Federal Pre-Budget 2024-25 Submission

February 2024

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Foreword

The Property Council of Australia's members lead the sector with the largest direct economic footprint in the nation – producing $232.7 billion towards GDP, employing 1.4 million Australians and generating $178 billion in employee incomes. Property and shaping the future of our cities is central to our national prosperity and touches the lives of every Australian.

The Property Council's 2,300 member companies are the nation's major investors, owners, managers and creators of properties and places that matter: homes, retirement villages, shopping centres, offices, industrial areas, education, research and health precincts, tourism and hospitality venues, and more. They shape our cities, create our communities and build the homes that Australians need.

In 2023, the Property Council:

- Backed the government's expanded target of 1.2 million new well-located homes by 2029, the crystallisation of our long-held view that a measurable, accountable national approach is essential
- Challenged all parliaments and levels of government to support the housing target
- Welcomed the government's $3 billion in competition-style incentives to boost the nation's housing supply – something we've advocated for two decades
- Backed the establishment of the Housing Australia Future Fund (HAFF)
- Advocated for and welcomed the strengthening of Infrastructure Australia's authority and impact
- Welcomed the evidence-led approach to reduce the MIT withholding rate on build-to-rent projects to 15 per cent and to reduce FIRB application fees for this asset class
- Proposed improvements to the government's new Thin Cap framework to preserve welcome global institutional investment in building new Australian property assets.

But there's much more to do.

The government's housing target should be a modest one for a nation as revenue and land-rich as Australia. Sadly, what is a modest housing goal by global standards is a stretch goal for Australian governments.

Property and shaping the future of our cities is central to our national prosperity and touches the lives of every Australian.

Beyond a twentieth century tax system, the greatest economic and social cohesion challenge Australia faces is the delivery of affordable new homes for renters and purchasers as well adequate supply for those who rely on government housing support.

The approaches outlined in our pre-budget submission seeks to tackle the challenges at hand. Our plan has four pillars:

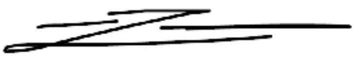
01 **Housing for all** – ensuring every Australian has the opportunity to own or rent a home

02 **A competitive destination for global investment** – improving our cities by attracting overseas capital to build their future needs

03 **A more productive nation** – cultivating a skilled and productive workforce to meet the growing demands of housing and other construction

04 **A clever path to decarbonisation** – ensuring that *Every Building Counts* as we decarbonise our built environment.

As ever, we look forward to further engagement on these matters and trust the Federal Budget 2024-25 will chart a pro-investment course so our cities thrive, housing targets are met, and the benefits can be widely shared by all Australians.



Mike Zorbas
Chief Executive
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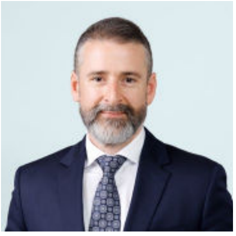

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Housing for all

Ensuring every Australian has the opportunity to own or rent a home.

The issue

All Australians deserve to have a home, whether to own or rent.

The stark reality is that we are not supplying enough homes for a growing Australia.

Our collective housing approach has been a multi-decade failure. Poor planning and inadequate policy decisions, especially a disregard for supply drivers and creating the right stable investment environment, along with outright high government taxes (which make up over a third of the cost of new homes) have continued to raise the cost of constructing every new home. In some cases, this leads to allocated capital intended for the construction of new homes being redirected towards other asset classes.

The understanding of the causes of our housing deficit is now mainstream. Research commissioned by the Property Council, surveying 1,500 Australians, showed 81 per cent agree there is an undersupply of housing that is affordable in their area. 44 per cent say planning has failed to keep up with population growth, and that is the main reason for poor housing affordability. These insights are consistent across age, states, location, owners, renters and backgrounds.

