



STANDING COMMITTEE ON TAX AND REVENUE – INQUIRY INTO  
HOUSING AFFORDABILITY AND SUPPLY IN AUSTRALIA

## NSW Government Submission

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# Acknowledgment of Country

The Department of Planning, Industry and Environment acknowledges the Traditional Owners and Custodians of the land on which we live and work and pays respect to Elders past, present and future.

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# Executive summary

## NSW Government submission to the Standing Committee on Tax and Revenue Inquiry into housing affordability and supply in Australia

In the first quarter of 2021, annual house price growth across the OECD reached its fastest rate in more than thirty years. Australia has not been immune from the global trends that have generating extraordinary increases in the value of housing. While prices have risen more sharply in New Zealand, Canada and the US, house prices across Australia have risen at a faster rate than in the UK or France. As in other nations and states, house prices have risen sharply in Sydney and across regional NSW. While economists suggest that fiscal and monetary policy have been the major drivers of this rapid price escalation, there is evidence that a long-term supply of well-located and diverse housing can also help to regulate house prices over time.

The NSW Government has prepared this submission following a referral on 22 July 2021 from the Treasurer, The Hon Josh Frydenberg MP, for the Standing Committee on Tax and Revenue, to hold an inquiry into the contribution of tax and regulation on housing affordability and supply in Australia. The NSW Government submission considers the terms of reference for the committee's inquiry, which are to:

- examine the impact of current taxes, charges and regulatory settings at a Federal, State and Local Government level on housing supply
- identify and assess the factors that promote or impede responsive housing supply at the Federal, State and Local Government level
- examine the effectiveness of initiatives to improve housing supply in other jurisdictions and their appropriateness in an Australian context.

## Overview

The NSW Government submission highlights the state of housing in NSW, outlining key housing pressures that are being felt across NSW that relate to supply and affordability. It provides a summary of measures that the NSW Government is currently implementing to address these pressures and presents the case for Federal Government support and intervention.

The NSW Government cannot resolve housing pressures on its own. State governments do not control the levers required to make the structural changes necessary to drive improved and sustained housing affordability. Federal taxation, interest rates and immigration and population growth are the sole responsibilities of the Commonwealth. Policy settings in these areas have significant impacts on housing affordability and ownership rates. This has been the conclusion of several inquiries into housing affordability and ownership that have recommended changes to Commonwealth policy settings to address housing affordability and increase ownership, including the Henry Tax Review and the Productivity Commission's Inquiry into First Home Ownership. The recommendations of these inquiries point to reforms that could be made at a Commonwealth level to have a substantial impact on the affordability of housing and increasing levels of home ownership.

Better outcomes can be achieved through greater partnership and collaboration at all levels of government, and with the community and housing sector, which is integral to easing the housing pressures that are being felt by our individuals, families, and communities. Evidence of the past has shown that when Commonwealth Governments make housing affordability a national policy objective, it has lasting impacts. This submission points to opportunities for Commonwealth reform to achieve this purpose and future collaboration between all levels of government that can contribute to boosting housing supply sustainably.

The NSW Government is doing its part and it is important that the committee considers the facts in that context:

- In NSW housing approvals have more than tripled since 2009, with more than 59,000 homes approved in the last year alone (FY 2021-21), which is well above the average for the last 20 years.

- NSW is continuing to build relatively high levels of housing, with more than 54,000 new homes built in the 12 months to March 2021. This is around 26 per cent higher than the average of around 43,000 homes built in NSW over the last 20 years.

Reforming Commonwealth policy settings would complement, rather than work against, the extensive body of reform that is being delivered by the NSW Government in partnership with councils to boost housing supply. This extensive body of reform is detailed below and throughout this submission.

## Action taken by the NSW Government

The NSW Government's first comprehensive whole-of-government housing strategy, *Housing 2041*, was released in May 2021 with collaboration at its core and key to the successful delivery of the strategy's *2021-22 Action Plan*. It is in this context that the submission calls for partnership with the Federal Government to respond to housing pressures that are being experienced across Australia. Recommendations to be explored with the Federal Government relate to social and affordable housing, diverse housing and tenure models, and planning and enabling infrastructure.

### Accelerated assessments

An unprecedented program of reform to improve the efficiency of the planning system has been delivered or is underway. The **Planning Reform Action Plan** is building a faster, simpler and more transparent planning system that makes things happen for NSW. The **Faster Assessments Program** will cut assessment times for decisions on rezoning by 33 per cent, development applications for regionally significant projects by 25 per cent and decisions on complex major projects by 17 per cent. The \$250 million **Public Spaces Legacy Program** incentivises local councils to accelerate the assessment of development applications and invests in a pipeline of public space improvements to pave the way for future housing supply. Through the **Planning System Acceleration Program**, the NSW Government has accelerated the determination of 101 major projects and planning proposals in 24 weeks, creating the opportunity for up to 50,000 jobs, 25,000 dwellings, \$25 billion in economic value and 400 hectares of open space.

### Delivering infrastructure to boost housing supply

The NSW Government is implementing **Reforms to Infrastructure Contributions** to create a certain, transparent, simple and consistent system. The purpose of reforming the system is to deliver the right infrastructure in the right place at the right time to support jobs and future housing supply. This follows a review by the NSW Productivity Commission commissioned by the NSW Government. The NSW Government is also investing more than **\$2.5 billion through seven development infrastructure programs** to act as catalysts for housing supply in greenfield and urban renewal areas.

### Providing greater housing choice

The new **Housing State Environmental Planning Policy** (Housing SEPP) is currently being finalised and will enable different types of housing to create greater choice to meet changing community needs and accelerate new supply. It enables new housing types including co-living, independent living units and build-to-rent housing (BTR).

### Digital revolution for planning services

In November 2019 the Premier announced the ePlanning digital service would become mandatory for applications submitted via the NSW Planning Portal. From 01 July 2021, use of the NSW Planning Portal will be mandatory for all councils to lodge certain planning applications across NSW. The Online Planning Proposals Service was made available to all Local Government Areas across NSW in early 2021. The online service is designed to improve customer experience, reduce assessment times, and provides greater transparency to support the plan making process by enabling swift digital decisions across government. Real-time data is providing greater visibility of activity, and improving business outcomes, strategic planning, and policy decision-making.

## A nuanced approach to housing solutions

In partnering to improve housing supply and affordability, an effective response must take into consideration the complex needs and diverse preferences of households and the important role of housing on people's contribution to sustainable communities and economic growth.

Together, all levels of government must ensure that housing supply is supported by appropriate infrastructure, such as transport, water, sewerage, public space, and schools, and within easy access to job opportunities. Housing and infrastructure must be place-based, complementing its surrounding community and environment, and it must be diverse. This means meeting the needs and preferences of cohorts across the housing spectrum, from crisis housing to social and affordable housing, to private rental and specialist housing, to home ownership.

The NSW Government recognises that social and affordable housing plays an important role in delivering safe, secure, and affordable housing solutions for those who need it most. It also facilitates transition pathways across the housing spectrum. Moreover, investing in social and affordable housing provides tangible economic benefits to tenants, communities, and the state and national economies, particularly in areas of employment, construction, productivity, fiscal policy, and social services.

The Standing Committee may be aware that the Parliament of NSW Committee on Community Services is conducting an inquiry into options to improve access to existing and alternate accommodation to address the social housing shortage. The NSW Government submission is available [here](#), and may contain information of interest to the Standing Committee.

