Supplementary Submission No 28A

INQUIRY INTO APARTMENT DESIGN STANDARDS

Organisation: Property Council of Australia

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PROPERTY COUNCIL of Australia

JOBS AND HOMES

Australia's looming apartment supply crunch and how to fix it

A Property Council Report June 2021

Covering the Sydney, Melbourne, Brisbane and Perth Markets

Introduction

There is a severe crunch coming to Australia's largest apartment markets. **Urbis predicts 2024 apartment supply will be 20 per cent of 2018 levels.**

We will lose cranes on our skylines and 30,000 construction jobs across Melbourne, Sydney, Brisbane and Perth in the next few years. By 2024, the impact of government inaction grows into a severe structural undersupply.

Apartments generally take 3-5 years from the planning phase, through sales and construction, to occupation.

We must boost investment in new stock now, including international buyers and build to rent investors, if we hope to provide stock for the growing numbers of people that will be coming to Australia by 2024.

Introduction

How did we get here? And what can we do to fix the supply crunch?

The Property Council of Australia commissioned Urbis to undertake analysis on the state of Australia's apartment market looking at five year trends and the influences of specific domestic and foreign government decisions within the largest sub-markets of Sydney, Melbourne, Brisbane and Perth.

The Property Council understands that property markets are dynamic and cyclical. However, what is clear from the commissioned analysis is the layering of interventions over time have put further downward pressure on demand which is blocking the pathway to future supply.

The Property Council refers to this market analysis in this report and lays out practical plans that Australian governments should adopt to boost apartment supply right now.

The National Supply Crunch in summary

Successful stimulus but…

So far Federal and state **stimulus has largely benefited detached housing supply**

New approvals don't guarantee supply

Approvals mask decline in construction activity and stock overhang in key markets

Negative migration is a further handbrake on investment in new apartments as migration accounts for 56 % of new dwelling demand^

