



For the  
*community*  
*creators*

# 2022-23 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 2022–23.



To date, Western Australia's pathway through the pandemic has been unique, with the State Government's strict border controls and other restrictions limiting the spread of the virus and stimulus measures keeping the state's economy running. There is no doubt that the McGowan Government's willingness to listen and engage with industry has ensured the economy has prospered over the last two years.

However, this success now places our economy at a cross roads, with some of those very restrictions and measures that protected us, now limiting our growth moving forward. In particular, we have limited capacity in our housing supply which is threatening our long-standing housing affordability and our ability to attract and house the skills that our economy desperately needs moving forward.

This State Budget will be a critical step forward as we learn to 'live with COVID' and should seek to establish a clear pathway for long-term, sustainable economic growth.

With increasing demand and competition for the brightest talent across Australia and internationally, our future economic

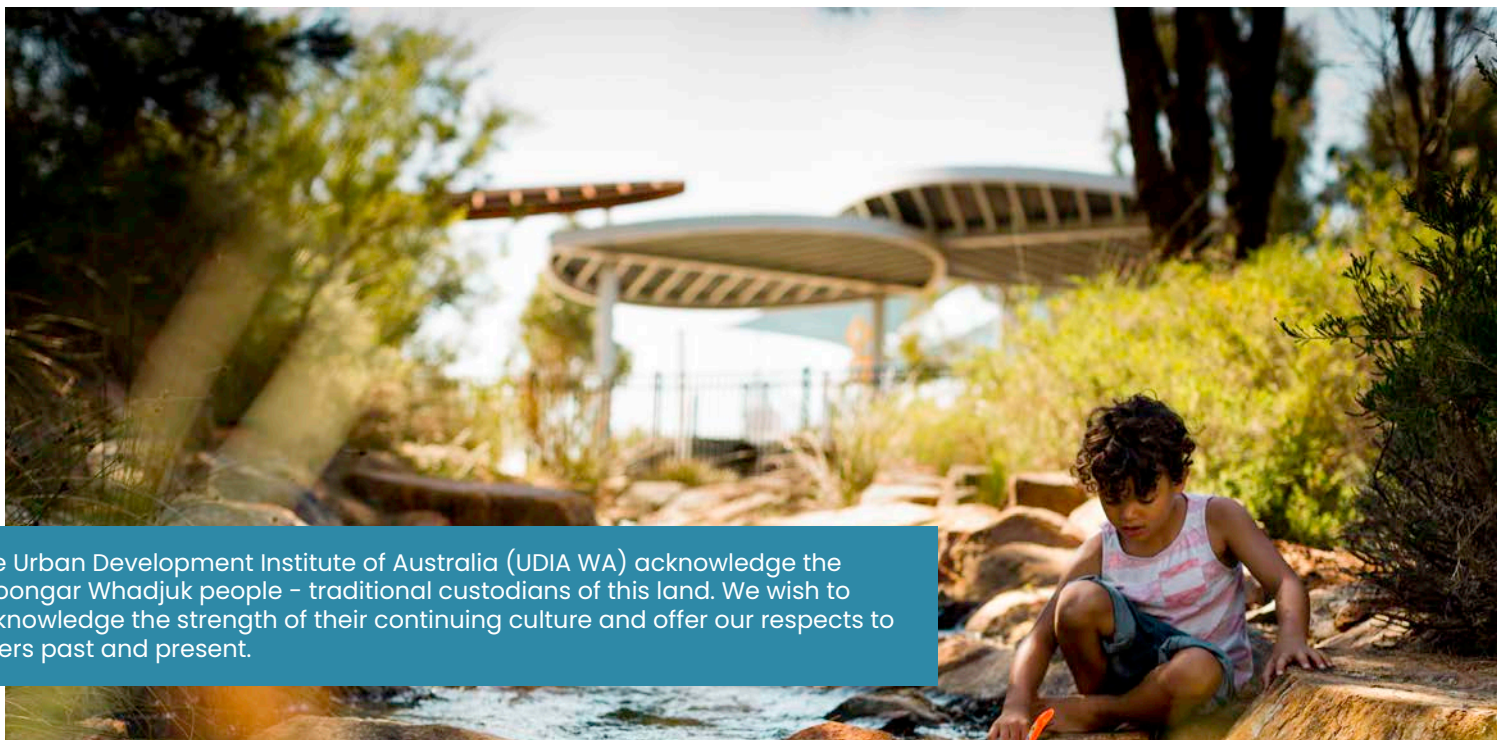
success is dependent on the liveability of Perth and our regions. To help maintain our housing affordability and enhance our liveability, this submission sets out a series of recommendations across three key focus areas:

1. Filling the skills gap;
2. Creating capacity and boosting housing supply; and
3. Building a secure platform for sustainable growth.

