Living with COVID-19

Supporting economic recovery

A productivity agenda for the nation

Priorities for the 2022-23 Budget and the next Parliament

<u>The Australian property industry – keeping the economy strong and playing our part in the pandemic</u>

In 2018/19 the Australian property industry[1]:

- Directly contributed $234.7 billion to GDP – equivalent to **12.8% of total GDP** – and contributed a further $281.0 billion to GDP through flow-on demand for goods and services.
- Directly **employed 1.48 million full time equivalent (FTE) employees** (13.6% of Australia's total) and supported some 1.67 million FTE jobs through flow on activity.
- Generated approximately **26.3% of the wages and salaries** paid to Australian workers, both directly and indirectly.
- Contributed some **$106.1 billion in combined federal and state tax revenues** and local government rates, fees and charges revenue. This equates to 18.1% of total Australian tax and local government rates fees and charges revenues in 2018-19.

Playing our part in the pandemic:

- We kept construction sites operating safely – working with governments to keep hundreds of thousands of Australians in jobs and keeping the economic moving.
- Commercial landlords supported thousands of Australian small businesses with rent abatement – despite the red tape strictures of mandated government schemes. No other business sector was subject to a government intervention into commercial contracts and a mandated transfer of revenue from one business to another.
- Retirement villages protected hundreds of thousands of elderly residents without any additional government funding support of the type provided to the aged care sector.
- Australia's office, shopping centre and industrial property landlords and managers demonstrated 'COVID-safe' leadership, allowing them to continue to operate within health guidelines.
- Many leading hotels and serviced apartments converted into vital hotel quarantine facilities, allowing governments to help keep Australians safe.

[1] AEC Group Ltd, *Economic Significance of the Property Industry to the Australian Economy*, July 2020.

FOREWORD

Thank you for the opportunity to input into the Federal Budget for 2022-23.

The property industry has been central to Australia's resilience during the pandemic. We've helped keep the economy going and we've played our part in keeping people safe. As the nation's biggest industry, employing 1.48 million Australians, a strong property industry will also be crucial in the years ahead and to the thriving cities and communities we shape.

The past two years have delivered many challenges. Yet strong and effective government support have left Australia well placed to transition to living with COVID-19. Many challenges persist and we will face more in the future, but this is a transition that we can and must make.

The next federal budget must help Australia transition to living with COVID-19, support economic recovery and power up the nation to make the most of the 2020s.

Fiscal repair will need to be a priority for governments over the coming years. This is best tackled with a strong and growing economy to deliver the tax revenues we need for government programs. This means a focus on economic recovery, as well as the pursuit of a productivity agenda to deliver sustained benefits. Australia cannot tax its way to a balanced budget.

The Property Council's pre-budget submission sets out seven key recommendations to help achieve these outcomes:

1. **Help our CBDs bounce back**
2. **A 'Welcome to Australia' plan to become a magnet for talent and capital**
3. **Unlock housing supply and boost affordable housing**
4. **Supporting Older Australians with appropriate and age-friendly housing**
5. **Livable and productive cities**
6. **Sensible steps towards net zero emissions in buildings**
7. **A productivity agenda for the nation**

The Property Council looks forward to continuing to work successfully with the Government and with the National Cabinet on these issues.

Ken Morrison
Chief Executive

1. Help our CBDs bounce back

Outcome

Help our CBDs and CBD businesses bounce back after two years of lockdowns and restrictions.

Context

Australia's CBDs have done it tough through the pandemic. Work from home requirements have seen workers yo-yo in and out of offices, leaving many retailers, restaurants, cafes and cultural institutions struggling.

And while most office-based businesses have been able to pivot to remote working, there is no doubt it makes it harder for these businesses to collaborate, innovate, build culture, connect with clients and support their staff.

Our CBDs have the highest productivity output of anywhere in the country and they have been outsized contributors to employment growth.

Our CBDs also play a huge role in the cultural life of the nation, they are destination retail precincts, tourism drawcards and a significant part of our identity.

The latest Property Council data shows the economic fundamentals of CBDs are strong. Demand for office space from businesses actually grew over the past six months.[2]

But we also know that the return of workers to offices following work-from-home restrictions has been long and slow. The Melbourne CBD has never achieved more than 50% of its pre-pandemic occupancy levels at any stage of the past two years.[3]

Flexible working will be a much bigger feature of the future and many benefits will flow from this. However, the current situation where very large sections of the workforce are artificially working from home is not healthy or good for city economies.

The objective should be to transition our CBDs to their 'new normal' workplace settings within three months as opposed to taking six months or more. We need our CBDs to bounce back to their former glory.

