Urban Taskforce
AUSTRALIA

URBAN TASKFORCE SUBMISSION TO STANDING COMMITTEE ON TAX AND REVENUE

INQUIRY INTO HOUSING AFFORDABILITY AND SUPPLY IN AUSTRALIA

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4.	***Urban Taskforce recommends that a time-limited opportunity for the conversion of serviced apartments into new affordable homes without need to comply with updated ADG guidelines would enable a fast track to housing supply, particularly where commercial premises like Serviced Apartments were originally approved for residential purposes.***
5.	***Urban Taskforce Recommends the Commonwealth establish a Local infrastructure fund (for Community, Green and Hard infrastructure) targeted at Councils to drive new housing supply above that which was planned through existing published strategies. This would (by design) result in commensurate reductions in local infrastructure fees and charges while ensuring that Councils and communities are motivated to over-achieve on housing supply and housing approvals.***
6.	***Urban Taskforce Recommends that the Commonwealth drive an immediate focus from the States to maximise and deliver State-led planning opportunities for new housing under current planning legislation.***
7.	***Urban Taskforce Recommends the Commonwealth use all means available to secure the removal of affordable housing levies and ensure Government bear the burden of regulatory failure.***
8.	***Urban Taskforce Recommends opening up access to NHFIC bond aggregator funding to the delivery of affordable housing by the private sector, with the support of a fast-tracked planning Pathway which is State Government led.***
9.	***Urban Taskforce recommends that the Committee note the need for a rapid return to anticipated levels of immigration as soon as it is safe to do so. Further, in light of the current shortage of housing supply across Australia, Urban Taskforce recommends that the Committee actively progress all available measures to promote housing supply.***

10.	***Urban Taskforce recommends that the Commonwealth create a $3Bn fund, similar to the Housing Acceleration Fund (HAF), to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated.***
11.	***Urban Taskforce Recommends the Commonwealth amend the tax schedule to treat foreign investment in Build to Rent residential property in the same way as an investment into other classes of property where the asset is established for the purpose of deriving a long-term rental return (ie. Reduce the withholding tax rate from 30% to 15% and the tax on capital gains also be reduced from 30% to 15%)-***
12.	***Urban Taskforce Recommends the Commonwealth change the GST treatment of Build to Rent residential assets to allow the construction costs to be instantly off set on the proviso that the asset is held for a minimum period as rent deriving asset.***
13.	***The Urban Taskforce recommends that the Commonwealth government take the lead in discussions with the States to abolish Stamp Duty and replace it with a broad-based tax, which will stimulate housing market transactions and activity, and more fairly generate funds for new infrastructure that will enable growth and stimulate the economy.***
14.	***The Urban Taskforce recommends the Commonwealth should leverage any support the provide to State to discourage discriminatory taxes on foreign purchasers.***

1. Introduction

Urban Taskforce Australia is a not for profit peak industry representative for the property development industry. It represents Australia's most prominent property developers and equity financiers. Urban Taskforce membership is primarily focussed on development in the NSW market, though many members operate throughout Australia. Urban Taskforce welcomes the opportunity to make a submission to this inquiry and thanks the Committee for their interest in this rapidly growing crisis area of public policy and governance.

Housing supply is critically linked to housing affordability. While this might seem like basic economics, that fact that many in the planning community do not accept this maxim is one of the reasons we have such as problem today.

The dogmatic denial from some planners that they have any part to play in causing the problem causes reform paralysis. In NSW, this denial comes from the very top. Senior leaders in DPIE, the Minister for Planning and the Planning Institute of Australia.

To illustrate the point, consider the response to a serious attempt to assess the impact of the planning system, its rules and regulations, on the price of apartments in different jurisdictions, The Reserve Bank's Keaton Jenner and Peter Tulip published a paper on the subject. The opening paragraph of the paper captured the issue neatly. It stated

> "Australian cities face a shortage of apartments. The severity of this shortage can be gauged by the difference between what home buyers will pay for an apartment and what it costs to supply. For example, we estimate that the average new apartment in Sydney sells for $873,000 but only costs $519,000 to supply, a difference of $355,000 or 68 per cent of costs. The wedge is 20 per cent of costs in Melbourne and 2 per cent in Brisbane. Why don't builders and developers exploit these profitable opportunities? The standard answer is that planning regulations stop them."[1]
>
> Jenner Tulip (2020) p1

In a Private Members Statement to the NSW Parliament on 6/8/2020[2], the NSW Minister for Planning, Rob Stokes, as the Member for Pittwater, lampooned the RBA paper, stating:

> "Residents of places in Pittwater like Avalon Beach, Newport and Terrey Hills are fiercely proud and protective of the bushland and beaches that envelop their neighbourhoods. That is why they could be forgiven for being a little perplexed by a Reserve Bank of Australia report discussed on the front of today's Sydney Morning Herald advocating 16 storeys as the efficient height of residential towers in Pittwater and suggesting that planning restrictions are depriving developers of the opportunity to provide more and bigger towers in their community.
>
> Needless to say, I do not agree that removing planning controls is the best way to build a more efficient, sustainable, productive and just city. Yet this is the pretty clear implication of the RBA report, which makes the fairly obvious point that if we added 20 storeys to the height of residential apartment buildings the price of individual units would fall. Specifically using

[1] Jenner, K and Tulip, P, 'Research Discussion Paper – 'The Apartment Shortage', Reserve Bank of Australia., 2020

[2] Stokes, R Transcript from Hansard – NSW Legislative Assembly, 6/8/2020

2018 data, the report suggests that if we were to double the number of high-density apartments built each year the cost of housing would decline by 2.5 per cent per annum - a modest potential benefit to an individual homebuyer but a massive potential cost to everyone else in New South Wales."

This very parochial political response to a serious paper researched and published by the Reserve Bank of Australia underlines the problem that is driving housing prices upward. The planners simply don't accept the economic analysis of experts.

One of the authors of the Jenner Tulip RBA paper, Peter Tulip, is quoted in Sourceable expressing his dismay at the criticisms of his paper that came from the PIA and the NSW Minister for Planning.

> "According to Tulip, the approach adopted in the paper has been used across different countries and is considered to be common practice and best practice.
>
> He says critics of his approach are wrong.
>
> '… the Planning Institute of Australia and Rob Stokes, the Planning Minister, have complained that our approach is contested,' Tulip said.
>
> 'I think that is unfair.
>
> 'It is true that there are a few urban planners and a few cranks on Twitter who essentially don't understand what we are doing. But amongst people who have looked closely at this issue – and in particular, researchers on the topic – this approach is not controversial at all.
>
> 'What you are seeing is well accepted, standard research. It's standard, simple economics.'"[3]
>
> Peter Tulip, quoted in Sourceable, 10/9/2020

Good local politics aside, since that speech in September last year, approvals of new homes and particularly new apartments in NSW remain stubbornly low. Housing affordability has declined while prices have risen. Coincidently, CoreLogic is quoted in the AFR as stating that the worst suburb in Australia for declining affordability over the past 10 years is **Pittwater**.

According to the Frontier Centre for the US Public Policy for the Urban Reform Institute: Demographia International Housing Affordability Report 2021 Sydney is the third-least affordable city for housing. The analysis takes into account after tax household income and compares that to housing prices. A score under 3.0 shows an affordable housing market.

The analysis found:

> "…there are 36 severely unaffordable major housing markets. The least affordable are Hong Kong (20.7), Vancouver (13.0), Sydney (11.8), Auckland (10.0), Toronto (9.9), Melbourne (9.7), San Jose (9.6), San Francisco (9.6), Honolulu (9.1), London (8.6) and San Diego (8.0)."[4]
>
> Frontier Centre for the US Public Policy for the Urban Reform Institute (2021) p7

[3] Heaton A, 'Economist hits back at apartment paper critics', Sourceable, 10/9/2020
[4] Cox W, 'Demographia International Housing Affordability Report 2021', Urban Reform Institute and the Frontier Centre for Public Policy, Canada, February 2021