The Government has demonstrated that it is not afraid of making difficult decisions and as an industry we look forward to continuing to work together to resolve our economic challenges and building a platform for a prosperous future.

COL DUTTON  
PRESIDENT  
UDIA WA

The Urban Development Institute of Australia (UDIA WA) acknowledge the Nyoongar Whadjuk people – traditional custodians of this land. We wish to acknowledge the strength of their continuing culture and offer our respects to Elders past and present.



# WA'S DEVELOPMENT INDUSTRY ECONOMIC IMPACT TO THE STATE

## Employment

**129,000**

employees directly employed in the property sector (at November 2021) and supported additional ~85,000 total jobs through flow-on activity

**\$12.1 billion**

in incomes (wages & salaries). 11.3% of total WA employee compensation across all industries and \$7.1 billion in incomes through flow on activity

**10.8%**

of Western Australia's total full time Labour Force

**1.6x**

the employment of the manufacturing sector in WA (as of FY 21)

## GSP

**\$18.2 billion**

directly contributed to GSP by the property sector in 2020-21 or 5% of total contribution to GSP by all industries in WA

**\$30.1 billion**

in total direct and indirect contributions to the WA state economy

**\$12.7 billion**

further contributed to WA GSP through flow-on demand for goods and services

## Tax

**\$2.85 billion**

directly contributed by the property sector in property taxes to WA State Government revenues in 2020-21 (inclusive of land tax and stamp duties)

**28.1%**

of all WA State Government taxation received (\$10.15 billion total)



# CURRENT STATE OF THE MARKET AND EMERGING CHALLENGES

**Following the dramatic spike in housing demand caused by the housing construction stimulus packages, lot sales continued to strengthen throughout the course of 2021.**

Lot sales for the year recorded as part of UDIA WA's Urban Development Index totalled 8,340, which compares to 10,037 in 2020 when sales were supported by both the State and Federal stimulus packages. Across the various market highs and lows, the survey's 16-year annual average of lot sales sits at 6,623. We estimate that this survey accounts for approximately 70–75% of the greenfield house market.

To further highlight the increase in construction activity, **40,345 new home building approvals have been issued in the 21 months between January 2022 and the announcement of the building grants.** Prior to this, it took 31 months to reach this same total of home building approvals. This rapid onset of housing demand which has followed five years of market decline, has placed considerable strain on the entire industry and government regulators.

Whilst necessary, the strong border controls coupled with strong competition for local labour across the resources industry and government infrastructure projects, has left the development industry unable to expand and resize to service this demand. A January survey of our members found that over 80% of businesses are impacted by the availability and access to skilled workers, and although the majority had vacant positions available, these organisations were not actively recruiting for all positions available. As such, **WA's skill shortage is likely to far exceed the 60,000 jobs currently being advertised.**

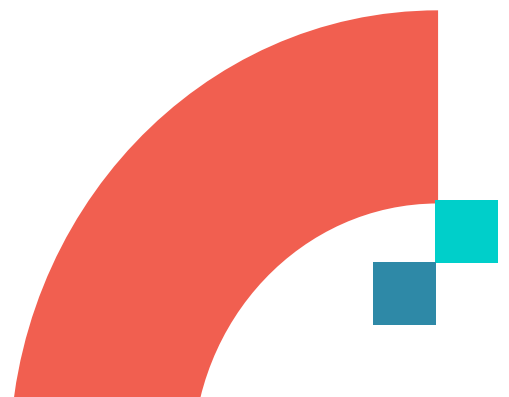
Alongside these labour constraints, increased demand and disruption in the global supply chain have added significant material cost pressures and delayed construction timeframes. In response to our survey, over 80% of respondents reported that these costs were having a high or medium impact on their business.

According to the ABS, as 2021 closed, material input costs for housing construction had risen 11.1% over the course of the year. We consider these estimates to be conservative, **many material inputs such as timber and bricks have risen between 200% and 300%.**

Similar pressures have been experienced in lot construction with materials and crews for wall building increasingly difficult to secure, whilst ordering timeframes for equipment such as electrical transformers has increased from 90 to 180 days. **These material delays and increases together with increased labour costs has caused the cost of housing construction to rise approximately 20–30% since mid-2020.** Tight margins and a diminishing pool of builders has meant that the apartment development market has been especially exposed to these construction cost pressures resulting in around a third of development projects being placed on hold. The diminishing pool of builders poses considerable risks as well as cost pressures for emerging and future development projects.

