MASTER BUILDERS AUSTRALIA

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON TAX AND REVENUE

Inquiry into housing affordability and supply

27 September 2021

Introduction

Master Builders Australia (Master Builders) is the nation's peak building and construction industry association which was federated on a national basis in 1890. 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, namely residential, commercial and engineering/civil construction.

The building and construction industry is an extremely important part of, and contributor to, the Australian economy and community. It is the second largest industry in Australia, accounting for 10.7 per cent of gross domestic product, and around 9 per cent of employment in Australia.

The building and construction industry:

- Consists of about 395,000 business entities, of which 98.5% are considered small businesses (fewer than 20 employees);
- Employs almost 1.2 million people (around 1 in every 11 workers) and is the number one provider of full-time jobs in the Australian economy;
- Represents about 11% of GDP, the second largest sector within the economy;
- Trains more than one third of the total number of trades-based apprentices every year, with over 55,000 construction trades apprentices and trainees; and
- Performs building work each year to a value that exceeds $210 billion.

In addition to the substantial size of the building and construction industry itself, the impact on other sectors of the economy is very large. For example, it was estimated by NHFIC in 2020 that for every $1 million worth of residential building activity a total of almost $3 million in activity is supported across the economy with about 9 full-time jobs being supported.

Background

Housing affordability and supply inquiry

This inquiry is being conducted by the House of Representatives Standing Committee on Tax and Revenue and is focused on the issues of housing affordability and supply. The inquiry is particularly interested in identifying the role played by both taxes and regulation in determining housing supply and affordability outcomes.

The specific bases for the inquiry are that

- Official data indicate that home ownership has been falling for the past 30 years;
- There is research which indicates that limitations on land and restrictive planning laws are the major causes of shortages in supply;
- It has been noted by the RBA and others that regulatory settings are directly responsible for the unresponsive nature of housing supply in Australia;
- The OECD has found that new housing supply in Australia does not respond particularly strongly to changes in population and economic circumstances. As a result, home prices in Australia are high relative to incomes.

What is housing affordability?

The issue of housing affordability is a complex one, with considerable variation across geographic markets, different points in time as well as the particular circumstances facing individuals, families and households. Accordingly, the precise situation with respect to affordability will have millions of different manifestations in the Australian context. Some of the situations in which affordability outcomes differ markedly include

- Household owns their own home and with outstanding mortgage.
- Household owns their own home with no mortgage outstanding.
- An individual who is currently renting but wishing to own their own home in the future and is saving for a deposit.
- A person is renting on the private market and has no desire to own a home in the future
- A family is unable to fully afford market prices or rents and requires access to social or affordable housing.

Affordability is not static, and a household's affordability situation can improve or deteriorate over time as a result of mortgage interest rate variations, job loss, illness, taxation changes and many other factors.

Having the financial capacity to maintain the quality, integrity and comfort of a home over time is an aspect to the affordability equation that is often neglected. Related to this is the need to sometimes undertake costly alterations to the home to cope with ageing, disability or mobility issues arising from other sources. As the following table illustrates, it is estimated that over 7 million Australian homes are at least 20 years old – over two thirds of the total.

Estimated number of homes by state and construction date as at 30 June 2020

	AUS	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
Built in last 5 years	1,042,625	316,948	320,129	206,571	52,048	106,710	12,802	5,313	22,100
Built between 5 & 10 years ago	809,490	180,328	258,761	158,192	51,554	117,078	12,467	8,793	22,317
Built between 10 & 15 years ago	753,959	150,534	207,336	191,775	56,341	115,163	13,766	6,110	12,939
Built between 15 & 20 years ago	752,021	212,891	207,883	169,119	44,885	91,561	9,702	5,077	10,900
Built at least 20 years ago	7,162,205	2,396,099	1,737,391	1,381,543	587,072	688,588	199,463	60,907	111,144
Total number of dwellings	**10,520,300**	**3,256,800**	**2,731,500**	**2,107,200**	**791,900**	**1,119,100**	**248,200**	**86,200**	**179,400**

Source: Master Builders Australia analysis of ABS Building Activity (8752.0) and Residential Property Price Indexes (6416.0)

In order to get a generalised sense of how affordability looks, it is useful to compute affordability metrics. These can help us establish whether affordability is improving or deteriorating over time, for example, or whether affordability is particularly favourable or unfavourable in certain geographic locations. Affordability measures can also help identify the categories of individual/family/household which face the most difficult affordability challenges as well as those currently enjoying the best outcomes.

While the measurement of affordability under-standably tends to focus on current market home prices, there are several other important aspects to the issue. These include:

- The cost of saving a home purchase deposit and the amount of time required to do so.
- Transaction costs which occur at the time of home purchase, for example stamp duty, conveyancing fees and insurance costs.
- Other costs related to owning or renting a home such as repairs, maintenance, insurance, council rates, etc.
- Major alterations or additions to the home that may have to be undertaken due to changes in the personal circumstances of its occupants related to health, mobility, disability or other factors.

Master Builders Australia's view is that the best affordability outcomes generally result when new housing supply can be delivered as quickly and as cost effectively as possible. Later in this submission, we will identify the factors which prevent this from occurring and propose possible remedies for enhancing affordability.

Wider benefits of better affordability and supply

As well as the obvious benefits to those either renting or intending to enter the housing market for the first time, improving the situation with respect to housing affordability and the supply of new homes would result in wider economic benefits.

- For most households, housing costs absorb a very significant proportion of disposable income. As a result, housing costs have a significant influence on wage setting behaviour in the labour market which in turn influences the economy's overall competitiveness. A more favourable affordability situation would soothe wage demands and, over time, offer the opportunity for Australia's economic competitiveness to improve relative to other countries. There could be particular benefits from the point of view of inward direct investment as well as international demand for our exports of goods and services.
- A better housing affordability situation would also allow the labour market to achieve improved outcomes. This is because the process of moving from one geographic market to another would involve lower costs when it comes to deposits for rental or home purchase in addition to ongoing housing costs in the destination market. This would provide individual workers with greater mobility and allow better matching between job vacancies and the workers filling them.

As alluded to above and as demonstrated by the recent HomeBuilder initiative, expansions in residential building activity have strongly positive effects on the wider economy. This is another channel through which facilitating the supply of new homes will offer economic benefits outside of the building and construction industry. NHFIC has estimated that every $1 million worth of residential building activity supports $3 million in activity across the whole economy and sustains about 9 full-time jobs.

Why is affordability a problem?