2. Housing Supply and Housing Affordability – establishing the challenge

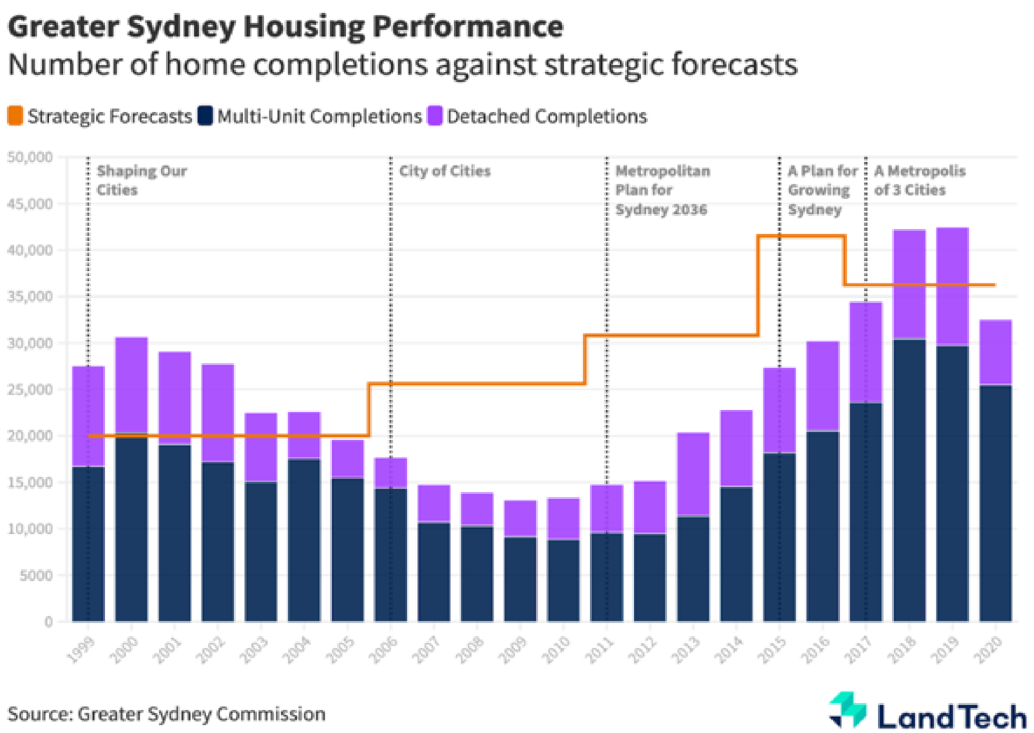
> "As of March, the median dwelling price for Pittwater sat at $2.17 million, it was $1.54 million in Baulkham Hills and $2.28 million in Ku-ring-gai region. Eliza Owen, CoreLogic Australia head of research, said at these levels it would be difficult for the average resident in these areas to buy a median-priced home."[5] AFR, 1/9/2021, p38.

Housing affordability (% annual income to service a loan)

City	Region	Mar 2011	Mar 2021	Change over 10 years (%)
WHERE AFFORDABILITY WORSENED THE MOST				
Sydney	**Pittwater**	71.4	93.3	+22.0
Sydney	**Baulkham Hills**	43.3	62.0	+18.7
Sydney	**Ku-ring-gai**	61.9	80.0	+18.1
Sydney	**Warringah**	58.6	73.6	+15.0
Sydney	**Pennant Hills - Epping**	54.5	69.5	+15.0
Sydney	**Leichhardt**	54.4	68.5	+14.1
WHERE AFFORDABILITY IMPROVED THE MOST				
Melbourne	**Yarra**	60.2	35.6	-24.5
Adelaide	**Adelaide City**	58.1	33.7	-24.4
Perth	**Fremantle**	64.5	40.3	-24.2
Perth	**Cottesloe - Claremont**	86.6	63.7	-22.9
Brisbane	**Caboolture Hinterland**	50.5	31.6	-18.8
Perth	**Perth City**	48.9	30.2	-18.7

SOURCE: CORELOGIC, ANU

Core Logic analysis. Table published in AFR, 2/9/2021, p38 (printed edition).



Analysis by LandTech – undertaken for the Urban Taskforce

5 Sweeney, N 'Housing affordability worsens most in wealthy areas' Australian Financial Review, (2/9/2020),

LandTech have undertaken an analysis of each Council in Greater Sydney's performance against the 5 year Housing target set by the GSC. The full results can be seen at Appendix A.

Urban Taskforce has been at the forefront of highlighting the failure of the NSW Planning System to ensure its most important task is delivered: to ensure that enough houses are built to meet demand. The Greater Sydney Commission has done the work and the results show that new housing supply has not met demand.

This failure is not simply in the imagination of Urban Taskforce staff and our members. The research and commentary below shows that the crisis has evolved over the last two decades and this resulted in a cumulative under-supply. This legacy has combined with a set of economic conditions including low interest rates and relatively loose APRA lending controls to see new home prices spike upwards at an unsustainable level.

There has been a succession of highly qualified economists to look at this matter since the incoming Premier, Gladys Berejiklian declared Housing Affordability to be her '*number one priority'* when elevated to the role in 2017. Some critical contributions to the debate include:

- Glenn Stevens AC (former Governor of the Reserve Bank of Australia) was commissioned by Premier Berejiklian to investigate housing affordability. His report in 2017 into Housing Affordability was prepared for the NSW Department of Premier and Cabinet and it noted that lack of housing supply in NSW was the main driver declining household affordability. The Report noted the inflexibility of the planning system and its incapacity to adjust quickly to deal with changes in economic circumstances or changes in patterns of demand.[6]

- In August 2020, Keaton Jenner and Peter Tulip, of the Reserve Bank of Australia, on the additional costs associated with the particular slowness and rigidity of the NSW planning system entitled "The Apartment Shortage"[7].

- The NSW Productivity Commissioner (an arm of NSW Treasury) published a Green Paper (August 2020) entitled*: "Continuing the Productivity Conversation"* and devoted an entire chapter to the NSW Planning system and how it was failing NSW in terms of it responsiveness, its slowness and the costs, while not delivering supply to meet demand at any point over the past 15 years.[8]

- The final White Paper (May 2021) entitled "*Productivity Commission White Paper 2021 - Rebooting the economy*" identified that there is a need to

[6] Stevens, G, AC, 'Housing Affordability Report to the Premier', Reports prepared for the NSW Department of Premier and Cabinet, 2017
[7] Jenner, K and Tulip, P.
[8] NSW Productivity Commission, 'Green Paper – Continuing the Productivity Conversation', NSW Treasury August 2020.

"pursue policies and regulation to increase the supply of the right types of housing, in the right places, at the right times" p 15[9]

The White Paper also found:

> "Housing supply has failed to keep up with demand. That has led to an undersupply of housing, increasing the cost of living for households and making New South Wales a less attractive place to live and work". p 14

and

> "Overly prescriptive and complex planning regulations stifle business competition and reduce housing supply." p 26

- The Commonwealth Productivity Commission (March 2021) f was highly critical of "*how 'planning and land use regulations, and regulatory practices, can adversely impact housing affordability, the cost of doing business and the economy generally"*[10] *Page 2*
- The Head of Westpac Peter King (Daily Telegraph, 31 March 2021) and NAB's Ross McKewan as reported in the Sydney Morning Herald (16/4/2021)[11] clearly say that supply issues as the drivers of increasing prices in early 2021.
- Senior Economics Writer for the Sydney Morning Herald, Jessica Irvine, (SMH 22 April 2021)[12] prepared a humorous but nonetheless serious expose of all the factors in the equation based on some excellent further research by Peter Tulip – now of the Centre for Economic Studies.
- The NSW Intergenerational Report shows that the percentage of New South Wales residents who own their home will decline significantly over the coming decades. This will increase demand for social housing, which the report says will cost the Government an additional $12.1 billion over the next four decades.[13]

Even NSW Department of Planning Industry and Environment's (DPIE) own work shows the extent of the problem for those aged under 35:

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[9] NSW Productivity Commission, 'Productivity Commission White Paper 2021 - Rebooting the economy' NSW Treasury, May 2021

[10] Australian Government Productivity Commission, 'Information Paper Plan to identify planning and zoning reforms', Commonwealth of Australia, March 2021

[11] McKewan R, in Duke J and Yeates C, "NAB chief calls for faster housing approvals", Sydney Morning Herald 16/4/2021

[12] Irvine, J, 'It feels like winning the lottery': confessions of a Sydney homeowner' Sydney Morning Herald, 22/4/2021

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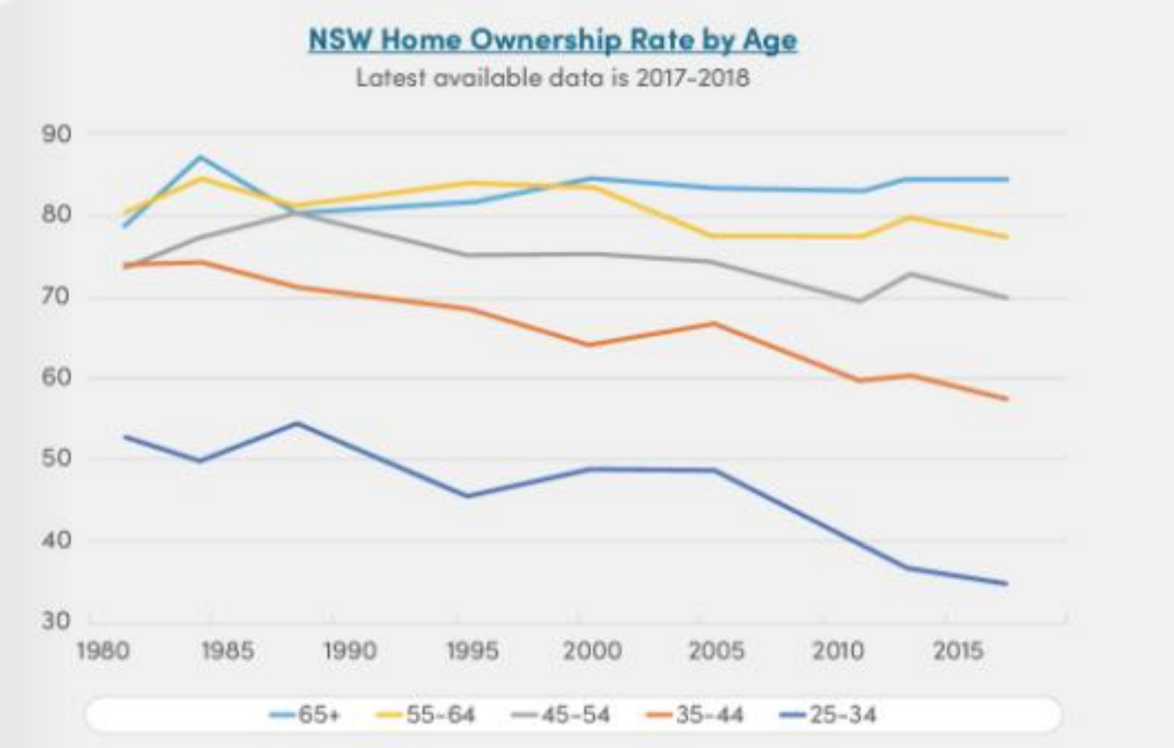
[13]NSW Treasury, '2021-22 NSW Intergenerational Report - TOWARDS 2061 – Planning For The Future', June 2021, NSW Government



