PROPERTY COUNCIL of Australia

A STARK REALITY

Part One in a thought leadership series on housing choice and affordability for a growing Australia

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Winhanga-Duri-Nya
Meaning "reflect"
Wirjudjuri language

Artwork created by proud Wiradjuri woman, Lani Balzan in 2021.

ACKNOWLEDGEMENT OF COUNTRY

The Property Council acknowledges the tens of thousands of years of continuous custodianship and placemaking by First Nations peoples and their proud role in our shared future.

We thank them for their custodianship of Country - land, seas and skies.

We acknowledge the diversity of First Nations cultures, histories and peoples, and we pay our deepest respects to Elders past and present.

INTRODUCTION

MIKE ZORBAS
Chief Executive
Property Council of Australia

This paper catalogues the epic failure of Australia's national housing policy over decades and demonstrates how awareness of this is seeping into everyday life.

The failure to supply enough social, affordable and at-market housing has been previously established by many contributors including through the Property Council's own thought leadership and the emerging work of the National Housing Affordability Alliance.

Poor planning systems and mediocre policy choices continue to combine with high state and local taxes to further add to the cost of building each new home. Costly, overtaxed and delayed housing construction pipelines reduce the total supply of new dwellings including social, affordable and at-market homes as well as diverting investment from the future sustainability and resilience of our built environment.

Without decisive action we will compound our failure to supply enough affordable housing and choice for a growing nation over the coming decade. Whether people are buying, renting or being housed by government we must provide them affordable choices to live and work where they have access to opportunity.

To make housing supply meet community needs, we will need to align and incentivise all three levels of government for best practice planning and meeting housing targets. That is why industry must work with governments to propose new policy ideas, and to deliver on policies best described as unfinished business.

This paper, prepared by the Property Council of Australia with expert input:

- articulates three compelling drivers for policy makers to respond to in addressing the housing crisis: the need for more **choice** in housing types to suit the needs of diverse Australians, the need to improve **affordability** whether you rent or own and the need to plan for a **growth** in our cities as Australia's population expands
- maps the state of housing markets as they exist today, with a view to establish a baseline for the availability and affordability of housing stock across the spectrum - and identify gaps that will emerge as our nation grows
- chronicles the barriers that have inhibited our ability to provide affordable choices that meet the needs of people as our communities continue to grow - and profiled some of the emerging opportunities to satisfy demand
- provides insight into what Australians think through new research testing community attitudes to housing choice and supply in Australia, and,
- charts reform terrain that presents unfinished business for policy makers as they seek to unlock a durable solution that gives Australians access to the housing they need and deserve.

Succeeding papers will further refresh and develop the Property Council's thought leadership agenda, including new approaches to planning, overseas ideas and refreshing our groundbreaking work on national competition-style incentives for supply improvements and efficient planning.

The last few years have seen growing Federal awareness of the challenge. There is now in principle agreement between three levels of government to work with non-government partners on broad housing solutions.

Together, we can and must recommit to boosting the supply of affordable housing of all kinds.

ACKNOWLEDGEMENTS

The Property Council thanks the many people who contributed their time and valuable input to this paper, including:

Glenn Byres, Headland Advisory

Tim Lawless, CoreLogic

Felicity Emmett and Caryn Kakas, ANZ

Bernard Salt, The Demographics Group

Clare Finocchiaro, Leoca Design

The Property Council additionally thanks our Residential Development Council, Retirement Living Council, Student Accommodation Council, Capital Markets Division, Build to Rent Roundtable and experts across our state and territory division councils.

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Urbanised and growing

While COVID-19 disrupted migration and housing markets with a drift to regional centres, we have a long-term growth trajectory with population predicted to rise to **39.2 million by 2060, meaning 13 million more people will call Australia home[1].**

The latest Population Statement also projects capital cities and regional areas will return to pre-pandemic levels of population growth. This growth is underpinned by a lift to the annual migration cap to 195,000 for 2022-23[2] and a focus on skilled workers to address critical labour shortages.

Much of this growth will be concentrated in Australia's cities, which are set to continue to grow significantly and well above the OECD average.

Australians believe that the lack of supply of housing that is affordable is more attributable to lack of planning to deliver housing in line with population growth than other factors - 46% agree[4].

Despite our famed quality of life and the promotion of a national lifestyle ideal, Australia is accidentally pursuing a low amenity and low liveability model of growth. This is the consequence of coordination and policy failures that have not addressed the need for population growth to be sequenced with infrastructure, housing supply and services.

The task is clear. Australian cities must shift towards high amenity, high liveability, medium density metropolitan living supported by great public transport.

[1] 2022 Population Statement, Centre for Population, January 2023.

[2] 'Australia's migration future' Media Release, Minister for Home Affairs, September 2022.

Every Australian deserves access to a home.

A home that is safe, affordable and fit for purpose.

A home is the personal space in which we live so much of our lives. It forms part of a basic human to right to which everyone is entitled.

Affordable home ownership, alongside access to an affordable rental market, promotes personal and economic freedom. It is the bedrock of financial security and, in the case of home ownership, the largest investment most people will make in their lives.

The stark reality of the housing crisis in Australia demands a reinvigorated look at housing policy. We must respond to three compelling drivers:

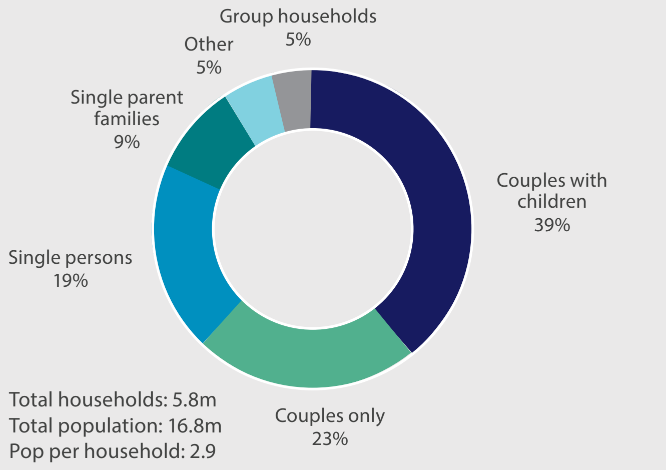
- preparing for the **growth** of our populations, cities and regions
- creating housing **choice** to meet the diverse needs of our communities and age cohots, and
- ugently improving the long-term **affordability** of housing across the spectrum.

Diverse with changing needs

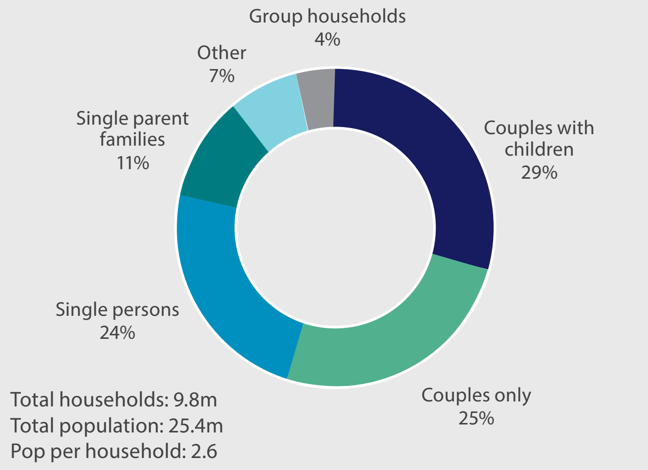
The changing face of Australia as it relates to age, culture, household composition and employment skills means we need to plan and deliver a diversity of housing options to suit people's needs.

Big changes in the structure of Australian households in recent decades, as well as longstanding demographic challenges such as our ageing population and a wave of millennials entering a new stage of life, are reshaping demands on the housing market.

Household types, 1991



Household types, 2021



Source: The Demographics Group, Australian Bureau of Statistics Census 1991 and 2021.

As jobs urbanise, the choice of housing forms must adapt so we can deliver the homes we need, where we need them. Successive Australian governments failed to anticipate that housing and jobs must be sequenced together so that people can live near to work. As a result, commuting distances have increased to well above the global average in Australian cities.[3]

[3] Global Public Transport Report 2022, Moovit Insights, December 2022.

Starved of choice

81% OF AUSTRALIANS BELIEVE THERE IS A LACK OF HOUSING THAT IS AFFORDABLE IN THEIR AREA - Property Council community sentiment survey[4]

Regardless of whether they are renting or buying, Australians deserve the opportunity to have access to housing that matches their lifestyle, work and income. Good housing markets achieve this. Unfortunately, too many Australians are denied that choice.

New research commissioned by the Property Council of Australia to test community attitudes to housing choice and supply in Australia revealed Australians are deprived of choice and cannot either buy or rent in a way that suits them:

Over half of all people who rent say they have no other choice, and one third of all renters believe they will not be able to purchase a home in the next five years.

52% rent as they have no other option

Excessive deposit costs are viewed as the highest barrier ownership- with over 7 in 10 renters citing it as the reason they won't be able to buy a home in the next five years

72% can't overcome the deposit gap

Almost one third of renters like the financial freedom and flexibility of being able to rent. However, more than one in five renters are currently forced to share the rent with other people to afford it.

30% enjoy renting

[4] YouGov nationally representative survey of 1500 Australians, conducted for The Property Council of Australia, November 2022.

Demand and Supply. Then and now.

The failures of Australia's housing markets have been chronicled in disappointing detail for over two decades. As far back as 2004, the Productivity Commission declared:

"The dominant source of the widespread escalation in prices has been a general surge in demand to which supply was inherently incapable of responding."[5]

There is currently no national approach to map overall demand across the housing spectrum alongside supply figures, a glaring omission for Australia's policy makers. In 2023 Australia is facing a looming supply crunch, right at the time when our population growth is restarting.

- Across Brisbane, Sydney, Melbourne and Perth, the number of apartments built in 2024 will be only 21 percent of those built in 2018[6]
- 163,400 is the projected housing shortfall between 2025-32 as household formation exceeds housing supply[7]
- 1.7 million new households expected to form between 2022 and 2032, led by lone person households.[8]

[5] First Home Ownership, Productivity Commission Inquiry Report, 2004.

[6] Jobs and Homes: Australia's looming apartment supply crunch and how to fix it, Urbis for the Property Council of Australia, June 2021.

[7] State of the Nation's Housing 2021-22, NHFIC, February 2022.

[8] State of the Nation's Housing 2021-22, NHFIC, February 2022.

Unaffordable

In 2022, Australia was the sole nation with all of the major city markets ranked as severely unaffordable[9]. Sydney was the second least affordable market among 92 surveyed, with all 5 Australian capitals measured sitting inside the worst 20 for affordability.

Whatever the measure applied, be it –

HOUSE PRICES
(growth in house prices has eclipsed income and superannuation)

DEPOSIT GAP
(it now takes an average of more than 10 years to save the 20 percent deposit required by most banks - up from an average of six years in 2001)

LOAN SERVICEABILITY
(percentage of income needed to service a mortgage has jumped from 30.6 percent to 43.3 percent in the two years to September 30, 2022)

RENTAL AFFORDABILITY
(43 percent of low-income households now sit in rental stress, rising to 47.8 percent in capital cities)

DEMAND FOR SOCIAL AND AFFORDABILITY HOUSING
(more than 175,000 households were on waiting lists to access social housing as at mid-2020 - an increase of 20,000 over the prior year)

- chronic affordability pressures are as acute as ever.

Supply needed across the housing spectrum.

A state of play across several elements of the housing spectrum reveals there is a need to tackle supply of housing spanning from social housing, community and affordable rental housing to private rental and build-to-sell.

There is also a need to foster growth in emerging sectors like Build to Rent, purpose-built student accommodation and retirement living. These sectors add to the diversity of housing choice and take pressure off the traditional housing market.

[9] Demographia International Housing Affordability 2022 Edition, Urban Reform Institute and Frontier Centre for Public Policy, March 2022.
House Prices Source: The Great Australian Nightmare, Grattan Institute, September 2022.
Deposit Gap Source: ANZ CoreLogic Housing Affordability Report, November 2022.
Loan Servicability Source: ANZ CoreLogic Housing Affordability Report, November 2022.
Rental Affordability Source: Rental Affordability Index, SGS Economic and Planning, November 2022.
Demand for Social and Affordability Housing Source: State of the Nation's Housing 2021-22, NHFIC, February 2022.

Unfinished Business. Solutions for Choice, Affordability and Growth

Turning good government and industry aspirations into real action to boost housing choice and affordability will require both policy innovation and completing unfinished business. These recommendations for Australia's policy makers focus on unfinished business:

1. **Holding governments to account and incentivising them to deliver** by giving a mandate to the new Housing Supply and Affordability Council to:
   - Create a credible framework to regularly assess and rank state and territory housing strategies and homes produced
   - produce transparent report cards on the performance of state and territory planning systems against new best practice benchmarks
   - build on NHFIC's existing legacy of publishing supply, demand and affordability forecasts and include rental affordability.
2. **Delivering the housing we need, where we need it** by introducing best practice benchmarks and incentives to improve the location and diversity of new housing supply. These should include clear housing targets at a national, city and local government level, alignment between land use and infrastructure plans, and strategic plans for supply of well-located housing that matches population growth.
3. **Great and sustainable cities** that support a shift to high amenity, high liveability, medium density living. These will be underpinned by a permanent program of City Partnerships with clear housing targets and metrics on emissions reduction and climate adaptation. Infrastructure and growth compacts between state and local governments will need to better align housing delivery with economic and social infrastructure. Integrated metropolitan planning and integrated transport authorities are also important governance reforms.
4. **Supporting people who need it most** by regearing Government support to underpin bigger policy goals. This includes:
   - responding the Productivity Commission's case for a review of the National Rental Affordability Scheme (NRAS),
   - providing nationally harmonised rental standards that underpin security of tenure, increased amenity, liveability and sustainability, and
   - homebuyer assistance that is targeted and subject to regular review and evaluation.
5. **Unlocking investment in new forms of housing** by tackling the tax and regulatory barriers that inhibit institutional investment into housing such as Build-to-Rent housing, purpose-built student accommodation and retirement living. This includes leveling the playing field for offshore institutional investors in Build-to-Rent housing, incentivising the delivery of affordable housing for key workers and working with states to reduce taxes that apply a handbrake to investment and growth.

"Australia seeks to maintain its enviable prosperity and access to opportunity"

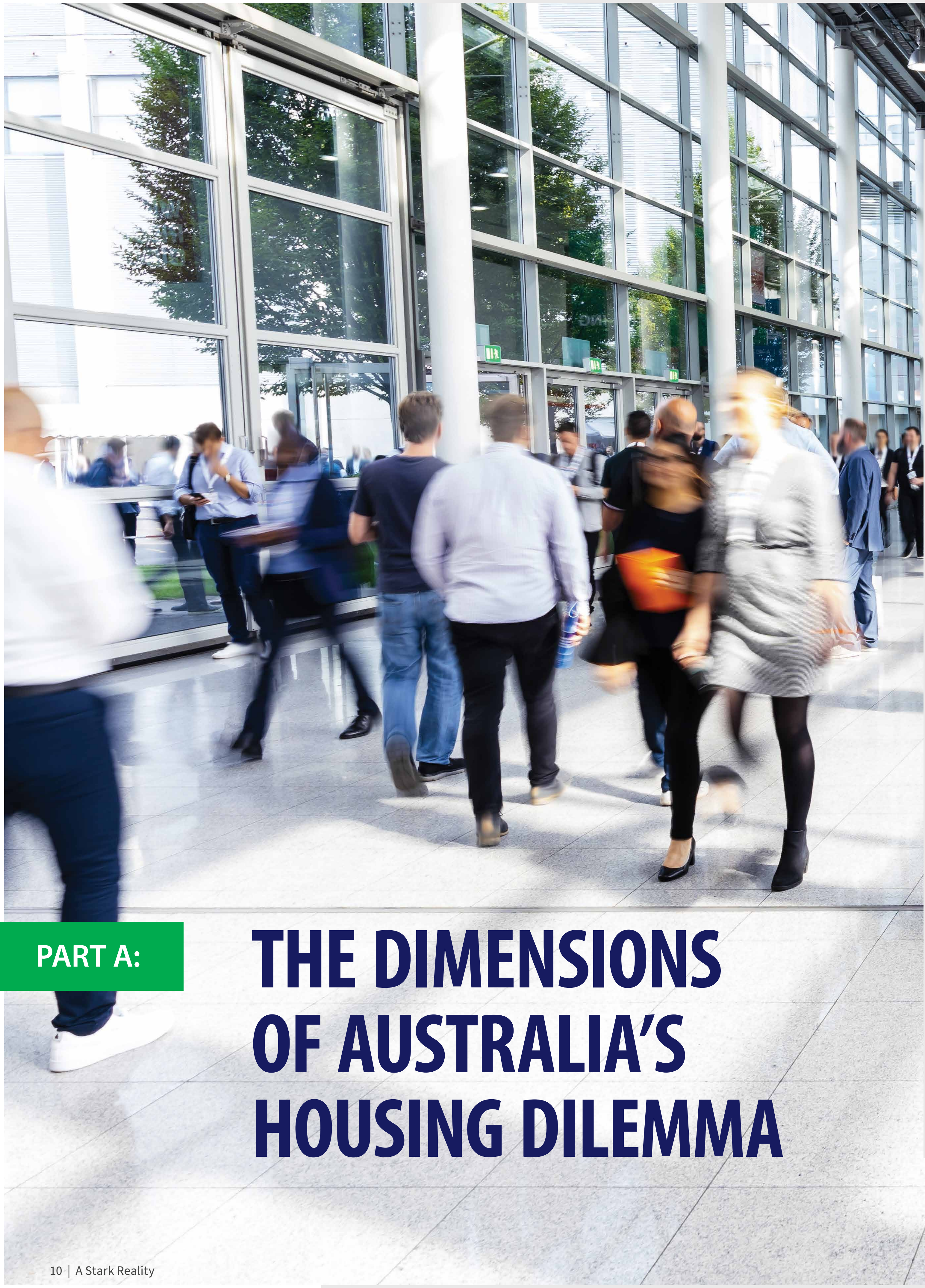
Time for Bold Leadership

As Australia seeks to maintain its enviable prosperity and access to opportunity, we have no choice but to expand housing choice.

