2 February 2021
The Hon Josh Frydenberg MP
Treasurer
Parliament House
CANBERRA ACT 2600
By e-mail: prebudgetsubs@treasury.gov.au

Dear Treasurer

Property Council of Australia Pre-Budget Submission 2021-22

Thank you for the opportunity to provide a pre-budget submission for 2021-22.

In 2020 Australia suffered one of the biggest health and economic crisis of its modern history. The swift and decisive action of the Commonwealth Government and National Cabinet has meant that we have managed to avoid many of the worst impacts of COVID-19. However, there has been a significant economic and financial cost to this action.

While Australia's economic recovery is advancing well ahead of earlier projections, the economic road ahead remains very challenging. Australia will face many ongoing effects from the pandemic for some time to come.

While pandemic management remains vital, it is also important for policy makers to begin to 'change gears' and strengthen their focus on the measures needed drive economic growth. Accordingly, economic growth is the centrepiece of this submission.

As the nation's biggest industry that employs 1.4 million Australians, a strong property industry will be central to the nation's economic recovery. Indeed, the property industry – from commercial landlords to developers and builders – has been critical to Australia's resilience through the crisis to date.

The key recommendations outlined in the submission are organised into seven themes:

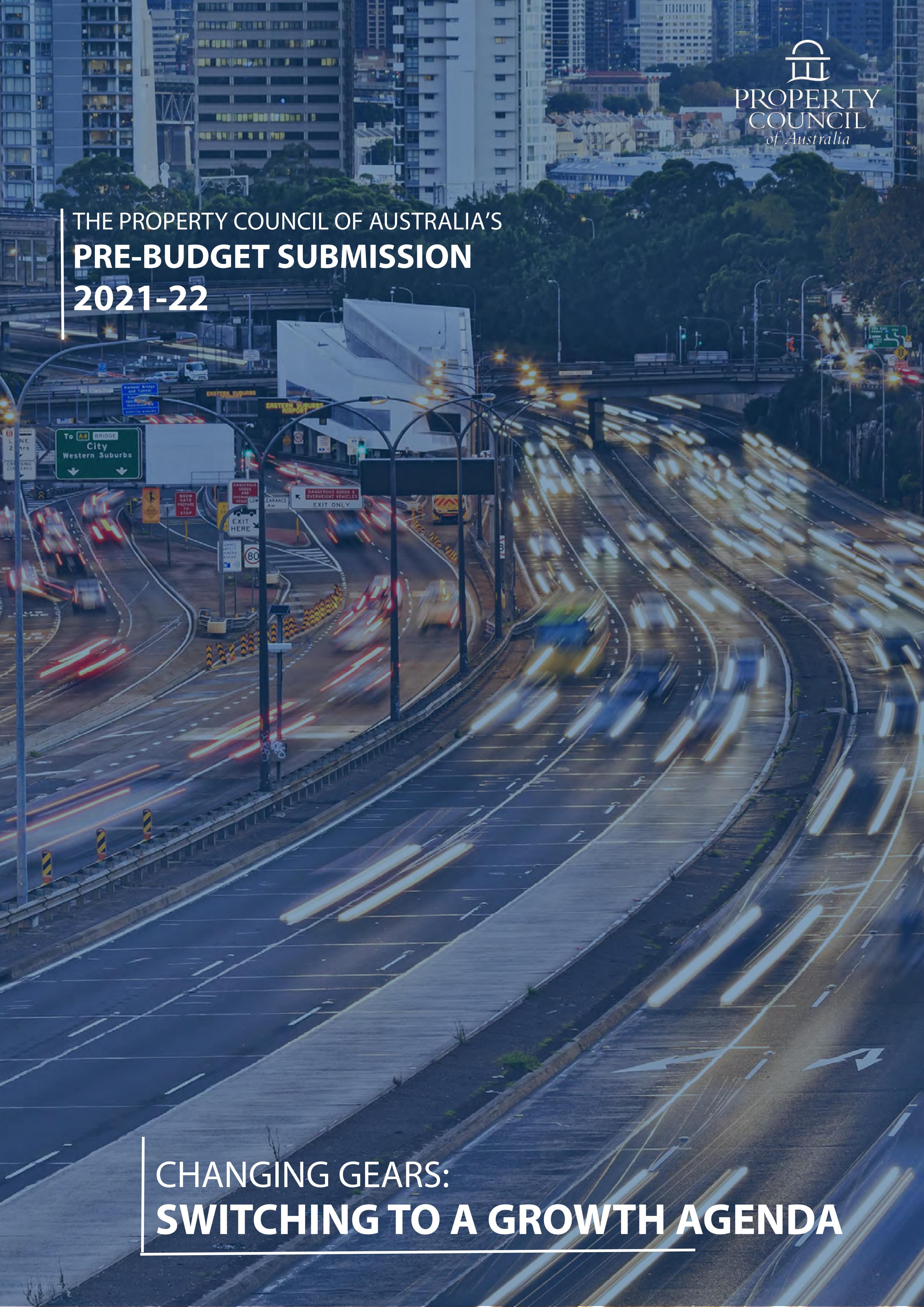
1. **Restarting population growth**
2. **Productivity focused reform**
3. **Attracting international business**
4. **Harnessing capital flows**
5. **Investing for our future**
6. **Boosting home ownership**
7. **Working towards a climate resilient and net zero emission future**