Source: NSW DPIE, "A Housing Strategy for NSW – Fact Book" May 2020, p27.[14]

The NSW Productivity Commission neatly makes the point that the challenge for the planning system is to improve the balance between the need for more housing and local community interests who are naturally resistant to change:

> "To improve the affordability of housing, we need more development, not less. And we need a planning system that will deliver it. Some of that housing development will need to be, metaphorically, 'in our backyard'. This is where people want to live: where they have better access to jobs, infrastructure, and other amenities. Collectively, we will be better off with a planning system that is better able to balance the benefits of development to prospective residents and businesses, as well as the views of opponents of change."[15], p221

The message from the property market experts, government and private sector economists is both clear and consistent.

Housing Prices in Greater Sydney

According to Domain, Sydney's median auction house price has hit a record $1.92 million for August 2021,up an astounding 32.3 per cent over the year and an 11.8 per cent in just one month.[16]

In terms of much needed housing approvals to lift supply to drive prices down, the news is not good. The latest ABS approvals data shows that in NSW the planning

[14] NSW Department of Planning, Industry & Environment, "A Housing Strategy for NSW – Fact Book" May, 2020, NSW Government
[15] NSW Productivity Commission, Green Paper
[16] Lutton E, 'Median auction price for a Sydney house hits record $1.92 million in August', Domain, September 7 2021

system approved almost 10% less in July than was approved in June.[17] This is the third month in a row where new housing approvals in NSW have dropped.

Clearly members of this committee are cognisant of the housing supply shortage and the housing affordability crisis. The big question now is: what to do?

3. The NSW Planning System's Impact on housing supply

Urban Taskforce has consistently contended that we need greater supply, less red tape, greater flexibility, faster approvals and urgent reform of the NSW planning reform. The States need to address planning constraints on new housing supply or prices will continue to go up.

The NSW Government's Housing Strategy "Housing 2041" targets that call for 40,000 new dwellings (on average) in Greater Sydney, each year, from 2016 till 2041 (The NSW Housing Strategy 2041 says that 1 million new homes are needed in Greater Sydney between 2016 and 2041[18] based on a conservative forecast of Net Overseas Migration numbers).

The Commonwealth Budget position is predicated on an assumption that Net Overseas Migration will return, firstly to 160,000 p.a. then rise to 225,000 p.a. over the coming 4 years in the post /COVID recovery period. This is critical to the growth of the Australian economy, to increasing the declining participation rate in the workforce and to supporting our ageing population and to paying off the debt incurred in the COVID period.

The numbers below show that even before the return of migration to the marketplace, Greater Sydney and the NSW Planning System is already well short of this target.

Greater Sydney	Total annual new home Approvals	New home Completions
Dec 2011/12	24,460	15,104
Dec 2012/13	30,375	20,341
Dec 2013/14	39,090	22,741
Dec 2014/15	46,766	27,305
Dec 2015/16	54,854	30,190
Dec 2016/17	55,995	34,393
Dec 2017/18	53,371	42,183
Dec 2018/19	39,645	42,414
Dec 2019/20	32,444	32,464
Dec 2020/21*	27,468	22,168
*First 9 months of 2020/21 DPIE has not published monthly data since March 2021		

Source: NSW DPIE – Sydney – Housing Activity structured data:

[17] Australian Bureau of Statistics, "Building Approvals, Australia - July 2021", Released 31/08/2021
[18] Department of Planning, Industry & Environment, "Housing 2041 – NSW Housing Strategy", NSW Government, March 2021.

Just under one third of all overseas migrants settle in NSW. The current housing affordability crisis, driven as it is (in part) by a lack of housing supply, poses a real threat to the Commonwealth's budget position.

There is a very real imperative for the Commonwealth Government to take a pro-active stance and to drive the states to deliver changes to the planning system to increase housing supply.

4. A Focus on NSW

4.1 A faster planning system in NSW

The NSW planning system is complex. It has a poor and limited capacity to efficiently manage rezonings. Planning staff through out the system bemoan the obligations for endless rounds of public exhibition, of design review, of negotiations over ever-increasing infrastructure fees and charges.

The RBA, the NSW Productivity Commission and Commonwealth Productivity Commission – all point to the extra costs and the slowness of the NSW planning system.

A 2019 report prepared by Mecone[19] (July 2019) for the NSW Treasury as an initial input to the Productivity Commission Discussion Paper on Productivity entitled *"Kickstarting the Productivity Conversation"* (Oct 2019). This report found that across all the development types, NSW has the longest Development Application timeframes on the eastern seaboard. In some cases, more than double the next slowest State. The report also found the average time for a Development Application decision in NSW grew by 44 per cent between 2015 and 2018. The jurisdictional differences are substantial, are not improving and point to serious inefficiency in the NSW planning system.

The re-zoning process in NSW is also too slow to respond to demand and enable efficient supply. This concern is articulated in the Commonwealth Productivity Commission's March 2021 research report - Plan to identify planning and zoning reforms:

> "Rezoning can be a time consuming, costly and uncertain process, particularly for infill development where there is greater potential for delays due to community objections — in major cities such as Sydney and Melbourne the process can take several years."[20]

Excessive delays can occur when the process is used by councils to stymie new development as a means of pandering to the small, but vocal, calls for 'no change' to local character that are heard in many communities.

At all stages, but particularly at the DA stage, too much information is often being requested.

[19] Mecone) "State Development Comparisons – A comparative review of the NSW Planning System", NSW Treasury, July 2019
[20] Australian Government Productivity Commission, 'Information Paper Plan to identify planning and zoning reforms

4.2 A more responsive Planning system

The NSW Productivity Commission found that "we need a more responsive and flexible planning system" and "one of the fundamental determinants of housing supply in NSW is the strict regulation of land use".[21]

In NSW it can take 5 years (often more) to have a planning proposal for the rezoning of land finalised. As a consequence, the pipeline of zoned land supply is constantly in a state of 'catch-up' – both in terms of volume and locational responsiveness.

The NSW planning system is over regulated and inflexible. The system is over-regulated in terms of the key players the - Department of Planning and councils as well as the requirements of the NSW EP&A Act. As referenced in the introduction to this submission, the cost impost of the rigidity of the NSW system was exposed in a Reserve Bank of Australia research paper. The paper found that NSW's planning restrictions boosted Sydney apartment prices by 68 per cent of costs, compared to 20 per cent in Melbourne and 2 per cent in Brisbane.[22]

This lack of flexibility is endemic in the NSW Planning system and is the root-cause of many of the housing supply and affordability issues that brought about the need for this Inquiry.

4.3 A focus on housing supply – NSW is heading in the wrong policy direction

Urban Taskforce has called for a renewed focus from the NSW Government on policy initiatives and processes that support housing supply and the reduction of costs to new home buyers**.**

However, recently exhibited draft, state-wide policy initiatives in NSW such as the Housing State Environmental Planning Policy (SEPP) and Design and Place SEPP will result in less, not more, lower cost housing supply.

The draft Housing SEPP significantly undermines the feasibility of existing affordable housing types. The draft SEPP has effectively killed the feasibility boarding houses.

For the newer housing form known as "co-living", sometimes referred to as 'new generation boarding houses', the Draft SEPP: reduces the Floor Space Ratio bonus for this housing type; prohibits co-living development within the within the lower density residential zone (thus forcing it to compete with market apartment development – which it is simply unable to achieve); and it mandates expensive and unnecessary car parking requirements.

All the new provisions add cost and reduce the very measures that made their development feasible.

Similarly, the draft Design and Place SEPP is proposing additional steps and requirements for most larger development projects via a new State-wide Urban

[21] NSW Productivity Commission, 'Productivity Commission White Paper 2021 - Rebooting the economy, pp 265 & 274
[22] Keaton J and Tulip P (2020)

Design Guide. The draft SEPP will also include an updated Apartment Design Guide (ADG) and BASIX with additional requirements.

