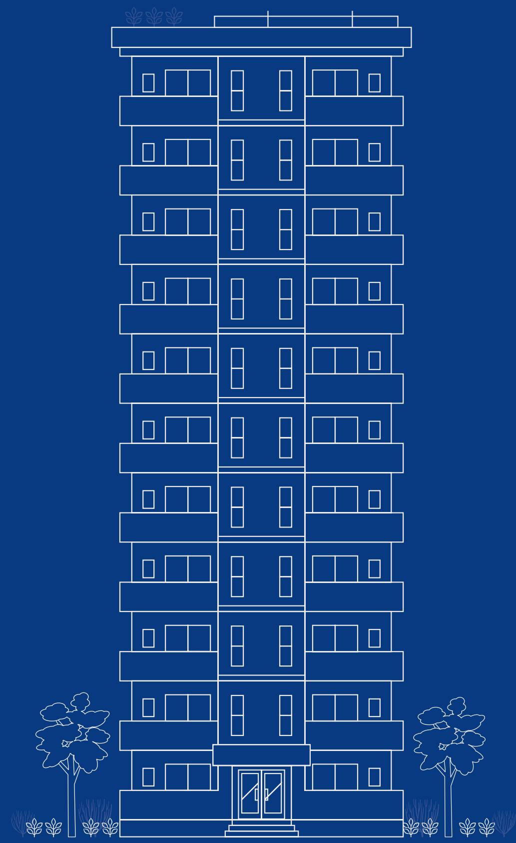
PROPERTY COUNCIL of Australia

Delivering Housing Supply and Affordability for Western Australians.

Mid-term housing supply pipelines and policy settings across the housing spectrum.



January 2022

Summary Overview

1. The WA economy has thrived during the COVID-19 pandemic, with economic growth leading the nation, and indeed the World. This success, along with a pause on migration, has resulted in **severe worker shortages and contributed to rapidly rising construction costs.**

2. Despite positive policy announcements during the pandemic leading to more housing supply, such as the WA Building Bonus and stamp duty rebates for apartments sold off the plan, **years of undersupply, underinvestment and a moderately growing population has resulted in rising property prices.**

3. New Property Council research involving 21 leading apartment developers has revealed 35% of DA approved apartments and an additional $2.2 billion in projects in the pre-DA stage are currently on hold due to price escalations eliminating margins and making projects not currently feasible. These figures represent around 10,000 apartments. **Financial institutions require projects to have sufficient margins to cover contingencies and will not lend without this.** If action is not taken, this event represents a housing supply crisis in the coming years.

4. At the time of going to print, **the median house price has jumped $40,000, the rental vacancy rate is 0.9% and the investor market is flaccid,** with a clear trend showing the proportion of investors buying into the market is not keeping up with those selling (in May 2021, Perth sales data showed, 20.27% of investors selling vs only 5.56% of investors buying)[1].

5. **Timely delivery of new housing is critical** to meet predicted population growth and offset inflation – ensuring WA's relatively attractive affordable house price remains a feature of our State.

6. **We need workers first, homes second.** Property markets *can* provide for workers, but more supply cannot be delivered without additional workforce.

7. Dysfunction in the general housing market, which constitutes 97% of the housing market, will mean **people will 'move down' the property ladder causing escalating demand for social housing** or becoming at risk of homelessness.

8. **Policy response in the general market is now absolutely necessary,** including those ideas that have been discounted in the past. The Property Council has identified 15 recommendations that will support the general housing market, including rapid migration growth, facilitated by the removal of the foreign buyer surcharge and stimulating build-to-rent projects.

9. **The provision of social housing is particularly challenging but one that industry is willing to partner on.** The Property Council has identified four recommendations and will provide more policy ideas in conjunction with advocacy partners during the Federal Election campaign.

10. **The answer long-term is to de-constrain housing supply and give people a diversity of housing choices** in high amenity locations, efficiently delivered through a responsive planning system (we recommend reading the Property Council's 'Planning to Deliver' report[2] from August 2021).

[1] REA Group's PropTrack cross-referencing sales data Realestate.com.au's rental listings; The Australian; 'Rental property pool shrinks as investors exit market' Dec 5, 2021
[2] Property Council WA, Planning to Deliver report; https://www.propertycouncil.com.au/Web/Content/Media_Release/WA/2021/Ideas_to_transform_WA_s_planning_system.aspx

Contents

Executive summary

Meeting the diverse housing needs of a growing Western Australian population is a challenging task. Requirements across the spectrum of housing vary widely, and demand a comprehensive policy response to ensure the delivery of housing supply is responsive to demand, cost effective, meets infill objectives and maintains market affordability.

Research conducted by the Property Council WA has identified that the current development pipeline, particularly for infill development, has been severely compromised by ongoing skills shortages. While the impact of pipeline disruptions is unlikely to be fully felt in the immediate term, swift action is required to avert a future housing and affordability crisis.

Research undertaken by the Property Council in November 2021 has revealed an estimated

35%

of the existing approved pipeline of apartment developments is currently on hold. An additional

$2.2 billion

in projects in the pre-development approval stage are also on hold. These figures represent around

10,000

apartments

To offset potential economic damage, we must remove barriers to investment, develop alternative housing models and make a concerted effort to address labour shortages.

Importantly, impacts across the spectrum of housing are interrelated and it is impossible to address issues in isolation. **Focusing all efforts on delivering social housing without addressing policy barriers to private market affordability and rental availability will result in an increase in social housing demand, irrespective of sector investment.**

This report considers the policy opportunities to address current conditions and stabilise long-term housing supply and affordability. The objective is to remove the need for ongoing policy intervention in the housing market.

This report includes 15 recommendations to address housing supply, with three immediate urgencies:

1. **Prioritise population growth**
2. **Address barriers to investment**
3. **Stimulate build-to-rent**

Priority actions for addressing supply and affordability

This report provides 15 recommended actions to support the timely delivery of residential dwellings across the spectrum of housing. The Property Council WA urges the State Government to consider the suite of recommendations as a comprehensive package to secure housing affordability over the medium to long term.

While each of the listed measures should be considered, the Property Council has identified five priority recommendations, each of which are shaded in green below and further explained in the subsequent sections of the report:

ADDRESSING LABOUR AND MATERIAL SHORTAGES

Pursue targeted migration growth
- *The policy intent*: Deliver future supply
- *The political rationale*: Strong migration attraction building on Reconnect WA

Remove purchasing barriers for skilled migrants
- *The policy intent*: Delivers new supply and attracts population
- *The political rationale*: Strong migration attraction building on Reconnect WA

Introduce an apprentice guarantee scheme
- *The policy intent*: Supports new supply
- *The political rationale*: Reducing costs of doing business + Training future Tradies

Payroll tax relief for small business
- *The policy intent*: Reduces housing input costs
- *The political rationale*: Reducing costs of doing business

MAINTAINING MARKET AFFORDABILITY AND ADDRESSING RENTAL SHORTFALLS

Make permanent the stamp duty rebate on apartments
- *The policy intent*: Supports new supply to owner occupier and rental market
- *The political rationale*: Levels the tax playing field for infill vs greenfield

Stimulate Build to Rent
- *The policy intent*: New rental stock
- *The political rationale*: Helping people to better housing choices

Expand Keystart eligibility
- *The policy intent*: Shift up the housing spectrum from renter to owner occupier
- *The political rationale*: Helping families to home ownership

Extension of NRAS or a WA version
- *The policy intent*: Delivers new supply of rental housing
- *The political rationale*: Helping people to better housing choices

Rightsizer grant to stimulate downsizing
- *The policy intent*: Shift in the housing spectrum to free up family homes
- *The political rationale*: Helping people to better housing choices

Tax concessions for investors who invest alongside social housing stock
- *The policy intent*: Supports new supply to owner occupier and rental market
- *The political rationale*: Helping families to a home of their own

Reconsider changes to the Residential Tenancies Act
- *The policy intent*: Protects supply in rental market
- *The political rationale*: Fairness for renters and investors

Apply strategic planning principles to reduce costs associated with planning and delivery
- *The policy intent*: Coordinate role of government agencies in supply
- *The political rationale*: Efficient agency delivery for better housing choices

