PROPERTY COUNCIL of Australia

PROSPERITY | JOBS | STRONG COMMUNITIES

Submission to the *Working Together for Better Housing and Sustainable Communities* Discussion Paper

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Contents

1. Executive summary 3
2. Property industry's contribution to the Queensland economy 4
3. Sustainable communities 5
4. Housing affordability 9
5. Conclusion 16
6. Contacts 17

1. Executive summary

The Property Council of Australia welcomes the opportunity to provide input into the Queensland Government's *Working Together for Better Housing and Sustainable Communities* discussion paper. As the peak body for Queensland's property sector – the state's largest industry - the Property Council understands the importance of housing to the economic and social health of Queenslanders and welcomes the development of an all-inclusive State Government housing strategy.

As acknowledged in the Discussion Paper, the State Government plays a critical role in influencing the housing market through planning legislation, industry regulation, taxes and charges and infrastructure funding provision. This submission outlines opportunities for the State Government to utilise these policy levers to enable the private sector to produce solutions to Queensland's housing challenges.

Essential to achieving the Housing Strategy's objective of *sustainable communities* and *housing affordability* is the issue of supply. The cost of housing, both in the rental and ownership markets, is intrinsically linked to the supply of land to the market. Reforms to the planning system to enable greater supply of housing must be a central consideration in any holistic housing strategy.

By 2025, the demand for age appropriate accommodation is expected to double nationally and unless urgent changes are made to the planning system, land use policies and industry regulation we will be facing a seniors' housing crisis in Queensland.

The Property Council encourages the Queensland Government to finalise reviews of the *Retirement Villages Act 1999* and *Manufactured Homes (Residential Parks) Act 2003* to ensure the regulation of age appropriate housing encourages greater investment to meet this growing demand.

The Property Council also encourages the Queensland Government to review the numerous property taxes and charge which currently impact on housing affordability and harm the Queensland economy.

The Discussion Paper's third theme - *a responsive housing system* - directly addresses the provision of the Government's housing assistance programs. As this topic does not relate to our member's activities, the Property Council has not provided advice in response to this section of the Discussion Paper.

It is imperative that the Government maintains consistency across its departments and agencies in addressing the broad range of policy issues explored in the Discussion Paper. The Paper addresses many areas of policy outside of the purview of the Department of Housing and Public Works. While developing the Housing Strategy the Government will need to ensure that policy proposals are in harmony with their other policies and concurrent reforms.

The Property Council looks forward to continuing to work with the Government in the development of a comprehensive State Housing Strategy.

2. Property industry's contribution to the Queensland economy

3. Sustainable communities

The Property Council welcomes the Government's focus on building communities that are socially, economically and environmentally sustainable. As long-haul investors in Queensland's urban areas, our member companies are acutely aware of the challenges the Government faces in achieving this outcome.

With the correct policy settings in place, the private sector could play a much larger role in assisting the Government achieve these objectives.

Planning reform

A modern and responsive planning framework will be crucial to the social, economic and environmental health of Queensland. Without adequate planning for growth, Queensland cannot maintain or improve on the enviable way of life that we currently enjoy.

Over the past three years, the Property Council has worked closely with the former and current State Governments on their planning reform agenda. The reformed planning bills which have now been passed by the Parliament represent a significant step forward in modernising the state's planning system. The Property Council has also provided input to the Government to aid the development a range of supporting regulatory instruments to accompany the new legislation.

As the State Government draws closer to the start date for the new streamlined planning system, the focus of the Government must turn to how the new system will be implemented.

The success of the new planning system in achieving sustainable communities will be observed in how well local governments give effect to the new framework.

Considerable funds were allocated to planning reform in the 2015-16 Budget, and rather than providing this directly to local governments, the Property Council is keen to see the introduction of an incentives program administered by the State.

Where councils have demonstrated their willingness to undertake innovative reform, then funding should be forthcoming. This may be at the expense of councils that are .unwilling to participate in the reform process. The proposed system would be similar to the successful National Competition Policy approach to incentive funding.

