

**Stephen Holmes**

## **UDIA POLICY UPDATE**

**3.30pm to 3.45pm**

**Tuesday 31 March 2009**

### INTRODUCTION

During my first year as UDIA National President, the development industry has seen significant changes both politically and economically.

Politically we have seen significant changes in the structures of the Federal Government's various Portfolios, Departments, Agencies and Advisory Committees, as it seeks to implement its election commitments and policy priorities. For the first time for many years, we now have Ministers with 'Infrastructure' and 'Housing' in their titles.

UDIA strongly supports and encourages the Federal Government's actions to ensure funding for critical infrastructure is available to build our major cities.

Economically the global financial crisis has created a massive challenge for our industry and consequently UDIA's priority in recent months has been to work constructively with the Federal Government to help ensure that real and practical policy solutions are delivered that will assist the development and building industries which are so vital to the economy.

Further to our call to action this morning I reiterate the need for the freeing up capital for development, to assist a sector that is currently undersupplied.

The development and home building industry is a major driver of economic activity in Australia. It contributes \$85 Billion to the Australian economy, and \$11 billion to the state and federal governments in direct and indirect taxes.

However as we all know too well, our industry is not immune from the economic downturn, and as I outlined earlier today, in recent times our industry has reduced significantly both in terms of size and activity. Were it not for the Financial Stimulus Package, National Rental Assistance Scheme, the First Home Owners Grant Boost as well as reasonable market conditions in Victoria and South Australia, there would be even more significant job losses in the industry.

Through the contributions of measures such as the Social Housing Package, we can be certain that at last the Federal Government recognises the value of our industry to the economy, and subsequently we have seen significant financial contributions designed to stimulate the market and to maintain jobs in our industry.

## OVERVIEW

The policy, economic and regulatory environments in which our industry operates can be complex, legalistic and inefficient.

The Australian property market does not operate as a single national market. Rather, it functions as a series of inter-related state and local markets and is comprised of residential, commercial, industrial, tourism and retail sectors, each of which operates on cycles not necessarily related to the residential cycle.

Local, state, national and international economic and fiscal policy impact on these markets individually and collectively. Land supply, the cost of compliance with regulatory requirements, fees and charges imposed by all levels of government, taxation policy for investments, regional taxation incentives, infrastructure costs, rebate schemes and grants all impact on the cost of new dwellings. Demographic changes and immigration also affect demand.

Regrettably many of the policy and regulatory issues we currently face are not new. Indeed, when I was speaking with Scott Morrison MP, the Federal Shadow Minister for Housing shortly after he took on the role, he indicated that many of the issues faced by the development industry today were the same as when he was employed by the industry 20 years ago.

However the issues we are facing as an industry are not cyclical – they require major structural reform to alleviate the barriers to housing supply. This is evidenced by the National Housing Supply Council's State of Supply Report which estimates there is currently an undersupply of 85,000 dwellings which will rise to 203,000 by 2013 and 431,000 by 2028.

I would like to use my time this afternoon to briefly speak about some of the key policy issues that UDIA is currently advocating on of behalf of the industry:

## FIRST HOME OWNER GRANT BOOST

The First Home Owners Grant Boost has by all indicators been a great success, but I re-emphasise my comments from this morning that it MUST be extended and expanded to include all new homes if we are to maintain jobs in the industry.

## ACCESS TO FINANCE

Probably the issue most consistently raised with me in recent times by UDIA members is the difficulty in accessing finance, as the development industry suffers from an increasing withdrawal of refinancing capital from financial institutions

In an effort to at least partly address this, the Commonwealth Government has announced the introduction of the Australian Business Investment Partnership (ABIP), a four billion dollar partnership by the Commonwealth and the four major banks that will focus on completed commercial property investments and partly completed development projects with secured pre-commitments (for example, retail shopping centres, commercial office and industrial property, office towers and factories under construction).

It will be structured to allow sufficient flexibility to provide financing in other areas of commercial lending, should the need arise and the Government and four major banks jointly agree.

This is a warmly welcomed initiative; however, UDIA also believes that the Australian Business Investment Partnership needs to be improved by extending its charter to include residential development projects that meet the existing criteria applied by the legislation to commercial property assets.