Compounding these housing construction challenges, there remains very little capacity in the rental market, with **the rental vacancy rate continuing to decline throughout 2021 falling to a historic low of 0.7%.** In the regions the situation is even worse with rental vacancy rates of just 0.4% in Albany, 0.1% in Bunbury and 0.0% in Busselton. **With a backlog of 28,000 permanent migrants awaiting the reopening of the international border, the limited availability in the rental market is likely to drive significant housing cost increases** and jeopardise our longer-term housing affordability and the competitiveness of our economy.

Given the current context outlined here, it is imperative that the State Government acts now to address WA's critical shortage of housing to help build a foundation for sustained economic growth. Addressing the diverse range of issues and challenges facing the development industry will require a multifaceted approach. This submission sets a number of recommendations relative to the State Budget that are designed to support and enable the development industry to deliver the homes we need to avert critical housing affordability pressures detrimental to the needs of both our communities and economy. A wholistic set of cross government and industry solutions is set out in [UDIA WA's 2022 Policy Priorities](#) document.





A person with long hair, wearing a white long-sleeved shirt with a rainbow stripe and dark pants, is walking away from the camera on a wooden boardwalk. The boardwalk leads towards a beach and the ocean under a sunset sky. The sun is low on the horizon, reflecting on the water. There are some clouds in the sky. A stylized yellow sun icon is positioned above the main title.

# **DEVELOPING A PROSPEROUS FUTURE**

**UDIA WA's recommendations for  
the 2022-23 State Budget**



# FILL THE SKILLS GAP



## Develop a workforce attraction strategy for Perth and the regions

**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.**

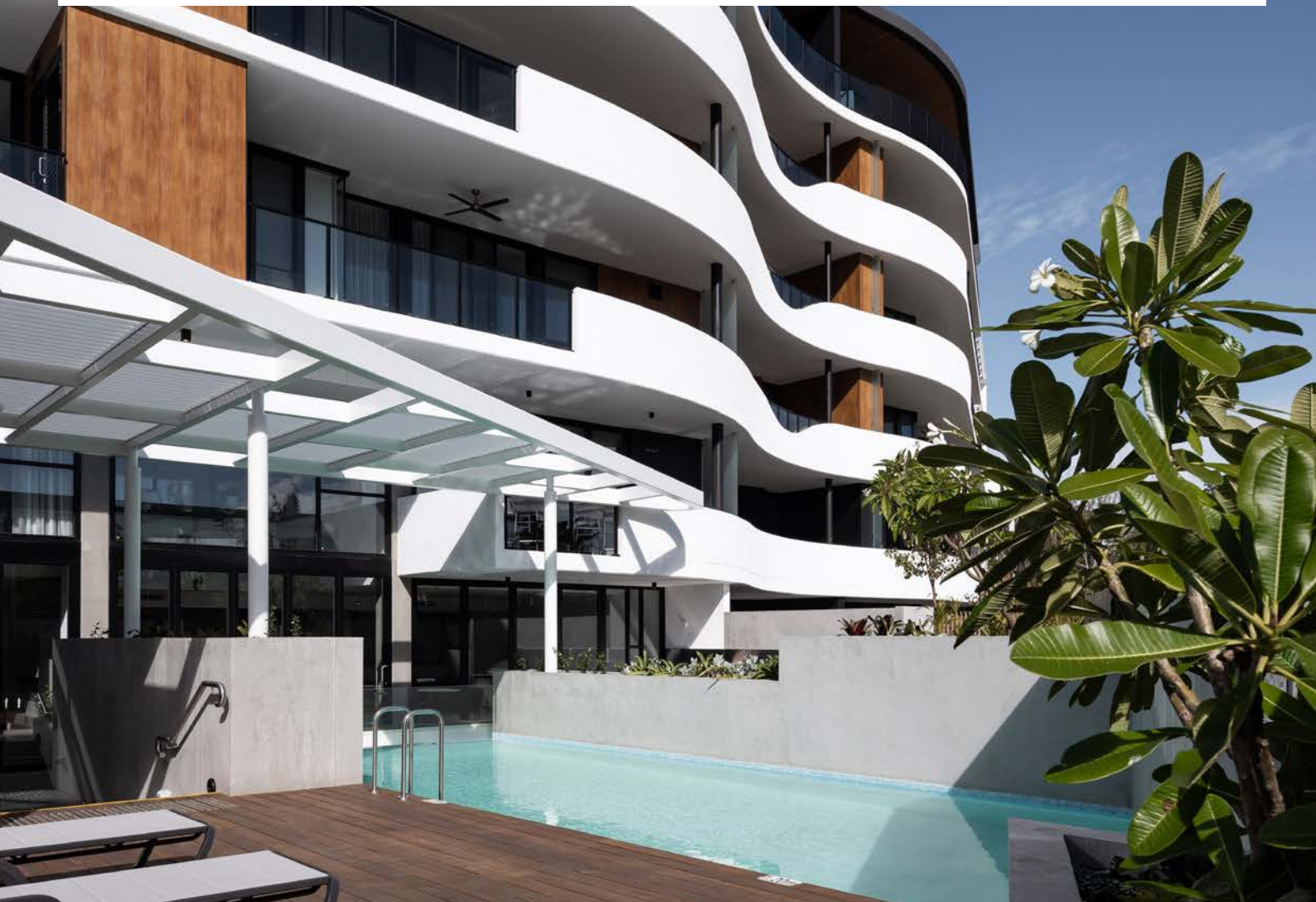
Whilst the closing of the international border and tight interstate travel restrictions have protected our economy, it has also meant that our local skills shortfall has grown. The strong demand for labour and skills across the economy has prevented the development industry from expanding to meet demand, adding significant cost pressures and extending delivery timeframes.