The first EIE draft Design and Place SEPP was not well received by the development industry. Of particular concern was the absence of analysis relating to the costs and loss of GFA associated with its recommendations, proposed new controls and the associated guidelines. Broad consensus from Urban Taskforce members is that the impact to development costs from the draft SEPP to new apartments is in the order of 15- 35%. If the SEPP were to be made as is, the additional costs would be added to the cost of a new home.

While the NSW Government is belatedly undertaking a cost benefit analysis of the impacts of the Design and Place SEPP's new ADG requirements, this is coming too late in the process and many in the industry are gravely concerned that the full impacts of the policy will only be evident once introduced.

In light of the uncertainty created by COVID and the urgent need for housing supply State-wide, the Urban Taskforce has recommended to the NSW State Government defers for 12 months both the Design and Place and Housing SEPPs.

Policy reform must focus on the main game – that of improving housing supply, reducing DA processing timeframes and increasing new home affordability. The NSW the Manufactured Homes and Estates SEPP, which has the potential to create both private housing diversity and affordability, particularly for regional areas, is languishing in the Department of Planning despite the exhibition of a discussion paper in 2015. Increased permissibility of manufactured homes, and adjustments to the policy to further reduce delivery costs, would be an efficient, progressive and responsive policy outcome.

Manufactured homes, by being more affordable and quicker to deliver, have the capacity to almost immediately provide the new homes for essential and new workers greatly needed in many parts of NSW.

Urban Taskforce Recommends that the Commonwealth lead a policy focus on Housing Supply across all market segments and actively highlight retrograde policy proposals that work against housing supply and housing affordability.

4.4 Apartment Approvals threaten significant under supply in coming years

Urban Taskforce is very concerned about the drop off in NSW planning approvals for the Greater Sydney apartment market.

Over the past 25 years, an explicit planning policy of Urban Consolidation has seen 65%-70% of all new homes in Greater Sydney delivered in the form of apartments. This policy was established in recognition of the high cost of infrastructure in the growth areas that are relatively distant from the Sydney's urban centres. This ratio will not change in the short to medium term as the cost of infrastructure is simply too great.

The Greater Sydney Commission set housing targets for each Local Government Area in 2018. However, some Councils have chosen to simply ignore those targets. Others have openly rejected them and refused to incorporate those targets into their Housing Strategies.

Urban Taskforce is concerned that the NSW Government is not ensuring that Councils meet them. Targets need to be regularly monitored against performance. There can be no excuse for Councils refusing to accept the targets.

LGA Housing Strategies must come with sanctions for those Councils that selfishly refuse to contribute to housing supply, resulting in rising new home prices inflicted on those least able to afford them. However, they should also come with rewards when targets are exceeded.

The data released by the ABS in August shows that NSW housing approvals reached their peak in 2015/16 2016/17 and 2017/18 at around 73,000 approvals each year. Then, in the lead up to the NSW State election (2018/19) approvals dropped off to 58,000 and stayed low in 2019/20 with only 48,000[23], despite "fast track" schemes and a flurry of DPIE activity.

The total approvals have risen across all of NSW to 59,000 and this is welcome – but it remains well short of what is needed. The data reveals the problem. Apartment approvals across NSW have dropped significantly (most of these in Greater Sydney) while new separated house approvals have remains relatively flat.

NSW Approvals	**Apartments**	**Houses**	**Total Approvals**
2015/16	44,001	29,351	73,352
2016/17	43,757	29,231	72,983
2017/18	43,218	30,480	72,798
2018/19	29,954	28,097	58,051
2019/20	23,989	24,076	48,065
2020/21	28,964	30,435	59,399

The table above, based on the ABS data, clearly shows that there has been a significant drop off in *apartment approvals* (in particular) and this started before COVID-19 hit. Further, the conversion from an approval to a building start is typically less than 70% (within 5 years). The data above is for all of NSW (not just greater Sydney). This data confirms that without an immediate change to NSW policy, there will be a housing supply crisis.

The Homebuilder funding package was a very welcome support for the housing sector. However, in NSW its application was limited due to the shortage in approvals and, in particular, urban fringe land sub-divisions. This demand stimulus exacerbated price escalation in Greater Sydney.

Urban Taskforce would support targeted stimulus for the apartment market. The timeframes made Homebuilder difficult to apply to the NSW apartment market – but

[23] Australian Bureau of Statistics, "Building Approvals, Australia - July 2021"

the principle of stimulating demand in this market would be of enormous assistance to the industry and would produce a pipeline of this more affordable and sustainable housing type.

Urban Taskforce Recommends that a new Homebuilder package be established to stimulate demand for higher density housing options.

One of the difficulties faced by apartment builders has been the collapse in "off the plan sales". This has resulted in a very large number of approved developments not progressing to building start due to the lack of sufficient finance to pass the scrutiny of the Banks and the NBFIs.

A measure that could deliver a significant yield in terms of economic activity and housing supply would be the Commonwealth provision of loan guarantees in exchange for lower project pre-sales thresholds. A precedent for this can be seen through the NSW Government's provided up to $750m via a loan guarantee scheme to help Universities through the COVID-19 pandemic. Urban Taskforce supports a larger scale program from the Commonwealth targeted at "ready to build" apartments.

Urban Taskforce Recommends that the Committee support the establishment of a stimulus fund which underwrites off-the-plan sales with a view to the banks (and lending institutions) reducing the requisite off the plan sale thresholds.

4.5 Conversion of Serviced Apartments to Affordable Housing

The future for many CBD based serviced apartments is uncertain with values having dropped significantly during the COVID-19 experience. There is an opportunity to consider a time limited option of converting some of these serviced apartments into residential apartments for sale with an affordable housing discount. This discount would reflect the fact that serviced apartments would not be fully compliant with the NSW Apartment Design Guide – but their locality and amenity would be very attractive for many key workers who are currently forced to the outskirts of Sydney to an affordable location.

While this is not directly a Commonwealth responsibility, financial support from the Commonwealth to deliver a much needed (almost instant) supply of under-utilised assets would generate a significant fillip for the industry and also deliver housing supply in locations where demand is highest.

Urban Taskforce recommends that a time-limited opportunity for the conversion of serviced apartments into new affordable homes without need to comply with updated ADG guidelines would enable a fast track to housing supply, particularly where commercial premises like Serviced Apartments were originally approved for residential purposes.

4.6 Reduction in new home fees and charges

The NSW Productivity Commission's Review of Infrastructure Contributions in New South Wales – Final Report states:

> "Infrastructure contributions are not supporting efficient development. The Sydney metropolitan area has the highest prices for residential, commercial and industrial space of any Australian city. This is in part due to zoning restrictions, which reduce the supply of developable land. There is also evidence a lack of infrastructure can delay development, leading to more restricted supply and higher prices (Centre for International Economics, 2020). Where infrastructure contributions support efficient and timely delivery, the community will be more supportive of growth, and the supply of residential and commercial property will be enhanced. This outcome is not supported by the current system. It is complex, inefficient, inconsistent and lacks transparency. Infrastructure planning is often disconnected from rezoning decisions, with contributions not known until late in the development process. This means contributions fail to provide market signals favouring development in lower cost areas. It also prevents developers from properly accounting for these costs in their investment decision, increasing risk and reducing project feasibility."[24]

Not only does NSW have the slowest and most complicated planning system in the nation, it also has the highest fees and charges in the country.

In Greater Sydney, the total cost of fees, charges and taxes (Local, State and Federal) for a $1 million apartment (sale price to the buyer) is circa $300,000 – significantly more than in Melbourne (circa $220,000) or Brisbane (circa $180,000).

The cumulative impact of the various cost imposts simply add to the already high cost of new homes in NSW. The current under supply has combined with the high taxation regime and low interest rates to result in the cost of new housing prices escalating to such an extent that maintaining the feasibility of new development has been at the expense of the new home buyer.

The NSW Government is quite rightly boasting a much-needed record infrastructure spend – but this must not be at the expense of young families who are already priced out of the suburban Sydney marketplace, Government needs to do more, not just tax more.

A reduction in fees, taxes, state and local infrastructure charges will also directly reduce housing prices. These matters now need to be considered in the context of the unprecedented COVID-19 pandemic and the current reality of a housing supply and affordability crisis.

Recent research released by the National Housing and Finance Investment Corporation (NHFIC – August 2021) confirms that the NSW Government allowed the scope of local infrastructure contributions to grow to such an extent that they alone now account for between 8-11% of the total cost of a new home – with NSW being the highest at up to $85,000 per dwelling (compared to $77,000 in Vic and $42,000 in Qld).[25]

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[24] NSW Productivity Commission, "Final Report of the Review of Infrastructure Contributions in New South Wales", November 2020, NSW Treasury
[25] National Housing and Finance Investment Corporation, "Developer Contributions: How Should We Pay For New Local Infrastructure?", August 2021

The Report notes that developer contributions began as a contribution to augment local infrastructure. However, this has morphed over time to simply become another tax on new homes. The Report is very clear that these contributions represent a tax on new homes – often to pay for infrastructure that is not related to the new home.