SUPPORTING THE SUPPLY OF SOCIAL AND CRISIS HOUSING

Establish a Housing Investment Fund
- *The policy intent*: Co-investment will lead to new supply
- *The political rationale*: Helping families to a home of their own

Investigate leasehold strata for Metronet sites
- *The policy intent*: Reduces input cost of land
- *The political rationale*: Helping families to a home of their own

Focus investment on existing stock
- *The policy intent*: Alleviates housing input costs in general market
- *The political rationale*: Helping families to a home of their own

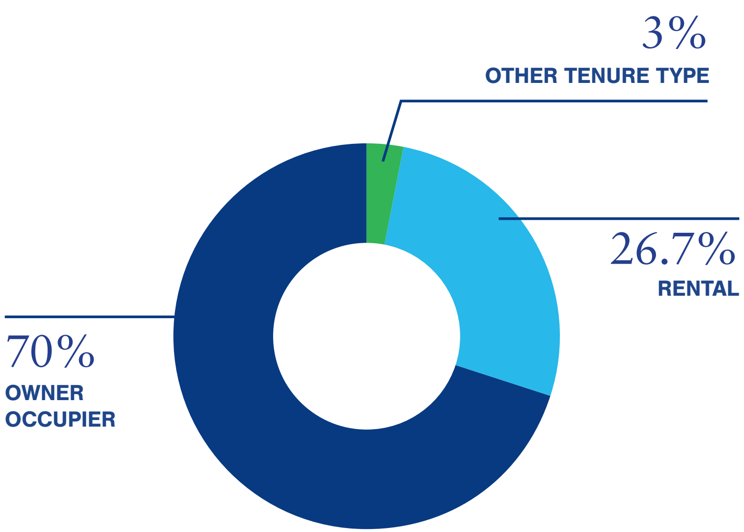
State of the housing market

Property industry contribution to the economy

- **Western Australia's second biggest industry**, directly accounting for 8.8 per cent of the state's economic activity (GSP)
- **The Property industry provides** the second highest tax contribution per dollar of GSP
- **The second largest contributor** to state and local government taxes and rates, paying 33.5% of the total revenue pool
- **150,100 jobs in the property industry**, employing more people than agriculture and manufacturing combined
- **Building prosperity** by directly paying $11.4 billion in wages and salaries
- **More than 1 in 5 Western Australians** derive their wage from the property industry, directly or indirectly

The proportion of Greater Perth housing stock by home type

According to 2016 Census data, 96.7 per cent of Perth residents occupy residential accommodation supplied to the general market. At the last reporting date, the housing composition was:



Owner occupiers remain the dominant tenure typology in WA, with lending data showing investment loans represent less than 20 per cent of all lending. The level of investment loans can be used as an indicator of how much new rental stock is entering the market, and the decline in investment loans since the last census correlate with the decline in rental stock in the market.

Over the past 12 months, the median house price in Perth has increased by $40,000; stamp duty on the median house price has also increased by nearly $2,000. Applying the household savings rate of 15.2 per cent, the average Perth resident would need to save for an additional three years to meet this price escalation.

Within 10 kms of the CBD the median house price is more than $1 million, with stamp duty exceeding $40,000 on top of the purchase price.

Based on a savings rate of 20 per cent of total income, the average Perth resident must save for two additional years to meet market growth.

Dysfunction in the general market will put pressure on social housing

Housing experts agree that people will 'move down' the property ladder if they cannot afford an owner-occupier or rental home. Consequently, they will join the social housing list or be at risk of homelessness. **It is critical that the general market remains affordable to ensure demand for social housing does not increase.**

The WA Housing Strategy identifies the need for ambitious additions to rental housing stock

Launched on 14 October 2020, the WA Housing Strategy 2020-2030 outlined the government's strategy to "connect 150,000 WA households to safe, stable and sustainable homes by 2030".[1] The report also sets a target of 130,000 new private sector rental dwellings.[2]

Meeting this highly ambitious target will require the supply of significant additional rental accommodation above business-as-usual. To put this into perspective, 21,500 dwellings were approved in WA each year, on average, over the last decade. If private sector dwelling approvals over the next decade are in line with this average approval rate, 60 per cent of all new dwellings will need to be added to the rental market each year to meet this target. Currently, approximately 23 per cent of stock in the WA market is private rental, a decline since 2016.

The outlook predicts to improvement of substance

Dwelling commencements for 2020-21 exceeded projections at 23,627, "slightly above the HIFG [Housing Industry Forecasting Group] forecast figure of 23,000".[3] Despite the influx of stock entering the market, supply remains highly constrained with "both WA rental and sale stock remain at low levels".

The completion of grant-related builds is expected to offer minimal relief, and borders opening may counteract any increase in completions. Notably, an influx in construction and property industry labour will significantly increase the availability of housing.

Workers first, homes second

Previous periods of rapid economic growth have demonstrated, despite claims to the contrary, that housing shortages and workforce shortages do not create a chicken and egg scenario.

Property markets can provide for workers even in highly constrained conditions. However, elevated delivery of property CANNOT occur without the additional workforce. As such, elevated migration can precede housing supply.

Policy response in the general market is now absolutely necessary

An affordable general market is critical to ensure demand for social housing does not increase. Over the past 12 months, the social housing list in WA has doubled. The expansion of this list directly correlates with the increase in rental and purchase prices in the general market.

[1] Government of Western Australia, 'WA Housing Strategy 2021-2030,' 30 June 2021, accessed online 3 December 2021 <https://www.wa.gov.au/government/document-collections/wa-housing-strategy-2020-2030>
[2] Government of Western Australia, 'WA Housing Strategy 2020-2030,' 2020
[3] Housing Industry Forecasting Group, November 2021.

Proportion of Greater Perth housing stock by home type

OWNED OUTRIGHT

193,636 homes

28%

OWNED WITH A MORTGAGE

298,273 homes

42%

RENTED

184,428 homes

27%

Other 3%

RETIREMENT VILLAGES CIRCA
12,000 UNITS#

BUILD-TO-RENT
<300 HOMES#

Source: quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/5GPER?opendocument

Retirement Living Census and Property Council estimates

Immediate challenges

Labour shortages

Severe labour shortages hold back WA

Labour shortages have typified 2021. Enduring uncertainty about when international and interstate borders can reopen safely is highly problematic for the construction and development industries.

The limitations on access to labour has driven stiff competition between industries and has forced several businesses to scale back trading hours and outputs, further tightening wage pressures.

State Budget projections point to the need for greater focus on population growth

The WA State Budget forecast of 2.5 per cent employment growth over the 2021-22 year is difficult to achieve without a change in migration policy. The forecast is the equivalent of 35,500 more workers. Data from the Centre for Population[4] shows total migration over the same period at a maximum of 2,500 people. This projections assumes all net overseas migration and net internal migration is of working age.

If the projections for employment growth, population growth and participation rates eventuate, WA's unemployment rate over the next year must drop to 1.7 per cent – a scenario which would be highly challenging to achieve.

Reconnect WA is a start, but employers also need a clear plan for scaling migration

Skills shortages are a significant challenge for WA's businesses, with high labour demands not matched with an adequate flow of workers. A falling iron ore price may take some steam out of the state's economy, but vaccination rates and WA's navigation of reopening state borders remains the biggest wildcards. A more aggressive population growth strategy is required than that outlined in the Budget to meet labour market targets for 2021-22 and beyond. The Reconnect WA campaign is a good step towards achieving that goal.

Notably, WA is more limited in its ability to fill job vacancies with local workers, and continues to be reliant on international migration, both temporary and permanent, to service skilled labour demand.

The Property Council agrees with the principle of maintaining WA's COVID-free status while vaccination rates improve. But a clear plan for rapidly scaling migration is needed to allow businesses to commence recruiting to fill skills gaps.

People are attracted to WA's comparatively affordable median house price

Western Australia is well-placed to attract new residents, with Property Council research conducted in 2021 showing that 10 per cent of New South Wales and Victorian survey participants are extremely or very likely to consider relocating to WA. The two leading benefits that attracted respondents was our comparatively affordable median house price of just over $500,000 and relatively higher salaries. Failing to address affordability means WA risks losing its competitive advantage.