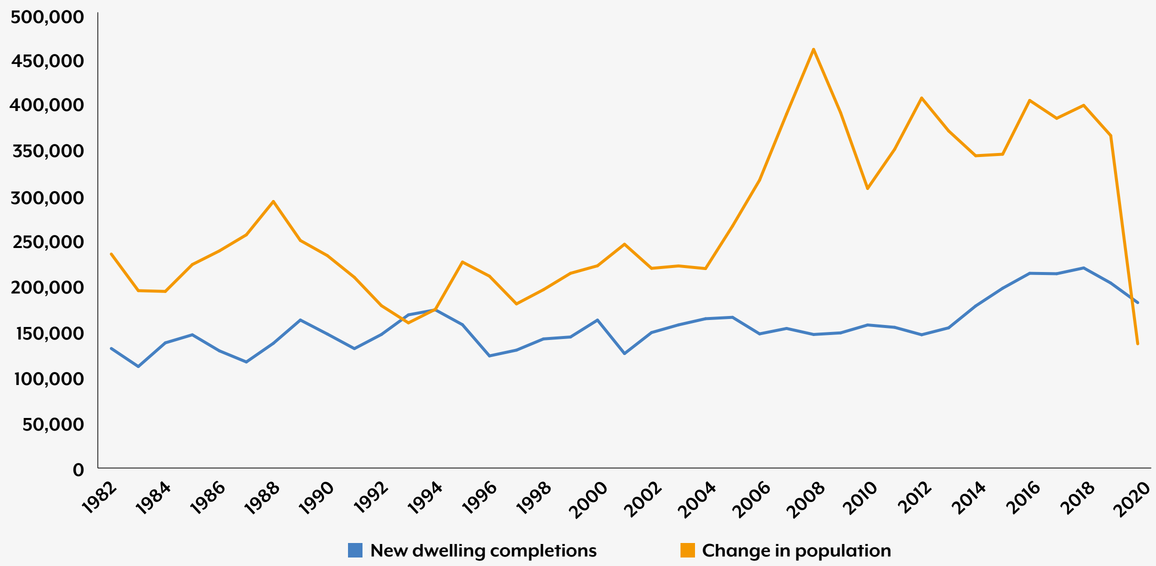
Unfavourable housing affordability is neither unique to Australia nor to the year 2021. Like almost every economic good, the price and available volume of housing represents the outcome of demand and supply conditions in the local market. In the case of housing, there are numerous factors which conspire to make affordability more difficult and ensure that the problem persists over long periods.

- Unfavourable housing affordability is neither unique to Australia nor to the year 2021. Like almost every economic good, the price and available volume of housing represents the outcome of demand and supply conditions in the local market. In the case of housing, there are numerous factors which conspire to make affordability more difficult and ensure that the problem persists over long periods
- Housing is a basic necessity and this means there is no real scope for 'doing without' housing should the rental or home purchase market offer few attractive options for renters and buyers
- Over time, the demand for housing tends to get larger rather than smaller. This is mostly due to growth in population, employment and disposable incomes. In recent decades, there has also been a very substantial and long-lasting reduction in mortgage interest rates which has magnified the impact on housing demand of population and economic growth
- While housing demand can increase significantly over short periods of time, the supply of new housing usually responds to these changes very slowly. This means that prices in the market rise in order to achieve some degree of rebalancing of supply and demand. The reasons behind this phenomenon are detailed further in the submission. The relationship between population growth and the supply of new homes over the 1982 to 2020 period is shown in the chart at the end of this section
- Housing is very vulnerable to being used as a taxation 'cash cow' by governments. These taxes end up inflating the cost of creating new homes. Housing represents an easy target for heavy taxation because of the fundamentally immobile nature of land and the dwelling stock. Homes and land cannot be 'moved' away from high tax jurisdictions to low tax ones. In contrast, workers and businesses do have the option of migrating to places where the taxation burden is lighter and this process plays a role in preventing taxes on most types of labour and capital from becoming unreasonably high. In the case of housing, governments have sometimes taken advantage of its immobility to boost tax revenues and to replace other sources of revenue which are declining or have been permanently lost
- Because a home is the largest single purchase a person will make in their lifetime, the degree of scrutiny and regulation placed on residential building from governments and regulatory bodies is very high relative to many other goods and services in the economy. The substantial collection of regulations in place can impede the supply of new home building and make it a considerably more expensive activity to undertake. Furthermore, recent experience has shown that the set of regulations governing new home building change quite frequently for a variety of reasons. Absorbing both new

regulations and changes to existing ones can divert some of the resources and energies of the industry away from building new homes

- The political desire to tick the social dividend box, often results in poor and fractured development and implementation of regulation across jurisdictions and the knock-on impacts from this. Governments tend to overlay mandatory regulatory requirements on housing that contribute to delivering broader environmental and social wellbeing objectives, such as climate emissions reduction and better mobility outcomes. Whilst the social dividend from these objectives is well intentioned, the rush to regulate makes building more complex and costly, adding to immediate cost pressures and affordability of housing
- Unlike most goods and services, the time gap between the very start of a new home building project and its completion is usually very long and often stretches for many years. Once construction work has already started, builders and developers face the risk that market conditions could deteriorate significantly before the project reaches completion. This could transform a project from being one which provides an acceptable level of financial return to one which barely breaks even or ends up being loss making – or even worse. Building projects face a wide spectrum of potential risks which could emerge from the economic, financial, demographic, regulatory, planning, legal or political spheres
- Market demand conditions at the time of project completion is perhaps the most important factor in determining the commercial fate of new home building projects, particularly larger scale ones. There will always be some degree of uncertainty about future demand conditions, and the longer the time lag between project commencement and completion, the greater the uncertainty. The lack of certainty about exactly how future demand conditions will turn out makes developers and builders much more reluctant about proceeding to create new homes in the first place
- To be able to establish whether or not affordability is improving or worsening over time requires good data about what is actually happening. While the quality and range of official statistics on building and construction activity in Australia is generally excellent, this submission will outline how data gaps in some areas prevent us from fully understanding the sources of affordability problems and make it much more difficult to know how well we are addressing the issues contributing to unfavourable housing affordability.

Population growth and new home building in Australia, 1982 to 2020



Impact of taxes, charges and regulation

In its Terms of Reference, the House of Representatives has indicated that the role of current taxation, charges and regulatory settings are of particular interest. This section sets out Master Builders Australia's analysis of their impact on housing affordability and supply.

Taxation

In most cases, taxation is the single most important source of the revenues that governments use to fund public services and meet their financial obligations. From industry's viewpoint, taxes make the cost of performing economic activity more expensive. Taxes can also distort how markets function and prevent 'better' economic outcomes from being achieved.

This is very much the case in the residential building industry. The process of transforming undeveloped greenfield land to finished, habitable homes is studded with a range of taxes that are collected by all three levels of government. In simple terms, the effect of these taxes is to prevent many new home building projects from proceeding at all. Those that do get built move more slowly and end up being considerably more expensive because of the many taxes that are 'built in' to their cost.

When it comes to new home building activity, the taxes which apply can be divided into two broad categories:

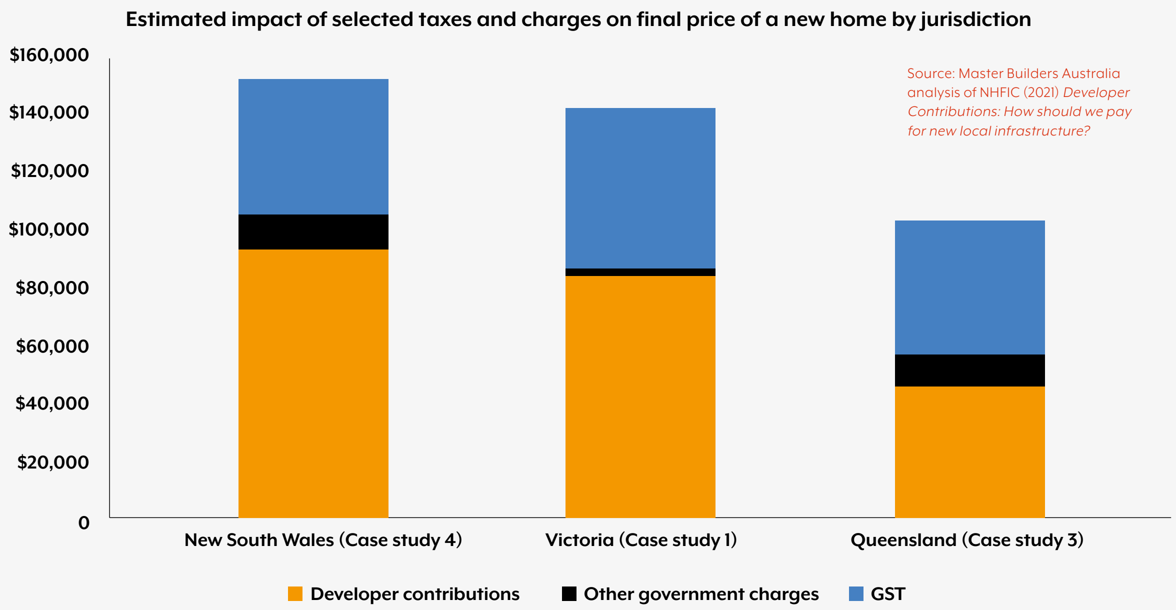
- Identifiable taxes
- Invisible taxes.

