PROSPERITY | JOBS | STRONG COMMUNITIES

WA Budget Submission 2018 - 19

#keepWAgrowing

PURPOSE OF SUBMISSION

This document has been developed by the Property Council of Australia, the representative body for the broad property industry, in anticipation of the State Budget for 2018 –19.

The Submission has been prepared against the broader context of the current financial challenges facing the State Economy and emerging signs of a broad recovery in WA's property markets and outlines the key priorities of the property industry going forward.

The Property Council calls on the State Government to use the upcoming State Budget to encourage the emerging recovery in the property and construction sectors, and to create more jobs and attract higher population growth rates for WA.

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PROPERTY COUNCIL OF AUSTRALIA

Who we are

Property is the nation's biggest industry – representing one-ninth of Australia's GDP and employing more than 1.1 million Australians.

Our members are the nation's major investors, owners, managers, and developers of properties of all asset classes. They create landmark projects, environments, and communities where people can live, work, shop, and play.

The property industry shapes the future of our cities and has a deep long-term interest in seeing cities prosper as productive and sustainable places.

A pillar of WA

The property and construction industry also underpins the health and prosperity of the WA economy. The industry:

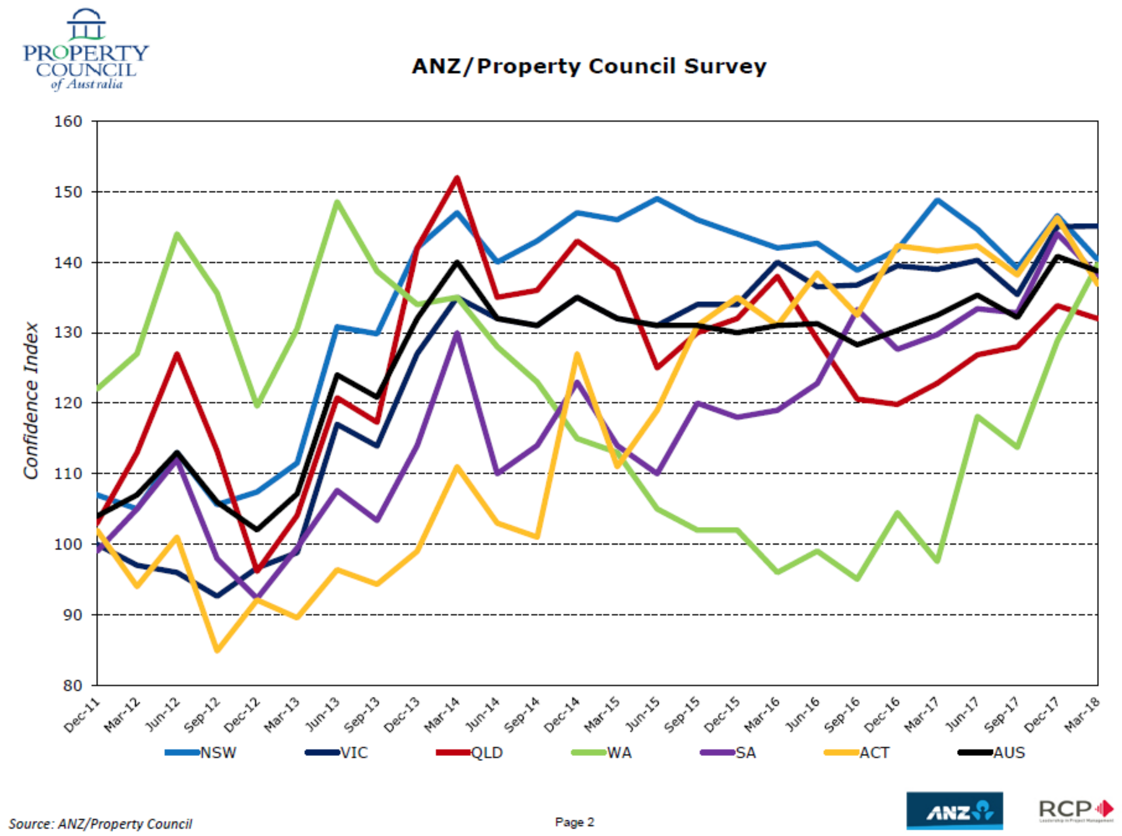
- generates over 205,000 jobs – one in ten workers
- provides $11.7 billion in wages to workers and their families
- pays $6.4 billion in state taxes, Local Government rates, fees, and charges - the state's single largest tax payer
- contributes $31.8 billion directly to Gross State Product - 12 per cent of total GSP

Budget Submission

The Property Council of Australia welcomes the opportunity to provide a submission to the 2018-19 Western Australian Budget.