2021: Jobs and housing impact

Steep construction decline 2020-2024 vs 2016-2020 – loss of

- 30,000 direct jobs^

- $5.9bn housing assets^

Taxes and regulations slow investment

Governments' tax hikes and poor planning have directly impacted new supply

2024: Severe supply crisis

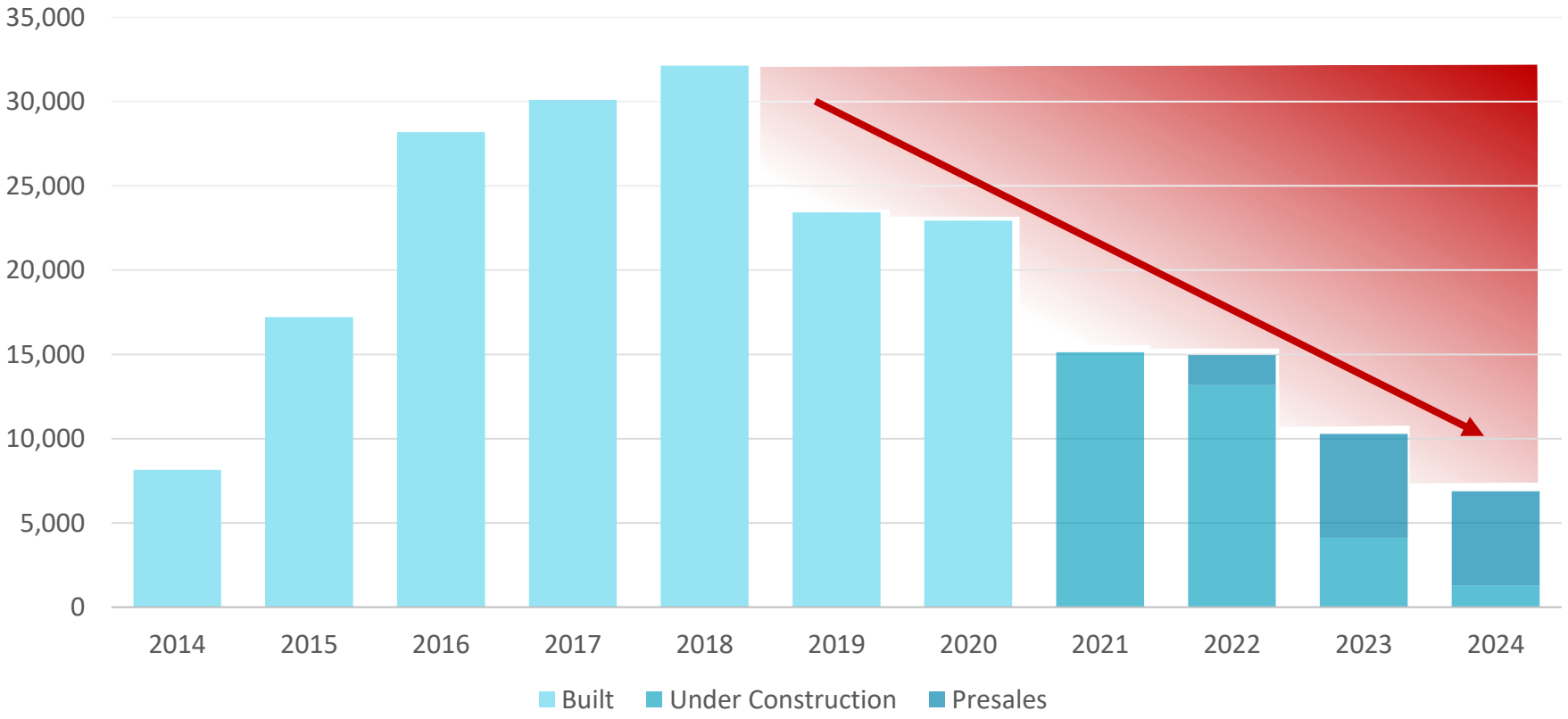
2024: 250k net overseas migration

2024: ¼ of 2018 apartment supply^

^Source: Urbis 2021

Eastern Seaboard 2024 - Apartment Supply Crunch

2024 supply for Sydney, Melbourne, Brisbane is only 20 per cent of 2018 levels



Current Status of Projects by Estimated Completion Date.
Data is from projects with 25 units or more within Urbis' study area.