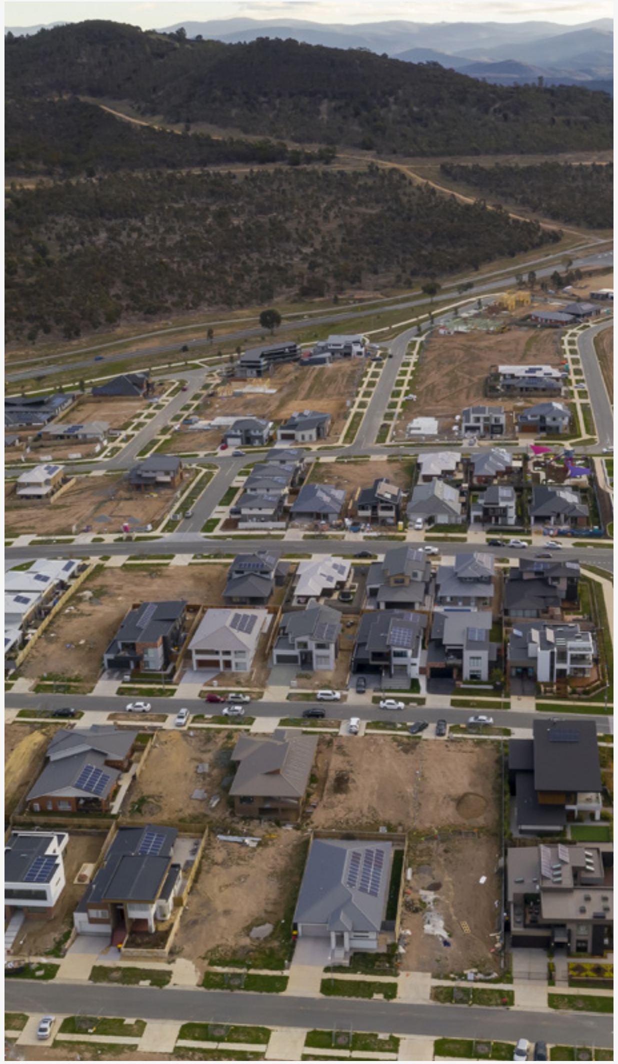
Identifiable taxes are those which are paid directly to the relevant government during the process of developing, building and selling new homes to their first owner. For example, the residential land developer will pay stamp duty to the state/territory government when purchasing land. Regular land tax payments will also have to be paid for the entire period for which the developer holds the land, in addition to local government rates. The stamp duty paid by the buyer of a home is another form of identifiable tax and one which has a very unfavourable effect on people's capacity to save for a deposit and buy a home.

In the case of the residential building industry, some of the most significant identifiable taxes include:

- Goods and services tax (GST)
- Conveyance stamp duties
- Land taxes paid by developer and/or builder
- Local government rates
- Payroll tax
- Levies applied during the development and building process.
- Developer contributions.

The following chart is based on case studies included in NHFIC's recent report entitled *Developer contributions: How should we pay for new local infrastructure?* and shows how developer contributions, GST and other government charges can add significantly to the cost of a new home.





It is worth pointing out that the base for calculating taxes applied after a new home has been completed (like GST and buyer stamp duty) includes taxes levied earlier in the development of the home (such as developer contributions and land tax). In this way, earlier taxes have the effect of magnifying later taxes.

When it comes to housing, invisible taxes are those which are not paid directly by the building and construction industry to the government but whose existence still adds to the cost of creating new homes.

For example, taxes levied on the cement industry will result in higher building materials prices and ultimately have detrimental effects on the cost and quantity of new home building.

Similarly, the income tax paid by construction industry workers causes the cost of labour to be higher for the construction and ultimately results in higher new home building costs.

It is beyond the scope of this submission to provide detailed analysis of each of the individual taxes identified above. However, stamp duty forms a useful case study.

The chart below (left) provides a basic overview of how large a setback stamp duty can be for First Home Buyers entering the market in each of the eight capital cities. For the acquisition of a house at the median price point in the relevant market (August 2021 prices), the typical stamp duty bill for an established home ranges from about $19,300 in Brisbane to $56,000 in Sydney even after any First Home Owner Grant (FHOG) is applied.

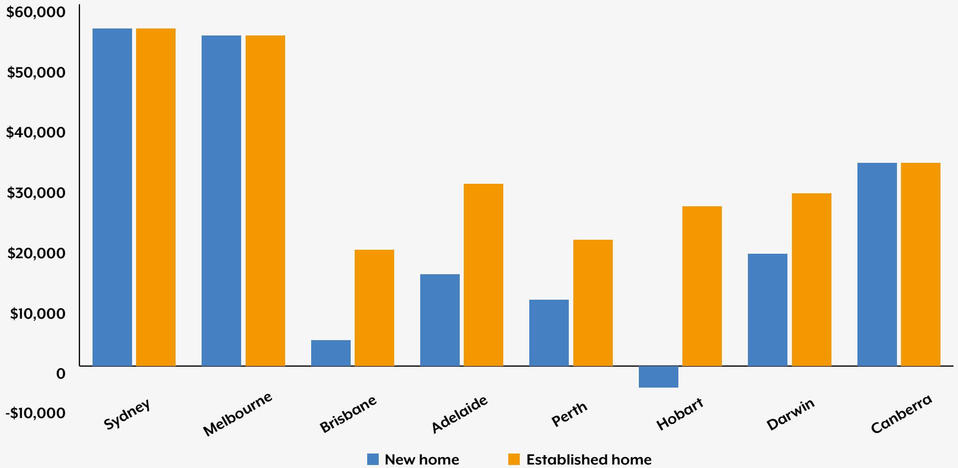
For the acquisition of a new home, grants and concessional stamp duty rates sometimes apply and this makes stamp duty a little less onerous in some situations as the chart below (right) summarises. For example, in Brisbane the net stamp duty bill (after factoring in the grant) typically comes to $4,280 on a new house while Hobart does even better with the value of grant actually exceeding stamp duty by over $3,500 on the purchase of a new house at the local market's median price point.

It can also be seen that in the most expensive markets of Sydney, Melbourne and Canberra, the cost of stamp duty for a new house is just as high as for an established house. In Melbourne, for example, the stamp duty burden for FHBs is equivalent to 5.7 per cent of the median house price while stamp duty adds 4.3 per cent to the cost of buying a Sydney house and 3.6 per cent in Canberra.