As the largest and most active organisation in the property industry, we are committed to driving solutions that enhance WA's economic future. Property Council members are long-standing investors in our State and have a strong interest in seeing it prosper. Our members understand the need to constantly improve WA's liveability, prosperity, and affordability. A robust economic strategy delivered through the State Budget will ensure that these objectives are achieved.

INDUSTRY CONFIDENCE



Property industry confidence on the rise

Property industry confidence has risen strongly from a low-point in the September quarter of 2017. Industry sentiment across the WA property industry increased by 42 basis points in the last 12 months, by far the highest of any state, according to data from the latest ANZ/Property Council Survey.

As business confidence in the east appears to be coming off the boil, WA has bucked the trends being the only state to record a positive shift in sentiment over the last quarter. Confidence for WA rose from 129 to 140 index points, bringing us equal to NSW and second only to Victoria.

WA is poised for an economic turnaround and our state regulators must ensure the correct policies are in place that will allow WA businesses to innovate and grow employment opportunities in the expected upswing. This will require keeping property taxes low, pressing on with planning and strata reform, and implementing Infrastructure WA.

RECOMMENDATIONS

The Property Council puts forward the following key recommendations which represent the property industry's priorities for the year ahead.

KEY RECOMMENDATIONS:

1. Encourage recovery in the WA property and construction sectors and create more jobs, by ruling out increases to state property taxes or introducing new taxes.
2. No increase in the Perth Parking Levy as it is a highly inequitable tax that negatively impacts businesses in the CBD already struggling with high office vacancies and low retail trade.
3. Incentivise more infill housing in major urban areas and around key urban projects including METRONET precincts, by providing a stamp duty exemption relating to the land component in off-the-plan residential dwelling purchases prior to completing construction.
4. Introduce a stamp duty concession for eligible seniors that are downsizing to a newly built residence under $550,000.

5. Apply a suite of land tax reforms, including:
   - Reduce the top marginal rate of land tax to be more competitive with other states and phase out aggregation by moving to a flatter land tax structure with fewer tax thresholds
   - Cap annual increases in land tax assessments
   - Broaden the land tax base through a reassessment of minimum tax thresholds and a review of entities (excluding owner occupier housing) that escape the land tax net
   - Extend the land tax exemption for retirement villages to include land on which a village is being constructed
6. Step up the state asset recycling program, including the sale of WA's land titles registry, to reduce state debt and to fund state infrastructure projects.
7. Encourage more public-private partnerships for infrastructure delivery.
8. Commit to the establishment of a City Deal partnership in WA to fund infrastructure; and
9. Defer the introduction of the foreign owner stamp duty surcharge and exclude from the surcharge investment in housing developments of 10 or more properties.

MAINTAIN THE RECOVERY IN PROPERTY MARKETS BY NOT INCREASING PROPERTY TAXES

Recommendation 1

Encourage recovery in WA property and construction sectors and create more jobs, by ruling out increases to state property taxes or introducing new taxes.

Despite the WA property market being in a depressed state while the rest of Australia is mostly booming, WA continues to suffer from some of the highest rates of property tax increases. There is absolutely no capacity for further increases in taxes. In fact, the WA property sector desperately needs taxation relief to assist with market recovery.

Data collected by the ABS found that revenue from property taxation in WA is growing at a faster rate than the rest of Australia, despite the depressed state of the local market (see table below). In 2015-16 land tax revenue rose by 27.5% in WA compared to an 8.4% increase for all of Australia. Revenue from municipal rates in WA rose by 7.4% in 2015-16 compared to the Australian average of 5.5%. Only stamp duty revenue in WA rose by a lower amount than the Australian average, which is because of the historically low levels of property transactions in WA. In fact, it is concerning that stamp duty revenue rose at all, by 3.4% in WA, in such a depressed market.

