



National Housing and Homelessness Plan Issues Paper

Submission to the Department
of Social Services
20 October 2023



ABOUT THE HOUSING INDUSTRY ASSOCIATION

The Housing Industry Association (HIA) is Australia's only national industry association representing the interests of the residential building industry.

As the voice of the residential building industry, HIA represents a membership of 60,000 across Australia. Our members are involved in delivering more than 170,000 new homes each year through the construction of new housing estates, detached homes, low & medium-density housing developments, apartment buildings and completing renovations on Australia's 9 million existing homes.

HIA members comprise a diverse mix of companies, including volume builders delivering thousands of new homes a year through to small and medium home builders delivering one or more custom built homes a year. From sole traders to multi-nationals, HIA members construct over 85 per cent of the nation's new building stock.

The residential building industry is one of Australia's most dynamic, innovative and efficient service industries and is a key driver of the Australian economy. The residential building industry has a wide reach into the manufacturing, supply and retail sectors.

Contributing over \$100 billion per annum and accounting for 5.8 per cent of Gross Domestic Product, the residential building industry employs over one million people, representing tens of thousands of small businesses and over 200,000 sub-contractors reliant on the industry for their livelihood.

HIA exists to service the businesses it represents, lobby for the best possible business environment for the building industry and to encourage a responsible and quality driven, affordable residential building development industry. HIA's mission is to:

"promote policies and provide services which enhance our members' business practices, products and profitability, consistent with the highest standards of professional and commercial conduct."

HIA develops and advocates policy on behalf of members to further advance new home building and renovating, enabling members to provide affordable and appropriate housing to the growing Australian population.

New policy is generated through a grassroots process that starts with local and regional committees before progressing to the National Policy Congress by which time it has passed through almost 1,000 sets of hands.

Policy development is supported by an ongoing process of collecting and analysing data, forecasting, and providing industry data and insights for members, the general public and on a contract basis.

The association operates offices in 22 centres around the nation providing a wide range of advocacy, business support services and products for members, including legal, technical, planning, workplace health and safety and business compliance advice, along with training services, contracts and stationary, industry awards for excellence, and member only discounts on goods and services.

EXECUTIVE SUMMARY

Thank you for the opportunity for the Housing Industry Association (HIA) to provide a submission to the National Housing and Homelessness Plan Issues Paper (herein referred to as the Issues Paper).

HIA is broadly supportive of the Australian Government developing a long term national plan to help all Australian's to access housing, be it private, rental, social or community housing and this being a key pillar of Federal and State Government policies.

This National Plan will be underpinned by short, medium and long term objectives looking at measures and barriers to how this can be achieved.

Importantly the Issues Paper identifies that all levels of Governments across Federal, State and Territory and Local Governments need to work together in a coordinated fashion to not only set the 10 year strategy but to ensure its delivery on the ground.

It is acknowledged that the areas of coverage of the development of a National Housing and Homelessness Plan are extremely broad particularly related to homelessness and Aboriginal and Torres Strait Islander housing. Improving housing outcomes to address these areas are multifaceted and extend beyond just access to housing in of itself.

Within this context, HIA's response to the Issues Paper focusses on measures to support increasing the supply side delivery of more housing as many of the issues related to need for more rental housing, social housing and affordability issues are directly linked to lack of supply of adequate housing and new land for more housing.

Therefore, HIA's response to the Issues Paper focusses on the following key matters:

- The Commitments made by National Cabinet on the National Housing Accord to build 1.2 million homes from 2024-2029 is welcomed and will put downward pressures on housing affordability.
- The Housing Accord Commitments need to move from being an aspirational objective to ensuring it's delivering on the ground.
- The Housing Accord Commitments needed to not only be delivered for a one off 5-year period but similar benchmarks need to be set for all future housing targets and commitments.
- As a priority a long-term national agreement to land supply must be developed.
- Coordination of policies related to housing across all levels of governments is crucial to avoid setting new policies that will negatively impact housing affordability and create greater complexities in building homes and running building businesses.
- Demand for housing is outstripping supply which increases pressure on all parts of the system to deliver housing to meet current and future expected demand.
- A lack of adequate housing supply leads to housing affordability issues, as current housing that is in the market or land that is available for new housing comes at a premium.
- Future housing supply and delivery and land releases need to be mapped against future population, migration and immigration levels.
- Policy Objectives across governments should always seek to support people to own their own home as first order priority as it delivers them lifelong economical, employment and social benefits as outlined in the Issues Paper
- Where Governments are considering future regulations will add costs to the delivery of housing, regulatory authorities and standard setting bodies should be obligated to

identify a regulatory offset from other policy areas to equalize out the additional regulatory cost on housing off the new regulation.

- Federal and State Government Home Guarantee & Incentive Schemes remain critical to deliver more housing in metropolitan and regional areas and to get people into their first home.
- HIA welcomes the measures and commitments as set out for planning reform as set out in the planning National Planning Reform Blueprint.
- The construction industry is facing current skills shortages and to meet future increased Housing Commitments it is critical that we have the key skills and workforce in place to enable us to achieve this target and build these homes and look at funding and other measures to bring more apprentices and other construction workers into the industry.
- Need to ensure that as part of meeting the social and community housing targets, that the rules for building these homes don't seek to go over and above the rules for building private homes and procurement rules don't exclude smaller builders from being able to build these homes.
- The Australian Government must facilitate ongoing investment that will increase the supply of both social and community housing.
- Governments should undertake work to investigate the viability of establishing a housing supply performance measurement framework based on targeting an ideal level of rental vacancy.
- Policies that support greater investment in housing – from both domestic and foreign investors would play a key role to alleviating this shortage.
- Stamp duty on homes plays a big part in increasing cost of new housing and it should be replaced by a more efficient, broad-based tax.

Resolving these matters will significantly contribute to ensuring that across the nation delivery of the range of housing that is needed at the right scale in the right location will be able to be provided.

HIA consider it imperative that housing supply is a national priority, and the Australian Government has a lead role to play in setting a pathway to increase housing supply and reduce the cost of new housing.

Further details on a number of these matters are outlined in this submission and HIA would welcome the opportunity to meet and discuss these matters in more detail ahead of the finalisation of the National Housing and Homelessness Plan.

1. INTRODUCTION

The National Housing and Homeless Plan (Plan) is intended to set out a 10-year national vision, across the responsibilities of different levels of government, to help guide future housing and homelessness policy.

To achieve the Plan's 10-year national vision the Plan needs to clearly articulate and define Objectives and have strategies and measurable targets aligned with those Objectives.

To address this, it is recommended that a set of clear objectives be developed in consultation with industry that identifies:

- where the Plan is intended to sit within the broader topic of affordable housing in Australia, and with states and territories
- what strategies it intends to put in place to achieve or influence these objectives
- what measures, metrics, data etc. will be used to determine the Plan's success, and
- whether it is intended to review the Plan perhaps at periodic stages and revise or amend in accordance with review findings.

HIA has established several overarching positions relating to the range of topics identified in the Plan.

These include the need for government policies that support the supply of new housing and therefore assist to improve housing affordability through to the continuation of arrangements between the Commonwealth and states and territories to support the delivery of all forms of housing.

In this context it is important to note that HIA does not support inclusionary zoning or affordable housing levies to address these issues.

It is considered that governments have a responsibility to explore and implement other measures to increase the supply of affordable housing that do not create an impost on a developer / builder that is ultimately passed on to the first home purchaser and carried through the life of the mortgage.

HIA has developed a 'Housing Continuum' (which is included in the detailed comments section of the submission), this 'Continuum', graphically describes the variety of housing that make up the housing supply chain in Australia and sets out these housing types by tenure and delivery mechanisms (i.e. government, not for profit, private).