Source: Urbis 2021

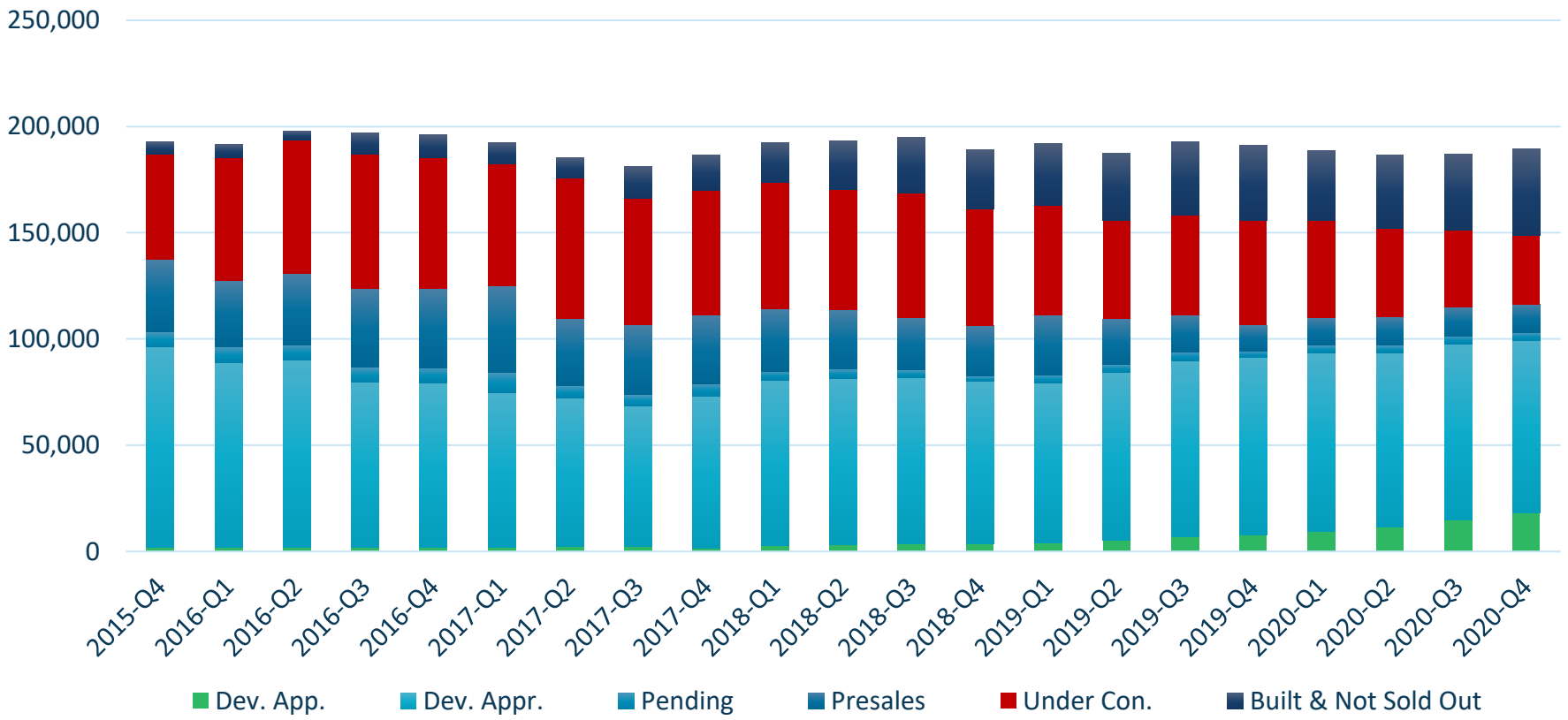
1. Market reality

Urbis projects 2024 apartment supply on the Eastern seaboard will be only 20 per cent of 2018 levels

Steep construction decline 2020-2024 vs 2016-2020 means
a loss of 30,000 direct jobs and
$5.9bn in housing assets

Nominal Approvals up but Apartment Construction Down

- Weaker market conditions are adding to stock overhang
- 2020 construction volume is around half 2017 and going down



Source: Urbis 2021 – Status of Projects at point in time.

Construction Decline = $5.9 Billion and 30,000 Direct Jobs

Future impact due to apartment supply crunch

All Cities	Time Period	Annual Average Construction Value ($M)	Annual Average Direct Jobs FTE	Annual Average Ongoing Jobs FTE	Annual Average Total Jobs FTE
Melbourne	2016 - 2020	$3,015	5,779	10,888	16,667
	2020 - 2024	$1,913	3,667	6,908	10,575
Impact		**-$1,102**	**-2,112**	**-3,980**	**-6,092**
Sydney	2016 - 2020	$6,058	10,808	19,727	30,534
	2020 - 2024	$2,565	4,578	8,355	12,932
Impact		**-$3,492**	**-6,230**	**-11,372**	**-17,602**
Brisbane	2016 - 2020	$1,717	3,348	5,784	9,133
	2020 - 2024	$541	1,057	1,824	2,881
Impact		**-$1,175**	**-2,292**	**-3,960**	**-6,252**
Perth	2016 - 2020	$589	901	1,364	2,265
	2020 - 2024	$408	624	944	1,569
Impact		**-$181**	**-277**	**-420**	**-697**
Total		**-$5,950M**			**-30,643 jobs**