State and Local Property Tax Revenue, WA 2015-16

	($ M)	Annual Growth	
		WA	Aus.
Land taxes	941	27.5%	8.4%
Municipal rates	2143	7.4%	5.5%
Stamp duty	1743	3.4%	11.9%
Other	577	11.6%	19.3%
Total	5404	9.4%	9.6%

ABS

Furthermore, in the last four years land tax rates in WA have risen by 50% and final land tax assessments have escalated by over 100% due to aggregated land revaluations. Stamp duty has also risen to represent around four percent of the purchase price of a home in WA, which is more than the deposit for most home-buyers.

ACTIVATE CENTRAL PERTH BY NOT INCREASING PARKING COSTS

Recommendation 2

No increase in the Perth Parking Levy as it is a highly inequitable tax that negatively impacts businesses in the CBD already struggling with high office vacancies and low retail trade.

The Perth city centre is currently facing significant economic challenges following the decline of investment in WA's resources sector. CBD office vacancies are at 22% which is the highest in 20 years. In the retail sector, the CBD vacancy rate is 16%.

Given the current situation in the CBD - the Property Council is concerned that the State Government will raise the Perth Parking Levy. This nuisance tax requires all-non-residential parking bays within the Perth Parking Management Area (PPMA) to be licensed with a fee payable.

The Perth Parking Levy raised an estimated $34 million in 2012/13 with a $365 per bay increase announced in the 2014/15 Budget (despite the $48 million of funds unspent). The sole purpose of this levy is to manage congestion, increase the use of public transport and funding the free Central Area Transit buses.

The parking levy is highly inequitable as it only captures a small proportion of the cars contributing to CBD congestion. Given the geographic layout of the Perth CBD, there is significant 'pass through' congestion that is not captured by the parking levy. This makes the tax highly inequitable and inefficient with minimal reductions to CBD congestion.

The car parking licence fee has risen too far, and it now represents a disincentive to property investment in the CBD.

"The car parking licence fee has risen too far, and it now represents a disincentive to property investment.

INCENTIVISE INFILL HOUSING OBJECTIVES

Recommendation 3

Incentivise more infill housing in major urban areas and around key urban projects including METRONET precincts, by providing a stamp duty exemption relating to the land component in off-the-plan residential dwelling purchases prior to completing construction; and provide seniors with more housing choice.

Stamp duty in WA is payable on off-the-plan purchases of new dwellings, which is the typical process for infill development in medium to high density scenarios. In contrast, stamp duty is only payable on the purchase of land in a greenfield development, not the separate home building contract. Therefore, stamp duty in WA is payable on off-the-plan purchases and established housing. Stamp duty acts as a penalty for off-the-plan purchasers and discourages infill development.

Stamp duties on property transfers are an area where government can positively influence the real estate market and realise contemporary urban policy objectives. A successful programme of off-the-plan stamp duty concessions has bolstered Sydney and Melbourne's inner-city development and facilitated a dramatic increase in medium and high-density living. Stamp duty should be applied fairly to off-the-plan apartments when contracts are signed before construction has commenced, and should be structured so that transfer duties are only paid on the land portion. This would bring stamp duty arrangements in line with the practice on the urban periphery.

A sliding scale for the application of stamp duty during construction increases transfer duties until the building is complete and the full rate of stamp duty applies. Again, this would bring the application of stamp duty for higher density housing in line with the practice for single-detached dwellings where stamp duty is paid on the full transfer value of a property (house and land).

Stamp duty reduces the efficiency of the property sector as it distorts decision-making and provides a volatile source of revenue for the government that is vulnerable to economic conditions. The Government should heed the ERA's advice to reduce reliance on, or abolish, stamp duty as the efficiency gains would likely be considerable.

To 2016, the average stamp duty paid for an apartment was $25,508, which resulted in an average $12.75M paid in stamp duty per quarter. Data for Q4 2016 showed that this fell to $5.6M.

The urban growth plan for Perth and Peel@3.5million confirms a target of 47% of new dwellings in the Perth metropolitan area to be delivered as infill by 2050. Stamp duty has a role to play in encouraging housing diversity by balancing the mix of infill and greenfield development. However, the current stamp duty structure discriminates against apartment developments.

A new stamp duty structure should be introduced for off-the-plan residential dwelling purchases.

The new structure should comprise a sliding scale for the application of stamp duty during construction which increases transfer duties until the building is complete and the full rate of stamp duty applies. This would bring the application of stamp duty for high-density housing in-line with current practice in single-detached dwellings.

This initiative would support the State Government in meeting its infill target, would encourage movement in a stagnating residential property market, and would potentially increase the amount of stamp duty raised.

