

2021-22 State Budget Submission

Working together to develop a
better Western Australia



FROM THE PRESIDENT

I am pleased to present the Urban Development Institute of Australia (UDIA WA) State Budget Submission for 2021-22.



UDIA WA has welcomed the willingness of the McGowan Government to listen to industry and collaborate on measures to ensure WA's economy can not only survive, but also thrive in the longer term. We are pleased that the Government has recognised the significant contribution that the development industry provides to the broader economy by choosing our industry to lead the economic recovery and set the state up for economic growth.

UDIA fully appreciates the difficult challenges facing the Government and supports the actions taken to date. This State Budget will be a critical step in our state's road to recovery and it is imperative that those industries that can contribute significantly are recognised and supported appropriately in the upcoming budget.

Creating WA based jobs is the answer to both our immediate challenges but also to the longer-term success of our State. This submission is focused on how the development industry and the State Government can continue to work collaboratively to achieve this objective and provide economic stability that benefits all Western Australians.

This submission identifies several short, and longer-term recommendations across four key focus areas:

1. Maximising the Current Market Stimulus Measures;
2. Unlocking Private Investment Opportunities;
3. Building Future Proofed Infrastructure; and
4. Tax Reform

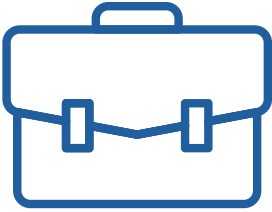
As an industry, we have supported the state government's strong leadership in respect to managing the health and economic crisis posed by COVID-19 and are committed to continuing to work together so that we can ensure WA remains prosperous and resilient into the future.

A blue ink handwritten signature, appearing to read 'Col Dutton', written over a white background.

COL DUTTON
PRESIDENT
UDIA WA

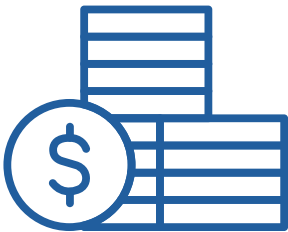


WA'S DEVELOPMENT INDUSTRY ECONOMIC IMPACT TO THE STATE



15.5%

of all employment in WA is in the property industry



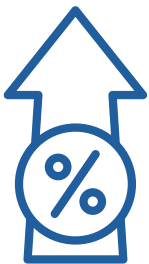
\$28.2 billion

contributed by the property sector to GSP in 2019-20



208,460

people are directly and indirectly employed by the WA property industry



1.6x

the direct employment of the manufacturing industry and 1.1x the direct employment of the mining industry in WA



\$18.6 billion

in incomes are directly and indirectly derived from jobs in the property sector in WA



\$3.8 billion

in property taxes contributed to State Government revenue in 2019-20

CURRENT STATE OF THE MARKET AND EMERGING CHALLENGES

We were delighted that in response to COVID-19 the McGowan Government recognised the importance of the development and home building industry to the WA economy and adopted stimulus measures that have supported jobs in the housing and construction sectors. This support has enabled WA's economy to outperform other states and created an employment pipeline that will support the economy through into 2022.

As a result of the stimulus, lot sales in the June 2020 quarter were the highest on record according to UDIA's Urban Development Index, which commenced surveying developers in 2000. 3,631 new lot sales were recorded in the June 2020 quarter compared to 1,629 in March 2020. Whilst demand for new lots has unsurprisingly fallen from that record peak, and despite the closing of the State and Federal stimulus programs, demand remains elevated with sales in March 2021 totalling 1,927, up 18% on quarterly sales pre-pandemic in March 2020.

UDIA estimates that the grants, together with low interest rates and strong consumer confidence will result in a total of 42,000 dwelling commencements over the 2020-21 and 2021-22 financial years. Much of this demand has been and will be met by lot supply from large master-planned communities which have

the capacity and capability to bring forward development stages efficiently and affordably.