The Continuum assists in highlighting the connection between each part of the housing supply chain, and allows stakeholders to better describe the broad variety of housing types that make up the housing supply chain. It also provides a comparison of these housing types by tenure and delivery mechanism (i.e. government, not for profit, private ownership).

Housing affordability is improved because of an adequate housing supply at an appropriate price for each cohort of the Housing Continuum.

Many builders and developers contribute to ensuring sustained levels of housing affordability by offering diversity in product, including housing for the low and moderate income end of the market.

Yet overall housing supply in each segment of the Continuum has fallen short of underlying demand for many years which has related mainly to factors outside the control of builder/developer.

A key part of this has related to current state and territory planning systems and supply of housing and land not keeping pace with demand which in turn affects housing affordability due to lack of supply driving up prices.

This in turn results in lack of private rentals and higher reliance on social and community housing due to lack of supply of private housing at an affordable rate.

2. RESPONSE TO SPECIFIC FOCUS AREAS

2.1 Planning, zoning and development

The key component for increasing the supply of housing and increasing land availability includes reforming of planning systems across the country to fast track and streamline approvals for all forms of housing.

HIA is supportive of the National Planning Reform Blueprint recently announced by National Cabinet.

This Blueprint will enable the federal government to have greater oversight and influence of state and local government planning matters particularly as they relate to meeting the housing targets set out in the National Housing Accord.

The National Planning Blueprint sets out the following actions:

- Updating state, regional and local strategic plans to reflect their share of housing supply targets.
- Undertaking planning, zoning, land release and other reforms, such as increasing density, to meet their share of housing supply targets.
- Streamlining approval pathways, including strengthened 'call in powers', and prioritising planning amendments to support diverse housing across a range of areas e.g. by addressing barriers to subdivision for appropriate medium density housing.
- Promoting medium and high-density housing in well located areas close to existing public transport connections, amenities and employment.
- Reforms to support the rapid delivery of social and affordable housing.
- Reforms to address barriers to the timely issuing of development approvals.
- Consideration of the phased introduction of inclusionary zoning and planning to support permanent affordable, social and specialist housing in ways that do not add to construction costs.
- Rectifying gaps in housing design guidance and building certification to ensure the quality of new builds, particularly apartments.
- Improving community consultation processes.
- Adequately resourcing built environmental professionals, including planners, in local government.

These reforms are important initiatives to be progressed to enable measures to improve housing supply and affordability.

2.1.1 Leveraging of other planning reform work

This work should also involve consideration of previous work undertaken by the federal government and bring together all tiers of government and industry regarding this topic to seek real and meaningful planning reform.

These reforms are further underpinned by HIA's key planning advocacy titled [HIA One House One Approval](#) . One House One Approval (OHOA) is the basis of HIA's approach to the planning and building system review and the principles that underpin them.

OHOA facilitates a pathway to deliver one approval for the construction of a single house on a block of land zoned for housing.

It is also noted there is further work to be done regarding the National Urban Policy and

establishing a National Urban Forum.

Another relevant body of work has been carried out by the Productivity Commission that considers the impact planning, zoning and development has on the delivery of housing. This includes:

- Impediments to coherent State and local development strategies – Provisioning for Growth Areas
- Better Provision for Growth – Streamlining development assessment systems, and
- Implement Best Practice in Development Assessments – State and Territory Government's should implement known best practice in development assessment processes, as embodied in the model developed by the Development Assessment Forum

2.1.2 Short, medium and long term reforms needed

Federal government programs should seek to manage a more equitable and proportionate response to the provision of social housing from state and local governments.

To achieve this objective there needs to be a set clear parameters for accurate reporting of short, medium and long term planning and provision of land and housing supply.

Housing Australia has some oversight of the provision of social housing throughout Australia. However, the current function for this is more aligned to a monitoring and research function.

HIA would be supportive of strengthening this oversight capacity for Housing Australia and there be a mandatory obligation for state or local governments to report on data or forecasts.

2.1.3 Striking the right balance between planning controls

Planning systems across various jurisdictions generally have adequate intent and statutory controls in place to facilitate development.

However, the key issue is the way planning controls are implemented and used that creates an ineffective and inefficient planning system.

The primary planning control the residential 'Zone' once applied to land is usually suitable to facilitate appropriate residential development in a timely manner.

However, the planning system can begin to show signs of breaking down when inappropriate secondary planning controls are imbedded in the process for approvals.

Overlays, and local policies aimed at responding to bespoke matters, are introduced without adequate and proper consideration of high level / national strategic planning objectives.

These secondary controls often create barriers and constraints to the residential Zone operating effectively and impact time frames for approvals and add more uncertainty and complexity to approvals frameworks for limited benefit.

Reinforcing again that the statutory framework of many planning systems in themselves are generally sound, though the way in which the planning system are practiced and the lack reference to higher order strategic matters is where it breaks down.

The National Housing and Homelessness Plan has an important role to play in getting the balance right between primary and secondary planning controls and their influence on decision making.

In this regard the Plan would benefit from greater discussion and explanation as to its intended influence.

Industry is keen to participate and contribute to discussions of this nature and put forward meaningful and actionable reforms.

2.1.4 Faster planning decisions critical to achieve housing affordability

It is important to note that all forms of housing and residential development, such as detached dwellings, apartments, and broad hectare subdivision will be impacted in various ways depending on the type and level of federal government involvement with state planning systems.

It is considered that the federal government involvement in planning should be to set clear and measurable planning principles to help holistically address Australia's housing crisis.

These planning principles should define the function and role of planning in addressing housing and avoid unnecessary duplication with other regulatory pathways such as the building approvals system.

As a starting point federal planning principles should require state, regional and local plans to provide:

- Clear direction as to the content and detail of state, regional and local strategic plans.
- These plans should be written with concise reference to federal housing strategies and agendas and rigorously discuss how state and local governments intend to contribute to national housing strategies and agendas such as through the use and release of land close to infrastructure, jobs and services.
- Detail all planning provisions intended to be utilised, including planning control and approval pathway mapping to ensure duplication is avoided and planning efficiencies are not effected by unintended permit triggers.
- Detailed short, medium and long term actions for the timely provision of an adequate supply of land and housing.
- Measurable targets for land and housing supply – using a consistent set of subdivision and development stages.
- Implementation plans: outlining how a state, regional or local plan would be implemented, including intended periodic reviews and how the plan might be amended or revised based on such a review.

2.1.5 Excessive time to obtain approvals currently

A common criticism of current planning regimes around the country presently is the time it takes for applications to be assessed and determined.

Users of planning systems from all jurisdictions report excessive assessment and determination timeframes and gold plating of development requirements.

Often these practices are associated with subjective assessments by local government

planners and or varied assessment requirements between nearby local governments for similar applications.

This practice by local government is not acceptable as it creates developer uncertainty and unreasonable cost barriers to development.

Nationally standardised development categories and assessment criteria would assist in stamping out this practice.

2.1.6 Development Assessment Forum (DAF) work provides a sound framework

Previously there has been commonwealth participation dealing with various application types via the Development Assessment Forum (DAF). There were elements of DAF which address similar issues to those identified above.

HIA would recommend that the concepts and principles identified in the DAF are just as relevant today and are worth revisiting and benchmarking current systems against this work and parameters identified.

To efficiently and effectively deal with the provision of social housing at the speed it needs to be delivered a nationally agreed to position as to how certain categories of development are to be assessed and determined would be useful.

2.1.7 National Planning Reform Blueprint must not be allowed to become dormant

HIA was encouraged by the Prime Ministers release of the National Planning Reform Blueprint in mid-August. Many of the points resonated with HIA's position relating to the provision of affordable housing.