Source: REMPLAN, Urbis

2. How did we get here?

Governments shape our cities and apartment investment patterns

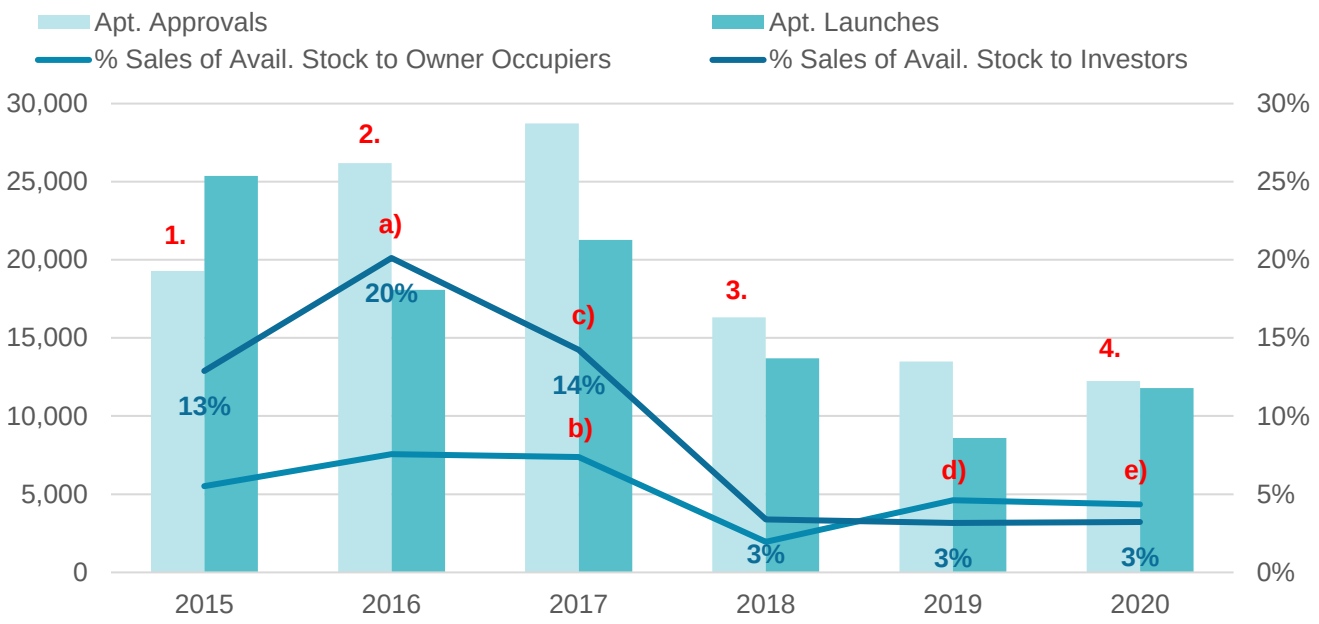
Governments control and incentivise the supply of affordable apartments

International buyers are governments' tax target - even though international buyers help Australian projects get out of the ground because they tend more toward purchasing off the plan

The 2024 apartment supply crunch begins with government interventions in 2015-16

Urbis analysis: Sydney

Governments' impacts over time



Key Demand Side Impacts

a. Foreign Purchaser Duty 4% + China Reports Breaches of Capital Controls
b. Stamp Duty Deductions – A fair go for First Home Buyers + Grant and Lenders Insurance
c. Foreign Purchaser Duty 8% + APRA Lending Standards cap on investor lending
d. Banks lower minimum interest rate for loan serviceability
e. COVID-19 + Homebuilder + Stamp Duty Exemptions