However, many of these larger development estates are now reaching their full capacity and will not be replaced. Across the Perth and Peel Regions, zoned and serviced large land parcels with workable development constraints are becoming increasingly scarce. Whilst infill as a component of our housing mix is increasing, site acquisition, securing finance, navigating the development approval process and securing sufficient pre-sales means that built-form development takes significantly longer than detached housing to be presented to the market. As a result, we must recognise the development industry's ability to respond quickly and efficiently to increased housing demand in the future is severely diminished.



Despite strong market activity, it is likely that a significant level of demand for housing has been subdued by the closed international border. However, supply has been equally constrained by limited capacity in the building industry and a lack of key trades such as bricklayers. Construction timeframes for new houses are anticipated to stretch to 24 months from commencement due to these constraints.

Whilst strong owner occupier activity has driven the recent increase in the construction of single homes, the property market has suffered from a long-term decline in property investment, with the value of new investor loans falling from 35% of all new mortgage commitments in 2017 to just 15% in October 2020. Whilst this has recently increased to 22% in April, there is strong evidence to suggest that this has not sufficiently replaced investors leaving the market.

This decline, coupled with modest population growth in the first half of 2020 has led to a severe rental shortage, with the vacancy rate

falling below 1%. The scarcity of rental supply has led to significant price increases following the end of the moratorium. Given elongated housing construction timeframes, the market is unlikely to correct itself in the short term.

The effective containment of COVID-19 by both the Federal and State Government, coupled with pent up demand, is likely to mean that WA will experience significant net overseas migration as the international borders reopen. This is expected to place further demand pressures on an already strained housing market in WA.

Given the current context outlined here, it is imperative that the State Government acts now to address WA's critical shortage of housing. Therefore, this submission recommends a series of measures to support the development industry in delivering the homes needed to avoid critical housing affordability pressures which are detrimental to both our communities and economy.



The Solutions

ADDRESS THE RENTAL CRISIS



Support Built Form Development

The loss of investors in WA has negatively impacted all segments within the Perth property market. However, it has disproportionately affected built-form developers who are heavily reliant on pre-sales in order to commence projects.

Seeking to address this issue and ensure the delivery of the State Government's infill agenda, UDIA fully supported the introduction of the 'off the plan' duty rebate in October 2019. This has been successful in getting more new apartment projects off the ground and creating jobs. However, this program is coming to an end and an unintended consequence has been that completed stock is now considerably less competitive than off the plan product, which benefits from the 75% purchase duty rebate. As such, there remains a relatively large, albeit diminishing pool, of newly completed apartments on the market with 1,280 apartments built but unsold currently available.

An immediate solution to the current rental crisis and limited housing supply is to incentivise the purchase of housing stock by investors by extending the rebate scheme. This would have an immediate and positive effect on the current vacancy rate. It is important to note, that while there is considerable unsold stock held by developers, current State and Federal legislation makes it financially punitive to rent out these apartments prior to the transfer of 'new / un-used' properties to investors. Extending the rebate period will help attract investors back into the market and thereby assisting to build the capacity that the rental sector desperately needs before international borders reopen. Similarly, increasing the supply of apartments will assist many older households 'age in place' and support them to transition from a house into an apartment, freeing up desperately needed family housing stock in centrally located areas.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Extend the current 75% stamp duty rebate for Off the Plan apartments to December 2022 and expand it to include under construction projects, with the rebate being made available at the time of settlement (as per FHOG)**
- **Adopt incentives that encourage the purchase of newly built housing stock by investors.**





Enable build-to-rent

'Build to rent' (BTR) offers an effective longer-term solution to many of our current and long-term rental challenges, however current taxation settings deter investment in this sector. To level the playing field and encourage the delivery of affordable BTR requires changes to Federal and State based tax obligations, specifically Managed Investment Trusts and Land Tax.