The Property Council looks forward to continuing to work with the Government and National Cabinet to deliver a strong economic future.

Please do not hesitate to have your office contact our Government Relations Manager Richard Lindsay on 0422 022 746 or rlindsay@propertycouncil.com.au.

Yours sincerely

Ken Morrison
Chief Executive



PROPERTY COUNCIL of Australia

THE PROPERTY COUNCIL OF AUSTRALIA'S

PRE-BUDGET SUBMISSION 2021-22

CHANGING GEARS:

SWITCHING TO A GROWTH AGENDA

PROPERTY SNAPSHOT

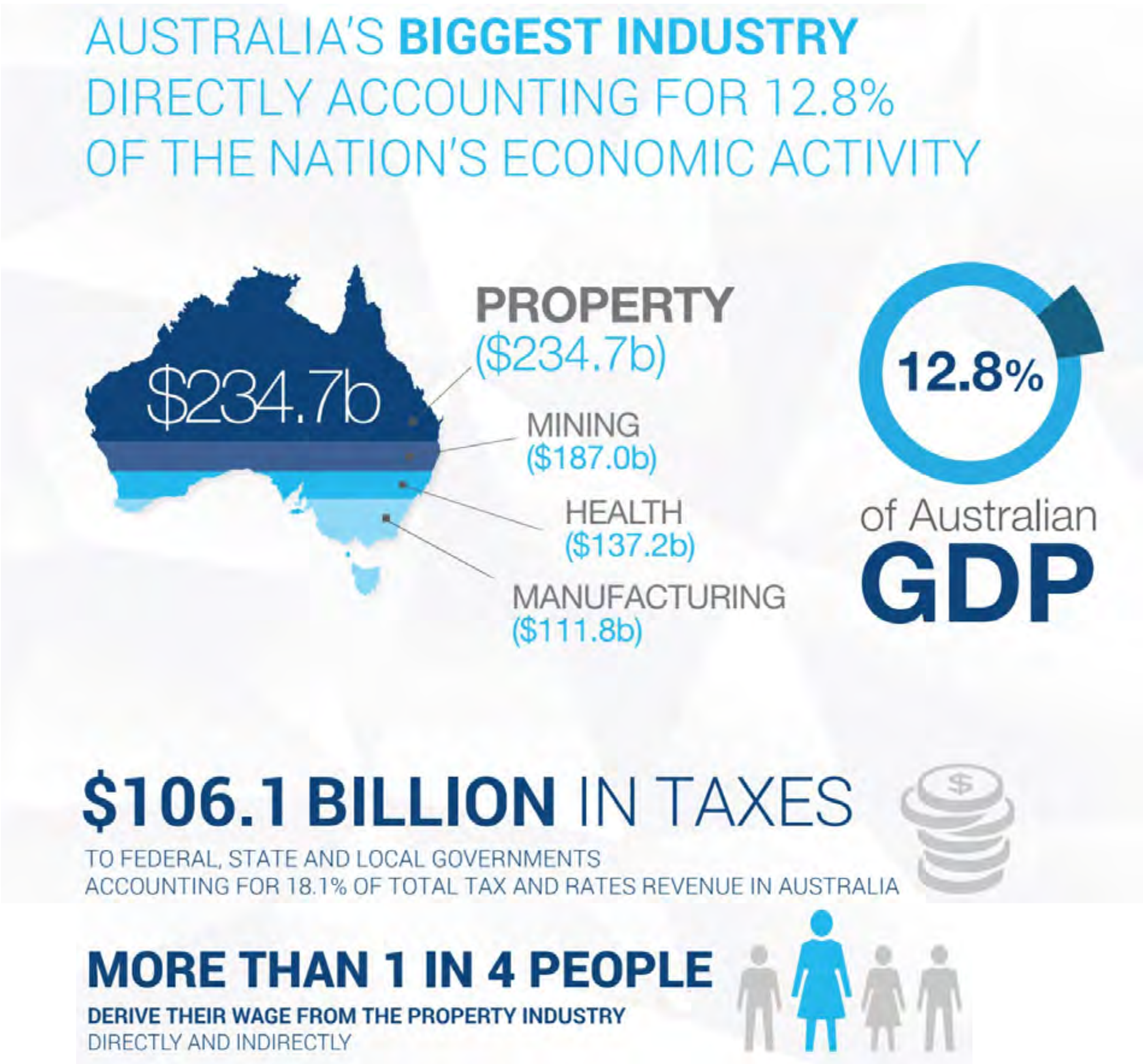
UNDERPINNING AUSTRALIA'S ECONOMIC RESILIENCE