Recommendation 4

Introduce a stamp duty concession for eligible seniors that are downsizing to a newly built residence under $550,000

WA is facing a growing and serious problem of limited access to diverse housing options for seniors. Other states are addressing the problem with a raft of policies, including financial assistance for seniors choosing to downsize into more suitable housing.

Housing availability and affordability are two key barriers to downsizing for pensioners. Between 2001 and 2010 older downsizing home owners paid between 8 and 10 per cent of the money they obtained after selling their home in stamp duty on their new dwelling. This is a major constraint in the orderly functioning of the property market.

To support pensioners wishing to downsize, the Property Council is calling for the introduction of a targeted concession for aged pensioners selling their existing residence and purchasing a newly built place of residence under $550,000. Other states that have seniors' housing incentives have found that 60 years of age is the most effective point for qualifying for assistance. The recommended purchase price threshold of $550,000 and below is in line with the current median house price in Perth[1].

The benefits of such a move would be significant with evidence showing that seniors struggle to meet the large transaction costs involved with downsizing. By limiting the scheme to newly built residences, the Government will be promoting construction (particularly of smaller properties likely to be delivered in strategic precincts), creating jobs, and fostering growth. The scheme has significant potential to be introduced as a trial, for example for a 2-year period.

This would allow the Government to measure the success and feasibility of the scheme before deciding to commit in the longer-term. Such a scheme would promote housing mobility and free up much needed larger housing stock and potential development lots for families or for redevelopment for greater housing diversity. This would also contribute to meeting the infill targets set out in Perth and Peel@3.5 million.

[1] *Australian Bureau of Statistics,* Residential Property Price Indexes: Eight Capital Cities, Sep 2015

MAKE LAND TAX FAIRER

Recommendation 5

Apply a suite of land tax reforms, including:

- Reduce the top marginal rate of land tax to be more competitive with other states and phase out aggregation by moving to a flatter land tax structure with fewer tax thresholds
- Capping annual increases in land tax assessments
- Broaden the land tax base through a reassessment of minimum tax thresholds and a review of entities (excluding owner occupier housing) that escape the land tax net
- Extend the land tax exemption for retirement villages to include land on which a village is being constructed

Narrow land tax base

Western Australia suffers from having the narrowest land tax base in Australia with around 80% of total land tax revenue paid by less than 10% of land tax payers. This is caused by a land tax structure that is excessively weighted to higher rates of tax at the top end, and a patchwork of tax thresholds and exemptions. The result is greater taxation of business tenants in WA, a disincentive to invest in WA and business inefficiencies as taxpayers manoeuvre to escape the land tax net.

The top marginal rate of land tax in WA, 2.67%, is the second highest in Australia (plus an additional .014% in metropolitan Perth for the Metropolitan Regional Improvements Tax). In NSW and QLD the top marginal rate of land tax is 2%, and in Victoria it is 2.25%.

The WA land tax structure also has the greatest number of tax thresholds - seven, which worsens the impact of aggregating multiple land holdings under ownership for land tax assessment. In NSW there are only three thresholds.

The Property Council is calling on the WA Government to reduce the top marginal rate of land tax to be more in line with the other large states that compete with WA for investment; and gradually move to a flatter land tax structure with fewer thresholds to reduce the punitive effect of land aggregation for land tax assessment

Aggregation

The unfairness and inequity of the current land tax framework is driven by the practice of aggregation at an entity level. Generally, the purpose of provisions which aggregate land held by a person and other related persons is to ensure equity and fairness between taxpayers. The driving principle behind aggregation is that tax payers are assessed on the taxable value of all land and interests in land owned, regardless of ownership structure. The higher land values that result from aggregation push property owners into higher marginal land tax rates, which are then applied to all property owned in the portfolio, regardless of the individual property value.

Aggregation is inefficient because the assessment process creates an artificial premium on land that is being taxed. Ultimately, aggregation reduces competitiveness for capital and makes property investment less attractive as it is usually highly geared and is significantly affected by tax policy. The economic incidence of this tax is passed on to the tenants or reduces investor returns, which distorts behaviour and erodes efficiency of the tax system. For example, a typical commercial property owner pays an additional $5 million over 5 years due to aggregation.