Adopting these changes and allowing time for the market to respond sufficiently will take time, however there is solid evidence that BTR projects in North America and the UK have emerged as an attractive investment opportunity for large scale institutional investors and provided a much-needed supply of affordable rental homes. Recognising the important role that this emerging sector can play, the New South Wales government has recently introduced a land tax concession for BTR until 2040. UDIA WA calls on the State Government to replicate this concession to support the delivery of BTR in WA.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Facilitate Built to Rent projects by replication of the New South Wales land tax exemptions.**



Commit to longer term property tax reform

Whilst short term tax incentives are required to address the rental crisis and encourage greater investment in the residential housing market, in the longer term more holistic property taxation reform is needed.

WA's population is aging and already there are legitimate concerns as to how efficiently we are using our housing stock, with stamp duty restricting the movement of households between different housing typologies as their housing needs change. In particular, stamp duty prevents many older households from downsizing and potentially aging in place. Further, the inconsistent application of stamp duty is creating a barrier to the uptake of new multi-unit housing options including apartments and townhouses, which hampers the delivery of the Government's METRONET objectives and urban infill targets.

As the Governor of the Reserve Bank of Australia, Philip Lowe, recently advised the Commonwealth Government, stamp duty is a tax on mobility that should be removed if we want a dynamic and vibrant economy.

UDIA recognises the perceived political challenges of property tax reform, however a recent survey undertaken by UDIA found that 58% of owner occupiers in Perth would favour a shift to land tax from stamp duty. As a first step in reform, we encourage the Government to undertake a comprehensive review of state-based property taxes.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Commit in forward budget estimates to a comprehensive review of state based property taxes, including land tax and stamp duty regimes and commit to longer-term reform to ensure our property taxes are fair, efficient and transparent.**



ENSURING HOUSING SUPPLY



Facilitate the efficient delivery of Perth and Peel @3.5m

For generations, Perth has relied on large development estates with sufficient collective capacity to meet housing demand. These estates have kept a lid on house price pressures, particularly in times of peak demand. Supported by relatively stable housing supply, Perth has remained one of the most affordable capital cities in Australia.

Similarly, without these large estates the Federal and State Government stimulus measures would not have been as effective in supporting local jobs and enabling first time buyers to purchase a home. Conservative estimates are that these estates will account for 40% of dwelling commencements resulting from the government stimulus packages.

However, as outlined in UDIA WA's recent report, Housing our Community: Acting today to avoid tomorrow's housing crisis, Perth is facing a looming housing supply crisis, with the supply of large master-planned communities declining and large parcels of urban zoned land with workable development constraints rapidly diminishing. This together with a greater reliance on infill development to meet our housing needs, will undermine the industry's ability to provide homes efficiently in future periods of peak demand.

In terms of infill development, despite a whole of Government agreement and commitment to the urban footprint and infill targets set out by the Perth and Peel @ 3.5m Frameworks, planning referral agencies frequently fail to facilitate the various steps in the development process in a timely manner. These delays undermine investment decisions and impair housing affordability in infill locations. If we are going to counteract the diminishing supply in masterplanned areas with a greater supply in infill locations, addressing these issues is of critical importance.

To address these challenges and ensure we maintain a stable future supply of housing, it is imperative that planning is given primacy in the context of the approvals process, with a growth areas team established to focus on securing sufficient housing supply across the state. In addition, greater collaboration is required across key referral agencies including DWER, who also need to be resourced appropriately to support the delivery a coordinated response to our emerging housing supply pressures.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Adopt a collaborative regulatory culture and resource key Government Departments adequately to facilitate the effective delivery of the Perth and Peel @ 3.5m Frameworks.**
- **Allocate funding to establish a State Government Growth Areas Team supported by a Housing Supply Advisory Group**





Drive the delivery of Community Infrastructure

We welcomed the announcement in May last year of a short-term lending facility to support local governments through COVID-19. To further advance our economic recovery and support the vibrancy of our local communities with the timely delivery of community infrastructure, a similar scheme to support the implementation of local government's Development Contribution Schemes (DCS) would be very effective.