The three keys to addressing the housing supply deficit are:

- Delivering the clear and ambitious housing target of 1.2 million new well-located homes by 2029, only possible through industry and government partnership and which will include adequate state social housing funding
- Fixing broken state and territory planning systems that have held and continue to hold back housing– especially planning for sustainable densification around transport and job opportunities
- Encouraging the delivery of high-community benefit (HCB) housing types that suit the needs of students, renters and retirees and facilitate the delivery of government and community services – like purpose-built student accommodation (PBSA), build-to-rent (BTR) and retirement living communities – in a way that welcomes investment that can deliver homes at scale.

The solutions

01 Providing budget neutral support for the delivery of specifically affordable build-to-rent homes by reducing the MIT withholding rate to 10 per cent for projects that incorporate a discount-to-market affordable housing component.

02 Doubling the committed $3 billion performance-based New Home Bonus for states and territories that surpass their targets in achieving the one million well-located home goal under the National Housing Accord.

03 Doubling the $500 million Housing Support Program, offering competitive funding for local and state governments to kick-start housing through targeted activation payments.

04 Ensuring the inclusion of specific targets for purpose-built student accommodation and retirement communities within the National Housing Accord. This emphasises the importance of these HCB assets in alleviating pressure on the rental market and reintroducing traditional stock into the housing market. In the case of retirement communities, they can delay a resident's entry into residential aged care facilities, which could save the Federal government one billion dollars per annum.

05 Preventing the removal of housing stock from the market by extending the MIT withholding rate reduction, as announced in the 2023-24 Federal Budget, to Australian pioneers in the 11 scale institutional build-to-rent investments that are already in operation.

A competitive destination for global investment

Improving our cities by attracting overseas capital to build their future needs.

The issue

Capital will go where it is welcome.

Australia exists in a competitive global environment for capital and institutional investors. They evaluate the best, stable returns unconstrained by national borders.

The property industry is a capital-intensive sector, requiring significant investment to deliver projects.

In recent years, Australia's increasingly complex and costly regulatory and tax regime for overseas institutional investment in real estate has impacted our global reputation and competitiveness.

Our Foreign Investment Review Board (FIRB) settings are wider in scope and more stringent than other well-developed markets, with significantly higher application fees imposed on top of opportunistic and counterproductive state taxes on overseas investors. This perception of complexity and risk has been exacerbated with delays and uncertainty on FIRB approval timeframes which impact market liquidity. We note FIRB is attempting to address these.

Australia must put itself in the path of global institutional investors and the city-improving assets and well-paid jobs that flow from their investment. That is how Australia will support the development of more homes, offices, retail centres, industrial sites, retirement living, student accommodation, hotels and community, cultural and sporting precincts, and boost our economic growth and prosperity.

The solutions

01 Further amending the *Treasury Laws Amendment (Making Multinationals Pay Their Fair Share – Integrity and Transparency) Bill 2023* to ensure a workable regime that maintains the integrity of Australia's taxation system while ensuring the genuine business activities of Australia's property sector are not constrained.

02 Reviewing the Your Future Your Super performance benchmarking requirements (particularly RG97) and removing stamp duty costs from the calculation of fee adjusted returns, to better equip superannuation funds to invest in the delivery of housing to meet our 1.2 million new home target.

03 Incentivise states and territories to remove counter-intuitive foreign investor surcharges on residential and commercial property – which can add up to 8 per cent to the purchase price upfront and increase annual land taxes by a further 2 per cent.

04 Better resourcing FIRB to reduce time delays associated with applications for foreign investment approvals and creating 'trusted investor' status for those with a proven track record of investing in sectors of critical national public importance like housing.

05 Excluding passive or non-controversial commercial real estate investment opportunities from national security screening processes and legislating the reduction of FIRB application fees on build-to-rent as a priority, to encourage institutional investment in new homes.

06 Allow developers to reclaim input tax credits on expenses for purpose-built student accommodation, retirement communities and build-to-rent, to remove another hurdle for both financiers and developers' inability to claim credits for genuine costs to development.

A more productive nation

Cultivating a skilled and productive workforce to meet the growing demands of housing and other construction.

The issue

Market capacity and labour scarcity are the key construction cost drivers to the end of the decade.

Some key building products will remain structurally undersupplied. Builder insolvencies remained high during 2023. In many markets, project viability remains clouded.

