



Housing Industry Association

HIA PRE-ELECTION POSITION PAPER, NSW 2011

**DELIVERING AFFORDABLE HOUSING FOR NEW SOUTH WALES**

## EXECUTIVE SUMMARY

In 2009/10, Australia's Housing and Renovation Industries directly contributed approximately \$72.4 billion to the economy. The residential building industry accounted for 5.6 per cent of Australia's Gross Domestic Product, yet when combined with those primary and secondary businesses that indirectly supply to the sector, the overall effect is far stronger in terms of both employment and economic output.

Over and above the direct contribution of construction activity to the economy, the construction industry has a "multiplier" effect through stimulating activities in other industries of 2.866 (ABS estimate). So, for every \$1 million increase in construction output, there is an increase in output elsewhere in the economy of \$2.9 million. In output terms, an extra \$1 million of construction expenditure involves \$217,000 of employee earnings and \$241,000 of corporate and small business profits. In terms of employment, an extra \$1 million of construction expenditure generates 9 construction jobs.

The economic impacts outlined above serve to highlight the criticality of a robust housing industry to a healthy NSW state economy. Yet, housing affordability is declining in NSW. First home buyers have found it increasingly more difficult to transition from the rental market into home ownership. This is of great concern. Those locked out of the property market are forced to compete in a rental market with record low vacancy rates, skyrocketing rents, and often end up with unsuitable housing options in terms of size and proximity to their place of employment.

House price growth has been outpacing labour earnings growth over recent years because supply is not keeping up with demand. In December 1999 the median established house price in Sydney was \$281,000 and by December 2009 this had increased to \$595,000. This represents a total increase of 112 per cent. Full-time earnings have increased from \$41,772 to \$64,730, an increase of just 55 per cent.

Supply side constraints are the dominant issue in NSW. Lack of affordable land supply, unnecessary delays in development approvals, disproportionate government levies, fees and taxes all continue to contribute significantly to the housing affordability crisis in the state. The escalating cost of residential development, especially in Sydney, is denying an increasing number of NSW residents the opportunity to achieve home ownership. The housing industry remains one of the most heavily regulated in the country and this further exacerbates delivery of affordable housing outcomes.

Today, NSW faces a critical housing shortage. A shortfall of around 70,000 homes and a well below par build rate is crippling affordability. HIA believes there needs to be a collective will and strength of leadership from within the NSW State Government to create a "can do" mentality in the provision of housing. To foster an environment and adopt approaches that remove barriers and drive the delivery of the housing so desperately needed to meet the underlying demand is paramount. To achieve this requires a cooperative effort between state government departments, agencies, local government, developers and industry. Focus is needed on clear, measurable and reportable targets coupled with a desire to truly remove the impediments to housing supply in both Greenfield and infill developments.

HIA proposes six ways to get the delivery of affordable housing back on track in NSW. HIA calls on all parties to commit to working with the housing industry to achieve these goals.

These are:

- A planning system that ensures certainty and consistency for the residential building industry;
- Infrastructure funding and delivery that facilitates residential growth and ensures a fairer sharing of that cost across communities;
- Increase land and housing supply to meet the real underlying demand in NSW;
- Reduced taxation of housing;
- Increase industry skills and training; and
- Support for harmonisation of the Occupational, Health and Safety (OHS) laws.

## **A planning system that ensures certainty and consistency for the residential building industry**

Planning legislation can and must deliver smarter and easier-to-understand processes for all users of the planning system – investors, practitioners, families and builders. HIA believes that the NSW planning system must deliver expedited, consistent, predictable, affordable and flexible solutions to enhance the quality of our residential environments and to facilitate the delivery of a sustained and affordable housing supply as an immediate priority.

Planning regulations that needlessly increase the cost of land and housing must be eliminated. It is critical that any future changes to planning regulations must not create uncertainties for the industry or increase costs (and therefore affordability) in any way.

Any proposed review, rewrite of the Act or other legislative changes that could impact on the supply of housing must involve those that deliver housing on the ground such as HIA and our members.

Part 3A, or a similar mechanism, should be retained to improve and maintain the current major project approval process for the industry. According to the NSW Major Development Monitor 2009/10, since the introduction of Part 3A system came into place, some 469 new projects have been determined, with a potential capital investment value of \$58.24 billion and the potential to create more than 185,000 jobs. This is a vital component of the planning legislation.