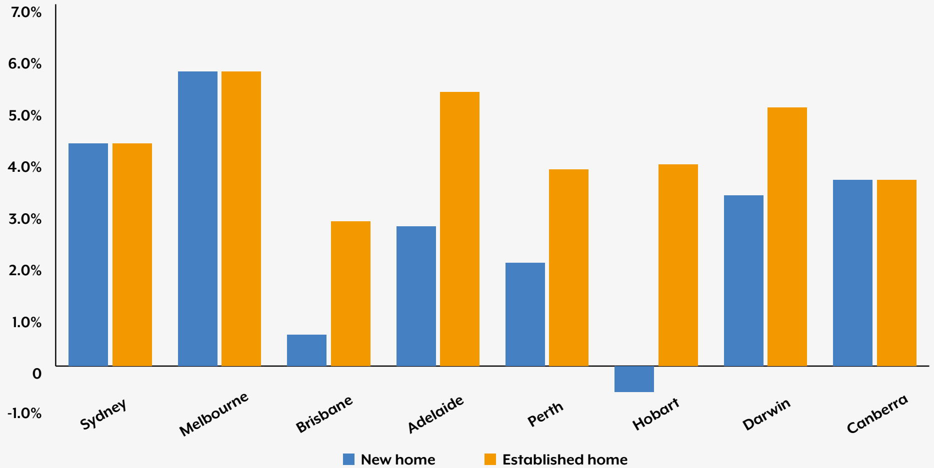
To address concerns around the impact of taxation on the cost of housing, Master Builders therefore recommends

- The myriad set of taxes imposed on housing over the course of its creation need to be fully identified and investigated. Forms of taxation found to have the most detrimental impacts on housing affordability should immediately be frozen with a view to substantially reducing their burden over the longer term
- At the same time, current taxation settings which support the supply of housing such as those relating to negative gearing and the Capital Gains Tax discount should be preserved.

First Home Buyers: Stamp duty bill on purchase of median-priced house by capital city (net of any FHOG), September 2021



Stamp duty costs for FHBs as a proportion of median dwelling price, September 2021



Regulation

While some degree of regulation is necessary and welcome when it comes to residential building activity and its final outputs, the imposition of rules and restrictions has inevitable consequences for the cost of producing new homes.

For those in the residential building industry, some mandatory regulations have proven to restrict the way in which work can be performed. This means that more efficient and more cost-effective ways of completing projects may have to be dropped in favour of significantly more expensive techniques. The regulatory framework may also have the effect of preventing the delivery of some projects for which there is a willing market, and which would add to the supply of new homes. In short, regulation can sometimes get in the way of more affordable housing.

The overwhelming majority of building and construction businesses are small when it comes to turnover and the employee headcount: well over one half of businesses in our industry either do not have any employees at all or else turn over less than $200,000 per year (or both). This means that most building and construction firms do not have resources in the form of regulatory staff or departments. As a result, they struggle to cope with the existing body of regulations.

This problem is compounded by the fact that regulations are frequently changing with each change sparking off yet another round of costly and productivity-sapping modifications to the business models underpinning their operating architecture. There is a perception amongst industry participants that the net effect of regulatory change over time is resulting in a heavier rather than lighter regulatory burden.

For example, an updated National Construction Code (NCC) was released in 2019. The 2019 NCC consists of three volumes which in aggregate run to over 1,600 pages, providing detailed guidelines on the carrying out of building and construction work. An updated NCC will be released in 2022 and is expected to be of a similar calibre.

Currently there are significant changes proposed in regulations that respond to policy discord on climate change and the needs of people with mobility impairments that substantially alter construction methods for home building. These include:

- New energy efficiency requirements in construction of the home regarding thermal building fabric (glazing and insulation), space heating, cooling and ventilation, preparedness for renewable energy power supply and energy assessment of building work
- Accessible housing design requirements for the entrance and ground floor amenities of a home that require more space when governments keep reducing the size of housing
- Development and updating standards for building homes in disaster prone areas.

While these changes are well intentioned, they are not given appropriate time to be developed and implemented effectively or are not sequenced in a manner for industry to effectively absorb change. The benefits for the broader community in these reforms are lost because rushed and therefore poor regulation is not effectively implemented and enforced because of its complexity.

A further failing in the development of these regulations is disregard for the regulation impact assessment (RIA) processes. The federation of Building Ministers for example recently decided to proceed with introducing new mandatory accessible housing design requirements for all new homes, despite the RIA identifying the cost-benefit did not stack-up.

The capacity of the construction industry to deliver homes in a cost-effective way is exacerbated in exceptional circumstances by regulated settings for fixed price housing contracts. In a normal market, this a not a problem. It becomes a problem in a market when costs arising from delays to the project, or from uncontrollable factors such as the issuance of public health orders, workforce and product shortages and supply chain disruption.

More flexible provisions where states regulate fixed price housing contracts are needed to enable the burden of unforeseen costs to be shared more equitably in exceptional circumstances. To mitigate the risk of workforce and product shortages, a more concerted effort by government is needed to develop more sovereign capability, target key import markets and support industry innovation in the construction sector.

For the hundreds of thousands of small construction businesses, the existing set of regulations and the stream of changes to them place represent a very major cost. This cost is not just paid in financial terms; getting to grips with regulations also exacts a substantial toll on the time, energy, well-being, mental health and relationships of the people and families who run Australia's building and construction businesses.

In addition to the process of actually implementing regulations, the financial cost of acquiring the publications and manuals in which regulations are detailed can also be very substantial. For example, access to a set of 96 standards relating to the use of timber in buildings is currently being sold by Standards Australia at a cost of $507.59 for a 12-month subscription.

Far too often, new regulations are added on the basis of their expected net marginal benefit. That is, proposed regulations are only evaluated on the basis of the extra costs they are likely to impose, with the existing collection of regulation not being looked at. For those in business, this means that another unwelcome layer of regulation gets added to the already enormous mountain.

This problem is further exacerbated by the fact that new regulations can come from any one of a huge range of sources, including governments and regulatory bodies. There is often a failure by them to act in tandem, with the result that the interaction between different regulations deriving from separate authorities is often a further source of frustration and inefficiency.

To address productivity and subsequent cost impacts from regulation, Master Builders recommends the following:

- Future regulatory changes which affect building and construction activity be evaluated with respect to the aggregate cost of all existing regulations rather than just the marginal cost, however small, of proposed new regulations
- Governments allow for more flexible provisions where states regulate fixed price housing contracts to enable the burden of unforeseen costs to be shared more equitably in exceptional circumstances
- Introduce an effective whole of government process for taking a more holistic approach to boosting local capability in the construction supply chain to respond to government crisis and reform efforts. This relates to workforce, materials and infrastructure supply, skills and industry innovation
- As in other areas, federal government funding between tiers of government and regulatory bodies should be linked to how those entities perform with respect to regulatory improvements. For example, the effectiveness with which regulators co-ordinate and share data with each other could be used to determine future funding allocations.

Charges

Charges and taxes are often confused and conflated. With taxes, there is little linkage between the amount of tax paid by a business to the relevant government and the quantity and/or quality of any services received by that taxpayer in return from the government.

In contrast, charges relate to monies paid by a construction business for which services are received in return. This generally means that as more charges are paid, more in received in return from the service provider. For example, the more electricity a building company uses the greater will be the charges paid to the electricity supplier.

In general, the majority of the goods and services used by building and construction businesses are obtained from the private sector where competitive conditions typically allow for a satisfactory combination of price and quantity to be obtained and scope for the construction business to switch amongst suppliers according to which best meets its needs.