Major flow-on impacts on construction development projects caused by labour shortages

Internationally, many economies are investing heavily in infrastructure to reboot economic activity after extended COVID-19 lockdowns and this is impacting labour and product availability significantly.

A survey of apartment developers has revealed that labour shortages are the primary reason projects are being put on hold.

Product availability and price escalation have created serious concerns for the development industry. Adjusting to the rising costs of workers and materials is easier said than done, as most builders lock in work, under fixed-price contracts, many months before they break ground.

[4] https://population.gov.au/data-and-forecasts/Projections/Budget-2021-22-population-projections

In the past 12 months two mid-tier builders have gone into administration, and one has exited the WA market. Apartment developers rely on the mid-tier builder market to deliver projects.

Several builders are reporting an inability to tender or meet developer expectations for a range of reasons, including limited internal resourcing to tender, insufficient pipeline capacity for delivery and subcontractors being unavailable or being unable to price.

Price escalation

Product shortages and constraints on global and domestic supply chains have a dramatic impact on price escalation. On top of material shortages, labour shortages drastically increase the cost of product delivery, making labour shortages and price escalation intrinsically intertwined.

While it is difficult for governments to quickly to address constraints in the global supply chain, there is an immediate opportunity to offset product inflation with additional labour force.

According to a survey of Property Council WA members, price escalation across a range of construction materials is the second most dominant cause of project delays. Material cost increases of 30 to 40 per cent are not uncommon. The volatility of trade and supply costs pose significant risks, particularly for builders operating under fixed-price contracts.

Tender inflation has been most acute in WA over the past two years. The Australian Institute of Quantity Surveyors (AIQS) Construction Cost Index Forecast predicts a cost increase of 11.6 per cent in Western Australia, the largest increase since 2006. Notably, cost escalation is projected to continue over the next three years.

Property Council members are also reporting that businesses are electing not to tender for new projects or are anticipating price escalation in quotes for future work to offset the additional rises.

One project development with a live DA and sufficient pre-sales to proceed to construction has pressed pause because three tender participants withdrew and another could only tender and progress in Q2 of 2022.

PERTH MARKET TRADES	UNIT	1Q21 AUD	3Q21 AUD
Concrete	m^3	250	350-400
Formwork	m^2	90	135-160
Reinforcement	t	2,200	2,800-3,100
Masonry	m^2	120	180-220
Structural Steel	t	7,000	15,000-18,000
Cladding/Envelope	m^2	600	900-1,200
Preliminaries	%	10	15-18

Meeting infill targets

Encouraging greater levels of density in established suburbs is necessary to sustain population growth.

Community support for infill development is strong in Perth.

Property Council research has revealed that:

74% of Perth residents are not opposed to, or support, medium density in the suburb in which they live.[5]

The Infrastructure WA 20 year Draft Infrastructure Report, *Foundations for a Stronger Tomorrow*, notes the cost of providing infrastructure to greenfield lots is two-to-four times more than infill development, depending on the capacity of existing infrastructure to support additional people."[6]

The Property Council acknowledges the State Government's strong mandate for delivering infill and recognises efforts of the Planning Minister as an effective advocate for greater infill.

Phase 2 planning reforms represent an opportunity to address the challenges of infill delivery

In Perth, density targets are still extremely low compared to other metropolitan cities and even modest targets are not being met.[6] More deliberate attention and coordinated delivery of infill projects is required to unlock capacity through land assembly and the provision of soft and hard infrastructure. Property Council members believe the system relies too much on simple, isolated approaches like standalone upzoning. The Phase 2 planning reform process represents an important opportunity for the State Government to address these challenges.

Current market conditions limit high quality infill projects

A viable pipelines of infill projects is vital to highlight the benefits of infill and to improve consumer confidence and interest in the sector. Unfortunately, current market conditions are not conducive to apartment project viability. The cost of delivering an apartment project is now significantly higher than house and land developments.

Securing greater levels of infill can only be achieved by increasing the viability of projects compared to alternative models of housing. As highlighted in the Property Council submission to the Bayswater design guidelines, "delivering multi-residential projects at a competitive market rate is more challenging in suburbs where the average house price is lower than Perth's median house price".

This challenge is exacerbated in projects without a significant view (such as a river, ocean or city skylines). This means project viability relies on securing additional height to achieve a reasonable return on investment and attract pre-sales necessary for project launch.

Relative prices of new apartments compared to the established market values will not be viable

Price growth in the apartment market has not kept pace with house and land, as the underlying land value of an apartment project does not increase at the same rate. Price escalations in the delivery of infill projects is a considerable threat to WA's infill aspirations. Rising material and labour costs have seen a significant number of apartment developers delay or consider delaying projects. The impact of price escalation to deliver a project means the necessary

[5] Close to Home, Property Council WA research, 2020.
[6] Infrastructure WA, 'Foundations for a Stronger Tomorrow | State Infrastructure Strategy Draft for public comment', <https://www.infrastructure.wa.gov.au/sites/default/files/2021-07/Foundations-for-a-Stronger-Tomorrow-Draft-for-public-comment-web-standard_2.pdf>

end buyer price is now on par and, in many cases, far exceeds the established market. This makes the product, particularly off-the-plan purchases, less attractive.

As noted earlier, apartment projects cost more to build then houses and the liability for developers is greater.

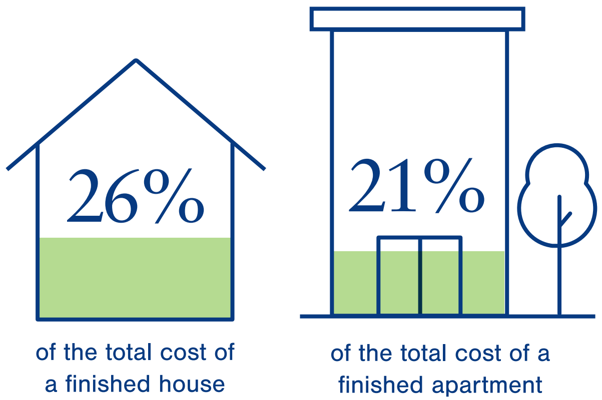
A developer is not able to simply reduce the return on investment to deliver a project at a smaller margin, as third-party financiers require the profit to allow for contingency. This challenge is most acute in affordable developments where the underlying land value is less.

According to Adam Zorzi, Executive Director at Australian Development Capital

"The construction costs alone on a mid-specification apartment development of between 30 and 100 apartments, a two-bedroom apartment is now between $430,000 and $450,000 per apartment. As recently as Q1/early Q2 of this year [2021] the same apartment had an estimated construction cost of $350,000 per apartment."

This figure does not account for land acquisition costs, holding costs, developer margin, government taxes and charges, or costs incurred by community opposition. Nor does it include fees for architects, engineers and other consultants, which are also rising, and typically constitute a further 5-7 per cent of development costs.

Stamp duties, land taxes, GST and large development levies can constitute as much as:



Research of apartment development industry

Conducted by the Property Council WA in November 2021

In depth interviews with

21

LEADING APARTMENT DEVELOPERS

Findings:

35%

of projects with approved DAs will be delayed

Delayed projects include more than

4,300

UNITS

The majority of respondents reported projects are being delayed by

7-12

MONTHS

On average respondents reported a

20%

increase in construction costs

Half of all respondents reported also have future projects without DAs that are now on hold with a total value of

$2.2 billion

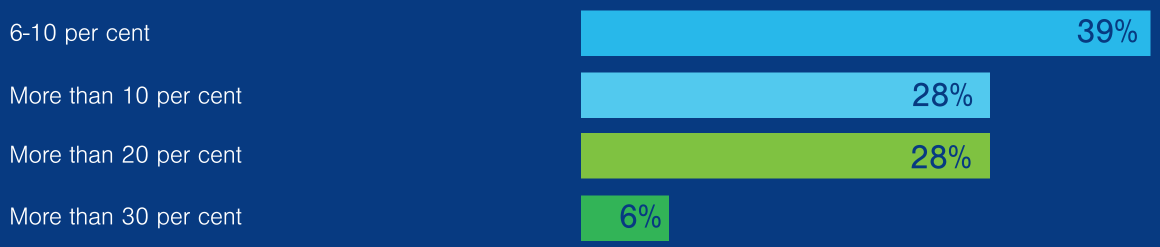
Top 4 reasons project will be delayed

1. Construction costs
2. Labour availability
3. End-user price escalation required to make projects feasible not aligned with market demand
4. Limited pre-sales

Top 4 factors that will enable earlier commencement

1. Reduced labour costs
2. Reduced supply pressures
3. Market price escalation
4. Extension of the commencement timeline on the DA

How much end-buyer price increases are needed to ‘stack up’



Expected challenges 2022 and beyond

House price escalation caused by undersupply

Housing supply is not a silver bullet for reducing house prices. However, the timely delivery of housing to meet population growth is crucial to offset price inflation.