The introduction of the NSW Housing Code is considered to be one of the most significant reforms to removing red tape and facilitating affordable housing delivery across NSW, where a set of acceptable design criteria can be met. Ongoing expansions and improvements to the NSW Housing Code will be necessary. The recent expansion of the Code to lots 200 square metres and greater has been welcomed given lot sizes have decreased in response to the housing affordability crisis in NSW. However further expansion will be required to respond to future needs. Planning approval delays have a significant impact on the rate and cost of development. Expanding a faster and more streamline approval process will not only benefit the community but the NSW economy generally.

Current NSW local councils provide annual comparative statistics to the NSW Department of Planning in relation to development and building approvals. This includes reporting on the number of subdivision applications approved and completed but does not specify the number of residential lots created. The lack of ongoing reporting on future land supply across NSW significantly limits both the housing industry's ability to forward plan new land releases and the State Government's ability to co-ordinate infrastructure.

HIA calls for the following:

- a NSW planning system that delivers expedited, consistent, predictable, affordable and flexible solutions to enhance the quality of our residential environments and to facilitate the delivery of a sustained and affordable housing supply.
- Part 3A, or a similar mechanism, be retained to improve and maintain the current major project approval process for the industry. The State Government must exercise a level of responsibility for the approval of state significant developments, including major residential projects, that serves both the interests of the local communities affected and the broader State need.
- the State Government to continue the expansions and improvements to development permitted under the NSW Housing Code (ie Complying Development), to further streamline the approval processes for housing delivery in NSW.
- the State Government to improve the information collected through the *Local Development Performance Monitoring* to include reporting of the number of lots to be created in all subdivision approvals and preferably supporting the achievement of agreed targets.

## **Infrastructure funding and delivery that facilitates residential growth and ensures a fairer sharing of that cost across communities**

A major barrier to achieving a sustained and affordable housing supply has been the proliferation of the 'user pays' approach to funding physical and social infrastructure. Mostly applied in the form of fees and development charges on land, these charges are highly prominent in NSW and can represent up to 20% of the total costs of a home and land package.

An up-front charge against development is the least efficient manner in which infrastructure costs may be recovered and it is considered essential that the cost to deliver broader community social and regional infrastructure should be borne by the whole community using a range of mechanisms open to government.

A user pays approach means that infrastructure is paid for by a small group (the new home buyer) yet is enjoyed by the whole community, including future generations. This inequitable model for funding community infrastructure adds considerably to the price of new housing and has a negative effect on housing supply in NSW.

A more equitable model of funding community infrastructure would be through general rates across the local government area. One of the biggest impediments to local government revenue-raising to fund infrastructure facilities for the whole community is rate-capping.

The practice of rate capping has existed for over three decades in NSW. It has exacerbated the problem of capital works funding and maintenance of infrastructure facilities for local government. Rate capping in NSW clearly restricts the ability of councils to increase rates, but has not restricted the growth in their income from development levies.

The removal of rate capping would allow councils to fund community infrastructure through a broad-based approach of slightly increasing general rates across the local government area rather than crippling new homebuyers through the application of significant development levies.

The adoption of more effective and less distorting approaches to the funding of community infrastructure will in turn stimulate the supply of developed land for new housing. Closing the gap between the cost of new housing and established house prices would help to alleviate pressures on established house prices that have eroded housing affordability conditions for would-be home purchasers.

HIA recommends the urgent implementation of alternative funding mechanisms such as infrastructure bonds, general rates, borrowing options and State Government funding. It is incongruous to promote a funding mechanism that constricts broad-based, whole of community revenue capacity, while allowing councils to levy crippling development charges on a minority to fund capital and operational costs of community-wide infrastructure.

HIA supports the ongoing work being undertaken by the recently established Land and Housing Supply Co-ordination Taskforce which aims to recommend and implement new strategies for delivering local infrastructure and resolve the impediments to land release and delivery of housing. Ongoing consultation with industry is imperative to the success of the Taskforce in achieving their objectives.

HIA believes planning and infrastructure delivery should be strategically linked to ensure that housing supply commitments made by the Government can be delivered and supported by infrastructure that is funded through budgetary measures. Such an alignment is critical to the future growth of NSW and as such HIA also supports Ministerial responsibility dedicated to the delivery of housing to meet the needs of the growing population (separate from social housing).

HIA remains opposed to the implementation of the State Infrastructure Contribution (SIC). Imposing an additional State levy, which is up to \$23,000 per lot in Sydney's growth areas, further exacerbates the housing affordability crisis that NSW is currently facing. New homebuyers should not be crippled by a State levy to pay for broader state and regional infrastructure which will be used by the whole community. The expansion of the SIC into areas where price sensitivity is critical to the roll-out of development will simply stall development and do nothing to assist with the significant housing shortage that NSW is dealing with.