## Consultation and collaboration

This NSW Government submission has been prepared by the NSW Department of Planning, Industry and Environment (DPIE), in consultation and collaboration with, the following NSW Departments:

- Department of Regional NSW (DRNSW)
- NSW Treasury
- Department of Communities and Justice (DCJ)
- Department of Premier and Cabinet (DPC)

## Housing pressures

In framing an effective response, the NSW Government has identified four pressure areas that would benefit from Federal assistance.



**Home ownership** is becoming increasingly out of reach for people entering the market



**Misalignment of infrastructure and growth** is impacting on housing capacity and supply



**Rental market pressures** are impacting affordability, availability and accessibility



**Capacity and supply** won't meet demand in the future

## Key recommendations

1. **Recommence the meeting of Australian Planning Ministers.** The Planning Ministerial Forum, led by Minister Tudge, was a successful example of collaborate federalism. For example, the Forum was instrumental in driving the NSW Government to adopt Build to Rent housing as a new housing typology.
2. **Develop a National Settlement Strategy** based on a national population policy as recommended by the Planning Institute of Australia.

3. **Federal investment in infrastructure to unlock housing supply** via greenfield developments and density in infill developments and enable continued economic growth in the regions by ensuring jobs are supported by housing.
4. **Increased resourcing of the *National Housing and Homelessness Agreement (NHHA)*** given the significant growing need and the lack of increase in Federal funding over the past decade.
5. **Commonwealth Government provide incentives (and remove disincentives) to states and territories** for undertaking major productivity-enhancing taxation reforms, such as removing stamp duties, to help unlock economic benefits which will be shared across levels of government.
6. **Review and adjust prudential and taxation settings to help moderate prices for existing stock** to ensure an appropriate balance between the purchases of properties for owner-occupied and investment reasons.
7. **Partnering with Federal housing delivery agencies** to align the Federal Government's strategic release of government-owned land and enable collaborative government-led residential projects.
8. **That historic debt repayments are redirected to fund social housing options** given that current NSW social housing debt to the Federal Government stands at \$766 million which could be reinvested into additional supply.
9. **Expanding Commonwealth Rent Assistance (CRA) to public housing** to acknowledge the Commonwealth's role and their responsibilities with respect to adequacy of CRA and consider the benefits of extending this to tenants in public housing.
10. **Creation of a National Housing Strategy** to give the housing sector a vision and support for development, growth and greater investment.
11. **National Disability Insurance Scheme (NDIS) transitional housing to facilitate access to supported disability accommodation (SDA)** to fund transitional medium-term housing solutions for clients with disability who are experiencing barriers to accessing or transitioning into SDA.
12. **National Housing Finance and Investment Corporation (NHFIC) to consider smaller-value applications** to allow Aboriginal Community Housing Providers (ACHPs) to grow new supply to increase social and affordable housing for Aboriginal people and families.
13. **Further co-investment in housing for women escaping domestic and family violence (DFV)** to improve housing stability and outcomes for families and children, particularly Aboriginal children, through upcoming NHHA negotiations, Closing the Gap initiatives, and partnerships on targeted initiatives for these cohorts.
14. **Reinstate *National Partnership Agreement on Remote Indigenous Housing (NPARIH)* style funding arrangements for remote indigenous communities** to meet the unmet need for Indigenous housing in remote areas, and to upgrade and maintain existing remote Indigenous housing.
15. **Expanding NHFIC lending beyond Community Housing Providers (CHPs)** to amplify and leverage social housing investment outcomes through low cost and affordable lending.
16. **Tax exemptions to incentivise build to rent (BTR) and co-living housing** to provide more diverse housing types and tenures, meet the needs of current and future communities by maintaining supply and increasing housing choice, and offer longer-term certainty for renters and investors.
17. **Demonstrate long term commitment and support for shared equity arrangements** to improve affordability by reducing deposit and ongoing housing costs and reduce demand for other government subsidies.
18. **Progress the Automatic Rent Deduction Scheme** to enable social housing providers to automatically deduct tenancy charges from tenants' and household members' Commonwealth income support payments.

## Other considerations

### Stamp duty and land tax

All States and Territories impose a transfer duty (also known as 'stamp duty') on the transfer of real property. Stamp duty significantly increases the upfront cost of purchasing a home in Australia and imposes costs on people at all stages of life. It is estimated that for a full-time worker who earns the NSW average annual earnings and saves 15% of their income, stamp duty adds 2.5 years to the time required to save a deposit of 20% of the average NSW property.

The NSW Government has proposed a new Property Tax Reform that seeks to transition from the current stamp duty and land tax system to a broad-based annual property tax based on unimproved land values. The NSW Government aims to make home ownership more achievable by proposing to address the upfront barrier of stamp duty and help people live where they would like to suit their stage of life. This proposal will make housing more affordable for all people. The NSW Government is considering the views of stakeholders in response to the *Property Tax Reform - Progress Paper* released in June this year.

The NSW Government would welcome the Federal Government providing incentives to states and territories to undertake major taxation reforms to help unlock economic benefits which will flow through to higher taxation revenues at the Federal level.

### Capital gains tax

The combination of the range of state and commonwealth property tax settings, including the 50% discount on capital gains tax arrangements for property held for more than 12 months, skews the incentives towards the purchases of properties for investment purposes. These tax benefits of property investment have contributed to the growing housing affordability issue. While the combined effect is likely to be a moderate increase in house prices, the most significant impact is the displacement of owner occupiers (including first home buyers) from home ownership by tax-advantaged investors, predominantly those already on higher incomes.

The NSW Government would welcome the Federal Government undertaking a review of the current taxation settings relevant to housing investment and consider reforms to improve housing affordability.

### National Housing and Homelessness Agreement

The NHHA is an important agreement to support the homelessness and social housing system. For NSW, the 2021-22 NHHA Federal Government contribution is \$493 million. The NSW Government is providing significantly more at over \$1 billion towards the homelessness and social housing system in 2021-22.

Growing challenges around housing affordability continue to put pressure on access to affordable housing and social housing waiting lists in NSW. Housing affordability and access to low cost housing are significant issues that the Federal Government should consider and resourcing levels should be reviewed through the NHHA.

While the NHHA is not due to expire until 2023, the NSW Government is eager to ensure the next agreement is negotiated and refreshed collaboratively, informed by the Productivity Commission's review.



# Introduction

## Housing objectives in NSW

In NSW, we recognise that living in a secure, comfortable and affordable place that feels like home is central to our wellbeing. We know that access to good housing has long-lasting and life-changing effects.

In May 2021, the NSW Government realised its first, comprehensive whole-of-government housing strategy, *Housing 2041*, which sets a 20-year vision for better housing outcomes across metropolitan and regional areas and is framed by the four housing pillars of supply, diversity, affordability and resilience.

*Housing 2041* considers all housing types and tenures across the housing spectrum, from crisis housing to social and affordable housing, to private rental and specialist housing, to home ownership. Importantly, the housing strategy recognises that the expectations of housing in Australia 50 years ago are significantly different from the needs, preferences and community expectations of housing today. People can find the right type of housing through both renting and owning a home. As future generations continue to enter the housing market, there will continue to be demand for new and alternative types of homes and housing.

The following objectives are integral to achieving its 20-year vision:

1. Enhanced partnerships and cross-sector collaboration
2. Increased support for those most in need
3. More investment and support for housing that is adaptable to changing needs and environments
4. Improved alignment of housing with infrastructure and community services
5. Support for first home buyers
6. Greater support and security for people in the private rental.