The two points below of the NPRB are considered the most pertinent to the ambitions of the NHA 2022 being recognised:

Updating state, regional and local strategic plans to reflect their share of housing supply targets.

Undertaking planning, zoning, land release and other reforms, such as increasing density, to meet their share of housing supply targets.

In September HIA took the opportunity to write to the Hon Julie Collins MP and the Hon Catherine King MP to outline what we consider will contribute to the ongoing development of the NPBR. Key points and recommendations included:

- **Strategically Led Planning**
 - all state planning systems should be required to embed a national strategic statement relating to land and housing supply.
- **Outcome-Oriented Decision Making: Where Strategic Planning and Statutory Implementation Meet**
 - the Federal government, in collaboration with state governments and industry, develop a set of principles for the drafting and implementation of design codes.
- **Reporting and Data**
 - introduce a mandatory requirement for all city and regional growth area local governments to report land and housing supply data to NHFIC every six months.
- **Truth in Zoning**
 - a formal reporting system needs to be developed to monitor that there is an adequate degree of synchronicity between strategic planning and statutory implementation.

- The reporting system need not be complex and might best be done on a region basis rather than local government by local government to allow for any ebbs and flows that might occur within any one council in a particular year. This could be a role that is incorporated as part of NHFIC's research function.
- **Managing Urban Land Supply**
 - there is a finer grain national oversight needed of land supply and the provision, coordination and augmentation of infrastructure.

2.18 Recommendations for planning reform

The following actions are recommended to support greater efficiencies in planning processes and decision making across all states and territories:

- Federal government have greater oversight and influence of state and local government planning matters particularly as they relate to meeting the housing targets set out in the National Housing Accord 2022.
- Assessing primary and secondary planning controls; Zones and Overlays, in all states and territories, to determine if planning systems are performing as intended – taking quick necessary action where Zone and Overlays may be in conflict causing barriers and constraints to timely decision making.
- Mapping approval pathways to determine where regulatory duplication is occurring – amend (reduce approval triggers) where this is occurring
- Convene broader consultation regarding the National Planning Reform Blueprint – develop implementation actions and timelines.

2.2 Social Housing

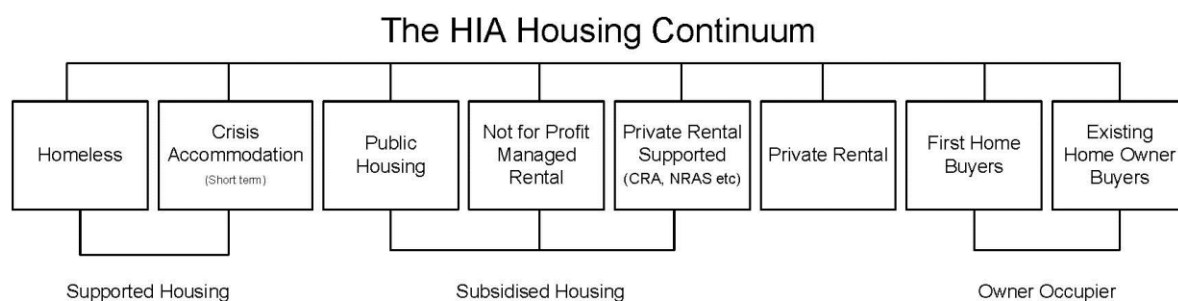
Social housing is a safety net designed to ensure that those who can't access the private rental market to have secure housing. At the moment there is excess demand for social housing because too many households have been forced out of the private rental market.

Homes that would have been considered affordable are occupied by higher income households as fewer younger households are able to make the jump from private rental to home ownership due to the high price of housing.

The high price of housing is largely a consequence of inadequate supply of additional housing.

While there is a demonstrated need to increase the supply of social housing following years of underinvestment, though equally important is looking at measures to reduce demand for social housing by ensuring that more people are able to access housing in the private market.

Improving affordability in the private housing market will only be achieved by supplying more homes. We need more homes right across the housing continuum.



May 2020

Housing affordability should be underpinned by government policies that support the supply of new housing across the full continuum and therefore assist to improve housing affordability.

To assist in the provision of the 'Subsidised Housing' sector of the housing continuum HIA supports the continuation of arrangements between the Commonwealth and State and Territory Governments to support the delivery of public housing and subsidised affordable housing.

This includes providing incentives for states to build or renovate stock for those people in greatest need.

HIA is of the firm view that inclusionary zoning or other affordable housing levies are not an appropriate means in which to provide or supplement subsidised housing.

HIA supports a range of options to increase the delivery of subsidised affordable housing stock including:

- Increasing land supply for affordable housing
- Voluntary supply of affordable housing in exchange for negotiated development bonuses
- Innovative funding mechanisms

- Increasing the opportunity for 'joint venture' partnerships, and
- Provision of tax concessions for developers

The following actions are recommended to support the provision of social and community housing in the coming years:

- Through Housing Australia identify mechanisms that can ensure all governments commit to the delivery of new social housing supply year on year without increasing the taxes on new housing
- Implement a funding mechanism that will facilitate greater private investment in residential development projects that increase the supply of community housing.

2.3 Housing cost, home ownership and the private rental market

2.3.1 Housing costs

As identified in the Issues Paper Housing is the biggest cost for many Australian households.

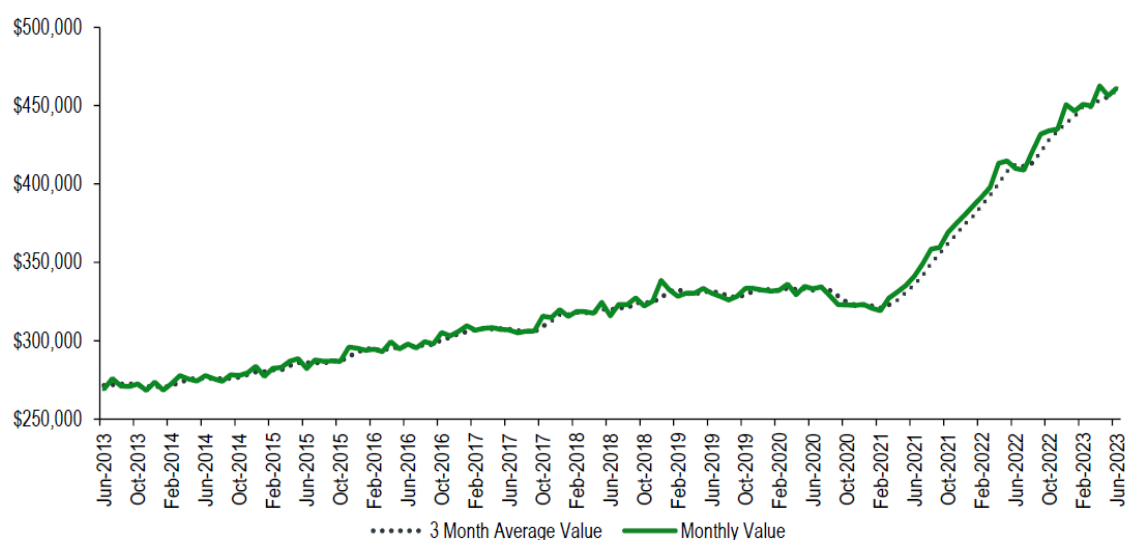
In the past two decades, real housing costs have increased for all tenure types. Since the COVID-19 pandemic, there has been a marked increase in housing costs across the board.

HIA through our Economics area has recently produced the following information related to increased housing costs and the factors that have influenced this.

