Parliamentary Budget Office

Policy costing

Public property developer		
Person/party requesting the costing:	Mr Adam Bandt MP, Australian Greens	
Date costing completed:	1 March 2024	
Expiry date of the costing:	Release of the next economic and fiscal outlook report.	
Status at time of request:	Submitted outside the caretaker period	
	☒ ~~Confidential~~ – *Authorised for public release on 7 March 2024*	☐ Not confidential

Summary of proposal:

Under the proposal, the Australian Government would act as a public property developer, building homes and selling them at close to cost, or retaining them to rent out as public or affordable housing.

- 70% of the homes built by the public developer would be available to rent:
  - Rent would be capped at 25% of the national average household income
  - A quota of 20% of homes available to rent would be allocated to the lowest income quintile.
- 30% of the homes built by the public developer per year to be sold to owner-occupiers at 5% over the cost of procurement, only eligible to those with no interest in real estate:
  - Properties can only be resold back to the government at the cost price + CPI

State and territory and local taxes such as stamp duty or land tax, would be waived.

The profile of dwellings is detached housing 20%, townhouses 20%, medium density/low rise 50% and high rise 10%. The locations of dwellings is per the share of needed growth reported in Table 11 of *Social housing as infrastructure: an investment pathway* by the Australian Housing and Urban Research Institute (the AHURI report).

Delivery of homes by the public developer would be 360,000 homes over the five years from 1 July 2024, and then 50,000 homes per year for the following five years, with market construction costs for each home.

The public property developer would operate under a new Commonwealth Department of Sustainable Cities, Development and Housing.

The request also sought additional information related to the proposal:

- A comparison between the average cost of a home purchased from the government property developer, and the average cost of a home purchased on the private market; the benefit to those who are able to purchase a home from the public developer; and the number of people who would benefit.

- A comparison between the rental rate charged by someone renting from the public developer, and the relevant private market rental costs.
- The geographic impact of the policy, by state and territory.
- Distributional impacts across the population.

The proposal is ongoing and would be in effect from 1 July 2024.

Costing overview

Over the 2023-24 Budget forward estimates period (Table 1), the proposal would be expected to decrease the:

- fiscal balance by around $6.5 billion
- underlying cash balance by around $5.8 billion
- headline cash balance by around $104 billion.

The impacts on the fiscal and underlying cash balances mainly reflect an increase in the public debt interest (PDI) for the annual equity funding for the property developer to construct dwellings. These are partially offset by an increase in revenue from rental returns. The substantially larger decrease in the headline cash balance reflects the annual equity funding required to acquire land and construct dwellings, partly offset by the sales revenue from owner-occupiers from 2025-26.

The proposal would have an impact beyond the 2023-24 Budget forward estimates period. A breakdown of the financial implications over the period to 2033-34 is provided at Attachment A. Additional information related to the proposal is provided at Attachment B.

The financial implications of the proposal are highly uncertain and very sensitive to the assumptions outlined below including negotiations with state and territory governments, the speed of approvals, capacity within the construction industry, the cost of land and dwelling construction, the uptake by households of the dwellings delivered under the proposal and annual operating costs.

It is also assumed that the public property developer would be able to achieve costs consistent with market rates for land and construction of apartments, low-rise/medium density, townhouses and detached housing across Australian states and territories.

The impact of this proposal on property markets is highly uncertain and the Parliamentary Budget Office (PBO) has not made any assessment of flow-on impacts on property prices, rents or the supply and demand of residential properties in this costing. Additionally, the PBO has not undertaken any analysis of if or how state and territory governments would contribute to the proposed policy, such as by allowing the waiving of state and territory or local taxes such as stamp duty or land tax. Past experience has shown that the Australian Government often has to make adjustments to policy to ensure state and territory governments agree to participate. There is a significant risk that arrangements between the Australian government and the state and territory governments would not be agreed to prior to the policy implementation date.

Consistent with *PBO Guidance 02/2015*, public debt interest expense impacts have been included in this costing because the equity injections provided to the public property developer under this proposal involve financial asset transactions.