In previous economic uplifts, the lifestyle we are able to offer international migrants and typically counter-cyclical economic cycle to east coast markets has allowed us to fill the skills pool with few

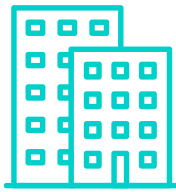
challenges. However, with strong demand for housing internationally and across Australia, particularly given the pipeline of work caused by the devastating floods in New South Wales and Queensland, Western Australia faces considerable competition in attracting the skills we need. Therefore, it is imperative that the Government builds upon its 'Reconnect WA' framework and works with industry to quickly prepare and adopt a workforce attraction strategy for Perth and the regions. This strategy needs to be supported by a program of infrastructure investment that enables our regions to prosper by retaining and enhancing the local skills base.

UDIA WA recommends that the State Government make provision in the 2022/23 State Budget to:

- **Fund the development and implementation of a workforce attraction strategy and plan for Perth and the regions**



# CREATE CAPACITY: BOOST HOUSING SUPPLY



## Extend support for Built-Form Development

**The number of homes listed for rent has fallen steadily since 2018, however the rate of decline has increased dramatically since the start of the pandemic.**

In the first week of April 2020, according to SQM research there were 6,052 properties listed for rent in Perth. At the 9 March 2021, this figure had more than halved with just 2,581 available for rent. The lack of rental properties is creating housing affordability pressures with the rental listing prices for houses rising 25% and units 20% over this period. At the affordable end of the market, these price pressures are adding to the number of people in housing stress and placing additional strain on social housing. The fact that this listing decline is occurring at a time when population growth has fallen to just 0.5%, demonstrates that the root cause of the issue is the declining pool of private rentals.

Whilst the loss of investors in WA has negatively impacted all segments within the Perth property

market, 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 and the announcement of the extension of the scheme as part of the 2021-22 Budget announcements. Given the success of the scheme in assisting new apartment projects to get off the ground and creating jobs, in conjunction with current construction cost pressures, this scheme should be extended across the Budget forward estimates to maintain a pipeline of urgently needed infill housing whilst a broader property tax review is undertaken.

UDIA WA therefore recommends that the State Government make provision in the 2022/23 State Budget to:

- **Extend the current 'off the plan' duty rebate across the budget forward estimates**



## Encourage institutional housing investment and 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, we require changes to Federal and State based tax obligations, specifically Managed Investment Trusts (MIT), Land Tax and GST. 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 and encourage the Federal government to amended MIT and GST settings to support the delivery of BTR projects in WA. Given that only one BTR project has been launched in WA, providing this concession would have no discernible impact on Budget revenues whilst also assisting housing choice and affordability.