However, several of the services used in the creation of new homes can only be sourced from the public sector and/or through monopolistic markets. Examples of the charges which arise here include local government planning fees and charges for water, electricity and waste. The lack of contestability in these areas makes it likely that these charges are higher than they would be under a hypothetical competitive market setting. For example, if the local government's planning application fees are excessive there is no scope for receiving a better price from a competitor in the same location. As a result, an excessive cost component becomes embedded into the chain of costs determining the final ticket price of a new home.

Developer contributions straddle the line between taxes and charges. This is because in some cases, the relevant local government will use developer contributions in order to create new infrastructure (like water, drainage and roads) which will eventually serve the new homes for which the developer contributions were paid in the first place. In other words, there is some proportionality between the amount paid and the quantity of infrastructure received in return.

However, the linkage between the value of developer contributions paid and the volume of infrastructure provided in return by the local government is often unclear, disproportionate, and lacking in transparency. For example, local governments may insist on developer contributions being large enough to fund the creation of infrastructure which is of little or no benefit to the new housing to which it relates. In ways like this, developer contributions can therefore be used as a mechanism for transferring money from developers to local government in an arbitrary manner, much like a tax.

Regardless of how developer contributions are used, the fact that the relevant local government is able to decide the size of contributions in a monopolistic fashion means that there is considerable scope for inefficiencies and excessive costs. This situation is another source of poor housing affordability outcomes.

For example, indicative case studies sourced by NHFIC show that developer contributions can amount to between $25,000 to $85,000 per dwelling in New South Wales; $37,000 to $77,000 per dwelling in Victoria; and $29,000 to $42,000 per dwelling in Queensland. NHFIC has thus estimated that developer contributions can typically amount to around 8 to 11 per cent of total construction costs, making it a substantial contribution to the cost of building a new home.

NHFIC's recent research also found that 'developer contributions increasingly act like a tax on new housing, which can impede new housing supply and reduce housing affordability for buyers and renters.'

As with residential land, the zoning process and planning applications, our understanding of developer contributions is hampered by a near absence of suitable data with NHFIC finding that there is 'little detailed and comparable information available in most states and territories.'

To address concerns around the application of charges on home building, Master Builders therefore recommends that:

- As already occurs in the case of other monopolistic markets like utilities, we believe that there is a role for regulatory oversight of local governments in certain areas. For example, the regulator should ensure that developer contributions are not costed excessively and that they are matched to specific infrastructure provision - and not used simply as a tax grab. Similarly, local government planning department fees and charges should be capped in line with efficient cost targets and the quality of service provided to those paying the charges and fees (e.g. with respect to planning delays).

Factors impeding and promoting supply

The previous section discussed how taxes, regulation and charges can have unfavourable consequences for housing affordability and the volume of new home building

In this section, we review the main factors which we believe are promoting the supply of new home building. We also discuss some of the circumstances which are preventing Australia's new home building industry from meeting the demand for housing more fully.

Factors which are promoting supply

The past few years have provided excellent examples of how well designed government policies can help in boosting the supply of new homes.

Demand-side interventions

Some of these programs have worked by 'shepherding' potential homebuyers towards new homes and away from the established home market. This has provided developers and builders with a more reliable and predictable market for their final products thereby reducing the riskiness of new projects. For example:

- The HomeBuilder scheme was launched in June 2020 and offered up to $25,000 towards the cost of building a new home or major renovations. In some states and territories, HomeBuilder was supplemented by additional grants at local level
- The NHFIC-administered New Home Guarantee was first introduced at the beginning of 2021. During 2021–22, it will allow up to 10,000 FHBs access low deposit, low interest loans for building or purchasing new homes.

The success of these interventions speaks for itself. Before the introduction of HomeBuilder, the number of new detached house approvals bottomed out at less than 104,000 over the year to March 2020. In the 12 months to July 2021, detached house building approvals hit 152,557. This is one of the highest annual totals on record.

As well as boosting the supply of new homes, these programs have helped affordability in the market for established homes. This is because the supply of established homes is fixed (by definition), meaning that increases in demand result mainly in price increases. Programs which attract buyers away from the established home market are therefore beneficial from the perspective of affordability for everyone.

Supply-side initiatives

Programs like HomeBuilder and the New Home Guarantee have worked by managing housing demand in a way that reduces the risks faced by new home building projects. However, it is also possible to promote the new housing supply through interventions which reduce the cost of creating new homes.

- NHFIC's $1 billion-dollar National Housing Infrastructure Facility (NHIF) offers funding for the creation of housing-related infrastructure at costs lower than market rates. The Facility is targeted at infrastructure which would not end up getting built were only commercial sources of funding relied upon. The NHIF has a particular emphasis on promoting the supply of affordable housing
- The Affordable Housing Bond Aggregator (AHBA) is helping to increase the supply of community housing in Australia. It is doing so by allowing the providers of community housing to borrow for

the construction of new dwellings at substantially lower cost than would be the case without the AHBA's help. In this way, some projects which previously were financial unviable can make it over the line and become a reality.

This section has demonstrated that much of the policies which are already in place are working well with respect to housing affordability and the promotion of new housing supply. The next paragraph examines some of the settings which are having negative consequences on new housing supply.

Social housing

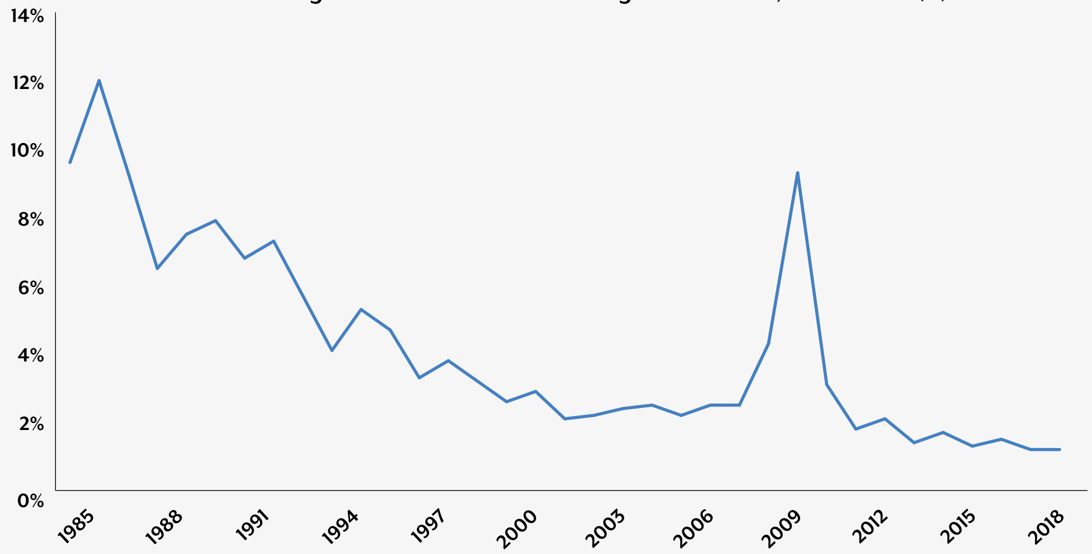
Perhaps the most direct form of supply side intervention relates to the provision of social housing. In previous decades, this has involved governments or government-sponsored entities acting as the direct developer and builder of new housing stock. The primary purpose of social housing is to meet the housing needs of those who are unable to access private sector housing and whose housing requirements would not otherwise be fulfilled. Except for the GFC period, the chart below demonstrates how the portion of new home building undertaken by the public sector has fallen steadily and substantially over recent decades.

