

THE ECONOMIC CASE FOR INVESTING IN SOCIAL & AFFORDABLE HOUSING

Final report
21 July 2023



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EXECUTIVE SUMMARY

KEY FINDINGS

There is an estimated gap of 750,700 social and affordable dwellings in 2023.

This includes a gap of 190,900 social dwellings and 559,800 affordable dwellings.

The total gap has grown by 114,000 (18%) since 2014 and is expected to grow by another 196,200 (26%) by 2041.

Unmet demand for social and affordable housing is estimated to have increased from 5.6% of total households in 2008 to 7.3% in 2023

Closing the housing gap could have significant benefits for the Australian economy.

Increased social and affordable housing supply is estimated to lower rental prices and have a limited impact on property prices.

The impact of lower rents and prices to inflation is marginal with no meaningful change by 2041.

There are additional benefits of closing the housing gap including reduction in homelessness, improved productivity, economic growth and better health outcomes.

Closing the housing gap requires an investment of \$511 billion (nominal).

The total investment is based on 52,600 dwellings being built every year between 2023 and 2041.

The cost of construction is expected to increase over the forecast period adding to the required investment.

The required investment can be reduced by bringing forward construction activity to limit the increasing cost of construction, noting capacity constraints in the sector.

Revenue from a super profits tax could fund the required investment to close the housing gap.

An economy-wide super profits tax could fund the \$28 billion per annum required to 'close the housing gap' in social and affordable housing by 2041.

A super profit tax levied solely on mining projects could fully fund the \$93 billion that would be required to close the gap in social housing by 2033 as well as 12% of the affordable housing gap.

A super profits tax is estimated to represent about 3% of current government revenue receipts.

Current government policies are not enough to close the housing gap.

Australia's state and territory governments have announced an estimated 30,000 new social dwellings earmarked for completion over the next five years.

The current Federal Government's proposed Housing Australia Future Fund aims to provide 20,000 social houses and 10,000 affordable houses.

These policy aims are still well shy of the 750,700 dwellings needed to fill the current housing gap.

The design features of a super profits tax impact the degree of economic distortions.

The benefit of permanent well-designed general excess profit taxes is that they are theoretically efficient, do not discourage investment and automatically tax economic rent without the need to identify profitable sectors during specific episodes.

Targeting excess profits precisely while ensuring sufficient incentives for firms to take on project risks is challenging, particularly where there is variation in business models and production structures, which is why this type of tax is not used more broadly.

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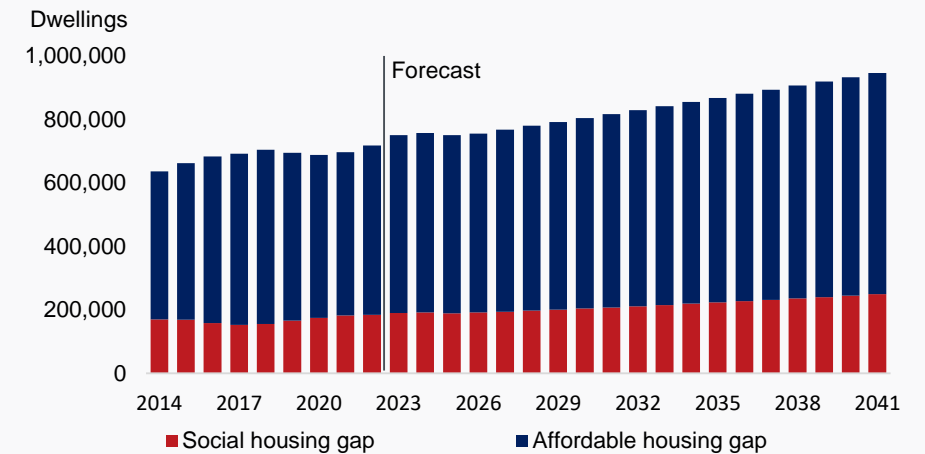
Oxford Economics Australia was engaged by the Construction, Forestry, Maritime, Mining And Energy Union (CFMEU) to explore the economic case for investing in Australia's social and affordable housing, potentially funded by revenue from a super profit tax.

The first part of our analysis quantified the current gap in social and affordable dwellings by estimating unmet demand. We define unmet demand for social and affordable dwellings as renter households in the bottom two income quintiles who are paying more than 30% of their income on housing costs plus those people experiencing homelessness.

Our analysis estimates that there is currently a gap of 750,700 social and affordable dwellings in Australia (the housing gap). This gap is expected to rise to 946,900 if no action is taken to substantially increase the supply of social and affordable dwellings.

Our forecasts are broadly in line with the National Housing Finance and Investment Corporation (2021) estimates of an 866,000 shortfall by 2041 and slightly higher than the 729,000 shortfall in 2036 estimated by Troy et. al. (2019).¹

Total social and affordable housing gap



Source: Oxford Economics

Despite recent announcements for increased investment in the sector, such as the Housing Australia Future Fund (HAFF), there is a significant short-fall in what is planned and what is needed. According to announcements by federal, state and territory governments, an estimated 30,000 new social dwellings are earmarked for completion between FY2022 and FY2027. Beyond FY2027, we have assumed longer-term trends in the supply of this type of housing over the past decade continue.

There are many social and economic benefits of closing the housing gap. Importantly, increased supply of social and affordable dwellings will likely put downward pressure on rental growth which is estimated to moderate to 2.0% per annum compared to our baseline forecast of 2.6% per annum. Meanwhile, forecast median price growth of 4.0% per annum would be tempered slightly to 3.8% with the housing gap fully closed. With minimal impact on house prices and inflation, this is unlikely to hurt investment into the broader property sector.

In addition to property market impacts, research suggests that the provision of social and affordable housing can have additional benefits for the Australian economy. Safe and affordable housing plays an important role in reducing homelessness, improving productivity and economic growth, and driving better health and income equality outcomes.

1. Troy et al. (2019) Estimating need and costs of social and affordable housing delivery, UNSW City Futures Research Centre. Available [here](#).

EXECUTIVE SUMMARY

Our analysis also quantified the investment required to close the housing gap. This considered only the capital investment required to build the required social and affordable dwellings.

The investment required to close the gap is significant and requires long-term revenue streams to ensure ongoing investment into the sector. We estimate an investment of \$511 billion is needed to close the housing gap by 2041, or an average \$28 billion per annum.

Closing the housing gap earlier than 2041 may present some investment savings, but this needs to be considered in connection with the additional pressure it would place on the construction sector.

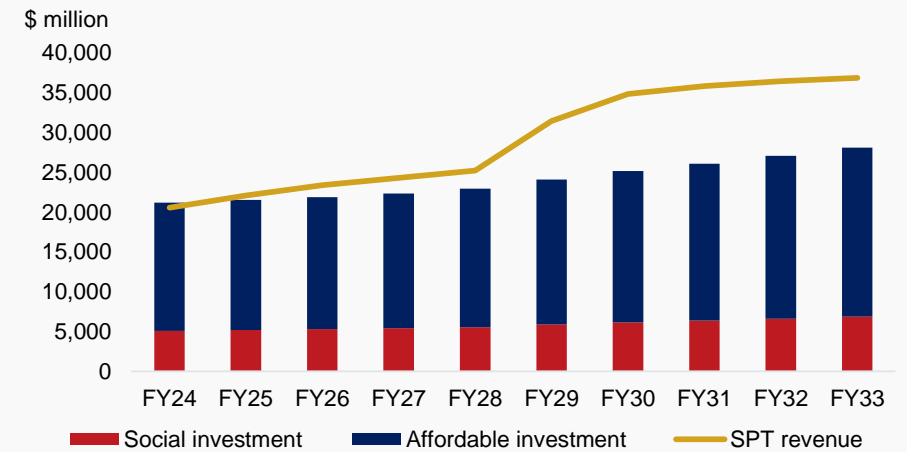
Government investment into the social and affordable housing sector has the capacity to act as a support to the residential construction market. By increasing investment into residential construction during periods of downturn with a relatively smaller role during periods of strong activity, the government can support supply without adding significantly to capacity constraints.

Finally, we considered if a super profits tax could raise the required revenue to fund the level of investment required to close the housing gap.

Our analysis indicates that an economy-wide super profits tax could raise the \$28 billion per annum investment required to close the housing gap in social and affordable housing by 2041. Over the next decade alone, this tax could raise \$290 billion. This includes \$128 billion from mining projects (excluding those already covered by other resource rent taxes) and \$163 billion from non-mining companies with turnover greater than \$100 million.

Theoretically, a permanent well-designed general excess profit tax is efficient and does not discourage investment. Any super profits tax should be designed to be fiscally stable to ensure confidence in the tax system and limit market distortions, since discouraging investment would in turn reduce economic activity, wages, jobs and therefore the social welfare it was designed to promote. In particular, setting a single threshold across all non-mining companies may not take into account the variation in business models and production structures which can result in less efficient outcomes. These factors should be taken into account when considering the potential design of a super profits tax.

Annual revenue vs. investment required to close the gap by 2041



Source: Oxford Economics, Parliamentary Budget Office, Treasury. Note: Annual investment required to close the gap by 2041 in nominal terms.

INTRODUCTION

INTRODUCTION

The purpose of this project is to explore the economic case for investing in Australia's social and affordable housing, potentially funded by revenue from a super profit tax.

This project aimed to answer the following research questions:

1. What is the current and forecast supply-demand gap in social, affordable and total housing stock?
2. How much of the gap is likely to be covered by the Housing Australia Future Fund (HAFF)? If less than 100%, how much further investment is required to 'close the housing gap'?
3. What are the economic impacts of closing the housing gap in social & affordable housing? In particular, what are the impacts on inflation, homelessness and inequality?
4. Could revenue from a super profit tax cover the required investment to 'close the housing gap' in social and affordable housing?
5. Based on academic literature, what is the economic rationale for a tax on "excess" corporate profits? What are the likely costs and benefits?

The rest of this report follows the following structure:

AUSTRALIA'S SOCIAL & AFFORDABLE HOUSING GAP – provides context and forecasts of the stock and investment required to 'close the housing gap' in social and affordable housing.

ECONOMIC IMPACTS OF CLOSING THE HOUSING GAP – explores the impacts of closing the housing gap with a focus on property and rental prices, inflation, and homelessness.

FUNDING THE HOUSING GAP – explores the possibility of introducing a super profits tax to fund the gap in social & affordable housing.

TECHNICAL APPENDIX – gives a high level outline of the approach and key modelling assumptions.

REFERENCES – provides a list of key academic and government sources used in the analysis.

AUSTRALIA'S SOCIAL & AFFORDABLE HOUSING

AUSTRALIA'S SOCIAL & AFFORDABLE HOUSING GAP

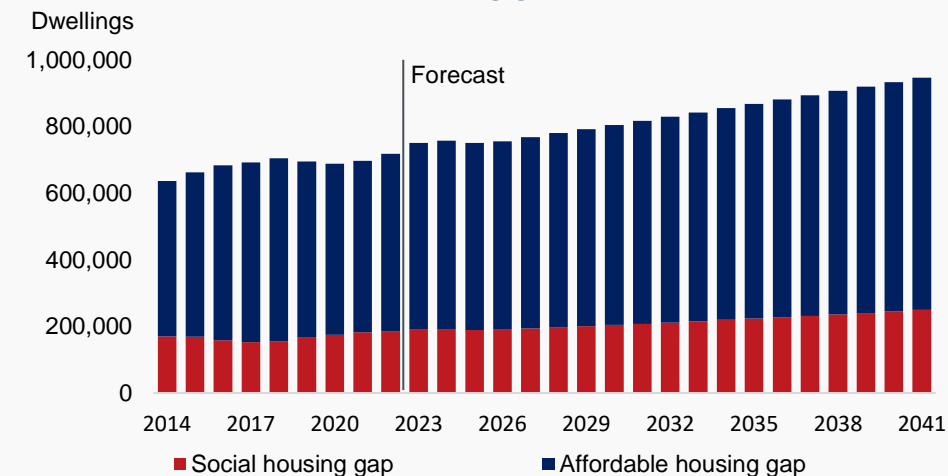
There is an estimated shortage of 750,700 social and affordable dwellings in 2023 - 190,900 social dwellings and 559,800 affordable dwellings. The housing gap is expected to grow to 946,900 dwellings by 2041, reflecting growth of 26% over the next 18 years. This growth is driven by a 31% increase in the social housing gap, and a 25% increase in the affordable housing gap.

For the purposes of this report, those in need of social and affordable housing (or unmet demand) are renter households in the bottom two income quintiles who are paying more than 30% of their income on housing costs.

These forecasts are based on an analysis of a variety of national-level data and are used in this report to understand the scale of the existing shortfall in social and affordable dwellings, along with anticipated future demand for such dwellings over the period to 2041. Supply gap forecasts also underpin estimates of the potential costs involved in developing adequate stock in order to close that gap.