Insufficient supply in the market causes price growth, which historically does not subside when appropriate supply becomes available.

The Property Council is deeply concerned about the pipeline of supply currently being withheld from the market due to labour and supply cost escalation.

Another phenomenon currently occurring in WA is a high rate of withdrawal from the rental market, prompted largely by investors selling in stronger market conditions to owner occupier purchasers.

With rental vacancy rates at less the one per cent, attracting investment into the rental market is critical to offset rental price escalations. In the past year, rental prices in some high-demand locations have increased by roughly 20 per cent.

"For apartment developers to begin construction, genuine buyers for at least half of the development must make 'off the plan' purchases. That means locking in a fixed price for an apartment that will take at least two to three years to complete. The cost rise risk is huge. Some developments never actually start. Over the past five years, cost rises have been moderate so the risk factor in these long-term contracts has not been apparent. In the last year, like cottages, apartment building costs have risen at least 10 per cent. Net profit margins are also usually about 10 per cent plus a cost increase allowance well below current cost rises."[7]

[7] The Australian, 'Privium's cloud hangs over home building industry', 15 November 2021, accessed online 3 December 2021 <https://www.theaustralian.com.au/business/privum-collapse-raises-alarm-bells-over-home-building-industry-which-is-experiencing-a-profitless-prosperity-boom/news-story/a1fdfb120998f71e9dfc88d5004c3917>

Population growth

The window of opportunity is now

The Property Council acknowledges and welcomes the $185 million Reconnect WA package. We must now ensure we don't miss the window of opportunity to attract skilled labour to WA to secure the ongoing economic success of the state.

"There are currently 52,000 job vacancies in WA."

Population forecasts show an increase over the coming years, with roughly a third of that natural (births exceeding deaths). Only modest population expansion from international and interstate arrivals is expected.

Forecasts show WA population growth will not meet current workforce vacancies until 2024-2025

As acknowledged by the State Government, a concerted effort to attract workers is desperately needed to meet current workforce demand. Analysis of data from the Centre for Population shows that, based on current population projections, WA will not meet current workforce vacancies until 2024-25. This assumes all internal and overseas migrants are of a working age. If workforce demand increases year-on-year by a modest 10 per cent, workforce demand won't be satisfied until 2025-26.

POPULATION PROJECTIONS (NUMBER OF PEOPLE)[8]	2021-22	2022-23	2023-24	2024-25	2025-26
Net overseas migration (NOM)	2,300	11,800	19,200	19,700	20,300
Net internal migration (NIM)	200	900	1,600	1,600	1,600
Total Migration	2,500	12,700	20,800	21,300	21,900
Estimated number of job vacancies+	52,000	57,200	48,950	30,965	10,631
Estimated vacancies remaining*	52,000	44,500	28,150	9,665	-11,289
Natural increase =	13,100	13,300	13,500	13,400	13,000

+ Assumes workforce demand increases year-on-year by 10 per cent
* Number of vacancies assuming 100 per cent of internal and overseas migrants are of a working age and fill a vacancy
= Births less deaths

[8] Centre for Population figures, excluding modelled figures in green.

Recommendations

Addressing labour and material shortages

Recommendation one | Pursue targeted migration growth

Population growth is the fuel to drive the WA economy forward. A stable and sustainable population trajectory will calm the ongoing economic turbulence. It is estimated that there are currently 52,000 job vacancies in WA, a 61.7 per cent increase from the previous year, with month-on-month escalations since May 2020.

Shortages are not unique to WA. In fact, New South Wales, Victoria, South Australia, and the Northern Territory are all experiencing equal or more acute skills pressure. Widespread skills shortages mean that states are competing to fill vacancies and elevate economic activity.

With a restricted pool of talent domiciled within Australia, states that pursue targeted migration policies will secure the population required to ensure ongoing economic benefits.

Notably, disparity in return pathways for international arrivals could have the biggest impact on talent attraction over the short and long term. Research has identified that, of people born overseas, only 18 per cent are likely to move internally within Australia once settled. This figure declines based on the length of settlement. A concerted effort to attracted skilled labour to WA as a first port and to maximise international student migration is necessary to ensure WA wins the brain gain.

The Property Council recommends investment in ongoing efforts to promote planning for population and skilled migration growth, including:

1. **Form an independent working group** with industry and government representation to provide opportunities to progress and build on the Reconnect WA program.
2. **Establish a ministerial portfolio** to promote population initiatives and drive targeted migration in high demand areas.
3. **Incentivise migration** through a two-year payroll tax rebate, payable to employers who relocate staff to WA. The Property Council has modelled the cost of this program and predicts the program will have a net positive impact on budget revenue.
4. **Advocate** for the reintroduction of 457 visas, or a similar visa class to offset acute pressures.

Recommendation two | Remove purchasing barriers for skilled migrants

The seven per cent foreign buyers surcharge, which came into effect on 1 January 2019, has had a significant impact apartment investment. The Property Council understands the surcharge was introduced to bring WA into line with the east coast, where significant levels of foreign investment in new residential projects was pricing first home buyers out of the market, and significant rental stock being withheld.

In WA, foreign buyers are most often skilled migrants who have relocated to WA permanently with a view of pursuing residency or citizenship, and investors who contribute to WA's rental market. There has been no strong sign of domestic investors re-entering the WA residential market.

Foreign purchasers account for just 10 to 15 per cent of apartment sales. Despite contributing a small component of the overall project, foreign buyers have historically been first to purchase, because of their comfort with apartment investment and off-the-plan assets. These early purchases are crucial to ensure apartment developers meet sales hurdles to secure finance.

The introduction of the foreign buyer surcharge may not have impacted overall stamp duty revenue (as stamp duty for buyers increases by more than $24,000 on a $350,000 apartment) however, the number of property transactions has declined by more than 62 per cent. This decline has resulted in less rental dwellings entering the market and slowed the commencement of new apartment and off-the-plan projects.

Perth's relative housing affordability is a crucial attractor for migrants looking to build a life in WA. As Australian and international markets compete for talent, positioning WA as an affordable and attractive destination to build a life is essential. One detractor for migrants looking to secure a permanent home in WA is the seven per cent foreign buyer surcharge. Unlike in other Australian jurisdictions, in WA, foreign buyers are most often skilled migrants who have relocated to WA permanently with a view of pursuing residency or citizenship.

Only a small number of purchasers are investors, and foreign investors regularly contribute to WA's rental market.

Removing the foreign buyer surcharge will:

- Attract skilled migrants to choose Perth to settle their families and contribute long term to the WA community.
- Reduce pressure on the rental market.
- Support apartment development which has been compromised by price escalations, and allow new projects to commence.

"It is often overlooked how important investors are to maintaining a prosperous and fair rental market. When investment levels are high, tenants have a variety of suitable rental stock to choose from and rents are more affordable. When it is low, tenants invariably bear the brunt of this, with fewer available rentals and rising rent costs.