The sizeable reduction in new home building by the public sector is largely the result of changes in how social housing is created and delivered. For example, the community housing providers discussed earlier provide an important function with respect to social housing. However, in official statistics, new housing stock created by them is categorised as 'private sector' rather than 'public sector'. These changes make it more difficult to measure the flows into and out of social housing and highlight the need for improved data collection relating to social, affordable and community housing.

In recent times, housing stock held by the private sector has been leveraged for use in the provision of social housing. This has involved the use of subsidies which enable housing to be rented out to tenants at rates well below market norms (e.g. Build to Rent).

Another approach is to allow social housing-eligible tenants to access the private rental market by supplementing their income through regular housing assistance payments (which may or may not be ringfenced). A variation on this involves the monies being paid directly to the landlord with the balance then being met directly by the tenant.

Public housing as a share of all new dwellings commenced, 1985 to 2019 (%)



Impediments to new home supply

As stated earlier, new home building is only able to proceed when the likely economic return is large enough to offset the risks faced by the developer and builder. Included amongst the factors exerting the most influence on the risk-return mix are:

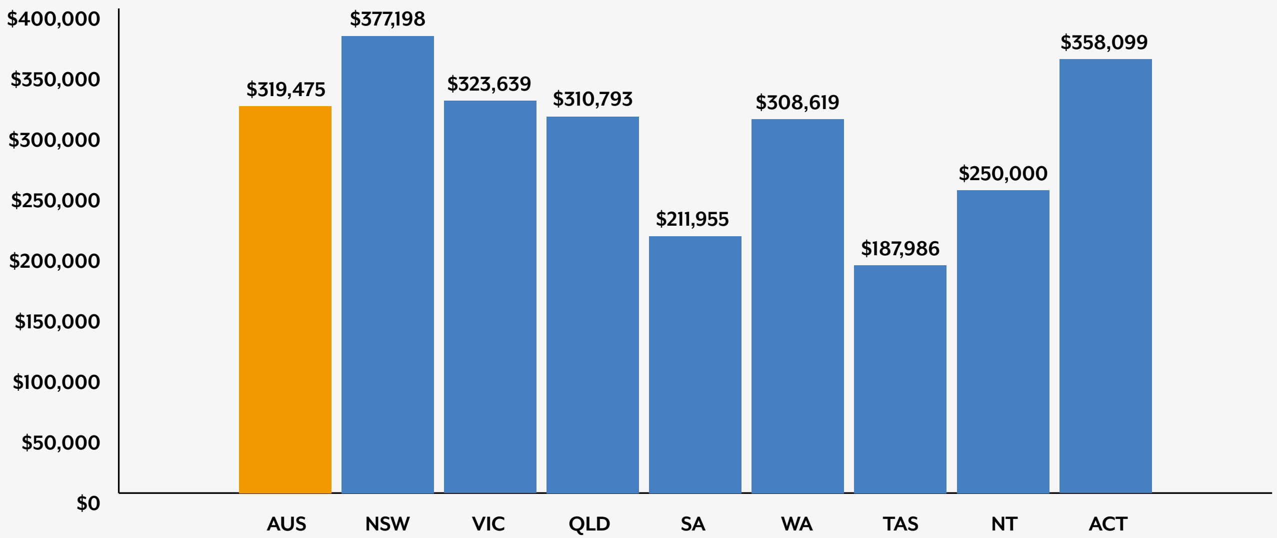
- The cost and availability of land
- Zoning and planning arrangements.

Each of these issues is reviewed in the sections below.

The supply of residential land

In the vast majority of cases, residential land is the single biggest ingredient of every new home. No other input to the new housing production equation has such a massive effect on both the price and the eventual volume of new home supply. There is a lack of completeness and comparability when it comes to residential land data in each of the jurisdictions. Some degree of comparison can be gained by comparing the average loan size for residential land purchase. As the chart illustrates, the average loan came to $320,000 nationally over the three months to July 2021. Based on this metric, the most expensive land lots are in New South Wales ($377,200) and the ACT ($358,100) with the lowest land costs in Tasmania ($188,000) and South Australia ($212,000).

Owner Occupiers: average size of loan for purchase of residential land - three months to July 2021



In terms of the effect of the residential land market on housing affordability, there are a number of major issues:

- Governments and public entities often have dominance of the supply for greenfield (i.e. undeveloped) land. Like all monopolistic market structures, there is a natural tendency towards outcomes involving excessive greenfield land costs, and supply ending up being insufficient relative to demand in the market
- A conflict of interest is also at play with respect to governments and their role as suppliers of land. Were governments to release more of their land holdings to the market, it is likely that land price growth would decelerate. This would have the effect of slowing down the pace of increase in council rates and land taxes (which are calculated based on land prices) and hurt state/local government revenue streams. Thus, measures which advance housing affordability could prove costly for a government's own financial situation

- As with other areas of the new housing production line, there are serious issues with the collection and publication of data relating to the residential land market. While adequate figures are available for some jurisdictions, the lack of a nationally consistent set of figures relating to the volume of land at different stages of the pipeline and information relating to transaction volumes and sales price in the market means that any future improvement (or deterioration) will be difficult to detect.

The issues related to zoning and planning arrangements are looked at next.

Zoning and planning arrangements

Before any work can begin on developing land, it must first receive the necessary zoning from the relevant authority. From the developer's point of view, this can be a time consuming and financially expensive process. Like land supply, the calculus of zoning decisions made by governments can be clouded by the fact that its own revenue streams benefit from higher residential land prices.

The relevant zoning authority is also encumbered with monopoly power in the market it oversees. This protected situation means that there is a much greater likelihood of poor outcomes concerning delays, inefficiencies, costs and service. All of these outcomes hamper the supply of new housing and contribute to substantially higher zoned land prices.

Like the zoning process, the procedure for receiving development or building approval can be fraught with hurdles and delays. Local government planning departments are also susceptible to the difficulties that can result from organisations operating in a monopolistic fashion, as outlined above.

To address impediments to the supply of more affordable housing, Master Builders recommends that:

- The role of state, territory and local government with respect to the market for residential land (including zoning decisions) should be investigated in order to establish whether monopolistic behaviour is resulting in the excessive prices and insufficient supply to the market
- Social, affordable, community and crisis housing performs a vital function in terms of meeting the needs of some of the most vulnerable Australians. By committing to a long-term pipeline of new housing in this part of the market, governments can tilt the balance of risk in a way which will result in more new homes being created
- The use of innovative funding mechanisms like Real Estate Investment Trusts (REITs) to allow domestic and international capital to be funnelled into the delivery of new housing supply in Australia should be examined.

International lessons

The Terms of Reference for this enquiry includes a module on international lessons by way of improving housing affordability and supply. In recent years, a number of countries have embarked upon policy initiatives in this area. These include:

- ***Canada: A Place to Call Home* (2017)**
- ***New Zealand: Public Housing plan* (2021)**
- ***Homes England* (2018)**
- ***Scotland: Housing to 2040* (2021)**
- ***Ireland: Housing for All* (2021)**

The paragraphs flowing set out some of the key features of these housing strategies and possible measures that may be appropriate to replicate in the Australian context.

Canada: A Place to Call Home

Canada's first ever national housing strategy was launched in 2017 and is entitled *A Place to Call Home*. Like Australia, Canada operates on a federal basis with a federal government based in Ottawa and thirteen regional government jurisdictions.