UDIA WA recommends that the State Government make provision in the 2022/23 State Budget to:

- **Replicate the New South Wales Government's land tax exemptions for Built to Rent projects**
- **Encourage the Commonwealth to amend MIT and GST settings to support Build to Rent**





## Increase Keystart threshold limits

**According to the State Government's Housing Strategy, in 2020, one in five (200,000) households are estimated to need some form of housing assistance from the WA Government.**

The total number of households requiring government housing assistance is expected to increase by 25% by 2030. This number would be far higher without Keystart, which has enabled 118,000 Western Australians to get into their own home.

The recent lift in house prices effectively means that the Keystart eligibility thresholds exclude large portions of housing in Perth's inner ring. This means that people will either need to travel further and spend more on getting to work, or continue to rent a home. This will further diminish the falling rate of home ownership. As a result, we are now seeing an increasing number of households

entering into retirement in rental properties. All this adds further pressures to our already constrained supply of social and community housing.

It is imperative that the State takes action to address declining home ownership, therefore the Institute is calling on the State Government to expand the eligibility and threshold criteria for Keystart loans. To ensure these thresholds are maintained, they should be index linked against the median house price within that particular housing market.

UDIA WA recommends that the State Government make provision in the 2022/23 State Budget to:

- **Allocate finance to enable the expansion of Keystart eligibility thresholds and maintain these limits through indexing against increases in median house prices**



## Boost the supply of affordable housing

**In December 2021, there were 4,228 homes occupied by WA households and families under the 'National Rental Affordability Scheme' (NRAS) with a further 619 homes provisionally allocated.**

With the NRAS scheme coming to an end in 2026, the 20% below market rate subsidy that benefit these households and landlords will be lost.

Many of the low-income households that benefit from the NRAS scheme are highly sensitive and vulnerable to any cost-of-living increases. Therefore, the resulting housing cost increases arising from the scheme's closing is likely to force many of these households out

and on to the already bloated public housing wait list. It is particularly concerning that over 800 of these homes are located in regional and remote areas of WA where local housing options are limited and the shortage of private rental and social housing is even more acute.

It is imperative that the State seeks to establish a similar opportunity to support the private sector investment in affordable housing to low-income earners.

UDIA WA recommends that the State Government make provision in the 2022/23 State Budget to:

- **Boost the supply of affordable housing and provide funding to enable the introduction of a state-based version of the NRAS scheme**



# BUILD A SECURE PLATFORM FOR SUSTAINABLE GROWTH



## Better co-ordinate the delivery of community infrastructure

**As greenfield land parcels become increasingly smaller due to fragmentation and with infill development constrained by infrastructure capacity constraints, delivering development hand in hand with appropriate infrastructure is becoming increasingly difficult.**

Better alignment and increased transparency regarding the timing of infrastructure delivery, by both State Government agencies and local government is needed to ensure the best possible outcome for the liveability of communities and the competitiveness of the economy. UDIA acknowledges that Infrastructure WA is yet to produce its 10-year infrastructure plan, however the failure to set out key strategic infrastructure projects early, has meant WA has consistently not received its fair share of Federal infrastructure funding. Addressing this short-coming and preparing an Infrastructure Plan in close collaboration with the development industry should be an urgent priority for the State.