Impact of Land Tax Aggregation on a Typical Property Portfolio

Date of Land Tax Assessment	Land Tax as Assessed (Aggregated) ($)	Increase since Previous Assessment ($)	Liable Land Tax (Non-Aggregated) ($)	Additional Land Tax Paid due to Aggregation ($)	% Increase in Land Tax
30/06/2009	$ 1,534,452		$ 426,967	$ 1,107,485	159%
30/06/2010	$ 1,548,812	$ 14,360	$ 432,455	$ 1,116,357	158%
30/06/2011	$ 1,611,472	$ 62,660	$ 468,242	$ 1,143,230	144%
30/06/2012	$ 1,642,118	$ 30,647	$ 486,006	$ 1,156,112	138%
30/06/2013	$ 1,932,663	$ 290,545	$ 585,516	$ 1,347,147	130%
	$ 8,269,516		**$ 2,399,185**	**$ 5,870,332**	Av. 146%

In the example above a property owner with a portfolio of properties, on average, pays a 146% land tax premium because of aggregation. This artificial premium is a penalty by the land owner's corporate structure and ultimately means that a diminishing tax base is contributing a majority of the State's land tax income. This is unsustainable and requires urgent reform.

Exemptions

In addition to aggregation, the fairness and equity of the current land tax framework is compromised using exemptions. The justification to exempt some types of land is to promote certain land uses. However, these exemptions must be used sparingly to encourage property development that meets the needs of the community. The current use of exemptions undermines the land tax base while failing to promote property development that supports the community's needs.

The most notable example is the recent amendment to the *Land Tax Assessment Act 2002* to overturn the State Administrative Tribunal's decision concerning retirement village land tax exemptions. The Tribunal determined that where some land was used for an exempt purpose, there was significant exemption to apply to all land. Since this decision, the government has amended the legislation retrospectively to ensure that only a proportion of the land receives the benefit of an exemption. The need to support Western Australia's ageing community should be a high priority for government. Instead every attempt is made to tax the property sector, in this instance the retirement living sector which provides necessary housing infrastructure for the ageing population.

Furthermore, land used as a retirement village is exempt from land tax provided the residential premises in the village are occupied, or available for occupation, under a residence contract, and all necessary *Building Act* approvals for the village are in force. However, the limited scope of the retirement village exemption does not cover the period when a retirement village is being constructed. The liability for land tax during the construction phase adds to the cost of retirement village development, which is ultimately passed onto the residents in the retirement village through more expensive entry costs. This application of land tax goes against the justification of exemptions.

The Victorian Government has taken the initiative to widen the land tax exemption for retirement villages. Since January 2011, the land tax exemption for retirement villages in Victoria has applied to land on which a retirement village is being constructed (see section 78A, Land Tax Act 2005 (Vic)). Under 78A (2), the exemption applies up to the date of construction completion, or the expiry of the tax years following the commencement date of construction. The tax exemption support of retirement villages in other States puts Western Australia in a distinct disadvantage in the competition for capital to deliver new retirement villages.

Exemptions need to promote property development that meets the needs of the community. Exemptions should be used sparingly and applied intelligently to successfully drive policy outcomes. The current suite of exemptions undermines the land tax base and results in a small minority of tax payers contributing most of land tax revenue without delivering much needed incentives to encourage property development that meet the needs of the community.

USE ASSET RECYCLING TO FUND INFRASTRUCTURE

Recommendation 6

Step up the state asset recycling program, including the sale of WA's land titles registry to reduce state debt and to fund state infrastructure.

With Western Australia's limited capacity to invest in infrastructure, due to high state debt and weaker revenues, the State is restricted in its capacity to fund and finance public infrastructure in addition to funding the provision of recurrent services from the revenue it collects.

The sale of state assets has already been identified as a budget repair strategy however reducing debt is a short-term approach that does not create jobs or grow the economy.

The recycling of state assets should be clearly linked to State Government policy, a clear marketing strategy and growing the WA economy. In view of the State's budget situation, we encourage the Government to reconsider its earlier decision not to proceed with recycling key public assets, including its decision on the partial sale of Western Power. Other states have successfully embraced privatisation and used the proceeds to invest in and fund new transport infrastructure projects. A review of the current asset base is required to identify assets suitable for recycling.

In addition, a State Government incentive structure is needed to urge participation in the asset recycling process, by actively encouraging government agencies, government trading enterprises and local governments to review their land and property portfolios.