Table 1: Public property developer – Financial implications ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	**Total to 2026-27**
Fiscal balance	-	-964.0	-2,435.0	-3,141.0	**-6,540.0**
Underlying cash balance	-	-864.0	-2,135.0	-2,841.0	**-5,840.0**
Headline cash balance	-	-36,764.0	-36,443.0	-30,734.0	**-103,941.0**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.
- Indicates nil.

Key assumptions

The Parliamentary Budget Office (PBO) has made the following assumptions in costing this proposal.

- The public property developer would be able to achieve land and construction costs consistent with average market rates.
  - The cost of construction would grow over the medium term in line with the dwelling investment implicit price deflator projected by the Treasury as at the 2023-24 Mid-Year Economic and Fiscal Outlook (MYEFO).
  - The costs of land acquisition would grow over the medium term in line with nominal GDP as projected by the Treasury at the 2023-24 MYEFO.
- There would be sufficient capacity within the building industry to construct dwellings up to the number specified in each state and territory, on an ongoing basis.
- Agreements would be reached with state and territory governments for the waiving of state and territory and local taxes such as stamp duty or land tax.
- As a result of timing lags in construction, the first residential tenancies and property sales would begin in 2026 following construction commencements in 2024-25.
  - This is informed by data from the Australian Bureau of Statistics, which indicate construction lags of 18, 24 and 36 months for freestanding dwellings, low-rise and townhouses, and apartments, respectively.
- All residential tenancies would be filled and all properties available for sale would be purchased, over the span of the policy.
  - 5% of properties sold to individuals would be resold back to the Government each year, in line with average property turnover rates in Australia. The Government would then resell these properties to other individuals within the same financial year, with nil net financial impact of the repurchase and subsequent resale.
- Household income would grow in line with projections for average weekly earnings from the 2023-24 MYEFO.
- Annual property repair costs once completed would be around 1% of the estimated cost to construct each dwelling (costs incurred for the 70% rental properties only), and property management fees incurred by the Commonwealth Department of Sustainable Cities, Development and Housing would represent a portion of rental income based on an average of fees in each Australian state.

- The department costs and staffing profile to deliver this proposal would reflect a service delivery agency of an appropriate scale to administer the scheme.
  - In the first year of the proposal, departmental costs would be double the ongoing annual costs, due to start-up costs such as establishing staffing resources, program teams and state and territory government engagement.
- Tenants of properties available for rent would be evenly distributed between income quintiles, including the quota of 20% to the lowest income quintile as specified.

Methodology

The administered expenses were estimated as follows:

- The equity amount required for the public property developer to purchase land and construct dwellings was estimated and indexed as specified in the proposal.
- The average land and construction costs per dwelling were estimated based on:
  - the cost of the average land requirement for each dwelling type in each geographic location from the Urban Development Institute of Australia *State of the Land 2023* report.[1]
  - the average cost to construct each dwelling type in each geographic location from ABS data on market costs, taking into account construction timing lags reported by the ABS and the relevant price inflation over time projected by the Treasury.
- The number of dwellings that would be constructed in each state and territory was estimated using the share of needed growth projected in the AHURI report, and then combined with the composition of dwelling types provided in the specification, to determine the number of each property type to be constructed in each state and territory.
- Rental income was estimated by multiplying the number of dwellings constructed by the rent amounts calculated as per the specification. Property repair costs and property management fees were also calculated and included in the financial impacts.
- Annual property sales revenue was calculated by increasing the value of constructed properties by 5% per the specification.

The departmental expenses were calculated based on the estimated APS workforce required to deliver the proposal, informed by similar organisations.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[2]

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[1] Urban Development Institute of Australia (2023) *State of the Land 2023*, accessed 1 March 2024

[2] https://www.pbo.gov.au/for-parliamentarians/how-we-analyse/pbo-rounding-rules

Data sources

The Department of Finance and the Treasury provided economic parameters as at the 2023-24 MYEFO.