**HIA calls for the following:**

- **the removal of rate capping to relieve the pressure on development levies and ensure a more equitable sharing of residential infrastructure costs.**
- **review and implementation of alternative funding mechanisms to more equitably deliver residential housing and infrastructure.**
- **maintaining the Land and Housing Supply Co-ordination Taskforce and ensure ongoing consultation with industry.**
- **the alignment of strategic planning and land release with infrastructure delivery.**
- **the creation of a Ministerial responsibility dedicated to the delivery of housing to meet the needs of the growing population.**
- **the removal of the State Infrastructure Contribution.**

## **Increase land and housing supply to meet the real underlying demand in NSW**

Housing supply both in Sydney's growth areas and infill areas, and in regional NSW must be increased to cater for the demands of the growing population. As housing supply doesn't match demand, house prices have continued to increase adding to the affordability crisis. Adequate supplies of infill land for residential development in particular must be identified, as 80% of all new housing in Sydney is currently 'infill'.

HIA supports the re-examination of current Government policy targets for infill and greenfield areas. HIA recommends the establishment of a separate body to focus solely on achieving infill housing targets and coordinating the State agencies to ensure a smooth and timely approval process for new residential developments in infill areas across NSW.

HIA supports the introduction of a range of density options for inner and middle ring metropolitan council areas to support the needs of the growing population. Medium and high density opportunities should be explored and implemented in areas where existing infrastructure is currently in place to support this. The range of barriers to infill developments suggest that achieving the housing targets identified in the subregional strategies will not be possible without significant action from the State Government to support their implementation. To achieve these outcomes, the Government must introduce policies to facilitate higher densities close to transport links in areas where existing low density housing is prevalent.

The NSW housing shortage currently stands at around 70,000 dwellings and our build rate is about 15,000 dwellings less than is required to meet demand. Housing targets need to be developed that reflect true underlying demand of housing in NSW. The State Government needs to work co-operatively with Local Government to develop action plans to meet those targets. Where necessary HIA believes any financial incentives to Local Government should be aimed at such targets. The impact of Government agencies such as the RTA and Sydney Water are significant to the roll-out of serviced residential land and require a much greater level of co-ordination to reduce red tape and costs.

State Land Agencies across Australia have been introduced to provide 'affordable housing' for entry-level buyers, however the agencies have tended to expand their operations drawing them into direct competition with private sector land developers. HIA supports the idea of a state land agency tasked solely with the responsibility of amalgamating sites for private development and fast-tracking the rezoning and service delivery for future residential development.



**HIA calls for the following:**

- **that housing supply both in Sydney's growth areas and infill areas, and in regional NSW be increased and targets set that truly reflect the demands of the growing population in NSW.**
- **the re-examination of current Government policy targets for infill and greenfield areas.**
- **funding and financial incentives from the State Government to Local Government must be linked to the achievement of agreed housing targets and delivery plans.**
- **the establishment of a separate body to focus solely on working with local government in achieving infill housing targets and coordinating the State agencies to ensure a smooth and timely approval process for new residential developments in infill areas across NSW.**
- **a state land agency be tasked solely with the responsibility of amalgamating sites for private development and fast-track rezoning and service delivery for future residential development.**

## Reduced taxation of housing

A number of tax benefits were introduced in the 2010/11 State Budget under the NSW Home Builder's Bonus. These have had some positive impacts but we need more. For example:

- Zero stamp duty for off-the-plan purchases of new homes for those who buy a house or apartment worth up to \$600,000 in the pre-construction stage;
- 25 per cent stamp duty cut on newly-constructed homes;
- Zero stamp duty for over-65 "empty-nesters" who sell the family home and down-size to a newly-constructed home worth up to \$600,000.

HIA supported the introduction of concessions on stamp duty especially on vacant land and off the plan construction – to end in June 2011. However these measures need to be adopted as permanent measures and the threshold levels must be appropriately indexed to stimulate new dwellings in NSW.

In Victoria, a new home buyer receives (until June 2011) an additional \$13,000 bonus from the State Government on top of the Federal Government's \$7000 grant which equates to \$20,000 for new homes. In regional areas, an additional regional bonus is added to this which equates to \$26,500 in total. In NSW, new home buyers only receive \$7000 under the Federal Government's First Home Owners Grant. HIA urges the NSW Government to provide a first home buyers bonus for new homes to stimulate this sector of the housing market.

