Urban Development Institute of Australia QUEENSLAND

30 June 2020

Committee Secretary
Economics and Governance Committee
Parliament House
George St
Brisbane QLD 4000

BY POST/EMAIL – egc@parliament.qld.gov.au

Dear Committee Secretary,

RE: Inquiry into the Queensland Government's economic response to COVID-19

The Urban Development Institute of Australia (the Institute) is a national not-for-profit organisation representing the property development industry, and the Queensland office is the largest of the state bodies. We represent a wide range of professionals active in the Queensland property development industry. As the Institute represents the state's third largest industry of employment, we are well positioned to provide real-time feedback on the efficacy of the State Government's economic response to date, and the additional stimulus required for the industry to create and sustain employment throughout Queensland.

Our submission to the Economics and Governance committee is **attached**.

We are grateful for the chance to provide a submission to the Committee and would welcome the opportunity to appear as part of the inquiry's public hearings. Should you have any queries or wish to discuss the submission in further detail, please contact me [redacted] on [redacted]

Yours sincerely,
Urban Development Institute of Australia Queensland

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Introduction

The Queensland property industry has a long history as a stable powerhouse of economic activity. As the state's third largest industry of employment, over the long term we employ one in every ten Queenslanders in professions and trades as diverse as architects, surveyors, bricklayers and stonemasons, carpenters and joiners, plumbers, town planners, engineers and property developers. A further 13% of the state's working population are in jobs supported by the industry in our supply chains.

Overall, such is the weight of the industry in Queensland, it directly contributes $26 billion to the state's economy each year, or 8% of GSP, and a further $35 billion through indirect economic impacts (11% of GSP).[1]

However, these are not jobs clustered within walking distance of the Queen Street Mall. These are local jobs employing people and filling pay packets the length of the Queensland coastline from Cooloongatta to Cairns. What's more they are good jobs located where people actually live, protecting families from FIFO lifestyles or moves to and from Brisbane.

Similarly, with 85% of all goods and services used in the industry sourced within Queensland, the health of the Queensland property industry is intricately linked to the economic wellbeing of Queensland communities and families everywhere.

For these reasons, it is critical the Queensland Government's economic response to COVID-19 places a sharp focus on responding to the pandemic and ensuing economic hardship in a way that provides well-timed and properly integrated interventions with sufficient heft to make a difference to the industry's ability to save jobs and deliver housing.

This submission provides analysis of government stimulatory interventions to date and draws on this analysis to indicate what the last three months have taught us will be needed through to the end of 2020 and into equally difficult times throughout Queensland in 2021.

The Urban Development Institute of Australia (the Institute)

The Institute is the peak body representing the property development industry throughout Queensland. Established almost 50 years ago, the Institute speaks with the voice of industry not just in the state's south east but also from 11 regional branches. This highly regionalised structure combined with the power of our Research Foundation, means the Institute is very well placed to offer expert advice and analysis on a wide range of industry matters including the Queensland Government's economic response to COVID-19.

The impact of the Queensland Government response

The Queensland Government's response to the COVID-19 economic downturn is outlined in its Economic Recovery Strategy titled *Unite and Recover for Queensland Jobs*. The strategy outlines actions across a range of industry areas. For the purpose of the Institute's submission, the following analysis will focus on those measures with direct impact on the property development and housing construction industries. As per the Inquiry's terms of reference, this analysis will examine the effects of both the Queensland Government's and the Australian Government's efforts in this respect.

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[1] Urbis, *The Contribution of the Development Industry to Queensland*, Brisbane 2018

Brand new research commissioned by the Institute's Research Foundation examines the implications of COVID-19 on the Queensland property industry and the value of stimulatory measures at both the state and federal levels of government. Delivered to the Institute in late June 2020, this research analyses the success of these measures to date and shines a clear light on the course the Queensland Government's response must now chart to exploit the potential of government investment so far, augment the Australian Government's response so as to draw investment activity to Queensland, and continue the campaign to save tens of thousands of Queensland jobs. In precising its analysis, the report states:

> *The pandemic has had an undeniable impact on the real estate sector, prompting some speculation about how far reaching the impacts may be. … With declining activity and demand, regardless of additional unforeseen impacts, businesses are at risk of collapse.*
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> *Whilst the real impacts are yet to be seen, and difficult to speculate, there are some indications as to potential impacts, and successful interventions via the review of previous crisis events. Unlike the Global Financial Crisis (GFC), the Australian economy will likely see long-lasting effects from the COVID-19 event. …*
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> *Significant Federal interventions including the cash rate reductions, the $130 billion Job Keeper Payments and HomeBuilder along with state interventions such as the Social and affordable housing investment are welcomed,* ***but significant further initiatives from Federal and State Governments (along with local councils) is required to inject the necessary fuel to fire up the property market in the second half of 2020 and beyond.***
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> *The residential sector is fundamental to a fast recovery in the jobs market of Australia. A stimulus with real tangible effects on the sector is of great importance to safeguard continued performance, sustain and create jobs, provide housing opportunities and position for recovery.* [2]

Specifically, the report investigated four federal interventions relevant to the residential development sector as well as five state construction interventions. This analysis yields the results found at Table One and Table Two.