Our forecasts are broadly in line with the National Housing Finance and Investment Corporation (2021) estimates of an 866,000 shortfall by 2040¹ and slightly higher than the 729,000 shortfall in 2036 estimated by Troy et. al. (2019).²

Total social and affordable housing gap



Source: Oxford Economics

Social, affordable and total estimated housing gap

	2014 ³	2023	2041	Historic growth 2014-2023	Future growth 2023-2041
Social housing gap	170,100	190,900	249,700	20,800	58,800
Affordable housing gap	466,600	559,800	697,200	93,200	137,400
Total social and affordable dwelling gap	636,700	750,700	946,900	114,000	196,200

Source: Oxford Economics

1. National Finance Investment Corporation (2021) "Statutory Review: Operation of the NHFIC Act 2018". Available [here](#).
2. Troy et al. (2019) Estimating need and costs of social and affordable housing delivery, UNSW City Futures Research Centre. Available [here](#).
3. First wait list data point published by AIHW National Housing Assistance Data Repository

SOCIAL HOUSING – National overview

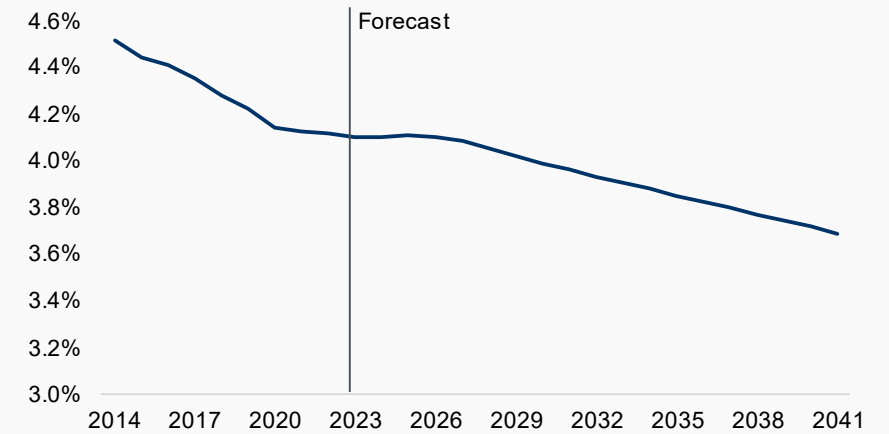
Social housing plays a critical role in supporting individuals and households who do not have the opportunity to access and sustain appropriate housing options in their community. Social housing made up 4.1% of total housing stock in 2023, this figure is estimated to decline to a 3.7% share by 2041, representing a decline of 0.4 percentage points over this period. These figures include the state and federal announced commitments to boost social housing supply from 2022 to 2027, with the general trends in supply driving long-run forecasts.

The current social housing system incorporates public housing, community housing, and state owned and managed indigenous housing (SOMIH). Public housing is a form of subsidised housing that is owned and managed by state and territory governments, community housing is instead owned and managed by Not-for-Profit organisations such as charities and has grown in prominence over recent years. SOMIH is a targeted subsidy toward indigenous households and provided by state and territory governments. Our analysis of social housing takes into account the supply and demand of these components combined.

Between 2014 and 2023, there was an increase in Australia’s dwelling stock of around 1,512,900 compared to an increase of just 22,600 in social dwelling stock (making up only 1.5% of the net change in total dwelling stock). The share of social housing dwelling stock to total dwelling stock has fallen from 4.5% in 2014 to 4.1% in 2023. Relative to a national population which grew by an average of 1.3% per annum from 2014 to 2023, the social housing stock is shrinking, exacerbating issues of homelessness and rental stress.

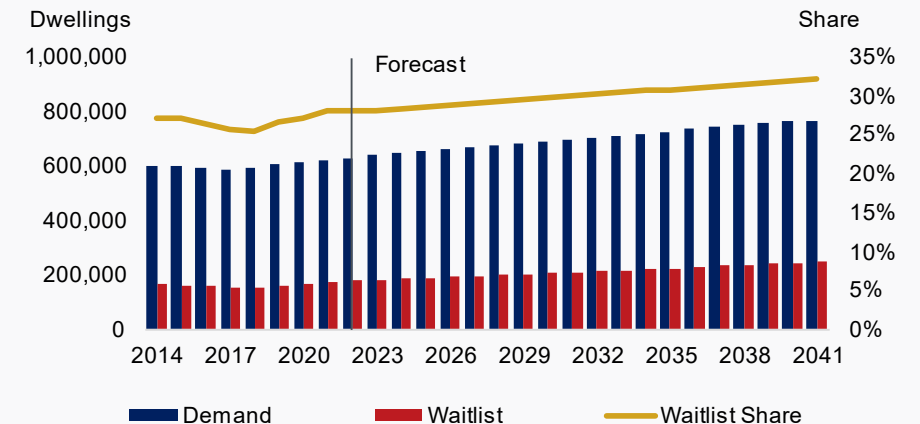
The waitlist for social housing has risen from 162,600 households (general and priority) in 2014 (1.8% of total households) to an estimated 180,100 in 2023 (1.8% of total households), with the figure anticipated to expand by an additional 67,800 applicants by 2041 to 247,900 (2.0% of total households). This increasing demand for social housing is against a backdrop of slower growth in supply of social housing.

Social housing stock as a share of total housing stock, 2014 to 2041



Source: Oxford Economics

Social housing waitlist vs social dwelling demand, 2014 to 2041



Source: Oxford Economics

SOCIAL HOUSING – Government social housing commitments

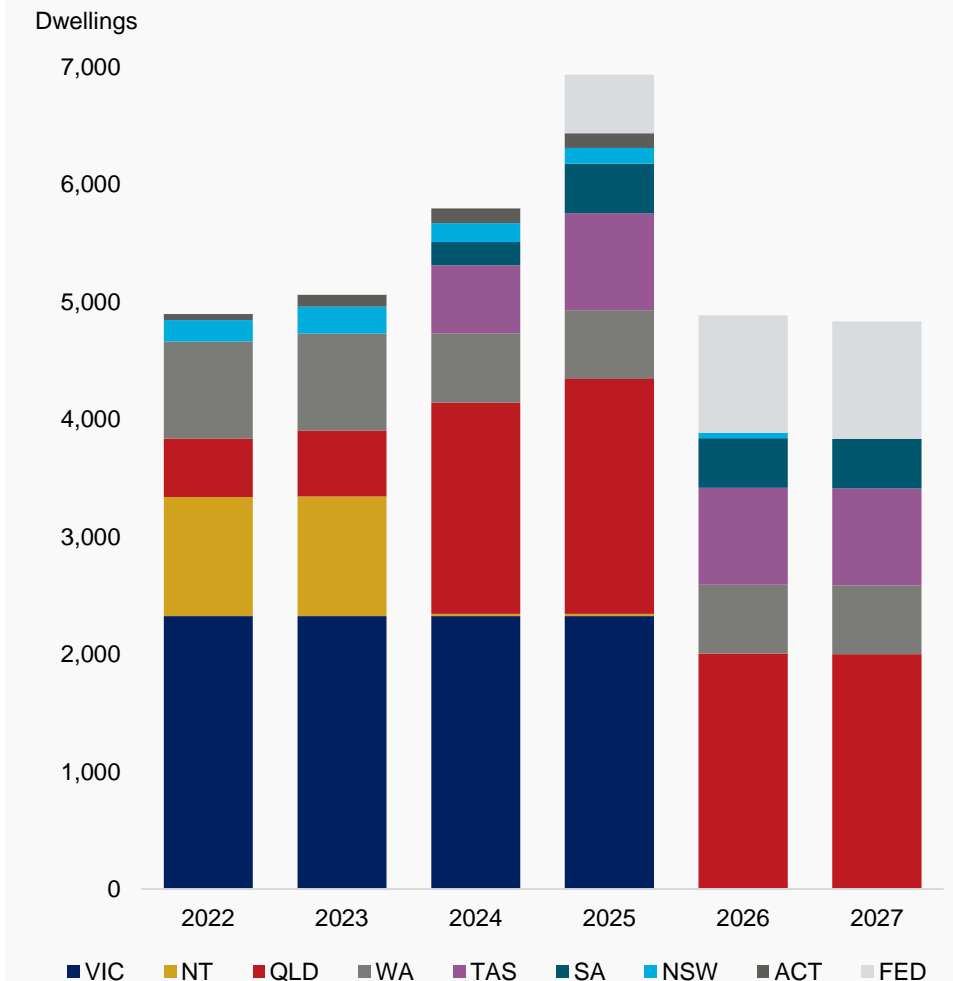
State and territory governments are responsible for supplying public housing and various schemes are in place to increase the number of dwellings (including working with community housing providers to increase supply). In addition, the federal government provides funding to support the states in providing social housing.

According to announcements by state and territory governments, an estimated 30,000 new social dwellings are earmarked for completion between FY2022 and FY2027. Broader programs are summarised below, noting that some program delivery timeframes extend beyond the period to FY2027:

- Victoria’s upcoming supply is driven by the Big Housing Build program with a declaration of 9,300 new social housing dwellings;
- Queensland’s supply is set to increase by 8,363 dwellings through the Housing Investment Fund and the QuickStarts QLD capital investment program;
- South Australia has committed to 3,600 new dwellings through their 2023 state budget;
- Western Australia has increased their Social Housing Investment fund to supply 4,000 new dwellings over the next 5-years;
- ACT has expanded funding toward their ‘Growing and Renewing Public Housing program’, adding an additional 400 public housing dwellings by 2025;
- The Tasmanian government has committed to building 10,000 new dwellings by 2032;
- NSW has declared an increased supply of 570 dwellings over the next 5 years through the Together Home Transition Program, and the Social Housing Investment Fund;
- The Northern Territory is set to receive 1,062 new dwellings through their Community Housing Growth Strategy and the transferring of properties to Community Housing Providers; and
- The federal government has announced a new \$2 billion Social Housing Accelerator scheme which will give state and territory governments funds to build or refurbish social housing.

This information is used as a key input to the determination of subsequent analysis and it is noted that forecasts of ‘the social housing gap’ are predicated on the successful delivery of state and territory governments’ official policy announcements, foreshadowing a substantial contribution to the supply of social dwellings in the 2022-2027 period. If delivery was to fall short of the levels shown, then estimates of the social housing gap could be even larger and costs to close the housing gap even higher.

State and federal commitments to social housing supply



1. Figures exclude the Victorian Government’s recently announced \$1 billion Regional Housing Fund which aims to deliver new homes across regional Victoria, including social and affordable housing.

Source: State budget papers

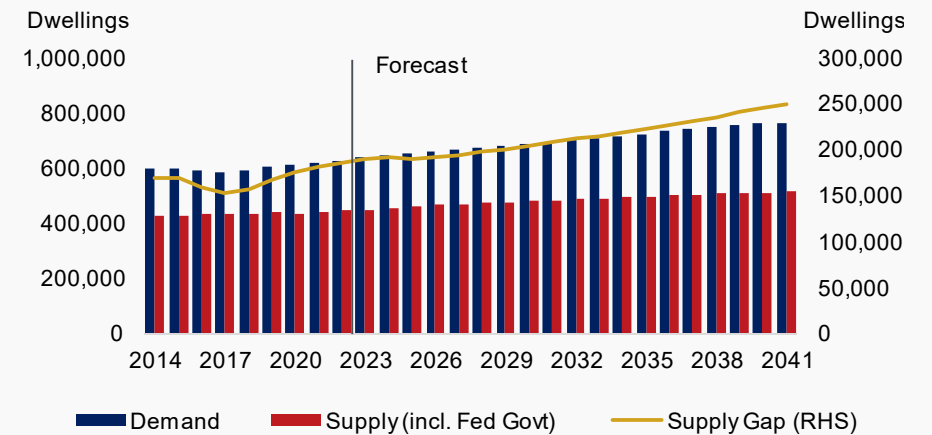
SOCIAL HOUSING – Measuring the gap

Australia currently has a sizeable shortage of social housing, with the shortfall estimated to be 190,900 dwellings in 2023.¹ The national supply of social housing (i.e., 450,200 dwellings in 2023) represents just 70% of the 641,000 dwellings demanded, falling significantly below the total levels required to house those in need. Furthermore, this shortfall has expanded by 25% since 2017 – or an additional 38,300 required social dwellings – as the volume of social housing applicants has been exceeding the number of available dwellings.

A shortage of social housing leads to a need to prioritise the most vulnerable, often those who have experienced homelessness, family violence or have other complex needs. Therefore, a substantial increase in supply will be necessary to meet the high demand for social housing in Australia and to ensure that it is not only those with the severest of need who are able to access such dwellings.

In addition to the existing shortfall of around 190,900 dwellings, total demand for social housing is forecasted to rise by almost 127,000 dwellings, from 641,000 dwellings in 2023 to approximately 768,000 dwellings in 2041. These forecasts factor in total dwelling demand in the broader market as a result of the expected population growth, to which a trending share of social housing is applied over time.

Demand, supply and gap in the stock of social housing



Source: ABS, AIHW, Oxford Economics

An additional 68,100 social dwellings are expected to be constructed over the period to 2041, noting that this estimate includes all of the anticipated 30,000 social housing additions expected to be delivered to FY2027 with funding contributions from federal, state and territory government announcements.

The total stock of social housing would expand from 450,200 dwellings in 2023 to approximately 518,300 dwellings in 2041. The forecast of likely supply has been informed by the social housing schemes announced by the State and territory governments, augmented with the application of trending shares of the proportion of social housing stock compared with Australia's total dwelling stock over time.

The result of this analysis shows that the social housing shortfall is expected to worsen, suggesting Australia will continue to follow recent patterns and fall short in building enough social housing to meet demand. Despite announced contributions from all levels of government, the shortfall of social housing in Australia is forecast to rise from 190,900 dwellings in 2023 to approximately 249,700 dwellings in 2041.

1. This estimate has been informed by waitlist information published by the Australian Institute of Health and Welfare (AIHW).