Collaboration is at the centre of *Housing 2041* and is key to the successful delivery of the strategy's 2021-22 Action Plan. This means working together with governments at the local, state and federal level, as well as with the community and housing sector more broadly. It is in this context that the NSW Government calls for partnership with the Federal Government to collaboratively respond to the unprecedented housing supply and affordability pressures that are being experienced across the state and Australia.



## Current NSW housing pressures

Housing pressures affecting Greater Sydney and regional NSW are being exacerbated as the impacts of COVID-19 continue to be felt. In response, a collaborative approach by all levels of government is needed to support the number of people who can comfortably access safe, secure, and affordable housing for themselves and for their families. The recent increases in property values and rental prices, and decreases in vacancy rates, are making it increasingly difficult for people to either buy or rent a home in NSW.

In the past 12 months, housing prices have risen 26.7% in regional areas and 23.6% in Greater Sydney. Meanwhile, rental prices are up 12% in regional areas with rental vacancy rates at very low levels (0.8% in June 2021). Significantly, 73 out of a total of 95 regional local government areas (LGAs) have a rental vacancy below 1% (the typical vacancy rate for a 'neutral' housing market is between 2-3%).

Moreover, housing affordability pressures are increasing the numbers of people who are homeless and in need of housing assistance in NSW, which is intensifying disadvantage. In 2019-20, specialist homelessness services (SHS) in NSW assisted 70,372 people experiencing, or at risk of, homelessness. This was an increase of 36% compared to 2013-14 (51,786). In the 24 months between June 2019 and June 2021, there was a 29% surge in priority applicant households on the social housing register, with 5,801 priority social housing applicants waiting for assistance as at 30 June 2020.





Rather than being a problem predominantly affecting metropolitan areas, the past 12-18 months has given rise to emerging housing pressures in regional NSW, which currently shows no signs of abating. The housing pressures in regional NSW pose a growing risk to those vulnerable in regional communities, which is also being affected by people seeking a better lifestyle in regional NSW. In the wake of drought, bushfires, floods and COVID-19, the NSW Government maintains a strong regional economic development agenda, as outlined in the *20-Year Economic Vision for Regional NSW*, refreshed in February 2021. In addition, a recently established Regional Housing Taskforce is consulting with the public and key stakeholders to identify regional housing issues of supply, diversity, affordability, and resilience, with recommendations to be delivered in October 2021.

These pressures will continue to influence the public narrative, particularly post-lockdown, and may amplify with increased uncertainty and financial pressure felt by many during the pandemic.

A number of factors are exacerbating the housing pressures currently experienced in NSW:

- Interest rates are at record lows, enabling borrowers to service larger mortgages and pay higher prices for housing. Similar effects have been seen overseas, for example in New Zealand and the United States.
- The past year saw a continued trend of internal migration – people moving from cities to regional areas and a drop in people from the regions moving to the city. NSW Drivers Licence data shows net regional migration of 43,000 people at December 2020 as people choose to relocate regionally during the COVID-19 pandemic.
- Strong demand for new houses and renovations is testing industry capacity, with reports of supply-side pressure from shortages of materials and of serviced land (land for which infrastructure services, including roads, drainage, water, and other utilities, have been provided).
- Developers have reported challenges meeting presales for some apartment projects, with a preference currently in the market for houses over apartments. This demand has likely been disrupted by reduced migration, including from international students, and weaker investor demand, as well as confidence in apartment construction quality. This means some projects may not commence or need to be adapted to meet demand.
- System pressures, such as a lack of appropriate infrastructure to support housing, council capability and resources for fast-paced delivery and strategic planning, and inconsistent data for evidence-based decision-making.

Much work has already been done across the NSW Government to reduce the impact of housing pressures, with initiatives underway, guided by endorsed approaches such as *Housing 2041: NSW Housing Strategy*, the NSW Productivity Commission White Paper 2021 and the Planning Reform Action Plan. However, in framing an effective response, the NSW Government has identified four pressure areas that would benefit from Federal assistance.

-  **Home ownership** is becoming increasingly out of reach for people entering the market
-  **Rental market pressures** are impacting affordability, availability, and accessibility
-  **Misalignment of infrastructure and growth** is impacting on housing capacity and supply
-  **Capacity and supply** won't meet demand in the future



## Federal Government collaboration

The NSW Government acknowledges the opportunities for partnership with the Federal Government to deliver effective housing solutions and advocate for better housing choice.

Together, all levels of government are responsible and accountable for:

- Supporting more people to access suitable housing, which is critical to ensuring the social, economic, and environmental wellbeing of NSW, especially during these unprecedented times and as the impact of COVID-19 continues to be felt.
- Recognising that affordable rental and purchased housing is becoming out of reach for an increasing number of people and households and providing the necessary support and assistance to resolve this.
- Providing more supply for the housing sector through stimulus measures and taxation exemptions.
- Encouraging the delivery of diverse housing solutions to provide choice for individuals, families, and communities.

The NSW Government recognises the important role it plays in supporting national recovery as the most populated state and accounting for a third of Australia's economy.



# Strategic context

## NSW Government strategies

### ***Housing 2041: NSW Housing Strategy and the 2021-22 Action Plan***

*Housing 2041* embodies the NSW Government's approach to housing across metropolitan and regional NSW. *Housing 2041* sets a long-term vision and framework to deliver on the NSW Government's goals and ambitions for better housing outcomes by 2041 and is shaped by the four housing pillars of supply, diversity, affordability, and resilience. It is supported by the 2021-22 Action Plan, which establishes a strong foundation to improve housing outcomes and choice. Actions for the first two years are currently underway, with new action plans to be delivered over the 20-year lifetime of *Housing 2041*.

Improvements in the planning process are supporting the delivery of *Housing 2041*. Housing supply and rezoning are being driven by the strategic approaches exemplified in the region, district and local strategies and housing targets. This has contributed to the construction of 150,000 dwellings over the last five years in Sydney, with capacity in the system for at least this much again. This is being achieved through faster planning approvals for state and regionally significant development applications (DA) and rezoning's under the Planning Reform Action Plan. The NSW Government is also targeting infrastructure spending to growth through the Housing Acceleration Fund (\$1.2 billion) and the Accelerated Infrastructure Fund, targeted at North West Sydney (\$75 million for round one), as well as contributions reforms to unlock local contributions to be more effectively spent on infrastructure in growing areas.

### ***Future Directions for Social Housing in NSW (2016-2025)***

Future Directions has a focus on supporting people's independence so that social housing helps break the cycle of disadvantage. It aims to deliver more homes, better places, and a better experience for social housing tenants, including links to supports for those who are frail-aged, have a disability or a serious mental illness.

Future Directions has increased social housing and CHP capacity to develop and manage more social homes. The Social Housing Management Transfer (SHMT) program has transferred 14,000 homes and tenancies to CHPs, the Social and Affordable Housing Fund (SAHF) has to date delivered more than 2,000 of 3,400 homes, and Communities Plus is delivering small scale social housing renewal and large scale mixed tenure redevelopment of social housing estates. The Millers Point program has delivered more than 1,560 new homes of 1,875 planned by using the proceeds from sales of 419 properties no longer fit for modern use, as social housing. Twenty-year leases for NSW Land and Housing Corporation (LAHC) homes are facilitating greater access to finance by CHPs.