Regional planning

The Government is currently undertaking a review of the South East Queensland Regional Plan (SEQRP). While regional planning documents provide an opportunity for the State Government to articulate their planning objectives, a lack of integration with local government planning schemes has resulted in a these objectives not being realised.

An urban footprint is currently defined by the State Government in the SEQRP in order to achieve a sustainable balance between economic, environmental and social considerations. As there is no mechanism to ensure this boundary is reflected in local government planning schemes, the urban footprint is largely theoretical.

Similar to the best practice re-zoning processes undertaken by the Metropolitan Planning Authority in Melbourne, the new SEQRP should include a mechanism to ensure that local governments give effect to State Government planning requirements. A legislative mechanism needs to be introduced to ensure the SEQRP is reflected in local planning schemes.

Seniors Housing

With an ageing population the requirement for purpose built seniors accommodation will continue to grow as a challenge. The private and not for profit sectors can play a much greater role in meeting the needs of seniors at no additional cost to government. However, regulation that encourages investment will be required to enable this to occur.

The Property Council is a member of the Queensland Government's *Residential Transition for Ageing Queenslanders* taskforce and has been heavily involved in the Ministerial reviews of the *Retirement Villages Act 1999* and *Manufactured Homes (Residential Parks) Act 2003*.

In order to increase the supply and affordability of the most appropriate housing for our ageing demographic, it is vital that the Government works with stakeholders to ensure the property industry is well-placed to deliver 'housing choice'.

Retirement Villages

Retirement villages offer a range of services and support that benefit residents' lifestyles. Analysis undertaken by Grant Thornton for the Property Council, shows that these services generate $2.16 billion in savings to Australia's health care system.

Nimble legislative reform by the State Government will be needed to keep pace with the way retirement villages are evolving and the innovations operators will be seeking to implement in the coming years. The inflexibility of the *Retirement Villages Act 1999* (RV Act) is looming as a major impediment to innovation within the industry.

We are already starting to see the RV Act restrict operators in a number of ways from implementing innovative models that respond to the changing market demands. This is of particular concern for financial models, with the RV Act providing no flexibility away from the traditional model.

The RV Act was drafted to regulate a basic model comprising an ingoing contribution, resident-funded services charges and an exit fee payable on exit. In micro-regulating for this model, the legislation has inadvertently enshrined this model into the legislation.

This is evidenced through the following examples:

1. The restriction on recurrent charges, maintenance levies or general services charges being a 'profit centre' for operators. The RV Act mandates resident-funded services charges and enshrines the concept of cost recovery budgeting and charging for general services. This restricts an operator from putting forward an innovative financial model that involved the operator offering a fixed charge for

its general services that includes a component of profit and increases in line with a fixed formula or movements in an index (eg CPI) in return for a lower departure fee. Operators have no choice but to have a cost-recovery based general services charge with all the resident control, budgeting accountability and compliance costs that goes with it.

2. The RV Acts assume that departure fees or exit fees must be paid on exit – they do not cater for management fees to be paid during a resident's occupation.

3. The RV Act prevents operators from making a profit through the provision of any services that are supplied or made available to all residents of the village (ie that are 'general services' within the meaning of the RV Act) in circumstances where those services are not optional at the election of the resident (ie which would render them 'personal services' within the meaning of the RV Act). Rather, those services can only be charged on a purely cost recovery basis and become subject to the restrictions in the RV Act on how general services charges can increase. Giving residents a right to 'opt out' from receiving services so as to permit operators to include a profit component in the charges for those services makes it difficult for operators to achieve financial certainty when offering those services. Working with this restriction is proving to be a challenge as operators move to respond to market demands by expanding their service offering beyond core retirement village services into care and lifestyle services.

We look forward to working with the Government on finalising the review of the *Retirement Villages Act*.

Manufactured Home Parks

The Property Council has been heavily involved in the review of the *Manufactured Homes (Residential Parks) Act 2003,* and recommends that a strong emphasis is placed on finalising this review. Similar to the *Retirement Villages Act 1999,* it is important that this review strikes the right balance between consumer protection and allowing for the industry to increase the supply of affordable and appropriate seniors' housing.