The Report also reveals the extent to which the system of local infrastructure contributions has failed the community and has failed property development by highlighting some of the Sydney Councils that have collected the money from developers but have effectively banked it.

Urban Taskforce has proposed a system of rewards for Councils that deliver higher than targeted new dwelling approvals. This is an area where Commonwealth assistance would be strongly supported and is very much needed. Public open green space and improved community infrastructure are all critical to any community's acceptance of increased density. However, the current practice of continually increasing the fees and charges imposed on new home development simply increases the cost for the end consumer, or, it kills the feasibility of the development and the new home is not produced.

Urban Taskforce Recommends the Commonwealth establish a Local infrastructure fund (for Community, Green and Hard infrastructure) targeted at Councils to drive new housing supply above that which was planned through existing published strategies. This would (by design) result in commensurate reductions in local infrastructure fees and charges while ensuring that Councils and communities are motivated to over-achieve on housing supply and housing approvals.

4.7 Targeted Commonwealth support for States that fast track housing supply

In representations to the NSW Treasurer and Minister for Planning, the Urban Taskforce has called on the NSW Government to:

- Establish a State Significant Development planning pathway for high value high yield housing projects – thus removing those assessments from the hands of Councils and local community activists
- Reduce infrastructure fees and charges (which ultimately add to the cost of new homes) and not see infrastructure charges reform as an opportunity to raise more revenue
- Spread the burden of additional housing right across Sydney so there is increased supply in all areas
- Accelerate and expand State-led precinct and corridor planning
- Hold State Government agencies and Councils accountable for the delivery of infrastructure to support housing supply.

State Governments have a suite of planning tools available to fast track housing supply. NSW has the state led precinct planning process which aligns increased opportunities for new homes with major infrastructure investment in transport along corridors and corresponding precincts.

The state led precinct planning process should be used boldly by the State Government when there are opportunities for significant urban renewal coming out of major transport investment. However, it is critical that when an area is identified for renewal and uplift - that the Government follows through.

Developers are increasingly criticised for “land-banking” development sites. But in many cases, developers invest in a property on the basis of an expectation of timing and yield of the rezoning only to have the development potential reduced to the point that it is no longer feasible. In NSW numerous precincts and corridors were identified to be the subject of a state led rezoning process but many of these have since been returned to local government to ‘progress’ and/or have had the available yield reduced to the point that the project is commercially unviable.

State Governments must avoid giving and then removing market signals. This situation is tantamount to sovereign risk and is contrary to encouraging investment in the housing market.

As Housing Supply is now a matter which is holding back Australia’s post COVID economic recovery, there is an interest for the Commonwealth in sponsoring the improved performance of the States in this field.

Urban Taskforce Recommends that the Commonwealth drive an immediate focus from the States to maximise and deliver State-led planning opportunities for new housing under current planning legislation.

4.8 Affordable Housing

The NSW Productivity Commission Infrastructure Contributions Final Report found that:

> “Local contributions should be used to fund development-contingent costs; that is costs that would be avoided if a development did not go ahead. Affordable housing does not fall within this definition… The limited uptake of affordable housing schemes by councils suggests the contributions system plays a minor role in affordable housing supply. Moreover, it is not clear that housing is being made more affordable as a result of these schemes, as some stakeholders noted: the creation of a small quantity of “affordable housing”, may be at the cost of making other housing more expensive.”[26]

Affordable housing contributions impact the ability of the planning system to increase housing supply in general. Any additional contribution affects project feasibility which leads to an impact on supply when projects do not go ahead. Affordable housing contributions actually push up the price of new homes as the price of ‘market’ homes is increased to off-set the cost of the affordable housing.

Affordable housing is best addressed by more approvals and faster re-zonings of land to boost supply, not the application of affordable housing levies.

Increased supply will result in the slowing of price escalation – not a new tax that produces only a miniscule number of new dwellings. The failure of States to ensure

[26] NSW Productivity Commission,” Review of Infrastructure Contributions in NSW – Final Report”, NSW Treasury, November 2020

that housing approvals do not meet the demand for new housing in all areas of the market has resulted in an affordability crisis. It is ironic indeed that some see the solution to this failure in government policy and practice as a tax on the very group that are working to solve the problem. The affordable housing levies are akin to placing a tax on bakers to solve a shortage in bread supply. It is similar to placing a tax of farmers because of a food shortage. Put simply, it is ludicrous as it actually increases the price of the very commodity you are seeking to make more affordable.

As was the case when former Prime Minister John Howard negotiated the removal of many inefficient State taxes and charges with the introduction of the GST, the Commonwealth should take the lead in pushing the States not to add new, inefficient taxes that work against the private sector delivery of housing supply. This can be by way of “carrots” (or incentive payments) or a stick (withholding grants or other payments).

Urban Taskforce members strongly assert that the solution to rising new home prices and rising rents is the production of more housing supply. This is not achieved through the mass-delivery of social housing. Social Housing is expensive to deliver and costly to maintain. Social Housing certainly has a role (alongside affordable Housing provided through Community Housing Providers), but Urban Taskforce commends support for the private sector in delivering more housing at an affordable price for key workers, new entrants to the housing market and those needing some level of support. Access to this funding should be flexible – where 10% or more discounted housing is to be made available.

A successful initiative introduced by the Turnbull Government was making access to low-cost capital available to Community Housing Providers and the not-for-profit sector through the National Housing Finance and Investment Corporation (NHFIC) bond aggregator funding model.

The Committee should consider expanding access to this scheme given the crisis in housing supply we currently face. The Commonwealth should expand access to this pool of NHFIC “bond aggregator” funding to include support for the production of private sector delivered affordable housing (ie. Expand access to NHFIC bond aggregator funding for affordable housing (20% discount to full market rent) delivered by the “for profit sector”) and work with State Agencies to establish a pathway to provide fast tracked State led approval. Access to this fast-track would assist in the delivery of market housing as well resulting in the production of a greater number of affordable homes than any levy will produce.

Urban Taskforce Recommends the Commonwealth use all means available to secure the removal of affordable housing levies and ensure Government bear the burden of regulatory failure.

Urban Taskforce Recommends opening up access to NHFIC bond aggregator funding to the delivery of affordable housing by the private sector, with the support of a fast-tracked planning Pathway which is State Government led.

5. Migration Matters for the Australian economy

As we face the post COVID-19 recovery, Australia is in need of economic growth for two reasons: firstly, the Australian Government (and the States) have incurred record levels of debt to get us through the impacts of COVID-19 in 2020. But this will need to be re-paid. Secondly, the principal contributor towards economic growth since the early 1990s has been population growth and without migration, we would be going backwards.

Urban Taskforce commissioned an independent analysis from BIS Oxford Economics to establish a core set of base facts relating to migration and the Australian economy. This research paper seeks to unpack the economics of immigration and its contribution to economic growth.

The independent economic analysis undertaken by BIS Oxford Economics finds that migration has played a pivotal role in Australia's economic development.

Net Overseas Migration has been responsible in the first generation of migrants, for 20% of the nation's increase in productive capacity over the last 20 years. In the years prior to the COVID-19 pandemic Net Overseas Migration accounts for around 60% of annual population growth.

This number substantially increases once you include the economic contribution of second-generation migrants who have permanently settled in Australia.

The findings paint a grim economic picture for those who would advocate for a smaller Australia through a reduction in migration, even on a temporary basis. The report also debunked the assertion that migrants are a burden on the financial resources of government. To the contrary, due to their high levels of workforce participation and lower average age (compared to the existing Australian population), and higher levels of skills and education, they are significant contributors to the government coffers.

- Increased Population – with declining rates of natural births, migration has been the key source of population growth. The BIS Oxford analysis finds that 57% of annual population growth between 2000 and 2020 was due to migration.

- Increased Participation Rate: we need more migrants to improve the ratio of tax-payers to non-tax-payers (which is in long term decline across Australia). Skilled migrants have a participation rate in the workforce of 92% (compared to only 66% of the entire Australian population of working age

- Increased Productivity - Migrants create jobs – they don't take them - migrants generate more tax revenue because of their high levels of tertiary education, income, skills and relatively low age. The BIS Oxford Economics report finds that migrants positively contribute to the productive capacity of the economy, thus increasing per capita income and average household incomes.

5.1 Impact of COVID-19

COVID-19 saw Net Overseas Migration turn negative with a near complete drop off in all forms of permanent migration, the return to home of many temporary migrants (students, skilled workers on 457 visas and seasonal workers), offset by Australia citizens working overseas (ex-patriots) returning to Australia.

Prior to COVID-19, the cap on permanent migrants was reduced from 190,000 to only 160,000. In 2020, this number reduced to almost zero. Further, Australia has not been meeting its cap since 2016. This had a negative impact on economic growth in that period.

Given the clear evidence of the positive contribution of migration to Australia's economy, it follows that a permanently lower level of migration after the COVID-19 recovery is complete will be a drag on economic growth. If migration broadly returns to its pre-COVID trajectory the impact on the pace of growth in the long run will be limited.

But if it settles at a permanently lower rate of 100,000 (similar to the level in the late 1990s, before reforms were implemented to attract skilled workers and international students) the impact will be pronounced. The growth rate of GDP would be reduced 0.6%pts, to just 1.3% pa. This is equivalent to output being $460bn less in 2050, when compared to a path consistent with the Centre for Population's latest projections.