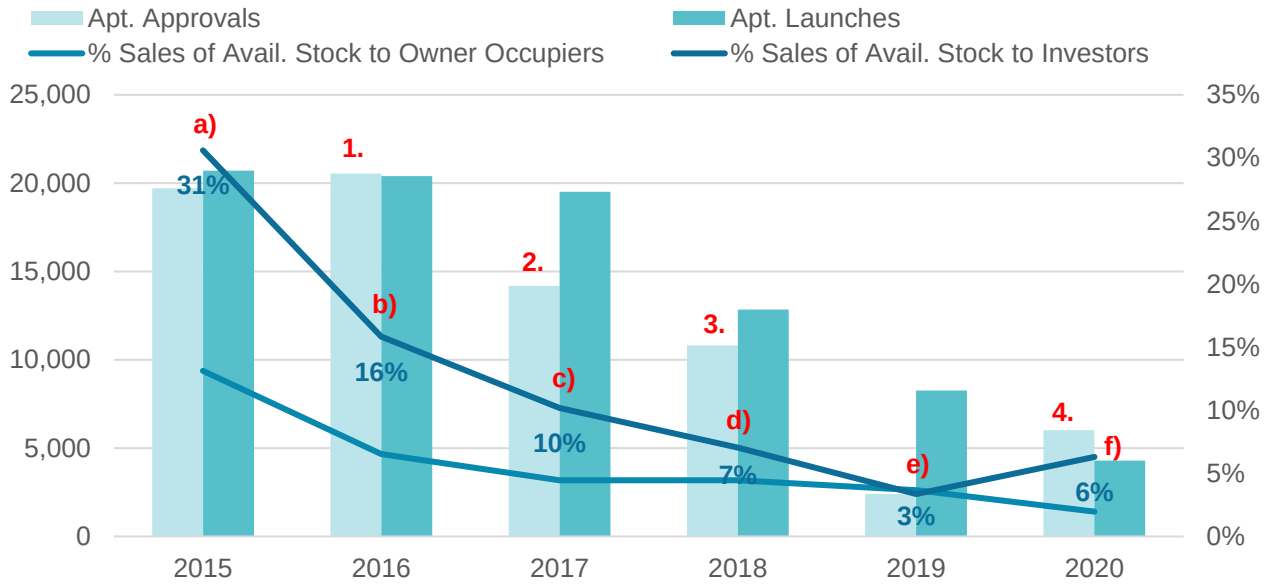
Key Supply Side Impacts

1. New Apartment Design Guide & SEPP 65 Update
2. Priority Precincts
3. Shergold Weir Report
4. Fast Tracked Assessments

Source: Urbis 2021
% Sales of Available Stock are derived from a sample of surveyed projects.
Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

Urbis Analysis: Melbourne

Governments' impacts over time



Key Demand Side Impacts

a. Foreign Purchaser Duty 3%
b. Foreign Purchaser Duty 7% + China Reports Breaches of Capital Controls
c. Removal of Stamp Duty Concession for Investors + APRA Lending Standards cap on investor lending
d. Vacant Residential Land Tax
e. Foreign Purchaser Duty 8% + Banks lower minimum interest rate for loan serviceability.
f. COVID-19 + Homebuilder

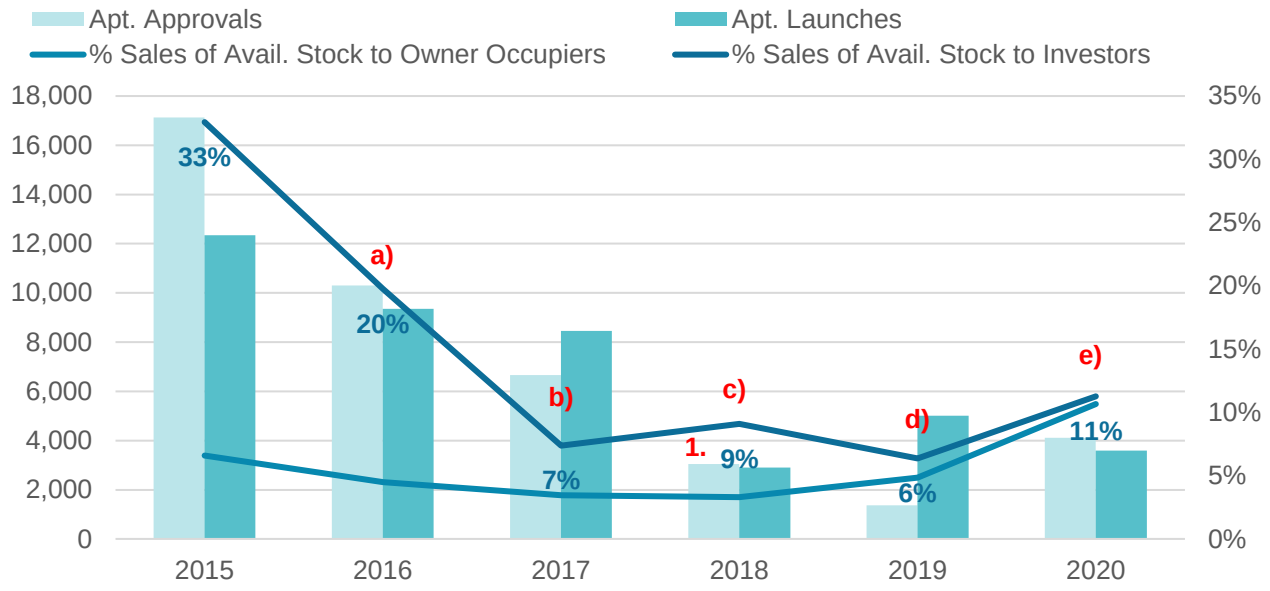
Key Supply Side Impacts

1. C270 introduced
2. BADS introduced
3. Shergold Weir Report
4. Planning Fast Track for Shovel Ready Projects

Source: Urbis 2021
% Sales of Available Stock are derived from a sample of surveyed projects.
Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