The property industry is a key pillar of the Australian economy and is critical to our recovery from the COVID-19 pandemic.

Recent research by AEC Group shows that the property industry has the largest economic footprint of any sector in the Australian economy.[1]

In 2018/19 the Australian property industry:

- 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.
- generates approximately **26.3% of the wages and salaries** paid to Australian workers, both directly and indirectly.
- contributes 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.



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

PROPERTY'S LEADERSHIP ROLE
THROUGH THE PANDEMIC IN PARTNERSHIP

The role of the property sector has been critical to Australia's economic recovery.

COVID safe public health leadership

- Commercial and residential construction sites operated safely in partnership with governments – supporting jobs and economic activity during the worst of the shutdowns.
- Retirement villages protected hundreds of thousands of elderly residents without any additional 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.

Commercial property tenant support

Commercial landlords helped keep many Australian businesses afloat during the worst of the pandemic.

- Some $15 billion of rental income will have been forgone in favour of tenants by March 2021 under Mandatory Commercial Tenancy Codes.[2] No other business sector has supported so many other businesses and jobs during the pandemic as a requirement of mandatory financial assistance.
- Our two biggest CBDs support 1.2 million jobs between them. Property Council research shows that the slow return to offices remains a challenge for both business and government, as it continues to dampen the economic recovery. Governments and business must redouble our efforts to support our cities.

Residential job creation

The AEC Group research highlights the huge contribution that residential construction and activity makes to jobs and the economy.

- Dwelling prices have proved to be resilient throughout the pandemic, underpinning Australia's economic stability.
- HomeBuilder and companion state initiatives have been incredibly successful in stimulating housing construction, keeping hundreds of thousands of people in jobs and avoiding a jobs disaster that was facing the industry in mid-2020.

Strong confidence bounce

Property industry confidence has surged back to pre-pandemic levels, which will be critical in supporting the Australian economy through 2021.