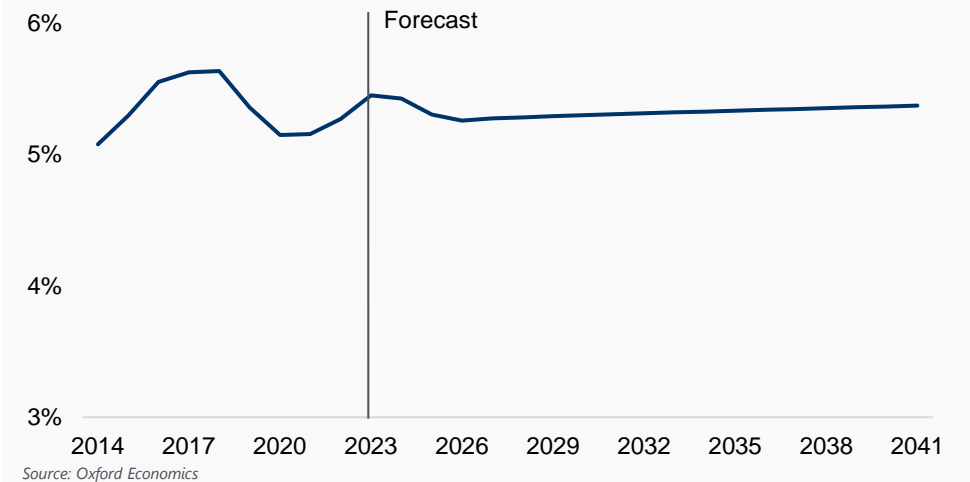
AFFORDABLE HOUSING – National overview

While acknowledging that affordability challenges extend to the owner-occupier market, the focus of this report prioritises those in the rental market. The demographic and financial characteristics of these renter households tend to be different to owner-occupier households. Income profiles of renter households are generally lower than owner-occupiers across age groups and renters also tend to have lower savings buffers. Renters spend a larger proportion of their incomes on basic living expenses compared to owner-occupiers and have less spare cash flow, meaning renter households are more likely to experience financial stress than mortgagors.

The affordable housing need is defined as those households with disposable household income within the bottom two income quintiles (excluding Rent Assistance) calculated at the total Australian households' level, where rent paid exceeds 30% of household income. This figure excludes those currently on a waiting list for social housing with the assumption that these households are not demanding both social and affordable housing concurrently.

Households in need of affordable housing are estimated to make up 5.5% of total households in 2023. This is expected to ease in the short term before returning to relatively similar levels in the long-run

Affordable housing need as a share of total households



The share of low income renter households in rental stress, paying more than 30% of their gross household income on rent, has increased by an estimated 1.7 percentage points to approximately 44% since the beginning of the pandemic. This is much higher than the 35% experienced in 2008. Strong rental growth over the past two years has contributed to a deterioration in rental affordability and an increase in financial stress for some renter households. Furthermore, the short-term outlook in the Australian residential rental market is being impacted by a lack of new dwelling supply and an increase in rental demand as a result of the strong return of migration - historically, the lion's share of international migrants will typically look to rent rather than buy upon arrival - in markets that are already experiencing tight vacancy rates. Slowing rental growth combined with the ongoing strength of the labour market over the next two years is expected to unwind some of the affordability pressures that have built up over the pandemic, but longer-term challenges remain.

The proposed Housing Australia Future Fund identified the need to provide additional affordable dwellings for essential or 'key workers'. While the term 'key workers' has no official definition, these workers perform essential services for Australia's urban and regional populations. Professions such as teachers, nurses, ambulance officers, fire/emergency workers and police are often cited as examples. Essentially, 'key workers' are lower paid workers in occupations considered important to the proper functioning of a city, particularly those in lower paid service occupations, although not exclusively so, whose jobs are in areas of high housing costs. Key workers often do not earn enough money to afford to buy a home and they may have affordability problems in the private rental market in a location relatively convenient to their workplace. Employers in such areas can also experience recruitment and retention problems as a result. This situation leads to a growing spatial divide between the locations that lower to moderately paid workers can afford to live in and the location of job opportunities, especially those located in areas of higher housing costs. The concern is that, as gentrification has occurred in inner city locations, affordable housing has been pushed out of these inner areas. However, conversely, jobs have remained concentrated in locations in and around Australia's city centres. One potential outcome of the increased concentration of jobs in inner localities is that, as a result, many lower paid workers find their housing options have been pushed further from their workplaces. This, in turn, contributes to longer and more costly commutes for these people as they follow the more affordable housing further into the suburbs, increasing the socio-spatial divide.

AFFORDABLE HOUSING – Measuring the housing gap

Affordable housing differs from social housing in terms of funding arrangements. Affordable housing can be supplied by local government authorities, private investors, charitable organisations or community housing providers. Affordable housing can be available for purchase, but is more prominent in the rental space, which will be the focus of this analysis.¹

Currently, there is no data available on the number of affordable rental dwellings in Australia, and therefore an alternative to the typical supply/demand approach to assessing the size of any mismatch between the two aspects is required.

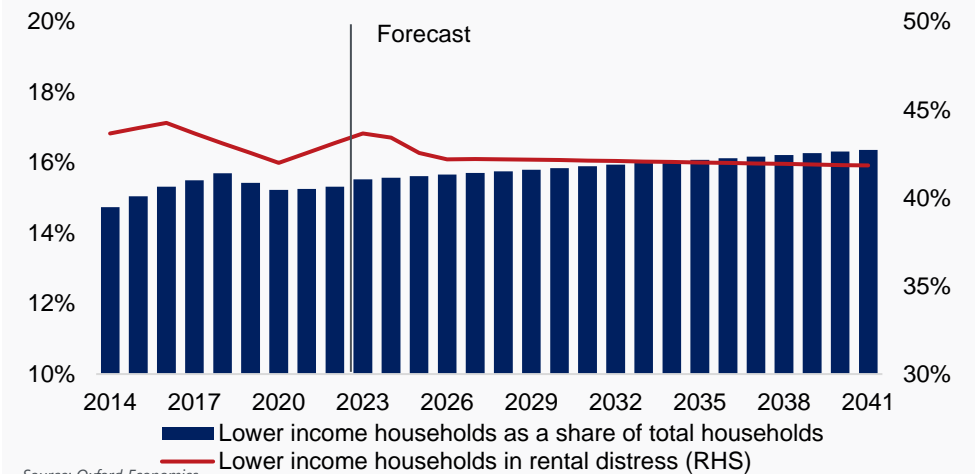
Using the number of lower income households in rental stress (those spending more than 30% of their income on housing costs) as our base for assessing current and future unmet demand for affordable dwellings – an initial approach which is consistent with the National Housing Finance and Investment Corporation (2021) report – it is estimated that demand for 559,800 affordable dwellings is currently unmet in Australia.

This figure is in addition to the shortfall of social housing dwellings explored previously, where social housing demand is excluded from our affordable demand analysis. It is assumed that the share of lower income households in rental distress will remain stable over the long-run at approximately 42% (of all lower income renting households) – as tenants in rental distress often adjust behaviours to compensate, such as moving back in with parents or taking additional housemates – however should a rise in this proportion eventuate, this will lead to additional demand for affordable housing.

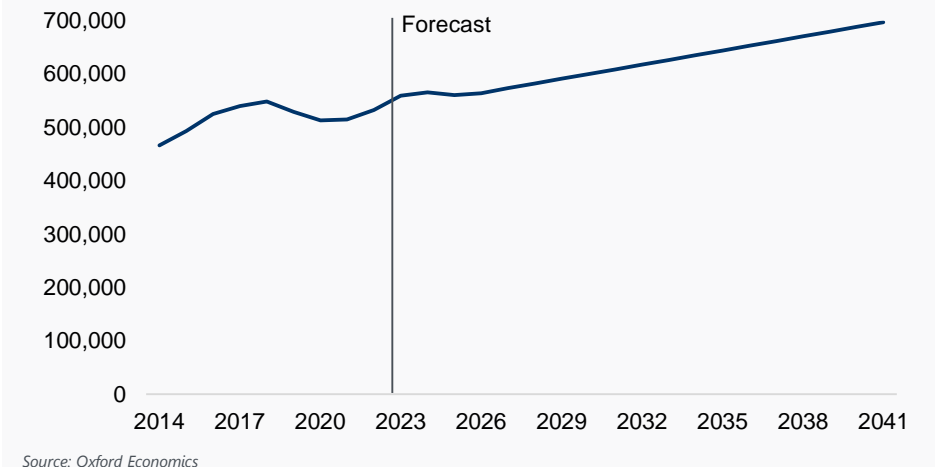
Over the period from 2023 to 2041, we estimate that the number of lower income renter households that will be living in rental stress and will need affordable rental housing (i.e., the size of ‘the gap’ in supply) will swell to approximately 697,200 affordable rental dwellings. This trend would represent a rise of 137,400 dwellings on the 2023 shortfall.

While affordable housing can generally be defined as market and non-market affordable housing that is occupied by households in the lower 40%, the term can be interpreted differently by different people. Furthermore, the specific forms and models that affordable housing can take are many and varied. However, affordable housing generally seeks to provide greater choice for low to moderate income households or accommodation for key workers.

Lower income households and rental stress



Supply gap in affordable housing stock



¹ Nonetheless, it is acknowledged that many homeowners are experiencing mortgage stress and finding it financially tough to meet their mortgage repayments.

AFFORDABLE HOUSING – Government affordable housing policies

The delivery of an additional 697,200 affordable dwellings in the period to 2041 is a substantial task. To work towards supplying this number of dwellings, local, state/territory and federal governments will have to align their policies and work together using a variety of funding and implementation strategies.

Because of the scale of the challenges around housing affordability, agreement is needed on the roles and responsibilities of all levels of government. In broad terms, the three main levels of Australian government have typically played the following roles relating to housing affordability:

- Federal government has largely acted as a funder of states and territories via a range of schemes and programs. They have also taken responsibility for national housing and homelessness policy, financial sector regulations and taxation settings. Direct interventions in the housing market have included such initiatives as Commonwealth Rent Assistance, and the National Housing and Homelessness Agreement;
- State and territory governments have taken responsibility for land use and supply policy, urban planning and development policy, housing-related taxes and residential tenancy legislation and regulation; and
- Local governments mostly take ownership of building approval, urban planning and development approval processes, and rates and charges. They can influence affordable housing supply through their management of the planning system, including common approaches such as inclusionary zoning and voluntary planning agreements.

Bridging the substantial affordable housing supply gap by 2041 will likely require wider whole-of-government co-ordination to navigate pathways to delivery and address the shortfall of housing needs. Potential strategies may involve inclusionary zoning; Voluntary Planning Agreements (VPAs); allocation of council and government-owned land towards building affordable housing; government capital grants and operating subsidies; and potentially encouraging investment in affordable housing provided by the private sector. The affordable housing opportunity for the emerging Build-to-Rent (BTR) residential sector – including the potential for expansion of build-to-rent-to-buy schemes such as the one developed by NHFIC – is yet to be fully explored and may assist in improving tenancy security in conjunction with providing an opportunity to ramp up the supply of affordable housing.

What is the Housing Australia Future Fund (HAFF)?

The Albanese Labor Government has proposed off-budget legislation to enact the Housing Australia Future Fund (HAFF) with the aim to enable grants towards acute housing needs, social housing, or affordable housing and to fund grants made on the behalf of the National Housing Finance and Investment Corporation.

Acute housing need implies those requiring crisis housing, whereby being at risk, or currently experiencing homelessness, ranging from short to long-term needs. The proposed fund was to begin with an allocated \$10 billion, where funds would also be invested to provide up to \$500 million annually to fund additional crisis and social housing for those with the greatest need. Over the next five years, the fund aimed to provide 20,000 social houses and 10,000 affordable houses to essential workers.

However, the future of Labor's proposal is uncertain after voting in the Senate was pushed back to 16 October 2023. If the legislation passes in its current form, the proposed investment into social and affordable dwellings is not enough to close the current housing gap of 750,700.

THE HOUSING GAP – Investment required to close the housing gap

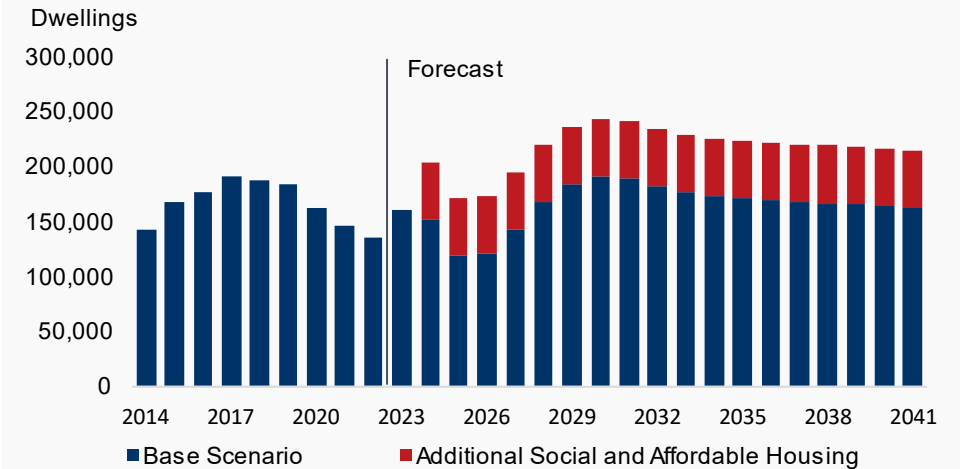
Current social and affordable housing stock is insufficient to meet present and projected need. To estimate the funding required to close the supply gap by 2041 requires an assumption of when construction would occur, and therefore the expected cost of construction. These estimates assume an even distribution of construction over the period spanning 2024-2041, comprising:

- 13,872 social dwellings per annum;
- 38,733 affordable dwellings per annum; and
- 52,606 (total) social and affordable dwellings per annum.

This level of new stock would occur in addition to the average +165,000 (net) new dwellings expected to be developed each year over the forecast period.