Importantly, the Australian Government has made a positive decision to develop a National Housing and Homelessness Plan, along with the states, territories and local governments, and initiated a new National Housing Accord that builds on the strength of the National Housing Finance and Investment Corporation.

The Property Council supports these initiatives and aims to make a significant contribution to the Plan. Ours is an industry with the nous and track record of international innovation needed to help solve complex problems.

If Australia can meet national housing challenges, the intergenerational benefits to our nation, our economy and our citizens will be immense.



PART A:

THE DIMENSIONS OF AUSTRALIA'S HOUSING DILEMMA

GROWTH IS COMING... READY OR NOT

Australia has every reason to embrace a growing population. It has always been part of our national story. An increasing population adds to Australia's productive capacity, grows markets, supports the emergence and expansion of businesses, sustains our national wealth and allows Australia to compete on the global stage.

Reserve Bank Governor Philip Lowe has observed, "Australia's faster population growth [is] one of the reasons our economy has experienced higher than average growth than many other advanced economies".[10]

Successive waves of migration have enriched us with their talents, ideas, ingenuity and culture. Australia's traditional migration program has boosted national productivity by bringing in skilled and relatively younger people which has also deepened the pool of government revenue.

The pandemic disrupted these patterns temporarily – forecasts predict the scale of population growth to 2030 will reduce by 1.2 million compared to pre-pandemic forecasts.[11] The flow of skilled workers all but stopped and we lost access to international students, temporary migrants and tourists who drive vital sectors of the economy, a loss that continues to be felt strongly across a range of sectors.

But the population bounce-back has begun and is stronger than expected, net overseas migration for the year to 30 June 2022 was a very healthy 171,000[12] This is notable because 2022 was a year in which many parts of the nation were in lockdown for many months.

Our long-term trajectory remains undisputed. The recent announcement by the Commonwealth Government to lift the annual migration cap to 195,000 for 2022-23 is welcome, as is the focus on skilled workers to address critical labour shortages.

The 2021 Intergenerational Report and 2022 Population Statement make clear that the Australian population is forecast to reach 39.2 million by 2060-61, meaning approximately 13 million more people will call Australia home.

We also know that Australia is one of the most urbanised countries in the world. It is estimated that as much as three-quarters of the growth will be concentrated in our four largest cities, Sydney, Melbourne, Brisbane and Perth.

A 2018 Report commissioned by the Property Council, entitled *"Creating Great Australian Cities"*, found that Australia's largest cities are set to continue to grow at a rapid pace, well above the OECD average.

While this brings challenges, policy makers should embrace these long-term trends.

Australia has always been a net importer of human capital.

This talent will become even more crucial as we seek to service the demands of an evolving economy, ageing population and deal with the trend toward growing structural deficits at all levels of government.

[10] Remarks to Anika Foundation Luncheon, Reserve Bank Governor, August, 2018.
[11] 2022 Population Statement, Centre for Population, January 2023.
[12] Net overseas migration recovers to 171,000 in 2021-22, Australian Bureau of Statistics, Media release, 16 December 2022.

THE METROPOLITAN CENTURY - HIGH AMENITY, HIGH LIVEABILITY CITIES

What are cities for? Cities are for people. They act as magnets for opportunity and prosperity, and they are a lifestyle choice of an increasing majority of Australians. Thinking about cities involves not just making them work today but helping them to be great in the future for the people and jobs that are yet to come.

Focusing on cities can also achieve wider public goals. How well cities operate as hubs of transport, as markets for housing and as centres for education and culture will have major impacts on the health, participation and self-confidence of whole societies. If cities work well as sites of enterprise, trade, creativity and innovation this boosts productivity, job creation, wages, profit and tax revenues for all tiers of government.

Addressing the growth pains of Australian cities is not just an agenda for urbanists, metropolitan elites or city planners. This should be a national project that touches every aspect of Australian public life. It provides a basis for meeting multiple goals by making these key population centres work well for all.

- Creating Great Australian Cities

In 2018 the Property Council commissioned Professor Greg Clark - a world-renowned scholar, advisor and advocate for cities – and Dr Tim Moonen of the Business for Cities to lead research into the long-term forces shaping the future of our cities and improve the policy toolkit available to support the ongoing creation of great Australian cities[13].

The research tested four concepts:

1. the megatrends that are defining Australian cities, with globalisation and urbanisation the defining features of cities both here and abroad
2. an analysis of how Australia's five largest cities perform against global peers (five baskets of five fast-growing Australian-sized cities from around the world), with our limited institutional capacity to manage growth identified as a key risk
3. case studies that show how high population growth cities across the world are managing the housing, densification, transport and other demands of compact poly-centric metropolitan cities, and
4. the contemporary policy toolkit needed to support new urban and metropolitan forms in Australian cities, including elements that would support housing supply to match future demand.

We also know that Australia will remain one of the most urbanised countries in the world with our future population growth concentrated in our four largest cities - Sydney, Melbourne, Brisbane and Perth.

The report found that this is a natural function of the capacity of our cities to provide the employment, educational, cultural and lifestyle opportunities people want - and the fact they propel the lion's share of the nation's economic growth. Cities will inevitably remain a magnet for talent and should be designed for the people who want to live in them.

[13] Creating Great Australian Cities, The Business of Cities for Property Council of Australia, May 2018.

The burning platform

Australian cities need to match their brand appeal of great lifestyle and opportunity with systems of management – investment, coordination and reform – that equip them for the century ahead.

Despite our famed quality of life and the promotion of a national lifestyle ideal, Australia is accidentally pursuing a low amenity and low liveability model of growth. This is a consequence of coordination and policy failures that have not addressed the need for population growth to be sequenced with infrastructure, housing supply and services.

The majority of new developments for the many people moving to Australian cities are situated in ex-urban areas that require lengthy commutes to centres of services and places of work. Most of the fastest growing areas are now outer suburbs at the end of growth corridors, locations which attract key workers but often have limited access to education, health and social services, and cultural facilities

The task is clear. Australian cities must shift towards high amenity, high liveability, medium density metropolitan living supported by great public transport.

The report identified that better metropolitan infrastructure, new urban forms, more robust governance and new policy tools are needed to support the growth in population, shift to higher density living and economic dynamism of our cities. This will become an even more acute challenge as growth accelerates in what the report described as 'The Metropolitan Century'.

In benchmarking the strengths and weakness of Australian cities, there were four stand out takeaways:

Strengths

Despite intensifying international competition, Australian cities consistently deliver jobs growth and global economic reach

Major Australian cities are well-positioned to continue to capture foreign investment that helps propel growth and development

The 'higher education' economy of our major cities serves as a magnet for talent, specialisation and investment - and enhances our standing in the knowledge economy

Our cities have powerful liveability and brands because they maintain high standards of health, education and natural environment

Weaknesses

Transport congestion, high journey distances and low speeds are inhibitors to our capacity to compete in the metropolitan century.

Australian cities feature governance fragmentation and limited institutional capacity or tools for metropolitan development.

We're playing catch up on infrastructure investment, which lags well behind demand.

There are limited institutions at a metropolitan scale to manage growth.

The report also found that the housing affordability crisis is undermining the Australian dream, with a lack of affordability becoming more severe, and more quickly than other nations with similar economies to Australia.

Creating Great Australian Cities also stated that successive Australian governments had failed to anticipate that housing and jobs must be sequenced together in the same metropolitan areas so that people can live near to work. As a result, commuting distances have increased to well above the global average in Australian cities.[14]

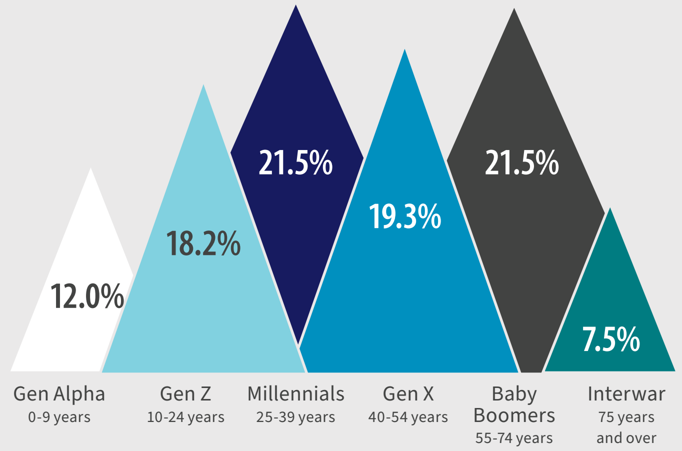
As jobs urbanise, housing must take on new urban forms if it is to be fit for purpose, well-located and affordable.

[14] Global Public Transport Report 2022, Moovit Insights, December 2022.

A DIVERSE AUSTRALIA REQUIRES CHOICE

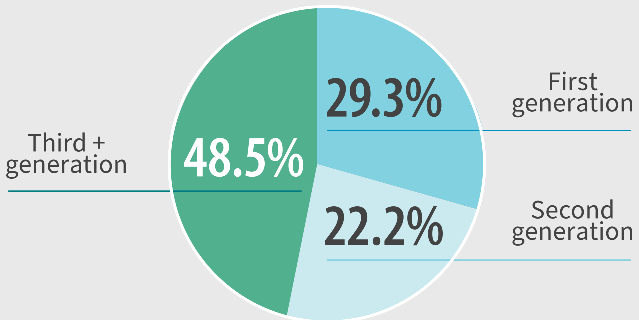
Australia today comprises a rich mix of cultural backgrounds and heritage where people come together in families and households in increasingly diverse ways. The changing face of Australia as it relates to age, culture, household composition and employment skills means we need to plan and deliver a diversity of housing options to suit people's needs.

Our greatest long-term demographic challenge is our ageing population, with the share of people aged 65 and over projected to increase from 16.8 per cent in 2020-21 to 19.9 per cent in 2032-33 and 23.1 per cent in 2060-61[15].



Source: Snapshot of Australia, 2021 Census, Australian Bureau of Statistics, June 2022.

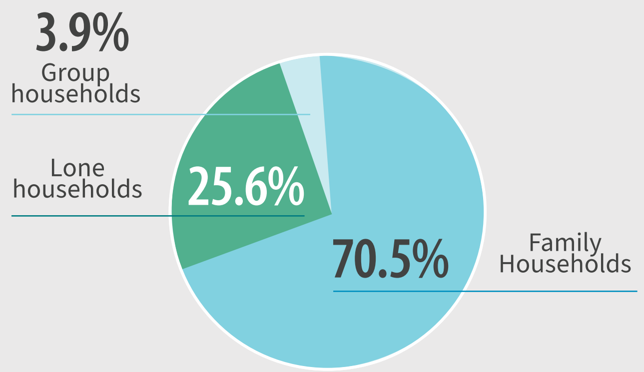
Since the early 2000s, the proportion of people who were born overseas has increased more sharply, influenced by changes to Australia's immigration policy and increased intake of skilled migrants. In 2021 for the first time, the proportion of Australian residents that are born overseas (first generation) or have a parent born overseas (second generation) moved above 50 per cent (51.5 per cent).



Source: Snapshot of Australia, 2021 Census, Australian Bureau of Statistics, June 2022.

Australian households come in many shapes and forms and have changed a lot in recent decades:

- households have become smaller and more diverse over time with increasing numbers of Indigenous and immigrant households
- one person households have become more common
- There has been a decline in families with dependent children but an increase in couple-only families, especially older couples.[16]



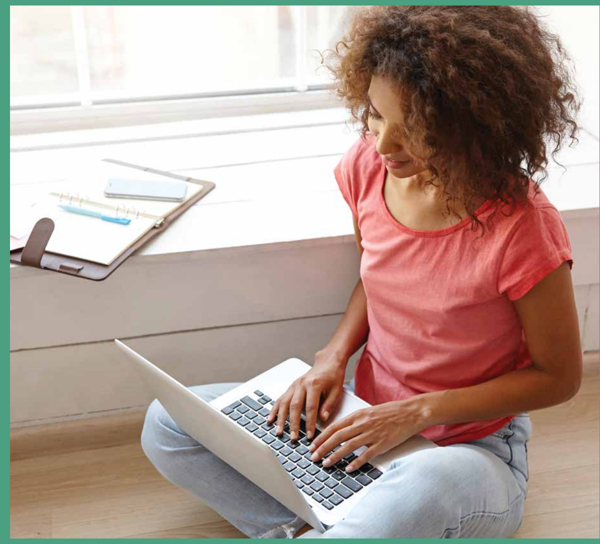
Source: Snapshot of Australia, 2021 Census, Australian Bureau of Statistics, June 2022 .

[15] 2022 Population Statement, Centre for Population, January 2023.
[16] Households and families, Australian Institute of Family Studies, July 2020.

There are many factors that dictate people's choice around housing and their ability to access appropriate housing for their needs.

Whether it be:

- a student transitioning to the workforce and looking for a well-located rental apartment near their first job,
- a millennial couple shifting into the 'lifestyle housing' stage of the lifecycle with increased space requirements for children and a home office,
- an essential worker needing affordable accommodation within a short commute for early shifts,
- or a retiree looking for right sized and affordable rental accommodation.



Key drivers of mobility and location choice

Housing considerations are some of the most significant drivers of mobility and location choice decisions according to an AHURI study[17] with over one third of moves driven by people's desire to get their own place or move to a larger place. Other key insights into why people choose to move or not include:

HOUSING TENURE

Renters were found to be three times as likely to move as owners. This probably reflects two distinct drivers, the high transaction costs of purchasing a home that impede subsequent housing mobility, and a lack of tenure security for people in the private rental sector.

INTERLINKED JOBS AND HOUSING DECISIONS

Personal unemployment and high unemployment within an area may encourage movement. A person who is unemployed is 20 percent more likely to move than an employed person.

LIFE COURSE TRANSITIONS

This is especially true of changes in family composition as singles are around 30 percent less likely to move than couples and couples with children are around half as likely to move as lone persons.

THE LIKELIHOOD OF MOVING DECREASES AS YOU GET OLDER

The duration of residence also gets longer with age. The average Australian adult has lived in their current home for about 10 years. After staying in a home for 10 years continuously, the odds of a person moving are reduced by 37 per cent.

Additional drivers include safety, security, neighbourhood liveability and walkability. Australians are also more likely to travel long-distance from urban to regional areas or regional to urban areas to be closer to their place of work or study, or for lifestyle reasons.

Australia's longest-term demographic challenge

The share of people aged 65 and over doubled in the past 70 years. The enormous generational shift underway will continue to see a larger proportion of older Australians relative to people of working age, a challenge faced in most comparable countries.[18]

While Australia's baby boomers transition into retirement and face the challenge of rightsizing or moving for a changing lifestyle, a wave of millennials are now also in their mid-30s, reaching a new stage of life that can change their housing needs. The proportion of Australians living in a dwelling that is owned either outright or with a mortgage steadily fell over the 15 years to 2016 but perhaps in response to a period of extended low interest rates, the 2021 Census saw a reversal of that trend: the proportion of Australians living in rented accommodation dropped and home ownership jumped[19].

[17] Population growth and mobility in Australia: implications for housing and urban development policies, AHURI, October 2021.
[18] 2021 Intergenerational Report, Commonwealth of Australia, June 2021.
[19] Census data on housing tenure over years 2001-2021, Australian Bureau of Statistics.

"Melbourne experienced its largest net migration loss on record"

The impact of the pandemic on choice

Cities vs Regions

The pandemic saw some Australians make different choices about where to live when faced with working from home for extended periods during state and territory lockdowns. This opened up the option of working remotely and living further from their pre-pandemic workplace.

The Centre for Population examined data that showed a net shift in migration from urban towards regional areas during the early period of the pandemic. In the year to September 2020, regional areas outside capital cities had a net gain of 36,200 people, the highest net gain on record[20].

Importantly, this net gain of people in regional areas was driven by an increase in the number of people choosing to stay in regional areas, rather than a spike in the numbers of people leaving capital cities.

While there remains some uncertainty over the long-term impacts on interstate and intrastate migration, the latest Population Statement in 2022 projects that states and territories will return to the well-established patterns of population growth that were experienced pre-pandemic[21].