- The average value of an approved house has increased by 14.8 per cent through the year, from \$391,000 in February 2022 to \$449,000 in February 2023.
- The rate of growth in the prices of home building inputs peaked at 17.3 per cent in June 2022. Meanwhile, the rate of growth in outputs prices peaked in September Quarter 2022 at 20.5 per cent against the same time the previous year.
- The rate of change in the price of home building inputs has increased by 32.2 per cent before the start of the pandemic in the December Quarter 2019 to the March Quarter 2023. This same rate for the same period for home building outputs has also risen by 35.1 per cent.
- Trades availability in the March Quarter 2023 have improved with the return of skilled migration. The prices of skilled trades have gone up 7.2 per cent against the same quarter last year.
- There has been a 34.8 per cent increase in the average value of approved houses over the period starting December 2019 to February 2023, up from \$333,000 to \$449,000. This is consistent with the rate of change seen in the price of outputs, which has risen by 35.1 per cent in the same period.
- In the June Quarter 2023, the average value of houses approved was \$460,057. This was an increase of 11.5 per cent from \$412,557 in the June Quarter 2022. Compared to pre-pandemic (December Quarter 2019) levels, the average value of houses approved has increased by 38.1 per cent.

Average Value of Houses Approved, Australia

Source: ABS

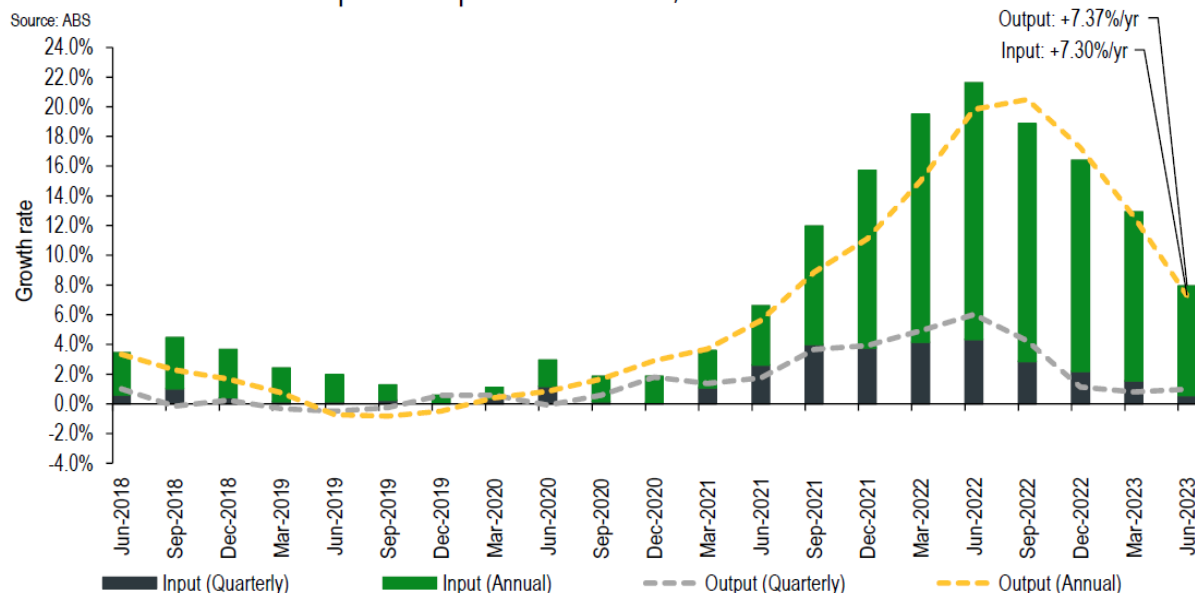


2.3.2 Home Construction materials vs completed homes

Based on the latest June Quarter 2023 Producer Price Index (PPI) data, the price of materials (inputs) for the house construction sector has increased by 32.9 per cent from the December Quarter 2019 to the June Quarter 2023.

Meanwhile the value of completed homes (outputs) has increased by 36.5 per cent in the same period. In the year to the June Quarter 2023, construction input prices have increased by 7.4 per cent while output values have increased by 7.3 per cent.

House Construction Input-Output Price Index, Growth Rates



2.3.3 Pre-pandemic vs current home building input prices

All home building inputs have increased in price when comparing pre-pandemic levels (December Quarter 2019) to the June Quarter 2023.

Of the 32.9 per cent pandemic increase in the construction input index, prices of terracotta tiles (+67.7 per cent), timber windows (+61.9 per cent), reinforcing steel (+57.4 per cent), electrical cable and conduit (+55.1 per cent) and structural timber (+52.1 per cent) were the top five inputs that saw the largest price increases.

This was offset by more modest growth in input prices for heaters (+3.6 per cent), stoves (+7.7 per cent), termite barriers (+9.3 per cent), installed gas and electrical appliances (+11.1 per cent) and other electrical equipment (+14.0 per cent).

Despite these few inputs showing relatively more modest increases, the rest of the other input prices rose by at least 18.0 per cent from the December Quarter 2019. It is unsurprising, therefore, that the cost associated with building a new home steeply rose as a result of equally steep increases in the prices of construction inputs.

2.3.4 Quarterly and annual input price movements

There is a shift in input price growth from timber and steel prices during the pandemic to the prices of more energy-intensive materials now. The steep price jumps seen in 2022 for timber and steel have largely moderated, with the price of reinforcing steel down by 1.7 per cent in the June Quarter 2023 compared to the same quarter in 2022.

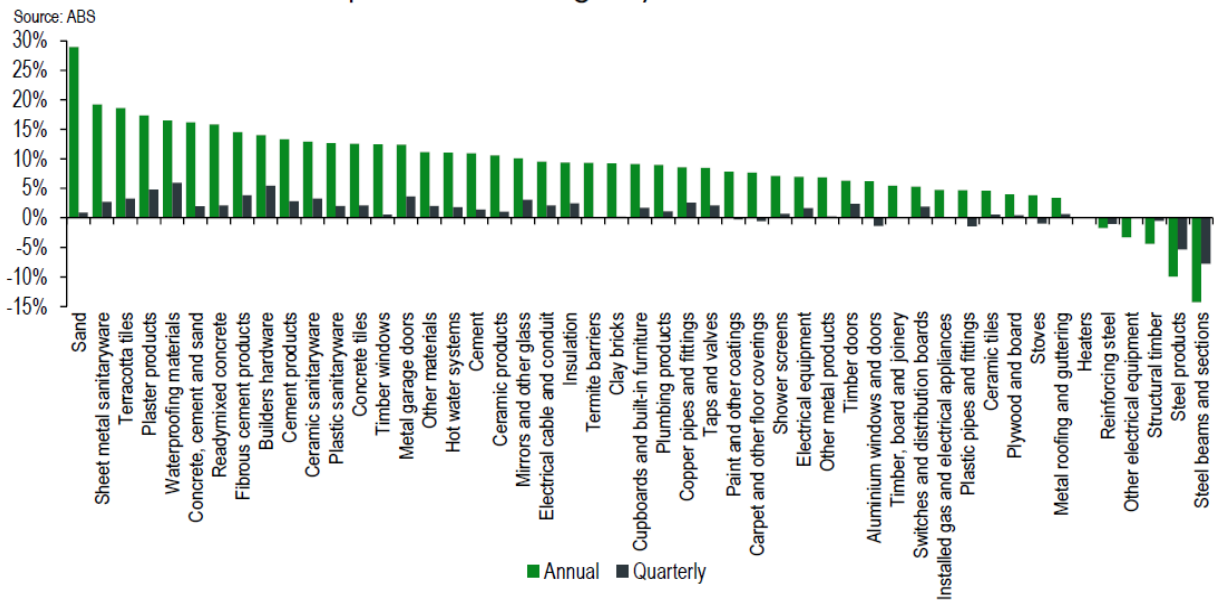
In the same period, prices for structural timber (-4.4 per cent), steel products (-10.0 per cent) and steel beams and sections (-14.3 per cent) have also decreased.