- The ANZ/Property Council industry survey for the December 2020 quarter showed a strong improvement in sentiment across the industry, with the biggest jumps in sentiment for residential, retirement living and industrial construction.
- The national industry confidence score for the December quarter soared by 41 index points to 123 points, returning to pre-pandemic levels. This was the biggest quarterly index increase in the survey's history.
- Negative net overseas migration remains a major factor weighing down forward sentiment and its effects are likely to be felt through 2021.

[2] Deloitte Access Economics, *Extending the mandatory code of conduct for commercial leasing: risks and implications*, August 2020.

POLICY THEMES

1. RESTARTING POPULATION GROWTH
2. PRODUCTIVITY FOCUSED REFORM
3. ATTRACTING INTERNATIONAL BUSINESS
4. HARNESSING CAPITAL FLOWS
5. INVESTING FOR OUR FUTURE
6. BOOSTING HOME OWNERSHIP
7. WORKING TOWARDS A CLIMATE RESILIENT & NET ZERO EMISSION FUTURE

1. RESTARTING POPULATION GROWTH

Restart net overseas migration in a COVID safe framework to accelerate Australia's economic recovery and meet budget projections.

THE CHALLENGE

Population growth is one of Australia's big economic engines. 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]

The need to introduce tight international border controls to combat the COVID-19 pandemic has effectively switched off this economic engine.

With negative net overseas migration, population growth is estimated to fall to 0.2% in 2020/21 and 0.4% in 2021/22. This will inevitably dampen Australia's economic growth and slow our economic recovery.

Australia's traditional migration program boosts our overall productivity by bringing in skilled and relatively younger people.[4] Many of our temporary entry programs provide much-needed export income, underwrite key industry sectors such as education and the visitor economy, and provide a pathway to citizenship for many.

Despite the roll out of vaccines in Australia and around the world, it is becoming clearer that Australia is still likely to require enhanced border arrangements until 2022 and beyond. Vaccines are unlikely to allow us to 'get back to normal' and freely open our international borders again.

At the same time current border arrangements are unable to support more than a trickle of people into the country. This poses both significant risks and opportunities.

The significant economic risk is that current border arrangements are not upscaled in time to allow us to meet the budget's assumptions on restarting of net overseas migration. Australia also risks losing ground to our competitors as students and high value workers choose other countries. These outcomes would be a major handbrake on Australia's economic recovery.

Australia is also presented with a unique opportunity to leverage our enviable reputation for pandemic management and target talent, businesses and export income by bringing forward the restarting of migration. A controlled earlier restart to the big engine of population growth would significantly accelerate our economic recovery.

One of the nation's most important policy challenges in the next six months is to scale up our COVID safe international border and quarantining arrangements to support economic growth.

[3] Dr Philip Lowe, *Demographic Change and Recent Monetary Policy*, Speech to Anika Foundation Luncheon, , 8 August 2018
[4] The Treasury and Department of Home Affairs, *Shaping a nation: Population growth and immigration over time,* 2018.

RECOMMENDATIONS

1. In conjunction with state and territory governments, strengthen and expand quarantine processes and capacity and explore and implement fast track pre-travel testing, bio-secure vaccination evidencing and post-arrival measures in line with the recommendations of the Halton Review.[5]

2. Bring Australians currently stranded overseas home as a priority.

3. Working with the universities, put in place a program to allow international students to enter Australia in time for semester 2 2021.

4. Develop international travel bubbles with other COVID-secure countries.

5. Prioritise international migration from workers on skilled visas.

6. Restart other visa classes.

[5] Jane Halton AO, *National Review of Hotel Quarantine*, October 2020, pp.30-32 *aping a nation: Population*

2. PRODUCTIVITY FOCUSED REFORM

Lift Australia's stubbornly low productivity levels to grow living standards over time.

THE CHALLENGE

Pre-pandemic, the Property Council welcomed the Federal Government's renewed focus on boosting productivity by working with the states on micro-economic reform opportunities.

Productivity growth has languished in Australia in recent years, despite significant advances in technology and scientific knowledge, investment spending and a mining boom.