### ***Strong Family, Strong Communities (2018-2028)***

*Strong Family, Strong Communities* is a 10-year strategy to improve the wellbeing of Aboriginal families and communities through housing. It aims to ensure all Aboriginal people in NSW have equal access to, and choice in, affordable housing. *Strong Family, Strong Communities* has Aboriginal culture at the centre of all activity, building the cultural appropriateness of service delivery, strengthening the capacity and sustainability of ACHPs. The strategy also has a strong focus on Aboriginal-led co-design as a vehicle to sustain tenancies and improve early intervention, education and employment supports.

Additionally, DCJ's *Aboriginal Outcomes Strategy 2017-2021* commits to increasing the number of Aboriginal households successfully transitioning out of social housing, including public, community and Aboriginal Housing Office (AHO) housing, by 20% by 2021.

## NSW Homelessness Strategy and the Premier's Priority to reduce street homelessness

A key action from the *Homelessness Strategy* is improving exit planning from government services (including out of home care, social housing, health services and justice facilities), so all agencies share responsibility for preventing homelessness and increasing access to supports and services.

Through the Premier's Priority to reduce street homelessness, the NSW Government is working towards zero rough sleeping. It has signed an agreement with Institute of Global Homelessness, along with other partners, to halve the number of people sleeping rough across NSW by 2025.

## Strategic planning to ensure future jobs and homes

Strategic plans for Greater Sydney set housing targets based on population growth to be delivered in partnership with local government through local housing strategies. While the strategic plans for the Regions identify growth areas to provide certainty to Councils and industry in ensuring the right types of houses are built in the right areas. The Greater Sydney Commission leads planning for the metropolitan region through the Greater Sydney Region Plan and five district plans. The Department of Planning, Industry and Environment leads strategic planning for regional NSW. Strategic plans provide guidance on where housing should be located that is linked to and complements and prioritises infrastructure investment to enable a pipeline of land for housing and employment. Strategic plans for Greater Sydney will be reviewed in 2022. A program to review and update the nine strategic plans for regional NSW is underway and will be finalised in 2022.

# Responding to housing pressures

The NSW Government has been working towards a holistic and integrated approach to housing reforms, building on the 2017 housing affordability recommendations of the Reserve Bank Governor, Glenn Stevens to the Premier of NSW. As we continue to implement the actions outlined in *Housing 2041*, deliver reforms to the planning system and implement the recommendations from the NSW Productivity Commission 2021 White Paper, the NSW Government acknowledges that a collaborative approach is required, with the Federal Government playing an essential role in supporting good housing outcomes for NSW.

Whilst the NSW Government can influence outcomes through planning system efficiencies and effectiveness, state taxes and incentives, and state-based housing policy regulation and programs, it cannot influence interest rates, immigration and population growth, federal tax settings, and businesses' risk appetite.



## Home ownership is becoming increasingly out of reach for people entering the market

House prices are rising faster than incomes and aspiring homeowners are having to save longer to accrue a larger absolute deposit, which is increasing the barriers to home ownership. Intergenerational disadvantage continues to create barriers for Aboriginal people who may have home ownership aspirations or are trying to leave social housing and move into rental of affordable housing. Federal taxation policies, such as negative gearing and capital gains tax, are also pushing first home buyers out of the market.

### What is the NSW Government doing to address this?

- First home buyer's assistance scheme (stamp duty relief)
- Progressing Property Tax Reform to give property purchasers the choice to pay a smaller annual property tax instead of a significant stamp duty and applicable land tax. This would remove a large

up-front cost when entering the housing market. A progress paper was released for consultation in June 2021 and submissions closed on 30 July 2021.

- Investigating barriers to, and opportunities for, innovative financing arrangements to support first home buyers, e.g. shared equity, RTB.
- The AHO home ownership project to support home ownership for 100 Aboriginal households by July 2022, offering grants up to \$2,500 for legal fees and \$10,000 towards a home loan deposit.
- LAHC is improving its processes to make it quicker and simpler for social housing tenants to purchase the LAHC home they live in.

### **Why do we need Federal Government assistance?**

The Federal Government has some existing initiatives to support first home buyers through low deposit loans, such as through the First Home Loan Deposit Scheme. The Australian Prudential Regulation Authority measures to contain banks' investor lending growth also had the effect of disincentivising investors and may have relatively improved opportunities for first home buyers.

A Federal commitment is needed to support innovative financing models and tenures for home ownership. As the NSW Government investigates reforms to address housing affordability, including stamp duty and land tax, it is important that federal property taxes, including the 50% discount on capital gains tax arrangements for property investment, are reviewed to ensure a holistic approach to improvements in housing affordability.

Property tax reform would increase the transaction volumes in the housing market, with implications for the associated fiscal strength of the state and GST outcomes under horizontal fiscal equalisation. The Commonwealth Treasurer should issue amended terms of reference allowing the Commonwealth Grants Commission to respond to material impacts if and when they arise. This would provide NSW with assurance that the property tax reform will not result in adverse GST outcomes. The NSW Government is currently engaging with other States and Territories through the Council on Federal Financial Relations on this issue.



### **Rental market pressures are impacting affordability, availability, and accessibility**

Net migration from Greater Sydney to regional NSW is impacting rental availability and affordability, leading to extremely low vacancy rates, limited housing options for local populations, and for teachers, police, and health workers in regional areas. Moreover, the rise of short-term rental accommodation and investment properties mean some dwellings are unoccupied or underutilised. Poor security and short standard tenure terms, and the rights of tenants and landlords, also continue to affect the rental market, while expensive rental housing increases the pressure on social and affordable housing and homelessness services.

### **What is the NSW Government doing to address this?**

- Development of BTR housing provisions to enable a pathway for BTR projects
- AHO has delivered tertiary accommodation grants to support disadvantaged Aboriginal people to attend and complete their studies at TAFE and university.
- The delivery of the new Housing State Environmental Planning Policy (SEPP) will encourage more social housing and purpose-built rental accommodation. It will also favour CHP management of affordable housing into the future, which will further support the growth of this sector.
- A recently established Regional Housing Taskforce in NSW is identifying regional housing issues and solutions that can be implemented to ease regional housing pressures in NSW.
- Funding and investment from the Community Housing Innovation Fund (CHIF), Aboriginal Housing Innovation Fund (ACHIF), and SAHF is delivering social and affordable housing across NSW.

## Why we need Federal Government assistance?

The Federal Government's social security programs, grants and funding support are important support measures. However, the significant challenges for people with low and very low income to access low cost rental accommodation means further support to increase their supply is highly desirable. This could include increased resourcing through the NHHA. The NHFIC also provides investment to support social and affordable housing delivery. The Federal Government should consider expanding eligible applicants for NHFIC funding to enable greater provision of social and affordable housing.



## Misalignment of infrastructure and growth is impacting on housing capacity and supply

Planning and delivery of infrastructure and services is not always well sequenced or prioritised to align with housing supply. Access to, and congestion in, public transport, roads, schools and public spaces are a constraint on growth in metropolitan Sydney. Connection to water and other essential services are issues for greenfield developments in Greater Sydney. The expanse of newly released land under development in Western Sydney makes it difficult to plan, deliver and fund network expansion.

Delivery of critical infrastructure to service increasing housing supply is an issue in regional NSW. Councils have limited funding to expand or upgrade infrastructure services, with less capacity to recoup costs through developer contributions and lower overall profit margins for regional developments. These factors are coupled with increasing land values, which incentivises land banking.