Manufactured home parks, also known as residential or lifestyle parks, offer another form of affordable accommodation for seniors, however they are technically not restricted to older people.

The age restriction is a key issue for both home and park owners, and requires a strategic decision from the Government to allow for manufactured home parks to receive an exemption from the *Anti-Discrimination Act 1991* (AD Act). Unlike the *Retirement Villages Act 1999,* the *Manufactured Homes (Residential Parks) Act 2003* does not allow park owners to limit residence to older and retired people.

Currently park owners must apply to QCAT to seek an exemption from the AD Act to enable them to restrict entry to the park to older people.

If successful, this exemption stands for five years, however if the park is sold the new owner must reapply to obtain the same status. Analysis of QCAT decisions were presented to the Ministerial working party and it showed that very few applications were rejected.

From a home owners perspective they have made the decision to live in a purpose-built Manufactured Home Park on the basis that it is for seniors' living. However, this could change if the exemption is not continually approved by QCAT.

This type of uncertainty also impacts on the viability of the industry, and adds additional costs of between $5,000 and $10,000 for each QCAT application. Facilitating a legislative change would provide better efficiencies and greater certainty for both home and park owners.

We look forward to working with the Government on finalising the review of the *Manufactured Homes (Residential Parks) Act 2003.*

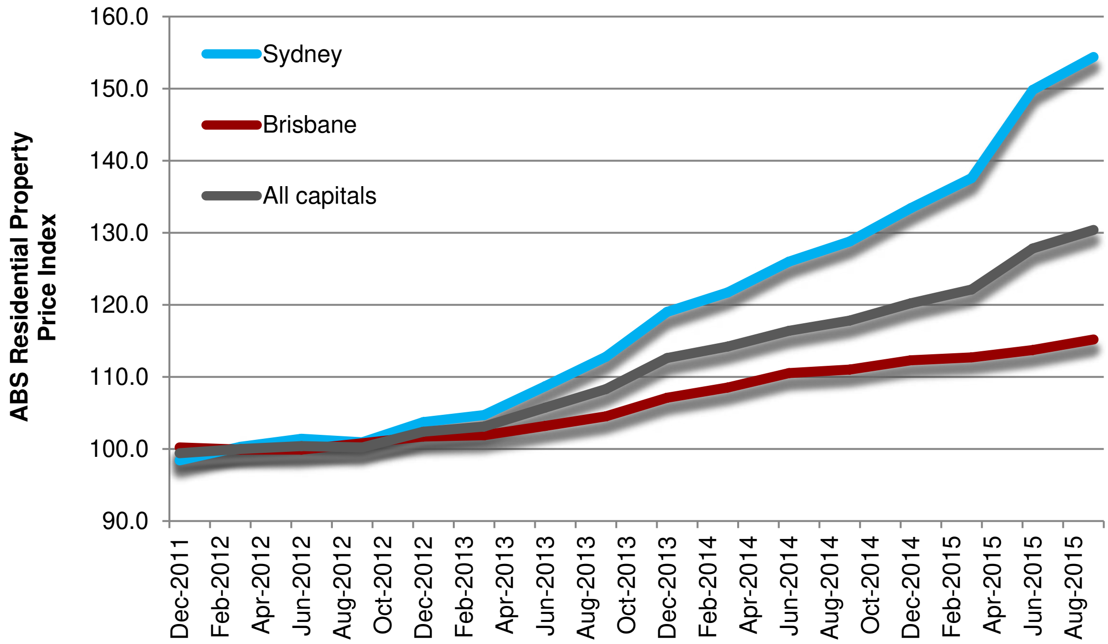
4. Housing affordability

The cost of housing is intrinsically linked to the supply of land to the housing market. Demand for housing increases with the growth in population. Prices will inevitably increase if supply is not able to meet the growing demand, creating cost pressures in both the rental and ownership markets.

Australia has one of the highest levels of population growth in the OECD. Despite a recent decline in traditionally high level of interstate migration, the latest forecasts from the Queensland Government Statistician's Office predict a state population of 6.8 million by 2036 – up from the current 4.8 million. By 2061 Queensland's population could double from current levels.