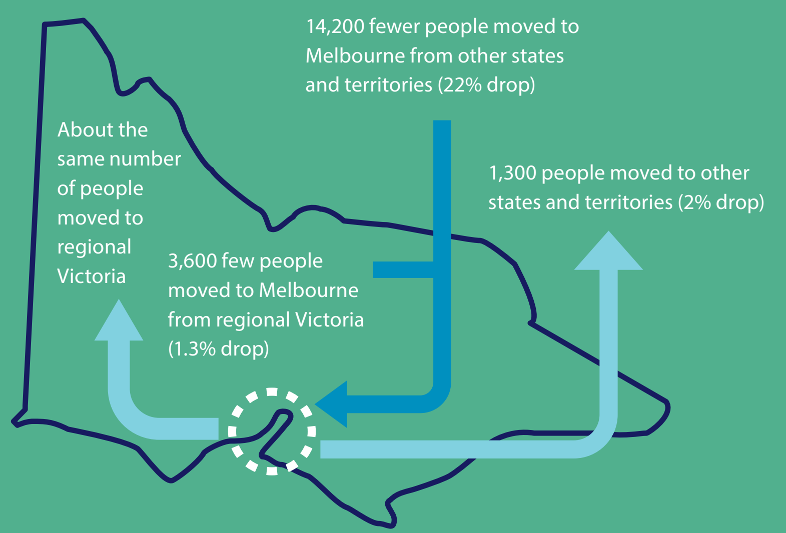
Capital cities and regional areas are also projected to return to normal patterns of population growth as net overseas migration returns and internal migration returns to pre-pandemic patterns.

Melbourne and Victoria during lockdown

The impact of COVID was particularly evident in Melbourne and Victoria. Melbourne experience its largest net migration loss on record, with a net outflow of 17,200 residents from the city in the 12 months to September 2020.

Driving this historic net outflow of residents is a sharp drop in the number of people arriving in Melbourne. Arrivals fell to 14,400 in the September quarter 2020, a drop of 28 percent from 20,000 in the September quarter 2019. In contrast, the number of residents leaving Melbourne has been relatively steady, with a fall in departures of 4 per cent.

Melbourne migration flows, year to September 2020



Despite this, the latest Population Statement projects all capital cities to return to pre-pandemic patterns of migration and Melbourne is projected to overtake Sydney as Australia's largest city in 2031-32.

Source: The impacts of COVID on migration between cities and regions, Centre for Population, September 2021.

[20] The impacts of COVID on migration between cities and regions, Centre for Population, September 2021.
[21] 2022 Population Statement, Centre for Population, January 2023.

Working from home into the future

The pandemic also disrupted the nature of work in some industries, with around one in five workers working from home on the day of the 2021 Census. Enhanced flexibility will remain post COVID and hybrid working arrangements are now common in growth industries like the knowledge economy, however the long-term impacts of hybrid working on the housing market (such as an increase in space requirements for home offices) can't be accurately assessed at this stage.

Workplace attendance is trending slowly back toward pre-pandemic levels, but the experience is very different across Australia's capital cities.

The Property Council's office occupancy survey, conducted monthly throughout the pandemic, and the twice-yearly Office Market Report served as useful means to track the impacts of COVID on workplace attendance and demand for office space.

The November 2022 office occupancy survey showed Perth offices were at 80 percent occupancy, the highest level since November 2020, while Melbourne offices were at 57 percent, also its highest level since the pandemic begun but taking much longer to recover from extended lockdowns[22].

The importance of workplaces as places to connect, generate ideas and build culture remains as major urban employers continue to retain high quality and amenity offices to be used as collaboration hubs[23].

The first part of the policy task is ensuring a diverse range of housing in the right places for the needs of increasingly diverse cohorts of Australians. We must also remove barriers and lower taxes and transaction costs that stop people from moving to suit their needs and circumstances.

[22] November 2022 Office Occupancy results, Property Council of Australia, December 2022.
[23] Office Market Report July 2022, Property Council of Australia, August 2022.

HOUSING AFFORDABILITY: AN EPIC FAILURE

Australia has a housing affordability problem. Australians, particularly those on low incomes, are spending more on housing than they used to. Many low-income private renter households spend a large share of their income on rent. Demand for social housing is rising. More people are seeking help for homelessness and more are being turned away. Home ownership rates are falling, particularly for young people.

- Productivity Commission, Review of National Housing and Homelessness Agreement, 2022.

Housing markets will inevitably be exposed to cyclical pressures and trends. The availability and affordability of capital will rise and fall as shifts occur in interest rates, economic conditions and employment security.

However, a well-functioning market should be able to swiftly respond to swings in demand and, over the long run, provide a steady annual supply of housing needed to accommodate a growing population.

It is undeniable that more Australians would be able to buy or rent the property of their choosing at a price they could afford if Australia had a more durable and sustainable pipeline of new stock coming into the market across the housing spectrum.

The chronic incapacity of three levels of Australian government to ensure an adequate pipeline of supply for new homes and apartments has meant that we are denying buyers and renters choice and opportunity, limiting social and economic mobility, and putting more pressure on the community and social housing sectors.

An international laggard

The annual Demographia International Housing Affordability report places Australia's housing affordability challenge in context. It rates middle-income housing affordability in 92 major housing markets across eight nations, including Australia, on a measure of prices relative to incomes.

The 2022 edition makes clear:

Australia is a standout for its ongoing failure to provide an affordable mix of housing for its citizens.

We are:

- the only nation in which every market analysed (in our case, the five cities spanning Sydney, Melbourne, Brisbane, Adelaide and Perth) is ranked as severely unaffordable
- Australia has the second worst house price-to-income ratios of any nation in the survey.
- Sydney is ranked as the second least affordable market among the 92 surveyed, and all five of the Australian capital cities measured sit inside the worst 20 cities for affordability.[24]

[24] 2022 Demographia International Housing Affordability.

MEASURES OF AFFORDABILITY

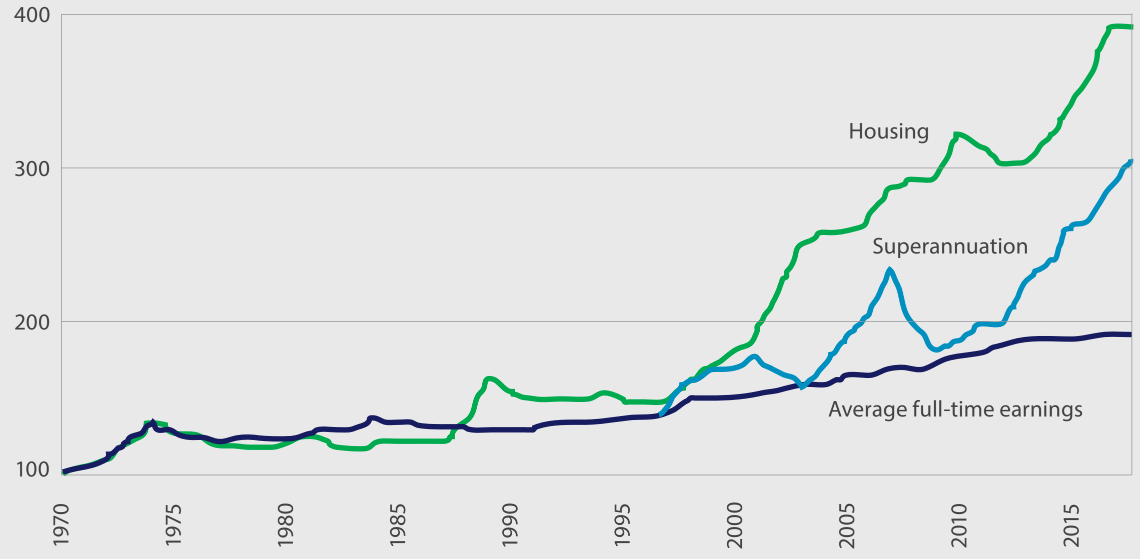
House prices

While market slowdowns occur with significant upward movement in interest rate settings, the long-term trend is clear. House prices have, and will continue to, outpace the growth in wages and incomes over time.

As the Reserve Bank stated in its submission to the Standing Committee on Tax and Revenue's Inquiry into Housing Affordability (2021): "If housing prices are rising relative to household income, then housing is becoming more expensive, all else being equal."[25]

[25] Reserve Bank submission: Standing Committee on Tax and Revenue's Inquiry into Housing Affordability (2021) .

House prices have eclipsed income and superannuation



Real growth, 1970 to 2018, 1970 = 100

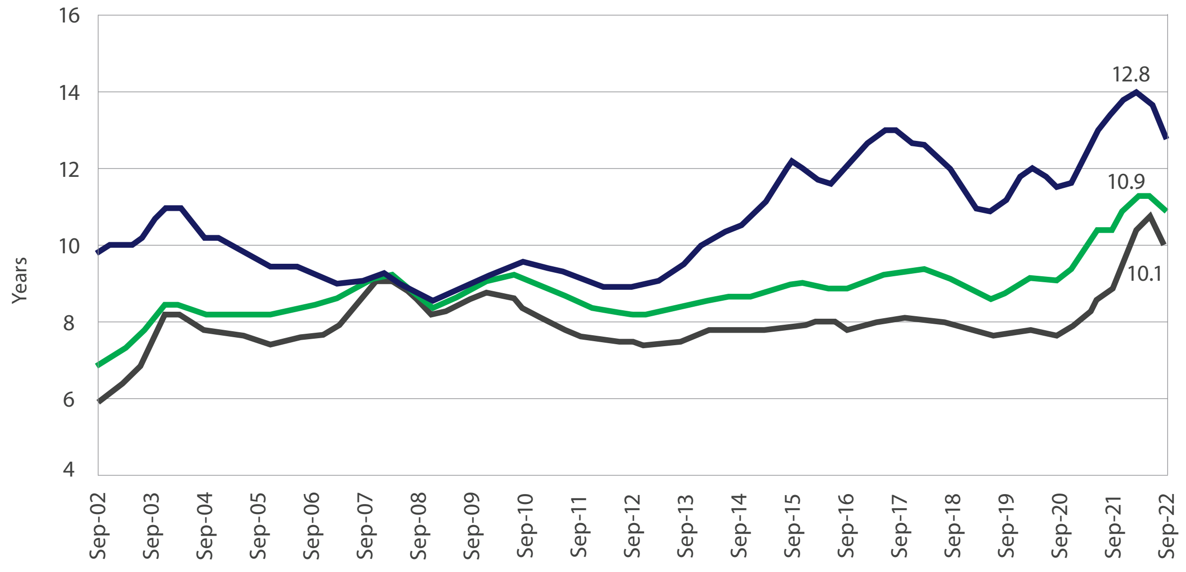
Source: Wood, D., Griffiths, K., and Emslie, O. Generation gap: ensuring a fair go for younger Australians, Grattan Institute, 2019.

The deposit gap

The Australian Government's introduction of the Home Guarantee Scheme was a welcome addition to the public policy toolkit of helping more Australians enjoy the benefits of home ownership. It complements other initiatives - such as Western Australia's KeyStart - that exist at the state level.

The underlying issue remains, however. Young Australians have found it increasingly difficult to save the money needed to cover a deposit. At a national level, analysis by ANZ and Core Logic shows it now takes an average of more than 10 years to save the 20 percent deposit required by most banks - up from an average of six years in 2001. The problem is more acutely felt in our three major capital cities - with Sydney the worst performer, where young people faced an average of 12.8 years, as of September 2022. In Greater Brisbane, the time needed to save a deposit has almost doubled to 10.1 years in the two decades to 2022.

Years to Save a 20 Percent Deposit



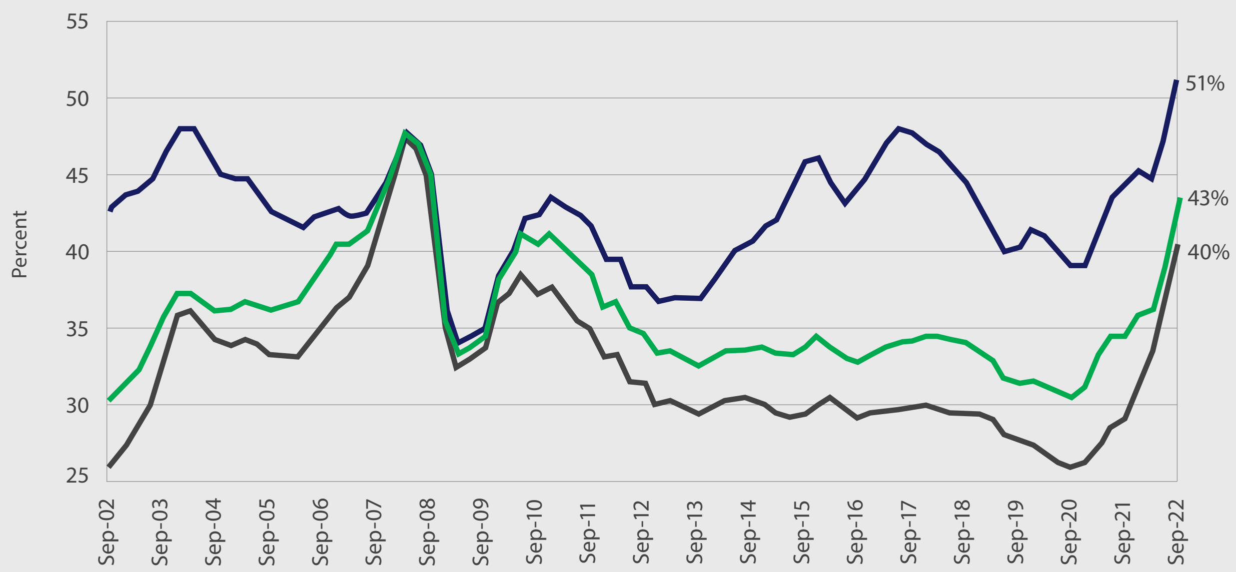
Source: ANZ CoreLogic Housing Affordability Report November 2022. Sydney Brisbane Australia

Loan serviceability

Predictability of mortgage serviceability - the measure of the percentage of income required to meet repayments - was a positive feature of Australia's housing markets for an extended period. While there was some ebb and flow of rates based on economic conditions and interest rates, movements were generally contained within a small band.

However, as interest rates have risen faster than expected, households have felt the pinch. According to the ANZ-Core Logic Housing Affordability Report, the percentage of income needed to service a mortgage has jumped from 30.6 percent to 43.3 percent in the two years to September 30, 2022. In Sydney, the ratio has now moved to over 50 percent. Households are likely to continue to feel the pinch as they roll out of fixed rate mortgages set during the pandemic, and the RBA continues to lift the cash rate to slow inflation.

Percentage of Income Needed to Service Mortgage Payments



Source: ANZ CoreLogic Housing Affordability Report November 2022. Sydney Brisbane Australia

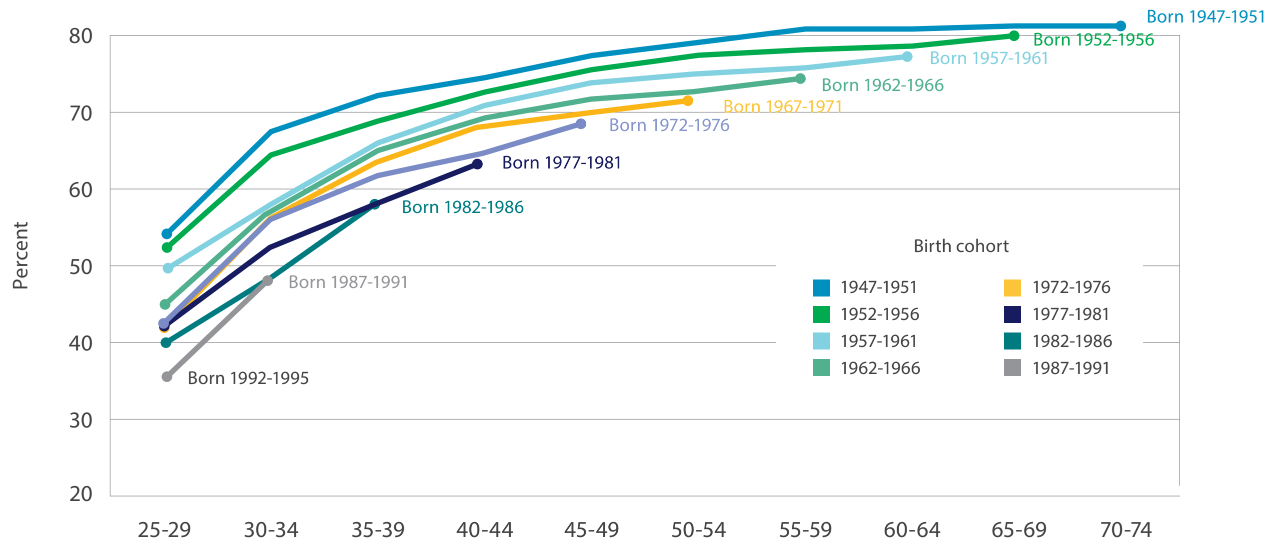
A decline in home ownership

Although the latest Census data showed a stabilisation in home ownership rates, the long-term trend is that a diminishing number of Australians are enjoying the security and stability of home ownership. The overall rate of home ownership has dipped to 67 percent in 2019-20 - down from 71 percent in 1994-95.[26] But the proportion of Australians carrying a mortgage has jumped from 29.9 percent to 36.8 percent over the same period - reflecting the size of mortgage that borrowers are required to take on to afford a home.