Quite simply, we need to learn to do things better for our long-term economic prosperity.

The Productivity Commission's seminal 2017 report 'Shifting the Dial' highlighted better functioning towns and cities as one of five priority areas for reform. It estimated reforms in this area could deliver a $29 billion increase in GDP in the long term.

Its recommendations covered a range of reforms relating to public infrastructure, road funding and investment, planning and land use policies and access to housing.

In addition, reforming Australia's tax settings can have a significant impact on the ability to get business investing, boost household prosperity and create a stronger economy.

The innovation of adopting a National Cabinet framework provides an opportunity to develop and deliver national reforms to drive productivity improvements throughout the country. We must keep up this momentum.

RECOMMENDATIONS

1 Strike bilateral 'Housing Deals' – based on the 'City Deals' model – to give incentives to state and territory governments to encourage them to reform their land use planning systems in line with the recommendations of a multitude of reports over the years.

2 Implement a broad-based Federal tax reform agenda designed to enhance productivity and increase Australians' living standards.

3 Encourage states to retire stamp duties without lifting business taxes. This reform is in line with recommendations of the Henry tax review and the Productivity Commission, and if done in a revenue-neutral way, would boost consumption by between $6 billion and $9 billion per annum according to Deloitte Access Economics modelling.[6]

4 Pursue the many other productivity enhancing reform measures outlined in the Productivity Commission's 'Shifting the Dial'

[6]Deloitte Access Economics, *The economic impact of stamp duty: Three reform options*, prepared for the Property Council of Australia, December 2015.

3. ATTRACTING INTERNATIONAL BUSINESS

Extend the Government's global business and talent attraction strategy with strengthened incentives and links to designated 'innovation precincts' to aggressively attract international business into Australia.

THE CHALLENGE

With Australia emerging from its initial lockdown, the Prime Minister had the foresight to establish a Global Business and Talent Attraction Taskforce and appoint former Property Council Chief Executive, Peter Verwer AO as the Prime Minister's Special Envoy to lead its work.

The objective is simple and very welcome: to leverage Australia's many positive attributes and our success in dealing with the pandemic to lure businesses and talent to this country. The primary support provided by the Taskforce is to facilitate fast track visas for targeted individuals.

The Property Council believes there is an opportunity to extend this initiative to further speed economic recovery.

The competition for top global talent and business is likely to become more intense as vaccine rollouts stabilise the health situations in advanced countries who will then switch their focus to economic growth. We note that President Biden has announced plans to attract more top technology specialists to work in the US[7] and the Canadian Government has announced it will seek to increase its migration program over three years.[8]

Strengthening the financial incentives available to support Australia's program and linking this with other incentives provided by state and territory government as part of an 'innovation precinct' strategy would strengthen our competitive position.

Innovation precincts are a well-defined economic strategy of many countries, but have not been a strong focus in Australia. Work commissioned by the NSW Innovation and Productivity Council[9] outlined several types of opportunity typologies.

- Health and education innovation precincts.
- Innovation precincts around universities.
- Innovation precincts around a major asset (eg. an airport).
- Inner city innovation locations.

The report pointed to the importance of incentives and precinct development in making these successful.

The Government's City Deal program would provide a ready-made mechanism to reach agreements with state governments on such innovation precincts, backed by a preparedness to strengthen incentives available to establish in these areas.

[7] *President Biden sends Immigration Bill to Congress as part of his commitment to modernise our immigration system*, fact sheet, The White House, 20 January 2021
[8] *Government of Canada announces plan to support economic recovery through immigration*, media release, 30 October 2020.
[9] NSW Innovation and Productivity Council, *NSW innovation precincts: Lessons from international experience*, September 2018.

RECOMMENDATION

1 Extend the Governments Global Business and Talent Attraction initiative by providing financial incentives for targeted businesses to locate in Australia and supporting the development of 'innovation precincts' in conjunction with state and territory governments.

4. HARNESSING CAPITAL FLOWS

Ensure Australia can harness the local and international capital essential to creating the housing and commercial real estate the nation needs.