In the June Quarter 2023, of note are the price increases in the cost of cement, its ingredients and associated products. The price of concrete, cement and sand has increased by 16.2 per cent in the June

Quarter 2023 compared to the same quarter in 2022. Sand, in particular, saw the largest increase among this group, up by 28.9 per cent in the same period. This increase was also seen in ready-mixed concrete (+15.8 per cent), fibrous cement products (+14.5 per cent), general cement products (+13.3 per cent) and concrete tiles (+12.6 per cent).

Similar to what was said in the March Quarter 2023, the growth in the prices of construction materials continue to feed into the price of building a house. This reconciles with the data seen on the increase in the average value of an approved home in the past year to the June Quarter 2023 and compared to pre-pandemic levels.

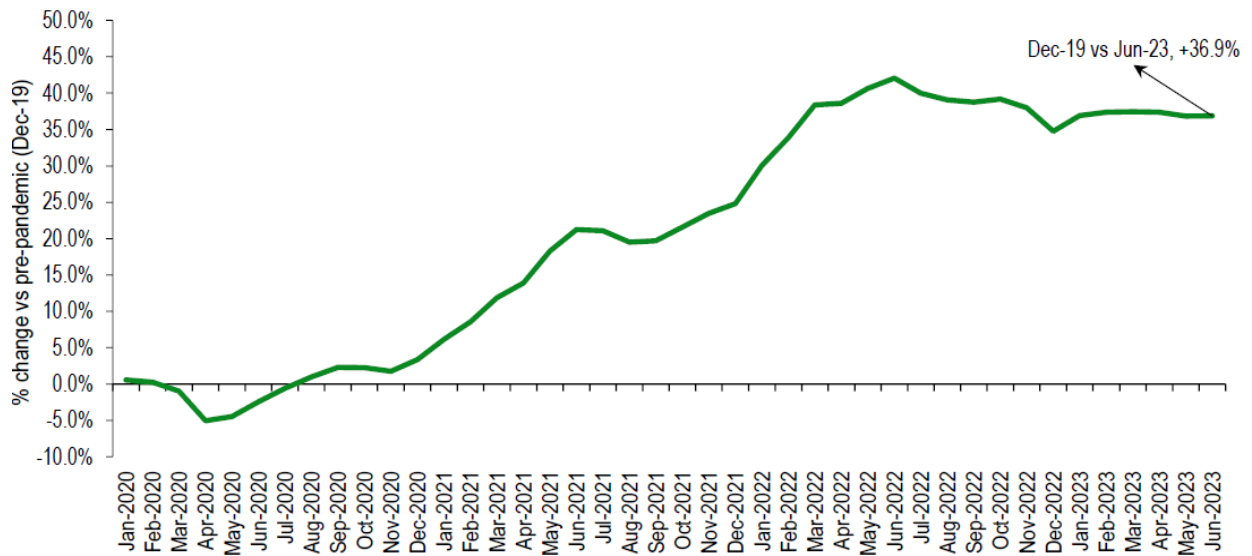
House Construction Input Price Change by Product, June Quarter 2023



Such increases in the cost of home building inputs are not unique to Australia. In the United States, the cost of these inputs has also risen sharply during the pandemic, particularly in 2021. The growth in input prices has slowed down, but residential construction input prices there remain 36.9 per cent above the index level in December 2019.

US Net Inputs to Residential Construction Goods Index (Growth Rate)

Source: Federal Reserve Bank of St. Louis (WPUIIP2311001)



2.3.5 Cost of shipping

The price of a 40-foot shipping container has returned to pre-pandemic levels. Prior to the pandemic, the average price of a standard shipping container in 2019 was \$1,375. It bounced along these levels early in the pandemic until mid-2020.

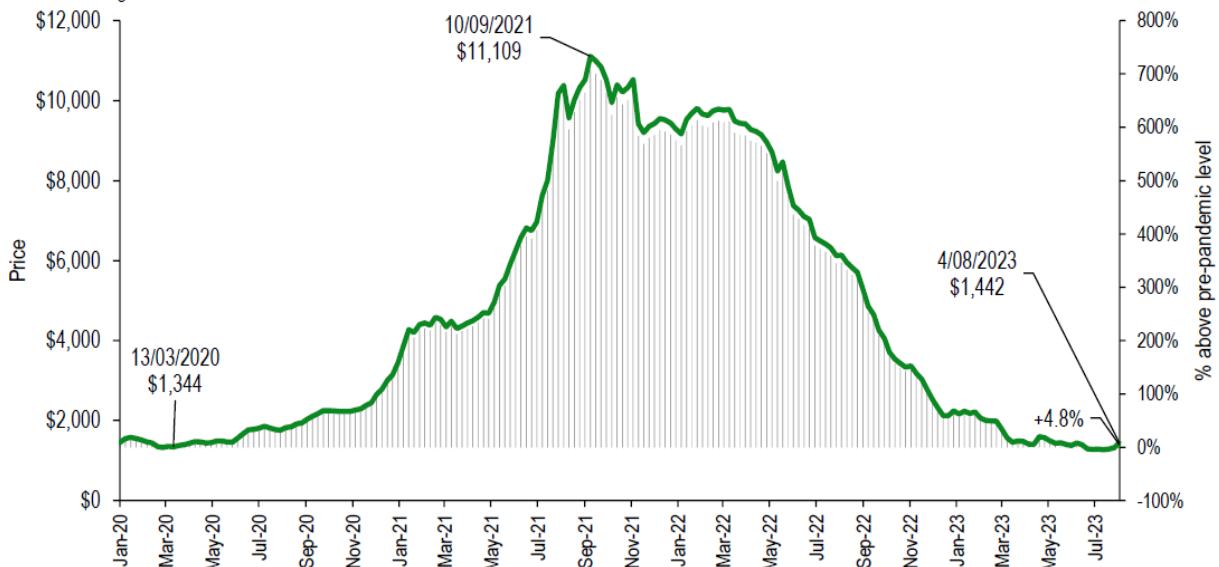
Skyrocketing shipping costs afterwards, which peaked in September 2021 at \$11,109 per 40-foot container, added further pressures to the prices of building materials which already saw soaring demand.

Such demand was in line with the pandemic, government incentives and a rising trend for renovations and people seeking bigger homes. In 2023, shipping costs have decreased and are now tracking along levels seen in 2019.

As of writing, the latest data available in August 2023 shows that the current shipping price is at \$1,442, just 4.8 per cent above the pre-pandemic average.

Weekly Freightos Baltic Index - Price for a 40-Foot Shipping Container

Source: fbx.freightos.com



2.3.6 Shortage of skilled trades has eased with the help of overseas workers

The increase in the price of skilled trades has relatively slowed down compared to the sharp increases of around 10.0 per cent seen between the middle of 2021 to 2022. The price of skilled trades has increased by 3.4 per cent in the year to June 2023, which is closer to the two per cent annual growth that prevailed pre-pandemic.