[2] Urbis, *Interventions for the Residential Market: an economic analysis into the implications of COVID-19 on the residential property market*, Brisbane, June 2020

Table One: FEDERAL INTERVENTION IMPACTS FOR THE RESIDENTIAL DEVELOPMENT SECTOR

FEDERAL INTERVENTION IMPACTS FOR THE RESIDENTIAL DEVELOPMENT SECTOR

The HomeBuilder scheme is expected to provide a significant stimulus to help support the overall residential development sector in a similar vein as the First Home Owner Boost (FHOB) of 2008/2009. Although all economic stimulus is welcomed, owner occupiers and likely greenfield (house and land) developments will be the key benefactors. The likelihood that this stimulus will support the investor market and higher density product is low.

The table below provides a summary of main interventions and a perspective on their effects or stimulus to the development sector (if any).

THE HOMEBUILDER SCHEME COMPLIMENTED WITH A LOWER CASH RATE WILL BE A SIGNIFICANT STIMULUS FOR THE DEVELOPMENT SECTOR, BUT FAVOURS SPECIFIC PRODUCTS AND LOCATIONS

Intervention	Effect / Stimulus	Residential Limitations
Cash Rate (Monetary) The Reserve Bank of Australia (RBA) announced a package on 19 March 2020 that will put downward pressure on borrowing costs for households and businesses. Banks will have access to at least $90 billion in funding at a fixed interest rate of 0.25 per cent. This will reinforce the benefits of a low cash rate by reducing funding costs for banks, which in turn will help reduce interest rates for borrowers.	Lower interest rates reduce mortgage repayments and, if consumers spend this interest savings, it will give the economy a short-term boost. Alternatively, in instances of reduced incomes, it may assist in lowering mortgage costs. The more important aspect of lowering interest rates is to greatly encourage the corporate sector to borrow more with the aim of expanding their enterprises and boosting production as this results in more jobs and sustained wealth creation in the longer term.	More affordability in mortgages and development finance, but with limited tangible support in favour of investment in the property asset classes.
Job Keeper Payments (Fiscal) Under the Job Keeper Payment, businesses and not-for-profits impacted by the Coronavirus will be able to access a wage subsidy from the Government to continue paying their employees. Affected employers will be able to claim a payment of $1,500 per fortnight per eligible employee from 30 March 2020 until 27 September 2020.	The ABS has undertaken a survey of 2,014 businesses to assess the impact of COVID-19. The construction industry has featured as a key industry impacted, with 80% of the construction businesses registering for Job Keeper. In the short term the payments will keep the construction workers employed as an interim measure, **but the Job Keeper will not be a stimulus with lasting effects to boost construction industries to regenerate**.	Maintains short term income to ensure abilities to keep up with rental or mortgage payments. Does not stimulate any new development.
Support for Landlords & Tenants (Fiscal) Initiatives include up to $400 million in land tax relief for eligible landlords, which must be passed onto tenants, and a crisis payment of $500 per week for up to four weeks in rent relief for residential tenants who are homeless, or at imminent risk of becoming homeless and have exhausted other options.	The initiatives support both the landlords and the tenants in ensuring that properties do not become vacant. Similar to Job Keeper, this short-term measure will provide temporary relief to retain the current business but does not result in any new opportunities for growth to build businesses.	Maintains existing rental market and does not stimulate any new development.
HomeBuilder Scheme (Fiscal) The stimulus includes a grant of $25,000 for eligible owner-occupiers to build a new home or substantially renovate an existing home. The total scheme budget is currently uncapped and will be available from 4 June 2020 to 31 December 2020.	The stimulus is projected to have a direct effect on the residential construction market, with the Government expecting the scheme to fund 27,500 projects bringing the total stimulus to approximately $688 million. The HomeBuilder Scheme compliment with record low interest rates is expected to generate high interest from potential buyers and renovators.	Restrictive eligibility criteria with clear owner occupier focus, favouring new build greenfield developments with limited opportunities for investment and higher density products.