Even after landing capital partners and navigating high-friction planning systems, the cost and delays in creating homes, commercial and industrial projects will be exacerbated by this historic labour and market capacity scarcity.

Over the past 20 years, only 1.8 per cent of permanent migrants have arrived employed in construction trades and construction trades are not in the top 10 occupations for either permanent or temporary migration. Urbis tells us that the Victorian construction workforce alone will need to employ another 191,000 people by 2034 to deliver that state's housing targets.

Mostly justified big infrastructure and transport spends have swiftly followed or peaked after the pandemic. Big builds are not the majority of construction value delivered annually and yet they are the first option among equals for contracting firms and individuals seeking longevity of employment and certainty in a volatile market.

One third of the Federal government's ten-year $80 billion transport investment is due to be expended by mid-2025. Costs are up 41 per cent or $32.8 billion on those 700 odd projects alone.

On a smaller scale, important green and defence infrastructure investment will increasingly attract existing talent away from vital city-building.

The solutions

01 Adjusting the mix of skilled migrants in a smaller overall intake with a greater emphasis on construction trades and the care economy (like retirement village workers) is vital. This involves at least doubling the proportion of permanent migrants in construction trades from 1.8 per cent and increasing the proportion of care economy workers.

02 Maintain Australia's position as a destination of choice for international students and prioritise purpose-built student accommodation so that they are not competing for scarce beds in the general rental pool.

03 Cultivating the intellectual capital essential for driving Australia's future prosperity by avoiding caps on genuine student numbers and refraining from imposing taxes on international student incomes.

04 Restoring the importance of Infrastructure Australia in evaluating new infrastructure projects.

05 Giving precedence to funding for new infrastructure projects that contribute to the expansion of housing supply. This involves considering factors such as population growth, city planning, and sustainability in the decision-making process.

A clever path ahead to decarbonisation

Ensuring that *Every Building Counts* as we decarbonise our built environment.

The issue

Buildings account for half of Australia's electricity use, and almost a quarter of its emissions.

Buildings present some of the lowest cost emissions reduction opportunities.

The technology already exists to achieve zero-carbon-ready buildings.

Property Council members have worked through our organisation and our colleagues at the Green Building Council of Australia to position Australia as an international leader in green commercial property over the past two decades. They have demonstrated a commitment to ESG, routinely topping indices such as the Global Real Estate Sustainability Benchmark and the Dow Jones Sustainability Index.

As a broader industry, we have the technology to decarbonise now – but we must do this at speed and scale to smooth the way for other hard-to-abate sectors.

As outlined in our joint report with the Green Building Council of Australia, *Every Building Counts*, we estimate:

- Energy Efficiency measures could deliver $20 billion in energy bill savings for businesses and households and avoid 64 MT of CO_2e by 2050
- Electrification of the built environment could deliver $49 billion in energy saving between 2024 and 2050 compared to BAU and avoid 199 MT of CO_2e.

Our members, the market leaders, have made considerable progress in recent years but barriers remain, such as the perceived difficulty of building upgrades, high upfront costs, and long payback periods.

Property Council members are world leaders in sustainability. The challenge remains to extend this progress across the sector more broadly.

The solutions

The Federal government should accelerate the shift to high performance buildings with targeted incentives to enhance energy efficiency and support the business case for electrification for new and existing buildings.

Priority should be placed on:

01 Incentives linked to the installation of electric appliances replacing gas.

02 Modernising the 10 per cent Clean Building Managed Investment Trusts (MIT) to expand coverage to all buildings institutionally held for residential rental purposes.

03 Extending the instant asset write-off scheme to include energy efficiency upgrades of buildings, for write-offs up to $150,000.

04 Green depreciation, which would see the deferment of taxable income in exchange for bringing forward investment in large upgrades that exceed the instant asset write-off threshold.

05 Leverage existing high performing bodies like the Australian Renewable Energy Agency (ARENA) and the Clean Energy Finance Corporation (CEFC) to deliver an innovation and commercialisation agenda in the built environment.

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