Skilled migrants make up the vast majority of permanent migrants to Australia. Overseas students contribute significantly to the economy. The not only bolster the education sector, but the pay rent and are high consumers of good and services.

The cut in Net Overseas Migration with the associated gradual forecast return to pre-COVID levels will result in a reduction in the working age population of a massive 822,000 by financial year 2024, relative to the pre- COVID-19 predictions. The loss of economic potential from the drop in immigration is substantial. The clear policy imperative is for Governments, at State and Federal level, to pro-actively return to pre-COVID levels of Net Overseas Migration as soon as safely possible, as further, increase those numbers to help make up for the lost economic potential.
Some in the planning community have speculated about a low immigration low growth future for Australia. The BIS Oxford paper examines the economic impact of a long-term reduction in immigration numbers. While lower immigration numbers might be attractive for proponents of the "Australia's cities are full" theory, the consequences for the economy and for our capacity to fund the fiscal gap created by our ageing population are profound.

The analysis of this research finds that policy makers and governments must adjust the way they think about our cities and our suburbs to cater for this economic imperative. The economy needs immigration.

In the property sector, the impact of COVID-19 has been most severely felt among the providers of student accommodation, the rental property sector (particularly apartments located close to universities), in the demand for serviced apartments (often the first point of landing for temporary and permanent migrants as well as business visitors).

But despite this, confounding many, prices of new free-standing homes have risen sharply and even the prices of apartments has risen by over 7% so far in 2021.

As detailed above, price rises for new homes have been driven by low planning approval numbers and the resultant low levels of supply. This is not a reason to curb immigration – that would be to punish the entire economy because of the failure of the planning system to deal swiftly with changing circumstances.

The policy conundrum must be resolved. Given the economic importance of immigration, particularly given the ageing population and the diminishing size of the Australian workforce, we must change the planning system to build in flexibility to cater for a rapid return of migrants to our economy.

In addition to underpinning a significant proportion of economic growth, migrants are also a significant net contributor to the government's fiscal position. The focus of the migration program on relatively young (under 40), highly skilled workers results in migrants typically earning above-average salaries (and so paying above-average income tax) and requiring below-average levels of government support. The cost of their education has already been born by their home country, and for temporary workers their access to government services while they are in-country is restricted.

Overall, the Treasury estimated that permanent migrants and temporary workers who arrived in FY15 will contribute an average of $32,450 per person to the government's fiscal position over the 50 years following their arrival in-country - $9.7bn overall.

In more recent work they have identified the cumulative loss of migrants over the COVID-19 pandemic as one of the key reasons for the structural gap between expenditure and revenue that is now present in government finances. Based on current policies and taking account of the 1.1 million loss of people in the population (relative to their pre-COVID projections), the Treasury are now expecting the budget deficit to be 1.6% of GDP in 2030/31.

Urban Taskforce welcomes the Commonwealth's moves to re-introduce both temporary and permanent migration as soon as possible. We further note the Commonwealth's plans to increase the Net Overseas Migration intake to well above the pre-Covid intake. This will result in increased pressure on the housing market unless the Commonwealth works pro-actively with the States to ensure housing supply is substantially boosted.

Urban Taskforce recommends that the Committee note the need for a rapid return to anticipated levels of immigration as soon as it is safe to do so. Further, in light of the current shortage of housing supply across Australia, Urban Taskforce recommends that the Committee actively progress all available measures to promote housing supply.

6. Housing Prices and Housing Supply in Regional NSW

While the undersupply of housing in NSW has historically been most pronounced in Greater Sydney, the dramatic escalating cost implications of supply not keeping pace with demand in Sydney, together with changes to settlement preferences has seen this housing supply and affordability crisis shift to Regional NSW.

Since the arrival of COVID-19 population growth in many regional communities has accelerated. People are remaining in or relocating from metro areas to many regional centres. The subsequent lack of housing supply thus arising in regional NSW has inflated prices and squeezed locals out of the rental market.

The Domain Rent Report for the June quarter, 2021 states that weekly rents in more than 20 major regional markets have jumped by 10 per cent or more in the space of one year[27]. The table below shows that this escalation in prices reflects an under supply across NSW.

Regional NSW LGA	% change in last 12 months
Snowy Monaro	28.6
Bellingen	26.8
Byron	26.2
Wingecarribee	20.0
Parkes	16.7
Orange	15.8
Yass	14.5
Port Macquarie / Hastings	12.9
Bega Valley	12.5
Lismore	12.5
Richmond Valley	12.3
Bathurst	11.1
Dubbo	10.0
Singleton	10.0

Data taken from Domain Rent Report (June Quarter 2021)

Given the recent significant uptake of available, zoned land lots in the regions, Councils have been caught out with a very narrow rezoned land pipeline.

While many have been caught unawares, this has been exacerbated by a simultaneous shortfall arising from the lack of long-term strategic planning, including the identification of land suitable for future rezoning.

Many regional communities have suffered from not having the funds available to commit to the construction of critical infrastructure (water, sewerage, roads). This causes local Councils to be conservative when it comes to planning. However, the

[27] Domain, powered by APM, June 2021, 'Domain Rental Report', accessed 25th August 2021, <https://www.domain.com.au/research/rental-report/june-2021/#sydney>

changes in demand as reflected by the current supply shortage across NSW is clear evidence that support for regional infrastructure is greatly needed.

Urban Taskforce recommends that the Commonwealth create a $3Bn fund, similar to the Housing Acceleration Fund (HAF), to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated.

Urban Taskforce made a comprehensive submission to the NSW Regional Housing Supply Taskforce commissioned by the NSW Minister for Housing, Hon Melinda Pavey MLA and Chaired by Gary Fielding. The recommendations made to that Taskforce can be found at Appendix B.

Most regional councils are slow in processing planning proposals. Some councils use the process to stymie new development as a means of pandering to the small, but vocal, calls for 'no change' to local character that are heard in many communities. More often however, Council staff are daunted by the complexity of the rezoning process under the NSW Planning system as well as the need for funding to deliver critical infrastructure.

To highlight the significance of the housing supply shortage, many regional communities have businesses ready to invest in new business activities in regional NSW. The biggest problem is there is no-where to accommodate the staff. Rental prices are risen rapidly. The housing supply shortage in the regions represents a serious bottleneck for economic development.

7. Build to Rent – an opportunity lost (so far)

Urban Taskforce members are concerned about the missed opportunity to secure capital investment from international institutional investors who have direct experience and desire to build new apartment stock for the purpose of deriving a long-term steady rental return.

Urban Taskforce members are at the forefront of progressing the Build to Rent asset class. Apartment approvals have dropped significantly in NSW (primarily in Sydney) and there is a need to stimulate this market.

When the rules surrounding the MIT taxation rates were last amended in 2017, the housing market was very different. The NSW Government has recognised the opportunities available through Build-to-Rent and have taken steps to establish a fast track planning assessment process (State Significant Development planning pathway – provided the development meets the financial threshold and the building is held for at least 15 years). The NSW Government has reduced the foreign investor Stamp Duty surcharge and also applied a 50% reduction in Land Tax to encourage investment in the asset class.

Urban Taskforce sees the post COVID recovery as an opportunity to adjust both the Company and Withholding taxation rates for institutional investors which wish to build an asset and hold it whole (not able to Strata) for a defined period. Young professionals frequently move from city to city following specialised work. Have a high quality, high amenity BTR option suits the lifestyle of many younger Australians.

As a general principal, the taxation system should not discriminate between asset types. This is particularly the case when one considers the current housing affordability and housing supply problems outlined in this submission.

A change to the taxation rates to realise equality between residential buildings and retail centres or commercial towers would stimulate significant investment from foreign institutions from around the world. Further, this would encourage Australian Superannuation funds to allocate more money to the Australian market rather than looking for residential rental returns through off-shore investments.

The table below shows that equalising the MIT at a 15% rate for foreign investors would stimulate new investment and new economic activity. It would also result in additional taxation revenue compared to "build for sale" investments.

Federal Tax Proceeds		Total	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5	Yr 6-10
BtR		**$1,243m**	**$113m**	**$91m**	**$215m**	**$190m**	**$17m**	**$618m**
	GST	$688m	$113m	$91m	$215m	$190m	$16m	$63m
	MIT[1]	$556m	-	-	-	-	$1m	$555m
For-Sale Development		**$852m**	**-**	**-**	**-**	**-**	**-**	**$852m**
	GST	$852m	-	-	-	-	-	$852m

BtR results in an additional ~$400m in Federal tax revenue

$626m accelerated Federal Tax

1. 15% MIT Withholding Tax rate for foreign investors

See below a summary of the Managed Investment Trust (MIT) withholding tax rates that apply to distributions to non-residents (in an Exchange of Information country) where the distribution does not relate to a "clean building" MIT.