THE CHALLENGE

Creating housing, shopping centres, offices, industrial parks, hotels, retirement villages and other real estate for Australians requires a lot of capital. As a country, we are heavily reliant on wholesale capital from Australia and overseas for this necessary economic infrastructure. Without population growth we need this investment even more.

Australia has been highly successful in attracting long-term patient capital to fund the real estate projects and investments that will support local jobs and businesses.

However, in recent years, wholesale domestic and global investors have faced a myriad of federal and state tax and regulatory changes.

When considered together, these imposts have impacted the relative attractiveness of investing in Australia by creating uncertainty, increased costs and more red tape. They include state-based foreign investor tax surcharges on commercial property and new development, changes to FIRB rules which have ushered in more stringent thresholds, much higher transaction costs and longer approval timeframes, and changes to superfund settings.

Wholesale capital typically invests in commercial property for stable long-term returns, and as such, stability and certainty in investment policy settings is critical. In the current economically constrained global economy, any policy change which unintentionally limits the ability for institutional investment to flow into Australia should be addressed.

If we are going to continue to build the pipeline of housing, assets and infrastructure Australians and our growing cities need, we need to ensure that we can continue to attract global and domestic wholesale capital in what will be a far more competitive world.

RECOMMENDATIONS

1. No new taxes or additional regulatory barriers to investment.

2. Ensure Australia has a competitive foreign investment framework, including clear and consistent messages and policy settings from federal and state governments, that reinforce the importance of foreign investment to the Australian economy.

3. Increase the speed and efficiency of FIRB processing times.

4. Reduce the inhibitive new FIRB fees, which have seen up to a nine-fold cost increase for commercial property investments valued at just below $1bn, despite their very low security implications of these assets.

5. Ensure superannuation reforms do not inadvertently penalise or discourage investment in commercial property.

5. INVESTING FOR OUR FUTURE

Use the Commonwealth's funding, project prioritisation and City Deal programs to strengthen our cities to rebound strongly from the pandemic.

THE CHALLENGE

Our cities and urban centres have faced an extreme dislocating set of events as health lockdowns, pandemic fears and record low population growth hit.

These events are likely to leave some lasting impacts on the way our cities evolve in the future, but the nature and extent of such impacts is unclear.

However, at any level the biggest mistake Australian governments at any level could make is to assume that there is no longer any need to invest in the future of our cities and urban areas. Population growth will return, the economics of agglomeration will remain a powerful force shaping our society and Australia will remain a largely urban nation.

We cannot drop the ball and stop investing for our future.

Urban productivity challenges will remain critical to the future success of our country and for Australia's economic productivity. The Productivity Commission has ranked 'better functioning towns and cities' as one of nation's five big productivity opportunities which could deliver a $29 billion increase in GDP if tacked.[10]

While the Commonwealth rightly prioritised smaller, shovel-ready infrastructure projects in 2020 as an economic stimulus measure, it is important to resume a focus on the medium and longer term infrastructure needs and the high priority projects identified by Infrastructure Australia.

In addition, our urban centres and CBDs are Australia's key productivity generators and provide vital revenue to the Australian economy. Our two largest CBDs produce 14% of Australia's GDP, and support many tens of thousands of small businesses. While the nature of work is changing across a number of sectors and there is greater flexibility needed in the modern workforce, CBDs will remain Australia's centres of wealth and cultural output.

[10]Productivity Commission, *Shifting the dial: Five year productivity review*, August 2017.

RECOMMENDATIONS

1. Maintain the Government's strong $100 billion ten-year infrastructure spending commitment across the forward estimates.

2. Ensure Infrastructure Australia continues to prioritise major urban infrastructure (metro rail, motorways, mixed-mode transit and freight projects) that underpin urban productivity in its assessment processes and recommendations to governments.

3. Ensure the Commonwealth commits to the next generation of city shaping infrastructure projects, in line with Infrastructure Australia recommendations and in partnership with state and territory governments.

