

18 May 2016

The Hon. Curtis Pitt MP
Queensland Treasurer
GPO Box 611
Brisbane QLD 4001


Dear Treasurer

As you put the finishing touches on the State's 2015-16 budget we write in support of your commitment to securing jobs and sustainable economic growth for Queensland.

As you know, the building and construction industry is the cornerstone of the state's economy. It is the number one contributor to gross state product and one of the state's top employers. The industry provides jobs for more than 215,000 Queenslanders (ABS). But the importance of the industry goes beyond numbers. Building contractors bring us the homes, workplaces, schools, hospitals and shops essential to our communities.

The building and construction industry is an industry facing challenges. Demand is patchy. While in the south east building approvals are up, many of the regions are struggling. The non-residential sector remains flat and is struggling to recover in any meaningful way. The Master Builders Survey of Industry Conditions has identified a lacklustre level of demand as a major constraint on the industry going on for five years.

Much of the current demand is being driven by investors looking for new units. There has been little growth in demand by owner occupiers. This is because new housing is often unaffordable for home owners. When surveyed, two thirds of builders reported that the affordability of housing was negatively impacting demand. Those seeking to buy their own home are left to compete over existing housing, bidding up prices and further decreasing affordability. The Australian Bureau of



Statistics reports that currently, only just over a tenth of the money loaned for housing goes toward the construction of new dwellings.

Builders' are responding to the affordability challenge by squeezing margins, often to unsustainable levels. We need to find new ways to drive down or at least contain the cost of new construction. In doing this government needs to look to the role it plays in the adding to the cost of construction. A report by Urbis (2011) found that anywhere between 14-22 percent of the cost of a new home can be due to government taxes, duties and charges.

As a result of these challenges, employment in the industry has been falling. From a peak in 2008 - 31,000 construction jobs have been lost. At the same time apprenticeship uptake has been falling and of those who take on an apprenticeship, 50 percent fail to complete their training.


As we move into the new financial year, we need to do more to ensure that the building and construction industry is able to continue in its role as the cornerstone of the Queensland economy. More needs to be done to shift housing investment in favour of new construction.

Government can start by taking a close look at its own taxes and charges, in particular stamp duty which adds to the cost of new construction and erodes affordability.

End the 'double-dip' on transfer duty (stamp duty) arrangements for new residential development.

In the case of a 'house and land' package the builder needs to buy the land and pay stamp duty. They then build the house and when their customer purchases the completed 'house and land' package they pay stamp duty again - this time on the total cost of the house and land. If they were to buy the land and then contract a builder separately, they would only have to pay stamp duty once on the land. There would be no stamp duty due on the cost of construction.

This double-dip in stamp duty for 'house and land' packages is an additional \$16,000 on an average \$500,000 project. This often makes them unviable.



There is also an efficiency loss in that there is a barrier to getting out in front and building 'speckies', giving trade contractors a steady run of work. Customers miss out on the opportunity to buy a new home without the extra challenge and time it takes to contract a build themselves.

More must be done to encourage support for new public infrastructure funding models, increasing targeted capital investment.

While government funding remains constrained, innovative infrastructure funding models are needed to unlock new investment and new opportunity. Targeted infrastructure investment can stimulate demand both directly and through its enabling effect. There is an opportunity for the government to look to new investment models, such as the UK City Deals program, to tap new sources of infrastructure funding. Prudent borrowing should be considered for infrastructure investment with a high return.

If we are to realise the goals of more affordable housing and more jobs we need to tackle the challenges of low demand, high costs and the high risks of doing business. While these challenges are complex and multi-faceted, we believe that taking action on both the 'stamp duty double-dip' and the infrastructure investment will deliver immediate and significant benefits for both our industry and Queensland.

We wish you all the best as you finalise this year's budget and look forward to continuing to work with you towards a strong and sustainable Queensland.

Regards,



Grant Galvin
Executive Director