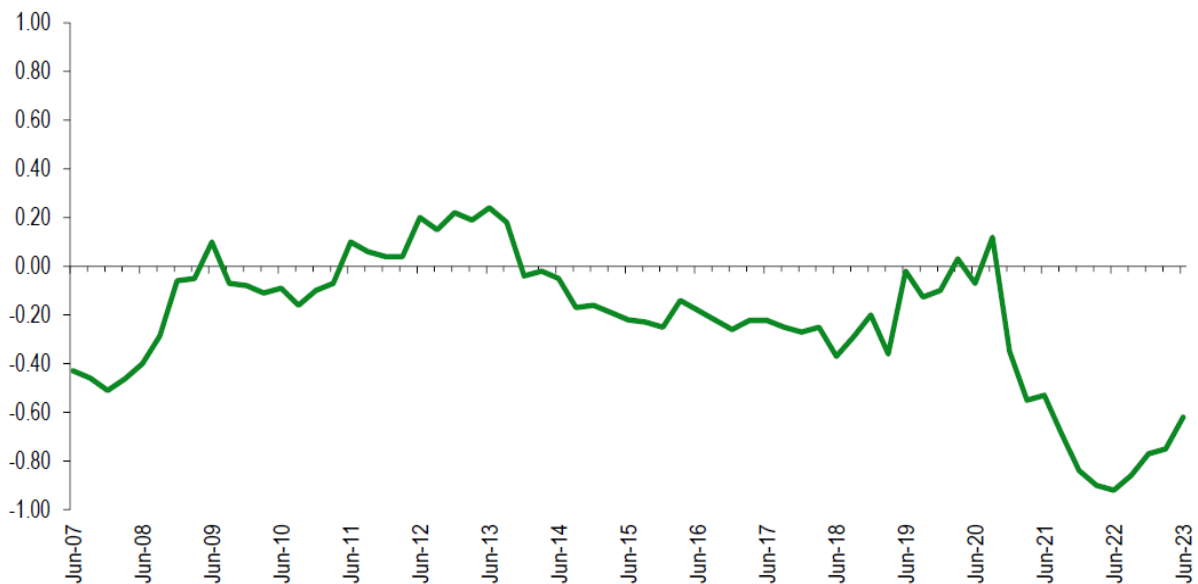
This is explained by a number of factors, the most significant being the slowdown in homebuilding activity and additional skilled workers coming in from overseas to ease areas of critical shortages.

Such easing of shortages is more evident for some trades than it is for others, particularly when comparing trades for the initial stages of home building with finishing trades. Those in the early stages, such as bricklaying, carpentry and roofing, were in acute shortage in 2022 but have now seen the best improvement in trades availability over the past year to June 2023.

On the topic of the slowing down of new work entering the homebuilding pipeline, the effects of the Reserve Bank's cash rate increases have hit the sector hard. There has been a significant fall in the number of new works entering the pipeline, evidenced by a drop in all leading indicators from building approvals and housing finance to new home sales.

A potential easing of the trades shortage in the near term would be one caused by a shrinking pipeline of work on new homes as opposed to a material improvement in the number of skilled tradespeople.

HIA Trade Availability Index



Source: HIA Trades Report

2.4 Targeting rental vacancy

Collectively, the Commonwealth, State/Territory and Local governments should agree to participate in a housing supply performance measurement framework.

It would be beneficial to introduce a framework that aims to maintain sufficient housing supply that the rental vacancy rate at a level where a lack of available stock does not contribute to real growth in rents.

This would be conceptually similar to performance frameworks that target 'full employment', where the non-accelerating inflation rate of unemployment (NAIRU) is an unemployment rate that is considered to represent 'full employment'.

There is likely to be a level of rental vacancy where the housing market could be considered to be at 'full occupancy'.

When the labour market exceeds 'full employment' (i.e the unemployment rate drops below the NAIRU) employees have negotiating power and employers are forced to match worker wage demands in order to attract and retain workers, which results in an acceleration in wages growth.

The parallel to the housing market is that when the rental vacancy falls below the level of 'full occupancy' landlords have negotiating power and households are forced to meet demands for rising rents in order to retain or secure a tenancy.

At the opposite end of an economic cycle, when the unemployment rate is above the NAIRU there is underutilised capacity in the labour force and economy is likely to be underperforming its potential, resulting in less capital investment.

Applying this concept to the housing market, there is likely to be a level of rental vacancy above which there are heightened risks to investment returns to property owners which disincentivises investment in homes for rent, and deters investment new housing supply.

A rental vacancy targeting framework could target a specific rate of rental vacancy, or seeking to maintain the rental vacancy within upper and lower bounds.

It is envisaged that the ideal vacancy rate is considerably higher than has existed over recent years, our estimates are in the range of 3-5 per cent.

Achieving the ideal level of rental vacancy would benefit households in the rental market and also have spill over effects in other parts of the housing market.

Maintaining the ideal level of rental vacancy should create an environment where landlords face competition to attract and retain tenants, and tenants have more options when choosing the home that best meets their needs.

When there are more options in the private rental market rental prices would be lower than they otherwise would be.

Lower rental prices would mean fewer households require subsidised housing and that there would likely be reduced demand for social and community housing.

Furthermore, maintaining the ideal level of rental vacancy would also have an impact on the purchase price of homes and the extent to which home ownership was a viable option for households.

HIA recommendation related to targeting rental vacancy:

Governments should undertake work to investigate the viability of establishing a housing supply performance measurement framework based on targeting an ideal level of rental vacancy.

2.5 Utilisation

There are several interpretations of 'utilisation' in the context of housing. Firstly, utilisation to the extent that all habitable dwellings are available for occupation.

Secondly, utilisation to the extent that homes are occupied by households who make the best use of a dwelling given its characteristics.

From time to time there are reports that there is a large number of vacant dwellings that are withheld from the market. While hoarding may occur there is no compelling evidence that it is sufficiently widespread to have a material impact on the overall housing supply imbalance.

The most recent reports relating to underutilisation stemmed from the release of the 2021 census data which showed that there were 1,043,776 unoccupied homes, equivalent to 10.1 per cent of the stock of private dwellings.

Commentary surrounding this figure implied that this was an abnormally large number and that the unoccupied dwellings could be made available for occupancy.

However, this level of unoccupied dwellings on census night is consistent with census counts over the previous four decades.

Since the 1981 census, the share of unoccupied dwellings has ranged between 9.2 per cent and 11.2 per cent of private dwellings.

During the 1980s, the reasons why a dwelling was unoccupied was collected as part of the census (this information is no longer collected).

The two main reasons for a dwelling being unoccupied were that the resident was absent (35 per cent of unoccupied dwellings in 1986) or it was a holiday home (25 per cent of unoccupied dwellings), collectively accounting for 60 per cent of unoccupied stock.

Other reasons for a dwelling to be unoccupied included it being on the market for sale, it was vacant but available for rent, it was a newly completed dwelling that was yet to be occupied, it undergoing repairs or renovation, or it awaiting demolition.

2.6 Foreign investment

In the final quarter of last year, Australia commenced construction on 28,590 new detached houses. This would have barely qualified as a good quarter in the 1970s.

Multi-unit commencements have also come a long way down. After an unprecedented apartment boom last decade, a series of taxes, restrictions and the loss of overseas arrivals during the pandemic, has halved multi-unit commencements compared to six years ago, when foreign investment surcharges were introduced.

The total number of new homes being commenced across Australia is no better than the average of the last 40 years. And yet, there are almost 11 million, or 70 per cent, more Australians than there were in 1982.

Net overseas migration has grown from around 100,000 per year in the early 2000s to more than 300,000 following the re-opening of international borders.