Larger declines in home ownership have been observed however among younger people. The rate of home ownership among 30-34 year olds has fallen from 64 percent in 1971 to 50 percent in 2021, and among 25-29 year olds, it fell from 50 percent to 36 percent over the same period.[27]

The erosion in housing affordability for the young is most starkly illustrated when home ownership rates are split into birth cohorts.

Home ownership rate by birth cohort and age group



Source: Australian Institute of Health and Welfare, Home Ownership and Housing Tenure, August 2022.

The rental challenge

Declining rates of home ownership, particularly among younger people, is forcing more people into the rental market. The RBA estimates that the share of households renting has increased from approximately one quarter to one third since the late 1990s.[28]

Young and low-income people have felt the challenge most acutely. The proportion of people aged under 35 who rent is approximately double the number of people aged 35 and over - and now sits at approximately 60 percent.[29]

The proportion of low-income households in rental stress continues to rise - with an estimate that 43 percent of them now sit in rental stress, and the figure rising to 47.8 percent in capital cities. Source: Rental Affordability Index, SGS Economic and Planning, November 2022.

Meanwhile, estimates show that even among recipients of Commonwealth Rent Assistance - the largest government private rental assistance program, valued at $5.3 billion in 2020-21 - 45.7 percent of low-income household recipients remained under rental stress.[30]

Demand for affordable and social housing

Affordability woes across the housing spectrum are forcing more Australians than ever to seek out social and affordable housing. The continual increase in house prices above wages and squeeze on rental markets is leaving more Australians vulnerable when it comes to accessing market-based housing.

Whilst several governments have increased their commitment to create more social and affordable housing either as part of their COVID-19 economic recovery plans, or by embracing new financing models, there is a lack of stock relative to demand - and the gap is widening.

AHURI analysis found that prior to the pandemic, approximately 3000 social and affordable homes were being produced per year - relative to the need for 36,000 additional homes per year. NHFIC estimates show that more than 175,000 households were on waiting lists to access social housing as at mid-2020 - an increase of 20,000 over the prior year.

[26] Australian Institute of Health & Welfare, ABS.
[27] Australian Institute of Health & Welfare, ABS.
[28] Reserve Bank submission: Standing Committee on Tax and Revenue's Inquiry into Housing Affordability (2021).
[29] Australian Institute of Health and Welfare: Home Ownership and Housing Tenure, 2022.
[30] Productivity Commission, Report on Government Services 2022.

A TIMELINE TO DISASTER

OUR CITIES ARE AT THEIR MOST PRODUCTIVE WHEN PEOPLE HAVE ACCESS TO HOUSING THAT THEY CAN AFFORD IN A LOCATION THAT MEETS THEIR NEEDS.

Research conducted for the Property Council released in March 2022 showed almost 70 percent of Australians fear younger people will never be able to buy a home.[31]

The failures of Australia's housing markets have been chronicled in disappointing detail for over two decades. As far back as 2004, the Productivity Commission declared:

"The dominant source of the widespread escalation in prices has been a general surge in demand to which supply was inherently incapable of responding."[32]

Almost 20 years later, the Chair of the House of Representatives Standing Committee on Tax and Revenue released a report and provided a similar warning:

"The primary driver of growing house prices is the lack of market response."[33]

And in between, the Governor of the Reserve Bank has been ringing the alarm bell on the chronic inefficiencies of housing markets.

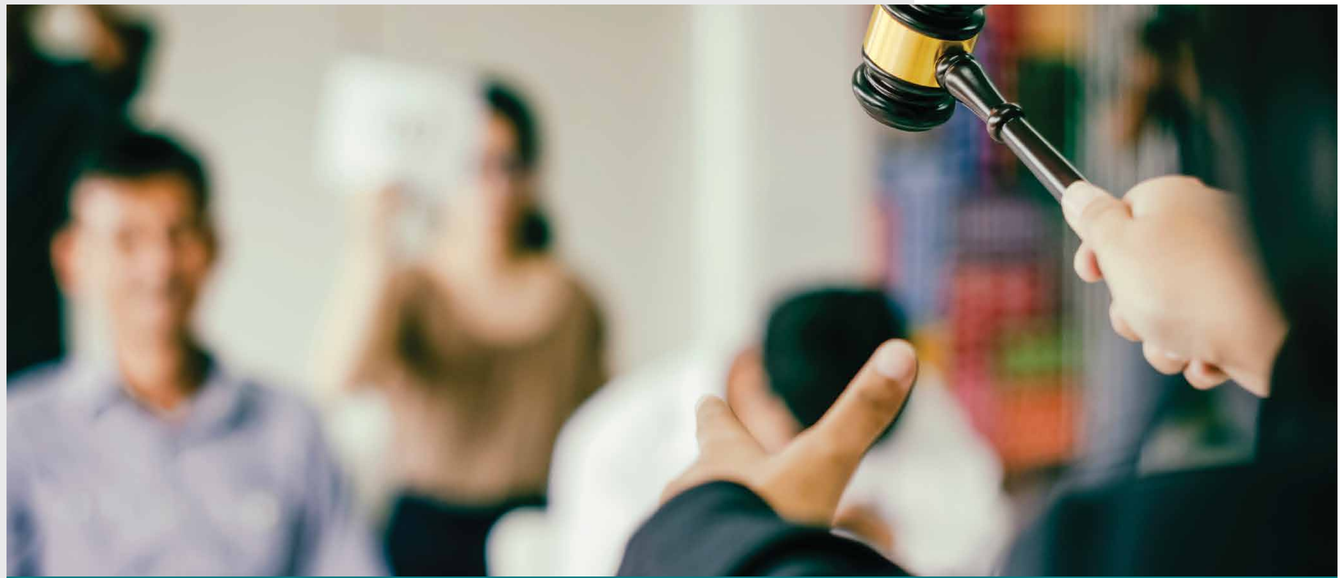
"The underlying driver in our housing market is the balance between supply and demand . . . It is hard to escape the conclusion we need to address the supply side if we are ever to avoid ever-rising housing costs relative to incomes."[34]

In creating the solutions our communities need, it is prudent to understand the cumulative factors that prevent supply meeting demand.

[31] Essential Media Poll, commissioned by Property Council, March 2022 [27] Australian Institute of Health & Welfare, ABS.
[32] Productivity Commission Inquiry Report, First Home Ownership, 2004.
[33] Media Statement, Chair, House of Representatives Standing Committee on Tax and Revenue, 2022.
[34] Reserve Bank Governor, Dr Philip Lowe, Remarks at Reserve Bank Board Dinner, April 2017.

The supply vs demand imbalance

There is currently no national approach to map overall demand across the housing spectrum alongside supply of new housing. The supply gap was last chronicled by the Housing Supply Council in 2012 and represents a glaring omission in the tools needed to empower evidence based housing policy. In 2023 Australia is facing a looming supply crunch, right at the time when our population growth is restarting.



- 29.9 million is where Australia's population is projected to grow by 2033.[35]
- 1.7 million new households expected to form between 2022 and 2032, led by lone person households[36]
- -163,400 is the projected housing shortfall between 2025-32 as household formation exceeds housing supply[37]
- 1.3% was the national rental vacancy rate in December 2022, near record lows[38]
- 14.6% and 17.6% represent the steepest ever annual increase in rent for houses and apartments respectively in 2022[39]
- 235,000 is the forecast annual net overseas migration by 2022-23, increased from a net outflow of 85,000 in 2020-21.

[35] 2022 Population Statement, Centre for Population, January 2023.
[36] State of the Nation's Housing 2021-22, NHFIC, February 2022.
[37] State of the Nation's Housing 2021-22, NHFIC, February 2022.
[38] Residential Vacancy Rates – National, SQM research, December 2022.
[39] December 2022 Rental Report, Domain, January 2023.

NEW SOUTH WALES - THE POSTER CHILD FOR FAILING HOUSING MARKETS

NSW continues to run the worst planning system in the nation. The NSW government consistently fails to sustain a durable pipeline of housing, knowingly undershoots its own housing targets, has a complex legislative and regulatory approvals process, fears necessary conversations with recalcitrant local governments, and applies high rates of taxation to new housing.

The NSW Government's self-inflicted inability to meet its housing targets is particularly acute in Sydney.

The Greater Sydney Region Plan, A Metropolis of Three Cities, identified the need for an additional 725,000 new dwellings over the 20 years to 2036, allocated across five districts (Greater Sydney Commission, 2018).

To meet the dwelling need for the first five years, councils and the Greater Sydney Commission agreed on an allocation of '0–5 year' targets that largely reflected the existing housing construction pipeline.

At the request of the Property Council, Gyde Consulting used the NSW Planning Department's own housing supply data to track how each Sydney council was progressing towards achieving the 0-5 year and 6-10 year housing targets identified in the Greater Sydney Commission's Regional and District Plans.

Only one council – The Hills – is set to achieve their housing targets.

The vast majority of councils will fail to deliver both their 0-5 year and 6-10 year housing targets, with some achieving their 0-5 year target but failing to deliver their 6-10 year housing requirement.

This is compounded by delays in approving ready-to-go projects. In 2020, the State's Productivity Commission found:

- for medium-density housing developments, development application determinations take an average of 200 days in New South Wales compared to 70 days to 105 days in other jurisdictions
- for high-density housing developments (assessed by councils), development application determinations take significantly longer than in other jurisdictions, an average of 190 business days compared to other jurisdictions' average of 105 business days
- for greenfield sub-divisions they take 130 days on average in New South Wales, 23 percent longer than in the next slowest state, Queensland.[35]

[35] NSW Productivity Commission, Green Paper, FINAL - August 2020.

A regulatory go-slow

A consistent feature of the downward spiral of housing affordability is the inefficiency of planning systems. Most states fail to provide:

- a steady and competitive pipeline of greenfield and brownfield land
- efficient rezonings, and
- clear and dependable assessment pathways.

In an Information Paper[40] on planning and zoning reforms, the national Productivity Commission outlined some of the side effects of inefficient planning systems, including:

- estimates that detached housing prices were 73 percent above the marginal cost of supply in Sydney, 69 percent in Melbourne and 54 percent in Perth because of rezoning restrictions
- analysis by Better Regulation Victoria that reducing unnecessary development delays could deliver between $400 million and $600 million per year in benefits
- modelling by the Property Council of Australia (2017) suggesting improvements to the efficiency of the agency referral process across jurisdictions could be worth as much as $360 million per year in additional economic value.

In 2020, the Property Council commissioned Urbis[41] to analyse a host of available regulatory reforms that would improve the performance of planning systems and housing markets. The available options spanned better strategic planning processes, more efficient assessment pathways and streamlined environmental assessments.

The report found that if each state and territory implemented just one of the available reforms, the Australian economy would add 39,200 new jobs and grow by $5.7 billion.

[40] Plan to Identify Planning and Zoning Reforms, Productivity Commission, 2021.
[41] Planning to Prosper, Urbis for the Property Council of Australia, September 2020.

Property taxation

Taxes and charges are embedded in each stage of housing creation - including land acquisition and ownership, housing production and construction, through to the sale and ownership of housing.

Buyers of new homes, many of whom are first home buyers, get taxed particularly heavily. Well in excess of one third, and often up to 40 percent of new housing construction costs are wrapped up in federal, state and local government taxes, surcharges and levies.

These taxes are lethal for housing affordability, particularly as state governments with an unhealthy reliance on revenue linked to property continue to create novel new taxes. The recent creep of foreign investor taxes and introduction of windfall gain taxes slow the rate of new investment.

The consistent creep of additional taxes

Victoria's introduction of a Windfall Gains Tax, announced in its 2021-22 Budget, is emblematic of the hypocrisy of governments in finding new and punitive ways to make housing production more expensive.

The central claim, that the lift in land values associated with a rezoning requires specific application of an additional tax, is nonsense. The uplift in value is already captured through myriad existing taxes, as listed above.

Foreign investor taxes

The introduction of foreign investor taxes by state governments ignores the important role overseas investors can play in getting apartment projects across the line from concept to construction. By underpinning the initial off-the-plan sales needed to secure bank or alternative investor finance they can make new projects viable.

The Western Australian example provides a valuable insight into the effect these new taxes can have.

In the 10 years prior to 2019, foreign buyers accounted for approximately 6 percent of transactions. In the year following its introduction, foreign buyers dropped to two percent of transactions[38].

Based on an annual average of 21,500 dwellings constructed in Western Australia per year, this represents a decline of over 800 dwellings. The vast bulk of these homes would have been added to the State's rental stock.

Infrastructure costs

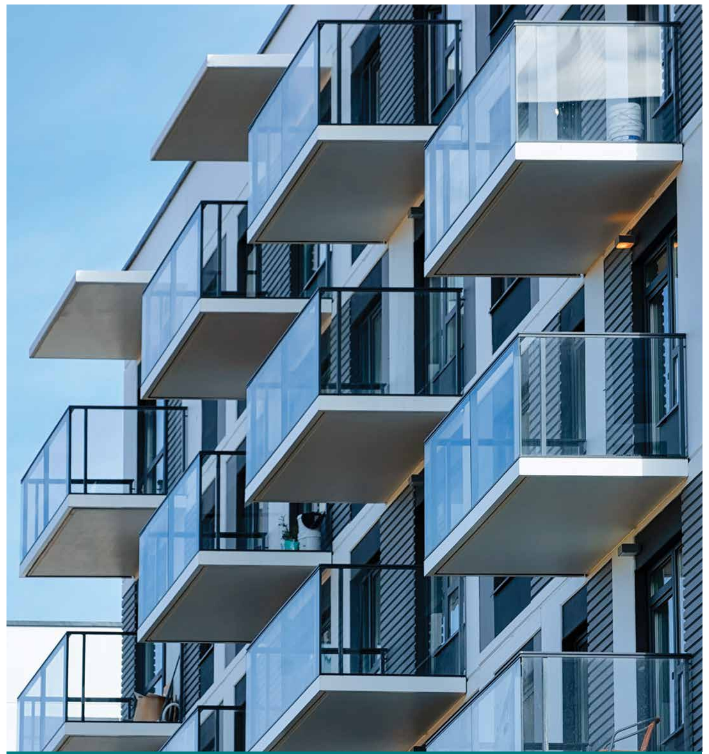
NHFIC explored the impact of infrastructure charges in a research paper released in August 2021, which sought to analyse their costs and effectiveness. The paper observed that there had been an increased use of developer contributions, shifting the cost burden of local infrastructure from state governments and local councils to end users.

"Developer contributions have broadened in scope, from funding basic essential infrastructure (e.g. water and drainage) where there is a clear nexus to new housing, to broader social infrastructure (e.g. community and recreational centres). In states like NSW, VIC and QLD, developer contributions now help to fund the costs of new schools and hospitals - areas traditionally funded by state budgets."[42]

These costs are baked into the price paid by homebuyers on new housing product. NHFIC research shows that developer contributions add up to 11 percent to contribution costs, and range as high as:

- **$85,000 per dwelling in NSW**
- **$77,000 per dwelling in Victoria**
- **$42,000 per dwelling in Queensland.**

[42] NHFIC, Research Paper, 2021.



GOVERNMENTS STIFLING INNOVATION

Build-to-Rent housing is recognised as part of a healthy accommodation mix in major overseas markets. For example, in the UK, it represents approximately five percent of all private rental stock. In the US, over 300,000 'multi-family' units are produced each year. Australian companies are active investors and managers in these markets.

Across major western economies, Build-to-Rent is understood to add to rental security and the superior experience and services enjoyed by renters. Generally, the product of patient capital investment Build-to-Rent increases housing supply even during downturns in the build-to-sell construction cycle.

In Australia, however, the formative experience of Build-to-Rent housing has been frustrating. Australian companies trying to deploy overseas capital for local pilot projects find that non-resident investors who receive the 15 percent tax rate for investing into commercial real estate and student accommodation are taxed at 30 percent for Build-to-Rent housing, unless the product is rare 'affordable housing'.

The unthinking policy decision to double tax this form of investment curbs the choice available to renters and misses the opportunity to exert downward pressure on rental costs.

A LOOMING SUPPLY CRUNCH

Household formation rates are expected to increase quickly as international borders reopen. Given the lead times for new housing developments, planning authorities should start acting now to facilitate adequate supply to market in a timely way. Otherwise, Australia's already poor housing affordability is likely to worsen over the coming years - particularly for the nation's renters.

- NHFIC State of the Nation Report 2021-22, p42

Australia is facing a looming housing supply crunch, right at the time when our population growth is restarting.

Unfortunately, there is ample evidence that the chronic imbalance between supply and demand bedevilling housing markets in Australia will linger.

NHFIC State of the Nation Report - 2021-22

NHFIC's latest analysis of the short- and medium-term trajectory for Australia's housing markets reveals structural and demographic forces driving the imbalance.