The State's land assets sales program has not achieved the level of state debt reduction originally contemplated by Government. The program has also lacked a clear marketing strategy to bring a pipeline of land to market and there has been a limited supply of good quality land that does not require deconstraining.

The sales program needs to produce a list of assets and rank them according to which sites will be sold as is or englobo, and which assets will be subdivided or derisked and then sold.

The State should have a transparent process for agencies to dispose of or acquire state assets based on state government policy to deliver improved transport, housing, schools and medi-hotels.

The sales program needs to be market-facing including a process for engaging industry in market sounding and setting clear timeframes for releasing land to market and having a highly visible marketing campaign to inform the market.

The sales program should be aligned with broader State Government policy so that funding from land sales is used to deliver METRONET, affordable housing, schools, or the necessary infrastructure to create high quality activity centres and liveable suburbs.

The program should be further augmented by a clear and transparent process for unsolicited bids.

Privatisation of Land Title Registry

The Property Council supports the Government's decision to potentially privatise WA's land title registry. The decision to privatise land title registries in other states has proven to be a successful asset recycling initiative as well as delivering major benefits for consumers.

Privatisation can lead to greater innovation in product delivery and Government can use proceeds from the sale to fund key budget measures such as infrastructure delivery.

To maximise the benefits to the State, a commitment to open data should be considered as a term of the sale. Landgate allows limited access to open data and the costs for industry and the community to access data are high in comparison to other States.

Additionally, action should be taken to ensure the cost of buying or selling a property does not increase. It is important that privatisation results in more competition in the market for property information and that the public continues to have affordable access to data to help homebuyers and tenants.

Finally, we encourage Government to ensure that through any sale it retains State support for the integrity of each title. Without this, landowners will be likely to require title insurance, and the impost of this would put further pressure on the cost of owning a home.

"Privatisation can lead to greater innovation in product delivery and Government can use proceeds from the sale to fund key budget measures

ENCOURAGE INNOVATIVE FUNDING INITIATIVES FOR WA INFRASTRUCTURE INVESTMENT

Recommendation 7

Encourage more public-private partnerships for infrastructure delivery.

The case for public-private partnerships (PPPs) has been well established and tested in the Australian context.

PPPs are vital to the development of infrastructure in Australia as they allow governments and the private sector to work together according to the most economic and efficient asset ownership and service delivery arrangements.

PPPs enjoy a good reputation in the eastern states for delivering large state infrastructure projects that might otherwise not have been possible without associated ballooning of public debt.

The WA Labor Government should investigate PPP models with a view to reforms that would establish procedures to govern pre-contractual decision-making, as well as monitoring and oversight in the construction and operating stages.

Recommendation 8

Commit to the establishment of a City Deal partnership in WA to fund infrastructure

The federal government is offering concessional loans or equity deals to deliver infrastructure projects in partnership with state and local government and the private sector.

City Deal projects need to deliver transformative outcomes beyond the economy and improved infrastructure services, and also outcomes that benefit the wider community over the long term.

WA Labor's commitment to METRONET and other public transport infrastructure will not only deliver jobs and provide economic growth – it will also deliver housing affordability and vibrant urban environments that are easily accessible. However, these projects will require innovative funding arrangements to get off the ground and would therefore benefit from a City Deal approach.

A City Deal will not only provide a coordinated investment plan for WA it will also bring together all levels of government, the private sector, and the community in delivering iconic land use and transport infrastructure for the benefit of all West Australians.

CONTINUE TO ENCOURAGE FOREIGN INVESTMENT IN WA PROPERTY

Recommendation 9

Defer the introduction of the foreign owner stamp duty surcharge and exclude from the surcharge investment in housing developments of 10 or more properties.

With signs emerging of a recovery in property markets, foreign investment in property will be an important source of housing demand, so attracting this investment is critical.

WA gets low levels of foreign investment in comparison with other States, so incentivising this investment will increase chances of market recovery. The Property Council is therefore seeking at least a deferment of the proposed surcharge to allow time for the market conditions to improve.

If the tax were to be introduced, and in the interests of stimulating growth, encouraging infill, and generating jobs, we support exempting from the surcharge housing developments of ten or more properties, and exempting any developer who has undertaken development of 10 or more properties over the previous 12 months (or as an average over five years). By incentivising 'significant' developments and rewarding 'significant' developers and investors in WA, the Government will send the right message about investing in property in WA and about the form of urban development it wants to see prioritised.

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