The Plan

- Strongly and publicly encourage employers to return their staff to the office once health restrictions are lifted.
- Ensure all Government agencies are leading by example and requiring the public service to return to their workplaces.
- Lead a National Cabinet program of measures to help CBDs bounce back and contribute to economic recovery.

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[2] Property Council of Australia, *Australian Office Market Report*, January 2022.
[3] Property Council of Australia, *Office Occupancy Survey*, 2020-2022

2. A 'Welcome to Australia' plan to become a magnet for talent and capital

Outcome

Reopen our international boarders, restore our traditional migration settings as a key driver of national prosperity, and leverage Australia's strengths to attract talent and capital from around the world.

Context

The Property Council welcomes the Prime Minister's public comments that the Government hopes to be able to completely reopen international borders in coming months.

It is clearly important to reconnect Australia to the world, reopen key export sectors such as international tourism and education, and help alleviate skills gaps that will increasingly plague supply chains.

It is also vital to restart Australia's big economic engine – population growth.

The Government's figures show net overseas migration is forecast to fall from a net inflow of 193,000 in 2019-20 to a net outflow of 100,000 in 2020-21, and a net outflow of 41,000 in 2021-22. Australia's population is projected to be 1.5 million smaller after 10 years, compared to projections made before COVID-19.[4]

Reserve Bank Governor Philip Lowe has observed, *"Australia's faster population growth [is] one of the reasons our economy has experienced higher average growth than many other advanced economies."*[3] Australia's traditional migration program also boosts our overall productivity by bringing in skilled and relatively younger people.[4]

The Property Council urges the Government to do more than merely restore our previous settings. There is an opportunity to leverage our longstanding strengths – and our enviable vaccination levels – to aggressively position Australia as a magnet for talent and capital.

Australia has historically punched above our weight in attracting global investment and skilled workers to our shores due to our strong economic fundamentals and the transparency and stability of our governance and legal frameworks.

However, in recent years, Australia's increasingly complex and costly regulatory and tax regime for foreign investment in real estate has begun to impact our global reputation and competitiveness. Our Foreign Investment Review Board (FIRB) settings are wider in scope and more stringent than other well-developed markets, with significantly higher application fees imposed on top of state-based taxes on foreign investors.

This perception of complexity and risk has been exacerbated through the COVID period with the introduction of the FIRB 'national security test', delays and uncertainty on FIRB approval timeframes which impact market liquidity, and the closing of domestic and international borders. Global capital is also increasingly concerned about the climate impacts of their investments with emissions targets and reporting obligations being mandated in various jurisdictions around the world.

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[4] Australian Government Centre for Population, *Population Statement,* December 2021.

As the world emerges from pandemic settings to the new normal, Australia must seize the moment and put ourselves in the best position to compete for global capital and talent. This is the only way we will be able to support the development and investment in more homes, offices, retail centres, industrial sites, retirement living, student accommodation, hotels and community, cultural and sporting precincts, and kickstart our economic growth and prosperity.

The Plan

- **Maintain focus on the fastest possible migration restart** and filling our medium-term population growth deficit.
- **Work with the universities to ensure all international students can enter Australia** as quickly as possible in 2022.
- **Ensure quarantine facilities are expedited to ensure a safe pathway into the country** regardless of virus variations.
- Prioritise international migration of workers on skilled visas and restart other visa classes.
- **Turbocharge the Global Business and Talent Attraction Taskforce to continue targeting global investors, emerging businesses and key talent** to sell the benefits of investing, working and living in Australia, supported by a suite of targeted incentives, including business grants to support set up costs and visa support for key employees and their families.
- **Strike the right balance with foreign investment regulatory settings** by excluding passive/non-controversial commercial real estate investment opportunities from national security screening processes, reducing the 'tax on investment' through the FIRB application fee, which can now range up to $500,000 per transaction; and streamlining the FIRB approval process, particularly for frequent and high value investors, by improving the online portal, establishing 'client relationship' officers and providing greater certainty.
- Ensure our **tax and investment settings are globally competitive and any reforms do not give rise to unintended consequences** – including Australia's collective investment regimes, multinational tax rules and superannuation regime, all of which are critical to attracting patient capital to fund the assets we need, from office towers to industrial parks and purpose-built accommodation.
- Encourage state and territory governments to **remove counter-productive foreign investor surcharges** on residential and commercial property – which can add up to 8% to the purchase price upfront and increase land taxes by a further 2% per year – by ensuring the removal of these taxes does not trigger adverse outcomes under the GST distribution formula.
- Monitor and respond to **international sustainability reporting developments** whilst ensuring adoption makes sense for Australia.