An estimated \$511 billion investment is required to close the housing gap in social and affordable housing by 2041, comprising \$126 billion of funding for social housing and \$384 billion of funding for affordable housing. This is approximately \$28 billion per annum. However, this assumes that affordable housing is fully funded by government. In practice, we would also expect the private market to supply a proportion of affordable housing.

Dwelling construction outlook, 2014 to 2041



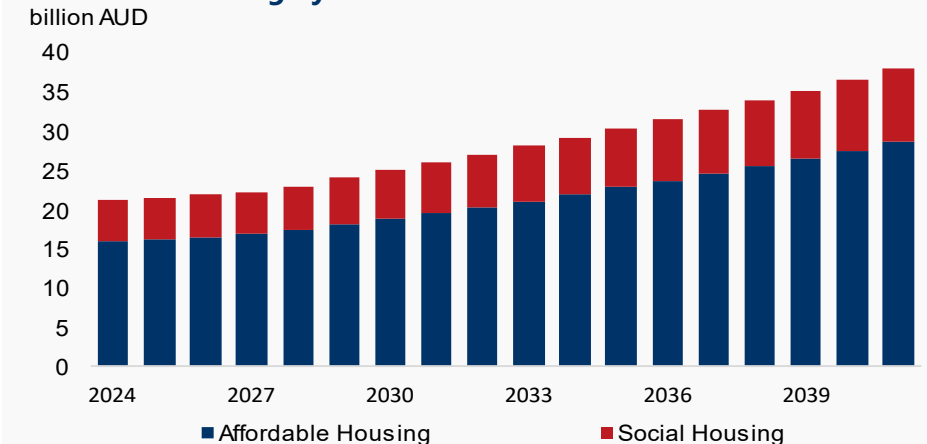
Funding required to close the housing gap in social and affordable housing by 2041¹

	Social	Affordable	Total
Supply gap by 2041	249,700	697,200	946,900
Average cost per new dwelling	\$505,000	\$551,000	\$539,000
Funding required to close the housing gap	\$126.2 billion	\$384.4 billion	\$510.5 billion

Source: Oxford Economics

1. Note that construction costs grow over the forecast period so the funding required is a multiplication of the supply gap equally distributed over 18 years at the average cost per dwelling in each year.

Annual funding required to close the housing gap in social and affordable housing by 2041



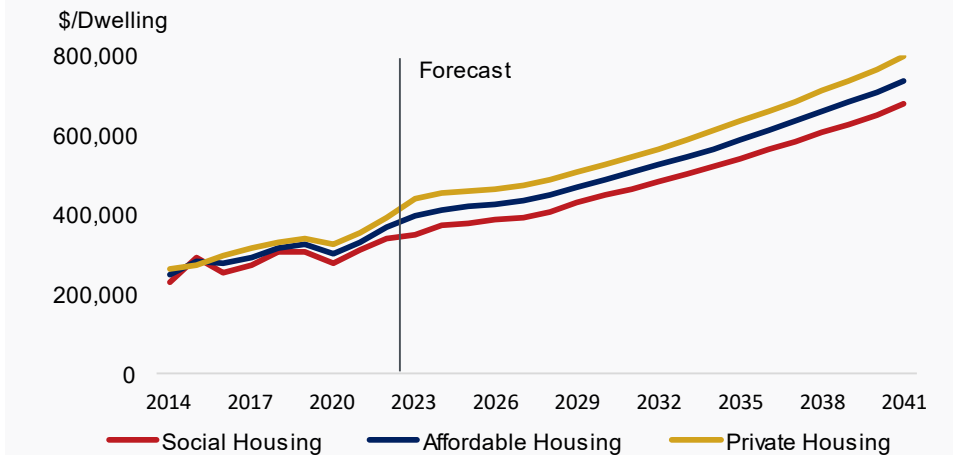
THE HOUSING GAP – Investment required to close the housing gap

The timing of delivery of the 249,700 social dwellings and the 697,200 affordable dwellings will have a significant impact on the estimated total costs of closing the housing gap. Public and affordable construction costs grow over the forecast period in line with Oxford Economics' residential construction deflator forecasts. According to our modelling, the cost of construction is expected to grow by approximately 3.6% per annum over the next 18 years to 2041 (rising a total of around 88% between 2023 and 2041). While an even distribution of development over the 18 year period would necessitate funding of approximately \$511 billion, several alternative scenarios are provided below to demonstrate the cost ranges which are influenced by timing.

For example, if all 946,900 dwellings were:

- Built in 2024 (noting that this timing is not feasible due to various constraints), total funding of approximately \$383 billion would be required;
- Built in a period from 2030-2041, total funding of approximately \$564 billion would be required; and
- Delayed until 2041 and then constructed in a consolidated year, total funding of approximately \$687 billion would be required.

Average cost per dwelling over time, 2014 to 2041



Source: Oxford Economics

Essentially, the longer it takes to close the housing gap the more costly it is to government. Delays in implementing such delivery programs will incur cost escalations, which, in turn, may mean dwellings are not delivered on the required scale and may not become available to the target demographic in the required timeframe.

The current environment for residential construction is challenging, and our current forecasts indicate a downturn in new supply. The high cost environment coupled with rising interest rates are creating barriers to build, and ultimately putting financial pressure on builders who face the risk of insolvency or project delays. This weaker outlook for dwelling supply coincides with a period of stronger demand which is likely to exacerbate affordability issues.

Government investment into the social and affordable housing sector has the capacity to act as a support to the residential construction market. By increasing investment into residential construction during periods of downturn with a relatively smaller role during periods of strong activity, the government can support supply without adding significantly to capacity constraints. This counter-cyclical role can help stabilise the labour market and reduce volatility risks for construction businesses.

ECONOMIC IMPACTS OF CLOSING THE HOUSING GAP

ECONOMIC IMPACTS – Introduction

Closing the housing gap will have both economic and social outcomes in Australia. This chapter analyses the impact that additional supply of social and affordable housing has on the property market, including the implications for inflation and cost of living pressures. Additionally, broader channels that improved housing supply may flow through to the Australian economy and society are analysed through recent literature and research.

The impact of increased social and affordable housing supply on **dwelling prices and rents** expected to be relatively minor. Based on our property market modelling framework, the addition of 946,900 combined social and affordable dwellings over the coming 18 years would result in median rental growth moderating to 2.0% per annum between 2023 and 2041 from our baseline estimate of 2.6%. The limited impact on rents (mostly in the lower segment of the market) and negligible impact on prices is unlikely to discourage **private investment** into housing in Australia.

We expect the flow through to **inflation** will be marginal, with the decrease in rental prices due to increased supply of social and affordable housing reducing overall inflation by 0.04% per year on average, leading to a 0.6% lower price level by 2041.

Research highlights a number of key factors that are influenced by the provision of affordable housing. We have analysed this research to identify potential impacts of closing the housing gap, and where possible, focused on Australia and the rental market.

Productivity losses have been linked to unaffordable and poor quality housing by taking away much needed resources from productive activities. Australian evidence suggest higher entry costs to the property market induce living further from centers of employment; impairing labour market opportunities in ways that reduce lifetime incomes and adding to commuting cost effects. Poor quality and isolated housing could also impact economic productivity by generating an underutilisation of human capital, especially during younger years.¹

There is an opportunity cost arising from channeling debt-fueled investment via higher rents and mortgage payments into housing stock, an asset essentially unproductive in terms of employment generation, which can potentially reduce **economic growth**.²

These problems are exacerbated for low-income households in highly populated areas. In Sydney, households of the lowest income quintile have only about 50% of the average household disposable income but have to pay rent at around 80% of average rents. For the most disadvantaged households, this could be a “potential generation problem” as public social housing has fallen from 5.8% of the national housing stock in 1997-98 to 3.1% in 2017-18.³

Additional social and affordable dwellings could help alleviate **homelessness** particularly for those living in “severely crowded” and “other crowded” dwellings. Given the young age of most persons living in these dwellings, the provision of social and affordable housing could result in positive, life-long economic impacts particularly in productivity and employment gains. Research suggests that individuals exposed to poor housing conditions report worse mental and physical **health**, and experience an 11% increase in doctor visits, increasing to 20% for age groups over 64.⁴

The housing shortage and homelessness is also exacerbated by local **income inequality** which “crowds out” low-income households from the rental market. In this sense, policy efforts addressing specifically homelessness are needed more sorely in places where local income inequality has been increasing more quickly.⁵

The lack of affordable, adequate, and secure housing generates **avoidable public costs**. Estimates of the lost wellbeing and generated costs have been calculated by providing a monetary value to the foregone social and affordable housing benefits. These calculations are based on a range of foregone benefits including public sector cost savings (mainly related with avoided health and justice costs), private educational attainment, and increased disposable income. Importantly, these estimates do not include productivity gains or shared infrastructure gains. The current social and economic costs (foregone wider benefits) from the affordable housing shortage have been estimated to be close to \$677 million (2022 nominal, undiscounted) per annum and are expected to increase to approximately \$1,290 million per annum by 2036.⁶

1. MacLennan et al. (2021) *Housing and productivity: All or Nothing at all?* Available [here](#).

2. Pawson et al. (2021) *Housing and the economy: Interrogating Australian experts' Views* Available [here](#).

3. Abelson (2021) *Intergenerational well-being: Baby boomers, generation X, and millennials in Australia*. Available [here](#).

4. Palacios et al. (2021) *The impact of housing conditions on health outcomes*. Available [here](#).

5. Byrne et al. (2021) *A rising tide drowns unstable boats: How inequality creates homelessness*. Available [here](#).

6. Nygard (2022) *Cost of inaction: Social and economic losses due to the social and affordable housing shortage*. Available [here](#).

ECONOMIC IMPACTS – Dwelling rents & prices

Over the long run, the impact of increased social and affordable housing supply on rents and dwelling prices in Australia is expected to be relatively minor. Based on our property market modelling framework, the addition of 249,700 social dwellings and a further 697,200 affordable dwellings over the coming 18 years will lead to a 10.4% reduction in median 'all dwelling' (i.e., a combined rate of houses and units) rents by 2041. This figure is compared to our baseline outlook where, despite almost three million net new dwellings developed over that time, at an annual average of 165,000 net new dwellings, the gap in social and affordable housing remains unfulfilled. This suggests that median rental growth would moderate to 2.0% per annum between 2023 and 2041 from 2.6% per annum our baseline outlook.

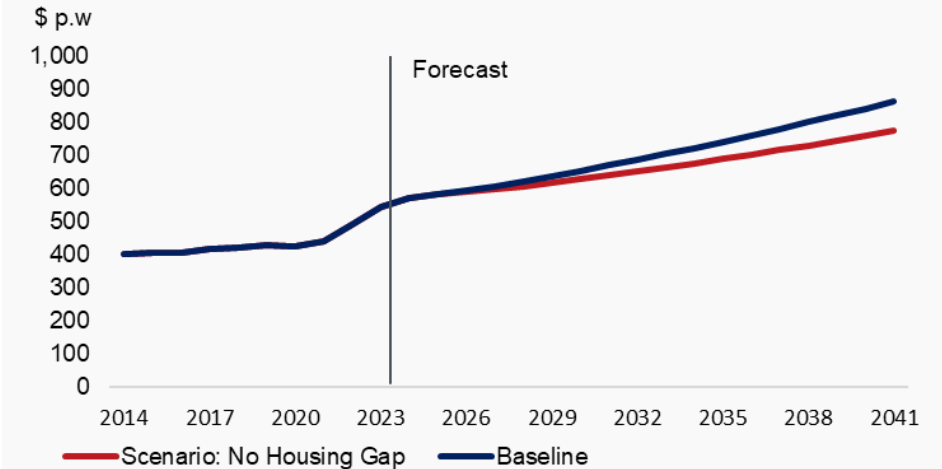
Our model reflects that the relationship between supply and demand affects the amount of rental pressure in a residential market. Supply and demand work against each other until the point at which the equilibrium rent is achieved (i.e. the price where supply is equal to demand in the market). People will bid up rents when there is relative scarcity and, should rent levels rise to a higher-than-equilibrium rent, this causes the quantity of rental dwellings supplied to increase, because suppliers have more incentive to build and own rental dwellings at a higher price. A major determinant of how much a household is willing and able to pay to rent a dwelling is the household's income and therefore this is also one of the key modelling inputs.

While the overall impact on median rents is expected to be relatively mild, the addition of significant levels of new supply would likely have uneven effects on different tiers of the housing market. New supply will likely improve affordability in all parts of the residential market, however, impacts at the more affordable end of the rental market would be expected to be higher than for the premium end owing to the removal of a notable share of concentrated demand.

The owner-occupier market is less likely to be affected by a substantial rise in the provision of social and affordable dwellings in Australia and therefore the impacts on residential property prices are expected to be minimal. Residents in the two lowest income quintiles are far more likely to be living in private rental accommodation than seeking owner-occupier lending commitments. Our modelling indicates that a further 946,900 additional dwellings beyond our baseline scenario could induce a 2.5% reduction in the median 'all dwellings' price series by 2041. This suggests median price growth would be tempered slightly to 3.8% per annum from 4.0% per annum under our baseline scenario.