	Ordinary income	Capital gains
Office / retail / industrial – third party	15%	15%
Office / retail / industrial – cross staple	15% (de minimis) 30% (other)	15%
Hotels	30%	15%
Residential (Build to Rent)	30%	30%
Student accommodation	15%	15%
Serviced apartments/Hotels (if leased to a third party operator)	15%	15%

The current tax provisions effectively exclude investment from foreign pension funds residential from the Australian residential housing sector. This is a missed opportunity. This has a direct impact on housing supply and can easily reversed.

Urban Taskforce Recommends the Commonwealth amend the tax schedule to treat foreign investment in Build to Rent residential property in the same way as an investment into other classes of property where the asset is established for the purpose of deriving a long-term rental return (ie. Reduce the withholding tax rate from 30% to 15% and the tax on capital gains also be reduced from 30% to 15%)-

A second related adjustment in the GST treatment of "Build to Rent" assets which actually discriminated against the production of new rental properties. "Build to Sell" residential assets benefit from instant write off (or off-set) provisions. By contrast, Build to Rent assets are required to be held for 5 years before the GST can be offset.

This would be on the basis that the asset must be held for a minimum period of 5 years. This simple measure alone would make BTR investment more attractive for both foreign investors as well as home grown superannuation funds.

Urban Taskforce Recommends the Commonwealth change the GST treatment of Build to Rent residential assets to allow the construction costs to be instantly off set on the proviso that the asset is held for a minimum period as rent deriving asset.

8. Stamp Duty

Urban Taskforce acknowledges at the outset that Stamp Duty is a State Government tax responsibility. Nonetheless, every report on tax reform published in the last two decades has called for the abolition of Stamp Duty, otherwise known as a conveyance or transfer tax, which is paid up front when a property is transacted. Stamp Duty is highly inefficient and fosters intergenerational inequity as it:

- reduces potential housing market transactions and limits the supply of existing homes for sale by deterring people from changing homes when they otherwise would, to down-size for example
- simultaneously punishes first home buyers, who can least afford to pay.

The Henry Tax Review established that the "welfare loss", or inefficiency, associated with Stamp Duty is between 30-40% because of its distortionary impact on behavior, which reduces productive activity).[28]

> "Stamp duty more than doubles most transaction costs. This deters transactions, results in significant under-utilisation of the housing stock and has an estimated loss of benefit to the community in the order of $375 million per annum. Replacing stamp duty with a broad-based land tax could release a significant amount of under-utilised housing and reduce house prices by about 6% after several years".[29]

[28] Australia's future tax system – Final Report, (Henry Tax Review), p13.
[29] Abelson, P., "Housing Costs and Policies: With special reference to Sydney" Paper prepared for NSW Treasury, Applied Economics PL, May, 2016, p91 (also see p.63)

The Review argued a powerful case for the broadening of the property tax base that would see a shift away from Stamp Duty towards a broad-based land tax:

> "Stamp duties are a highly inefficient tax on land, while land tax could provide an alternative and more stable source of revenue for the States. When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue. This efficiency arises from the immobility of the tax base and, unlike most other taxes, levying different rates of land tax in different States has very low efficiency costs."[30]

Importantly, replacing stamp duties with a broad-based land tax would increase the volume of housing market transactions and improve the utilization of land.

The Henry Report summarised the problem with Stamp Duty as follows:

> "Stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of State tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue.
>
> Conveyance stamp duty is highly inefficient and inequitable. It discourages transactions of commercial and residential property and, through this, its allocation to its most valuable use.
>
> Conveyance stamp duty can also discourage people from changing their place of residence as their personal circumstances change or discourage people from making lifestyle changes that involve a change in residence. It is also inequitable, as people who need to move more frequently bear more tax, irrespective of their income or wealth."[31]

It is easy to see why state governments have been slow to shift away from Stamp Duty. It's delivered 'rivers of gold' to treasuries during the boom times of high property inflation we've more or less enjoyed since the 1991 recession. But this transaction tax has worked against housing supply and the efficient allocation of housing.

Nonetheless, a broad-based land tax is less volatile and more predictable than any transfer duty. An analysis by Coates and Nolan for the Grattan Institute found that an annual flat rate tax of 0.05% ($5.00 on every $1,000) on unimproved land value would be sufficient to fund the abolition of Stamp Duty in NSW.[32]

A broad-based land tax is an efficient mechanism for funding infrastructure, as it is based on the underlying land value, which will increase with the delivery of new publicly funded infrastructure or rezoning. It is more effective in this respect than forms of 'value capture' that focus on individual sites or projects with implications for equity and implementation, particularly given the complexity and subjectivity associated with identifying and quantifying the factors that contributed to the value uplift.

Land tax is the only tax on property that keeps pace with economic growth[33]. It facilitates infrastructure contributions from all of society that benefits from economic

[30] Ibid., p46.
[31] Ibid., p49.
[32] Coates, B. and Nolan, J., "NSW should swap stamp duties for a broad-based property tax", Grattan Institute, Dec, 2009, p8.
[33] Ibid., p7.

growth and subsequent general land value increase, and from owners close to new infrastructure, who enjoy a higher value uplift and therefore would pay more land tax.

The incentive for councils or strategic planners to leverage strategic planning to raise funds would be removed. For example, Councils or strategic planners may include lower FSR or height controls than suggested by sound planning analysis, then offer developers 'bonus' height or density in exchange for contributions to local or state infrastructure implemented through Planning Agreements. Instead, the emphasis would be on creating plans that are transparent and straightforward.

The tax system should automatically generate additional funding when new infrastructure is required because of changes to density or changes in land use? There should be no need to haggle over infrastructure and contributions with developers. The burden of new growth-related infrastructure would be shared between the society as a whole and the purchaser of a new home.

In December 2016, Infrastructure Australia found that "a broad-based land tax can provide an efficient, sustainable and permanent approach to value capture … This approach would provide a fairer, more efficient way of raising infrastructure funding, and move away from the many challenges posed by the volatility and unpredictability of property prices".[34]

Any broadly applied land tax will pose difficulties for people who are asset rich but income poor. Conversely it would encourage downsizing, which fosters the efficient use of housing stock and land, which are our most valuable assets – which is the focus of this inquiry.

The NSW Government has proposed a solution, but it leaves them with a transition shortfall (followed by substantial growth). However, progress of this genuine reform seems appears to have stalled. Active support from the Committee could on this reform could genuinely result in improved housing supply.

The Urban Taskforce recommends that the Commonwealth government take the lead in discussions with the States to abolish Stamp Duty and replace it with a broad-based tax, which will stimulate housing market transactions and activity, and more fairly generate funds for new infrastructure that will enable growth and stimulate the economy.

9. Foreign Investment levies and surcharges

As at 1 January, 2021, the Commonwealth Government has significantly relaxed the COVID-19 related FIRB thresholds obligations for foreign buyers of residential property. However, State government Stamp Duties and Land taxes continue to discriminate against foreign investors. Foreign buyers who purchase residential property in NSW must pay an additional 8% surcharge purchaser duty on top of any stamp duty. Further, if you are a foreign resident you are required to pay a 2%

[34] Infrastructure Australia, "Capturing Value: Advice on making value capture work in Australia", Dec, 2016, pp 6-7. See also pp 23-24.

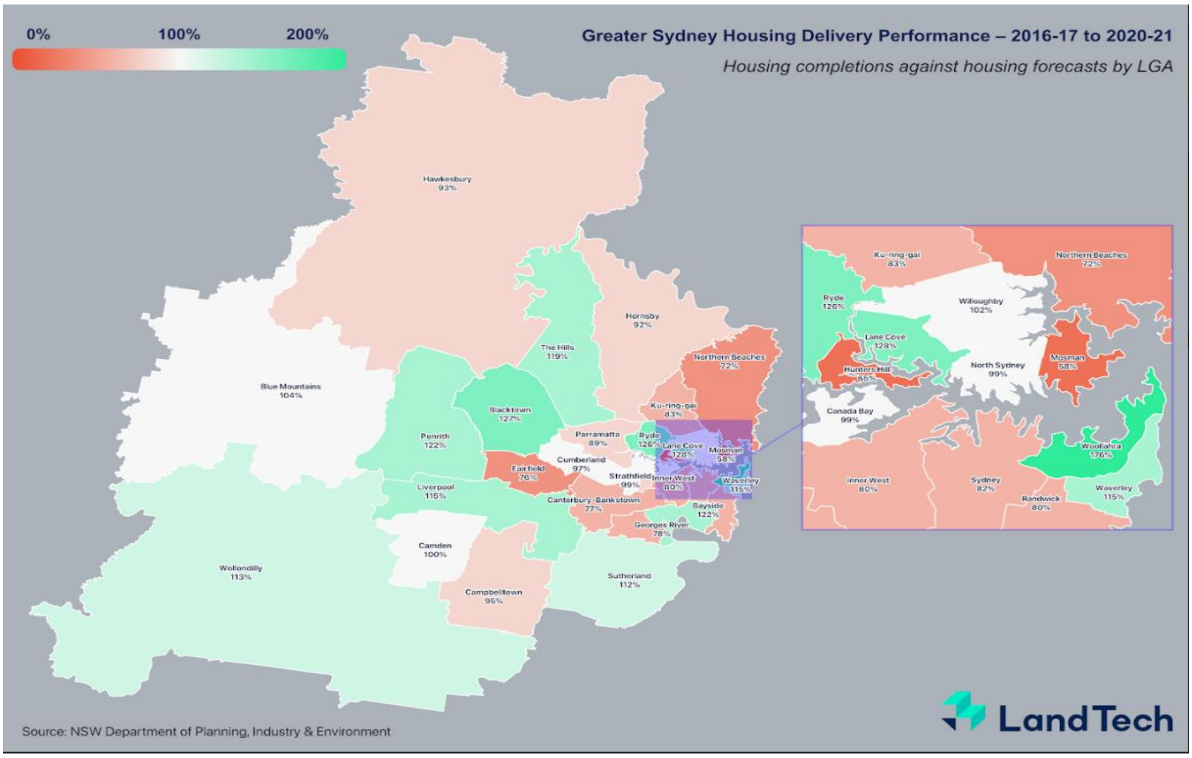
surcharge each year on the unimproved value of the land (land tax), on top of any land tax that would ordinarily apply. This tax surcharge is paid on the taxable value of all residential land with some minor exemptions.