Urbis Analysis: Brisbane

Governments' impacts over time



Key Demand Side Impacts

a. Foreign Purchaser Duty 3% + China Reports Breaches of Capital Controls
b. Absentee Owner Land Tax Surcharge 1.5% + APRA Lending Standards cap on investor lending
c. Foreign Purchaser Duty 7%
d. Foreign Owner Land Tax Surcharge 2% + Banks lower minimum interest rate for loan serviceability.
e. COVID-19 + Homebuilder

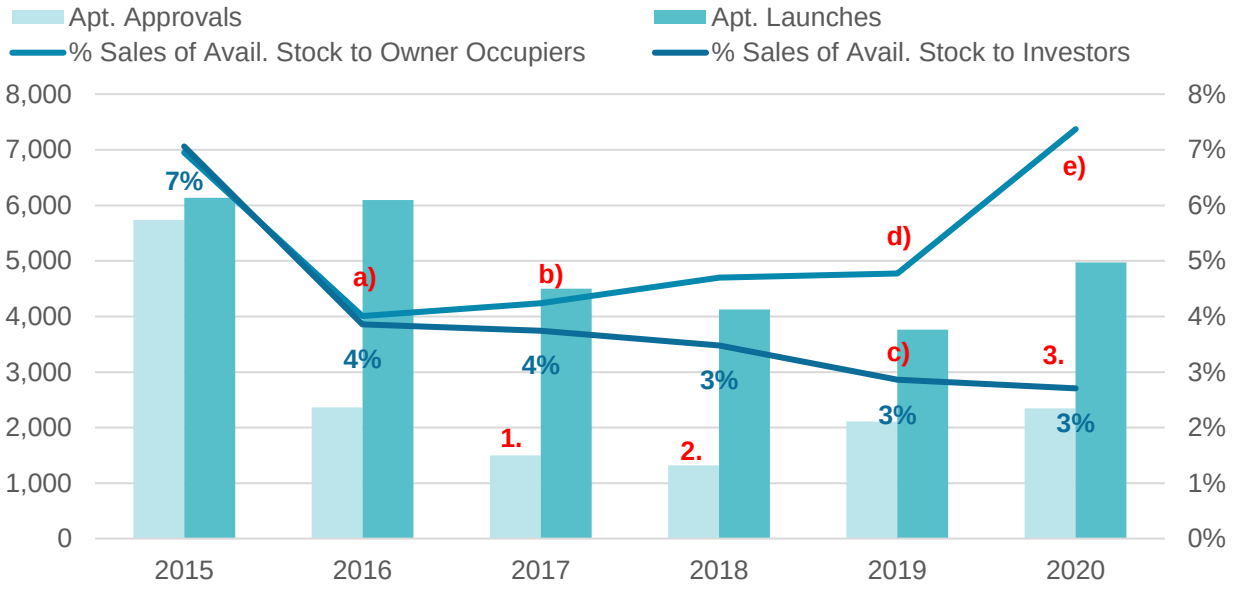
Key Supply Side Impacts

1. Shergold Weir Report

Source: Urbis 2021
% Sales of Available Stock are derived from a sample of surveyed projects.
Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

Urbis Analysis: Perth

Governments' impacts over time



Key Demand Side Impacts

a. China Reports Breaches of Capital Controls
b. APRA Lending Standards cap on investor lending
c. Foreign Purchaser Surcharge 7%
d. Off-the-plan Stamp Duty Rebate + Banks lower minimum interest rate for loan serviceability.
e. COVID-19 + Homebuilder + Building Bonus

Key Supply Side Impacts

1. MetroNet
2. Shergold Weir Report
3. State Development Assessment Unit and Perth City Deal

Source: Urbis 2021
% Sales of Available Stock are derived from a sample of surveyed projects.
Sales of available stock measures the volume sold as a proportion of the volume available in each quarter.