Some of the goals set in *A Place to Call Home* include:

- A 50 per cent reduction in chronic homelessness
- Up to 530,000 households taken out of housing need
- The creation of up to 100,000 additional housing units
- The repair or renewal of up to 300,000 housing units
- The creation of an additional 50,000 community housing units.

It is intended that these goals will be achieved through government partnerships with the community housing sector, the co-operative movement, the private sector and the research community. Specifically:

- A Canadian National Housing Co-Investment Fund of CA$15.9 billion consisting of CA$4.7 billion in financial contributions and CA$11.2 billion in low interest loans. The fund will attract partnerships with and investments from the provinces and territories, municipalities, non-profits, co-operatives and the private sector to focus on the preservation and renewal of the existing affordable housing stock. Federal funding provided under the National Housing Co-Investment Fund must be supplemented by investments from another level of government. These contributions need not be in cash, and may involve 'in kind' contributions such as lands owned by provincial/municipal governments, inclusionary zoning provisions, accelerated municipal approval processes, developer charge/fee waivers and/or tax/rebates.
- The Canadian federal government has also pledged to transfer CA$200 million worth of land it owns over a 10-year period to community and affordable housing providers. These land transfers will be supplemented by contributions and loans from federal government.

New Zealand: Public Housing Plan

A Public Housing Plan for the period from 2018 to 2022 was launched by the New Zealand government in August 2018.

- The plan intends that by June 2022, NZ's public housing stock will have increased by 6,400 on its June 2018 position, when 67,228 places were available
- The plan was developed against the backdrop of demand for public housing in NZ more than doubling between 2016 and 2018
- The majority of these new homes were being delivered by a government entity called Housing New Zealand (HNZ) with a substantial minority being created by Community Housing Providers over this period
- The main mechanism through which the NZ government supports the provision of public housing supply is a subsidy called the Income-Related Rent Subsidy (IRRS). This payment seeks to bridge the gap between what a public housing is able to pay toward rent and the amount of rent the property they live in would command in the private market.

Homes England

The Homes England agency was set up in 2018 and is charged with assisting the UK government is delivering on its target of delivering 300,000 new homes per year. According to Homes England, it aims to progress housing issues in England through six pillars of action:

- Unlocking public and private land where the market will not in order to get homes built where they are needed
- Ensuring a range of investment products are available to support housebuilding and infrastructure where the market is not acting
- Boosting productivity in the construction industry by addressing skills and materials shortage. This includes the uptake and development of Modern Methods of Construction (MMC)
- Driving market resilience by supporting smaller builders and new entrants and promoting better design and higher quality homes
- Targeted support for 'priority locations' in order to get more homes built
- Delivering home ownership products in order to provide an industry standard service to consumers.

In addition to these high-level objectives, Homes England has helped the market by adding to the public set of information. For example, the Homes England Land Hub offers an interactive map which provides up-to-date information on the residential land market across England. The Homes England Land Hub can be viewed here.

Scotland: Housing to 2040

In March 2021, the Scottish government published a long-term strategy to help meet housing needs over the following two decades. The plan was entitled Housing to 2040 and involved a financial package totalling GBP£16 billion over this period. The key features of the plan include

- The delivery of an additional 100,000 affordable homes by 2031–32, with 50,000 of those homes to be delivered by 2026–27
- These homes will be financed by combining government grant funding and loans from the private sector
- The Scottish National Investment Bank will be utilised to attract private funding as well as to explore alternative financing models for housing
- The Scottish government will also seek to support "Build to Rent' types of initiatives through the building of new homes by the private sector for long-term private renting.

Ireland: Housing for All

The Irish government launched its new housing strategy entitled 'Housing for All' in August 2021 which set out goals and supporting actions for the period out to 2030.

- The plan involves over EUR4 billion in government investment over the period to 2030
- This is anticipated to yield a total of 300,000 homes including 170,000 private homes and 90,000 social homes
- The plan aims to increase new housing supply to 33,000 new units per year over the next decade and end homelessness by 2030
- This will include over 10,000 social homes each year over the next five years
- An average of 6,000 affordable homes to be made available every year for purchase or for rent through a number of channels including a strategic partnership between the Irish state and retail banks.

Housing for All aims to achieve these goals through a number of different interventions. These include:

- Legislative change, including the introduction later in 2021 of an Affordable Housing Act
- Increasing land availability for residential housing, include lands currently owned by the Irish state
- Expanding government capital funding for the delivery of social and affordable housing, and more government involvement in provision of finance for development
- Measures to expand workforce capacity in the construction sector
- A new First Home affordable purchase shared-equity scheme. This scheme, which will be delivered via a partnership between the State and participating banks, is aimed at first-time buyers needing support to purchase new-build homes in private developments
- Changes to the way in which loans can be made to homebuyers by local governments
- Increased funding capacity for the strategic development of public lands for affordable and social housing in city and town centres
- The creation of new Urban Development Zones for housing
- The introduction of new planning arrangements for large-scale residential developments
- The issuing of Housing Supply Targets (HSTs) to each local government authority in Ireland to inform of their contribution to national targets.
- Improving the functioning of the planning process including a new evaluation framework for each of the local government's housing strategies and development plans.

Potential policy solutions

Our submission has shown how and why delivering enough new homes to meet Australia's future housing needs is going to be such a formidable challenge. In the past, the failure of new home building to fully keep up with demand in a timely fashion has caused housing affordability to worsen considerably. Without major changes to how we do things, this negative trend is only likely to continue to worsen.

How should new policies be judged?

With respect to future policy changes, we believe it would be useful to evaluate them in terms of their likely impact on housing affordability and the supply of new homes. Possible evaluation criteria might include questions like:

- Will this policy change reduce the cost of creating new homes?
- Will this policy change result in a larger volume of new homes being built?
- Will this policy change shrink the amount of time between the commencement of building work and the completion date for new homes?

We believe that subjecting new policies to this battery of questions will help clarify whether the policy is favourable or unfavourable from the perspective of housing affordability and the degree to which this is so.

Master Builders Australia's proposals

Overarching recommendations

- Master Builders Australia believes that the federal government should ramp up its use of incentives and penalties in its financial dealings with the states and territories. The achievement of progress in terms of addressing housing affordability and supply problems should be rewarded and vice versa.
- Significant data gaps exist with respect to the residential building pipeline. These gaps prevent us from pinpointing the more urgent areas for action. They also make it much more difficult to know whether or not progress is being made over time. Improvements here would illuminate our understanding of the affordability problem and improve the likelihood of delivering solutions. We currently lack adequate data on:
  - The volume and price of land at all stages in the residential pipeline in all eight jurisdictions
  - The time taken for land and new home building projects to navigate important processes like zoning, planning milestones, development approval and building approval
  - The numbers of new homes being built annually in the social, community and affordable housing spheres
  - NHFIC found that 'there is no publicly available aggregated data on developer contributions across most states and territories.' Accordingly, a centralised, harmonised and comparable national database of each local government area's developer contribution receipts and pricing behaviour would allow for performance to be gauged and the models of best practice to be identified and learned from.