"Recent Australian Bureau of Statistics data shows that while lending rates are at record levels in Western Australia's first homebuyer and owner-occupier markets, investor finance is sitting a long way off what we would expect to see with such a low vacancy rate at just $378 million. For context, the last two times the vacancy rate was below 1.5 per cent, investor finance tracked at $1 billion a month"[9]

- DAMIAN COLLINS, REIWA PRESIDENT

Recommendation three | Introduce an apprentice guarantee

Part of the challenge for businesses taking on apprentices is the retained liability during periods of economic hardship. The Property Council proposes a fund to underwrite apprentice salaries, accessible by businesses during times of economic hardship.

Recommendation four | Payroll tax relief for small business

Many small businesses are struggling to offset price inflation and rising wage costs. The Property Council proposed a temporary freeze on payroll tax for a period of six month for eligible businesses.

The Property Council is eager to work with government on appropriate eligibility criteria.

This proposal would allow smaller businesses to redirect funds to offset increasing product and labour costs and expand capacity in the development pipeline.

[9] The Western Australia, 'WA Government needs a plan to tackle the rental shortage,' 1 March 2021, accessed 3 December 2021 <https://thewest.com.au/lifestyle/real-estate/wa-government-needs-a-plan-to-tackle-the-rental-shortage-c-2246761>

Maintaining market affordability and addressing rental shortfalls

Recommendation five | Make permanent and expand the stamp duty concession

Establishing permanent stamp duty concessions for off-the-plan apartments and introducing a new 100% rebate for apartments valued up to $800,000 will;

- Act as a longer-term incentive for apartment development, rather than just a short-term boost
- Contribute to Perth's infill development targets by levelling the playing field between apartments and house-and-land options
- Provide economic benefits, as ABS data shows every $1 million spent on residential development generates nine full time equivalent (FTE) jobs[10]
- Encourage downsizing, rightsizing and turnover of stock
- Attract skilled migrants to choose Perth to settle their families and contribute long term to the WA community.

Recommendation six | Stimulate build-to-rent development

To stimulate first movers in build-to-rent (BtR), and support the establishment of a new asset class, BtR projects currently under construction or commenced before 30 June 2025 should be exempt from land tax:

- through the "development phase"; and
- through the "holding and management phase", until at least 30 June 2039.

The economic viability of BtR projects is finely balanced. Under current settings and with the additional difficulties imposed by the financial services industry, BtR projects are considered particularly risky by financiers. Without the receipt of early cashflows through off-the-plan sales (that underpin a build-to-sell, or BtS, development), holding costs through the development phase of a project are acutely felt. Without relief, through land tax exemptions, developers will struggle to justify proceeding.

The Property Council also proposes permanently reducing land tax on BtR projects by 50 per cent. This would incentivise investment in the sector and reduce the long-term operating costs to ensure viability.

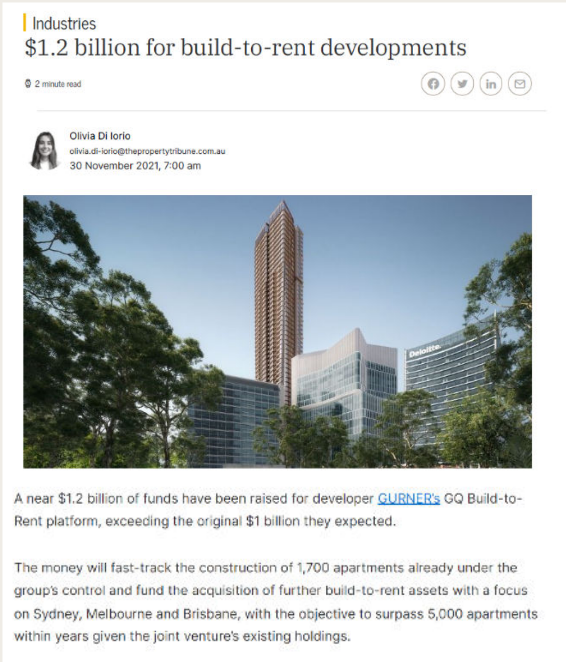
There is disparity in how individual and institutional investors are currently treated for land tax purposes. An individual investor with aggregated taxable value of land that is less than $300,000 will be below the land tax threshold and pay no land tax.

If we assume, based on current investment rates as a percentage of lending, that investors account for 20 per cent of sales in an apartment project, only investor buyers with an aggregated taxable value of more than $300,000 will trigger a land tax liability, as land tax is not payable on the principal place of residence.

In contrast, an institutional investor that owns all 250 apartments will be well over the threshold and will be liable to pay land tax at the highest applicable rates (noting, too, that from a developer's perspective, land tax is not recoverable under a residential lease).

A reduction of land tax by 50 per cent would still see the State Government collect a significantly higher rate of tax across the asset compared to a BtS project.

A 250-dwelling BtS project with an aggregated taxable value of land of $100 million would generate approximately $15,000 in land tax per annum[11]. If the project was a BtR project it would incur a land tax liability of $2,562,850 per annum, 170 times more than a BtS project. At a reduced rate of 50 per cent, the recurring tax liability on a BtR project would equal $1,281,425 – still more than 85 times a BtS project.


Industries

$1.2 billion for build-to-rent developments

2 minute read

Olivia Di Iorio
olivia.di-iorio@thepropertytribune.com.au
30 November 2021, 7:00 am

A near $1.2 billion of funds have been raised for developer GURNER's GQ Build-to-Rent platform, exceeding the original $1 billion they expected.

The money will fast-track the construction of 1,700 apartments already under the group's control and fund the acquisition of further build-to-rent assets with a focus on Sydney, Melbourne and Brisbane, with the objective to surpass 5,000 apartments within years given the joint venture's existing holdings.

[10] National Housing Finance Investment Corporation, 'Building Jobs: How residential construction drives the economy', 2020.
[11] Assuming 20 per cent investor holdings at a land tax rate of $300 per unit dwelling with an aggregated taxable value of land of $400,000 per unit.

Recommendation seven | Expand Keystart eligibility

Product eligibility criteria (such as income and property purchase limits) are not keeping pace with changes in the market. This has the potential to drive more people to marginal locations on the outskirts of the metropolitan area.

Keystart's property purchase limits are losing connection with the market following the recovery of the median house price to pre-2016 levels. Property purchase limits are too low to support families that want access to medium and high density dwellings or homes closer to the CBD. Additionally, while the scheme does support off-the-plan purchases, Keystart is not able to fund the deposit that buyers need to pay developers to secure an off-the-plan property as part of pre-sales.

> *"Keystart currently services around 20,000 households. It is estimated there are 670,000 non-homeowner households in WA, of which 128,000 are unable to access finance from traditional lenders due to their inability to save for a deposit and the cost of lenders' mortgage insurance."*

The Property Council recommends pegging Keystart's property purchase limit to the median house price by suburb (or a range +/- of the median). Notably, while the median house price in Greater Perth is still $520,000, the median house price for suburbs within 10 kilometres of the CBD is more than $1 million.

The Property Council also recommends the State Government investigate options to remove the additional deposit barriers for off-the-plan apartments. This may include a deposit grant for apartments sold off-the-plan to encourage people unable to meet developers' typical deposit requirements. It may include a purchase guarantee provided by the WA Government's Department of Communities to encourage developers to offer some properties without a pre-sale deposit.

Recommendation eight | Extend the current NRAS or implement a WA specific version

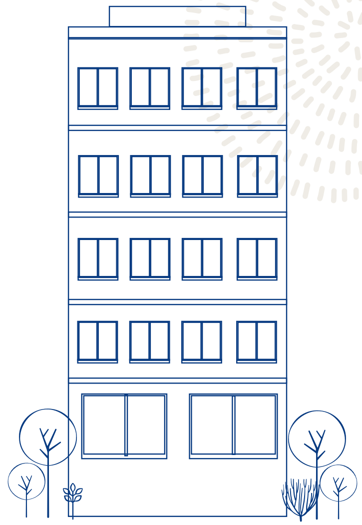
The federal government's National Rent Affordability Scheme (NRAS) is delivered in partnership with the relevant state and territory governments. It seeks to address the shortage of affordable housing by offering financial incentives for landlords to rent residential premises to NRAS tenants at 80 per cent or less of the market value rent.