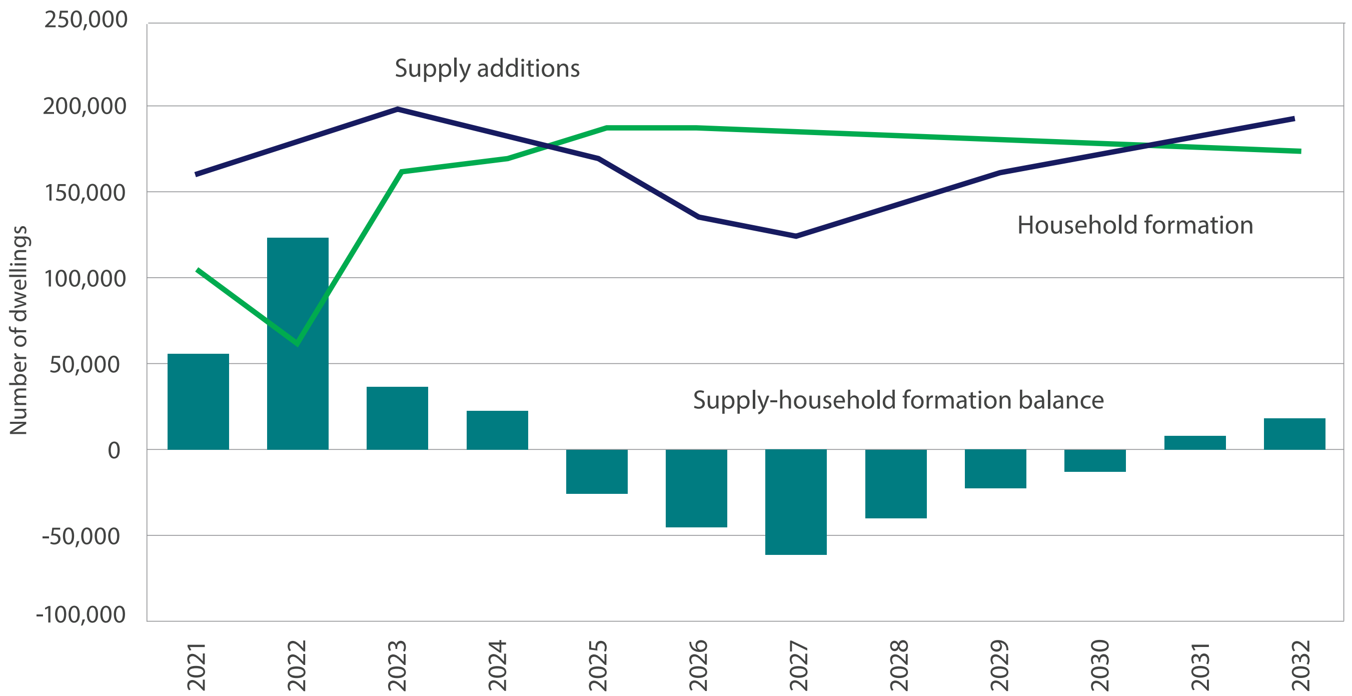
Despite the collapse in net overseas migration and household formation during the pandemic, Australia's housing markets enjoyed a surge in supply. Strong house price growth, record low interest rates, and stimulus from HomeBuilder pulled forward significant demand and construction activity.

Whilst these favourable conditions may exist for 2022, it is anticipated that market conditions will soon revert to pre-pandemic patterns.

NHFIC finds that once NOM recovers back to pre-pandemic levels by around 2024-25, new household formation is expected to exceed new supply by a cumulative 163,400 dwellings out to 2032.

It is also important to note that these forecasts were made before the Commonwealth announced it was lifting the annual migration cap for 2022-23 from 160,000 to 195,000 and left open the door to increases in future years.

Annual change in household formation and supply and supply-household formation balance

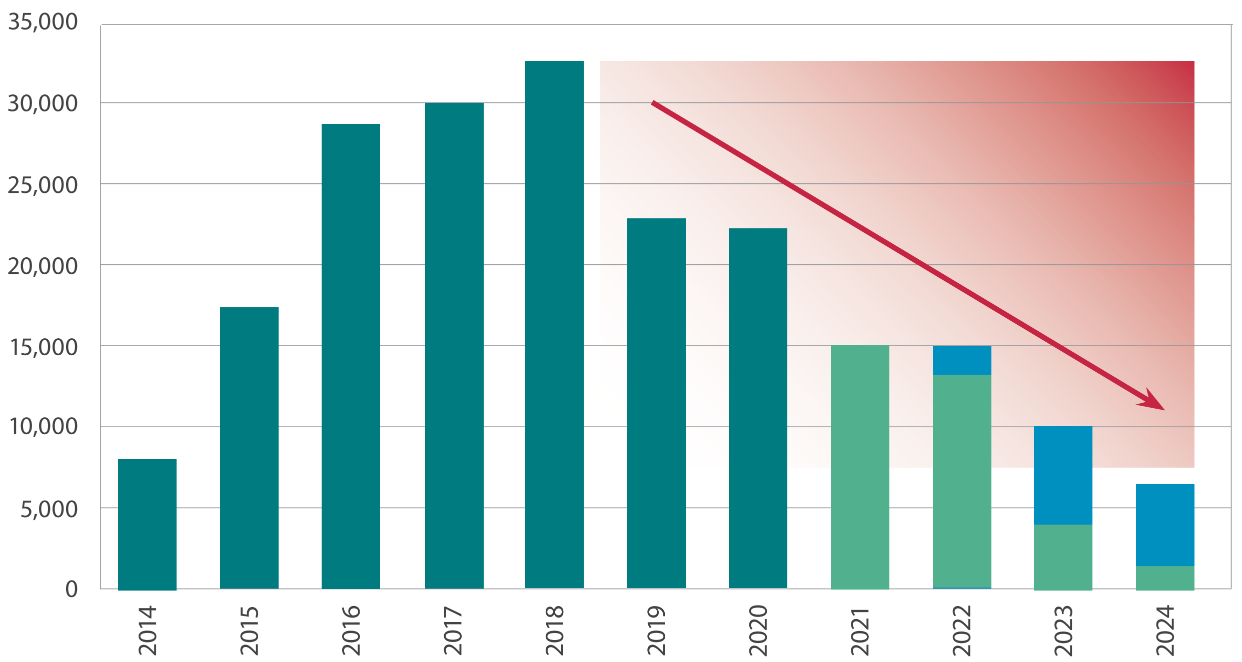


Source: State of the Nation's Housing 2021-22, NHFIC, February 2022.

Apartment markets are softening

In 2021, research conducted by Urbis for the Property Council across Brisbane, Sydney, Melbourne and Perth shows that falling apartment approvals mean the number of apartments built in 2024 will be only 20 percent of those built in 2018.

Apartment developments typically take between three to five years to come to market from approval to completion, meaning that Australia will continue to have a long lag in supply of high-density housing unless approvals are increased now.



Current Status of Projects by Estimated Completion Date.
Data is from projects with 25 units or more within Urbis'study area.

The lack of adequately zoned land, complex planning approvals, tax barriers for Built-to-Rent projects and excessive foreign buyer surcharges have added to the challenge.

The analysis conducted by Urbis largely aligns with the findings of NHFIC in its State of the Nation (2021-22) Report.

NHFIC forecasts supply falling below demand come 2026, with a supply shortfall of 26,300 by 2027 and the multi-unit market to remain in deficit until 2031.[43]

This is occurring against a backdrop of a resumption of international migration and population growth, as well as falling vacancy rates and increasing rents.

INSIGHTS FROM THE SUNSHINE STATE

Southeast Queensland has enjoyed some of the strongest population growth in the nation for the past two decades - and will likely continue to do so as internal migration from southern states continues to surge.

The region's population grew by 665,000 in decade prior to 2021[44] and forecasts show that over the next five years, 220,000 are predicted to relocate from Sydney and Melbourne to Queensland - with the majority moving to SEQ.[45]

Yet research conducted by Research 4 shows that between now and 2030, active supply capacity in SEQ is predicted to average 1100 lots per month, while peak demand is expected to average 1400 lots per month - leading to a shortfall of 36,000 lots over the decade.

However, the report makes clear that land availability is simply one part of the puzzle. Product diversity is key - with a better mix of solutions needed to accommodate the needs of an ageing population, increased demand for long-term rental solutions, and a more flexible planning system that allows myriad solutions across the housing spectrum.

The consequences of deteriorating affordability have already revealed themselves:

- there has been a 31 percent increase in women who are homeless over the past decade
- women over 55 are now the fastest growing group of homeless people in Australia
- the median house price in Brisbane is now more than 10 times the average wage, compared to only four times in 2002
- Rental vacancy rates have fallen to just 0.6 percent.

[43]State of the Nation's Housing 2021-22 Table 4.2, NHFIC, February 2022 [37] Planning to Prosper, Urbis for the Property Council of Australia, September 2020.
[44] Queensland Government Statistician's Office (2022).
[45] AEC Group (2022).

PART B:

ACCESS AND AFFORDABILITY ACROSS THE HOUSING SPECTRUM

The housing spectrum shows the different type of housing needs people have across and throughout their lives, depending on their situation, life events, requirements and aspirations. The housing spectrum is complex, but at a broad level can be summarised as per the table below.

Homeless • Crisis Housing • Social Housing • Affordable Rental • Community Housing • Private Rental • Home Ownership

Collating data from disparate sources, the following sections provide a state of play across several elements of the housing spectrum. Shortfalls in availability and affordability in one part of the spectrum can have a knock-on effect that can force people to seek housing in other parts of the spectrum that can be beyond their means or unsuitable for their needs. Ensuring the right balance across the spectrum demands a suite of policies to support the individual elements and the connection between them.

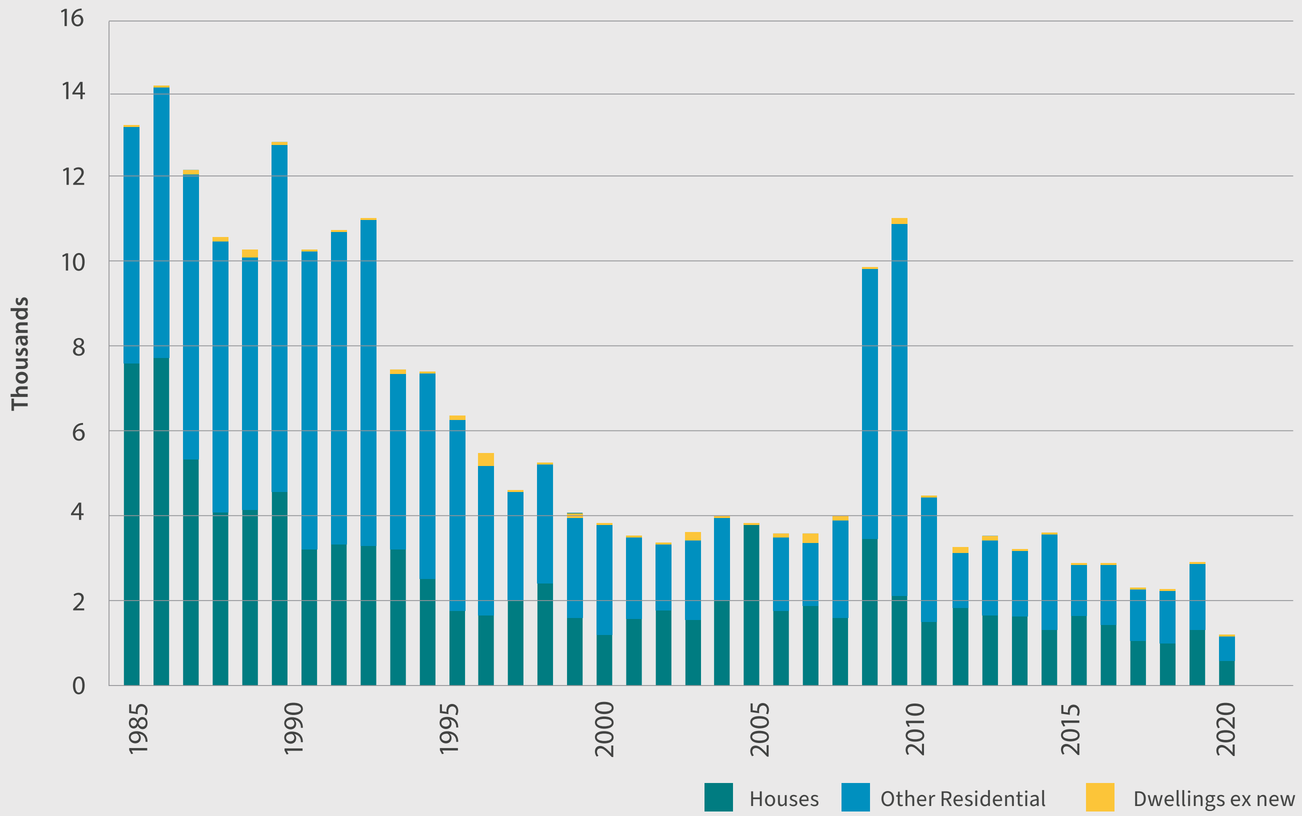
SOCIAL HOUSING

Housing provided for people on low incomes or with particular needs by government agencies or non-profit organisations remains an essential part of the social safety net in Australia. It helps provide the security and stability of housing for disadvantaged people, reduces homelessness and has the potential to reduce the call on other social services. Social housing tenants are typically charged rents set at between 20 and 30 percent of total housing income.

A state of play

There is broad-scale recognition that the demand for social housing is acute and escalating - and that is beyond the sole remit of government balance sheets to satisfy. The combined cost of capital construction and ongoing maintenance means the divide between supply and demand continues to surge.

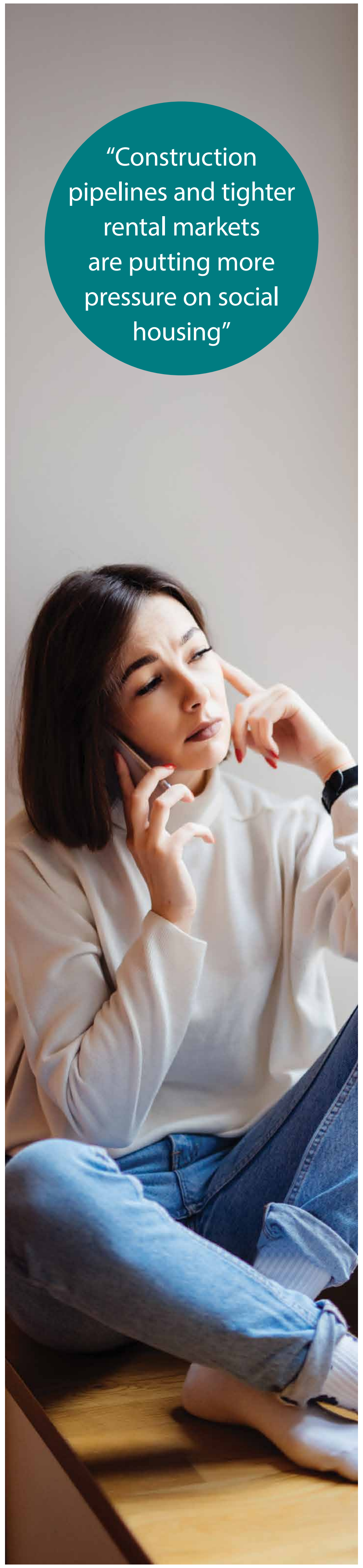
New public housing unit completions, annual



Note: "Houses" are detached public housing dwellings (may include a small number of defence house dwellings); "Other residential" are attached or semi-detached public housing dwellings (such as apartments and townhouses); and "Dwellings ex new" are dwellings that have been converted into public housing from other uses (such as commercial office blocks). The sharp rise in completions in 2010 and 2011 mostly related to the Commonwealth Government's "Social Housing Initiative".

Source: Statutory review of the operation of the National Housing Finance and Investment Corporation Act 2018, Data from ABS, 8752.0 Building Activity, Australia. Table 39. Number of Dwelling Unit Completions by Sector, States and Territories: Original.

"Construction pipelines and tighter rental markets are putting more pressure on social housing"



Several recent reports and analysis have attempted to quantify the existing and future demand for social housing and its effects.

These include:

- As of June 30, 2020, there were approximately 800,000 people living in 418,000 social housing properties - with 84 percent relying on social security payments as their sole source of income[46]
- the latest Census in 2021 showed there were 274,535 homes provided by State or territory housing authorities
- there have been less than 4000 dwellings added to the government-owned stock since 2018 when the National Housing and Homelessness Agreement commenced
- NHFIC estimates show that more than 175,000 households are on waiting lists to access social housing as at mid-2020 - an increase of 20,000 over the prior year
- The estimated number of additional social housing dwellings required over the next 20 years is 614,000 - which carries a net present value of $183 billion[47]
- current limitations in the availability of stock adds to waiting times, diminishes choice of location for tenants, and create work disincentives given rents rise and eligibility decreases as incomes rise
- that whilst some models of partnering between the public and private sector to facilitate investment in social housing stock have been promising, the capacity to close the existing and future need to service demand is low
- the current National Housing and Homelessness Agreement is failing to meet its objectives (including those related to the provision of social housing) - partly due to the lack of transparency and accountability for existing strategies; and
- thin housing construction pipelines and tighter rental markets are expected to put more pressure on social housing over the coming period.

There has been a recognition from governments of the need to increase spending on the construction of additional social housing. Some state governments committed significant funds as part of their COVID-19 economic stimulus plans.

Also, the Australian Government has committed to the establishment of the Housing Australia Future Fund. Returns from the $10 billion fund will be allocated to build 30,000 social and affordable housing properties - with 20,000 dedicated to social housing - over the next five years.