## What is the NSW Government doing to address this?

- The delivery of State-led rezoning continues to create new housing in significant locations.
- The approval of local housing strategies for councils identifies a pipeline of rezoning and development activity that supports city shaping infrastructure investments and is consistent with the broader aims of sustainability, productivity and liveability set out in regional plans.
- Supporting the delivery of place strategies and land use strategies (e.g. Wilton 2040) for key development areas alongside infrastructure and services.
- State-funded grant programs, such as Housing Acceleration Fund, Accelerated Infrastructure Fund and low-cost loans initiative for councils are enabling sub-regional infrastructure to unlock approvals.
- The Accelerated Infrastructure Fund targeted the delivery of \$75 million of critical local infrastructure in greenfield developments in Greater Sydney, with a second round of \$140 million recently announced.
- \$438 million to deliver infrastructure via voluntary planning agreements and State infrastructure contributions.
- Five rounds of the Housing Acceleration Fund delivering \$1.3 billion for 60 projects (23 completed).
- Improvements to NSW's infrastructure contributions system will enable timely delivery of appropriate State and local infrastructure to facilitate growth and increase certainty for industry.
- Local government rate peg reform will account for population growth to help cover the cost of local services and infrastructure, removing one disincentive for councils to accept development.
- Regional Infrastructure Contributions Framework will design and deliver whole-of-place strategies for higher density areas, in consultation with councils.

## Why we need Federal Government assistance?

Significant infrastructure reforms by the NSW Government are enabling greater investment in infrastructure. However, in many areas, housing growth is still constrained due to shortfalls in funding for enabling and supporting infrastructure. Federal investment would help alleviate this pressure.



## Capacity and supply won't meet demand in the future

There is only an adequate short-term supply of market housing in metro areas, with a median-term supply issue with rezoning's not meeting projected dwellings for expected population growth when borders re-open. In regional areas, low supply and net regional migration is expected to deteriorate further as economic investment in regional NSW grows. New approvals are not proceeding to construction as efficiently, owing to border closures, issues of land banking, skills and material shortages, and increased demand through the Federal Government's HomeBuilder Stimulus Program. Finally, there is an inconsistent balance of supply to household type, configuration, and the cohorts who need it most in all areas of NSW.

### What is the NSW Government doing to address this?

- The formation of the Planning Delivery Unit (PDU) within DPIE, and enhanced stakeholder engagement, is helping to address blockages and reduce planning approval times.
- The Planning Reform Action Plan is reducing timeframes for State Significant Development, Regionally Significant Development and Planning Proposals.
- e-planning is providing real time data to identify system-wide specific blockages in approvals.
- Special Activation Precincts are planning and delivering industrial and commercial infrastructure projects in regional NSW.
- Introduction of a Housing Evidence Centre to make it easier for users inside and outside government to access the key housing data and information they need for evidence-based decision making.
- Local Housing Strategies in Greater Sydney will secure a pipeline of new zonings and housing capacity over the next 6-10 years, aiming to meet demand from growing and changing populations.
- The Design and Place SEPP will show benefits of a stronger focus on quality design and place-making in encouraging people to shift to better precinct planning, more efficient and comfortable housing styles.
- Stimulus funding and accelerating the delivery and upgrade of more mainstream and Aboriginal social homes to house more people and families who need a home.

### Why we need Federal Government assistance?

The Federal Government plays an integral role in setting taxation frameworks, managing migration policy, providing economic stimulus and federation funding agreements, such as the NHHA, to facilitate a supply of housing that meets demand. Undertaking reforms and further funding arrangements can measurably impact the supply and demand for housing.

## Partnering with the Federal Government

Although the NSW Government can impact the success of the NSW housing system, particularly through investment, programs, policy, legislation and regulation, it cannot do this alone.

The NSW Government acknowledges the Federal Government's policy settings and the opportunities for partnership to deliver housing solutions and advocate for better housing choice.

Federal policy settings include those around international and regional migration, taxation, interest rates, financial regulation, social security programs (such as CRA), and grants and funding support, such as the NHFIC. The NDIS and the NHHA also influence the supply of housing for vulnerable people in NSW. Below are suggested recommendations and further considerations to be explored in partnership with the Federal Government.



## Recommendations

### Recommendation 1:

#### Recommend the meeting of Australian Planning Ministers



**Issue:** Planning systems, development approvals, and the construction industry must operate at an effective pace so that governments and the development community can continue to support economic recovery. State and territory planning ministers must continue to prioritise transparency and consistency between jurisdictions, and a regular meeting, convened at a federal level, will ensure this.

#### How can the Federal Government help?

Recommence the National Planning Minister's Forum, in a similar vein to the forum led by Minister Tudge in April 2020. This was a successful example of collaborative federalism. For example, the Forum was instrumental in driving the NSW Government to adopt Build to Rent housing as a new housing typology.

#### What are the expected outcomes and benefits?

- State and territory planning ministers agree to a set of principles that support transparency, consistency, and decision-making in the public interest.
- Lessons learnt can be shared and considered for potential ongoing implementation.
- Potential amendments to planning systems will ensure that governments continue to support the economy in the face of COVID-19.
- Continuing to fast-track project assessments that deliver new homes, including social and affordable housing, or diverse typologies like BTR, in appropriate locations and with supporting and enabling infrastructure.

### Recommendation 2:

#### Develop a National Settlement Strategy based on a national population policy as recommended by the Planning Institute of Australia



**Issue:** Strategic urban and regional planning is the responsibility of local and state/territory governments; however, the growth and shape of every city is influenced by federal government decision making.

#### How can the Federal Government help?

The Federal Government should endorse the development of a National Settlement Strategy that expresses the goals and aspirations for Australian communities. The Strategy should be informed by accurate and reliable data that prioritises evidence-based decision-making around issues of population growth, housing provision, infrastructure alignment and job opportunities.

#### What are the expected outcomes and benefits?

- Current and future growth challenges can be managed more effectively with a stronger national mandate that prepares for growth and change.
- Consistency across population projections, housing, and employment projections means that targets can be realistic and achievable.
- There will be greater public confidence in the ability of policymakers to improve the liveability and performance of Australian cities.
- It will develop a strong basis for integrating regional city growth with the national and global economies.

### Recommendation 3:

#### Federal investment in infrastructure to unlock housing supply



**Issue:** Housing growth is constrained in many areas in NSW due to shortfalls in funding to provide enabling and supporting infrastructure, such as water, sewers, roads, public transport, schools, public space and jobs. Development contributes to the cost of infrastructure, but as funds aren't collected until after development occurs, there is often a lag in provision. This means growing communities need to wait for infrastructure services to catch up.

#### How can the Federal Government help?

Assist the NSW Government and local councils by co-funding major and local infrastructure projects to support the supply of housing where it is needed the most. This could include early provision of infrastructure to unlock capacity.

#### What are the expected outcomes and benefits?

- Unlock greenfield developments and density in infill developments
- Enable continued economic growth in the regions by ensuring jobs are supported by housing
- Provide access to services and facilities to support growing communities.
- Could be linked to increased use of NHFIC finance.

### Recommendation 4:

#### Increased resourcing of the National Housing and Homelessness Agreement



**Issue:** The biggest challenge in housing affordability is for very low and low income people to access low cost accommodation. The NSW Government has been increasing its resourcing support to the sector. Expansion of the NHHA needs consideration.