NRAS will conclude on 30 June 2026 and is now closed to new entrants. There are concerns that landlords will increase the rents on these residential premises to offset the loss of financial incentives, which will force many tenants out and put further pressure on the affordable housing sector.

NRAS has been criticised in recent years, with the Grattan Institute arguing that it was "expensive, inefficient and poorly targeted" with landlords finding it highly administrative.[12] However, given there is no suitable alternative entering the market, it may be worthwhile extending NRAS in the short term. In the longer term, there may be an opportunity for the State Government to take the learnings from NRAS and implement a WA-specific and improved version to increase the levels of affordable housing.

Recommendation nine | Provide tax concessions to purchasers of apartments that contain social housing

Removing the stigma associated with social housing and ensuring social housing can be effectively integrated within infill products should be priorities. The Property Council proposes that tax rebates or concessions could be offered to private market purchasers who purchase a dwelling in a project that has a higher ratio of social housing product. This recommendation could support buyers looking to purchase in the more affordable end of the market, such as key workers.



[12] Grattan Institute, 'Learning from past mistakes: lessons from the National Rental Affordability Scheme', Brendan Coates, Jessie Horder-Geraghty, 9 September 2019, accessed online 3 December 2021 <https://grattan.edu.au/news/learning-from-past-mistakes-lessons-from-the-national-rental-affordability-scheme/>

Recommendation ten| Introduce a right sizer grant to stimulate downsizing

Fourteen per cent of Western Australia's population is aged 65 and over.[13] Rightsizing helps meet the housing aspirations of older Australians who no longer need to live in large family homes, but who want to remain in the communities they love.

> *"The Australian Institute of Health and Welfare has found that retirees retain high levels of wealth in their homes – rising to 49 per cent of equity for homeowners aged 75-plus."*

Most of these Australians choose not to downsize and cite transaction costs associated with relocating as one of the biggest barriers.[14]

The Property Council has proposed a $15,000 bonus – effectively a "rightsizing grant" – be made available to eligible right sizers who purchase either a new completed apartment or any type of senior-specific housing. This proposal was well-received in media coverage prior to the 2021 state election.

The grant would only be available to seniors who purchase a new completed apartment or any type of senior-specific housing such as a retirement village. Limiting the grant to these assets would free-up existing family dwellings in established suburbs and direct investment towards fit-for-purpose assets where there is currently surplus supply. There are numerous economic benefits to this grant proposal, including:

- Stimulate economic activity, as the average right sizer releases a significant proportion of equity on the sale of their family home, which flows into the local economy
- Support construction and jobs, as apartment and retirement developers invest in future projects as apartment projects sell out
- Incentivise investment in the seniors' housing market, stimulating a sector that has been plagued by uncertainty following the ongoing review of the Retirement Villages Act
- Promote housing mobility and release existing larger properties into the market for families, increasing the availability of appropriate housing in existing suburbs
- Generate stamp duty revenue for government from trade-up buyers and first home buyers

Recommendation eleven | Reconsider proposed changes to the Residential Tenancies Act 1987 (RTA) that limit owners' rights

The Property Council understands several amendments to the Residential Tenancies Act 1987 (RTA) are currently being considered, including:

1. Allowing a tenant to have a pet in the rental property, without the rental provider's consent
2. Allowing a tenant to make modifications to the rental property, without the rental provider's consent
3. Requiring a rental provider to have a reason, from a given set of reasons, to terminate some tenancies

The Property Council strongly opposes these amendments, as they have the potential to further impact investment confidence in WA, both in the private market and in the BtR market.

Recommendation twelve | Apply strategic planning principles to reduce costs associated with planning and delivery

Beyond the recommendations outlined in Planning to Deliver, there is an opportunity for the State Government to consider better coordination of strategic planning and delivery through the relevant agencies, which are currently split across several portfolios:

- Department of Communities
- Housing Authority – Housing
- DevelopmentWA (WALA) – Lands
- DevelopmentWA (MRA) – Lands
- DPLH (Planning) – Planning
- DPLH (Lands) – Lands

The State Government should also consider consolidating planning and delivery agencies under a single portfolio or creating a clear and transparent governance model to assist strategic coordination of activities. Importantly, this should be focussed only on addressing areas of market failure and enabling the private sector to deliver. It should not be competing with the private market, especially in the context of high value precinct locations.

In the infill context, a non-commercial model would ensure government can deliver otherwise unfeasible infill sites at below market rates. Private developers could potentially exchange non-commercial site acquisition agreements for a percentage of affordable housing units.

[13] Australian Bureau of Statistics, '2016 Census QuickStats,', accessed 3 December 2021 < https://quickstats.censusdata.abs.gov.au/census_services/getproduct/census/2016/quickstat/036>
[14] Australian Housing and Urban Research Institute, 'Moving, downsizing and housing equity consumption choices of older Australians,' 13 November 2019, accessed 3 December 2021 <https://www.ahuri.edu.au/research/final-reports/321>

Supporting the supply of social and crisis housing

Recommendation thirteen | Establish a housing investment fund

The Property Council estimates more than 4,300 apartments are currently delayed or not proceeding due to cost escalation. In response, the State Government could consider establishing a housing investment fund (HIF) similar to that recently announced in Queensland.

The Queensland HIF is intended to provide stable, long-term investment returns to fund co-investments for housing solutions. Under the HIF, subsidies and one-off capital grants will be offered to encourage developers, institutional investors, and eligible government entities to partner with community housing providers to build or redevelop and operate housing solutions.

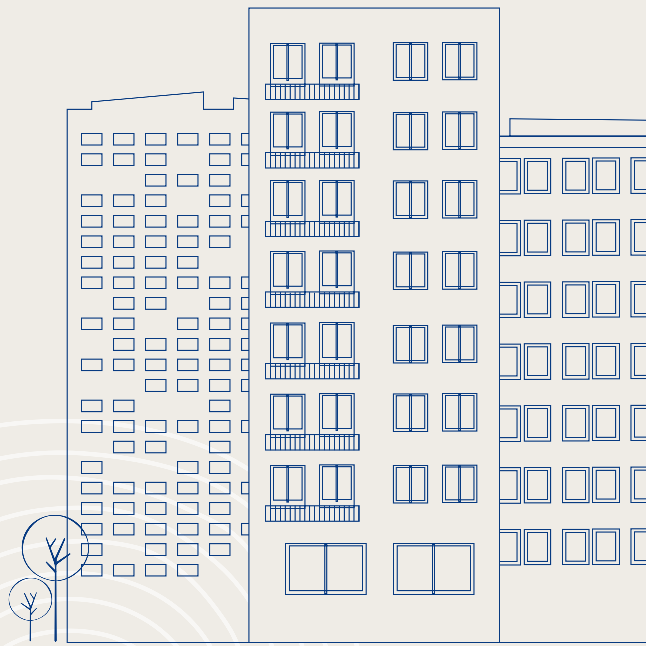
Recommendation fourteen | Investigate use of leasehold Strata for affordable development at key METRONET sites

A leasehold scheme is a new type of strata scheme which can be created on freehold land and conditional tenure land (but not Crown land) in which all lots in the scheme are subject to a fixed-term lease of between 20 and 99 years. Once the lease expires or terminates, the land in the scheme reverts to the owner of the freehold. This scheme type could be used on government land sites around METRONET precincts when infill development is desirable but may not be commercially feasible for some time. Specifically, the sites should be used by charity groups as a low-cost alternative to site acquisition for social housing development.

Recommendation fifteen | Focus investment around existing stock

The highly constrained building and construction market is causing price escalation to the point that projects are not proceeding. When supported by the developer and in consultation with residents, government should prioritise opportunities to increase social housing stock through the acquisition of existing product, rather than developing new projects, until such time as labour and supply pressures ease. The acquisition of existing stock would also have a more instantaneous impact on waiting lists.

We commend existing efforts by the State Government to acquire housing stock and the process for inviting proposals from developers to the Department of Communities.



Conclusion

World leading economic growth and response to COVID-19 pandemic

Over the past two years, Western Australia has experienced strong economic conditions.

