



MASTER BUILDERS
A U S T R A L I A

23 February 2023

Mr Alan Raine
Committee Secretary Senate Economics Legislation Committee
PO Box 6100 Canberra ACT 2601

Via email: economics.sen@aph.com.au

Dear Mr Raine

Master Builders Australia response to the Housing Australia Future Fund Bill 2023, National Housing Supply and Affordability Council Bill 2023, Treasury Laws Amendment (Housing Measures No. 1) Bill 2023 Economics Legislation Committee Inquiry

Introduction

Master Builders Australia welcomes the opportunity to respond to the Economics Legislation Committee inquiry on the *Housing Australia Future Fund Bill 2023, National Housing Supply and Affordability Council Bill 2023, Treasury Laws Amendment (Housing Measures No. 1) Bill 2023*.

Master Builders Australia is the nation's peak building and construction industry association. Master Builders' members are the Master Builder state and territory associations. Over 130 years, the movement has grown to over 32,000 businesses nationwide, including the top 100 construction companies. Master Builders is the only industry association that represents all three sectors of the industry – residential, commercial, and engineering/civil construction.

The legislation gives effect to the Government's housing election commitments to establish the \$10 billion Housing Australia Future Fund, National Housing Supply and Affordability Council and Housing Australia.

The combination of the Housing Future Fund to finance investment; the National Housing Supply and Affordability Council to coordinate national research, reporting and advice; and Housing Australia to deliver the government's housing programs, provides the opportunity to embed housing as a core infrastructure priority for the Federal Government. In addition to this, the National Housing Accord sets a target of one million homes across the housing continuum to be delivered over the next five years.

In addition to the new measures introduced by the Albanese Government, the Commonwealth spends around \$5.3 billion in Commonwealth Rent Assistance (CRA) and around \$1.6 billion under the National Housing and Homelessness Agreement (NHHA).¹ For the combined programs this is \$6.9 Billion. The NHHA Agreement is due to expire in June 2023 and needs to be renegotiated.

¹ [Report - Review of the operations of the NHFIC Act \(treasury.gov.au\)](https://www.treasury.gov.au/~/media/136876/Report-Review-of-the-operations-of-the-NHFIC-Act-2022.pdf)

The Productivity Commission has reported that Governments collectively spend \$16 billion annually on direct housing assistance and has recommended that this could achieve more if it was better targeted.²

Master Builders Australia supports the continuation of the work of the National Housing Finance Investment Corporation (NHFIC) as Housing Australia and the key role it plays in delivery of housing programs. NHFIC is best placed to lead the delivery of the Albanese Government's housing agenda and new functions that are developed in the years ahead.

Master Builders response to the three respective Bills follows.

Housing Australia Future Fund Bill 2023

Master Builders supports the Bill, as the first stage in the Government's broader agenda for housing reform. It's a measured next step, building on the bond aggregator and formation of NHFIC to further develop a national social and affordable housing fund, whilst we are operating in a capacity constrained market-place.

The fund operates in conjunction with new Albanese Government initiatives including the National Housing Supply and Affordability Council, National Housing and Homelessness Plan, and Housing Accord with state/territory governments and industry and refocused first home buyer equity and guarantee schemes.

It should also complement ongoing funding programs including a renegotiated National Housing and Homelessness Inter-governmental Agreement (NHHA) and Commonwealth Rental Assistance Schemes. The Government's \$10 billion investment in the Housing Australia Future Fund needs to be additional to this and not a replacement for the NHHA and Commonwealth Rental Assistance Schemes.

The National Affordable Housing Alliance (NAHA) of key housing, community, superannuation and union stakeholders has identified the need for more government investment in the social and affordable asset class to meet the current shortfall and future housing needed.

The 2018 review of the National Finance Investment Corporation (NHFIC) identified that \$290 billion in investment will be required over the next two decades to meet the current and projected shortfall in the stock of social and affordable housing.³ This translates to around 800,000 net additional dwellings by 2035 which will require both taxpayer and private investment.

NAHA has identified that this equates to annual additional supply of between 12,000-15,000 social and affordable dwellings per annum and in the mainstream market between 170,000–220,000 dwellings per annum is needed to meet Australia's housing needs.

The Commonwealth Government has committed to delivering 40,000 social and affordable dwellings over five years through Housing Australia. This commitment alone will make a good start but does not deliver the scale needed to meet demand over the medium term. The NHFIC review has identified that most investment to date in community housing has been the transfer of

² [In need of repair: The National Housing and Homelessness Agreement \(pc.gov.au\)](#), page 2

³ [Report - Review of the operations of the NHFIC Act \(treasury.gov.au\)](#)

state stock to community housing providers and that rates of public housing construction have fallen from above 10,000 per year in the 80/90s, to just over 2,000 in 2020.⁴ If we get to an additional 10,000 per year, likely with the 40,000 commitment from Government, we are heading back to what was being achieved in the 80/90s but still need to lift that rate.