3. Unlock housing supply and boost affordable housing

Outcome

Boost housing supply and choice for buyers and renters through incentives for productive planning systems, more transparent and efficient tax regimes and avoiding any unintended consequences of macro prudential interventions.

Context

People need housing choice and affordable options, whether they own or rent. As NHFIC's research shows, every $1 million spent on new home building directly supports nine full time equivalent jobs.[5]

Both general fiscal support and the *HomeBuilder* halo are receding from the economy and the big economic engine of migration-based population growth is yet to restart.

Worryingly, growth corridor housing supply is at crisis levels in NSW and Queensland. *HomeBuilder's* job-creating success has shone a light on this unmet demand. The NSW Productivity Commission has identified a 54,000 NSW home supply deficit even without overseas migration. [6]

At the same time, capital city apartment shortages loom by 2024. Property Council Urbis research shows capital city apartment supply will shrink to 21% as against 2018, as net overseas migration returns. [7]

To provide the homes Australians need and reduce the cost of creating them, we must sharply boost the productivity of state and local government planning and land supply and avoid tax red herrings.

For example, the Property Council commissioned Deloitte Access Economics to model the former ALP policy on CGT and negative gearing and they found an annual $766 million hit to construction and a $1.6 billion GDP shrinkage[8]. Policies changes such as this must remain buried.

The Plan

- **Strike bilateral 'Housing Deals'** with willing state and territory governments to create construction-ready housing supply pipelines in key housing corridors. These 'Housing Deals' would match Federal seed funding with state and territory funding and planning actions to ensure adequate pipelines of zoned and serviced land exist to match population growth. Addressing housing supply shortfalls is the sustainable way to underpin housing affordability.
- **Reset the National Housing and Homelessness Agreement to ensure states and territories must meet housing supply targets** in order to continue to receive federal funding under the agreement.
- **Support the creation of a new pipeline of quality rental housing** as a faster transition to ownership and providing stronger construction pipelines. Current withholding tax settings unnecessarily disincentivise the emergence of Build-to-Rent housing and the provision of affordable rental housing relative to other property asset classes.

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[5] NHFIC, *Building Jobs: How Residential Construction Drives the Economy,* 19 June 2020.
[6] NSW Productivity Commission White Paper, *Rebooting the economy,* 31 May 2021.
[7] Urbis, *Australia's Apartment Supply Crunch*, 14 June 2021.
[8] Deloitte Access Economics, *Analysis of changes to negative gearing and capital gains taxation*, prepared for the Property Council of Australia, July 2019.

- **Leverage private capital to create more affordable and social housing** by adopting the reform recommendations of the National Affordable Housing Alliance (which includes the Property Council)[9]. The reform recommendations are:
    - Federal tax incentives to create a Housing Capital Aggregator.
    - Create a Social and Affordable Housing Future Fund.
    - Activating Affordable Build-to-Rent as a source of affordable housing.
    - Re-prioritise existing development contributions for affordable housing.
- **Encourage a strong and competitive Australian banking and financial sector** with any macroprudential actions to be balanced and appropriately targeted to avoid a broader confidence impact on the nation's construction pipeline.

[9] National Affordable Housing Alliance, *Increasing the supply of social and affordable housing at scale and in perpetuity: Policy options*, January 2022. The NAHA alliance consists of the ACTU, ACOSS, Community Housing Industry Association, Industry Super Australia, Homelessness Australia, HIA, MBA, National Shelter and Property Council of Australia.

4. Supporting Older Australians with appropriate and age-friendly housing

Outcome

Encourage healthy ageing by supporting older Australians to rightsize into age-friendly communities that are designed to help people live independently for longer, reducing health and aged care costs.

Context

The Australian population is in the midst of a sustained period of ageing.

With the number of Australians aged 65 and over increasing at more than twice the rate of the broader Australian population, Treasury's 2021 Intergenerational Report identifies that a rapidly ageing population is the greatest demographic challenge in our nation.

Faced with rapidly escalating health and aged care costs, it is essential for Government to focus on policies that support healthy ageing.

A key priority is planning ahead to ensure our cities and towns are equipped to support and maintain the wellbeing of older people through affordable and accessible housing, services and support.

Age-Friendly Communities, like retirement villages and land lease estates, are integral to supporting healthy ageing.

These communities are about more than just accessible housing, home modifications or assistive technology. They combine purpose-built age-friendly homes, with access to care and support services, in a community that supports the physical, social and emotional needs of residents as they age.