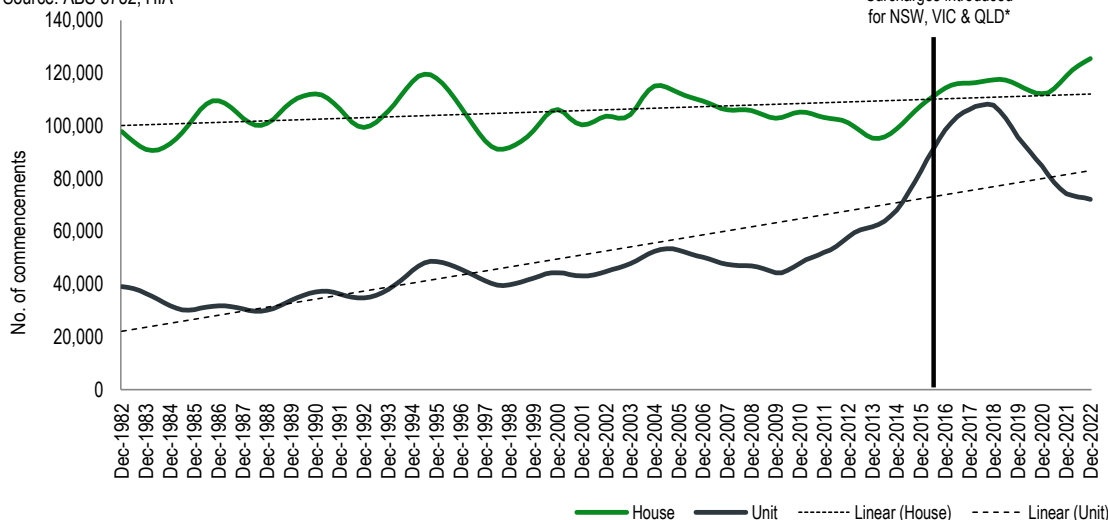
At the same time, a changing demographic composition has seen the average household size fall.

Putting these factors together – a larger population, accelerating migration and falling household size – it is not hard to see why we have a shortage of housing in Australia.

Greater investment in housing – from both domestic and foreign investors – will be key to alleviating this shortage.

Detached and Multi starts: 3 Year rolling average - AUS

Source: ABS 8752, HIA



* NSW, VIC, QLD surcharges introduced in 2016; ACT, SA in 2018; WA in 2019; TAS in 2022

2.6.1 Government taxes and fees on foreign investors exceed \$100,000 in the major housing markets

The figure below shows estimated fees that a foreign investor today would pay for a capital city dwelling in each State, assuming a land value of \$500,000 and using the median dwelling price in each capital city.

Beginning in 2016, most States now impose stamp duty and land tax surcharges on foreign investors which add considerably to the cost of investing in Australia's housing market.

We estimate that an overseas investor looking to purchase a property in Sydney – by far the largest market – must pay \$150,000 in stamp duty, land tax and Foreign Investment Review Board (FIRB) fees, around three-quarters of which is solely through foreign surcharges.

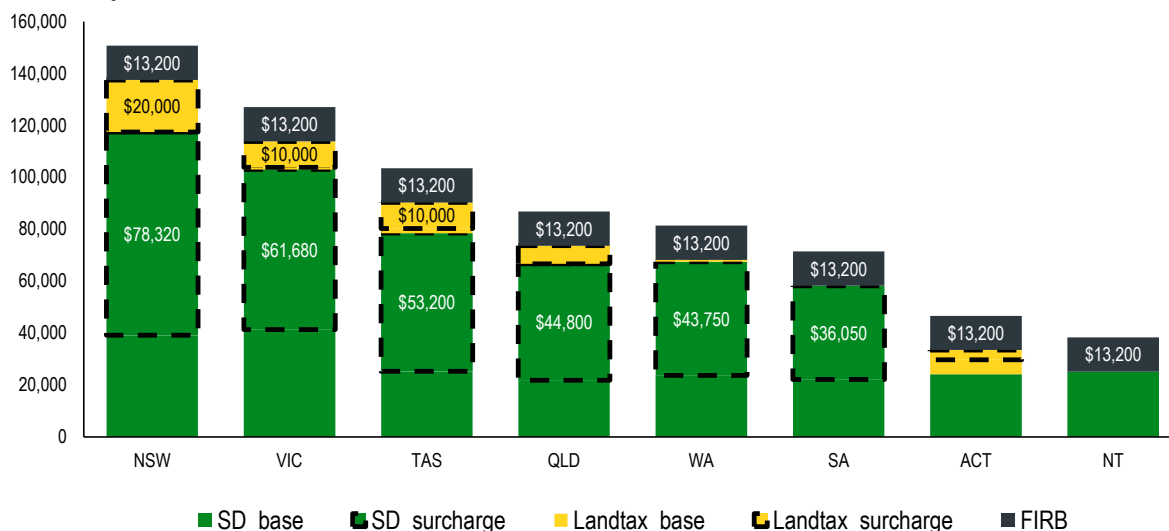
But even though stamp duty accounts for the largest foreign investor surcharge, it's not the only tax biting on foreign investors. Investors in NSW, Victoria, Tasmania and the ACT also

have to pay additional land tax, equivalent to between 1 and 4 per cent of average land value.

On top of that, foreign investment fees doubled in July 2022¹, such that foreign investors looking to purchase residential land now have to pay at least \$13,200 in fees to the FIRB².

Estimated taxes on foreign housing investors

Source: CoreLogic, State Government, HIA



2.6.2 The largest burden by far is stamp duty

Economists have long called for stamp duty to be replaced by a more efficient, broad-based tax. Stamp duty makes investment in new housing supply less profitable.

A large share of the sellers' proceeds is swallowed up by the tax. Multiple points in the development and construction process are also hit by stamp duty, including the sale of the land to the initial developer. This undermines housing affordability.

Victoria and NSW – which together account for more than half of all dwelling commencements – also have the most punitive stamp duty regimes.

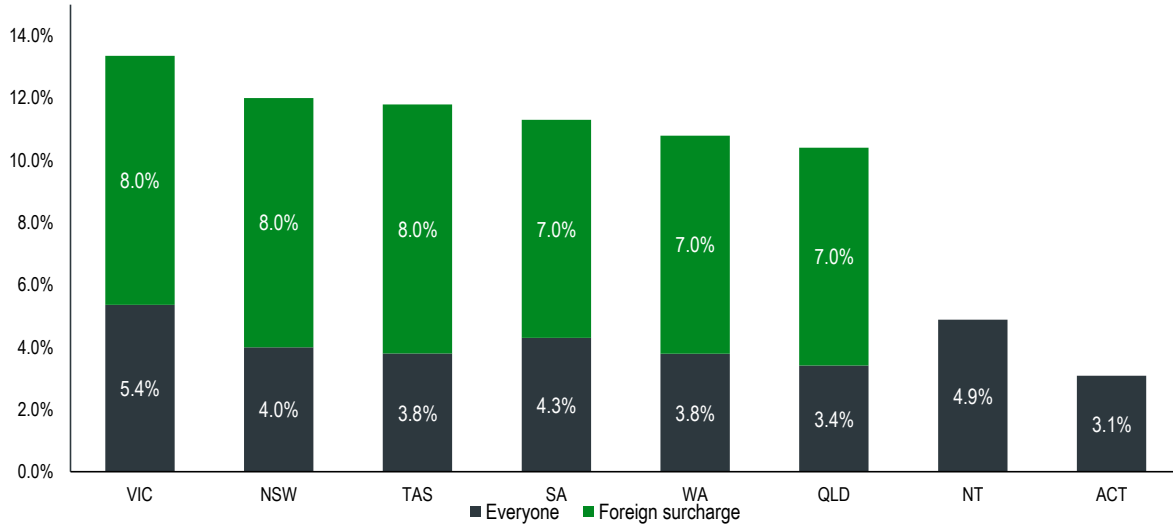
Stamp duty on all purchases accounts for an estimated 5.3% of the median dwelling price in Melbourne, and 3.9% in Sydney. Foreign investors in both are slugged with an additional 8% surcharge. In other words, foreign investors in Melbourne pay 13.3% of the median dwelling value in stamp duty alone, and those in Sydney pay 11.9% of the median value.