Master Builders forecast activity for new housing over the next five years identifies dwelling starts won't reach 200,000 until 2026-27, with 2022-23 being slightly below the 170,000-220,00 range of dwellings NAHA has identified as being needed. Activity across the forecast period however sits in the range of what NAHA has identified is needed to meet demand in the mainstream market.

Master Builders Australia forecasts for new dwelling activity

2022-23	2023-24	2024-25	2025-26	2026-27
169,630	189,480	174,930	188,320	210,660
-18.3%	+11.7%	-7.7%	+7.7%	+11.9%

To deliver on the \$290 billion investment and creation of 800,000 net additional dwellings by 2035 will require taxpayer and private investment. The NAHA has previously identified that a Housing Future Fund would require a \$20 billion capital investment together with other initiatives such as financial and tax incentives to address the gap between risk and investment return for institutional investors; and reprioritising one per cent of development taxes and charges (\$157 billion annually) into social and affordable housing.

To meet the \$290 billion investment needed by 2035, the government should consider the following:

- The Government's \$10 billion investment in the Housing Australia Future Fund needs to be additional to and not a replacement of National Housing and Homelessness Agreement and Commonwealth Rental Assistance Scheme funding that injects around \$6.9 billion annually into housing.
- Expanding the size of Housing Future Fund capital investment from \$10 billion to \$20 billion.
- Introducing tax incentives to address the gap between risk and return for major institutional investors.
- A commitment from all levels of government to redirect one per cent of development taxes and charges to social and affordable housing.

National Housing Supply and Affordability Council Bill

This is a welcome and non-controversial Bill. Master Builders comments on the Bill relate to the implementation and operations of the Council.

There are significant practical issues that need to be coordinated in a coherent and consistent way. It will be important for the Council to recognise these as core elements on the journey to improving housing supply and affordability. The Council should as a priority to undertake a deeper dive into these issues to define a scope and focus of early work.

⁴ [Report - Review of the operations of the NHFIC Act \(treasury.gov.au\)](#), p28

The NAHA has identified these issues as including access to land, construction risk, program risk, labour supply, cost of funds, access to offshore capital, mainstream housing supply, and organisational accountability. Attached to this submission is a summary of these issues and responses that might be considered in the work and generation of advice from the Housing Supply and Affordability Council.

Section 9 of the Bill outlines the functions of the Council in regard to research reporting and advising government on matters that materially impact housing supply and affordability, as well as grants for financial assistance. It will do this by monitoring housing sector conditions including home ownership, rental affordability, homelessness and the numbers of new social and affordable housing being built annually. The Council may also consider other matters which should include issues such as performance of the housing sector; building a strong evidence base; specific impacts on the sector including credit conditions, taxation, macro-prudential regulation, rental market regulation, other regulation (land use planning, zoning and building codes), climate and demographic change, social policy; availability and quality of data, role of intergovernmental forums, improving housing outcomes for vulnerable groups, climate resilience and supply.

The draft legislation effectively defines the functions of the work of the Council but should be clearer on the state of existing housing to support ongoing reporting on what's needed in the future. In the execution of the work of the Council, a necessary first step in the process will be to undertake a stocktake of the status quo – including the state of existing housing, committed pipeline of new housing, government incentives for investment in housing, barriers to investment (regulatory/land/finance/sector capability), cost impacts/shocks (economic, weather, regulatory transformation), library of existing key data sources and gaps in data. This might be a consistent feature in each annual report to provide a baseline for the state of the sector report specified in draft legislation Part 2, Section 10 (2).

Master Builders is commissioning work to model the cost layers for the sector to establish a clearer picture on the impacts for housing affordability and industry viability. The cumulative cost burden of regulatory change and impact of economic shocks is a missing piece of data that would provide policy makers with a clearer picture on how these events impact housing affordability and industry viability.

Collaboration between Commonwealth bodies, state/territory and local governments and other stakeholders is a consistent theme in the draft legislation. A process for engagement with industry might be best supported through the establishment of an industry reference group. Formal mechanisms are established between the levels of government and with universities through AHURI but not with industry stakeholders.

Master Builders suggests the following actions in regard to this Bill:

- Significant practical, implementation issues need to be coordinated in a coherent and consistent way. It will be important for the Council to recognise these as core elements on the journey to improving housing supply and affordability.
- In research and reporting, other matters that might be considered by the Council should be performance of the housing sector; building a strong evidence base; specific impacts on the sector including credit conditions, taxation, macro-prudential regulation, rental market regulation, other regulation (land use planning, zoning and building codes), climate and demographic change, social policy; availability and quality of data, role of intergovernmental forums, improving housing outcomes for vulnerable groups, climate resilience and supply.