If the supply of housing is to keep pace with this expected growth, the state's planning system will need to be flexible enough to allow for significant increases in both greenfield and infill development.

A 21st Century planning system will be required to avoid the type of housing affordability crisis recently observed in Sydney, by ensuring a strong and stable pipeline of new housing supply. The Property Council's prescription for planning reform is outlined in the *sustainable communities* section of this submission.



Initiatives aimed at improving access to housing need to be considered with the appreciation that a growth in housing stock will increase affordability. Overall land supply must be the fundamental consideration in the Government's response to the issue of housing affordability.

Government incentives

The Government's incentives for first home buyers not only provide greater opportunities for Queenslanders to transition into home ownership, but also deliver a boost of investment in the new housing market.

The *Great Start Grant*, stamp duty concessions for first home buyers and home occupiers and land tax concessions for the principal place of residence all serve to lower the cost of home ownership and increase affordability.

An expanded suite of similar targeted assistance measures to meet the policy objectives of the Government would be supported by the Property Council.

Impact of environmental regulation

The cost of new housing in Queensland has been greatly affected by the compliance costs associated with duplicative environmental regulations. While all three levels of government apply different environmental legislation to the development of land, there is no overriding strategic approach to the protection of significant flora and fauna.

The end result of this is a patchwork approach to environmental protection. Land that has undergone a rigorous assessment process and been identified as urban land by one level of government is able to be overridden by the vegetation protection requirements of another level. This leads to a significant impact on the escalating cost of housing.

A best practice approach to environmental regulation would see a strategic assessment of the environmental values of the region, which provides for an urban footprint that separates developable land from areas of environmental protection.

The Property Council welcomes the State Government's commitment to work with the Commonwealth and councils to investigate a strategic assessment framework. The successful establishment of a strategic assessment approach to environmental regulation would significantly reduce cost pressures on the delivery of new homes in Queensland.

Regrettably, the Government's proposed amendments to the *Vegetation Management Act* and *Environmental Offsets Act*, currently before the Parliament, will have the opposite effect - significantly increasing the cost of new housing and impacting on affordability.

While the intention of the amendments is to limit clearing undertaken by the agricultural sector, the property industry will be inadvertently affected by the changes. Under the proposed amendments considerable areas of land currently identified for urban development would require State Government approval to remove vegetation. The term "significant" will also be removed from the 'materiality' test within the *Environmental Offsets Act*, meaning every action and every impact will require an environmental offset.

As the legislation is retrospective, the Bill has already placed development projects into a bureaucratic limbo. Landowners who may have their land reclassified cannot currently seek government approval to clear vegetation, as these assessments can only be made according to the existing legislation and their existing category classification.

The Property Council is seeking an exemption from the legislation for all land designated for urban use in the State's regional plans to ensure the amendments do not impact the feasibility of job-creating projects or have a flow-on impact for housing affordability.

Innovative Financing Models

The Property Council supports the adoption of innovative financing models for affordable housing delivery. The private sector is increasingly willing to invest in affordable housing opportunities if the returns are competitive with alternate investment options. The Queensland Government could ensure that the risk and returns on these investments are comparable to other investment opportunities by providing incentives.

Recent research from the Australian Housing and Urban Research Institute (AHURI) has highlighted the potential of residential real estate investment trusts (REIT) and wholesale residential property funds as models for attracting institutional scale investment in affordable housing.[1]

AHURI's analysis points to several policies that would enable these types of funds to become an effective investment option and increase the supply of affordable housing. While most of these policies relate to company tax treatments and would be the responsibility of the Commonwealth Government, the State Government can also play a role in bridging the return gap between affordable housing products and traditional housing.

In order to obtain institutional scale investment in residential real estate trusts in Queensland the Government should consider offering sites for suitable development projects and concessions on land taxes and fees. Similarly, the Government may also wish to consider an expansion of recent programs that have allowed private sector involvement in the redevelopment of public housing sites.

Engagement with industry will enable the Government to determine where opportunities exist to make affordable housing a more attractive asset class.