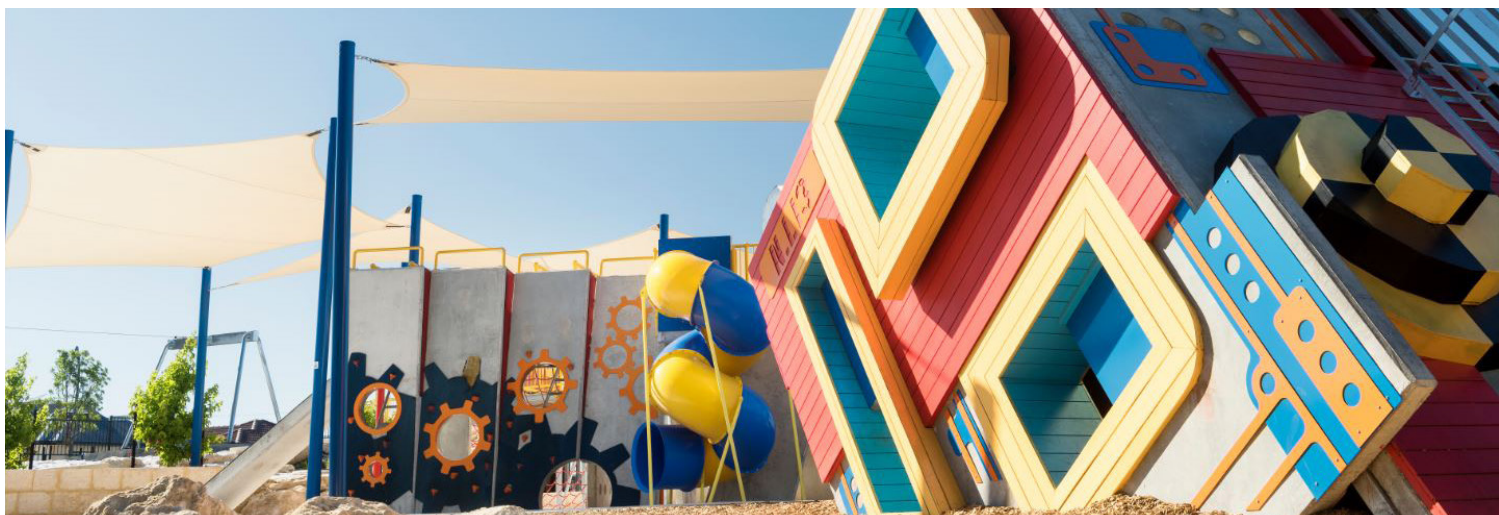
Similarly, local governments have often exclusively relied on developers to fund community infrastructure through Development Contribution Schemes (DCS). Whilst State Planning Policy 3.6 Infrastructure Contributions has been recently amended to ensure that these schemes do not undermine housing affordability and improve transparency and local government reporting, there remains a lack of consistency in the administration of schemes across local governments and uncertainty regarding delivery timeframes.

UDIA estimates that collectively, there is approximately \$2 billion held by local governments in DCS schemes. Administering these schemes is complex, and duplication across local government reduces efficiency of managing these schemes. Centrally co-ordinating the management of these schemes would deliver 'scaled up' efficiencies and through improved oversight of broader market trends and costs, enable the delivery of infrastructure in a more cost effective and coordinated manner. Currently there are 54 schemes in operation. If an annual, nominal administration fee of \$25,000 was charged to these schemes, it would generate \$1.35m to manage the enhanced governance of DCPs at no cost to local government or the State.

Alongside improved scheme management, the existing development contributions framework is poorly designed and ill-equipped to tackle the challenges of upgrading existing and aging infrastructure to support infill development. Therefore, a new funding model is desperately needed to support infill development.

UDIA WA recommends that the State Government make provision in the 2022/23 State Budget to:

- **Provide funding to accelerate the preparation of a State Infrastructure Program to improve WA's under-represented allocation of Federal infrastructure funding.**
- **Establish a central co-ordinating agency to more efficiently manage local government development contribution schemes and improve transparency.**







## Develop a Strategic Environmental Assessment Framework

**UDIA fully appreciates the need for the Government's clear focus on the pandemic response in recent years and understands why the Strategic Assessment of the Perth and Peel Regions (SAPPR) was placed on hold in March 2020. However, as we are nearing the end of the State of Emergency and with greater certainty about the future challenges we face, the SAPPR review should be reactivated as a priority.**

The combination of an increasing range of environmental considerations and the lowering of consideration thresholds is leading to increased uncertainty regarding environmental assessment outcomes and elongating decision-making timeframes. At the same time, the declining supply of urban zoned land will place additional resource demands on approval authorities and negatively impact on 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 effectively addressed key concerns regarding the lack of stakeholder engagement and narrowed the

previously overly ambitious scope of the SAPPR. 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. Furthermore, as a Strategic Environmental Assessment would cover 'Matters of National Environmental Significance' (MNES), the State should seek Commonwealth funding to assist with this preparation.

UDIA WA recommends that the State Government make provision in the 2022/23 State Budget to:

- **Fund the preparation of a strategic environmental assessment framework for Perth & Peel**
- **Seek the provision of Commonwealth funding to assist and expedite the establishment of such a framework**







## Commit to longer-term property tax reform

**While immediate taxation incentives are required to address the current rental crisis, there remains a need for a longer-term, more wholistic review of property tax settings.**

Such a review is needed to ensure that property taxes provide a sustainable revenue base for Government while also encouraging private sector investment that aligns with housing and infill development objectives.

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.

Any perceived political challenges of property tax reform should not be an impediment to investigating potential reforms. Furthermore, we believe that there is general support for reforms with a recent UDIA survey revealing 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 2022/23 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**





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