- The proposed legislation effectively defines functions but should be clearer on defining the status quo as a baseline for ongoing Annual reporting on the state of the market.
- Establish an industry reference group, like the Affordable Housing Working Group that was around when NHFIC was implemented, as a vehicle for engagement with industry to support the work of the National Housing Supply and Affordability Council.

Treasury Laws Amendment Bill

Since Treasury conducted consultation on the exposure draft legislation, changes have been made to Housing Australia's functions in regard to: what can be considered by Housing Australia when making investments; its research function; and expanding Housing Australia board member expertise to include indigenous housing, in the Bill before Parliament.

Master Builders makes the following observations on these changes:

- The word investment has been removed from Housing Australia considerations and is limited to loans and grants. There are concerns that this approach might limit a broader suite of investments in this type of housing stock, in particular using an aggregation of finance and tax incentives to address the gap between risk adjusted investment and yield return.
- The research function whilst removed from Housing Australia will be undertaken by the National Housing Supply and Affordability Council. It will be important that the good work by NHFIC including its State of the Nation's Housing report is continued in Council work. The Council needs to ensure it delivers research on the spectrum of housing required and not narrow its focus to just social and affordable housing needs.
- Master Builders supports the expansion of Housing Australia board member expertise to include indigenous housing stakeholders.

Master Builders welcomes the opportunity to provide input to this consultation. Any further questions in regard to this submission should be raised with:

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Yours sincerely



Denita Wawn
Chief Executive Officer

National Affordable Housing Alliance (NAHA) Initiatives

NAHA has identified a number of practical issues that need to be addressed in a coordinated, coherent and consistent way to improve the supply of affordable housing. The NAHA has identified these as relating to access to land, construction risk, program risk, labour supply, cost of funds, access to offshore capital, mainstream housing supply, organisational accountability. NAHA has proposed the following responses to these issues:

- Land. The cost of gaining access to land suitable for the development of social and affordable housing in appropriate forms is prohibitive almost everywhere. Government support/subsidies to achieve an increase in social and affordable housing in new development and up zoning projects should be considered early in the land use planning process.
- Construction Risk. The management of construction risk creates a significant impost on the cost structure of any development activity, especially at present. This will not dissipate any time soon. Risk transfer mechanisms need to price risk using a risk sharing structure that allocates risk where most appropriately managed rather than the proponent being obliged to accept all risk unilaterally.
- Program Risk. Supply chain and procurement risks are forecast to remain in the economy for several years to come and will require a staged approach to mitigation given the uncertainty that remains in world logistics and procurement markets.
- Labour Supply. Much of the risk in both construction & supply chain procurement relates to a lack of capacity and distribution of skilled trades people. The lead times for re-building the Australian construction workforce will require a concerted investment and focus to accommodate additional demand.
- Cost of Funds. The cost of funds has risen significantly over the course of 2022. The corresponding impact on property markets, investment yields and investment outlook will require a "through the cycle" perspective as part of the investment analysis process. FY23 & FY24 are forecast to experience significant impacts flowing from cost of living rises and cost of capital impacts. Pricing of debt and equity, as well as the decisions around subordination will be critical to institutionalising the provision of social and affordable housing in the medium to long term, notwithstanding shorter-term headwinds.
- Offshore Capital. Penalties upon offshore capital investment at both Federal (Thin Cap & FIRB policies) and State (Surcharges & Ownership restrictions) should be reviewed to ensure that foreign capital markets remain open to Australia in general and made attractive for the provision of social and affordable housing in particular.
- Mainstream Housing Supply.
 - o Reform of state and local planning processes are necessary to streamline:
 - Forward planning processes that lead to the release of new urban development well in advance of demand e.g. minimum 10-year urban development program.
 - Housing Strategies forecast demand and infrastructure investment required to deliver supply – municipality by municipality - using transparent and up to date demand, infrastructure, and land use data. These strategies to be aggregated at the State level and assessed for their adequacy in sustaining housing activity at levels designed to minimise undersupply as a basis for house price escalation.
 - The consolidation of these State based strategies then form the basis of a national strategy that integrates and overlays the economic and broader social objectives within the purview of the Federal Government.

- Incentives designed to encourage urban consolidation incorporated into planning processes that deliver effective benefits over conventional greenfield development activity.
- Land use activities that limit the availability of established housing stock (e.g. Short Stay, withholding stock from the market) for housing purposes need to be aligned with the overarching objective of increasing housing supply.
- o Alignment of regulatory restrictions on the financial sector e.g. APRA should be reviewed so that it takes account of the overarching objective of increasing housing supply as part of its mandate to regulate the banking sector and financial institutions.
- o Increasing the availability of Government land to assist in increasing land supply is desirable as an ongoing initiative but will not, of itself, make sufficient difference to supply at the scale necessary to meet the overall need. This policy must be matched by mechanisms that secure land contributions (or cash equivalents) from the private market to broaden and scale up land availability.