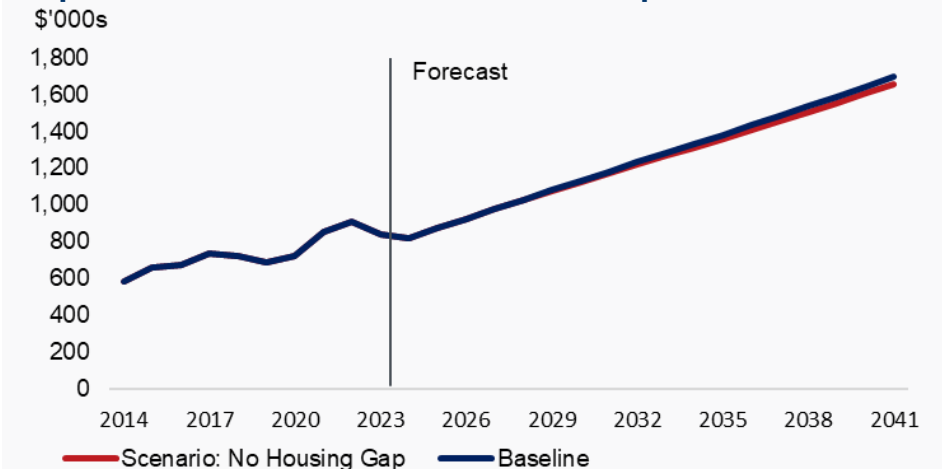
These impacts would not be expected to discourage private investment into housing in Australia. The strength of demand related to demographic factors, and the tightness in the rental market, suggest that an expansion of new construction could reasonably be accommodated by the market.

Impact of S&A investment on median rent prices



Source: Oxford Economics. Note: Median "all dwellings" rent forecast for Australia

Impact of S&A investment on median house prices



Source: Oxford Economics Note: Median "all dwellings" price forecast for Australia

ECONOMIC IMPACTS – Inflation

The impact of lower rental prices on inflation is marginal. The decrease in rental prices due to increased supply of social and affordable housing reduces overall inflation by an estimated 0.04% per year on average leading to a 0.6% lower price level by 2041. In practice, we would not expect rental price changes of this magnitude to affect inflation in the medium to long term because we expect that the RBA is successful in their mandate to keep inflation within the 2-3% target band. However, an impact of this magnitude is unlikely to affect RBA rate setting.

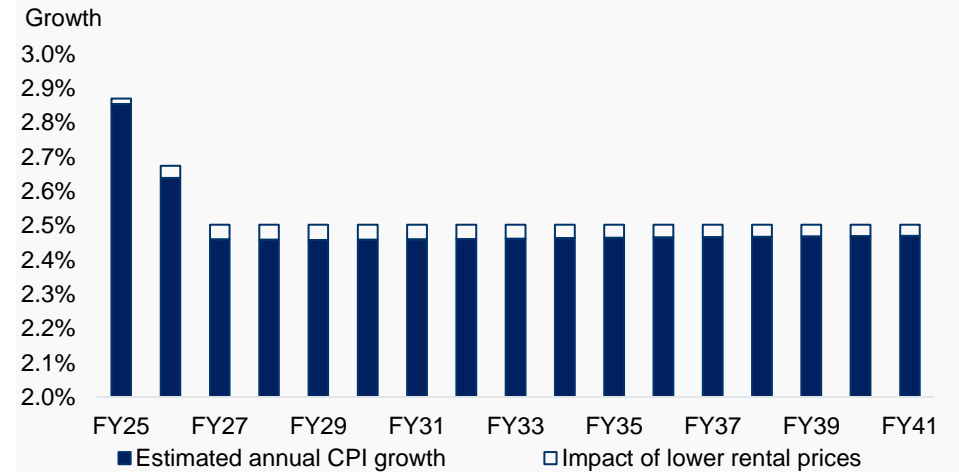
One of the reasons these impacts are small is that rents account for only 5.75% of the overall CPI basket.¹ However rental prices will have a much greater impact on the cost of living of renter households at the lower end of the net wealth distribution than the average household reflected in the CPI basket. Nearly 90% of all households in the lowest wealth quintile were public or private renters in 2019-20.²

It also takes time for rental increases to be reflected in the CPI series since advertised rents are a small share of the total rental stock. Rents in the CPI increased 4% in 2022, the strongest growth in the decade prior, but this is still 16% lower than the 20% growth advertised rents have experienced since 2019.²

Our estimates take the weighting for rents in the CPI basket and apply the modelled decrease in rental prices discussed above to our baseline CPI forecasts. As a result, these estimates only include first round price impacts. We would expect that rent decreases also leads to higher discretionary income and would create inflationary pressure in other CPI components through higher spending. Given the significant share of lower income renter households in rental stress this impact is likely to improve household's ability to afford other living costs such as food, clothing, transport and utilities. Lower income households have a higher propensity to consume than average household however, since a portion of this income will be saved, the overall impact on inflation is still likely to be negative.

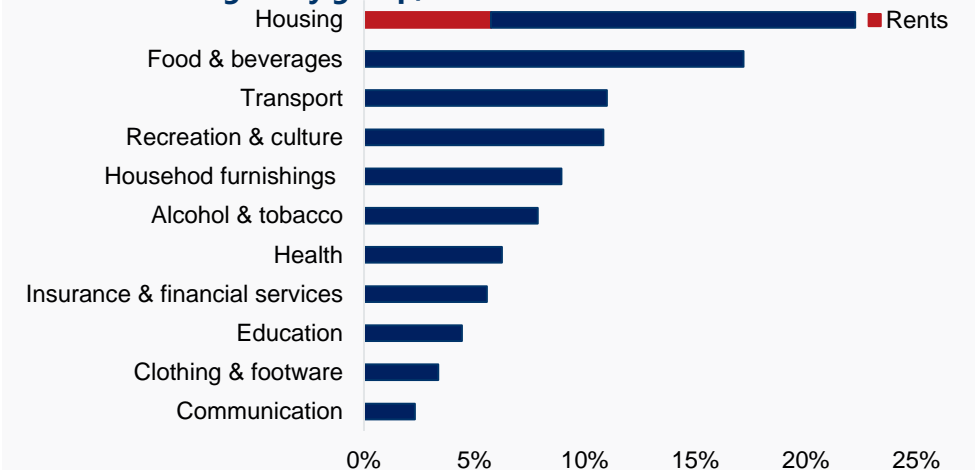
Lower average house prices also has a negligible impact on CPI inflation. The CPI basket only contains new goods and does not include price changes to existing dwellings. The CPI basket does include 'new dwelling purchases by owner occupiers' which reflects the cost of adding to the housing stock for owner occupiers. However, our modelling of construction costs assumes that the government would not fund social and affordable housing at a level high enough to stretch market capacity of the construction industry and create an avoidable price shock for construction goods and services. Therefore the 2.4% decline in average house prices has a negligible pass through to CPI.

Impact of rent decreases on annual inflation



Source: ABS, Oxford Economics

CPI basket weights by group, 2023



Source: ABS

1. ABS (2022) Annual weight update of the CPI and Living Cost Indexes. Available [here](#).
 2. RBA (2023) Renters, Rent Inflation and Renter Stress. Available [here](#).

ECONOMIC IMPACTS – Homelessness

According to the latest census, there were 122,494 people experiencing homelessness on census night in 2021. These people are the ones defined under the ABS's homelessness operational groups. An additional 93,186 were classified as marginally housed but not classified as homeless. The provision of social and affordable housing may reduce the number of people experiencing homelessness and housing insecurity.

Homelessness is a complicated phenomenon that can not be straightforwardly explained or solved by a single factor. While supplies of affordable housing are an important factor in reducing homelessness, the most recent literature seems to suggest their effects are underrepresented by the interrelationships between low unemployment and higher incomes and rents. In short:

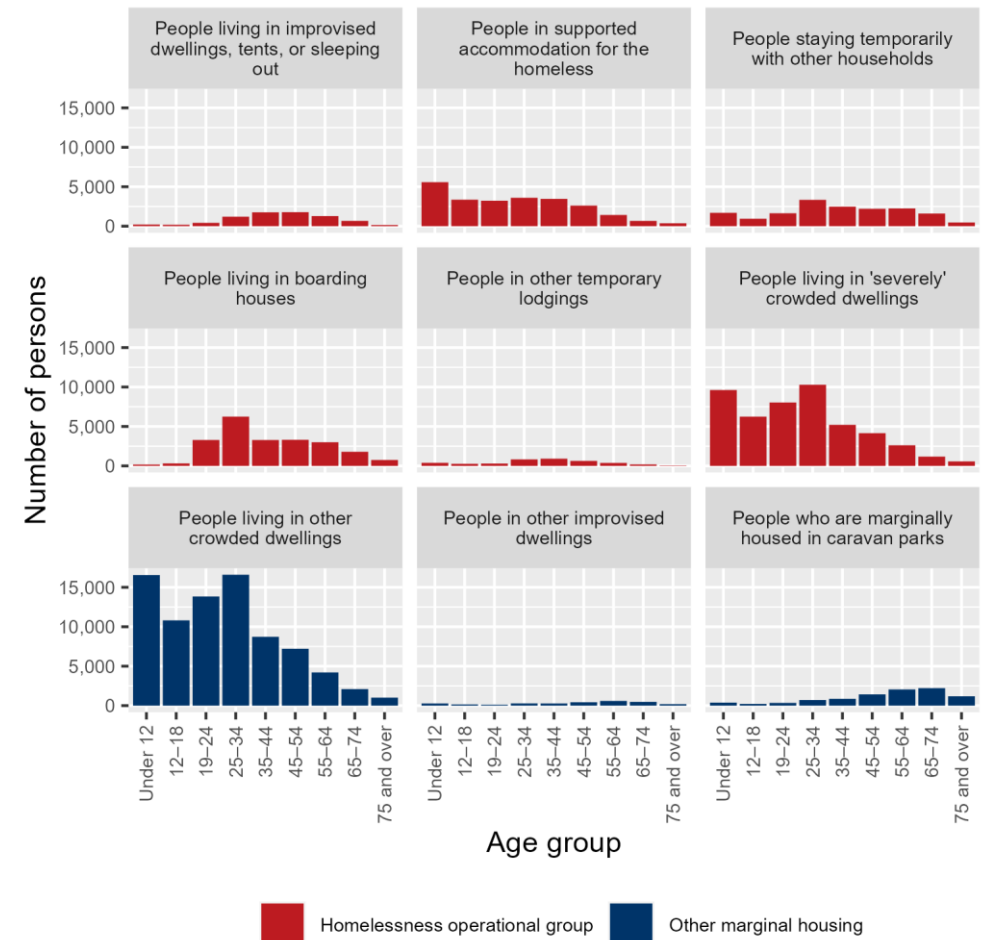
- Per capita homelessness rates are unrelated to the proportion of “at risk” groups that find themselves homeless. Effectively, when modelling per capita rates of homelessness, this omission masks the predicament of those truly vulnerable to homelessness.
- Supplies of affordable housing and unemployment rates tend to be positively related. Where unemployment rates are high, the group “at risk” of homelessness will be large. However, a high proportion of this group will be able to find housing because low-cost housing is more abundant in regions where labour markets are weak. These regions are also ones that tend to feature high levels of social housing.

Taken together, these effects might be masking the true impact of affordable housing on homelessness in Australia.¹

The largest number of people experiencing homelessness are those living in “severely crowded” dwellings,² while for those marginally housed the vast majority resides in “other crowded” dwellings.³ Research from the Australian Housing and Urban Research Institute identified that a lack of appropriate and affordable housing is a key driver of overcrowding, indicating that the provision of social and affordable housing of appropriate size and design could play an important role in reducing overcrowding and hence homelessness. The majority of people in crowded dwellings are aged below 35, meaning improved living conditions for this cohort could translate into life-long productivity and employment gains for the individual and ultimately the economy.⁴

1. Dwelling needing 3 extra bedrooms according to the CNOS. Under the operationalisation of the ABS definition they are not classified as homeless but may be at risk of homelessness. See ABS, “Methodology for estimating homelessness from the Census of population and housing”, 5 September, 2012, available [here](#).
 2. For a discussion around the effects of poor housing on productivity and underutilization of human capital, specially at a younger age, see MacLennan, D. et al. (2021), op cit., available [here](#).
 3. Wood, G. et al. (2015), “The structural drivers of homelessness in Australia 2001-11”, Australian Housing and Urban Research Institute, available [here](#).
 4. Dwellings needing 4 or more extra bedrooms under the Canadian National Occupancy Standard (CNOS).

People at risk of or experiencing homelessness by age group, 2021



Source: ABS Census 2021

FUNDING THE HOUSING GAP

FUNDING THE HOUSING GAP - Introduction

This chapter considers whether the revenue from a super profit tax could fund the required investment to close the housing gap in social and affordable housing. It also discusses international precedents for super profit taxes and the potential costs and benefits of expanding the coverage of super profit taxes in Australia.

Super profit taxes, also referred to as excess profit taxes or windfall taxes, are taxes levied on a company's 'economic rents'; the profit above what is necessary to attract investment into the economic activity. Taxing economic rent, 'has lower economic costs than other forms of taxation; and represents the value of public property that is being transferred to private ownership.'¹ However due to the difficulty of defining an appropriate threshold for excess profits and challenges of implementing these taxes have been introduced sparingly outside of the extractive sectors.

Super profit taxes are commonly applied as permanent taxes in extractive sectors to return a 'fair value' on public goods. Examples include Australia's Petroleum Resource Rent Tax (PRRT) and Norway's Special Petroleum Tax.