¹ <https://ministers.treasury.gov.au/ministers/jim-chalmers-2022/media-releases/increase-foreign-investment-fees-and-penalties>

² https://firb.gov.au/sites/firb.gov.au/files/2022-07/G10_Fees_210722.pdf

Stamp duty as % of median dwelling price

Source: CoreLogic, State Government, HIA



2.6.3 Foreign investor taxes exacerbate the inequities of stamp duty

An ideal tax should be efficient and equitable. Considering each of the main charges applicable to foreign investors:

- **Stamp duty** fails both criteria – first, it distorts the housing market which makes it inefficient. Second, it imposes a far greater burden on ‘mum and dad’ investors and is borne only by those transacting in the property market, which makes it unfair. Foreign surcharges on stamp duty exacerbate the existing problems with stamp duty.
- **Land taxes** perform better than stamp duty, however foreign surcharges arguably do not: first, by creating a price wedge between foreign and domestic buyers they will affect the market price, making them inefficient. Second, it is inequitable that foreign buyers pay more than domestic buyers.
- **FIRB fees** are not quite as bad (and in fact are not technically considered a tax): the government does incur costs in assessing the suitability of foreign purchasers, and they should be able to re-coup those costs. But the FIRB noted in its latest annual report that foreign investment application fees are likely to have contributed to a decline in foreign demand for residential real estate. And that report was released before the doubling of fees in 2022, meaning the effect on investors will likely be larger now³.

The incidence of each of these taxes technically falls on the investor.

But the cost is ultimately transferred to future renters and the wider economy, and the net effect is less housing: either investors have to pay more for investment properties, which may deter them from entering the housing market; or builders will be forced to accept a lower sale price, which will discourage them from taking on new projects (or perhaps more accurately, lessen the appetite for banks to lend to them).

At a time when overseas arrivals are soaring, combined with longer term growth in a population which needs more houses per person, we need more houses to be built, not less.

The housing market can ill afford surcharges on foreign investment which in major markets account for nearly 15% of the median dwelling price and which ultimately will lead to fewer houses being built.

³ <https://firb.gov.au/sites/firb.gov.au/files/2022-04/FIRB-Annual-Report-2020-21.pdf>

Estimated duty and levy payments

State	Assumptions		Everyone pays			Foreign surcharge			Foreign investors total	Foreign surcharge introduced
	Dwelling price	Land price	Stamp duty	Land tax	Sub-total	Stamp duty	Land tax	FIRB fees		
NSW	\$979,000	\$500,000	\$39,145	\$0	\$39,145	\$78,320	\$20,000	\$13,200	\$150,665	June 2016
QLD	\$640,000	\$500,000	\$21,825	\$0	\$21,825	\$44,800	\$7,000	\$13,200	\$86,825	October 2016
VIC	\$771,000	\$500,000	\$41,330	\$775	\$42,105	\$61,680	\$10,000	\$13,200	\$126,985	July 2016
WA	\$625,000	\$500,000	\$23,703	\$780	\$24,483	\$43,750	\$0	\$13,200	\$81,433	January 2019
SA	\$515,000	\$500,000	\$22,155	\$0	\$22,155	\$36,050	\$0	\$13,200	\$71,405	January 2018
TAS	\$665,000	\$500,000	\$25,260	\$1,850	\$27,110	\$53,200	\$10,000	\$13,200	\$103,510	July 2022
ACT	\$782,250	\$500,000	\$24,103	\$5,592	\$29,695	\$0	\$3,750	\$13,200	\$46,645	July 2018
NT	\$515,000	\$500,000	\$25,154	\$0	\$25,154	\$0	\$0	\$13,200	\$38,354	

Source: CoreLogic, HIA, State Government

Note: stamp duty calculations based on median dwelling prices in capital cities, Land tax calculations assume an unimproved land value of \$500,000.

All investors (domestic and foreign) pay 'base' stamp duty and land tax. In some states the assumed land value means 'base' land tax does not kick in. Foreign investors must pay stamp duty and land tax surcharges on top of the base amounts, as well as FIRB fees.

2.6.4 The dollar cost of Stamp Duty

- Nationally, the typical stamp duty bill for the median property in December 2022 was \$26,245. This is based on a weighted average across the states using transaction volumes.
- Stamp duty bills fell over 2022 in most jurisdictions as dwelling prices declined under the weight of increasing interest rates.
- Stamp Duty is highest in Victoria. This reflects high property prices and a punitive rate of stamp duty. The typical Victorian homebuyer pays \$39,170 of duty – down by \$2,400 since May 2022 – on the median property worth \$735,000.
- Stamp Duty is also high in New South Wales: \$33,340 on the median property, down by \$2,142 since May 2022. This is still high, due to high property values in New South Wales.
- The ACT is part-way through a process of abolishing stamp duty. Combined with declining dwelling prices, the ACT saw the largest decline in stamp duty bill, down by \$3,645 since May 2022 to \$23,580.
- SA overtook ACT to have the third largest stamp duty bill at \$24,905, through a combination of elevated prices and punitive rates of stamp duty.
- Tasmania and the Northern Territory are next in the rankings with stamp duty bills of \$22,510 and \$23,527 respectively. Tasmania's bill is driven more by elevated dwelling prices, while the Northern Territory's is driven more by its punitive rate of stamp duty.
- Western Australia's relatively affordable dwelling prices produce a relatively low stamp duty bill of \$17,765.
- Queensland imposes the lightest duty. The typical homebuyer there pays \$12,715 of duty on the median property worth \$597,000.
- In each state, stamp duty is estimated for the 'median buyer' of the 'median dwelling'. It is assumed the median buyer is an owner-occupier, is not a first homebuyer and is buying an established dwelling.

2.7 The impact of Climate Change and Disasters on Housing Security, Sustainability and Health

Whilst it is important that the impact of climate and disasters on housing security, sustainability and health be acknowledged as an issue associated with housing.

However, the issue itself is far broader than just housing and therefore is not considered appropriate it be a stand-alone focus area of a National Housing and Homelessness Plan. Therefore, it should be removed as a stand-alone focus area as it is reaching outside the scope of the Plan.

Primarily the National Construction Code (NCC) and secondly state and territory planning systems are far better suited to identifying these matters and developing appropriate design responses.

As discussed earlier in this submission when responding to Focus Area on planning, zoning and development when two approval pathways are being applied to the same matter, for example building in a flood prone or bushfire prone area it is imperative that there is no regulatory duplication allowed to creep into either approval pathway.

Regulatory duplication is one of the biggest factors leading to unnecessary protracted decision-making timeframes and exorbitant development / building costs.

In recent times HIA has undertaken a significant body of work relating to sustainability and resilient buildings. HIA would be willing to discuss this with the Department of Social Services with a view to possibly being used as reference material associated with the Plan or other government (agencies) material and publications.

Notwithstanding, in response to the paper's discussion that homes built since 2010 using standards developed under national processes are substantially higher performing and more resilient to natural disasters.

Where homes built well before our current robust building and planning laws are impacted, current rules and standards should be applied as these embody incremental improvements informed by evidence and proportional to the anticipated risk and location.

HIA is also supportive of Governments working with the housing industry on an upgrading (mitigation) program to improve the performance of existing homes to natural hazards.

The split incentive problem of energy efficiency in existing building stock the paper posits HIA believes can be addressed through a combination of incentives, increased supply and mandatory disclosure completed prior to the sale or lease of existing homes.

Where new building work is undertaken on existing buildings, there is an obligation for that work to comply with the NCC, yet the application is limited to the extent of change in existing buildings. Jurisdictions have taken the approach to require the minimum thermal insulation requirements (ACT) or mandate efficient heating in main living areas (VIC) as part of minimum rental standards.

HIA maintain that improved thermal performance of existing buildings has a crucial and cost-effective role in reducing energy use. Well-sealed and insulated homes would significantly improve occupant comfort and reduce energy use, emissions and demand and result in bill savings for occupants could be the target of incentives.

The following action is recommended:

The topic of the impact of climate and disasters on housing security, sustainability and health be deleted as a stand-alone issue in the National Housing and Homelessness Plan.