DCS schemes are the primary funding source for community infrastructure, with the capital provided by the development industry. However, the risk adverse nature of local governments mean that local governments will often not implement the delivery of DCS infrastructure until schemes are complete. This means that new home buyers are frequently denied the benefit of infrastructure they have already paid for. A better solution would be to enable local governments to access Treasury loans to prefund the delivery of community infrastructure with money collected through these schemes returned to treasury over time with modest interest. UDIA estimates that there is currently \$2 billion held by local governments in current DCS schemes, the allocation of treasury funding could help unlock this large pool of capital.

Similarly, according to the WAPC's 2018-19 Annual Report, the balance of the Metropolitan Region Improvement Fund stood at \$444m in June 2019. Although it is not clear from the 2019-20 Annual Report what the current balance is, as the fund has been increasing by \$50m per annum for several years, it is likely that the balance is now well in excess of \$500m. This money should be utilised as intended to finance the cost of providing land for roads, open spaces, parks and similar public facilities. The reinvestment of this money directly into Metropolitan Perth will unlock further private sector investment and help improve the liveability of our communities.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Establish an infrastructure funding pool to facilitate the timely delivery of DCS community infrastructure.**
- **Actively reduce the balance of the Metropolitan Region Improvement Fund.**



Re-establish a Strategic Assessment

UDIA recognised the need for Government to focus its priorities and funding commitments in response to the onset of COVID-19, placing the Strategic Assessment of the Perth and Peel Regions (SAPPR) on hold. However, the combination of an increasing range of environmental considerations and lowering of thresholds is leading to increased uncertainty regarding the environmental approval's framework and elongated assessment timeframes. At the same time, the declining supply of urban zoned land will place additional resource demands on approval authorities and pressure housing affordability. Only through a coordinated, strategic response will we find a long term and productive solution to our environmental and housing supply challenges and deliver more efficient and enhanced environmental, economic and social outcomes.

UDIA welcomed the Independent SAPPR Review, which had progressed well and effectively addressed key concerns regarding the lack of stakeholder engagement and narrowing the previously overly ambitious scope of the project. As it closed, the Review had reached close alignment between industry and government objectives.

Given our concerns about housing supply, it is critical that the environmental approval framework supports the delivery of the Perth and Peel @3.5m Frameworks effectively. Therefore, to deliver our environmental and economic objectives, we encourage the government to re-start the SAPPR Review process and explore innovative investment opportunities, including those from the Commonwealth and institutional investors to assist the delivery of a Strategic Environmental Assessment.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Re-establish SAPPR Review and investigate funding mechanisms to support the delivery of a Strategic Environmental Assessment.**

ADDRESS THE SKILLS CHALLENGE AND PREPARE FOR POPULATION GROWTH



Prepare a strategic population growth framework

WA has a long history of taking advantage of overseas and interstate migration to supplement our local skills base to help grow and diversify our economy to the benefit of all Western Australians. However, in the past there has often been a short-term focus on addressing our skills needs which has meant that longer-term sustainable economic growth and community development opportunities have been missed. Along with targeted migration, ensuring that our local skills base is suited to existing and emerging skills needs will be critical.