Taxes, regulations and charges

- The myriad set of taxes imposed on housing over the course of its creation need to be fully identified and investigated. Forms of taxation found to have the most detrimental impacts on housing affordability should immediately be frozen with a view to substantially reducing their burden over the longer term
- At the same time, current taxation settings which support the supply of housing such as those relating to negative gearing and the Capital Gains Tax discount should be preserved
- Building and construction firms should be provided with considerably more time and space to deal with new regulations or regulatory changes
- We propose that future regulatory changes which affect building and construction activity be evaluated with respect to the aggregate cost of all existing regulations rather than just the marginal cost, however small, of proposed new regulations
- Governments need to allow for more flexible provisions where states regulate fixed price housing contracts to enable the burden of unforeseen costs to be shared more equitably in exceptional circumstances
- Introduce an effective whole of government process for taking a more holistic approach to boosting local capability in the construction supply chain to respond to government crisis and reform efforts. This relates to workforce, materials and infrastructure supply, skills and industry innovation
- As in other areas, we believe that federal government funding between tiers of government and regulatory bodies should be linked to how those entities perform with respect to regulatory improvements. For example, the effectiveness with which regulators co-ordinate and share data with each other could be used to determine future funding allocations
- As already occurs in the case of other monopolistic markets like utilities, we believe that there is a role for regulatory oversight of local governments in certain areas. For example, the regulator should ensure that developer contributions are not costed excessively and that they are matched to specific infrastructure provision - and not used simply as a tax grab. Similarly, local government planning department fees and charges should be capped in line with efficient cost targets and the quality of service provided to those paying the charges and fees (e.g. with respect to planning delays)
- The role of state, territory and local government with respect to the market for residential land (including zoning decisions) should be investigated in order to establish whether monopolistic behaviour is resulting in the excessive prices and insufficient supply to the market.

Boosting supply

- Social, affordable, community and crisis housing performs a vital function in terms of meeting the needs of some of the most vulnerable Australians. By committing to a long-term pipeline of new housing in this part of the market, governments can tilt the balance of risk in a way which will result in more new homes being created
- The use of innovative funding mechanisms like Real Estate Investment Trusts (REITs) to allow domestic and international capital to be funnelled into the delivery of new housing supply in Australia should be examined.

Data appendix

- **Number of construction businesses**
- **New home building starts by year**
- **Public sector new home building starts**
- **Public sector share of new home building starts**

Overview of construction employment by state and territory - May 2021

	AUS	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted
Total construction employment	**1,160,715**	348,525	321,610	232,368	72,634	133,209	21,454	12,484	18,431
Full-time construction employment	**969,202**	282,961	270,334	199,985	61,786	109,687	17,641	11,150	15,658
Part-time construction employment	**191,512**	65,563	51,276	32,383	10,848	23,522	3,812	1,335	2,774
Construction industry's share of total employment (%)	**8.8%**	8.4%	9.3%	8.8%	8.3%	9.5%	8.2%	9.5%	7.8%
Full-time jobs as a share of total construction employment (%)	**83.5%**	81.2%	84.1%	86.1%	85.1%	82.3%	82.2%	89.3%	85.0%
Change in construction employment - year to May 2021	**-16,644**	-50,972	+19,119	+1,160	+6,464	+4,610	+2,284	+2,288	-1,597
Percentage change in construction employment over year to May 2021	**-1.4%**	-12.8%	+6.3%	+0.5%	+9.8%	+3.6%	+11.9%	+22.4%	-8.0%
State/territory share of total construction employment - May 2021	***100.0%***	*30.0%*	*27.7%*	*20.0%*	*6.3%*	*11.5%*	*1.8%*	*1.1%*	*1.6%*

Source: Master Builders Australia analysis of ABS Labour Force, Australia, Detailed Quarterly (6291.0.55.003) (Table EQ06)

Number of building and construction businesses by employee headcount as at 30 June 2020

	AUS	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted
Total number of building and construction businesses - 30 June 2021	**397,022**	**131,392**	**111,111**	**77,063**	**23,539**	**38,817**	**6,429**	**2,901**	**5,770**
No employees	**239,350**	72,350	70,395	45,922	16,152	25,663	3,893	1,619	3,337
Between 1 and 19 employees	**151,976**	57,293	39,372	29,824	7,067	12,464	2,452	1,183	2,347
Between 20 and 199 employees	**5,496**	1,682	1,302	1,284	311	652	81	96	86
200 employees or more	**191**	67	42	33	9	38	3	3	0
Number of small businesses (defined as those with less than 20 employees)	***391,326***	*129,643*	*109,767*	*75,746*	*23,219*	*38,127*	*6,345*	*2,802*	*5,684*
Small businesses as a proportion of total (%)	***98.6%***	*98.7%*	*98.8%*	*98.3%*	*98.6%*	*98.2%*	*98.7%*	*96.6%*	*98.5%*
Non-employing businesses are a proportion of total (%)	***60.3%***	*55.1%*	*63.4%*	*59.6%*	*68.6%*	*66.1%*	*60.6%*	*55.8%*	*57.8%*
State/territory share of building/ construction businesses	**100.0%**	33.1%	28.0%	19.4%	5.9%	9.8%	1.6%	0.7%	1.5%

Source: Master Builders Australia analysis of ABS Counts of Australian Businesses, including Entries and Exits (8165.0)

Breakdown of building and construction businesses by annual turnover as at 30 June 2020

	AUS	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted
Total number of building and construction businesses - 30 June 2020	**396,881**	**131,336**	**111,145**	**77,088**	**23,482**	**38,782**	**6,469**	**2,799**	**5,780**
Annual turnover range:									
Less than $50,000	**76,423**	23,702	22,804	14,790	4,437	8,019	1,092	448	1,131
$50,000 to less than $200,000	**151,555**	50,671	41,774	28,812	9,564	15,407	2,405	983	1,939
$200,000 to less than $2 million	**140,366**	47,457	38,400	27,909	8,065	12,791	2,538	1,070	2,136
$2 million to less than $5 million	**16,707**	5,455	4,823	3,316	902	1,453	272	172	314
$5 million to less than $10 million	***6,182***	*2,069*	*1,744*	*1,242*	*268*	*564*	*92*	*72*	*131*
$10 million or more	***5,648***	*1,982*	*1,600*	*1,019*	*246*	*548*	*70*	*54*	*129*
Very low turnover businesses' share of total (%) [annual turnover below $50,000]	**19.3%**	18.0%	20.5%	19.2%	18.9%	20.7%	16.9%	16.0%	19.6%
Low turnover businesses' share of total (%) [annual turnover below $200,000]	**57.4%**	56.6%	58.1%	56.6%	59.6%	60.4%	54.1%	51.1%	53.1%
High turnover businesses' share of total (%) [annual turnover at least $10 million]	**1.4%**	1.5%	1.4%	1.3%	1.0%	1.4%	1.1%	1.9%	2.2%

Source: Master Builders Australia analysis of ABS Counts of Austrlaian Businesses, including Entries and Exits (8165.0)

Number of construction trades workers by category of occupation - May 2021

	AUS	NSW	VIC	QLD	SA	WA	TAS	NT	ACT
	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted	Unadjusted
Construction Trades Workers - Total	**370,159**	**120,553**	**100,714**	**76,311**	**20,884**	**36,218**	**7,083**	**2,359**	**6,037**
Bricklayers, and Carpenters and Joiners	169,089	55,118	49,649	31,604	8,200	17,775	3,997	850	1,897
Floor Finishers and Painting Trades Workers	51,647	16,078	12,235	13,476	3,808	2,782	1,377	543	1,348
Glaziers, Plasterers and Tilers	59,730	20,523	13,148	11,619	6,433	5,633	806	293	1,274
Plumbers	89,205	28,347	25,682	19,611	2,443	10,027	904	673	1,519
Construction Trades Workers nfd	487	487	0	0	0	0	0	0	0

Source: Master Builders Australia analysis of ABS Labour Force, Australia, Detailed Quarterly (6291.0.55.003) (Table EQ08)

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