4. Connect regions to metropolitan centres with faster rail in line with the business cases that have been developed by the National Faster Rail Agency.

5. Prioritise the next phase of City Deals covering large and smaller cities with a focus on economic growth.

6. Continue to support the reinvigoration of our CBDs through the return of Commonwealth public servants to their workplaces and strong messages to corporate Australia and state governments.

6. BOOSTING HOME OWNERSHIP

Arrest the collapse in home ownership rates among younger people to provide economic security.

THE CHALLENGE

HomeBuilder and complimentary state initiatives have underpinned the resilience of Australia's housing markets, which in turn have supported many jobs and much-needed economic stability through the COVID-19 pandemic.

Australian homes are very expensive by international standards because we embed high taxes, high costs and long delays in both land release and planning approval into our housing production system.

Over the past 30 years, Australian housing prices have increased by an average of 7.25% per year. According to the National Housing Finance Investment Corporation, lower housing demand due to the global pandemic presents an opportunity to reset policy frameworks to ensure that planning policies can accommodate future population growth without adverse consequences for affordability.

Most importantly, there is a long-term failure of housing supply to meet demand for both greenfield and brownfield development – which continues to drive the cost of houses higher. Additionally, some 25% of the cost of a new home consists of government taxes and charges[11] – a sunk cost making housing increasingly unaffordable for younger people. The Reserve Bank of Australia, the Productivity Commission and the Grattan Institute have all pointed to the need to reform planning and zoning practices to address this issue.

These are not the direct responsibility of the Federal Government, but the Commonwealth can create frameworks to encourage and incentivise state governments to tackle these issues.

In 2016 the Property Council commissioned Professor Ian Harper and Deloitte Access Economics to examine how National Competition Policy style reform incentives could be used to deliver outcomes in these areas. They found that providing financial incentives to the states to improve their planning systems could deliver around $3 billion a year in potential GDP gains.[12]

In 2020 the Property Council also commissioned Urbis to outline high-impact planning reforms in each state and territory.[13] The report found that if each state and territory implemented just one of the reforms identified in the report, the Australian economy would gain tens of thousands of additional jobs and more than $5 billion in added value.

There is also a pressing need to establish incentives and frameworks to encourage the creation of affordable housing at scale and remove barriers to new forms of rental housing. These frameworks would create a pathway for people to save towards home ownership, and provide housing options for low income Australians priced out of existing markets.

The Property Council is a member of the National Affordable Housing Alliance that is seeking to dialogue with governments on incentives and frameworks that would leverage community housing providers, superannuation funds and the commercial property sector to create more affordable housing.

[11] ACIL Allen Consulting, *Taxes and charges on new housing*, June 2018.
[12] Deloitte Access Economics, *A federal incentives model for housing supply*, 2016.
[13] Urbis, Planning to Prosper – *Boosting productivity, jobs and housing supply*, (produced for the Residential Development Council), September 2020.

RECOMMENDATIONS

1. Strike bilateral 'Housing Deals' with willing state and territory governments to incentivise best practice planning system reforms that match housing supply with demand and reduce the cost of new housing, using the National Housing Finance and Investment Corporation's excellent data capability to benchmark progress.

2. 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.

3. Incentivise the private sector to create affordable housing for key workers and older people at risk of homelessness, and do this at scale. We recommend bringing community housing providers, the development sector, institutional investors, state governments and federal Treasury together to create a new framework to do this, leveraging existing tax settings, learning from the US tax credit scheme and development a reformed successor the former National Rental Affordability Scheme (NRAS).

4. Support the creation of a new pipeline of quality retirement living housing through reclassifying retirement living as commercial residential premises for GST purposes, akin to the treatment for off-campus student accommodation.

5. Remove barriers to right size for older Australians, by enabling full rate age pensioners aged 75 years or older, who own their own homes, to quarantine a portion of their surplus sale proceeds from the aged pension assets test.

7. WORKING TOWARDS A CLIMATE RESILIENT & NET ZERO EMISSION FUTURE

Design and deliver a Net Zero Buildings action plan as a key plank in the Government's response to climate change with a focus on least cost abatement, business certainty and climate resilience.