The ad valorem charge levied on property transfers is another blow against housing affordability in NSW. There is no good reason to charge this tax and even less good reason to charge at a rate according to residential property value. This charge on property is simply a tax grab and HIA urges that it be repealed immediately. Introduced in May last year to justify the need for additional property title security measures, HIA argues extra security measures are an administrative responsibility of the NSW Land and Property Management Authority that should not require any additional charge.

### **HIA calls for the following:**

- **that measures such as the stamp duty concessions currently in place until the end of June 2011, be adopted as permanent measures and the threshold levels be appropriately indexed.**
- **the State Government must provide a first home buyers bonus for new homes to stimulate this sector of the housing market.**
- **that the ad valorem (property) tax introduced in May 2010 be repealed immediately.**
- **further reductions in payroll tax be pursued.**
- **a full review of the impact of State Government taxes on housing affordability be undertaken.**

## Increase industry skills and training

Apprentice and trainee commencements are vital to the residential building industry. There are over 50,000 apprentices employed nationally in the construction industry. We still are not building enough homes to match growing demand, and going forward our housing shortage is expected to worsen. An adequate skills base is needed to meet the future demands of the residential new housing market. At a time when we should be increasing our skilled workforce to build our future homes, we are seeing insufficient numbers of new entrants and unsatisfactory retention which is evident in the high apprentice attrition rate. 55% of first year apprentices fail to complete their training and importantly; 33% of apprentices fail to complete their first year.

Harnessing and developing the skills and knowledge of mature workers is essential if we are to take steps toward plugging the skills gap in the housing industry. Recent economic data indicates growing skills shortages in the building industry which generate inflationary pressures and reduce housing affordability.

Our ageing population intensifies these factors and it is essential that economic growth achieved is via increases in workforce participation and productivity. There is little doubt that the quality and efficiency of output can be improved by providing education and training to help reduce skills obsolescence. Accordingly, HIA encourages the adoption of policies that would help to secure the participation of skilled workers which would incorporate:

- greater incentives and support to stimulate adult and other apprenticeships traineeships;
- removal of any industrial barriers, including unnecessarily inflexible award provisions, to the employment and training of apprentices and trainees so far as fair and practicable to encourage employment of apprentices;
- simplification and streamlining of the complex and burdensome paperwork requirements associated with the employment of apprentices;
- continuation of payroll tax and workers compensation premium exemptions for trade apprenticeships and traineeships;
- promotion of flexible employment arrangements available to maintain workforce participation of apprentices and trainees.

HIA also fully supports the traditional indentured apprenticeship model but there is a need for greater support and mentoring provided by the industry to reduce the attrition in the first year.

**HIA calls for the following:**

- **flexible employment options for mature age apprenticeships.**
- **greater incentives and support to stimulate adult and other apprenticeships **as well as** traineeships.**
- **the removal of any industrial barriers to the employment and training of apprentices and trainees.**
- **the simplification and streamlining of paperwork requirements associated with the employment of apprentices.**
- **a continuation of payroll tax and workers compensation premium exemptions for trade apprenticeships and traineeships.**
- **promotion of flexible employment arrangements to maintain workforce participation of apprentices and trainees.**

## Support for harmonisation of the Occupational Health & Safety (OHS) Laws

HIA supports aspects of the proposed national OHS laws that, if adopted by the NSW Government, will remove some of the more unfair and retrograde aspects of the current NSW laws.

Under the proposed national laws a prosecutor will be required to prove that there has been a breach of an OHS duty, and there will also need to be a consideration of whether the duty has been complied with so far as reasonably practicable. This is a positive move away from the strict liability offences that exist under the current NSW framework and brings NSW in line with other states which extend ordinary principles of criminal justice to OHS prosecutions.

Where an OHS offence is a criminal offence the prosecution should be required to establish their case and the accused should be presumed innocent until proven guilty. HIA is not aware of any evidence that a reverse onus of proof and the established practice of prosecuting charges lacking in particulars has led to better safety outcomes in NSW.

Additionally, a right to prosecute more appropriately lies with an independent State prosecutor. Allowing unions to prosecute employers mitigates against a cooperative and collaborative OHS environment and does not amount to better safety outcomes.

Employers and employees operating in the residential construction industry are entitled to know with certainty that they have complied with their OHS obligations and if those obligations are not met, there should be fairness of enforcement.

HIA encourages the NSW Government to honour its prior commitment to OHS harmonisation.

Consultation must be at the forefront of any changes to OHS laws.

### **HIA calls for the following:**

- **NSW to honour its prior commitment to introduce nationally harmonised Occupational Health and Safety legislation.**