Table Two: STATE CONSTRUCTION INTERVENTION IMPACTS FOR THE RESIDENTIAL DEVELOPMENT SECTOR

STATE CONSTRUCTION INTERVENTION IMPACTS FOR THE RESIDENTIAL DEVELOPMENT SECTOR

Similar to the federal interventions **all economic stimulus is welcomed**, but the housing construction and support for home building grants which are targeted to the residential sector will likely mainly benefit owner occupiers and greenfield (house and land) developments. Key components of residential supply are driven via the investor market, as well as via medium to higher density product. Both are unlikely to benefit from the existing stimulus packages.

Intervention	Effect / Stimulus	Residential Limitations
Housing construction ($100m)	Boost housing supply, drive economic activity and support construction across Queensland.	Owner occupier focus, favouring new build greenfield developments with limited opportunities for investment and higher density products.
SEQ community stimulus program ($50m)	Funding to local government to support minor works and projects that create local jobs in our most impacted areas.	Targets small trades workers with limited support to the larger development sector.
Support for home building ($106m)	**Stimulate the building market for new homes valued at less than $750,000:** • **First home-owners grant** $15,000 first home owner grants program for any Queensland first home buyers purchasing a new home. • **Regional home building boost** A $5,000 grant for buyers of a new home (as principal place of residence) in a regional location (in addition to the $15,000 for first home owners).	Restrictive eligibility criteria – beneficial to owner occupier market, new build greenfield developments and regional location focus. Limitations for investor buyers, and medium and high density developments.
Seniors and accessibility assistance ($10m)	Continue providing services for seniors and people with disabilities to conduct critical home maintenance.	Social and affordable housing focus with limited support to the larger development sector.
Regional training infrastructure ($1.175m)	Upgrade existing TAFE training campuses.	Education sector and community benefit as well as benefit to contractors, but limited effects to the residential development sector.

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Taken as a whole, what this analysis indicates is that while the current response of the Queensland Government to COVID-19 in the area of massive jobs creating industries such as Queensland's property development industry has been notable, more needs to be done. The report concludes:

> *All current interventions are welcomed, but significant further initiatives from Federal and State Governments (along with local councils) is required to inject the necessary fuel to fire up the property market in the second half of 2020.*
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> *Given that the residential sector is fundamental to a fast recovery in the jobs market of Australia. Interventions amongst many others including stamp duty concessions, infrastructure charge deferrals or discounts, faster approvals for shovel ready new projects, reduction of red and green tape, fast tracked infrastructure expenditure, first home buyer incentives, new build grants, public housing investment and holiday periods for interest-only loans will all assist residential development.*
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> *Unlike the GFC, the Australian economy will likely see significant effects from the COVID-19 event. The main effects anticipated include a sharp increase in unemployment and decrease in migration which will soften demand in the sector.*
>
> *A stimulus with real tangible effects on the sector is of great importance to safeguard continued performance, sustain and create jobs, provide housing opportunities and position for recovery. As illustrated by this assessment, due to the criteria and market mechanisms, the current intervention benefits favour owner occupiers and greenfield development. There are limitations with regards to investment buyers and medium to higher density products due to criteria and the funding mechanisms of density development. Apartment products generally have a longer development cycle and the ability to move to construction is dependent on finance and pre-sales. As a result the stimulus will not spark 'new development' of this typology, but rather sustain the existing pipeline that are already in construction phase.*
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> *Further incentives that are targeted at residential new builds in general are proposed as an essential stimulus that will benefit a critical part of the residential pipeline and ensure variety and diversity of housing choice. Increased investor activity and delivery of density product will increase dwelling diversity and ultimately the affordable rental supply of the region.*
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> *In uncertain times ensuring business continuity is vital to the residential development industry. As one of the Australian economy's big engines, we need it to keep turning to power up and drive a recovery phase for the economy beyond 2020.*[3]

Where to from here

A recent survey conducted by the Institute of major developers[4] indicates very difficult economic circumstances now being experienced across the industry. More importantly, these results also clearly pointed to an even worse set of circumstances to emerge from September-October 2020 onwards. This will result in dire impacts on employment and housing affordability throughout Queensland. Specifically, 33% of respondents had already placed current projects on pause and only 40% of

[3] Urbis, *Interventions for the Residential Market: an economic analysis into the implications of COVID-19 on the residential property market*, Brisbane, June 2020

[4] Urban Development Institute Australia Queensland, *Survey of Major Developer Members*, Brisbane, April 2020

projects currently going ahead are doing so as planned. This result sits alongside a finding that 50% of respondents had already deferred planned projects and 29% were considering deferrals. In a further and deeply worrying indication of what will emerge in Queensland over the coming 12 months, 14% expect a reduction in future projects in the next three months, an enormous 46% expect a reduction in the next six months and 22% expect a reduction for the next 12-18 months.

