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Senate Standing Committees
on Economics
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AUSTRALIA'S FOREST INDUSTRIES

SUBMISSION to the Senate Economics References
Committee Inquiry into Australia's financial regulatory
framework and home ownership September 2024

About Australian Forest Products Association (AFPA)

The Australian Forest Products Association (AFPA) is the peak national industry body representing the Australian forest, wood and paper products industry's interests to governments, the general public and other stakeholders on matters relating to the sustainable development and use of Australia's forests and associated manufacturing and marketing of wood and paper products in Australia.

Australia's Forest Industries directly employ approximately 80,000 people and another 100,000 indirect employees and is a major employer in many regional towns. Australian Forest Industries contribute \$24 billion to the Australian economy each year.

To whom it may concern

RE: Submission to the Senate Standing Committee on Economics Inquiry into Australia's financial regulatory framework and home ownership

AFPA welcomes the opportunity to provide this submission to the Senate Standing Committee Inquiry into Australia's financial regulatory framework and home ownership.

Whether the present financial regulatory framework adequately prioritises the goal of home ownership for Australians, with particular reference to:

- 1. Australian Prudential Regulation Authority prudential standards and Corporations Act 2001 provisions for lending;*
- 2. the nature and type of debt and equity arrangements being used to underpin housing development;*
- 3. the appropriate involvement (if any) of corporate and institutional funds in the provision of housing;*
- 4. the effectiveness of mechanisms to monitor investment in the residential property market;*
- 5. the tax treatment of residential property and impacts on demand and house prices;*

6. *the adequacy of metrics available to policymakers for monitoring the ratio of new housing supply relative to population growth;*
7. *examples of effective priority treatment for aspiring Australian homeowners that do not compromise financial stability; and*
8. *any related matters.*

Executive Summary

Home ownership remains an important goal for many Australians.

Despite high demand, there is a shortage of housing stock, and housing starts remain stubbornly depressed. Dwelling commencements have fallen sharply with the 12 months rolling total of commencements falling from 226,000 in December 2021 to 150,000 in March 2024. This is well short of the 240,000 the Australian government needs to meet its five-year target of 1.2 million new homes. This trend is expected to continue over the short to medium term, due to housing affordability, high interest rates, increased input costs, a shortage of labour, and builders being risk averse following record building company insolvencies.

The government needs the right policies in place to make buying and building homes easier and more affordable. This will increase Australia's housing stock which will assist not only home buyers but will put downward pressure on rental costs as it increases the overall housing supply. We urge this Committee to focus on addressing the volatility that is undermining investment in new dwellings.

AFPA supports Government policies that boost new dwelling construction, primarily because it will benefit those Australian businesses that supply the ultimate renewable and sustainable building material, timber.

Both the Government and the Coalition have acknowledged the importance of growing the total area of production forestry through their public commitments to the *One Billion Trees Goal*. Investment in sustainable forestry increases the supply of renewable materials to build houses. It also helps Australia to meet emissions reduction targets through absorbing and storing carbon, while also supporting farmers and regional communities.

The demand for imported timber will increase if policies aren't put in place to ensure our forestry estate continues to grow thereby undermining our sovereign production capability and the thousands of jobs employed in the sector.

This challenge will only get worse as world demand for forestry products continues to grow. A report from Forest and Wood Products Australia, the not-for-profit industry services company funded by the Australian Government, member levies, and research grants - estimated that Australia's reliance on imported timber will double by 2050. To improve its sovereign capability Australia must increase its plantation estate. This will help to meet our demand for domestic timber while reducing the risks associated with relying on the import of timber products.

Additional benefits to promoting timber to meet housing goals

Builders and new home buyers have a choice to make when contemplating construction of a new dwelling – whether to use steel or timber framing.

Fortunately, for those who care about decarbonising there is a solution and that is timber. Half of the weight of wood products is stored carbon. Forestry plays a unique role in climate change mitigation. Timber is an economic carbon capture and storage instrument which works at scale. Not only do our trees sequester carbon whilst growing, but once harvested, the timber is a permanent, or long lived, store of carbon in the built environment. In Australia, every tree harvested in forestry is replaced with at least another tree.