Research has found that retirement village residents in Australia save the nation's health care system at least $2.38 billion annually. These savings are from delayed entry into residential aged care, fewer GP and hospital visits and shorter hospital stays.

Retirement communities are also relatively affordable, with the latest PwC/Property Council Retirement Census identifying the average cost to enter a two bedroom retirement village unit is just 55% of the median house price. This, combined with the fact that two-thirds of retirement village residents are women, makes these communities a "resident ready" solution to support women over the age of 55, who are at risk of homelessness.

Older women have been identified as the fastest growing cohort of homeless Australians. Concerningly, many older women who are renting, working and have modest savings or superannuation are unable to access secure, safe long-term housing. Many are ineligible for social housing due to the low asset thresholds to qualify, which traps them in the precarious private rental market, or forces them to rely on family or friends for support.

Retirement communities are a "resident ready" solution to support these women, who are known as the "missing middle".

The Plan

- **Make a highly targeted adjustment to increase the age pension asset test** for age pensioners seeking to rightsize (also termed downsize) into government regulated retirement communities. Research suggests that a third of pensioners who are considering rightsizing see the pension asset test as a significant barrier. [10]

- **Amend the criteria for the Pension Loan Scheme** (PLS) to allow pensioners who live in regulated retirement communities to have access to the scheme.
- Support the affordability of residents in retirement communities by amending home care funding arrangements to **allow home care package funds to be spent on eligible services provided through pooled funding arrangements.**
- **Support the affordability of retirement living with Commonwealth Rent Assistance by amending the eligibility criteria** to align it with other forms of seniors housing.
- **Incentivise the supply of affordable retirement living** by providing a GST Equivalent rebate for retirement living communities that allocate at least 10 percent of dwellings to residents meeting affordable housing eligibility criteria.
- **Support vulnerable women to access secure long-term retirement living homes** by allowing NHFIC to loan eligible applicants the fully refundable proportion of retirement village entry fees.
- **Fund an Older Women's Housing Engagement Service and online portal** to increase awareness of affordable retirement living options and support women in the "missing middle" to access homes through exclusive pre-market listings.

[10] National Seniors Australia, *Downsizing decisions of senior Australians: What are the motivating and discouraging factors?*, June 2014.

5. Liveable and productive cities

Outcome

Use the Commonwealth's infrastructure funding, project prioritisation and City Deal program to underpin the liveability and productivity of our cities.

Context

The pandemic has caused extreme dislocation in the way we live and work. This experience is likely to leave some lasting impacts and accelerate some trends already underway. The nature and extent of these changes is not yet clear.

However we can confidently say that Australia will remain a highly urbanised country where most citizens will continue to choose to live in our capital cities. While some regional areas may well experience higher growth than pre-pandemic, this fact is unlikely to change.

We can also confidently say that the fundamentals of good city planning are still going to be fundamental to livability and productivity - public transport, freight and logistics networks, employment hubs, housing choice and high amenity living.

The pandemic experience may well change the distribution of employment within our cities. It is likely to open up more lifestyle choices in and around major cities. It has put a spotlight on supply chains like never before.

Australia's cities contribute over 60% of Australia's GDP. Access to opportunity, the 'economics of agglomeration', will remain the most powerful force shaping our success as a largely urban nation. The importance of our cities and urban areas in underpinning Australia's economic productivity has been highlighted by the Productivity Commission.[11]

The Commonwealth Government has a key role to play in our cities, suburbs and regions.

The Plan

- **Identify and fast track high-impact City Deals** and develop a pipeline of future City Deals both for capital and regional cities. These City Deals should be anchored around both public and private investment and should have tangible and reportable targets and objectives focusing on new and innovative industries that have targeted jobs growth.
- **Prepare a new wave of major infrastructure projects** from those independently assessed as high priority by Infrastructure Australia. Federal, state and territory governments should deploy their balance sheets in support of this, including via asset recycling.
- **Bring back the Federal Asset Recycling Fund** to incentivise state governments to manage their balance sheets well. While beneficial to the Federal Government this also motivates better state behaviour.

[11] Productivity Commission, *Shifting the Dial: A Five Year Productivity Review*, August 2017. This identified 'better functioning cities and towns' as one of the five big productivity levers available to Australia.

6. Sensible steps towards net zero emissions in buildings

Outcome

To unlock low-cost emissions reductions in the built environment to help Australia meet its Net Zero target.

Context

Australia is now committed to reaching Net Zero emissions by 2050 under the government's *Long-Term Emissions Reduction Plan.* Achieving this will require deep structural changes across all sectors of the economy.