These surcharges and levies work against the delivery of housing supply. Many apartment developers rely on off-the-plan sales to enable the start of a construction project. Foreign buyers contribute to these sales and assist in the production of significantly more housing than they buy.

The Urban Taskforce recommends the Commonwealth should leverage any support the provide to State to discourage discriminatory taxes on foreign purchasers.

Appendix A – Greater Sydney Council performance vs GSC targets

		2016-17 to 2020-21				
LGA	**Proper Case**	**5 Year**	**Actual**	**Contribution**	**Deficit / Surplus**	**Performance**
BAYSIDE	Bayside	10,000	12,241	7%	2,241	122.41%
BLACKTOWN	Blacktown	13,600	17,333	9%	3,733	127.45%
BLUE MOUNTAINS	Blue Mountains	650	677	0%	27	104.15%
BURWOOD	Burwood	2,550	2,290	1%	-260	89.80%
CAMDEN	Camden	11,800	11,741	6%	-59	99.50%
CAMPBELLTOWN	Campbelltown	6,700	6,353	3%	-347	94.82%
CANADA BAY	Canada Bay	2,150	2,125	1%	-25	98.84%
CANTERBURY - BANKSTOWN	Canterbury - Bankstown	12,200	9,359	5%	-2,841	76.71%
CUMBERLAND	Cumberland	8,850	8,584	5%	-266	96.99%
FAIRFIELD	Fairfield	2,250	1,713	1%	-537	76.13%
GEORGES RIVER	Georges River	4,600	3,608	2%	-992	78.43%
HAWKESBURY	Hawkesbury	1,100	1,019	1%	-81	92.64%
HORNSBY	Hornsby	4,200	3,876	2%	-324	92.29%
HUNTERS HILL	Hunters Hill	150	97	0%	-53	64.67%
INNER WEST	Inner West	5,750	4,576	2%	-1,174	79.58%
KU-RING-GAI	Ku-Ring-Gai	4,000	3,338	2%	-662	83.45%
LANE COVE	Lane Cove	1,850	2,359	1%	509	127.51%
LIVERPOOL	Liverpool	8,050	9,284	5%	1,234	115.33%
MOSMAN	Mosman	300	175	0%	-125	58.33%
NORTH SYDNEY	North Sydney	2,950	2,934	2%	-16	99.46%
NORTHERN BEACHES	Northern Beaches	3,200	2,313	1%	-887	72.28%
PARRAMATTA	Parramatta	21,450	19,142	10%	-2,308	89.24%
PENRITH	Penrith	6,600	8,034	4%	1,434	121.73%
RANDWICK	Randwick	2,200	1,761	1%	-439	80.05%
RYDE	Ryde	7,550	9,504	5%	1,954	125.88%
STRATHFIELD	Strathfield	3,650	3,618	2%	-32	99.12%
SUTHERLAND	Sutherland	5,150	5,793	3%	643	112.49%
SYDNEY	Sydney	18,250	14,978	8%	-3,272	82.07%
THE HILLS	The Hills	8,350	9,972	5%	1,622	119.43%
WAVERLEY	Waverley	1,250	1,433	1%	183	114.64%
WILLOUGHBY	Willoughby	1,200	1,227	1%	27	102.25%
WOLLONDILLY	Wollondilly	1,450	1,644	1%	194	113.38%
WOOLLAHRA	Woollahra	300	528	0%	228	176.00%



Appendix B – Summary of Urban Taskforce Recommendations to the Regional Housing Supply Taskforce

Regional Housing Taskforce – Urban Taskforce recommendations

1.	***Urban Taskforce recommends*** that Regional Housing Monitors and Supply Forecasts (including a review of current sales rates and data) be generated on a LGA basis across Regional NSW and that this work inform the setting and monitoring of council housing targets. In the meantime, councils should be rewarded for delivering an over-supply of housing with supporting grants and infrastructure funding.
2.	***Urban Taskforce recommends*** urgent consideration of the following initiatives to deliver much needed rezonings and approvals for new housing in regional NSW: • Expand the State Significant Development (SSD) pathway for projects in regional areas that stimulate high yield housing supply • Fund the outsourcing of Planning Proposal preparation and medium yield housing DA assessment in regional areas where there is insufficient planning expertise • Pool the expertise of council engineers and other specialist officers across regional councils to establish a Regional Infrastructure Centre of Excellence to drive more efficient referrals and decision making and facilitate professional development opportunities.
3.	***Urban Taskforce recommends*** the reform of the NSW planning system to streamline the process, prescription and regulation associated with Planning Proposals (particularly in regional communities) that is a hinderance to the supply of new housing and threatens NSW's post COVID-19 economic recovery.
4.	***Urban Taskforce recommends*** that consideration be given to the creation of a specific Regional Planning Bill which is designed to meet the needs of regional NSW in a timely and efficient manner.
5.	***Urban Taskforce recommends*** that DPIE work with NSW Treasury to complete a full regulatory impact assessment and cost benefit analysis of the draft Housing SEPP's impact on the delivery of more affordable housing options such as Boarding Houses and Co-living developments before this SEPP is finalised. The cost benefit analysis should cover a range of projects, both existing and proposed, in rural and coastal NSW.
6.	In light of the uncertainty created by COVID and the urgent need for housing supply State-wide, the ***Urban Taskforce recommends*** a twelve month deferral of the following draft policies: • Design and Place SEPP, and • Housing SEPP. The deferral period should be used to review the policies to ensure they do not result in "*additional impediments within the planning system to the delivery of affordable housing types and housing generally*."
7.	Manufactured homes, by being affordable and quick to deliver, have the capacity to almost immediately provide the new homes for the new workers greatly needed in many parts of regional NSW. ***Urban Taskforce recommends*** the Manufactured Homes and Estates SEPP is urgently re-drafted and made to facilitate a significant increase to the permissibility of this housing type.
8.	For the planning system to directly contribute to the social imperative of affordable housing, without deterring investment and driving up the cost of housing for free-market buyers, it needs to establish an incentive-based affordable housing scheme where developers are encouraged via faster approval pathways, additional floor space (FSR bonus) and height bonuses.

	Urban Taskforce recommends the Regional Housing Taskforce advocate for incentive-based approaches to encourage the supply of affordable housing in the regions.
9.	A significant contributor to housing affordability would be the removal of overly prescriptive and excessive planning controls. ***Urban Taskforce recommends*** an urgent review of regional councils' plans and policies by the Department of Planning to ensure that controls relating to housing supply in urban environments are fit for purpose.
10.	***Urban Taskforce recommends*** the Regional Housing Taskforce acknowledges the impact of biodiversity offsets on new home buyers in regional communities – in many cases this involves those least able to afford to pay these additional costs.
11.	***Urban Taskforce recommends*** that to provide certainty of land supply all government policy reviews consider the impact of their policy recommendations on regional housing supply and housing affordability. Specifically, the Government's review of the Biodiversity Offsets Scheme, must consider the impact of its deliberations on regional housing supply and affordability. In the Regional housing planning context, it is critical that any bio-diversity offsets are specifically known at the time land is re-zoned. Further, any biodiversity offsets must be established, costed and fixed as part of that process and not subjected to future alteration or review.
12.	***Urban Taskforce recommends*** the Regional Housing Taskforce takes up the revised Connection Policy (CEOP2513.06) with Essential Energy, with a view to re-instating the pre-2016 policy position, and; recommends to Government further opportunities to support the provision of regional electricity infrastructure to areas that have been included for re-zoning.
13.	***Urban Taskforce recommends*** that consideration be given to a mandated option of local infrastructure being delivered by the private sector when the local Council refuses or is unable to provide within a prescribed period after a rezoning decision.
14.	***Urban Taskforce recommends*** the Regional Housing Taskforce strongly advocates for DPIE's Planning Delivery Unit to focus on un-locking infrastructure servicing delays to significant residential development projects in regional areas.
15.	***Urban Taskforce recommends*** the Regional Housing Taskforce advocates to Government to identify opportunities to support the provision of infrastructure to regional areas that have been included for re-zoning.