#### How can the Federal Government help?

The Federal Government should review its resourcing for the NHHA given the significantly growing need and the lack of any real increase in Federal funding over the past decade.

#### What are the expected outcomes and benefits?

- grow social housing stock and thus the number of households on the priority waitlist for housing support would decline
- additional resources to various homelessness programs and ideally homelessness prevention strategies will help at least partly address the growing homelessness challenges
- help fund joint programs like the Community Housing Innovation Fund with the CHP sector to grow CHP sector social and affordable housing stock to partly meet the growing need

### Recommendation 5:

**Commonwealth Government provide incentives (and remove disincentives) to states and territories for undertaking major productivity-enhancing taxation reforms, such as removing stamp duties, to help unlock economic benefits which will be shared across levels of government.**



Issue: Stamp duty significantly increases the upfront cost of purchasing a home in Australia and imposes costs on people at all stages of life. It is estimated that for a full-time worker who earns the NSW average annual earnings and saves 15% of their income, stamp duty adds 2.5 years to the time required to save a deposit of 20% of the average NSW property.

Across the State's major revenue sources, stamp duty on property is widely considered the most inefficient tax. That is, it imposes the largest economic cost of all existing taxes. In contrast, a broad-based land tax on the unimproved value of land—such as local government rates—is the most efficient tax available to the states.

The NSW Government has proposed a new Property Tax Reform that seeks to transition from the current stamp duty and land tax system to a broad-based annual property tax based on unimproved land values. The NSW Government is considering the views of stakeholders in response to the *Property Tax Reform - Progress Paper* released in June this year.

#### How can the Federal Government help?

The NSW Government would welcome the Commonwealth Government providing incentives to states and territories to undertake major taxation reforms to help unlock economic benefits which will be shared across levels of government. The productivity dividend from these reforms would increase Commonwealth revenues and strengthen Commonwealth finances. Under current distribution methodologies of the Commonwealth Grants Commission (CGC), undertaking property tax reform may cause a state to lose GST revenue. This represents a significant obstacle to embarking on productivity-enhancing reform. The Commonwealth Productivity Commission and the CGC have both found that any state that unilaterally replaced stamp duty with a broad-based land tax would lose GST revenue. The NSW Government is engaging through the Council on Federal Financial Relations on measures to ensure that the State is not penalized for proceeding with such reforms and welcomes the Commonwealth Government assisting in removing these disincentives.

#### What are the expected outcomes and benefits?

- Lower barriers to entry into the property market.
- Allow people to move more easily to homes that match their needs. Evidence suggests the number of property transactions would increase by around 50 per cent in the long run.
- A more efficient tax system would better allocate housing and therefore improve the effective supply of housing. Lower taxation on capital will also encourage more investment.
- The NSW Government property tax reform would significantly boost home ownership, with people moving out of rental accommodation into their own homes.
- The productivity benefits of replacing stamp duty with an annual property tax would boost both the New South Wales and National economies. This would increase Commonwealth revenues and strengthen Commonwealth finances.

### Recommendation 6:

**Review and adjust prudential and taxation settings to help moderate prices for existing stock to ensure an appropriate balance between the purchases of properties for owner-occupied and investment reasons.**



**Issue:** The combination of the range of state and commonwealth property tax settings, including the 50% discount on capital gains tax arrangements for property held for more than 12 months, leads to significant purchases of properties being for investment reasons rather than accommodation reasons. The NSW Government has proposed a new Property Tax Reform that seeks to transition from the current stamp duty and land tax system to a broad-based annual property tax based on unimproved land values. The NSW Government aims to make home ownership more achievable by proposing to address the upfront barrier of stamp duty and help people live where they would like to suit their stage of life. This proposal should make housing more affordable for all people. The NSW Government is considering the views of stakeholders in response to the *Property Tax Reform - Progress Paper* released in June this year.

#### How can the Federal Government help?

The Federal Government should review taxation settings, including the Capital Gains Tax discount of 50% on properties held for over 12 months and consider reforms to ensure an appropriate balance between the purchases of properties for owner-occupied and investment reasons.

#### What are the expected outcomes and benefits?

- the continued upward growth in housing prices would be lessened to some degree (improving housing affordability)
- reduced speculative pressures in the housing market
- housing assets used more for accommodation needs than investment needs
- a small relative shift back to benefit first home buyers (from the current high focus of investment purchases in the property market).

### Recommendation 7:

**Partnering with Federal housing delivery agencies**



**Issue:** The NSW Government is developing cross-agency housing projects in regional NSW to address housing shortages and affordability pressures. With the current acute pressures in the regions for greater, more diverse and more affordable housing, there is the need for all levels of government to work together to deliver housing choice.

#### How can the Federal Government help?

Align the Federal Government's strategic release of government-owned land and enable collaborative government-led residential projects across local, state and federal governments. This should include working with the federal housing delivery agency, Defence Housing Australia.

#### What are the expected outcomes and benefits?

- Co-ordinate the review, release and development of government-owned land at all levels.
- Maximise the use of government-owned land to deliver housing where it is needed the most.
- Enable continued economic growth in the regions by ensuring jobs are supported by housing.

### Recommendation 8:

#### That historic Commonwealth debt repayments are redirected to fund social housing



**Issue:** LAHC is a self-funded organisation. It carries a historic Commonwealth-State Housing Agreement debt of \$766 million due to be repaid for the next 21 years (to 2042). The debt repayments significantly impact LAHC's ability to meet social housing demand. There is an increasing need to meet the needs of clients on the priority waitlist, which has grown 29% in last two years.

#### How can the Federal Government help?

The Federal Government could agree to some redirection of LAHC's debt repayments towards new housing supply options to meet growing priority waitlist. LAHC would contribute the land needed for the sites.

A specific agreement with the Federal Government to redirect a portion of the total principal and interest payments to a social housing supply program could be sought. The agreement could be similar to that between the Federal Government and Tasmanian Government in 2019, where the debt was waived on the condition that the Tasmanian Government agreed to redirect the annual expenditure that would otherwise be dedicated to principal and interest repayments each financial year, to programs that increase access to social housing, reduce homelessness and improve housing supply.

#### What are the expected outcomes and benefits?

- Any level of debt forgiveness could be targeted towards increasing social housing supply.
- Combined with LAHC existing sites, these funds could significantly increase social housing supply across NSW to house priority social housing tenants.

### Recommendation 9:

#### Expanding Commonwealth Rent Assistance to public housing tenants



**Issue:** The access to CRA for the public housing system remains an issue, and limits the resources available in the public housing system. This combined with reduced rental affordability is contributing to increased unmet demand for public housing assistance.

#### How can the Federal Government help?

Expand the scope of the Terms of Reference for the Productivity Commission Review of the NHA to acknowledge the Commonwealth's role and their responsibilities with respect to access of CRA and consider the benefits of extending this to public housing.

#### What are the expected outcomes and benefits?

- A sustainable public housing system across Australia.
- Transportability of rental assistance for tenants between the private, community housing, and public housing rental markets.

### Recommendation 10:

#### National Housing Strategy



Issue: There is no national whole of government strategy for the housing sector. A national strategy would give the housing sector a vision and support for development, growth and greater investment (e.g. NHFIC).

#### How can the Federal Government help?

Acknowledge that the Federal Government holds many levers in respect to taxation, welfare and rental support which have a direct impact on the housing market. Work with jurisdictions to identify and address issues and across the full spectrum of housing.