In support of its goals, the Government announced it will unlock up to $575 million through the National Housing and Infrastructure Facility to invest in social and affordable housing and in the hope of attracting more investment from private capital, such as super funds.

These are welcome initiatives, but the scale of the challenge will continue to require new financing, policy and regulatory tools to meet the anticipated demand.

[46] Housing and Homeless Agreement Review, Study Report, Productivity Commission, 2022.
[47] Statutory Review of NHFIC Act, 2021.

COMMUNITY AND AFFORDABLE HOUSING

Community and affordable housing plays an important role in supplementing the provision of social housing by governments. Community housing is anchored in not-for-profit organisations, though as it has evolved and matured, the sector has begun to forge partnerships with institutional capital.

It has predominantly provided housing for people who can't find suitable accommodation in the private rental market, or access government-based social housing. Affordable housing is usually distinguished by being targeted at key workers who have low to middle income levels, and it is delivered at a discount to the market rate.

A state of play

Providers across the CHP sector are diverse in their size, origins, capability and focus. They often need to meet the needs of varied cohorts of households and circumstances, from women fleeing domestic violence, to people with a disability.[1]

There is an emerging maturity across the sector too, which allows top tier operators to access institutional (or government-sponsored) capital that can strengthen their balance sheets and build a more diverse portfolio. It is currently estimated that there are 73,483 community housing provider homes in Australia.

Regardless of these welcome developments, the sector is exposed to the same demand pressures that confront other elements of the housing market. As home ownership drifts out of reach for more Australians, and rents escalate in the private market, the same pressures felt in the social housing sector are being felt by community housing providers.

The scale of demand, and new opportunities to grow the scale of the sector, are clear:

- there will need to be an additional 15,000 affordable housing dwellings delivered per annum, according to the independent review of the operation of the National Housing Finance and Investment Corporation[48]
- this sits on top of the additional 30,000 social housing dwellings that need to be delivered each year by a mix of community and government housing providers
- whilst the transfer of some stock by governments to community housing providers has been welcome, the overall stimulus needed to support the sector has been deficient
- NHFIC's Affordable Housing Bond Aggregator was an important first step in closing the funding gap that currently acts as a handbrake on the development of new social and affordable housing at scale
- $3 billion in long-term loans have been issued to 38 CHPs across Australia by NHFIC, which is expected to support over 16,000 new and existing homes[49]
- but a new complementary aggregator mechanism is needed to provide the upfront capital costs required to fully close the funding gap and scale-up supply.

This is a crucial piece of the puzzle that can work in concert with the Government's Housing Australia Future Fund and initiatives flagged in the Housing Accord, as well as ongoing work by NHFIC as it becomes Housing Australia.

As part of these reforms, a refundable Affordable Housing Tax Offset, alongside a new Capital Aggregator that works to pair institutional investors and project proponents, would help bring in institutional capital.

This approach has the benefit of harnessing a continuous pool of private capital that grows over time, building the capability of the existing CHP sector and supporting a diverse mix of social and affordable housing projects.

[48] NHFIC Act Review, 2021.
[49] NHFIC Social Bond Report, 2021-22.

PRIVATE RENTAL MARKETS

The private rental market is a key pillar of the Australian housing market. It has been built on the commitment of individuals to invest in stock that can be made available for rent. It has helped a vast swathe of Australians who need or want to rent a house for financial or lifestyle reasons. Prior to the recent emergence of Build-to-Rent housing here, Australia's private rental market has been unique in being held by individuals (rather than the institutional or government ownership more common in overseas markets).

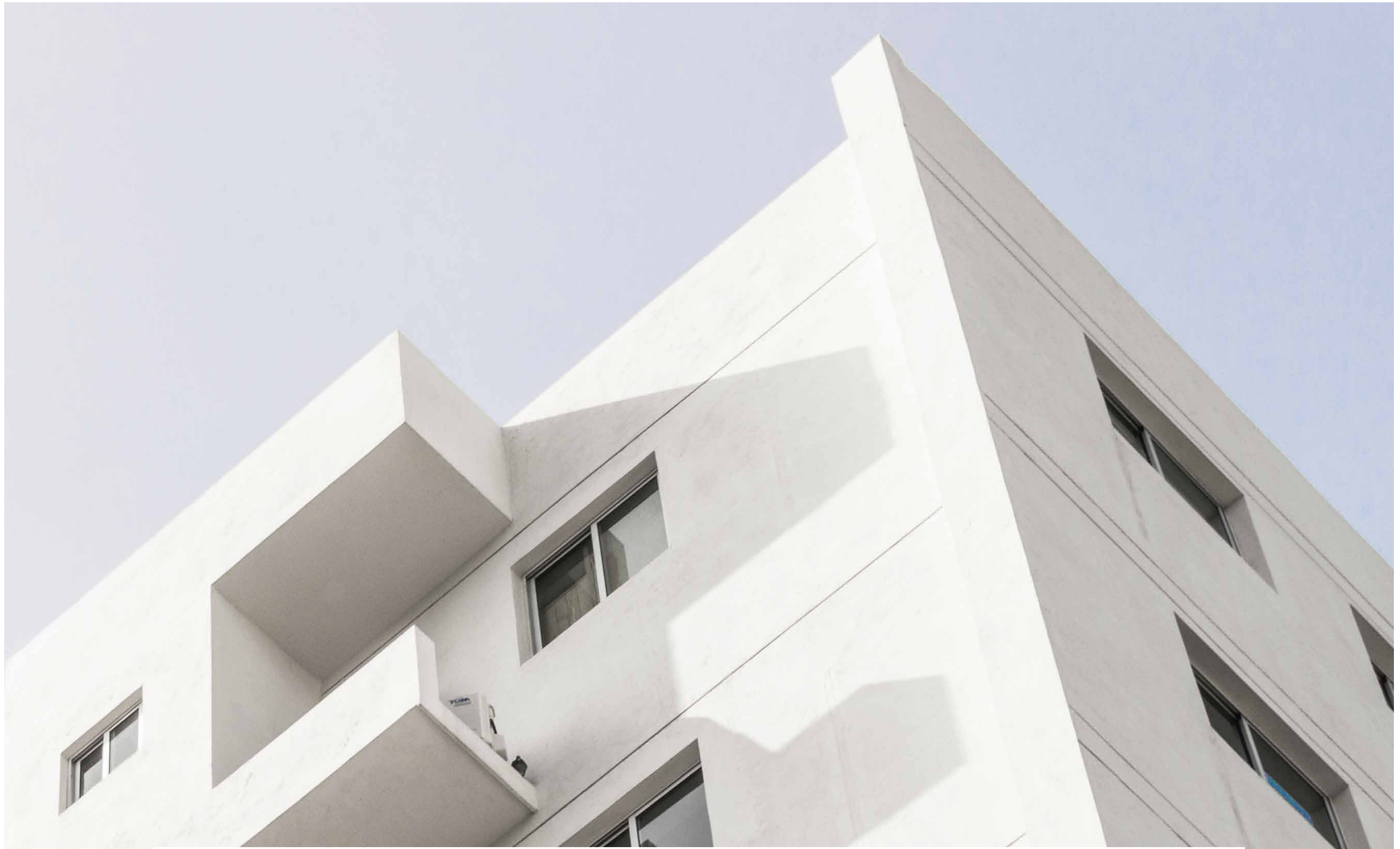
A state of play

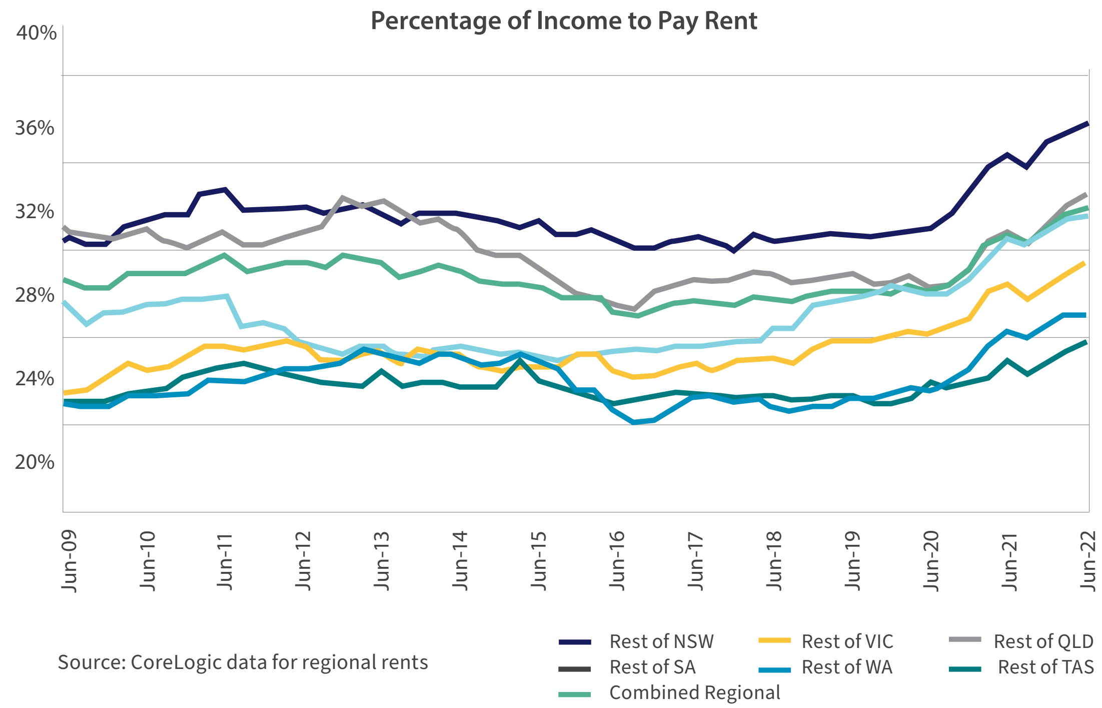
Australians will choose to rent for myriad reasons. Many are driven to rent as access to home ownership has become too expensive.

There are acute pressures in many Australian rental markets today. However, these are more than a point-in-time, cyclical issue. They represent the long-term drift of Australians from the ownership to the rental market and the inadequacy of available rental stock.

The squeeze is illustrated by:

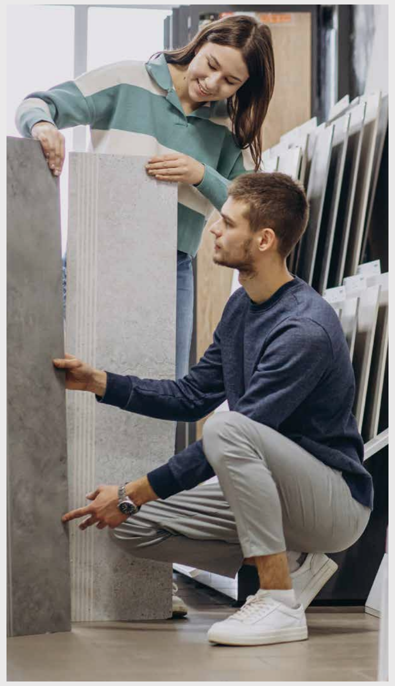
- the proportion of Australians renting compared to owning a home continues to rise - and has done so across all age brackets for the last 20 years
- the proportion of income required to service rents across Australia hitting a record high of 31.6 percent in September 2022, according to the ANZ-Core Logic Housing Affordability Report
- lower income earners experiencing higher pressures in rental markets. NHFIC analysis shows income earners in the bottom two quintiles can afford some 10 percent of properties across the nation2
- the challenge extending well beyond larger capital cities, with Hobart now regarded as one of the least affordable cities for rents for low to middle income earners
- renters in regional areas facing reduced access to housing. For example, renters in the third income quintile in regional NSW and Victoria able to afford 30 percent of properties, down from 50 percent in June 2020
- the relative cost of rents, as measured by income share required to service rents, has reached a record high outside capital cities in every state in the nation.





Source: CoreLogic data for regional rents

The rental market is now serving as a damning proxy for the challenges of the broader housing market. Complicated supply pipelines (particularly in the apartment market), complex planning systems, an aversion to density, layered increases in production costs from levies and taxes, and a barrier to entry for alternative options (such as Build-to-Rent housing and Purpose-Built Student Accommodation) have pushed rental pressure to record levels.



BUILD TO SELL

The aspiration of home ownership remains deeply embedded in the Australian psyche, with approximately two-thirds of Australians owning their own home.

A clear majority of Australians want to enjoy the personal, economic and social security that flows from owning a house or an apartment. That is why the build-to-sell sector will remain the dominant part of the housing market in Australia.

The providers of new housing in Australia are diverse. The market is led by large public and private institutional investors across the land release and urban renewal landscape, followed by a diverse range of mid-tier developers, through to small, sometimes one-off investors who want to parlay capital into smaller developments.

And yet these housing providers have two things in common. They are servicing a relentless demand from a growing population for housing, and they need to overcome substantial financial, regulatory and tax burdens to deliver.

A state of play

NHFIC data suggests Australia briefly enjoys an excess of housing supply due to pandemic disruption. This is temporary reversion from long-term trends of undersupply that will reassert themselves over the decade ahead.

The build-to-sell market is currently being swamped by challenges:

- NHFIC's State of the Nation Report (2021-22) showing that new household formation is expected to exceed new supply by a cumulative 163,400 dwellings out to 2032
- Australia having one of the lowest rates of housing stock per adult in the developed world - and experiencing the second greatest decline in housing stock relative to the adult population over the 20 years leading into COVID[50]
- Residential property price growth occurring at almost treble the rate of inflation and input costs over the past 20 years, due to land and zoning restrictions.[51]
- Given the long-term growth profile of our nation, and particularly our major capital cities, there is an urgency to the task of releasing the shackles on housing production. This is especially acute given the long-term forecasts of a widening gap between supply and demand.

The new National Housing Accord - and commitment to reset the National Housing and Homelessness Agreement – will need to serve as a circuit breaker on the policy inertia that has crippled the ability of build-to-sell providers to meet clear demand.

House price and construction indices

Source: Australian Bureau of Statistics, Land and Housing Supply Indicators February 2022.

Residential Property Price Index, All Dwellings
Consumer Price Index, New Dwellings
Producer Price Index, Input to the Housing Construction Industry

[50] The Grattan Institute - Submission to the PC Review of NHHA, p4
[51] Land and Housing Supply Indicators, ABS

SECTORAL INSIGHTS

Housing needs and choices change as people move through different phases of their life.

There are three sectors that add to the diversity of housing choice as well as take pressure off the traditional housing market.

The retirement living sector has been thriving and maturing for decades, and the nascent Build-to-Rent and Purpose-Built Student Accommodation sectors are now helping to add to the mix of housing stock and take pressure off governments and private markets.

PURPOSE BUILT STUDENT ACCOMMODATION

An introduction to the sector

Young people who choose to study at Australian universities and institutions are the lifeblood of our cities - they live, shop, study, relax and play in CBDs across the nation. One of Australia's largest service industry exports is international education, which prior to the pandemic contributed around $40 billion to the economy.

The purpose-built student accommodation (PBSA) supports the education sector by giving students a safe home, access to great facilities, bespoke care and great support networks.

It also plays a crucial role in alleviating demand across private rental markets. Because only students enrolled in an education institution can live in purpose-built student accommodation, so it removes students from competing with key workers and low-income families for private rentals.

A snapshot

- **The private PBSA sector provides 76,500 student beds across Australia in over 200 developments, and has more than doubled in size since 2012**
- **The current development pipeline suggests the number of PBSA beds will grow to 93,300 beds by 2025**
- **Demand will continue to swell, as international student numbers are expected to continue to recover from the pandemic - with a compound annual growth rate of 6 percent to 2027[52].**

The untapped potential

The sector already provides crucial relief on stressed rental markets and can play a larger role going forward, as well as supporting the growth of one of Australia's most crucial export services.

In Canberra, Brisbane, Adelaide and Perth, the number of PBSA beds outnumber estimated rental room vacancies - in some cases by more than 200 percent. In Melbourne, occupied beds are near parity with the private rental market.

By encouraging greater foreign and domestic investment in the sector, streamlining development approval pathways and modernising tenancy laws, the PBSA sector has the capacity to do more heavy lifting in adding to Australia's housing diversity and putting downward pressure on the cost of private renting.

[52] The Unsung Hero Underpinning Australia's Largest Service Export: Purpose Built Student Accommodation, Property Council Student Accommodation Council, November 2022.

HOUSING FOR OLDER AUSTRALIANS

An introduction to the sector

Older Australians deserve the dignity of access to housing that supports their desire to live independently and improves their wellbeing.

The retirement living sector does just that. It provides the opportunity for older Australians to live in a safe and enabling environment, maintain a sense of community, and easily access support.

These custom-built, age friendly communities have the added benefit of reducing pressure on the health and aged care system, with savings estimated at more than $2.3 billion annually.

The sector has evolved substantially in the past two decades - with offerings spanning conventional retirement villages, vertical living, and land lease communities, as well as more institutional and not-for-profit capital coming into the sector.

The untapped potential

By expanding the range of retirement living options for older Australians, we can provide them with the choices they deserve and add to the mix of housing available in the broader market thanks to their decision to downsize.