Super profit taxes are also applied in response to temporary unanticipated events which lead some segments of the economy to disproportionately profit; usually at a time when other segments of the economy are suffering. For example, the European Commission recommended that member states impose a temporary tax on 'supernormal profits' in energy companies as a result of the war in Ukraine to finance government actions taken to cushion the price shock to affected households and industries.²

For the purposes of this report, a super profits tax is assumed to be a permanent 40% tax on excess profits allowing for losses in previous years and a return on investment. The tax would apply to mining projects and non-mining companies with turnover over \$100 million. The thresholds, rates and deductions of the tax follow the design features of the Parliamentary Budget Office costings that the estimates are based on.³

A tax of this kind would likely apply to a very small subset of Australian companies. Reasons for this include:

- The number of qualifying companies is small - Only about 3,000, or 0.3%, of companies in Australia had a turnover of more than \$100 million in 2020-21.⁵
- Even very large companies do not pay tax every year – ASX data shows around 20–30% of ASX 500 companies report a net loss to their shareholders in any given year. In 2020-21, 32% of companies with a turnover over \$100 million did not pay any tax in Australia.⁴
- Companies would be able to carry losses forward - Similar to the corporate income tax system, 'companies would be able to look back over the ten years prior to the introduction of the tax and accumulate a balance of super-profits losses that could be utilised from the start of the proposal.'³ In 2020-21, 11% of large businesses did not pay tax due to utilising losses in previous years.⁴

Despite this, taxes of this kind can still raise significant revenue. The PRRT is only paid by 8-14 companies each year⁴ but following some design changes announced in this year's budget, the PRRT is expected to generate \$13 billion over the next 5 years.⁶

1. Garnaut (2010) *Principles & Practice of Resource Rent Taxation*. Available [here](#).

2. European Commission (2022) *Joint European Action for more affordable, secure and sustainable energy*. Available [here](#).

3. Parliamentary Budget Office (2021, 2021 & 2022) Available [here](#), [here](#) and [here](#).

4. ATO (2023) *Corporate Tax Transparency Report*. Available [here](#).

5. ATO (2023) *Taxations Statistics 2020-21*. Available [here](#).

6. Federal Treasury (2023) *Budget Paper no.1*. Available [here](#).

FUNDING THE HOUSING GAP – Potential revenue from a SPT in Australia

The revenue from an economy-wide super profits tax (SPT) could raise \$290 billion over the next decade and fund the \$28 billion per annum required to 'close the housing gap' in social and affordable housing by 2041.

On an annual basis, super profit taxes could raise on average \$29 billion per annum, representing roughly 3% of Treasury's expected tax receipts.

A super profit tax levied solely on mining projects, excluding those already covered by other resource rent taxes, could generate \$128 billion over the next 10 years. By 2033, this would fully fund the \$93 billion that would be required to close the gap in social housing as well as 12% of the affordable housing gap.^{1,2}

If a super profit tax was also levied on non-mining companies with a turnover greater than \$100 million, an additional \$163 billion could be raised over the next 10 years alone.

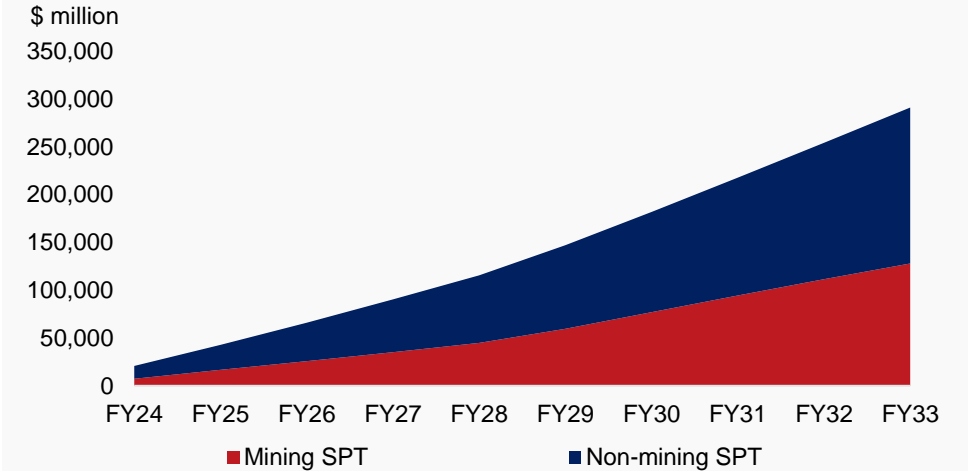
Our central estimates are based on costings for similar policies prepared by the Parliamentary Budget Office (PBO)³ and adjusted to reflect current economic conditions.

PBO estimates for a SPT levied on mining projects are adjusted by the Department of Industry, Science and Resources' forecasts of commodity export values. Revenue grows at a faster rate from FY28 to reflect that the starting capital base deductions cease after the first 5 years of the proposal.³ PBO estimates for a SPT levied on non-mining companies are adjusted by Treasury's 2023-24 Budget forecast for corporate gross operating surplus. However, there is a very high degree of uncertainty in these estimates.

Revenue will differ significantly depending on economic cycles as well as the design and implementation of the tax. For example, the threshold, tax rate, allowed deductions and the degree to which companies intensify any tax avoidance activity will all significantly affect the revenue raised. Design features will also affect potential market distortions which would have flow on impacts on other revenue streams like corporate income tax.

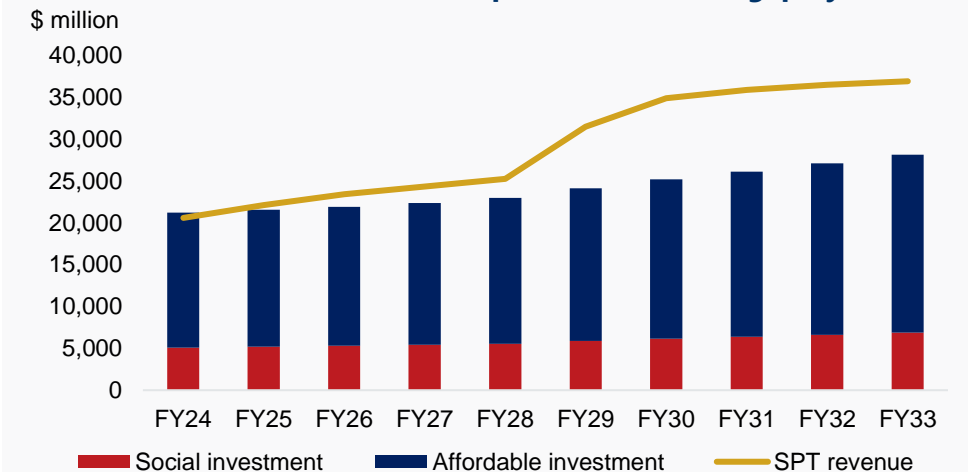
Further detail on the modelling approach and assumptions are provided in the technical appendix.

Potential cumulative revenue from an economy-wide SPT



Source: Oxford Economics, Parliamentary Budget Office, Treasury. Note: estimate are for the underlying cash balance.

Annual revenue vs. investment required to close the gap by 2041



Source: Oxford Economics, Parliamentary Budget Office, Treasury. Note: Annual investment required to close the gap by 2041 in nominal terms.

1. Assuming an even distribution of construction over the period spanning 2024-2033.
2. To close the gap in affordable housing by 2033 would require approximately \$295 billion.

3. Parliamentary Budget Office (2021, 2021 & 2022) Available [here](#), [here](#) and [here](#).

FUNDING THE HOUSING GAP – Potential impacts of a super profit tax

The following section highlights some of the potential economic impacts of introducing a super profit tax in Australia. To many, it can seem unfair or unreasonable when companies receive windfall profits without any extraordinary effort or action encouraging these increases. On the other hand, non-neutral taxes can reduce investment and innovation which are important factors underpinning economic growth and living standards over the long run. Therefore, any proposed changes to Australia's tax regime must balance improved equity through the redistribution of wealth with the potential of reduced economic efficiency through market distortions; 'there are different views as to what constitutes an equitable return to the Australian community and what constitutes the discouragement of investment, along with the relative weight to be placed on either influence'.¹

The relative costs and benefits of any tax policy are highly dependent on the design features of the tax. In the case of super profit tax, correctly calibrating the threshold for excess profits is crucial. Setting a single threshold across all non-mining companies has the benefit of simplicity but risks market distortions if the variation in business models and production structures across different sectors is not accounted for.

Investment - A common critique of any kind of tax levied on business is that it discourages investment, in turn reducing economic activity, wages, jobs and therefore the social welfare it was designed to promote. In theory, super profit taxes are efficient and do not discourage investment. As the IMF notes, 'taxes on economic rents are efficient since they do not reduce investment (because the tax applies only to returns above what is required to invest) and can raise substantial revenue in sectors with persistent rents.'¹

Avoiding market distortions requires the threshold for the tax to be appropriately calibrated which can be a challenge across different sectors with different production structures; 'true economic profits are difficult to determine in practice, which is why there is a risk of allocatively harmful distortive effects when attempting to tax them.'² There is empirical evidence that temporary windfall taxes have affected investment.³ However, if the threshold for excess profit is appropriately calibrated to reflect that the return on investment varies significantly between different industries, a permanent super profit tax should not discourage investment.

Australia's experience with the Petroleum Resource Rent Tax (PRRT) shows that setting an appropriate threshold is possible. Industry participants who currently face the PRRT, 'argued that because investors who encountered projects with poor rates of return...did not face an additional tax/royalty burden, there was a powerful incentive to invest in Australia.' Treasury concluded that 'given the magnitude of the investment in Australia's petroleum industry over the past decade, it is evident that the PRRT is not discouraging investment.'³ The IMF agrees that even with the PRRT in force, 'Australia's overall fiscal regime settings are not a deterrent to investment.'¹

Innovation & business formation - There is a concern that taxing excess profits, 'removes the incentives where profit expectations are highest, with detrimental effect on the economy' including innovation and lower business formation.⁴ Almost all economic activity is subject to substantial fluctuations where profits in some years are offset by losses in other years. ASX data shows that even extremely large companies will sometimes not make a profit in a year when they expand or face challenging market conditions.⁶ Some economists worry that, 'taxing above-average profits in good years would reduce market entries and thus the overall level of economic output' and discourage firms from participating in 'innovation races' which produce many losers and a few big winners.

Design features can alleviate these concerns. Economic cycles can be accommodated by allowing losses in past years to be deducted from present year's profits as in the current corporate income tax system. If an appropriate threshold is set 'entrepreneurial activities will not change. What maximises net profit in a world without a profit tax will also maximise profit for the entrepreneur if the government diverts some of that profit to itself with a tax.'⁴

1. IMF (2022) Taxing Windfall Profits in the Energy Sector. Available [here](#).

2. Treasury (2017) Petroleum Resource Rent Tax Review. Available [here](#).

3. European Parliament (2023) The effectiveness and distributional consequences of excess profit taxes. Available [here](#).

4. German Ministry of Finance (2022) Excess Profit Taxes. Available [here](#).

5. IMF (2022) Excess Profit Taxes. Available [here](#).

6. ATO (2023) Corporate Tax Transparency Report. Available [here](#).

FUNDING THE HOUSING GAP – Potential impacts of a super profit tax

Providing a ‘fair’ return to the use of public resources - In the case of super profit taxes levied on mining projects, most minerals are owned by the state, and their extraction represents the value of public property that is being transferred to private ownership. ‘The community has a reasonable expectation that when some of its property is given to a private party, that party will pay its full value.’¹

Stability - Stable fiscal settings are important for firms when making investment decisions. The EU notes that, ‘when confidence into a reliable tax system is lost, uncertainty increases and affects future investments negatively.’²

As part of Treasury’s review into the PRRT, ‘stability in tax arrangements was emphasised by industry as being a major factor influencing the attractiveness of a country as an investment destination and the stability of Australia’s tax arrangements was said to be a factor influencing the [2012 to 2014] investment boom. It was noted that Norway was looked on favourably because there had been little change in its tax arrangements, notwithstanding that its tax rate for petroleum is around 78%. In contrast, other jurisdictions were cited, such as the United Kingdom, who had increased taxes on the petroleum industry with a resulting decline in exploration and development.’³

A common criticism of the spate of temporary windfall taxes currently under consideration in the EU is that by introducing ad hoc taxation they erode trust in the rules-based system, increase investor risk and reduce investment.^{2,4}

Conversely, a permanent super profits tax with allowances for losses in previous years provides stability following the initial implementation. There may be a benefit to introducing super profit taxes on mining projects if there is an expectation by investors that temporary windfall taxes may be introduced in the future. As the IMF notes, ‘an intriguing argument in favor of rent-taxing instruments [in the energy sector] is that they give investors more certainty ex ante: the more progressive fiscal regime reduces political pressure on the government to subsequently introduce ad hoc fiscal instruments if a windfall profit materializes.’⁵ This argument is less persuasive for a super profits tax levied on non-mining companies since at present these are much less common.

Tax avoidance leading to lower revenue and market distortions – A super profit tax, like the existing corporate income tax, is likely to face international pressures in the form of profit shifting and tax competition potentially leading to lower revenues and market distortions.

The IMF⁶ and EU recommend that, ‘a coordinated introduction of excess profit taxes is preferable to reduce the scope for tax arbitrage’² and researchers have suggested that, ‘owing to emerging global tax data, norms, and governance structures, a global excess profits tax has better prospects than a series of unilateral measures.’⁷

Tax avoidance could also lead to market distortions if firms, ‘modify their financing structure, production structure, shareholding ratios, and the sectoral composition of the various subsidiaries in such a way that their return on capital hardly shows an excess return.’ For example, ‘the higher the company’s capital stock, the more profit the company is allowed to make without being penalised by regulators or tax authorities with a tax on the excess profit or excess return. This creates incentives for excessively capital-intensive production. It evokes evasive reactions, which then lead to welfare losses because regulated firms, in order to save taxes, deviate from cost-minimising behaviour.’⁴

Household wealth – By reducing the after-tax profit of firms, a broad-based super profit tax could reduce the dividends paid to shareholders and therefore household wealth. Dividends represent a company’s choice to return earnings to shareholders instead of being used for other alternatives. Australian companies have historically paid high dividends by international standards.⁸ This in part reflects the effect of tax policies, and Australia’s system of dividend imputation in particular.