The construction, operation, and maintenance of buildings accounts for almost a quarter of greenhouse gas emissions in Australia. As Australia's population grows, to an estimated 31 million in 2030, even more buildings will be needed. The choice of wood or steel by a homebuilder makes the difference between starting with either a healthy CO2 emissions credit or a deficit. A typical timber house frame absorbs 9.5 tonnes of CO2 from the atmosphere. When you include other timber and wood furnishings like floors, panels and decks and furniture items, the figure can grow to 25 tonnes of CO2. And then there is the added benefit of replacing products like steel, concrete, and ceramic tiles that emit large amounts of CO2 in their production.

Wood first policy in Government construction

Wood first for construction in Government procurement policy involves using legislation to facilitate the use of wood as the primary building material in all new Federal Government funded buildings. This recognises the advantages of using timber in building the climate friendly homes of tomorrow. This, along with fostering the right economic conditions, will assist to get the construction sector moving.

Harvested forest products provide significant opportunities to reduce emissions through substitution and replacement of fossil-fuel-derived materials and fuels. From construction materials to cardboard, forest products are more environmentally friendly, sustainable, renewable, and recyclable, than their alternatives.

It is important to note that on the release of the Australian Carbon Credit Units (ACCUs) review, Australia's former chief scientist Professor Ian Chubb, stated that:

“the only mechanism that we know now that we can implement at scale that has the capacity to draw CO2 out of the atmosphere is photosynthesis”.

This accords with the Intergovernmental Panel on Climate Change (IPCC, 4th Assessment Report) which states that: *“A sustainable forest management strategy aimed at maintaining or increasing forest carbon stocks, while producing an annual sustained yield of timber, fibre or energy from the forest, will generate the largest sustained mitigation benefit”.*

Incentivising the use of Australian wood in Government procurement aligns with French government policy that required all new public buildings to be built from at least 50 percent timber by 2022. The law is part of France's plan to be carbon-neutral by 2050.

The French Government recognises that bio-based materials like wood, have a significantly lower embodied carbon footprint than other construction materials like concrete and steel.

Australia's housing shortage

Australia is suffering from an acute housing shortage that will only worsen with population growth, including through immigration. Home ownership relies on increased building activity, which is underpinned by supply of materials and availability of skilled trades people.

It is disappointing that despite the efforts of the Australian government, housing supply policies, largely the responsibility of state and local governments, have remained restrictive and failed to unlock greenfield developments. Identifying and releasing land for free-standing homes on greenfield sites should be prioritised as housing construction materials are available to deliver new homes quickly.

AFPA believes a more ambitious suite of housing finance policies are required to ensure that supply better meets the demand for housing. It is widely recognised that new sources of financing will be needed to assist buyers enter the market.

Carbon Builder program

To stimulate supply, and utilise any spare construction capacity in the market, a government program could implement a capped and time limited program of one grant of \$50,000 to each builder who builds a home that has an Australian timber frame.

Cost increases due to requirements for insulation, double glazing, reduced options and competition for appliances by gas, wood fire and other imposed state government restrictions has been estimated at up to \$100,000 per home. This can make it more costly to build a house than the market is willing to pay for the completed project.

This program would be designed to recognise the increased cost of building a home due to other governments green building requirements and ensures the climate and sustainability benefits of using a timber frame.

A targeted and capped program that limits the grants to one per builder per calendar year will ensure that the stimulus attracts any spare capacity in the market but does not overheat the market and that builders don't take on more work than they can manage.

This accords with one of the goals for the housing system, included in the National Housing Supply and Affordability Council's State of the Housing System 2024 report, that "the housing stock is environmentally sustainable and energy efficient".