The adequacy, availability and affordability of housing that meets the needs of senior Australians is key to enabling participation across society.[53]

A 10-year longitudinal study of Australian retirement village residents found 83 percent of residents felt safer in age-friendly communities than in their previous home, with 94% of residents confirming they were "glad to be living in a retirement community during these uncertain COVID-19 times[54]."

Importantly, residents reported long-lasting benefits through optimised quality-of-life (80 percent), including remaining physically independent longer; feeling safe and secure; remaining financially independent; having a sense of self control over life; and ageing with grace, dignity and joy.

However, there are currently a range of policy barriers to the growth of retirement living communities. Adjustments to pension and Commonwealth Rent Assistance rules to better support downsizing and the retirement living sector sit atop the list of issues needing resolution.

Inequities in the application of the GST to the sector - between different types of operators, as well as how it adds to development costs - need to be resolved.

Retirement villages also face a mix of constraints and inefficiencies in planning laws, regulations and schemes across state and local government. In some cases, retirement villages are not even recognised.

At a federal level, there is also uncertainty around the Fair Work Commission wage matter and the resulting cashflow implications for operators.

When combined with state-based legislative barriers and supply handbrakes (like unworkable statutory buyback models), a sector that should be injecting important stock into a housing market under duress is significantly constrained.

A snapshot

- **The number of Australians aged 55 and over living in retirement villages had grown to over 228,000 by 2021, according to Census data - with a market penetration rate of six percent**
- **The current development pipeline suggests the number of new independent living units to come online by 2024 will be 10,500[55]**
- **With the number of Australians aged 60 and over increasing at more than twice the rate of the broader population, demand for age-friendly communities will inevitably surge.**

[53] Realising the economic potential of senior Australians: turning grey into gold, Advisory Panel on the Economic Potential of Senior Australians to Treasury, 2011.

[54] The DCM 2020 National Resident Survey, Step Three: Quantitative Research, Australian Online Research, February 2021.

[55] 2021 PwC Property Council Retirement Census, February 2022.

BUILD TO RENT

An introduction to the sector

Australians who choose to rent do so for many reasons. Some like the flexibility of being able to easily move for work or lifestyle reasons; others like the financial freedom of not carrying a mortgage. Then there is a large cohort of people who are not yet financially able to buy property.

Australia's rental stock has, until now, largely been held by individuals. These are often mum-and-dad investors seeking an income stream or saving for their retirement. This is in contrast to overseas markets, particularly in the US and Europe, where institutional capital is a prominent player in rental markets.

Build-to-Rent housing has multiple benefits for renters. These include longer term rental tenure, professional asset management, high-quality facilities, and a commitment to sustainability common to institutional capital.

However, the sector remains in a perpetual pilot phase in Australia at a time when Australian cities are experiencing low vacancy rates, increasing rental costs and where a structural deficit of new apartment buildings is looming.

A snapshot

- **Research commissioned by the Property Council from EY shows there were 3,900 Build-to-Rent apartments operational in Australia at the end of 2022, and approximately 6,700 were under construction**
- **The current development pipeline suggests the number of BTR apartments to be operating by the end of 2027 is forecast to be 23,175 - with the bulk coming online between 2024 and 2026**
- **With the right Australian Government tax settings and further improvement of state-based policy settings, there is potential for current industry participants to treble the scale of their investment in projects.**

The untapped potential

There have been some encouraging policy shifts that will assist in the acceleration of investment in BTR housing. For example, some states have amended land tax settings to provide a 50 percent concession for up to 30 years.

The biggest barrier remains the treatment of foreign investment in BTR under Australia's Managed Investment Trust regime.

Foreign institutional investors consider BTR as a core investment (that is, a long-term passive investment seeking stable rental yields) akin to commercial, retail and industrial assets. These assets are taxed at the 15 percent MIT withholding tax rate. Yet BTR is taxed at a 30 percent concessional rate.

Shifting the MIT treatment to 15 percent would unlocking the potential to treble the number of projects being commissioned by industry participants that is referenced above. Further regulatory improvements that are worth prioritising include, the recoverability of GST inputs, removal of state and local planning inconsistencies and enhancing the capacity for BTR projects to support affordable housing.

WHAT DO AUSTRALIANS THINK?

Regardless of whether they are renting or buying, Australians deserve the opportunity to have access to housing that matches their lifestyle, work and income. Good housing markets achieve this. Unfortunately, too many Australians are denied that choice.

The Property Council of Australia recently commissioned new research to test community attitudes to housing choice and supply in Australia. The nationally representative survey of approximately 1500 Australians was conducted by YouGov in late November 2022.

It revealed Australians are starved of choice and being denied the choice to either buy or rent in a way that suits them.

HEADLINE FINDINGS

ISSUE

Poor housing choice

Australians overwhelmingly believe there is a lack of supply of housing that is affordable in their local community - with more than half strongly agreeing. The finding is consistent across age, states, location, ownership, rental and backgrounds.

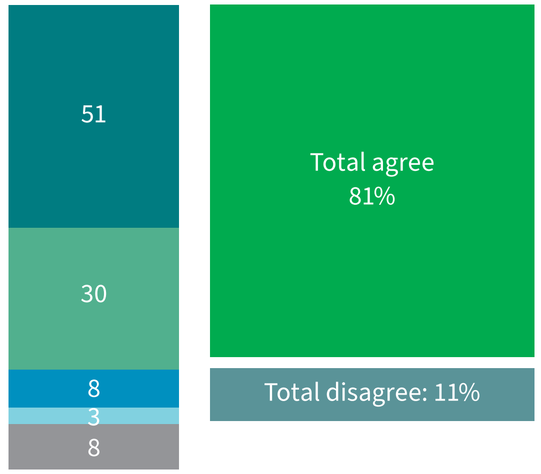
81% either strongly or somewhat agree that there is a lack of supply of housing that is affordable in their area.

- Strongly agree
- Somewhat agree
- Somewhat disagree
- Strongly disagree
- Don't know

Base: all Australians 18+ n=1,555

Q9. To what extent do you agree with the following?

There is a lack of supply of housing that is affordable in my area



ISSUE

Bad planning

Australians believe that the lack of supply of housing that is affordable is more attributable to the lack of planning to deliver housing in line with population growth than other factors.

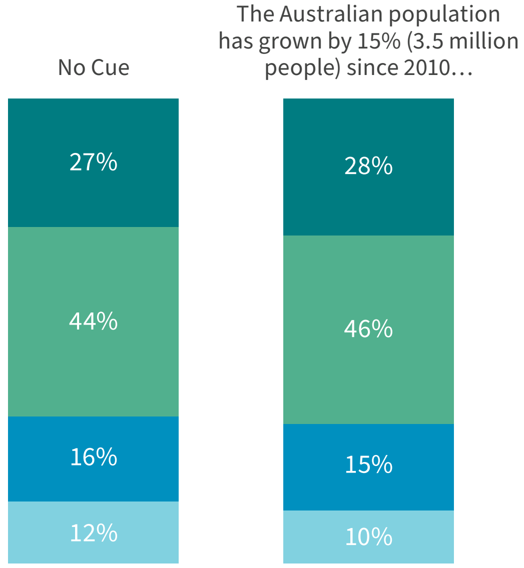
46% agree

- The increase in the Australian population is the main reason for the lack of supply of housing that is affordable
- The lack of planning to deliver housing in line with population growth is the main reason it is not affordable
- The increase in the Australian population is not an important reason for the lack of supply of housing that is affordable
- Don't know

Base: all property owners N=777

Q13a. The Australian population has grown by 15% (3.5 million people) since 2010...Which of the following is closer to your opinion

Q13b. Which of the following is closer to your opinion?



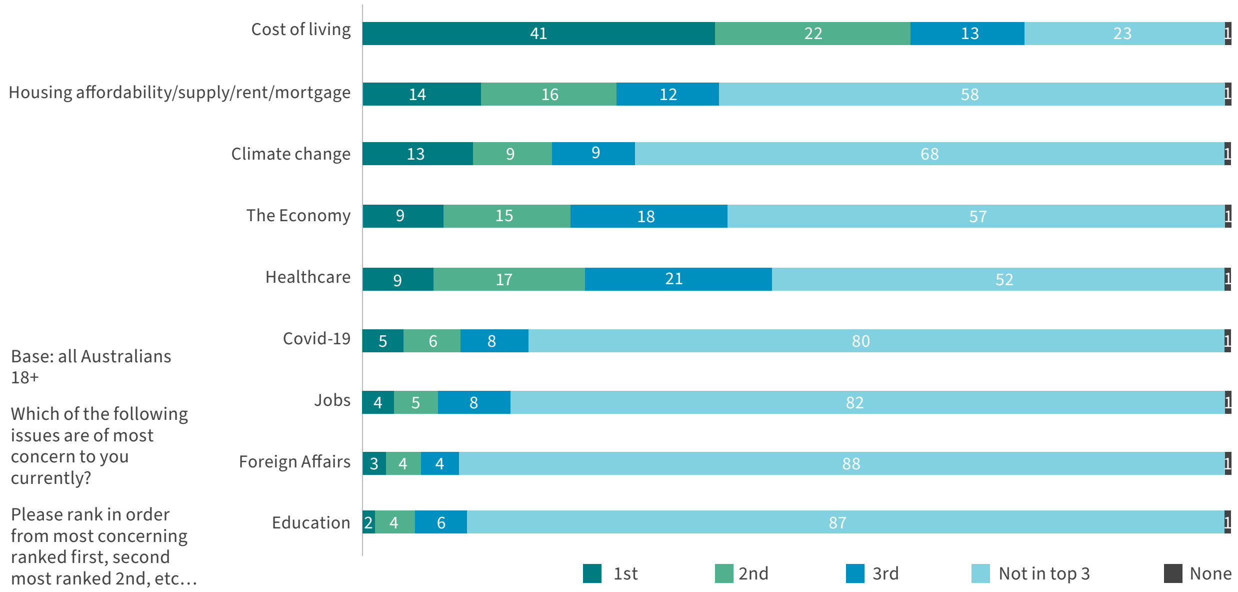
ISSUE

Voter anxiety

Housing affordability, supply, rents and mortgages costs are currently ranked as the second most important current concern for Australians - only behind cost-of-living, and above climate change and the economy

29% rank it in the top two issues

(41 percent in the top three).



Base: all Australians 18+

Which of the following issues are of most concern to you currently?

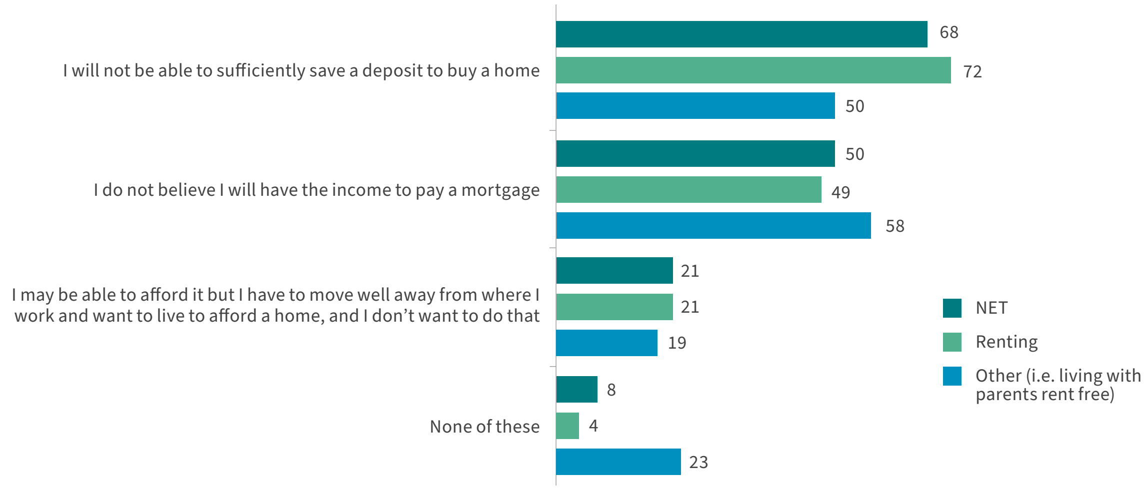
Please rank in order from most concerning ranked first, second most ranked 2nd, etc…

ISSUE

High barrier to entry

Excessive deposit costs are viewed as the highest barrier to entry - with over 7 in 10 renters citing it as the reason they won't be able to buy a home in the next five years.

72% can't overcome the deposit gap



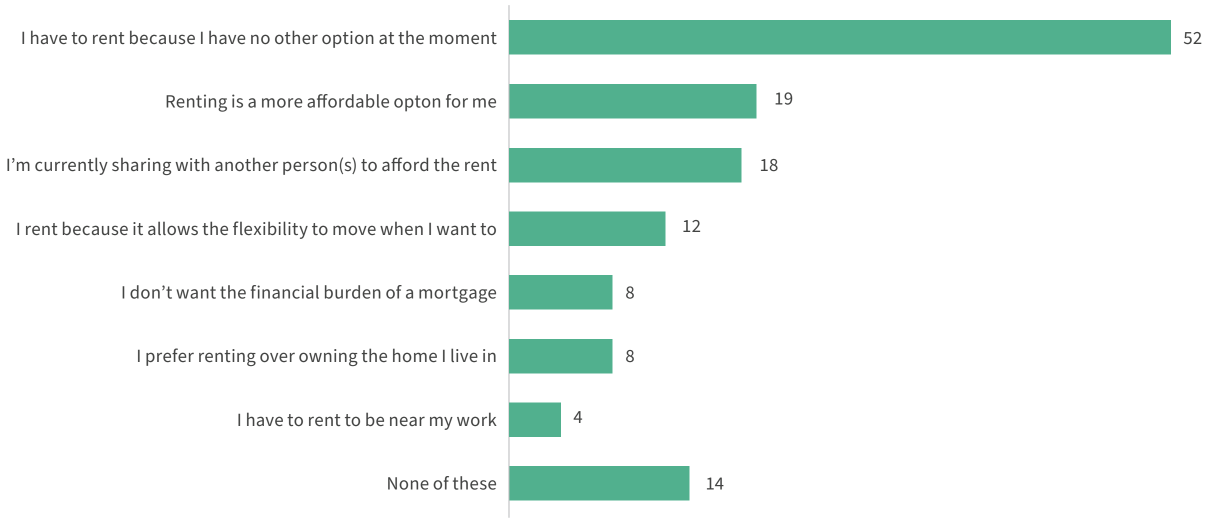
Base: Those who do not believe they will be able to purchase a home to live in, in the next 5 years n=189
What are the reasons that makes you believe that you will not be able to purchase a home in the next 5 years? Please select all that applies

ISSUE

Removing choice for renters

Over half of all renters say they have no other choice as to the reason for doing so - and one third of all renters believe they will not be able to purchase a home in the next five years.

52% rent as they have no other option



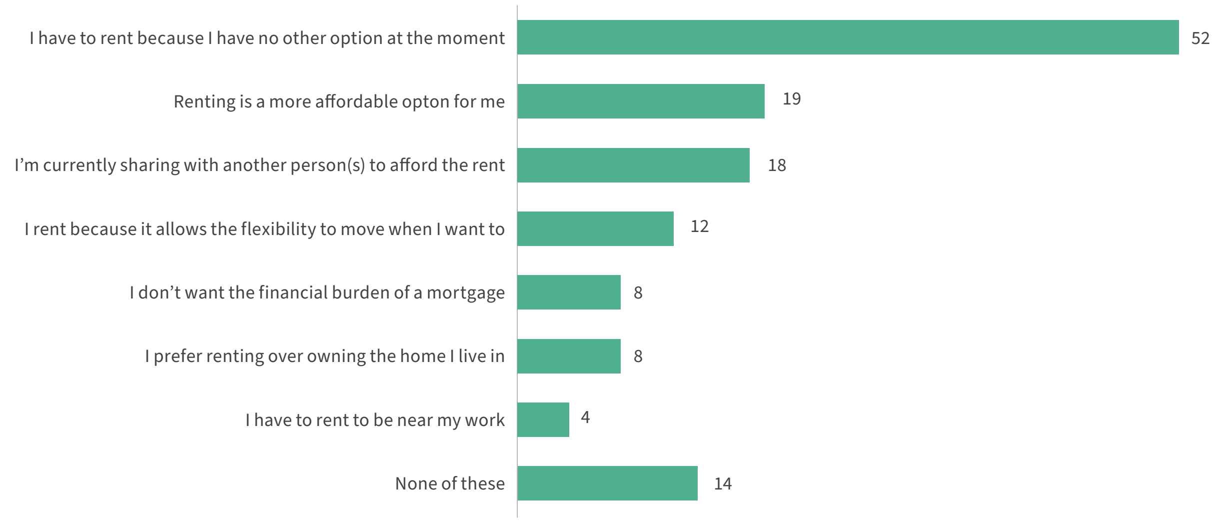
Base: Renting the home they live in n=451
Thinking about the reason(s) you are currently renting the home you live in…
Which if any of these apply to you?

ISSUE

Adding to consumer choice

Almost one third of renters like the financial freedom and flexibility of being able to rent. However, more than one in five renters are currently forced to share the rent with other people to afford the rent.

