




A SEVEN-POINT PLAN

FOR ECONOMIC RECOVERY

Economic recovery and long-term prosperity

Australia's political leaders have taken decisive action in responding to the biggest public health crisis in a century. As a community, we have all changed how we live, work and interact. Together, we have so far avoided the terrible health outcomes seen in other countries.

But the swift action to protect the health of Australians has taken its own serious economic toll. The economy has contracted sharply, unemployment has leapt, consumer confidence and business investment have crashed, and our population will shrink for the first time in generations. All this within a sharp globally-synchronised contraction the like of which the world has never seen.

Like our governments, the immediate focus of the property industry has been on the health and wellbeing of our staff, tenants and stakeholders. But the economic consequences – both direct and indirect – have been also very significant. From the immediate demand-side hit to sectors such as hotels, student accommodation and retail, through to the operational challenges for retirement living operators and the flow-on implications for the commercial property sector and housing construction pipelines.

Resetting our economy will require the same strength of leadership and decision making as was shown in the face of the health crisis.

The Prime Minister has flagged the need for a bold reform agenda to reset and reopen our economy. He has called for fresh thinking to get Australians back into jobs and a harnessing of the goodwill shown in the face of the health crisis.

As a country we need government and industry to work together to:

- Get Australians safely back to work,
- Inject confidence into households and consumers,
- Get business investing again,
- Restore the traditional drivers of Australia's economic growth (skills, investment and trade) and find new sources of economic strength, and
- Set the country on a permanent high-productivity trajectory.

Achieving these goals will require a mix of fresh thinking and revisiting well known reform agendas which should be reassessed.

The property industry will play an important role in Australia's economic recovery and ongoing prosperity. Property is the nation's biggest industry and largest employer. It accounts for 13% of Australia's GDP and provides jobs for 1.4 million, more than mining and manufacturing combined.

The Property Council of Australia presents this seven-point plan to the National Cabinet to help stimulate Australia's economic recovery and secure long-term prosperity.

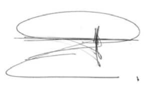

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TABLE OF **CONTENTS**

1

A Housing Construction Economic Kickstart

Purpose

Use the huge economic multiplier of the construction industry to help get the economy moving again.

Challenge

Housing construction risks being a drag on economic recovery, not a driver of it.

While industry, governments and workers have ensured that current construction projects have continued, the pipeline beyond this is dwindling alarmingly.

Real demand for new housing construction is set to 'fall off a cliff' in the face of economic uncertainty, the leap in unemployment and population declines.

Housing construction represents a powerful economic multiplier. The Australian Bureau of Statistics has established that every $1 of residential construction generates $3 activity across the broader economy.[1] Conversely, the Commonwealth Bank estimated that every $1 million reduction in spending on residential construction cuts seven jobs on a full-time equivalent basis.[2]

Creating new homes, apartments and retirement living units together constitute one of the most powerful job keepers and job multipliers in the Australian economy.

The Plan

1.1 **Introduce a $50,000 'New Home Boost' as a demand stimulus to kickstart construction and the economy.** Key proposed design features are:

- $50,000 grant to all purchasers of newly constructed dwellings only, not existing housing.
- Potential to stimulate the construction of 50,000 new dwellings, supporting 200,000+ jobs.
- Grant scheme limited to the first 50,000 purchasers, including lessees of new retirement living units, with these to be geographically spread.
- Approximately $2.5 billion of Federal funding required to stimulate.
- No pricing cap – the aim is to bring forward all possible market demand and stimulate the greatest economic response.
- Scheme would require commencement on site between 1 July 2020 and 30 June 2021 only.
- Scheme to be reviewed on 1 December 2020.

1.2 **States and territories to initiate additional demand stimulus,** which could include first home buyer assistance, new housing stamp duty relief and relief on foreign investor surcharges.

1.3 **Unlock the $1 billion Housing Infrastructure Facility** managed by the National Housing Finance and Investment Corporation to facilitate new housing projects, by revising some scheme requirements.

Catalyst Projects to Accelerate Growth

2

Purpose

Fast-track property and infrastructure projects from the public and private sectors that have the greatest potential to catalyse further economic growth.

Challenge

One key lesson from the GFC was that – while government stimulus projects were very welcome – they did not 'switch on' the job creating machine of the non-government construction sector.

The escalation of government infrastructure commitments over recent years has been welcome and extraordinarily important – and will help support recovery. Governments have generally also recognised the important economic potential of their land-use planning systems.

We urge governments to search out and accelerate those projects – both public and private – with the greatest potential to catalyse further investment and stimulate more growth.

