

22 September 2008

The Hon. Kevin Rudd MP
Prime Minister
Parliament House
CANBERRA ACT 2600

Dear Prime Minister

Re: Australia 2020 Summit

The Urban Taskforce is an industry organisation representing Australia's most prominent property developers and equity financiers. We congratulate the Government on the 2020 Summit held earlier this year. The Urban Taskforce has reviewed the Summit reports and has noted this statement in the final report:

We could transform the ecological footprint of the built environment by taking the lead on national planning, building and product standards ... A particular initiative at this point could be to require carbon neutrality for all new buildings constructed beyond 2020.¹

There is no doubt that we are experiencing worldwide climate change and that Australia, being a "dry" continent, will most likely feel the effects of changing weather patterns more than other nations. The Urban Taskforce supports a progressive reduction in carbon emissions, based on a carbon emissions trading scheme ("the Carbon Pollution Reduction Scheme"). However, the suggestion that all new buildings constructed beyond 2020 should be carbon neutral runs counter to the general thrust of government policy.

The Carbon Pollution Reduction Scheme is about incentives for the private sector to pursue the most economically efficient method for reducing carbon emissions. By putting a price on carbon, the private sector is encouraged to pursue more carbon efficient alternatives when the additional cost of doing so is below the carbon price. The government has sensibly proposed a cap on the carbon price at various stages of the scheme to limit the impact of the scheme on the broader economy.

A directive requiring all buildings to be carbon neutral by 2020 is the opposite approach. It requires the private sector to pursue zero carbon technologies irrespective of the cost impacts. It literally could be the equivalent of putting a \$200-\$300 price on carbon in the building sector, while other sectors of the economy face a \$20 carbon price. The cost of implementing such policy will drastically impact upon housing affordability and reduce the attractiveness of commercial and industrial development.

The housing market has been supply constrained for an extended period of time. There is a need for at least an additional 40,000 dwellings a year to come close to meeting underlying housing demand.² Nationally, we need to be building approximately 170,000 new homes each year just to keep up with increases in demand and we are not getting even close to this figure.³ New dwelling

¹ Population, sustainability, climate change, water and the future of our cities stream of the *2020 Final Report* (May 2008).

² HIA (2008) *Monetary Policy Overcooked*. 9 July.

³ HIA (2008) *National Outlook*, March quarter. March 2008.

starts are forecast to be down by 6 per cent in 2008/09, marking an unprecedented fifth year in a row when new home building has failed to recover.⁴

The supply of new housing is falling short of underlying demand, because the household sector cannot afford to pay for a greater volume of new housing. Securing a greater volume of new housing development will require a higher price for the end product. This price would be beyond the financing capacity of the household sector and therefore the additional required housing remains unbuilt.

This in turn means that high costs of development are preventing Australians from accessing the same level of housing they enjoyed in the past. For example, new families are being formed, but they are still sharing with others instead of getting their own home. Older people who previously may have had an expectation of living independently, are finding that they must now share their accommodation with the broader family. Single professionals in the 30-40 age group are finding that they must now live in a share house, rather than live alone.

Any additional impost on the costs of development will unnecessarily further drive down the available supply of new housing. This will have further adverse social impacts, but it will also have profound environmental costs. As newer property assets are generally more carbon efficient than older assets, the reduction in property development may result in increased carbon emissions when compared to the business-as-usual scenario.

Imposing different effective carbon prices on different parts of the economy will create a whole series of inconsistencies and definition problems. For example, would industrial buildings, commercial buildings, retail buildings and residential buildings all be subject to the same rules? If so, then making an industrial building carbon neutral may effectively sterilise vast swathes of the Australian industry. That is, heavy industry inside a building would need to be carbon neutral, but heavy industry outside a building would not be faced with the same requirement.

If, on the other hand, an industrial building was assessed for carbon neutrality as an 'empty shell' (i.e. disregarding its future use) then why shouldn't commercial and residential buildings be assessed in the same way? That is, why should household and commercial tenants be forced to pay a higher price to reduce carbon emissions than the industrial sector?

It is desirable that new buildings be more sustainable than older stock. Sustainability certainly involves increased energy efficiency in building operation, but also involves increased water efficiency and may also be a factor in the choice of construction materials. While regulation may have a role to play (see, for example, the BASIX program in NSW) sustainability is best achieved through the normal operation of the market. For instance, commercial tenants are demanding more energy efficient buildings and ever higher green star ratings without a heavy layer of regulation. When the carbon trading system commences, carbon intensive building materials will be more expensive than equivalent more carbon efficient materials. This will in turn influence the decisions of developers.

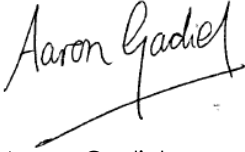
One way to reduce the carbon footprint of urban development is to permit increased residential density in areas that are well serviced by public transport infrastructure and/or close to jobs. Government can help this occur best by removing restrictions in the planning system that prevent this kind of density from occurring and by funding the creation of new public transport networks. This approach involves permitting something that people (i.e. developers and home buyers) want to do - rather than trying to compel them to do something they cannot afford to do.

⁴ HIA (2008) *Housing Report Card*. 19 August 2008.

The Urban Taskforce looks forward to continued dialogue with the Government and if I can be of any further assistance, please feel free to contact me on telephone number (02) 9238 3955 or email: admin@urbantaskforce.com.au

Yours sincerely

Urban Taskforce Australia

A handwritten signature in black ink that reads "Aaron Gadiel". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Aaron Gadiel
Chief Executive Officer