Inclusionary zoning

While it may be appropriate for the Government to incorporate a requirement to deliver an amount of affordable housing within some public land releases and government-sponsored development projects, the application of inclusionary zoning on privately held land is strongly opposed by the Property Council.

The impost of inclusionary zoning on private land devalues sites and will impact the feasibility of projects that may have already commenced. This may result in an inability for projects to proceed, or increased costs transferred to the purchase price of other dwellings in the development, ultimately undermining efforts to increase housing affordability.

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[1] Newell, G., Lee, C.L. and Kupke, V. (2015) The opportunity of unlisted wholesale residential property funds in enhancing affordable housing supply, AHURI Final Report No.249. Melbourne: Australian Housing and Urban Research Institute Limited. Available from: http://www.ahuri.edu.au/publications/projects/p72031

In order to meet their policy objectives, the Government may wish to consider imposing inclusionary zoning requirements when releasing their own land for development. In these instances it is crucial that these requirements are clearly and completely articulated in any master planning or bid documents issued by the Government. The inclusionary zoning requirements imposed on any project also need to be appropriate to the economic circumstances of potential projects on each site.

Developer levies

The Discussion Paper notes that the potential of a developer levy to create an affordable housing fund was raised at the regional engagement workshops in 2015. Although the proposal is not given any further consideration in the Discussion Paper, the Property Council contends that a levy of this kind would not only serve to make housing less affordable, but also break the Government's commitment to no new or increased taxes, fees or charges.

Property is the single largest industry contributor to government coffers in Queensland. The sector pays $9.9 billion per annum through State taxes and local government rates, fees and charges – shouldering 49.8% of Queensland's total tax burden. This extraordinary level of property taxation not only impacts on housing affordability, but stifles industry investment and damages jobs growth.

Further taxes on the property industry would create added cost pressures on developments which would be passed on to the purchase price of housing, undermining the policy objective of increasing affordability.

Making better use of Government land

The State Government has a crucial role to play in the delivery of land to the market. The State Government's land assets represent a significant portfolio of developable property that could be activated to increase housing supply.

Property Queensland, the Government's land asset management authority, facilitates better use of the state's property portfolio. Further opportunities exist for the Government to more aggressively pursue development in order to make better use of its land assets for the broader community.

Where assets that are not being fully utilised have been identified, responsibility for planning their reuse or recycling should be transferred to Economic Development Queensland to determine their highest and best use.

The Government may utilise these land releases to increase the delivery of affordable housing through an inclusionary zoning system. In these instances, the policy intention and planning restrictions should be made transparent before the sales and bidding processes commence.

The Queensland Government's new market led proposals framework represents a mechanism that could facilitate greater private sector involvement in identifying development opportunities on Government owned land.

Livable Housing Design

The Property Council has participated in the Department's Livable Housing Design Working Group which has explored opportunities to increase industry adoption of design features that make homes easier and safer to use for all occupants and their visitors.

Through our involvement with Livable Housing Australia (LHA) the Property Council encourages the adoption of livable housing design principles as industry best practice. In Queensland we have seen numerous high profile examples of new developments adopting the LHA Silver Performance Level including Grocon's Commonwealth Games athlete village project.

Proposals to mandate the LHA Silver Performance Level in all new homes in Queensland are impractical and, if pursued, would significantly increase the cost of new homes. For many development sites in South East Queensland the gradient and size of the lots make it impossible to achieve an LHA Silver Performance Level on new homes. For other developments the standard could be achieved, but only by considerably increasing the cost of the finished home. The Government needs to consider the impact that regulatory changes in this area would have on housing affordability.

The Property Council supports efforts by the Government to encourage the voluntary adoption of livable housing design principles on suitable development projects. A number of proposals have been considered through the working group process including incentives, and utilising Economic Development Queensland development projects to showcase livable design.

Stamp duty

Property is the single largest industry contributor to government coffers in Queensland. The sector pays $9.9 billion per annum through State taxes and local government rates, fees and charges – shouldering 49.8% of Queensland's total tax burden. This extraordinary level of property taxation not only impacts on housing affordability, but stifles industry investment and damages jobs growth.