Australian Bureau of Statistics (2019) *Average dwelling completion times*, accessed 1 March 2024

Australian Bureau of Statistics (2020) *Characteristics of new residential dwellings - A 15 year summary*, accessed 1 March 2024

Australian Bureau of Statistics (2022) *Household Income and Wealth, Australia*, accessed 1 March 2024

Australian Housing and Urban Research Institute Limited (2018) *Social housing as infrastructure: an investment pathway*, accessed 1 March 2024

CoreLogic Australia (2023) *Monthly Housing Chart Pack – November 2023*, accessed 1 March 2024

Mozo (2024) *What is the average rent in Australia in 2024?*, accessed 1 March 2024

Property Update (2024) *The Latest Median Property Prices in Australian Cities*, accessed 1 March 2024

Reserve Bank of Australia (2010) *Housing Turnover and First-home Buyers*, accessed 1 March 2024

Urban Development Institute of Australia (2023) *State of the Land 2023*, accessed 1 March 2024

Which Real Estate Agent (2023) *Property Management Fees*, accessed 1 March 2024.

Attachment A – Public property developer – financial implications

Table A1: Public property developer – Fiscal balance ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Non – tax revenue													
Administered non-tax													
Rental income from public property developer	-	-	100.0	900.0	2,300.0	3,900.0	5,600.0	7,300.0	9,000.0	10,500.0	12,200.0	**1,000.0**	**51,800.0**
Profit from property sales	-	-	108.0	493.0	566.0	585.0	605.0	587.0	468.0	464.0	480.0	**601.0**	**4,356.0**
Total – revenue	**-**	**-**	**208.0**	**1,393.0**	**2,866.0**	**4,485.0**	**6,205.0**	**7,887.0**	**9,468.0**	**10,964.0**	**12,680.0**	**1,601.0**	**56,156.0**
Expenses													
Administered													
Funding to property developer for property management and maintenance	-	-	-60.0	-350.0	-730.0	-1,130.0	-1,540.0	-1,950.0	-2,300.0	-2,640.0	-3,000.0	**-410.0**	**-13,700.0**
Total – administered	**-**	**-**	**-60.0**	**-350.0**	**-730.0**	**-1,130.0**	**-1,540.0**	**-1,950.0**	**-2,300.0**	**-2,640.0**	**-3,000.0**	**-410.0**	**-13,700.0**
Departmental													
Establishment and staffing costs for public property developer	-	-164.0	-83.0	-84.0	-85.0	-86.0	-88.0	-89.0	-90.0	-91.0	-92.0	**-331.0**	**-952.0**
Total – departmental	**-**	**-164.0**	**-83.0**	**-84.0**	**-85.0**	**-86.0**	**-88.0**	**-89.0**	**-90.0**	**-91.0**	**-92.0**	**-331.0**	**-952.0**
Total – expenses	**-**	**-164.0**	**-143.0**	**-434.0**	**-815.0**	**-1,216.0**	**-1,628.0**	**-2,039.0**	**-2,390.0**	**-2,731.0**	**-3,092.0**	**-741.0**	**-14,652.0**
Total (excluding PDI)	**-**	**-164.0**	**65.0**	**959.0**	**2,051.0**	**3,269.0**	**4,577.0**	**5,848.0**	**7,078.0**	**8,233.0**	**9,588.0**	**860.0**	**41,504.0**
PDI impacts	**-**	**-800.0**	**-2,500.0**	**-4,100.0**	**-5,500.0**	**-7,000.0**	**-8,200.0**	**-9,200.0**	**-10,200.0**	**-11,400.0**	**-12,600.0**	**-7,400.0**	**-71,500.0**
Total (including PDI)	**-**	**-964.0**	**-2,435.0**	**-3,141.0**	**-3,449.0**	**-3,731.0**	**-3,623.0**	**-3,352.0**	**-3,122.0**	**-3,167.0**	**-3,012.0**	**-6,540.0**	**-29,996.0**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Public property developer – Underlying cash balance ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Non-tax receipts													
Administered non-tax													
Rental income from public property developer	-	-	100.0	900.0	2,300.0	3,900.0	5,600.0	7,300.0	9,000.0	10,500.0	12,200.0	1,000.0	51,800.0
Profit from property sales	-	-	108.0	493.0	566.0	585.0	605.0	587.0	468.0	464.0	480.0	601.0	4,356.0
Total – receipts	-	-	208.0	1,393.0	2,866.0	4,485.0	6,205.0	7,887.0	9,468.0	10,964.0	12,680.0	1,601.0	56,156.0
Payments													
Administered													
Funding to property developer for property management and maintenance	-	-	-60.0	-350.0	-730.0	-1,130.0	-1,540.0	-1,950.0	-2,300.0	-2,640.0	-3,000.0	-410.0	-13,700.0
Total – administered	-	-	-60.0	-350.0	-730.0	-1,130.0	-1,540.0	-1,950.0	-2,300.0	-2,640.0	-3,000.0	-410.0	-13,700.0
Departmental													
Establishment and staffing costs for public property developer	-	-164.0	-83.0	-84.0	-85.0	-86.0	-88.0	-89.0	-90.0	-91.0	-92.0	-331.0	-952.0
Total – departmental	-	-164.0	-83.0	-84.0	-85.0	-86.0	-88.0	-89.0	-90.0	-91.0	-92.0	-331.0	-952.0
Total – payments	-	-164.0	-143.0	-434.0	-815.0	-1,216.0	-1,628.0	-2,039.0	-2,390.0	-2,731.0	-3,092.0	-741.0	-14,652.0
Total (excluding PDI)	-	-164.0	65.0	959.0	2,051.0	3,269.0	4,577.0	5,848.0	7,078.0	8,233.0	9,588.0	860.0	41,504.0
PDI impacts	-	-700.0	-2,200.0	-3,800.0	-5,300.0	-6,700.0	-8,000.0	-9,000.0	-10,100.0	-11,200.0	-12,400.0	-6,700.0	-69,400.0
Total (including PDI)	-	-864.0	-2,135.0	-2,841.0	-3,249.0	-3,431.0	-3,423.0	-3,152.0	-3,022.0	-2,967.0	-2,812.0	-5,840.0	-27,896.0