Regrettably it is not certain that the Legislation will pass through the Parliament. The Opposition has indicated that it does not support it, and the Legislation has been referred to a Senate Committee which is not due to report until early May.

UDIA has, and will continue to encourage all Senators to pass this Legislation.

## HOUSING SUPPLY

The issue of Housing Supply has been highlighted again by the Government's State of Supply Report, prepared by the National Housing Supply Council.

The Report confirms UDIA's view that there is a shortage of housing in Australia. As I outlined earlier, the Report estimates that there was an undersupply of housing of 85,000 in 2008, that will grow to a massive 431,000 by 2028. What more evidence do we need that we have major structural issues?

The Report supports UDIA's long-standing calls for removing impediments to the development process in order to increase development activity, by reducing taxes such as stamp duties and developer charges, speeding up development applications, and increasing the supply of land.

It concludes that "measures to increase land supply and reduce the cost of urban infrastructure to homebuyers would likely stimulate an increase in production and a reduction in the price of new housing", and that the government needs to consider "the incidence and impact of taxation on land and housing," and that the "infrastructure provision and charging regime is 'ripe for review'."

UDIA strongly believes that there is a role for the Federal Government to assist the States to achieve more timely approvals for housing developments, and to initiate a broader national reform of Australia's planning systems, and we will continue to raise these issues as part of our on-going advocacy activities.

## INFRASTRUCTURE

The property development industry is a substantial contributor to new infrastructure, particularly the economic and social infrastructure requirements within new residential communities. Core infrastructure such as roads, sewerage and water, public open space and parks are regularly provided. The cost of providing this level of infrastructure already contributes to over 40% of the cost of buying a new lot in some states.

However, in recent years funding for new infrastructure from Federal, State and local government has been inadequate to meet demand and there has been increased pressure on property developers to pay for greater proportions of infrastructure. This may include regional infrastructure and services which are not directly related to new development.

While this might appear to be an easy mechanism to obtain infrastructure funding, in practice these costs are invariably passed on to the new home purchaser and so the cost of providing infrastructure and services for the benefit of the population of an entire geographical location is borne by a small number of new home and land purchasers.

This is clearly inequitable and unsustainable and can be expected to impact on land and housing supplies.

In principle, where the benefits of new infrastructure accrue to the wider community, UDIA believes that processes should be established to ensure equitable cost sharing arrangements that avoid the cost burden falling solely or disproportionately on the purchasers of new homes.

This can only occur if all levels of government provide enhanced financial support for cities and regional centres. This will only be achieved through cooperation at all levels of government. No single level of Government can provide the solution to current infrastructure issues. The solutions will only be identified and implemented effectively through partnership.

## TAXES AND CHARGES

In recent years there has been an increasing series of state taxes, charges and levies that have been added to the cost of land. This has arisen, in part, by a philosophy within state governments that infrastructure for new homes should be paid up front by the private sector, rather than over time through on-going charges such as property rates.

These charges are generally passed directly onto home buyers through increased prices. The industry believes that these costs have now reached excessive levels and are contributing to a loss of housing affordability.

UDIA believes that the taxes and charges imposed by state governments on new developments have now reached excessive levels and are contributing to a loss of affordability.

The state governments need to be looking at ways to broaden their tax bases in order to reduce their reliance on the property market as a source of revenue.

In 2006-07, NSW received \$4,166,000,000 from stamp duty, approximately 20% of the state's total revenue, and in 2007-08 the Queensland Government received \$2,970,000,000 in revenue from stamp duty, and \$622,000,000 from land tax.

I note and welcome the Federal Government's recent initiatives to address housing affordability, notably the Housing Affordability Fund which will target planning and infrastructure costs that are incurred in the building of new housing developments.

However it must also be noted that federal taxes, such as some applications of the GST on property, also have an adverse impact on housing affordability.

The imposition of GST on stamp duty is clearly a tax on a tax and should be abolished!

Also, the 2008-09 Budget decision to change the calculation of GST on the margin scheme for real property is estimated to net the Federal Government five hundred and twenty three million dollars in revenue over the next four years. It is expected that most of this additional tax burden will be borne by homebuyers

## BUILDING BETTER CITIES

In our 2009-10 Pre-Budget Submission to the Federal Government, UDIA advocated the re-establishment of a Commonwealth *Building Better Cities* Program.