Compliance costs – There are administrative costs for businesses in complying with taxes as well as costs borne by the ATO to administer the tax and to undertake audit activities in order to ensure compliance are minimal relative to the potential revenue raised.

1. Garnaut (2010) *Principles & Practice of Resource Rent Taxation*. Available [here](#).
2. European Parliament (2023) *Excess profit taxes*. Available [here](#).

3. Treasury (2017) *Petroleum Resource Rent Tax Review*. Available [here](#).
4. German Ministry of Finance (2022) *Excess Profit Taxes*. Available [here](#).

5. IMF (2022) *Taxing Windfall Profits in the Energy Sector*. Available [here](#).
6. IMF (2022) *Excess Profit Taxes*. Available [here](#).

7. Christians & Magalhaes (2020) *It’s Time for Pillar 3*. Available [here](#).
8. RBA (2016) *The Rise in Dividend Payments*. Available [here](#).

FUNDING THE HOUSING GAP - International precedents for SPTs

TEMPORARY

PERMANENT

SECTOR SPECIFIC

- In response to surging energy prices and cost of living pressures, the UN, EU and others called for windfall taxes on oil and gas companies.
- **United Kingdom’s Excess Profits Levy** (on top of the Supplementary Charge). The UK’s EPL taxes company-level profit from production activities at 25%. The tax expires at the earlier of December 2025 or once oil and natural gas prices return to “normal” levels. Estimated to raise extra revenue of £5bn in the first 12 months.
 - **European Union Solidarity Tax** proposes a 33% tax on profits that exceed 120% of average profits between 2018 and 2021. The EU estimates the tax would have generated revenue of 106 bn EUR in 2022. The revenues would be redirected to energy consumers, in particular vulnerable households, hard-hit companies, and energy-intensive industries.
 - **Finland’s Windfall Profit Tax** implements this policy for 2023 and estimates revenue to be 0.5-1.3 billion euros.

- Today, at least 32 countries have SPTs in the extractive sector; applied either before or after the corporate income tax, depending on the country.
- **Australia’s Petroleum Resource Rent Tax** was introduced in 1987. Sierra Leone, Timor-Leste, and others have similarly designed taxes.
 - **Norway’s Special Petroleum Tax** was introduced in 1975. This is comprised of Norway’s 22% corporate rate as well as a 56% “Special Tax” on the oil & gas sector. Since oil production began in 1969, about 80% of Norway’s oil revenue has accrued to the people via Oil Fund 1.0, who’s current \$1.25 trillion balance is three times Norway’s annual GDP.
 - **United Kingdom’s Supplementary Charge** was introduced in 2002. It is a tax of 10% on a company’s profits from extraction activities.

GENERAL

- Historical examples of EPTs were mainly motivated by revenue needs, while often the stated objective was to wipe ‘war profits’
- **United Kingdom’s Excess Profit Duty** active from 1915 to 1926. In 1918, the tax was 80 percent of the amount of profits above the “pre-war standard of profits. Revenue was 32% of total revenues in 1918 (or 4.5% of GDP).
 - **United States’** applied general excess profit taxes between 1917-21 and 1940-43. In 1943, for example, reached approximately 22% of total receipts, or 2.2% of GDP.
 - Other temporary war time excess profits taxes were introduced in Canada (1916, 1940), Denmark (1915), France (1915), Germany (1915), Holland (1916), Italy (1915), New Zealand (1916), Russia (1916) and Spain (1916).

- Permanent SPTs which cover all sectors are far less common but have been proposed.
- **IMF ‘Globally Coordinated EPT’** proposes taxing the excess profit of multinationals at a global level and allocating it to countries based on sales by destination. This is similar to the core idea of Pillar 1 of the 2021 Inclusive Framework agreement to reform the taxation of multinationals.
 - **Australian Super Profit Tax** proposed at a rate of 40% on company profits that exceed shareholder equity multiplied by 5% plus the long-term bond rate (with an offset for the first \$100m of turnover). The PBO estimates the underlying cash balance would increase by \$87 billion in total by 2025-26 and \$287 billion by 2032-33.

FUNDING THE HOUSING GAP – Case study: Australia’s Petroleum Resource Rent Tax

Australia’s Petroleum Resource Rent Tax (PRRT) has generated over \$40 billion in revenue since payments were first made in 1989-90.¹ which includes revenue from the short-lived Mineral Resource Rent Tax.² The PRRT functions as a charge for the transfer of community owned natural resources to private sector investors. The tax intends to promote the sustainable reinvestment of rent from the consumption of nonrenewable resources into other forms of capital.

Revenues from the PRRT have fluctuated since its inception in FY1990. Through the 1990s and early 2000s revenues averaged 0.2% of GDP p.a., reaching a peak of almost \$2.5 billion in FY2001. Since then, revenues as a proportion of GDP have been declining. Lower oil and gas prices and decreased production from mature fields reduced the average annual returns to an average of 0.12% of GDP p.a. between FY2004 and FY2016. Additionally, the level of deductible expenditure increased significantly during the mining boom, from approximately \$30 billion in FY2013 to over \$250 billion in FY2016.³

Beyond the overall reduction in revenues as a share of GDP, revenues has been relatively volatile. This is a result of the profit volatility of the mining sector and the competitive structure of the industry. Profits in the mining sector are particularly sensitive to oil and coal price changes. Unexpected price shocks, disruptions to production and large deductible capital expenditures can result in large differences between forecast and actual revenues. Further, the structure of the sector the PRRT is levied on, the mining sector, is made up of a small number of large taxpayers. This means that the deviation from forecasted revenues from even one of these taxpayers can significantly impact overall revenues.

The Federal Government has recently announced changes⁴ to the PRRT in response to the Treasury Gas Transfer Pricing Review.⁵ These changes introduce a cap on the use of deductions for LNG projects to 90% of each taxpayer’s PRRT assessable receipts. This, along with integrity reforms to be introduced from 1 July 2024, is expected to increase tax receipts by \$2.4 billion over the forward estimates.⁶

The PRRT sets a precedent for super profit taxes in Australia. As discussed on page 27, industry participants agree that the PRRT has not discouraged investment. However, it also shows the importance of the design and structure for a super profit tax. Despite the expectation that recent design reforms are expected to increase the revenues over the forward estimates, the PRRT hasn’t generated the revenue that was expected when it was first introduced.

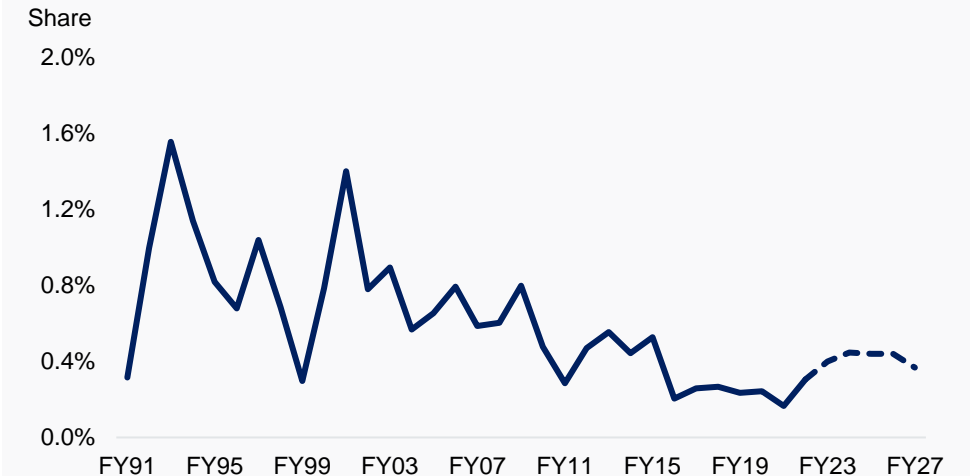
1. PBO (2023) Historical Fiscal Data. Available [here](#).
 2. MMRT was a tax on certain profits generated by the extraction of iron ore, coal and a subset of related activities first introduced in 2012 and repealed by the Coalition government in 2014.
 3. Freebairn (2015) Reconsidering royalty and resource rent taxes for Australian mining. Available [here](#).
 4. ATO (2023) Government response to the Review of the PRRT Gas Transfer Pricing Arrangements. Available [here](#).
 5. Treasury (2023) Review of Gas Transfer Pricing Arrangements. Available [here](#).
 6. Treasury (2023) Changes to the Petroleum Resource Rent Tax. Available [here](#).

PRRT historical and projected annual revenue



Source: PBO 2023-24 Budget.¹ Note: Also includes revenue from the Minerals Resource Rent Tax (MMRT) for FY13 to FY15.

PRRT annual revenue as a share of total taxation revenue



Source: PBO 2023-24.¹ Budget. Note: Also includes revenue from the Minerals Resource Rent Tax (MMRT) for FY13 to FY15.

FUNDING THE HOUSING GAP – Case study: Norway’s Special Petroleum Tax

The Norwegian “Special Petroleum Tax” was introduced in 1996 to ensure the country’s most important industry makes an equally important contribution to the national budget each year. The Super Petroleum Tax, when added to the corporate tax rate of 22%, taxes profits of the oil and gas sector at 78%. In 2023, the tax revenue from oil and gas is expected to reach \$127 billion representing \$23,500 per citizen.¹

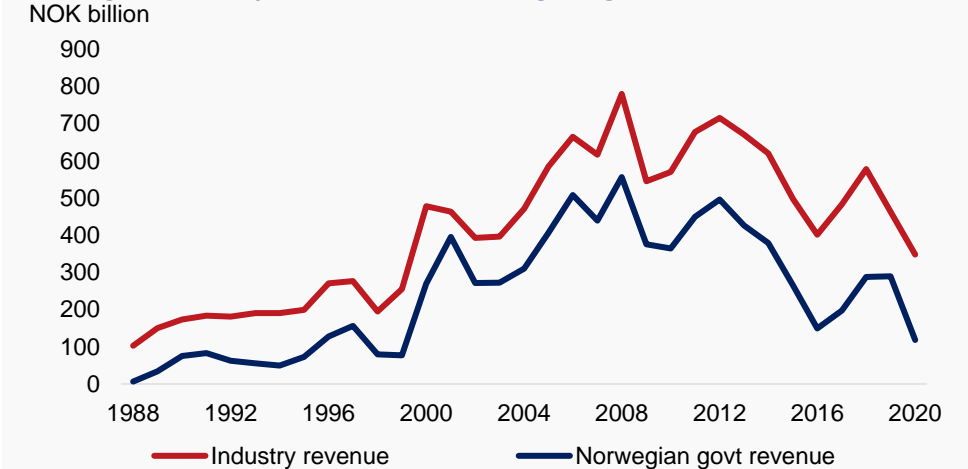
The effectively designed taxation mechanism in Norway taxes profits relatively consistently, with revenues from taxation in line with industry revenues as profits grow. In contrast, the gap between industry and government revenues in Australia has been increasing since the early 1990s, particularly post 2016 as deductions have increase rapidly. Over this period, the Australian fossil fuel industry received billions of dollars in taxpayer funded subsidies, with tax revenue remaining relatively unmoved as revenues surged.¹

Continued development has taken place in the Norwegian petroleum tax system since it’s inception. The petroleum tax system has moved away from an approach tailored to the prevailing oil price and towards a fixed regime independent of that price. Among the modifications which have yielded greater neutrality are the ability to carry losses forward with a risk-free interest rate, opportunities for transferring tax related losses when winding up companies, and direct payment of the government’s share of exploration costs by tax refund.² These efforts toward neutrality encourage companies to maximize pre-tax value by avoiding distortionary design features and maintaining incentives to continue production and invest in new exploration. Norway’s Super Petroleum Tax is widely considered to be near perfectly neutral.³

The funds raised by the Norwegian government from the petroleum industry are transferred in full to the Government Pension Fund Global. The first transfer into the fund was made in 1996 and it is now worth AUD \$1.9 trillion or around \$350,000 for each of Norway’s 5.4 million citizens.¹ These funds are used to ensure a more equitable and sustainable use of petroleum revenues, supporting pension expenditure and ensuring a sound long-term contribution to intergenerational equity.

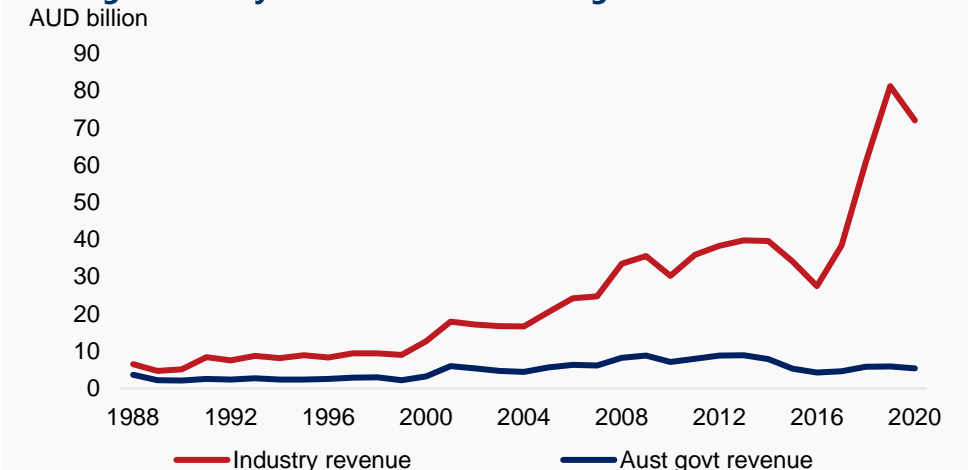
Australian and Norwegian oil & gas industries have generated similar amounts of revenue over the past few years. However, the differences in structure from the Australian and Norwegian government in taxing the profits from the extraction of natural resources has resulted in two vastly different outcomes. The key differences have been in the effective design of the PRRT to ensure the level of economic rent collected from oil & gas extraction is reflective of the importance of the industry to their economy. Equally important has been the development of a relatively neutral and well structured tax system in order to maintain incentives and ensure industry and government revenues do not become disconnected.