Despite a desire for affordable housing and higher rates of home ownership, the State Government continues to heavily rely on inefficient property taxes which add considerably to the cost of housing in Queensland. Stamp duty also has a significant impact on mobility in the housing market, discouraging many from moving to 'right size' accommodation.

Many consider stamp duty a one-off-tax, but the impact of the fee over the life of mortgage can be considerable. The purchaser of an average Brisbane home in 2015, priced at $490,000, will pay $8,400 in stamp duty. Over the life of the mortgage, this homebuyer will pay an additional $6,333 in interest on the tax, bringing the total cost of the tax to $14,733.

Stamp duty thresholds have not changed in a generation leading to considerable bracket creep. The stamp duty cost for a median house in Brisbane has risen by 632 per cent since 1995. Over that same period CPI has only increased by 171 per cent.

The tax not only has a negative impact on housing affordability but also the Queensland economy. The Federal Government's *Re:Think* discussion paper highlighted stamp duty as the most inefficient tax in the country, reducing economic welfare by 73 cents for every dollar raised. A recent Deloitte Access Economics report confirmed that replacing stamp duty with a more efficient tax would increase the size of the Australian economy by $3.3 billion.

The Queensland Government relies on stamp duty for 20 per cent of revenue. Given this significant reliance, the Property Council encourages the State Government to work with the Federal Government to develop national strategy to remove stamp duty from the tax framework.

Land tax

All property-related taxes, fees and charges have a flow-on effect for housing affordability. State Government land tax thresholds have not been reviewed for many years resulting significant bracket creep. A growing number of landholders are subjected to land tax as property values have increased. Land tax is consequently having an ever increasing impact on the cost of owning property in Queensland.

In addition to normal land tax rates, a 0.5 per cent 'temporary' land tax surcharge was introduced in 2009 as a 'stop gap' to fill a hole in the Government's budget. This 'temporary' surcharge continues to be paid by landholders.

To reduce pressure on rental costs the Property Council recommends the Government undertake a review of the current out-dated land tax thresholds and remove the 2009 'temporary' land tax surcharge.

Infrastructure charges

Local government infrastructure charges associated with the development of new housing add an additional cost to development, which is then passed on to the homebuyer.

The Property Council contends that there is a need for the Queensland Government to take a greater role in monitoring and compliance of the State's infrastructure charges framework, which has been refined through considerable consultation with all key stakeholders.

It is the experience of the property industry that the legislation is not being accurately implemented by local governments, with many intentionally acting against the desired outcomes of the legislation.

At present, there is little the property industry can do to rectify the situation, as the Department of Infrastructure, Local Government and Planning, is not adequately resourced to monitor local government implementation of the framework, and is not authorised to force compliance.

Greater resourcing would allow the Department to review local government infrastructure charges resolutions and assist in providing guidance for stakeholders seeking to better understand the legislation.

Alternative market based solutions

In other Australian jurisdictions governments are utilising innovative models to harness the power of the private sector to deliver their housing policy objectives. The Property Council encourages the Queensland Government to consider alternative market-based solutions to increase the supply of affordable and social housing.

The WA KeyStart program has been running for 27 years and has proven a successful model of assisting Western Australians purchase affordable housing. The program offers a range of loan products to eligible people including low deposit loans and shared equity arrangements. The regular interest rate offered by the Government owned service is set to the average standard variable interest rate of the four major banks. However, loan assistance is also available for public housing tenants, sole parents, people with a disability and Indigenous Western Australians.

This year the NSW Government is procuring projects for the first stage of their Social and Affordable Housing Fund. The first phase of the program will see the private sector deliver 3,000 additional social and affordable homes with 25 year tenancy, asset management and social program agreements. The NSW Government has committed $1.1 billion in seed capital to their Social and Affordable Housing Fund.

5. Conclusion

The Property Council would like to again thank the Government for the opportunity to provide a submission on the *Working Together for Better Housing and Sustainable Communities* discussion paper. We look forward to continuing to work with the Government in the development of the Queensland Housing Strategy.

If you have any further questions about the Property Council or the detail included in this submission, please contact 07 3225 3000, or cmountford@propertycouncil.com.au.

Yours sincerely

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6. Contacts

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