Measures to derisk the finance for building new homes

Access to secure, stable, and competitive finance will improve market stability and confidence across the sector. Addressing the reasons behind the reduced willingness of households to take on debt is key and for this reason AFPA supports initiatives that derisk finance for new

homes. For example, securing access to attractive finance to assist building companies to start or complete homes would help to alleviate the crippling construction delays which has exacerbated Australia's housing crises.

Construction company collapses jumped sharply during the 2023-24 financial year and were nearly double the numbers for the next most affected industry, accommodation and food services. This is the highest number of annual insolvencies recorded by ASIC since 1999-2000, higher than the previous peak of 10,757 in 2011-12, after the global financial crisis. This has reduced lending institutions risk appetite to provide finance to the majority of construction companies that are well run, sustainable businesses, making it more difficult to grow supply to meet the housing shortage.

A similar approach has been employed in Western Australia where a \$10 government million initiative provides builders with access to interest-free loans of up to \$300,000 to help them complete unfinished homes. This initiative recognises that significant construction delays have stalled the delivery of new housing stock, due to building companies facing labour shortages and rising prices.

Cutting red tape for building approvals

Uncertain time frames and increasing costs through state and local government planning and approval processes are putting a handbrake on development, resulting in fewer new homes and commercial buildings being built. This also reduces housing affordability, and stalls dwelling completions. Reforming, streamlining and better resourcing these processes, will provide certainty and clarity around processes and timelines. Cutting red tape, and reducing costs, will see more homes and commercial buildings approved sooner and will restore confidence in Australia's construction sector. For example, allowing approved plans to be fast tracked through local government.

Tax incentives for Intergenerational finance transfer for building new houses

Harnessing 'the bank of Mum and Dad' to deliver new housing stock. The early generational transfer of finance to those seeking to build a new house would help to boost home ownership levels, the building sector and the economy more broadly.

Tax incentives could be provided so the transfer of finance is more attractive. This includes parents downsizing properties. Tax concessions could be offered so that parents can transfer money to children without impacting on parent's financial arrangements (retain access to a pension, concession card etc).

New Negative Gearing finance limited to new additional housing

Another policy that could add to investment in supply is limiting the application of negative gearing to new greenfield housing development or redevelopments that increased the housing supply till the market has delivered sufficient new housing to the market (for example for a period of 5 years to help meet the governments housing targets). To minimise market disruptions existing negatively geared properties could be grandfathered with only housing that increased the housing supply would be eligible for future negative gearing arrangements.

This would boost confidence in the construction sector, drive new investment, and improve housing affordability, while expanding the overall supply of housing.

Doing more with less - increased innovation in timber products

Policies are needed to encourage increased innovation in timber products. For example, engineered wood products are an important input into housing construction and ensure that lower grade timber is used efficiently. This increases yields for producers while displacing imports of similar products. It is important that funding is provided so that research into new and novel products continues. It also allows the better utilisation of timber resources such as lower grade products and wood processing residues.

Modern methods of construction (MMC) mean using a variety of alternate construction methods, rather than traditional onsite construction. This includes prefabricated timber components that can be produced offsite, modular or volumetric dwellings, 3D printing, and robotics.

This can be a game changer, reducing emissions, increasing efficiency while delivering housing at scale. New dwellings are also finished more quickly, and at a much lower cost.

Affordable housing

The housing construction sector is the engine room for growth and jobs in Australia's economy. Australia's timber processing industry supplies the vast majority of the renewable timber products for homes built in Australia and a substantial share of multi-unit and commercial construction.

Investment by Federal and State governments in social and affordable housing programs, and the use of renewable timber solutions for their construction, capitalises on the multiple benefits of biophilic design.

AFPA suggest that the Government engage with superfunds and other relevant co-investors to invest in timber plantations that will supply inputs to build affordable housing.

These measures will not only positively impact jobs, businesses, and communities right across Australia, they will also help to meet Australia's emissions targets. In addition, they will support the broader construction supply chain and put downward pressure on housing prices.

Thank you for providing AFPA with the opportunity to provide this submission. If you have any questions regarding this submission, please contact Richard Hyett, Director of Policy via email [REDACTED]