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Public property developer – Headline cash balance ($m)[(a)]

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34	Total to 2026-27	Total to 2033-34
Non-tax receipts													
Administered non-tax													
Rental income from public property developer	-	-	*100.0*	*900.0*	*2,300.0*	*3,900.0*	*5,600.0*	*7,300.0*	*9,000.0*	*10,500.0*	*12,200.0*	***1,000.0***	***51,800.0***
Income from property sales	-	-	*2,300.0*	*10,300.0*	*11,900.0*	*12,300.0*	*12,700.0*	*12,300.0*	*9,800.0*	*9,700.0*	*10,100.0*	***12,600.0***	***91,400.0***
Total – receipts	**-**	**-**	**2,400.0**	**11,200.0**	**14,200.0**	**16,200.0**	**18,300.0**	**19,600.0**	**18,800.0**	**20,200.0**	**22,300.0**	**13,600.0**	**143,200.0**
Payments													
Administered													
Funding to property developer for property management and maintenance	-	-	*-60.0*	*-350.0*	*-730.0*	*-1,130.0*	*-1,540.0*	*-1,950.0*	*-2,300.0*	*-2,640.0*	*-3,000.0*	***-410.0***	***-13,700.0***
Funding to property developer for construction and land costs	-	*-35,900.0*	*-36,500.0*	*-37,700.0*	*-39,000.0*	*-40,300.0*	*-28,900.0*	*-29,900.0*	*-30,900.0*	*-32,000.0*	*-33,100.0*	***-110,100.0***	***-344,200.0***
Total – administered	**-**	***-35,900.0***	***-36,560.0***	***-38,050.0***	***-39,730.0***	***-41,430.0***	***-30,440.0***	***-31,850.0***	***-33,200.0***	***-34,640.0***	***-36,100.0***	**-110,510.0**	**-357,900.0**
Departmental													
Establishment and staffing costs for public property developer	-	*-164.0*	*-83.0*	*-84.0*	*-85.0*	*-86.0*	*-88.0*	*-89.0*	*-90.0*	*-91.0*	*-92.0*	***-331.0***	***-952.0***
Total – departmental	**-**	***-164.0***	***-83.0***	***-84.0***	***-85.0***	***-86.0***	***-88.0***	***-89.0***	***-90.0***	***-91.0***	***-92.0***	**-331.0**	**-952.0**
Total – payments	**-**	**-36,064.0**	**-36,643.0**	**-38,134.0**	**-39,815.0**	**-41,516.0**	**-30,528.0**	**-31,939.0**	**-33,290.0**	**-34,731.0**	**-36,192.0**	**-110,841.0**	**-358,852.0**
Total (excluding PDI)	**-**	**-36,064.0**	**-34,243.0**	**-26,934.0**	**-25,615.0**	**-25,316.0**	**-12,228.0**	**-12,339.0**	**-14,490.0**	**-14,531.0**	**-13,892.0**	**-97,241.0**	**-215,652.0**
PDI impacts	**-**	***-700.0***	***-2,200.0***	***-3,800.0***	***-5,300.0***	***-6,700.0***	***-8,000.0***	***-9,000.0***	***-10,100.0***	***-11,200.0***	***-12,400.0***	**-6,700.0**	**-69,400.0**
Total (including PDI)	**-**	**-36,764.0**	**-36,443.0**	**-30,734.0**	**-30,915.0**	**-32,016.0**	**-20,228.0**	**-21,339.0**	**-24,590.0**	**-25,731.0**	**-26,292.0**	**-103,941.0**	**-285,052.0**