These actions not only stimulate recovery, they provide long-term productivity benefits to the economy and help lift living standards over time. The Productivity Commission has declared 'better functioning cities and towns' as one of the five big levers to 'shift the dial' on long term productivity growth and help to deliver a $29 billion long term increase in GDP.[3] Similarly, Prof. Ian Harper and Deloitte have estimated that incentivising efficiencies to land-use planning systems would lift GDP by $3 billion.[4]

The Plan

2.1 **Fast track approvals for shovel-ready institutional and private sector projects** – housing, retirement living units, commercial, industrial, mixed use and other projects that support many more jobs than government projects alone.

2.2 **Prioritise government property projects** that will catalyse further urban renewal and private sector investment in key city precincts, towns and suburbs.

2.3 **Fast track surplus government land for disposal** to help stimulate further activity, urban renewal and investment.

2.4 **Prepare a new wave of major infrastructure projects** from those assessed as high priority by Infrastructure Australia. Federal, state and territory governments should deploy their balance sheets and borrowing capacity in support of this, including via asset recycling.

2.5 **Bring forward shovel-ready smaller infrastructure projects,** including social housing and infrastructure maintenance, to support employment and economic recovery.

2.6 **Incentivise upgrades and maintenance works for infrastructure, social housing and commercial properties** that create immediate employment for SMEs by providing tax incentives, rates and charges relief, density bonuses and floor space concessions linked to increased energy efficiency, resilience and cladding rectification.

2.7 **Incentivise and reduce regulation for retirement communities to develop new facilities** to provide a seamless transition to aged care.

2.8 **Identify and fast track high-impact City Deals.**

3

Resetting the Housing Affordability Equation for Australians

Purpose

To permanently address the causes of Australia's artificially high housing prices.

Challenge

A brief analysis of the Australian housing market reveals many endemic challenges:

- Australia's housing prices are very high by international standards
- there remains a long-term failure of housing supply to meet demand for both greenfield and brownfield development – driving the cost of homes ever upward
- there are very few financial incentives in place which encourage the private sector to create 'key worker' affordable housing at any scale
- governments have historically failed to create appropriate and productive density around job and transport corridors – denying Australians access to opportunity
- 25% of the cost of a new home consists of government taxes and charges[5] – this sunk cost denies people the flexibility to follow employment and other opportunities
- our planning systems are under-resourced and prone to unnecessary delay – reform them and we can pursue a growth trajectory when health constraints allow
- we lag similar global markets in providing Build-to-Rent housing – a form of quality rental accommodation that can be constructed and provide jobs even when demand for build-to-sell housing is falling.

The Plan

3.1 **Allow new housing to be purchased at lower prices** by creating a permanent improvement to planning systems such that they produce outcomes that are faster, cheaper and better.[6]

3.2 **Efficiently and strategically rezone and service land** to provide the housing and economic assets in the places that it is needed in our cities, suburbs and towns.

3.3 **Support the creation of a new pipeline of quality rental housing** by supporting the emergence of Build-to-Rent housing in Australia. Significant withholding tax, land tax and planning settings materially disadvantage Build-to-Rent housing and therefore its ability to provide a better housing solution for people who rent. Build-to-Rent housing projects can often be brought forward faster than traditional build-to-sell housing as they are not reliant on pre-sales to commence construction.

3.4	**Incentivise the private sector to create affordable housing for key workers** and older people at risk of homelessness, and to do this at scale. We recommend bringing the community housing sector, the development sector, institutional investors, state governments and Federal Treasury together to create a new framework, leveraging existing tax settings, learning from the US tax credit scheme and developing a reformed successor to the former National Rental Affordability Scheme (NRAS).
3.5	**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, and replicating the Retirement and Aged Care Incentives Scheme initiated by Brisbane City Council. Additionally, council rates and utilities costs for retirement villages should be reduced in line with the individual seniors discount that applies in the community and in recompense for operators providing the equivalent of council services.
3.6	**Remove disincentives to right size for older Australians** by enabling full rate age pensioners aged 75 years or older and who own their own homes, to quarantine a portion of their surplus sale proceeds from the age pension assets test.

4

Tax Settings to Drive Productivity

Purpose

Reshape the tax system to drive productivity and economic growth.

Challenge

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

There is a high degree of consensus among economists and policy experts on the extent to which different taxes harm the economy through their tax design. Stamp duties and company tax are the most inefficient taxes, with stamp duty costing the economy 72 cents for every $1 of revenue it raises and company tax 50 cents in the dollar.[7]

Achieving the Prime Minister's goal of creating a stronger economy post-crisis necessitates a focus on Australia's tax settings. Conversely, harmful tax changes could have a disproportionate impact on economic recovery.