30% enjoy renting



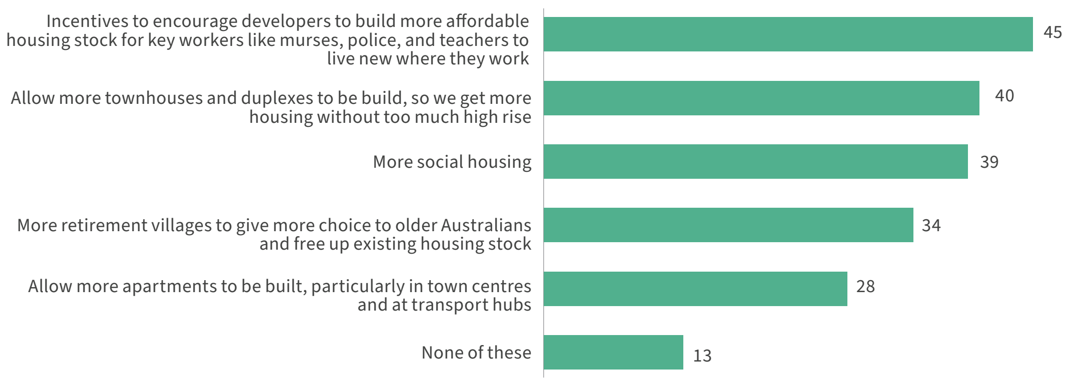
Base: Renting the home they live in n=451
Thinking about the reason(s) you are currently renting the home you live in…
Which if any of these apply to you?

ISSUE

Incentives to grow supply of key worker housing

45 percent of Australians believe governments should arrange incentives to support development of more affordable housing stock for key workers, and four in ten supported more townhouses and duplexes being built while fewer than three in ten opted for allowing more apartments to be built.

45% support incentives for affordable key worker housing



Base: all Australians 18+ n=1,555

Q10. Which of the following do you think the government should choose to improve the supply of housing? Please select all that apply

PART D:

THE UNFINISHED BUSINESS. SOLUTIONS FOR CHOICE, AFFORDABILITY AND GROWTH

The Property Council welcomes the Federal Government's commitment to create a National Housing and Homelessness Plan with the full commitment of state, territory and local governments.

A reimagining housing policy in Australia must meet three primary needs:

- the need to prepare for the growth of our population, cities and regions
- the benefits of housing choice to meet the diverse needs of our communities, and
- the urgent pressure to improve the affordability of housing across the spectrum.

The merit of using these three tests to guide our thinking and choices as we approach the reform task is evident in the potential benefits they offer to people.

A FIVE-POINT PLAN TO BOOST HOUSING CHOICE AND AFFORDABILITY FOR A GROWING AUSTRALIA

The Government's National Housing Accord and the commitment to implement a National Housing and Homelessness Plan are positive steps that recognise our housing crisis exists across every major city and requires a national plan.

The many complex issues that make housing more expensive are spread across all three tiers of government. Without the guiding hand of the Australian Government, state, territory and local governments will continue to fall short of community needs.

Turning good government and industry aspirations into real action to boost housing choice and affordability will require both policy innovation and completing unfinished business. These recommendations focus on unfinished business.

1. Holding governments to account and incentivising them to deliver

What do we need and why do we need it?

Housing policy discussion is full of 'straw man' arguments that usually bypass the important question of supply and result in ill-thought-through new taxes that drive up the overall cost of new housing. The Productivity Commission's review of the National Housing and Homelessness Agreement (Agreement) framed the current policy approach as ineffective and provided a compelling narrative for the future direction of policy, stating:

> **"The next intergovernmental agreement is an opportunity for governments to work together on a national reform agenda to make housing more affordable. The focus of the next Agreement should be on improving the affordability of the private rental market and the targeting of housing assistance."**

Correct. The next Agreement, the National Housing and Homelessness Plan and the implementation of the Housing Accord, need to rely on evidence-based policy driven by the independent advice from the National Housing Supply and Affordability Council.

Incentives for meeting housing targets

The Productivity Commission reinforced that the next Agreement needs to 'explicitly recognise the importance of housing supply as a solution to affordability' and require states and territories to commit to new targets in major urban areas.

As first proposed in the 2016 Property Council Deloitte Report, Federal Incentives for Housing Supply, undertaken by Professor Ian Harper AO, National Competition Policy-style supply and housing incentives could boost state housing supply and spur state housing production within 3 years.

The newly constituted Housing Supply and Affordability Council should consider a credible framework for score-carding and ranking state and territory housing strategies and track homes produced. In time these metrics should link to financial incentives negotiated between the Commonwealth and other tiers of government.

Accountable planning systems

There have been numerous efforts over the decades to put more discipline into strategic planning, land use zoning, planning approvals and infrastructure alignment but all have been short lived.

The new Housing Supply and Affordability Council should also consider regular reporting on improvements to state and local planning systems to meet best practice benchmarks.

How do we deliver it?

The formation of the new Housing Supply and Affordability Council offers a fresh opportunity to generate the data, insights and expertise needed to shape good policy choices. As a statutory body and independent advisor to Government the Council should:

- **Create a credible framework to regularly assess and rank state and territory housing strategies and homes produced.** In partnership with the Productivity Commission and industry experts, develop an approach for annual productivity scorecards and ranking on progress against stated housing strategies and targets. This process should also design the principles of financial incentives to be negotiated between the Commonwealth and other tiers of government based on performance of meeting housing targets.
- **Spur a new era of accountability, transparency and performance of planning systems across the country** by
    - **developing a new series of benchmarks on what good development assessment looks like** – a focus on strategic planning, land use zoning, planning approvals and infrastructure alignment is sorely needed to induce more discipline in driving progress against agreed goals, and
    - **produce transparent reports cards on the performance of state and territory planning systems against these benchmarks,** including the barriers that inhibit delivery of housing supply targets.
- **Be a data powerhouse -** build on NHFIC's existing legacy of publishing supply, demand and affordability forecasts, including rental affordability.

2. Delivering the housing we need, where we need it

What do we need and why do we need it?

Our cities and regions are at their most liveable and productive when people have the choice and affordable options they need, whether owning or renting.

In announcing the Government's Housing Accord at his 2022 Federal Budget speech, Treasurer Jim Chalmers spoke to the ambition of the Accord saying it is

"big and it's bold – an aspiration to build one million new, well located homes over five years from 2024. State and territory governments …. Along with local governments, they will tackle supply problems caused by land release and zoning policies."

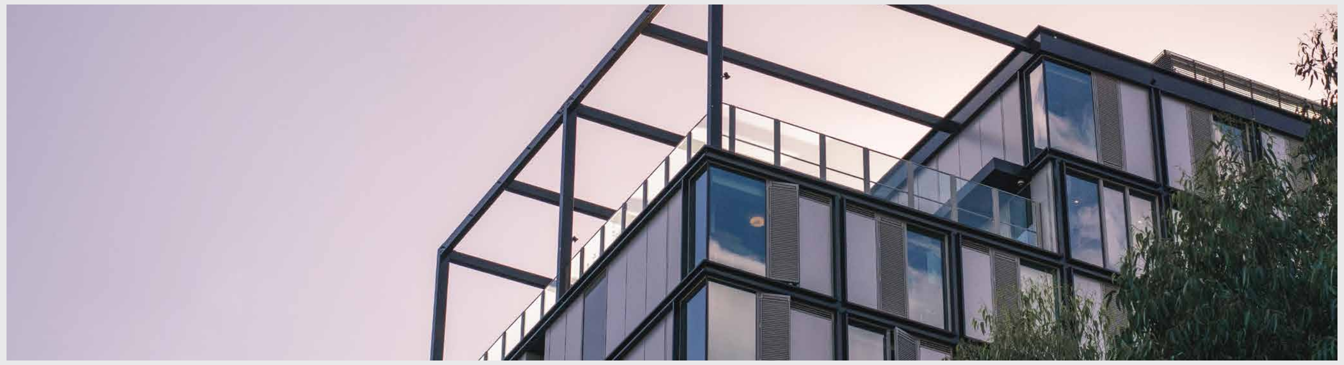
Housing variety produces better outcomes in terms of affordability, and unlocks the freedom needed to pursue peoples' lifestyle, family and employment choices that best suit their needs and aspirations.

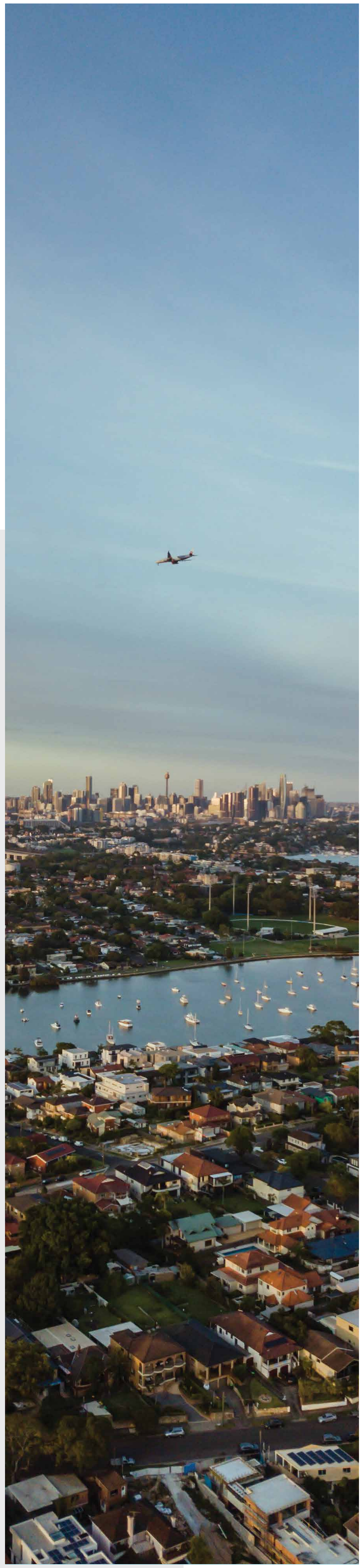
How do we deliver it?

The introduction of best practice benchmarks and incentives can improve the location and diversity of new housing supply as well as total volumes.

Benchmarks should:

- **design, implement and enforce clear housing targets** at a national, city and local government level
- **ensure capital city and regional strategic plans have a supply of well-located housing** that matches population growth
- **ensure alignment between land use and infrastructure plans** and funding pipelines
- **stress test land use plans** to ensure zoning provisions support the quantum and diversity of housing needed
- **provide a threshold trigger where state governments intervene on planning authorities or local governments that fail** to provide adequate zoning plans or meet housing targets
- **assess the tax and regulatory costs embedded in the average new home** in each jurisdiction and progressively address measures that are inflating the cost of new housing and
- **measure the quality of the housing targets themselves,** including the type, number, location and the relative affordability of the housing supply to ensure they are meeting the diverse needs of a diverse community.





3. Great and sustainable cities

What do we need and why do we need it?

Our cities are the lifeblood of our economy. They are magnets for innovation and commerce, and offer Australians the employment, educational, civic, cultural and lifestyle opportunities they seek.

In the metropolitan century, we will need to reimagine the way cities are governed, as well as how they can assist people adapt to and mitigate climate change.

How do we deliver it?

Australian cities must shift towards high amenity, high liveability, medium density metropolitan living supported by great public transport. A refreshed policy toolbox to better prepare cities for the coming era of high growth includes:

- **building a stronger evidence base a**bout the key metrics of our cities to inform the business case for amenity and infrastructure. Improving data on housing, environment and social patterns as well as better spatial economic data would reveal the interdependencies between Australia's cities and their regions and make the case for new kinds of investment
- **magnifying the benefits of City Deals by making them permanent and embed clear housing targets.** The Government's commitment to a City Partnerships program should build on the best elements of City Deals and fortify strategic planning, co-investment and governance arrangements. City Partnerships should expand in scope to drive new housing supply and embed a focus on sustainability with clear requirements around emissions reduction and climate adaptation in our buildings, cities and homes
- **striking infrastructure and growth compacts** between state and local governments to better align housing delivery with economic and social infrastructure. These should deliver new housing at the same time as transport, schools, libraries, shops and public spaces
- **integrating strategic metropolitan planning for Australia's fastest growing cities** to ensure local planning policies and controls align with strategic metropolitan plans
- **creating integrated transport authorities** with combined budgets to ensure we improve the mobility within our cities, and explore alternative sources of investment capital to fund infrastructure deficits
- **establishing precinct partnerships and management** to improve placemaking and place management systems. This could include co-investment and joint management mechanisms like business or city improvement districts, and
- **future proofing Australia's housing to be zero carbon ready and resilient** through incentives and regulations that promote the construction and retrofit of homes that are energy efficient, fossil fuel-free and resilient to our changing climate. This will ensure homes are cheaper to maintain and more comfortable to live in well into the future[56].

[56] Unlocking the Pathway: why electrification is the key to net zero buildings, Australian Sustainable Built Environment Council, December 2022.

4. Supporting people who need it most

What do we need and why do we need it?

More Australians would find the pathway to home ownership easier, shorter and more affordable if our housing markets functioned as they should. In some ways, the many government schemes designed to financially ease the burden of home ownership, particularly for first-time buyers, serve as a reminder that our model is broken.

The Productivity Commission in its review of the National Housing and Homelessness Agreement (NHHA), provided policy makers with a comprehensive assessment of housing policy and recommended far reaching changes. It argued that for too long, too much of governments' focus was on stimulating and supporting demand for housing rather than tackling the fundamental and structural challenges faced in improving housing supply.

The Commission recommended a wholesale shift to funding housing needs through the customer, as the person requiring the housing support. These recommendations warrant careful consideration.

Many Australians need or choose to rent. Policy solutions should target supply of diverse rental housing to suit Australians at different stages of life and improvements in security of tenure, amenity, liveability and sustainability. This would also put downward pressure on living costs. This is the same path other leading global cities have pursued to support high quality, medium density living complemented with high-capacity public transport.

How do we deliver it?

Support needs to be regeared to support bigger public policy goals. For example:

- **review the Commonwealth's National Rental Affordability Scheme (NRAS)** - respond to the Productivity Commission's case for a review to assess the potential for fresh design of the payment, improvements to its sufficiency and fairness, and the need for it to represent value-for-money by supporting the creation of more affordable housing
- **support renters with standards that provide safe, secure and sustainable living** – recognise a large and increasing proportion of Australians choose to rent and should be supported with nationally harmonised rental standards that underpin security of tenure, increased amenity, liveability and sustainability, including energy and water efficiency, and
- **homebuyer assistance that is targeted and subject to regular review and evaluation** - across the Commonwealth and states and territories, there are a range of initiatives including the Home Guarantee Scheme, state-based grants and stamp duty concessions, low-deposit loan programs and shared equity initiatives, as well as temporary stimulus measures (such as necessary and useful pandemic responses like HomeBuilder). Where they are retained, demand side measures such as these should be highly targeted, regularly reviewed for effectiveness and only apply where they are driving new supply, not inflating the cost of existing housing.

5. Unlocking investment in new forms of housing

What do we need and why do we need it?

Australia needs to replicate the success of overseas markets in harnessing the capacity for institutional capital to play a major role in diversifying housing options. The maturity of 'residential living sectors' in major markets such as the US, UK, Europe and Japan means Australia is a laggard, despite having one of the most sophisticated real estate investment industries in the world.

Cultivating institutional capital has the potential to:

- unleash an acceleration in the delivery of Build to Rent (BTR) housing stock in Australia, a new platform that can also incorporate more affordable housing with the right incentives
- improve the rental experience by improving rental tenure, asset management, and access to a high level of services and facilities
- unlock further investment in purpose-built student accommodation to increase supply and reduce demand on private rentals and,
- provide a continuous supply of counter-cyclical housing stock into the market, given BTR and purpose-built student accommodation is not dependent on pre-sales to obtain construction finance

How do we deliver it?

The House of Representatives Standing Committee on Tax and Revenue review into housing affordability released in March 2022 supported the encouragement of Build to Rent housing and recommended that Treasury be asked to review the tax and other settings facing the sector.

This should span the series of policy barriers in the tax and regulatory system that inhibit the growth of institutional investment into housing, including:

- **levelling the playing field for offshore institutional investors in Build to Rent** by cutting the MIT withholding tax rate from 30 percent to 15 percent so it aligns with the rates applied to commercial, retail and industrial assets.
- **extending a tax rate of 10 percent to affordable housing components of Build to Rent housing** held by international investors and domestic superfund investors as a clear incentive to support the delivery of affordable housing for key workers.
- **eliminating the range of state and local planning inconsistencies in the treatment of Build to Rent, retirement living and purpose-built student accommodation** by tasking the new Housing Supply and Affordability Council to identify and target inconsistencies, as well as the application of land tax
- **removing irrecoverable GST expenses for Build to Rent** and retirement living by initiating work between the Commonwealth and states and territories to resolve the incapacity to claim GST credits for land, construction and consultant costs
- **working with industry and regulators to address definitional and technical issues** due to the novelty of the sectors like Build to Rent housing and purpose-built student accommodation, as well as fully unlocking the community benefits of the retirement living sector, which may include existing regulations managed by the Foreign Investment Review Board.
- **addressing the regulatory barriers for domestic superfund investors** by removing stamp duty from the ASIC fees and costs disclosure requirements and improving the operation of the superfund performance test.
- **working with the states to reduce taxes that apply a hand brake to investment and growth** across the housing spectrum, including foreign investor fees, FIRB charges as well as stamp duty on new purpose-built student accommodation developments.

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