Economic growth has been healthy, supported by strong demand for resources, particularly iron ore, and a cessation in relatively stagnant migration experienced between 2016 and 2019.[15]

Economic growth and population recovery, paired with the strong health response during the COVID-19 pandemic, have supported many of WA's sectors. However, increasing skills shortages and a lack of international migration have raised questions of the ongoing ability of industries to continue to service growth.

Addressing skills shortages will be an enduring challenge.

The WA unemployment rate is currently 3.9 per cent, the lowest figure since 2012, and job vacancies have reached a record high of 52,000. Unlike 2012, when WA was alone in facing skills shortages, the experience is same across Australian states. This is creating competition for labour and a national race to attract talent. Industry welcomes the Reconnect WA package and the imminent opening of the WA border to interstate and international travel as effective steps to ameliorate people shortages.

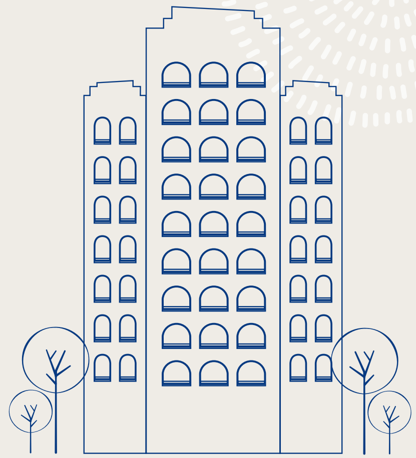
Migrating workers will build the WA economy

The challenge with a growing population is providing housing for all. With streamlined planning systems, a steady land supply and a hard-working skilled labour market, stable growth is possible. Just as Western Australia thrived in the mid-twentieth century due to waves of European migration, our positive economic trajectory will be assured.

Time to reconsider policy options

Now is the time for the State Government to reconsider all alternatives to address the challenges to housing supply. Recommendations in this report are ones that may have been considered and perhaps discounted in the past. But the outlook is different this time, and the consequences of inadequate policy action are serious.

Members of the Property Council endorse these recommendations as the most effective way to deliver immediate and mid-term housing supply. We commend these policy ideas to the State Government.



[15] Australian Government Centre for Population, National, state and territory population overview, accessed online 3 December 2021 <https://population.gov.au/data-and-forecasts/data-and-forecasts-dashboard-population.html>

Appendix

Spectrum of housing

General housing market – Owner occupier

Supplied by the private sector, the general housing market is the biggest section of the residential housing, servicing 96.7 per cent of Western Australia through owner occupier accommodation or rental. Owner occupiers comprised more than 70 per cent of all housing in WA in the 2016 census; however it is estimated this figure has now grown.

When it comes to affordable housing in the general market, there is no one single, widely agreed definition. However, 30 per cent of household income allocated to housing costs is commonly used as a benchmark. Notably, recent experience shows this methodology may be an inadequate mechanism, particularly in regional areas.

In Perth, the median monthly income is $7,917. Applying the definition of affordability, a median income household can service a mortgage of $2,375 per month.

If a buyer was to obtain a 100 per cent, five-year fix rate mortgage, the current repayments would be $2,304 per month[16]. If house prices increase, or if there are changes in lending criteria or interest rates, median income households may no longer be able to service a mortgage. For example, if house prices increase by 10 per cent, repayments on the same mortgage would increase to $2,582 per month.

The other challenge associated with home ownership is saving for a deposit. Applying a savings rate of 20 per cent to the median monthly income, to save a 20 per cent deposit would take more than 66 months.[17] This figure does not account for stamp duty or other expenses associated with home ownership.

Supported purchasing – Keystart

Keystart provides low deposit home loans with no lenders' mortgage insurance. The project seeks to address the difficulty of saving for a deposit that meets the requirements of traditional lenders. It supports movement along the spectrum of housing to reduce pressure on private rental and therefore social housing. All profits are distributed to the housing authority.

The State Government is responsible for housing policy and approving Keystart's funding limits. Funds raised in the market by Keystart are managed through WA Treasury Corporation. Keystart's product eligibility criteria (income and property purchase limits) are aligned to support government housing and economic policy.

Supported purchasing – Rent-to-own

Rent-to-own schemes (also known as rent-to-buy schemes) are leasing agreements that give renters the right to buy a home at the end of a pre-determined rental period, at a price agreed prior to signing the agreement. These mechanisms make it easier for aspiring property owners to get onto the property ladder, by eliminating the need to save a traditional deposit and by delaying the need to secure finance from a bank or lending institution.

The Property Council is aware there is interest in developing more of these project in WA. However, current construction costs are limiting project viability. Land tax concessions for rent-to-own operators could assist in offsetting current market pressures and stimulate the development of the sector in WA. The model has been successfully rolled out in several Victorian projects and is being used in limited instances in WA.

Seniors' living – Retirement Living

Retirement villages are purpose-built age friendly communities that offer affordable housing for people aged 55 and over. Residents typically pay a lump sum payment upon entry to a retirement village for the right to occupy – usually through a lease for life – with most of the upfront fee refunded following a resident's departure.

Retirement villages do not receive grants or subsidies to operate from government. Current retirement village legislation is highly regulated, and the ongoing review of the Act has been lengthy and complex, resulting in a slowdown of investment and confidence in the sector. More retirement villages will be needed to serve an ageing population and to offer the health, financial and lifestyle requirements that a growing cohort is looking for.

[16] Commonwealth Bank of Australia, 'Home loan repayment calculator,' accessed 3 December 2021, <https://www.commbank.com.au/digital/home-buying/calculator/home-loan-repayments?ei=hl_tc_hl-repayments>
[17] National household savings ratio, updated 1/12/2021 by ABS, is 19.8 per cent; Pre-COVID the national household savings ratio was much lower - between 5 to 9.7 per cent over mid-2019 to March 2020.

Alternative forms of seniors' housing continue to emerge, which provide a competitive threat to retirement villages, particularly as future policy and regulatory settings remain unclear.

Seniors' living – Land lease

Land lease communities are swiftly gaining popularity as a downsizing option for people aged over 50. Under the land lease model, purchasers buy a home and lease the land for 90 years under a residential site agreement. The agreement provides access to community facilities, which can include onsite community management, plus maintenance front garden and all common areas.

The increasing use of modular housing in the social housing space is placing significant pressure on this sector, which also relies on modular housing. This is causing delivery challenges across several sites.

Rental accommodation

Residential rental property refers to homes that are purchased by an investor and inhabited by tenants on a lease or other type of rental agreement.

Build-to-rent

At its simplest, build-to-rent (BtR) projects are purpose-built residential housing for renting, with longer-term rental options and leases centrally and professionally managed, typically with onsite support.

There is substantial interest in BtR development in WA among institutional investors. However only two projects have progressed to development due to the tax discrepancies between BtR and build-to-sell (BtS). For example, a 250-dwelling BtS project with an aggregated taxable value of land of $100 million would generate approximately $15,000 in land tax per annum. If the project was a BtR project it would incur a land tax liability of $2,562,850 per annum, 170 times more than a BtS project. At a reduced rate of 50 per cent the recurring tax liability on a BtR project would equal $1,281,425 more than 85 times a BtS project.

The Property Council estimates that customer demand for BtR in Perth is high and a tax policy change would unlock large scale investment.

Assisted rental schemes

Rent assistance is a non-taxable income supplement payable to eligible people who rent in the private rental market or community housing. Pensioners and other people receiving more than the base rate of Family Tax Benefit Part A may be eligible for rent assistance.

Social housing

Housing provided for people on low incomes or with particular needs by government agencies or non-profit organisations.

Crisis housing and homelessness

According to the Australian Bureau of Statistics, a person will experience homelessness when there is a lack of suitable accommodation alternatives and their current living arrangement:

- Is in a dwelling that is inadequate; or
- Has no tenure, or if their initial tenure is short and not extendable; or
- Does not allow them to have control of, and access to space for social relations.

The By Name List (BNL), a 'live' database of people experiencing homelessness, suggest there are currently approximately 1,000 people in experiencing homelessness in Perth, Fremantle and surrounds. However, young people are suspected to be underrepresented on the BNL database.