Clearly for the Queensland Government to reap the full benefits of investment already made in COVID-19 responses, as well as prepare for even worse circumstances to come, the gaps now apparent in the reach of existing measures into certain markets and locations must be urgently addressed. What's more for Queensland jobs to be saved, it needs to be done very quickly.

In short, for the Queensland Government's response to COVID-19 to work in a way that will translate to real impact, it must commit to the following COVID-19 economic recovery initiatives:

Catalytic Infrastructure Fund
The Catalytic Infrastructure Fund has potential to unlock development potential by delivering high needs infrastructure across the state. The Queensland Government should boost the Catalytic Infrastructure Fund by $500 million over the next four years to provide fast tracked funding for high need infrastructure across the state.

Commit to a land tax holiday
Land tax is a significant cost to the industry and its removal would enable the industry to continue operations, save jobs, and deliver much needed new housing. Removal of land tax until would also improve the industry's sustainability and allow businesses to save Queenslanders' jobs.

Jumpstart investment in housing and jobs
Remove the foreign investor surcharges and stamp duty for all new and off-the-plan sales. These purchases make a significant contribution to housing supply. In the past, foreign purchasers accounted for a substantial proportion of pre-sales, which supported project feasibilities, put rooves over Queenslanders' heads, and created local jobs.

Stamp Duty Holiday Scheme for purchase of a new dwelling
The purchase of a new home prompts retail spending on new household items and furniture. A 12 month cessation on charging stamp duty will ensure households, particularly young families, have the money to spend and support the retail sector. This will support retail jobs and give the thousands of Queenslanders stood down a job to go back to. In order to facilitate this outcome, buyers of new dwellings should not be charged stamp duty or have it refunded for possible expenditure to stimulate other sectors.

Mortgage Relief Scheme for any new home buyer who purchases a newly constructed dwelling
To limit the tragedy of mortgage defaults and sustain buyer confidence at the level necessary to safeguard current industry employment levels, expansion of the scheme to provide financial relief directly to home mortgage holders is necessary. To speed delivery and manage implementation risks, this initiative should take the form of a special, time-limited expansion to the existing Mortgage Relief Loan Scheme. The maximum available to be borrowed should also be raised from $20,000 to $40,000 and with the associated payback period appropriately extended. A community information campaign

would also be needed to advertise the availability of the scheme. This initiative would boost the confidence of people contemplating the purchase of a new home right now, allowing them to enter the market with certainty. It would also afford job security to those people employed to build new dwellings. The Queensland Government may also wish to expand eligibility to all home buyers.

Support Local Councils to make a difference in local communities

Local councils across the state, but particularly in regional Queensland, are a key influencer of the Queensland property development industry. As such they are a key target for Queensland Government initiatives to incentivise the delivery of housing and jobs creation in these critical locations.

For this reason, local government needs the Queensland Government's support by funding councils to:

Create a new $200 million Infrastructure Charges Relief Scheme

The creation of a Relief Scheme would address cash flow issues by creating a State Government fund for councils to replace revenue lost as the result of halving the Infrastructure Charges levied. This discount will protect businesses against closure and the associated massive job losses. It would also incentivise businesses to invest for the duration of the recovery phase.

Create a new $200 million Local Infrastructure Rapid Delivery Scheme

This State Government funded scheme would enable councils to speed up the payment of trunk infrastructure refunds already owed to development companies. This would bolster business cash flow allowing companies to deliver projects, sustain employment, and provide additional community infrastructure.

Deliver Innovative Industry Incentives

A state government funded incentives scheme would deliver development incentives packages in non-SEQ regional centres where the average development approvals rate is running below the ten-year average through a range of mechanisms such as:

- Infrastructure charges discounts for developments that will result in 10 or more permanent jobs
- Infrastructure charges discounts for not for profit providers delivering specialist housing
- The continuation of the new home builders grant of $5,000 for four years
- Incentives grant to offset the additional costs associated with building outside SEQ

Conclusion

Now is the time for decisive action; to maximise the benefits of the Queensland Government's investment in COVID-19 economic recovery measures to date, as well as to prepare and respond to worse to come.