The built environment accounts for 23% of Australia's emissions[12] and also presents some of the lowest cost, and largely untapped, opportunities for broad emissions reductions. The right policy settings can help our buildings achieve their full potential to reduce energy bills, increase occupant comfort and reduce harmful greenhouse gas emissions.

While there is already a good base of built environment policies, the *Long-Term Emissions Reduction Plan* acknowledges that further targeted policies are needed for the sector. These should be complemented with national consistency of frameworks, processes and programs wherever possible to remove red tape and engage the built environment in emissions reduction efforts.

The Plan

- **Establish a property sector-specific national plan towards net zero emission buildings**, aligned with Australia's Net Zero by 2050 plan, in conjunction with state and territory governments. To support this plan, Government should extend the *Trajectory for Low Energy Buildings*, which identifies opportunities for low and zero energy (and carbon) ready building, out to 2050.
- **Develop measurement tools embodied carbon and accelerate mitigation efforts.** In 2019, embodied carbon accounted for 16% of built environment emissions. Without action, this share will increase to 85% by 2050.[13] The Australian Government should target embodied carbon through a mixture of supply side and demand side strategies, that support innovation for low emissions products and materials whilst growing their demand in the market. It should also start to explore how to address embodied carbon at the policy and supply chain level.
- **Increase storage capacity to unlock the potential of distributed energy generation**. In 2020, 24% of Australia's total energy production was from renewable sources[14]. To allow our renewables capacity to reach its full potential, it must be supported by increased energy storage. Building and precinct level batteries can reduce the need for energy infrastructure by flattening energy demand and reducing the impact of peak events. The Federal Government should establish financial mechanisms that divert the savings from avoided energy infrastructure costs towards additional storage capacity.

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[12] Low Carbon Living CRC, Best Practice Policy and Regulation for Low Carbon Outcomes in the Built Environment, 2017

[13] Embodied Carbon and Embodied Energy in Australia's Buildings, Green Building Council of Australia, 2021

[14] https://www.energy.gov.au/data/renewables#:~:text=In%202020%2C%2024%25%20of%20Australia's,recorded%20in%20the%20mid%2D1960s.

- **Adjust the Emissions Reduction Fund (ERF)**, Australia's principal emissions reduction framework, to deliver carbon abatement in the built environment. The ERF has recently crossed the 1,000 projects milestone, none of which are from the commercial buildings' method. The ERF should be renewed to remove artificial barriers to participation from the built environment.
- **Accelerate the development of a single national rating scheme for the energy efficiency of homes.** This will give households the energy performance information they need to achieve healthy, affordable, and comfortable homes.
- **Position Australia as a global leader in high performance building products and technologies.** Materials and product selection contribute greatly to a building's overall emissions impact. Government support can draw new products, practices and services into the market faster at scale through positive financial incentives combined with engagement, information, tools and assistance.
- **Incentivise building upgrades.** As recognised in the Long-Term Emissions Reduction Plan, there is a significant need to upgrade the energy performance of existing building stock to adhere to our international commitments. Energy efficiency retrofits will also unlock significant economic stimulus by engaging local workforces and supply chains.

7. A productivity agenda for the nation

Outcome

Lift Australia's stubbornly low productivity levels to grow living standards over the long term.

Context

Over the past two years, governments have been forced to have an almost singular focus on the biggest economic shock of our lifetimes. Australia must now look ahead to ways we can secure our long-term prosperity.

Prior to the pandemic, Australia's productivity performance had been languishing for some years. This was despite enormous technological advances and substantial private and public investment.

The Productivity Commission's seminal 2017 report, *Shifting the Dial: 5 year productivity review*, was a blueprint for enhancing our national welfare. It identified five key areas where holistic reform could 'shift the dial' on Australia's productivity performance. These were:

1. Healthier Australians
2. Future skills and work
3. Better functioning towns and cities
4. Improving the efficiency of markets
5. More effective governments.

This reform blueprint has inspired very limited action from governments since it was published.

We urge the Government to task the Productivity Commission with updating and revising this work, with a particular focus best pathways to implementation of core reforms.

Aligned with this review, we urge the Government to consider the experiences of the past two years and how Australia can move to a more effective framework for managing the Federation. The Prime Minister's initiative in creating the National Cabinet was an inspired one. However, the pandemic has highlighted many limitations in the architecture of how Australia's governments come together to solve pressing issues.

The Plan

- Task the Productivity Commission with setting out **an updated and expanded productivity plan for Australia.** This reform agenda should cover more productive cities, more efficient tax settings, future pandemic preparedness and a climate resilient future.
- **Include a review of the productive working of National Cabinet and especially the related Ministerial entities.**