The home of building

21 April 2017

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

Dear Treasurer

I am writing on behalf of Master Builders' membership in relation to the 2017-18 State Budget, in particular measures to drive activity in both the residential and commercial construction sectors.

Master Builders commends the Queensland Government for its commitment to employment growth. Jobs are important to the industry both as the state's largest provider of full-time employment and as a fundamental underpinning of demand for new construction. Employment growth is central to the long-term health of our industry.

The building and construction industry is facing challenges. Beyond the current pipeline of work, future demand is unclear. In the south east, building approvals are trending down and many of the regions continue to struggle. The non-residential sector remains flat, unable 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 six years.

Much of the current demand has being driven by investors looking for new units. There has been little growth in demand by owner occupiers with new housing often unaffordable for home owners. When surveyed, two thirds of builders reported that the affordability of housing was negatively impacting demand. The Australian Bureau of Statistics reports that currently, only just over a tenth of the money loaned for real estate goes towards new construction. Those seeking to buy their own home are left to compete over existing housing, bidding up prices and further decreasing affordability.

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. There are reports that anywhere between twenty and forty percent of the cost of a new home is due to government taxes, duties and charges.

As we move into the new financial year, we are urging the government 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 make new housing affordable and more needs to be done to shift investment in favour of new construction.

We therefore ask that as you bring together the 2017-18 budget that you consider the following.

Capital Investment

A planned building infrastructure programme that identifies the pipeline of projects and unlocks additional investment is essential. Targeted building investment can stimulate demand both directly and through its enabling effect. There is an opportunity now, as the industry comes off the record high of demand for inner city units, for public and private investors to embark on cost effective building projects. The industry is 'geared up' and looking for new sources of work. Identifying new demand for construction at this time will also avoid losing capacity and jobs to the southern states.

The cut back in the government's building capital program has significantly hampered the commercial construction sector. Australian Bureau of Statistics data has non-residential building work completed by the public sector in 2016 sitting at a near record low of $1.0 billion. A major drop from the $4.2 billion peak recorded in the twelve months to March 2011. The current year's (2016-17) capital program budget of $10.7 billion is one of the lowest that the state has seen for years. The investment is not coming from the private sector either, with the Queensland Major Projects Pipeline report showing that in 2016/2017, major project activity fell to $4.9 billion, the lowest level since 2009/10.

Innovative funding models are needed to unlock new investment and new opportunity. As has been shown with Queen's Wharf and the Townsville City Deal there is a leadership role for government to look to new investment models to tap new sources of infrastructure funding. The money must be found for transformational projects such as Cross River Rail. Prudent borrowing should be considered for infrastructure investment such as this with a high return.

Master Builders commends the government for its effort to support market-led proposals. More work, however, is needed in this area. Of the 80 preliminary proposals, only four have proceeded to the detail proposal stage. There is clearly more opportunity here still to be tapped.

In addition to finding more funding for building projects, the government needs to ensure that the money allocated in its budget is indeed spent. The 2016-17 Capital Statement reports a 19% underspend on the previous years' budget. This is nearly $2 billion. The capital budget for 2017-18, once allocated must be spent.

The money the government spends must also be to the greatest effect. Bid costs for government tenders need to be minimised. This can be achieved by finalising the government's long awaited procurement policy and carefully quantifying the costs of additional requirements, such as project bank accounts, on government projects before they are implemented.

Transfer Duty

Another one of the levers that the state government has control of is transfer duty. Transfer duties discourage the turnover of housing, distort choices between renting and buying, as well as acting as a disincentive for the ageing population to downsize. The result is reduced investment in the housing market. Master Builders believes that changes are necessary to lower this burden and refocus housing demand.

While we recognise the central role the tax plays in the Queensland's government revenue base, there is an opportunity to address a particularly inefficient aspect of transfer duties. The way they are levelled on house and land packages.

For a typical house and land package, a builder buys the land, paying transfer duty on the purchase price. When the builder's customer purchases the completed house and land package they again pay transfer duty, this time on the combined cost of the house and land. The result is that transfer duty is paid twice on the land as well as the cost of construction.

If the same house and land package were to be delivered through separate land and construction contracts the transfer duty would only be paid once, on the land. There is no transfer duty payable 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.

Master Builders therefore calls on the government to end the 'double-dip' on transfer duty (stamp duty) arrangements for new residential development.

- → Transfer duty should only be paid once on the land.
- → The cost of construction should be exempt from transfer duty.

First Home Owner's Grant

The boost in the Queensland First Home Owners' Grant to $20,000 has been an important tool in bringing first home owners into the market. While it is important to have an end date to encourage action, we believe that ending the program this financial year is premature.

Housing demand is only beginning to shift in favour of owner occupiers. We believe that more first home owners can be encouraged to consider a new build as demand for inner city units, and with it investment housing, slackens.

We believe that together, retaining the boost to the first home-owners grant, increasing infrastructure spending and revisiting transfer duty, will increase demand for new construction, creating a wave of investment and jobs. Queensland will also be in a stronger position to attract more investment from interstate and overseas.

We look forward to continuing to work with you towards building a stronger, prosperous economy for Queenslanders.

Regards,

Grant Galvin
CEO