Oil & gas industry revenue vs. Norwegian government revenue



Source: The Australia Institute, Norsk Petroleum. Note: Norwegian govt revenue includes corporate tax, special tax, royalties and dividends from State-owned producers.

Oil & gas industry revenue vs. Australian government revenue



Source: The Australia Institute, APPEA. Note: Australian government revenue includes PRRT, production excise, royalties and fees, corporate taxes, and other taxes and fees.

1. Australia Institute (2022) Norway shows how Australia can get a fair return from oil and gas. Available [here](#)
 2. Deloitte (2014) Oil and gas taxation in Norway. Available [here](#)
 3. Lund (2014) State participation and taxation in Norwegian petroleum. Available [here](#)

TECHNICAL APPENDIX

TECHNICAL APPENDIX – Social & affordable housing

This section provides a high level overview of the approach and key modelling assumptions used to produce the social and affordable housing stock and investment estimates.

Quantifying the gap

An overall assessment of the estimated existing **combined need** for social and affordable housing was undertaken based on assessments of households currently living in 'rental stress' and implied need from the reported number of individuals classified as 'homeless'. More specifically, the current 'unmet need' for social and affordable housing was estimated using 2021 Census data as the number of households in the bottom two income quintiles who were paying over 30% of their income in rental costs, plus the implied need for housing based on the number of people classified as homeless. It is noted that homeless individuals are not simply those lacking housing of any kind (i.e., rough sleepers) but include those assessed by the Australian Bureau of Statistics as being housed in unsatisfactory circumstances (i.e., severely overcrowded).

The share of total lower income households was projected based on trends to the overall number of households over the past decade, and this then formed the basis for projecting the relative share of total lower income households experiencing rental stress. Short run estimates of the number of households in rental stress were required due to the pandemic-related volatility and these were based on movements in affordability ratios published by CoreLogic¹. A conversion of these households was made to account for the implications for total unmet dwellings, noting that 'household' refers to the people who are living in a housing structure and a 'dwelling' describes the actual structures themselves. Dwellings was the preferred measure for quantifying the housing gap for a variety of purposes, including allowing for a minor level of untenable and/or vacant dwellings.

The shortfall of private rental homes available and affordable to the lowest quartile income renters is often used to estimate the number of additional social rental dwellings required. However, a more direct indicator of increased **demand for social housing** is the number of households already in social housing plus those on waiting lists. We have adopted an approach of quantifying and projecting a) existing social renters, and b) expressed need via social housing waitlists.

The currently met need (i.e., existing social renters) has been projected as a share of households to 2041, while the same approach was adopted for estimating total unmet social household demand (i.e., the waitlist). Note that this implicitly includes homelessness where they are currently on the waitlist.

The estimate of **demand for affordable housing** was then determined by deducting social housing need from the combined need, noting that this includes homelessness that are not currently registered on the social housing waitlist.

Estimating the investment required

Cost calculations are based on ABS data relating to building activity in Australia (Cat. 8752.0) which identifies the overall total public and private sector dwelling commencements across Australia, including the total value and total number of dwellings. The information relating to public sector housing has been adopted for social dwellings, while a mid-point between public and private costs was used as a guide for affordable housing construction costs. Annual construction costs to the period to 2041 were inflated by 3.7% per annum for social housing and by 3.5% per annum for affordable housing using our integrated construction sector modelling framework.

1. CoreLogic (2023) Housing Affordability Report May 2023. Available [here](#)

TECHNICAL APPENDIX – Social & affordable housing impacts

Rents - Based on our property market modelling framework, forecasts of rent are fundamentally being driven by the historical relationships between household incomes, dwelling stock and population movements. Our models provide a set of tools for conducting rigorous scenario analysis which we used for this project to analyse the implications of a sudden rise in residential construction on the performance of the national property market. In order to estimate the impacts of closing the housing gap, we modelled the alternative scenario which included a 'shock' of an additional 52,606 dwellings per annum between 2024 and 2041. To put an additional 946,900 dwellings (i.e., the social and affordable housing gap) into perspective, it is noted that the estimated dwelling stock in Australia in 2023 was just under 11 million dwellings and an 'unshocked' rise to 14 million dwellings is expected by 2041.

Prices - Movements in rent are used as one input into the modelling of residential prices, however our model uses several other factors to influence and drive price outcomes. Other major inputs include household income, carrying cost and mortgage rates.

It is emphasised that estimates of the impacts on median rents and prices are for the total market, noting there will be distributional impacts which we have not modelled.

Inflation - Our estimates take the weighting for rents in the CPI basket (5.75%)¹ and apply the modelled decrease in rental prices discussed above to OE's baseline CPI forecasts. As a result, these estimates only include first round price impacts. We assume that the RBA is successful in their mandate to keep inflation within the 2-3% target band over the medium term however an impact of this magnitude is unlikely to affect RBA rate setting.

1. ABS (2022) Annual weight update of the CPI and Living Cost Indexes. Available [here](#).

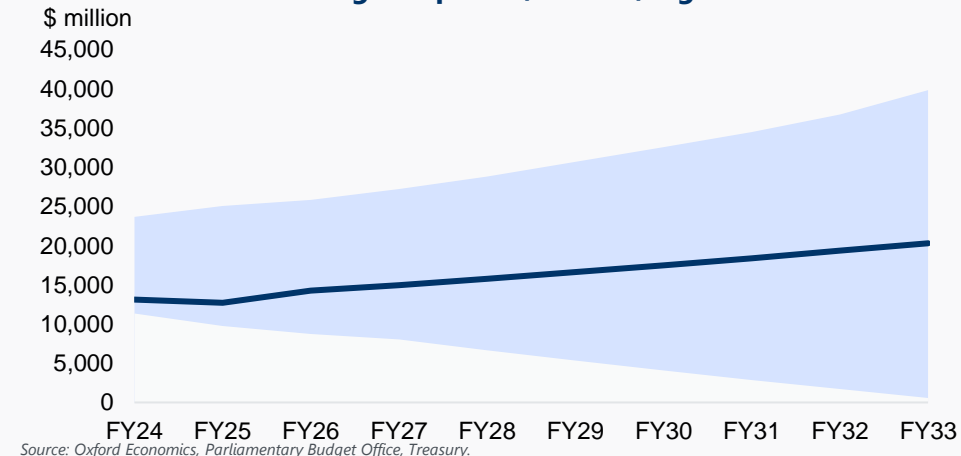
TAX REVENUE – Non-mining SPT revenue estimates

Central estimates for a super profit tax levied on non-mining companies are based on costings for similar policies prepared by the Parliamentary Budget Office (PBO).¹

The PBO costings are based on a policy which would introduce a 40% tax on post-company tax Australian-sourced profits for companies with a turnover greater than \$100 million with, 'an allowance for corporate equity equal to shareholder equity multiplied by 5% plus the long-term bond rate...Companies would be able to look back over the ten years prior to the introduction of the tax and accumulate a balance of super-profits losses that could be utilised from the start of the proposal...Super-profits tax would not be deductible for company tax purposes.'²

We adjust the SPT revenue estimated in the PBO costings from 2021 and 2022 to reflect current economic conditions. In the short run the PBO estimates of SPT revenue are adjusted by Treasury's budget forecasts of corporate gross operating surplus.³ In the long run, it is assumed that corporate gross operating surplus stabilises as a share of nominal GDP and therefore is grown by Treasury's long run forecast of nominal GDP.

Annual impact on the underlying cash balance from a super profit tax levied on non-mining companies, central, high & low estimates



The final central estimate is the simple average of the two adjusted PBO costings including the second-round impacts on personal income taxes (through lower dividend payments) and the cost to the ATO of administering the tax.

There is a very high degree of uncertainty in these estimates. As Treasury notes, 'company profits are highly sensitive to changes in the economy, and concentrated – with a significant proportion of corporate taxes paid by large companies in a few specific sectors of the economy'.⁴

To reflect economic uncertainty we have used the historic volatility in non-mining gross operating profits to generate high and low estimates around the central forecast (one standard deviation in the annual growth in non-mining gross operating profits is 8%).⁵ The final high and low ranges are the maximum and minimum in each year of all previous PBO estimates and one standard deviation above and below the final central estimate. The central estimate not in the middle of the range because we include the previous PBO estimates in the max/min calculation and are outside the 1SD band in the short term.

Depending on domestic and international economic cycles, as well as the design and implementation of the tax, a super profit tax on non-mining companies with a turnover over \$100 million could raise as much as \$350 billion over the next 10 years or as little as \$72 billion.

1. Parliamentary Budget Office (2021 & 2022) Available [here](#) and [here](#).
 2. Parliamentary Budget Office (2022) Available [here](#), Page 246.
 3. Federal Treasury (2021, 2022, 2023) Budget Paper no.1. Available [here](#) and [here](#).

4. Treasury (2021) Budget Paper No. 1, p229 Available [here](#).
 5. ABS (2023) Catalogue 5676.0 Business Indicators, Australia. Table 11. Available [here](#).

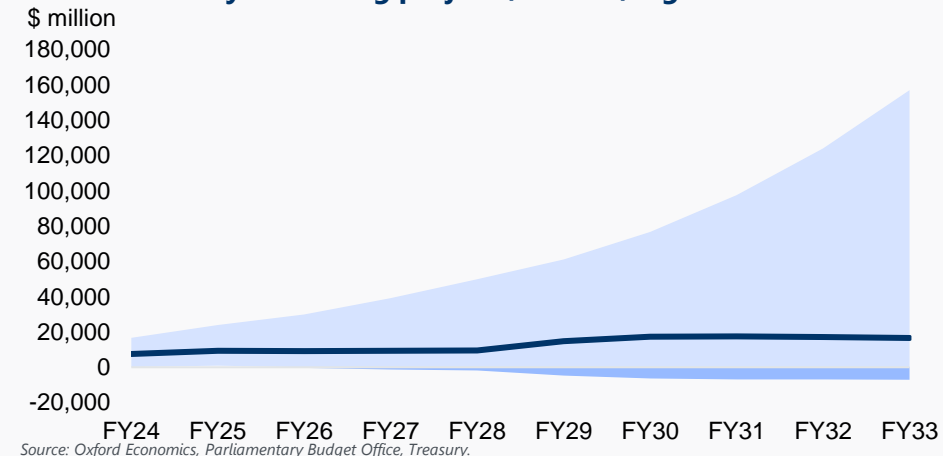
TAX REVENUE – Mining SPT revenue estimates

Central estimates for a super profit tax levied on mining projects are based on costings for similar policies prepared by the Parliamentary Budget Office (PBO).¹

The PBO costings are based on a policy which would introduce a 40% tax on the super profits of individual Australian mining projects, where 'the super profits would be calculated at the project level as revenue less expenses. Project expenses would comprise of general project operating expenses...equal to the project's starting capital base depreciated on a straight-line basis over the first five years of the proposal...uplifted each year at the 10-year government bond rate plus 2%.' The super profit tax would be levied in addition to the existing 30% company tax rate and applied as a deductible expense for company tax purposes.²

We adjust the SPT revenue estimated in the PBO costings from 2021 and 2022 to reflect current economic conditions. In the short run, the PBO estimates of SPT revenue are adjusted by nominal commodity export values forecast by the Department of Industry, Science and Resources³ reflecting changed expectations for commodity prices, production volumes and exchange rates.

Annual impact on the underlying cash balance from a super profit tax levied solely on mining projects, central, high & low estimates



From 2027-28, the original PBO growth rate is applied to the adjusted base with a one-year lag to reflect that, 'the starting capital base deductions cease at this time as the starting capital base would have been fully depreciated over the first 5 years of the proposal.'² The final central estimate is the simple average of the two adjusted PBO costings including the second-round impacts on personal and company income taxes and the cost to the ATO of administering the tax.

There is a very high degree of uncertainty in these estimates. As Treasury notes, 'resource tax revenue has been relatively volatile over time...Oil price changes and one-off unexpected events such as large (deductible) capital expenditures or disruptions to production can cause large deviations from forecasts.'⁴

To reflect economic uncertainty we have used the historic volatility in mining gross operating profits to generate high and low estimates around the central forecast; one standard deviation in the annual growth in mining gross operating profits is 25%.⁵ The final high and low ranges are the maximum and minimum in each year of all previous PBO estimates and one standard deviation above and below the final central estimate.

A super profit tax on mining projects could reduce the underlying cash balance by \$30 billion over the next 10 years if mining profits do not exceed losses from the interaction with personal income tax (through lower dividend payments) and company income taxes (through higher tax avoidance activities). However, the risk is skewed to upside. Depending on commodity prices, domestic and international economic cycles, as well as the design and implementation of the tax, a mining SPT could raise as much as \$680 billion over the next 10 years.

1. Parliamentary Budget Office (2021 & 2022) Available [here](#) and [here](#).

2. Parliamentary Budget Office (2022) Available [here](#), Page 251-3.

3. Department of Industry, Science and Resources (2021, 2022, 2023) Resources and energy quarterly. Available [here](#).

4. Treasury (2017) Petroleum Resource Rent Tax Review, p38. Available [here](#).

5. ABS (2023) Catalogue 5676.0 Business Indicators, Australia. Table 11. Available [here](#).

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