamentally, new home buyers should not be charged a fee that existing home owners will not be charged when they will be receiving the same service.

If the government and NBN Co persist with charging new home buyers for backhaul, an equitable system needs to be devised to ensure that the "first mover disadvantage" problem is resolved.

Recommendations
9.2.1 The government and NBN Co must continue to cover the cost of providing backhaul to greenfield areas, not impose it up front on new home buyers
9.2.2 In the event that new home buyers are to pay for backhaul, the government and NBN Co should work with industry to devise an equitable system to ensure that there is no "first mover disadvantage"

9.3. Airport Planning

The Australian Standard AS2021-2000 and the Australian Noise Exposure Forecast (ANEF) system are the principal tools currently used for making planning decisions in the vicinity of airports. They have existed for over 30 years and have been adopted by planning authorities in most jurisdictions around Australia. They continue to provide developers, land owners, planning officials and airports with clear, consistent and predictable planning outcomes.

In recent years, there has been a push from the Commonwealth Department of Infrastructure to introduce additional noise metrics through the National Airports Safeguarding Framework, specifically the recommendations in Guideline A to introduce noise metrics outside the existing ANEF20 contour.

UDIA remains deeply concerned by repeated attempts by the Department of Infrastructure to undermine the ANEF system by introducing new and additional noise metrics. UDIA considers the introduction of the metrics outlined in the National Airports Safeguarding Framework and proposed by the Department of Infrastructure would unnecessarily sterilise vast tracts of land from development, and increase delays, complexity and uncertainty in the planning system for little benefit to the community. These concerns have also been supported by state and local governments.

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 good planning outcomes around airports, and continues to provide certainty and consistency in land use planning decisions across Australia. The Federal Government should end its ongoing attempts to unnecessarily modify what is already a highly successful system.

Recommendation
9.3.1 The government should end ongoing attempts to introduce new noise metrics into the process for planning around airports, retaining AS2021-2000 and the ANEF system as the primary planning tools.

10. About The UDIA

The Urban Development Institute of Australia (UDIA) is the peak body representing the interests of the development industry around Australia, acting on behalf of 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.

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