THE CHALLENGE

As a signatory to the Paris Climate Change Agreement, Australia has committed to decarbonise our economy by mid-century. To create regulatory certainty, a comprehensive plan is now needed to guide the transition to a low carbon future and adapt to the impacts of climate change across all sectors of the economy.

This will drive game-changing innovation and investment, supporting much needed job growth.

Australia's built environment accounts for over half of Australia's electricity use and almost a quarter of Australia's emissions,[15] offering significant shovel-ready and largely untapped opportunities for emissions reduction, many of which are among the least-cost abatement opportunities for the economy.

Short and long-term measures to upgrade the energy efficiency of Australia's buildings would also help reboot the economy and create 10-15 jobs per million dollars invested, the largest job multiplier of any energy-focused stimulus measure.[16]

Over the last decade, our market leading property companies have demonstrated the potential for emissions abatement and have reduced their emissions intensity by 55% compared to a 2005 baseline.[17]

The challenge for policy makers is to extend the substantial progress made by market leaders across the sector as a whole. While advances in technology will assist, there are persistent barriers to the uptake of energy efficiency, fuel switching and distributed generation of renewable energy that require strong, long term and targeted policy and programs.

The Property Council and Green Building Council of Australia have published *Every Building Counts: A practical plan for emissions reduction in the built environment*[18] which provides a comprehensive suite of policies to reduce emissions from Australia's buildings. This plan complements work underway through the Commonwealth-led *Trajectory for Low Energy Buildings* and should serve as the foundation for a national plan towards net zero emissions buildings by 2050.

At the same time, Australia is increasingly exposed to disasters caused by natural hazards and has already incurred significant economic costs from damage to infrastructure, essential services and communities. Without action to build and retrofit more climate resilient infrastructure, the economic impacts are expected to reach $39 billion per year on average by 2050 in present value terms.[19]

Australia needs a plan to mitigate the risks of climate change and long term strategies to adapt and future proof our cities, towns and infrastructure to our changing climate.

[15] ClimateWorks for the Australian Sustainable Built Environment Council (ASBEC), *Low Carbon, High Performance*, 2016
[16] International Energy Agency, *Sustainable Recovery: World Energy Outlook Special Report*, June 2020
[17] Better Buildings Partnership, *Annual Results FY19*, 2019
[18] Property Council of Australia and Green Building Council of Australia, *Every Building Counts* October 2019
[19] Deloitte Access Economics for the Australian Business Roundtable for Disaster Resilience and Safer Communities, *Building Resilience to natural*

RECOMMENDATIONS

1 Establish a national plan for net zero emissions buildings by 2050. Build on the foundational pieces of work Every Building Counts and the Commonwealth-led *Trajectory for Low Energy Buildings* to form a comprehensive plan that guides emissions reduction in the built environment out to 2050.

2 Boost economic recovery through significant job creation in energy efficiency and climate resilience upgrades:

- Improve the comfort, resilience and performance of residential homes through targeted equipment upgrades and incentives for deeper retrofits, with a priority for social housing and low income and vulnerable households.
- Drive commercial building upgrades through tax incentives and establish a 'Smart Building Fund' to support mid-tier building owners to rate and guide the upgrade of their buildings.
- Embark on an ambitious program to upgrade schools and hospitals and other government owned and occupied buildings with the Commonwealth committing to match funding from state and territory governments up to $150m in each jurisdiction.

3 Create a single national rating scheme for home energy performance working in conjunction with the states and territories.

4 Provide long term regulatory and investment certainty for businesses and communities by committing to an economy-wide target of net zero emissions by 2050 with staged interim targets.

5 Create an overarching national framework to guide emissions reduction and climate adaptation out to 2050 with comprehensive plans for key economic sectors.

6 Embark on an ambitious 'Renovate Australia' program to improve the comfort and performance of residential homes, commercial buildings, school and hospitals with targeted upgrades and incentives.