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

\- Indicates nil.

Attachment B – Public property developer – additional information

Table B1: Average dwelling cost comparison – public property developer and private market 2024-25

	Public property developer ($)	Private market[(a)] ($)	*Difference ($)*	*Number of individuals benefitting[(b)]*
Average cost	523,275	783,432	*260,157*	*187,200*

(a) Private market average projected as national median dwelling value as at February 2024, grown by CPI to 2024-25.

(b) Individuals benefitting calculated as number of dwellings with construction commencing in 2024-25, multiplied by average dwelling occupancy of 2.6 as reported by ABS: Housing Occupancy and Costs, 2019-20 financial year | Australian Bureau of Statistics (abs.gov.au)

Table B2: Average rent comparison – public property developer and private market 2025-26 ($)

	Public property developer	Private market[(a)]
Australian average rent	508	630

(a) Private market average rent projected as the national median dwelling rent as at February 2024, grown by the rental deflator as at 2023-24 MYEFO to 2025-26 (first year of residential tenancies).

Table B3: Dwelling construction commencements by state and territory 2024-25[(a)]

	Construction commencements in 2024-25
NSW	*21,046*
VIC	*16,431*
QLD	*17,370*
WA	*8,576*
SA	*4,973*
TAS	*1,370*
ACT	*864*
NT	*1,370*
Total	**72,000**

(a) Refers to dwellings where construction has commenced. Timing lags in construction mean that apartment commencements are assumed to be completed in 36 months; townhouse and low-rise/medium-density commencements assumed to be completed in 24 months; and free-standing commencements assumed to be completed in 18 months.

Table B4: Analysis of target population for properties available to rent and purchase – gender and age[(a)]

	Male	Female	**Total**
15-24	*15%*	*15%*	**30%**
25-34	*12%*	*12%*	**24%**
35-44	*8%*	*8%*	**16%**
45-54	*5%*	*6%*	**11%**
55-64	*4%*	*4%*	**9%**
65-74	*3%*	*3%*	**6%**
75-85	*2%*	*3%*	**5%**
Total	**49%**	**51%**	**100%**

(a) Analysis calculated as gender and age of respondents in the 2019-20 Survey of Income and Housing, excluding respondents who reported owning a property either with or without a mortgage, therefore capturing the target population per the specification.

Table B5: Analysis of target population for properties available to rent and purchase – income quintiles[(a)]

	Proportion
1st quintile – lowest income quintile	*26%*
2nd quintile	*21%*
3rd quintile	*21%*
4th quintile	*19%*
5th quintile – highest income quintile	*12%*
Total	**100%**

(a) Analysis calculated as proportions of respondents in each overall income quintile in the 2019-20 Survey of Income and Housing, excluding respondents who reported owning a property either with or without a mortgage, therefore capturing the target population per the specification.