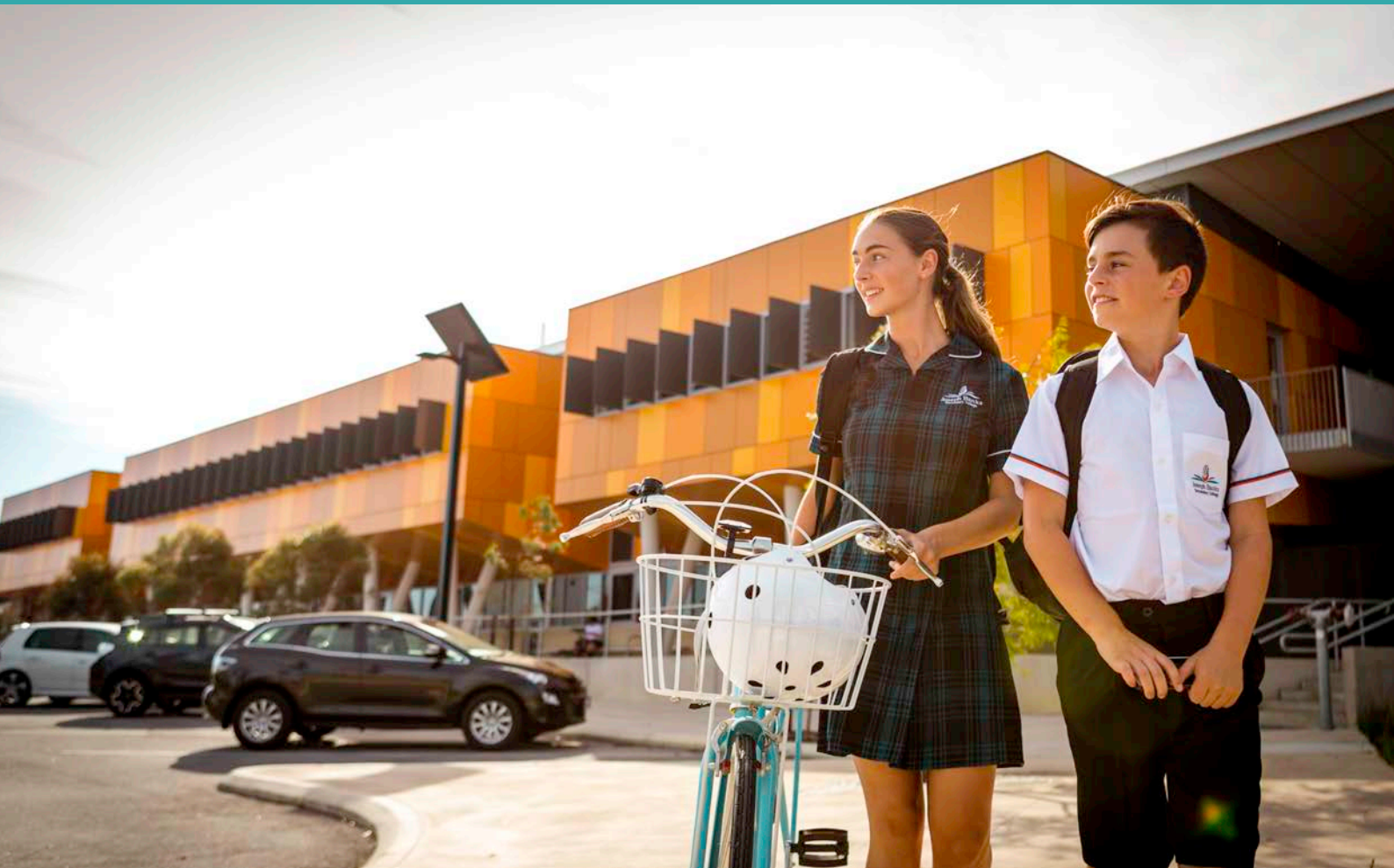
More recently, our ability to manage COVID-19 and maintain jobs whilst offering an attractive lifestyle has increased our attractiveness as a relocation destination to unprecedented levels. This provides us with a significant opportunity to maximise the benefits of both interstate, and when the time is right, overseas migration to create a more prosperous WA.

Acknowledging that overseas migration is a Commonwealth responsibility, in the current climate the State should seek to attract interstate migration and continue to work with the Commonwealth to develop a framework to better support controlled and safe international migration.

UDIA encourages the State Government to collaborate with industry and all tiers of government to prepare a strategic population growth framework to take advantage of the opportunities ahead of us.

UDIA WA recommends that the State Government make provision in the 2021-22 State Budget to:

- **Develop a Population Strategy that maps out a sustainable plan for population growth post pandemic and into the longer-term.**
- **Allocate funding to facilitate and expedite a Commonwealth funded Quarantine facility in WA to enable a sustainable and safe pathway to re-opening our borders.**





Unit 26, Level 1
3 Wexford Street
SUBIACO WA 6008

T 08 9215 3400
E udia@udiawa.com.au
www.udiawa.com.au



UDIAWA



Urban Development Institute of Australia (WA)



@UDIA_WA