The Plan

4.1 **Embark on a broad-based tax reform agenda** designed to enhance productivity and increase living standards for Australians.

4.2 Boost economic welfare, economic activity and household wealth by **abolishing stamp duty and replacing this revenue by broadening the GST base**. Such a revenue-neutral change would boost consumption by $6.0 to $9.6 billion per year according to Deloitte Access Economics modelling.[8] This reform is in line with the recommendations of the Henry Tax Review[9] and recognises the reality that broad-based land taxes will not be sufficient to replace stamp duty revenue as has been demonstrated by the ACT's unsuccessful attempt to do so.[10]

4.3 **Retain existing negative gearing and capital gains tax arrangements** to underpin new construction and GDP. Construction activity and economic growth would have borne the brunt of the Opposition's 2019 election policy to significantly reshape these taxes according to Deloitte Access Economics, with construction falling by $766 million and GDP $1.5 billion worse off, with almost negligible housing affordability benefits.[11]

4.4 **No new taxes and no increases in any existing taxes and charges for 12 months** – including no increases to business land taxes as a result of any stamp duty abolition.

4.5 Adopt **immediate tax improvements** to drive productivity and build economic confidence, including:

- Remove counter-productive foreign tax surcharges for commercial property and new developments that make it more expensive to create the housing and commercial properties the country needs
- Make the stimulus-based Investment Guarantee a permanent tax system feature
- Drive accelerated update of energy efficiency and distributed energy technologies in new and existing buildings through financial incentives across all three levels of government.[12]

Harnessing Capital to Support Recovery and Investment

5

Purpose

Ensure Australia can harness the local and international capital essential to create the housing and commercial real estate the nation needs, from retirement living villages to office towers to industrial parks.

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.

A synchronised global downturn suggests a relatively synchronised global recovery, with countries competing for quality wholesale capital to kick-start their economies. Australia's policy settings will be crucial to harnessing this capital to fund the real estate projects and investments that will support local jobs and businesses.

Unfortunately, some key competitive advantages that have made Australia an attractive investment destination for years – our above-average population and GDP growth rates – will be significantly weakened as a result of the crisis.

Furthermore, we have tightened foreign investment requirements, making it difficult for global capital to invest in Australia, and the RBA has warned Australian banks to be cautious of the risks arising in the commercial property sector

The Plan

5.1 Make it clear that **Australia is open for business and open for investment** by:

- **Clear consistent messages and policy settings** from federal, state and territory governments, including a strong marketing campaign to reinforce this message
- Urgently ensure the **Foreign Investment Review Board approvals** are processed within 30 days, immediately remove the temporary hurdles to foreign investment introduced during the pandemic period for **routine FIRB transactions** such as leasing, fit-outs and small-scale transactions, and **normalise remaining settings** as soon as possible
- Removing **counter-productive foreign tax surcharges** for commercial property and the creation of new developments, which harm productivity and add costs to businesses and new housing.

5.2 **Strengthen access to competitive credit** for large and small property groups by ensuring Australian and foreign banks and lenders play a strongly supportive role with their real estate customers.

5.3 **Monitor conditions** in commercial property sector closely as the impact of reduced rental income, lower valuations and other risks work through the industry.

6 A Resilient and Forward-looking Australia

Purpose

Incorporate lessons from the pandemic period to deepen current economic strengths, foster new areas of competitive advantage and increase resilience in the economy and our communities.

Challenge

While it would be wrong to be complacent, it is fair to reflect that Australia's response to COVID-19 has highlighted the strong fundamentals that underpin our federation, health system and broader economy.

Our economic prosperity is substantially underpinned by being an open trading nation, a net importer of capital to meet our investment needs and having migration settings that deliver the skills and population growth our economy needs. These will remain fundamental to our future growth beyond this crisis.

At the right time, Australia should seize the moment to reform and reposition key sectors of our economy to be more resilient to future shocks and stresses on health and wellbeing, the natural environment and the economy.

The significant pitfalls of protectionist policies, a closed economy and tariff barriers are to be avoided – these only make Australians poorer.

We should continue to be a nation that is confidently open to the world and prepared to further develop new areas of competitive advantage for Australian businesses.

The Plan

6.1 Revisit the recommendations around **future skills and work** in the Productivity Commission's 2017 Shifting the Dial report. Engage with the property industry on the evolving skill requirements of this 1.4 million employee sector.