#### What are the expected outcomes and benefits?

- Co-ordinated approach across all levels of government to address housing affordability.
- Provide transparency and certainty to the private and not-for-profit sectors about government policy in relation to housing.
- Clear articulation of housing roles and responsibilities for each level of government.

### Recommendation 11:

#### NDIS transitional housing to facilitate access to SDA



Issue: Clients with disability face barriers in being assessed for SDA prior to their planned exit from settings such hospitals, forensic mental health units and prisons.

Vulnerable and disadvantaged clients with high needs who are homeless or in unstable housing, can require a medium-term transitional housing solution to facilitate access to NDIS services, including assessment for SDA.

#### How can the Federal Government help?

Funding transitional medium-term housing solutions for clients with disability who are experiencing barriers to accessing or transitioning into SDA.

NSW also reiterates its concerns regarding the underdevelopment of the SDA market, particularly with regard to the thin market that exists for Robust SDA. This is a market stewardship role for the National Disability Insurance Agency (NDIA) and the Federal Government.

#### What are the expected outcomes and benefits?

The key benefit of a transitional housing model is to support access and transition into SDA, leading to a reduction in costly 'bed blocking' for both State and Federal facilities. Clients with disability who are homeless or in unstable housing, that are attempting to exit services including hospital, prison, or forensic mental health units, require a transitional housing solution to support access and transition into SDA.

Other benefits include reduced health and criminal justice costs resulting from reduced homelessness and reduced emergency department admissions.

### Recommendation 12:

#### NHFIC to consider smaller-value applications to allow ACHPs to grow new supply



Issue: Currently, the Affordable Housing Bond Aggregator (AHBA) has only been awarded to very high value projects. By their nature, ACHPs are generally much smaller than CHPs, and are unable to participate in such high value projects, thus locking them out of AHBA.

#### How can the Federal Government help?

NHFIC could approach this issue:

- Consider smaller value projects and proposals to allow ACHPs and small CHPs to participate.
- Consider working proactively with Aboriginal housing peak bodies (such as Aboriginal Community Housing Industry Association in NSW) to facilitate higher value propositions through consortia.
- Making loans available to housing authorities which could partner with smaller scale organisations.
- Consider providing additional resources to enable small ACHPs in high needs areas to overcome their limited resources and appropriately apply for NHFIC financing.

#### What are the expected outcomes and benefits?

- Increase in social and affordable housing for Aboriginal people and families.
- ACHPs will grow in size, capability and resilience.
- Reduction in Aboriginal homelessness due to increased social and affordable housing supply.
- More social housing on-Country for Aboriginal people and families.

### Recommendation 13:

#### Housing for women escaping domestic and family violence



Issue: DFV is the leading cause of homelessness for women. DFV continues to rise and drive demand for services, perpetuating the cycle of disadvantage. DFV related assaults recorded by NSW Police are up on average 2.3% across the last five years.

#### How can the Federal Government help?

Further Federal Government co-investment in social and affordable housing supply to improve housing stability and outcomes for families and children, particularly Aboriginal children, through upcoming NHHA negotiations, Closing the Gap initiatives, and partnerships on targeted initiatives for these cohorts.

#### What are the expected outcomes and benefits?

- Breaking the cycle of disadvantage for children, especially Aboriginal children, in households subject to DFV.
- Increased wellbeing, educational outcomes and workforce participation for women who have experienced DFV.

### Recommendation 14:

#### Reinstate NPARIH-style funding arrangement for remote indigenous communities



##### Issue:

Since the end of the NPARIH, there has been no specific funding to address the shortfall of, and condition of, Indigenous housing in remote Australia. Supply and upkeep of remote housing is a particular issue due to the high costs brought about by geographic factors.

##### How can the Federal Government help?

That Federal Government consider reinstating a NPARIH-style funding arrangement to meet the unmet need for Indigenous housing in remote areas, and to upgrade and maintain existing remote Indigenous housing.

##### What are the expected outcomes and benefits?

- Reduced overcrowding in remote Indigenous communities
- Reduced homelessness in remote Indigenous communities
- Better health outcomes (linked to adequate housing) in remote Indigenous communities

### Recommendation 15:

#### Expanding NHFIC lending beyond Community Housing Providers



Issue: Under the current setting, the AHBA is only available to CHPs, while housing authorities, such as LAHC, are not generally eligible for NHFIC's low cost lending for new social and affordable housing.

NHFIC has been able to provide CHPs with fixed interest rates of around 2% for more than 10 years. This is a substantial discount and involves a longer tenor than is available under conventional bank financing.

NHFIC's ability to offer cash-flow loans, rather than more traditional asset-backed loans, also enables CHPs to undertake higher gearing levels and maximise the portion of project financing that can be provided at a low fixed interest rate.

##### How can the Federal Government help?

Given the shortfall of social housing supply and urgent need for investment, it is recommended this lending mechanism be expanded to housing authorities in order to create an equal footing to drive efficiency in the social housing sector, and so NHFIC loans may be combined with National Housing Infrastructure Facility grants and loans for housing enabling infrastructure.

##### What are the expected outcomes and benefits?

- Social housing investment outcomes would be amplified and leveraged through low cost and affordable lending from NHFIC.



### Recommendation 16:

#### Tax exemptions to incentivise build to rent and co-living housing and co-living housing



**Issue:** In February 2021, the NSW Government introduced new planning provisions for BTR housing and in July 2021 made changes to state taxation settings to accelerate this type of development. However, BTR housing industry representatives have advised that BTR housing will not be feasible without Federal tax concessions. Developers have advised that co-living housing will also not be feasible without access to the State and Federal tax discounts and exemptions that they claim currently apply to boarding houses.

#### How can the Federal Government help?

The Federal Government can ensure that all forms of commercial residential property (that is, BTR housing, co-living housing and boarding houses) are able to receive the same federal tax treatment with the view of incentivising purpose-built rental accommodation.

The Federal Government could reconsider the 50% discount on capital gains tax arrangements for property investment to ensure diverse and affordable forms of housing are not disadvantaged as a result of the investment model that applies.

#### What are the expected outcomes and benefits?

- Provision of diverse housing types and tenures.
- Meeting the needs of current and future communities by maintaining supply and increasing housing choice.
- Offer longer-term certainty for renters and investors through BTR.
- BTR housing products seek to optimise long-term efficiencies so are more likely to invest in resilience and environmental features, which will future-proof more housing stock.
- BTR has the potential to be a counter-cyclical investment product.

### Recommendation 17:

#### Demonstrate long term commitment and support for shared equity arrangements



**Issue:** The current policy landscape is fragmented. For some jurisdictions, governments provide shared equity schemes and finance debt financed directly. In jurisdictions without these organisations, initiatives have been smaller in scale with governments partnering with private sector lenders. To date, these schemes have received little to no support from the Federal Government.

#### How can the Federal Government help?

There is potential for the Federal Government to play a role in supporting shared equity schemes:

- Providing supportive frameworks between Federal and State Treasuries in the establishment phase of new Federal agencies until they reach scale and establish their own momentum.
- Fostering transparency and sharing of information among all parties involved (e.g. redemption profiles, rates of staircasing, and flows of assets).
- Adopting a national framework in support of financing arrangements to help provide scale, spread location risk, and enhance the cost effectiveness.
- Identifying the contributory role of shared equity in helping deliver the aims and objectives of the NHHA.

What are the expected outcomes and benefits?

- Improve affordability by reducing deposit and ongoing housing costs.
- Reduced demand for other government subsidies (e.g. CRA).
- Potential to be a counter-cyclical product.