The original Building Better Cities Program was fundamental to the delivery of major urban renewal projects that would never have been possible without significant public investment, and UDIA believes that the newly created Major Cities Unit will provide an ideal platform to guide Commonwealth investment in cities through an initiative similar to a program similar to *Building Better Cities*.

## CONCLUSION

Prior and subsequent to the 2007 election, UDIA was active in educating and lobbying the federal political parties about both the need for more effective provision and funding of infrastructure in Australia, and the issues impacting on housing affordability, and we have welcomed the Rudd Government's focus and prioritisation of these key issues.

A number of the Government's policy announcements over the past year have been consistent with the recommendations outlined in both UDIA's National Policy Statements, and UDIA's *An Industry Report into Affordable Home Ownership in Australia*. These include the establishment of:

- The National Housing Supply Council;
- Infrastructure Australia; and
- The Major Cities Unit within the Department of Infrastructure.

The past twelve months have seen UDIA reinforce its position as a major and active participant on the key issues impacting on the development and housing industries.

Relocating the UDIA National office to Canberra has provided UDIA with greater access to the key federal government decision-makers who impact upon our industry.

2009 will be a year of great challenge for the industry, and more than ever UDIA will be committed to advancing and advocating the policy interests of our members to Government.

The final topic I would like to discuss today is to reconfirm UDIA's commitment to environmental sustainability and reinforce our strong track record in this important area.

UDIA's Envirodevelopment program is an example of this commitment to sustainability.

Envirodevelopment is a UDIA initiative which was developed and piloted in QLD and has recently been rolled out in Western Australia, South Australia, and Victoria.

Envirodevelopment delivers on three key areas:

1. Providing awareness and educating industry and key stakeholders;
2. Rewarding leadership in sustainability; and
3. Enhancing the brand positioning and value proposition for participants.

Beyond this initiative, UDIA is also undertaking significant work in regard to the various policy areas potentially impacted by climate change policy, and I would like to use this occasion to formally launch the UDIA National Climate Change Policy Statement.

UDIA is not focused on debating the merits of the scientific evidence of climate change but rather we acknowledge that climate change is a legal and policy reality for the property development industry. Failure by developers to take account of climate change may lead to significant delays in the approvals process or, indeed, rejection of applications. There is increasing legal precedence for this action to be taken.

Policy changes at local, state and national levels are likely to have an impact on decisions relating to drainage, coastal development, water allocations, potable and non-potable water supply, public open space, landscaping, lot orientation, house design, public transport requirements and waste. The development industry must provide leadership in all of these areas.

The UDIA Policy Statement clearly sets out the roles and responsibilities for both industry and the government in the development of policy relating to climate change.

Industry needs to find the balance between economic viability, market pressures and the need to provide change leadership.

Government must recognize that the development industry needs continuous incremental market evolution rather than major shocks which may impact on supply and affordability of land and housing products. There is recognition that government alone cannot bring about change in sustainability levels and there is a role for industry which includes:

- Providing leadership to facilitate more sustainable development opportunities and promote achievements through awards and accreditation schemes; and
- Ensuring that the industry is intimately involved in policy development through conferences, forums and print communications, particularly where it will have a major impact on product design. This would include changes to sea level estimates, water flow tolerances for drainage, solar orientation policies and built form requirements.

Whilst industry can provide leadership, it is government policy and legislation which will likely have the most significant impact on the response to climate change.

Government policy development should take into account:

1. Early consultation with the industry and industry associations to achieve optimum outcomes;
2. Clear direction to enable the development industry to plan for the long-term;
3. Recognition that administrative burdens can be imposed for little or no gain;
4. Provide clarity regarding the priorities of, and conflicts between, housing affordability and sustainability;
5. Assurance that there is a whole-of-government approach that does not send mixed signals to the industry; and
6. Assurance that sustainability policy is evenly balanced between economic, social and ecological factors.

UDIA will continue to provide industry leadership in this important area by facilitating more sustainable developments through greater industry education, accreditation and policy development.

Thank you.