It has been reported that "at least 44 people known to homelessness services died in Perth in the first nine months of 2021".[18]

Several industry-led initiatives are aimed at improving the availability of permanent dwellings. One such initiative is the Homes for Homes program, created by The Big Issue, whereby sellers voluntarily donate 0.1% of their property price to the charity, which then funds social housing. Homes for Homes is complementary to other social and affordable housing initiatives that councils, developers or governments have in place.

[18] The Guardian, 'Dying on the streets', 17 October 2021, accessed online 3 December 2021 <https://www.theguardian.com/australia-news/2021/oct/17/dying-on-the-streets-at-least-44-homeless-people-have-died-in-perth-this-year>

Anatomy of Residential Development

Principles of project feasibility

Greenfields

The following provides a high-level timeline of the approvals and the subsequent timeframes for each major step:

- **Metropolitan Region Scheme: 36-42 months** with around 30 months for government assessment
- **Local Planning Scheme (LPS) Amendment:** 15-18 months, which can be run concurrently to the MRS but is dependent on the local government which can request to see the MRS approved prior
- **Local Structure Plan:** 15 months (12 months approval timeframe), which can be run concurrently with the LPS amendment with approval given two months post LPS approval
- **Subdivision:** 4 months (3-month approval timeframe)
- **Stage 1 construction:** 6 months
- **First titles:** Approximately 4-5 years from acquisition

The above does not contemplate a District Structure Plan (DSP) approval, however Property Council members are increasingly seeing government request this. The introduction of a DSP should, in theory, reduce the timeframes associated with the MRS amendment; however this has not eventuated in real time and instead the process requirement has added another layer to the approvals process. The above also does not contemplate environmental approvals. The Western Australian Environmental Protection Authority and the Department of Biodiversity, Conservation and Attractions are becoming more unpredictable, leading to further delays; some members are reporting delays of up to two years. Property Council members report that the approvals processes are increasingly getting harder, with even the straightforward sites held up by indecision and government silos.

It is evident that, while there is some time associated with the preparation of each of the approvals, most of the time is government assessment. Streamlining assessment and approvals presents the biggest opportunity to expedite the delivery of affordable housing. **Concurrent planning approvals is one of the most important planning reform items to expedite the delivery of affordable housing in both infill and greenfield sites.** This recommendation in Planning to Deliver, alongside addressing inefficiencies in referral processes.

For a greenfields project to progress, it generally requires an internal rate of return and profit of between 15 to 20 per cent. This varies depending on the risk of the project, with planning approvals and timeframes being a major risk. The hurdle rates do not specifically change if there is an affordable housing component; it will just be part of the project assumptions made which will impact how much a developer is willing to pay for the site. The time between acquisition and first settlements is one of the largest needle movers in feasibilities and can be the reason why a project proceeds or does not.

Despite strong sales in the greenfields market, supply pressures are creating significant challenges, with build times now ranging from 12-24 months, in some cases more. The greenfields market largely services first home buyers and members are reporting instances of land purchasers re-selling packages because of building delays and holding costs.

Several developers are also reporting the need to seek variations in building materials and costs to accommodate for product shortages and to support delivery timelines.

Infill Development

Infill development follows a very different timeline to greenfields and experiences comparatively elevated upfront consultancy engagement and costs. The following provides a high-level timeline of the approvals and the following timeframes for each major step from site identification:

- **Due Diligence and Acquisition:** 3 months
- **Concept design to DA:** 12-18 months (this timeline can extend if development is subject to State Design Review Panel or other approval steps)
- **Presales:** 6–36 months (this varies significantly based on project scale, market conditions, financier requirements, investor levels, tax conditions).
- **Construction:** 18-24 months
- **Practical completion and titles:** 3 months
- **Sales:** continue during and post-construction (unsold stock liability sits with the developer).

The pre-DA program of works for infill development is costly, with developers required to invest in numerous reports, design plans, community consultation processes without any certainty of approval.

Infill projects are also subject to obstructive community opposition at a higher rate than house and land development. While the opposition is infrequently the majority of impacted stakeholders, it is regularly a small group of active and vocal opposers.

There are some instances of local government inhibiting infill and higher density development. The Town of East Fremantle is a good example. According to its website,

"The Town of East Fremantle has strongly resisted the push for infill development and encouraged the retention of the many heritage homes, gardens and streetscapes in the area. Whilst the pressure from the State Planning Authorities to increase densities may ultimately prevail, in East Fremantle the community and families currently enjoy the standard of amenity of their forebears, with space for children to play and a sense of history and community unparalleled elsewhere."[19]

Infill projects are also subject to several additional taxes and charges compared to other housing options such as public art contributions, developer contributions towards infrastructure and community infrastructure contributions.

The costs of infill development have increased due to additional design review obligations and changing fit-out requirements. One example is the National Construction Code (NCC) fire mandates on projects over three storeys, despite this provision not being required for a three-storey house or townhouse.

The extended development timeline on infill projects limits the ability to accurately cost project as end-user pricing is regularly locked in early with limited ability to alter pricing significantly.

[19] https://www.eastfremantle.wa.gov.au/enjoy-east-fremantle/about-east-fremantle/enjoy-east-fremantle.aspx

Acknowledgement of Contributors

The Property Council wishes to thank the contributors to this report including, the WA Division Council, Residential Committee, Planning Committee, Tax Committee, Cities and Emerging Precincts Committee, and the Diversity Committee.

Australian Capital Developments

Birchmead Property Group

Blackburne

Cedar Woods Properties Ltd

Celsius Property Group

Finbar Group

Frasers Property

Hesperia

Lendlease

Megara

Mirvac

Norup & Wilson

OP Properties

Parcel Property

Peet

Saracen Properties

Sirona Capital

Stirling Capital

Stockland

Westbridge Funds Management

Summary of recommendations

POLICY RECOMMENDATION	POLICY INTENDED TO TARGET SEGMENT/S OF THE HOUSING SPECTRUM	REASON FOR (RE)CONSIDERATION OF THIS POLICY
Addressing Labour and Material Shortages		
1 | Pursue targeted migration growth	New supply in all segments	Immediate and future housing supply at risk
2 | Remove purchasing barriers for skilled migrants	New supply in owner occupier and rental	Competitive advantage to attract foreign-born residents to invest and/or stay in WA
3 | Introduce an apprentice guarantee	New supply in all segments	Cost pressure relief
4 | Payroll tax relief for small business	New supply in all segments	Cost pressure relief
Maintaining market affordability and addressing rental shortfalls		
5 | Make permanent and expand the stamp duty concession	New supply in owner occupier and rental	Equal the tax playing field between greenfields house and land packages and infill development
6 | Stimulate build-to-rent development	New rental supply	Intense market need and WA's relative disadvantage to eastern states to attract investment
7 | Expand Keystart eligibility	Shift renters to owner occupier with mortgage	Relieve rental market
8 | Extension of the current NRAS or implementation of a WA-specific version	Sustain affordability in rental market	NRAS due to conclude and rental price escalations are likely to continue
9 | Provide tax concessions to purchasers of apartments that contain social housing projects	New supply of affordable and social housing	Improve affordability for low income and key workers while integrating social housing with the general market
10 | Introduce a right sizer grant to stimulate downsizing	New supply in owner occupier and rental	Most effective and immediate mechanism to free up owner-occupied family homes for migrant families
11 | Reconsider proposed changes to the Residential Tenancies Act 1987 (RTA) which limit owners' rights	Sustain existing rental stock	Limit risk to loss of investment in residential asset class
12 | Apply strategic planning principles to reduce costs associated with planning delivery	New supply in all segments	
Supporting the supply of social and crisis housing		
13 | Establish a housing investment fund	New supply of social housing	Co-partnership will support marginal projects to proceed and add to housing supply
14 | Investigate use of leasehold strata for affordable development at key METRONET sites	New supply of social housing	Ability to provide housing in METRONET precincts that can be scaled to higher density as the precincts develop
15 | Focus investment around existing stock	New supply of social housing	Instantaneous addition of stock without competing for labour.

Publication Date
11 January 2022

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