**Recommendation 18:**

**Progress the Automatic Rent Deduction Scheme**



Issue: The development of an ARDS has been the subject of ongoing negotiation and discussion between the Commonwealth and the states and territories for many years.

How can the Federal Government help?

Passing amendments to the *Social Security (Administration) Act 1999* and the *A New Tax System (Family Assistance) (Administration) Act 1999*.

The Commonwealth has previously drafted the *Social Services Legislation Amendment (Housing Affordability) Bill 2017*. On 6 December 2017, the Senate Community Affairs Legislation Committee recommended that the Bill be passed and in 2018 the Commonwealth, states and territories prepared revised legislation, but the revised Bill did not proceed.

What are the expected outcomes and benefits?

- Enable social housing providers to automatically deduct tenancy charges from tenants' and household members' Commonwealth income support payments, reducing their risk of rent arrears and eviction.
- Reduce the impact, including costs, to social housing providers that arise from irregular housing payment practices. Social housing providers can continue to direct housing assistance to meet the needs of vulnerable clients.
- Greater housing stability for individuals and households helps avoid the costs of failed social housing tenancies flowing on to individuals, families, communities, and government. It also increases the sustainability of the social housing system. A more stable social housing system would see fewer clients cycling through homelessness services and unstable social housing tenancies

## Other considerations

### Stamp duty and land tax

All States and Territories impose a transfer duty (also known as 'stamp duty') on the transfer of real property. Stamp duty significantly increases the upfront cost of purchasing a home in Australia.

Stamp duty imposes costs on people at all stages of life. For first home buyers, it increases the time required to save the deposit for a first purchase. For people who change their place of employment, households may live further from work or not take up job offers. Growing families that desire to be closer to schools may face significant costs. Older Australians who own their home are less likely to downsize to more suitable housing. It is estimated that for a full-time worker who earns the NSW average annual earnings and saves 15% of their income, stamp duty adds 2.5 years to the time required to save a deposit of 20% of the average NSW property.

Across the State's major revenue sources, stamp duty on property is widely considered the most inefficient tax. That is, it imposes the largest economic cost of all existing taxes. In contrast, a broad-based land tax on the unimproved value of land—such as local government rates—is the most efficient tax available to the states. While NSW does collect land tax, it is applied with concessions and a high value threshold, resulting in a narrow base of taxpayers. Therefore, switching from stamp duty to a broad-based land tax would enhance economic efficiency in the housing market and support a more equitable distribution of the tax burden. It would also provide a stable and sustainable revenue source to fund government services.

The NSW Government has proposed a new Property Tax Reform that seeks to transition from the current stamp duty and land tax system to a broad-based annual property tax based on unimproved land values. The NSW Government aims to make home ownership more achievable by proposing to address the upfront barrier of stamp duty and help people live where they would like to suit their stage of life. This proposal should make housing more affordable for all people. The NSW Government is considering the views of stakeholders in response to the *Property Tax Reform - Progress Paper* released in June this year.

The NSW Government would welcome the Federal Government providing incentives (and remove disincentives) to states and territories to undertake major taxation reforms to help unlock economic benefits which will flow through to higher taxation revenues at the Federal level

### Capital gains tax

The combination of the range of state and federal property tax settings, including the 50% discount on capital gains tax arrangements for property held for more than 12 months skews the incentives towards the purchases of properties for investment purposes. These tax benefits of property investment have contributed to the growing housing affordability issue. While the combined effect is likely to be a moderate increase in house prices, the most significant impact is the displacement of owner occupiers (including first home buyers) from home ownership by tax-advantaged investors, predominantly those already on higher incomes. This leads to significant extra investment demand for housing leading to higher prices (and lower affordability). It also leads to poorer asset utilisation as properties are held mainly for capital gain. This has been reflected through significant growth in spare bedrooms (underutilised properties) since the CGT 50% discount was introduced in 1999.

In addition to the 50% discount, capital gains also receive other less explicit tax advantages compared to recurrent income. Firstly, they are taxed on sale rather than as they accrue. This deferral of tax is akin to the government providing the investor with an interest free loan. Secondly, investors are able to choose the time of an asset's sale to minimise taxes on capital gains, such as selling assets when their income is low, so they are taxed at a lower marginal rate. By encouraging investors to buy and hold property, the 50% capital gains discount increases investor demand for housing and pushes first home buyers out of the market. Lending to housing investors was roughly equal to lending to first home buyers in 1994, around \$15 billion, but has increased to around \$120 billion in 2014 whereas first home buyer lending was around \$20 billion. That is, a 700% growth for housing investors, compared to only 33% growth for first home buyers.

The NSW Government would welcome the Federal Government undertaking a review of the current taxation settings relevant to housing investment and consider reforms to improve housing affordability.

### National Housing and Homelessness Agreement

The NHHA is an important agreement to support the homelessness and social housing system. The NHHA was created from a continuation and combination of both the former National Affordable Housing Agreement and the National Partnership on Homelessness, both which commenced in 2009. For NSW, the 2021-22 NHHA Federal Government contribution is \$493 million. The NSW Government is providing significantly more at over \$1 billion towards the homelessness and social housing system in 2021-22. Federal Government contributions were very significant throughout the 1980's and 1990's, although reduced significantly throughout the 2000's decade (other than the one off Social Housing National Building

Economic Stimulus Plan that started in 2009 and delivered 19,200 dwellings across Australia). The Federal funding through the NHHA of \$493 million in 2021-22 represents no real increase in funding since 2009.

Growing challenges around housing affordability continue to put pressure on access to affordable housing and social housing waiting lists in NSW. In terms of the most important waitlist, the Priority Applicant Households on the Social Housing Register, there has been a 29% growth over the past 24 months in NSW. Housing affordability and access to low cost housing are significant issues that the Federal Government should consider and resourcing levels through the NHHA should be reviewed. As a percentage of the \$589.3 billion 2021-22 Commonwealth Budget, the \$493 million represents 0.08%.

While the NHHA is not due to expire until 2023, the NSW Government is eager to ensure the next agreement is negotiated and refreshed collaboratively, informed by the Productivity Commission's Review.

The NSW Government notes there are opportunities to consider support in a number of areas, such as:

- The Federal Government meeting the housing costs of Aboriginal people aged 50+ and non-Aboriginal people 65+ (as is the case under the *National Health Reform Agreement* for meeting the health, community and residential aged care and NDIS costs).
- Historical loans – debt relief or redirection to:
  - Accelerate new social and affordable housing supply
  - Make strategic acquisitions – off the plan, development sites, fit for purpose new supply
  - Invest in new supply partnerships with CHPs and ACHPs
  - Fund renewals or additional new supply of refuges– core and cluster refuges and transitional properties.
- Funding for old social housing estate renewals and de-concentration – supply and services, and/or increase the value of grants (up from 25%) on loans provided by NHFIC through the National Housing Infrastructure Facility for renewal of estates and missions
- Funding for new community based ageing-in-place housing approaches – housing linked to aged care supports and funding for tenant maintenance activities which would enable older tenants to remain in their social homes by meeting typical tenant responsibilities such as gutter cleaning and mould removal which cannot be safely performed by older tenants without assistance.
- Include maintenance funding – for social and crisis properties.
- Funding for social distancing modifications to crisis properties.
- Funding for broader social housing tenant home ownership initiatives (above other first homeowner grant programs).