6.2 **Improve the efficiency of markets to boost** Australia's competitiveness on the global stage, leveraging the Productivity Commission's 2017 Shifting the Dial recommendations across energy, innovation and regulatory reform. Implementing an integrated energy and climate change mitigation and adaptation policy will ensure Australia can supply low-cost, reliable and low emissions energy to key economic sectors, boost investment in productivity for the property sector and create significant export opportunities.

A 'Welcome to Australia' Migration Plan to Provide the Skills, People and Growth our Economy Needs

7

Purpose

Restore Australia's traditional migration settings as a key driver for Australia's economic recovery.

Challenge

As Reserve Bank Governor Philip Lowe observed in 2018, "*Australia's faster population growth [is] one of the reasons our economy has experienced higher average growth than many other advanced economies*."

Australia's population was forecast to grow by 1.7% per annum over 2020 and 2021,[13] however it will now almost certainly shrink over this period. This will create an enormous economic drag.

Getting our economy going again will be impossible without the international students, visitors, skilled workers and the underlying population growth that temporary and permanent migration provides. Australia's traditional migration program does far more than just add more people, it boosts our overall productivity by bringing in skilled and relatively younger people.[14] Without migration, we won't have a strong economy.

Normalising these settings will be greatly challenged in a COVID-19 world, with extended limits on international travel and the dangers of international transmission. We believe Australia should create a safe pathway to begin to normalise migration settings and support economic recovery. This plan will need to consider the level of unemployment that will exist post-crisis.

The Plan

7.1 **Adopt highly secure but welcoming testing, isolation and tracing arrangements** for international arrivals to protect Australians from reinfection that also facilitate economically-important travel.

7.2 **Establish a major international advertising campaigning** – promoting Australia as a safe and healthy destination to visit, study, work and make a new life.

7.3 **Target temporary visa classes that can make an immediate and positive impact on economic growth**, including students and skilled and semi-skilled workers. New Zealand would be an obvious pilot partner for opening up tourism and other working engagements.

7.4 **Incentivise permanent migration** via a temporary lowering of the points system for permanent skilled migration classes, similar to the recent government initiatives for regional population growth but applying to the whole country.

Notes

[1] Australian Bureau of Statistics, *Yearbook Australia*, Table 20.9, January 2002.

[2] Commonwealth Bank, *Global Markets Research*, Economics Issues, October 2019.

[3] Productivity Commission, *Shifting the Dial: 5 year productivity review*, August 2017.

[4] Deloitte Access Economics, *A Federal Incentives Model for Housing Supply*, April 2016.

[5] ACIL Allen Consulting, *Taxes and Charges on New Housing*, June 2018.

[6] Three such planning reform roadmaps are the Property Council's soon to be published *Planning Quick Wins: Dialling up planning productivity and housing supply* developed by Urbis, the Retirement Living Council's 2018 *Planning Report Card* also developed by Urbis and the Residential Development Council's 2017 MacroPlanDimasi *Cutting the Costs* report on best practice state agency referral processes.

[7] *Understanding the economy-wide efficiency and incidence of major Australian taxes – Treasury Working Paper*, Treasury, April 2015, p.50.

[8] Deloitte Access Economics, *The economic impacts of stamp duty*, prepared for the Property Council of Australia, December 2015.

[9] Recommendation 51 of the Henry Tax Review recommended that stamp duties be abolished, with one option to replace this revenue with taxes levied on consumption.

[10] After eight years of the ACT's reform process to abolish stamp duties, total stamp duty revenue has only fallen by 1% in nominal terms. Business properties above $600,000 in land values are subject to general rates of 5.3216%, a stamp-duty-sized tax payable every year.

[11] Deloitte Access Economics, *Analysis of changes to negative gearing and capital gains taxation*, prepared for the Property Council of Australia, July 2019.

[12] Incentives can include modernising the 10 per cent green building MIT withholding tax regime, introducing green depreciation for plant and equipment upgrades, rates and charges relief for buildings that satisfy a performance standard. Details of these practical policy recommendations are set out in *Every Building Counts* produced by the Property Council of Australia and Green Building Council of Australia, October 2019 (www.everybuildingcounts.com.au).

[13] Reserve Bank of Australia, *Statement on Monetary Policy*, November 2019.

[14] *Shaping a nation: Population growth and immigration over time*, The Treasury and Department of Home Affairs, 2018.

About the Property Council of Australia

The Property Council of Australia champions the industry that employs 1.4 million Australians and shapes the future of our communities and cities.

Property Council members invest in, design, build and manage places that matter to Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism and hospitality venues and more.

On behalf of our members, we provide the research and thought leadership to help decision-makers create vibrant communities, great cities and strong economies.

We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin the contribution our members make to the economic prosperity and social well-being of Australians.

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