3. What we can do to fix the supply crunch

Sydney, Melbourne, Brisbane, Perth

Governments must move now to boost supply and meet 2024 demand

Fixing the Apartment Supply Crunch

The Government Challenge

Governments' actions have crunched supply

The Market Reality

3-5 years to complete substantial apartment projects

Stimulus and attraction of investment must start now

Fixing Melbourne

Shelve the Windfall Gains Tax

Provide foreign buyer surcharge relief

Extend apartment stamp duty concessions beyond Melbourne CBD

Fixing Perth

Provide foreign buyer surcharge relief

Make the stamp duty rebate for off the plan permanent

Remove land tax barriers for Build to Rent housing

Fixing Sydney

Provide foreign buyer surcharge relief

Accelerating planning approvals

Fixing Brisbane

Provide foreign buyer surcharge relief

Invest in off the plan stamp duty relief

The Sydney Opportunity

Reduce Taxes

- Remove foreign investor tax surcharges as part of tax reform
- Reform of the NSW tax system and changes to stamp duty in accordance with seven Property Council principles
- Infrastructure Contributions Reform to be implemented

Provide Stimulus

- First home buyers stimulus stays in place to attract the market.
- Provide stimulus to encourage downsizing to apartments and seniors living to provide housing supply
- Additional government incentives for affordable housing provision

Streamline Planning

- Recommendations from the NSW Productivity Commission's White Paper implemented
- Planning system reform continues from local level and upwards
- Fast tracked planning assessments

The Melbourne Opportunity

Reduce Taxes

- Remove the foreign buyer surcharge to stimulate investment
- Ensure wide eligibility for Build-to-Rent land tax discount
- Withdraw Windfall Gains Tax

Provide Stimulus

- Provide foreign buyer surcharge relief
- Extend apartment stamp duty concessions to greater Melbourne

Streamline Planning

- Implement code assessment in Residential Growth Zones
- Ensure planning system reform streamlines major apartment approvals
- Amend C270

The Brisbane Opportunity

Reduce Taxes

- Remove the foreign buyer surcharge to stimulate investment
- Remove land tax barriers for Build to Rent housing

Provide Stimulus

- Invest in off the plan stamp duty concessions
- Introduce a rightsizer grant to stimulate downsizing to apartments and seniors housing, to provide housing supply

Streamline Planning

- Extend BCC's Green Building Incentives Policy for residential buildings
- Reduce the minimum number of carparks required for residential
- Make a 'use' definition for BTR and amend local assessment criteria

The Perth Opportunity

Reduce Taxes

- Remove the foreign buyer surcharge to stimulate investment
- Remove land tax barriers for Build to Rent housing

Provide Stimulus

- Make off the plan stamp duty concessions permanent
- Introduce a rightsizer grant to stimulate downsizing to apartments and seniors housing, to provide housing supply

Streamline Planning

- Introduce a referrals model such as SARA to streamline application processes
- Create planning reporting framework to ensure statutory timelines are met
- Fund digitisation of planning pathways to increase accountability and efficiency

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This data has been prepared for the Property Council of Australia – May 2021.

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The effects (both directly and indirectly) of the COVID-19 Outbreak on the Australian real estate market and business operations is currently unknown, and it is difficult to predict the quantum of the impact it will have more broadly on the Australian economy and how long that impact will last. As at March 2020, the COVID-19 Outbreak is materially impacting global travel, trade and near-term economic growth expectations. Some business sectors, such as the retail, hotel and tourism sectors, are already reporting material impacts on trading performance now and potentially into the future. For example, Shopping Centre operators are reporting material reductions in foot traffic numbers, particularly in centres that ordinarily experience a high proportion of international visitors.

The Report Content and the data and information that informs and supports it is current as at the date of this report and (unless otherwise specifically stated in the Report) necessarily assumes that, as at the date of this report, the COVID-19 Outbreak has not materially impacted the Australian economy, the asset(s) and any associated business operations to which the report relates and the Report Content. However, it is not possible to ascertain with certainty at this time how the market and the Australian economy more broadly will respond to this unprecedented event. It is possible that the market conditions applying to the asset(s) and any associated business operations to which the report relates and the business sector to which they belong could be (or has been) materially impacted by the COVID-19 Outbreak within a short space of time and that it will have a lasting impact. Clearly, the COVID-19 Outbreak is an important risk factor you must carefully consider when relying on the report and the Report Content.

Any Report Content addressing the impact of the COVID-19 Outbreak on the asset(s) and any associated business operations to which the report relates, or the Australian economy more broadly is (unless otherwise specifically stated in the Report) unsupported by specific and reliable data and information and must not be relied on.

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