PROPERTY COUNCIL of Australia

PROSPERITY | JOBS | STRONG COMMUNITIES

South Australia 2015-16 Pre-Budget Submission

Property Council of Australia

May 2015

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About the Property Council

The Property Council of Australia is the national peak industry body representing property developers, property investors and businesses that provide professional services to the property industry in Australia.

In economic terms the business activities of the membership of the South Australian arm of the Property Council represent a significant part of the South Australian economy. Their activities contribute to the following key economic outcomes:

- 10% of Gross State Product;
- 16.1% of total State Government Revenue; and
- 11.5% of the State workforce.

In supporting these industries, the Property Council provides an industry voice to ensure certainty for investment in South Australia's future prosperity.

In respect to the overall State economy, the property industry is the largest private sector employer in South Australia and overall it is the third largest private industry sector by economic output. Investment in property also represents the major assets of individuals, families and business, through direct ownership, superannuation funds, savings and investments.

The Property Council's vision for South Australia is a thriving, modern economy supporting prosperity, jobs and strong communities. Property represents the physical foundation of where we live, where we do business through shops, offices, industrial precincts, hotels, and public buildings, as well as places for our creative and recreational pursuits, which add so much to our quality of life. In every meaningful way, property is where life happens.

Executive Summary

A competitive taxation system coupled with prudent fiscal reform is vital to a healthy and growing economy. It is also essential to attracting global capital and encouraging domestic investment in property. An efficient and equitable taxation framework will enhance community wealth and prosperity, strengthening the revenue base for future generations. Equally, efficient expenditure will also deliver a sustainable budgetary position.

We have taken a targeted approach in our submission, with a focus on two main areas:

- Priority expenditure and investment; and,
- Tax reform.

The Property Council supports the establishment of an independent infrastructure body, implementation of planning reform and tax reform. With the economy transitioning away from traditional manufacturing and a decline in mining, we believe it's time for South Australia to begin to further progress diversifying the economy to ensure future prosperity and job creation.

This submission provides the State Government with a series of recommendations that have the potential to increase economic growth. It is now time for the Government to fund and implement reforms to improve our state's efficiency, performance and productivity.

We welcome opportunities to engage with the Government further on the priorities outlined in this submission.

South Australia's economic outlook

As outlined in the South Australian Centre for Economic Studies' December 2014 Economic Briefing Report:

> *Latest annual State Accounts data indicate that the South Australian economy recorded another sub-par performance in 2013-2014. Gross State Product (GSP) – a measure of aggregate production – rose by 1.3 per cent for the year in real terms, well below the average pace of 2.4 per cent per annum over the previous decade.*[1]

Furthermore:

> *Low rates of population growth; weak growth in domestic incomes, low consumer confidence, weak private sector investment (with the exception of housing); and continued fiscal consolidation by the Commonwealth and State Governments will also serve to keep growth below its long-term trend.*[2]

The April 2015 CommSec State of the States report ranks South Australia seventh of all the states on economic growth, retail trade and housing finance. The pressures of an ageing South Australian population coupled with increasing demand for services and infrastructure from the community means that the State Budget is being squeezed on all sides. Moreover, modest Gross State Product growth in South Australia is a result of weak internal demand in South Australia through a decline in business investment (-0.3 per cent) and public sector investment (-0.2 per cent).[3]

Priority Expenditure and Investment

Infrastructure

The Property Council maintains its multiple calls for the establishment of an independent statutory authority, Infrastructure SA, to manage the prioritisation, financing and funding of infrastructure projects.

There is now a backlog of infrastructure and no clear funding strategy for the delivery of the new infrastructure our state needs in order to cater for its growing population.

There is an opportunity for South Australia to adopt best practice methods and to follow the lead of New South Wales, with its creation of Infrastructure NSW, and the Federal Government, with Infrastructure Australia.

The benefits of creating Infrastructure SA include:

- A rigorous, depoliticised and objective approach to infrastructure prioritization;
- Boosting business and community confidence in infrastructure planning and delivery; and,
- Improving businesses' ability to fully leverage investments in infrastructure.

The introduction of a body such as Infrastructure SA would assist in depoliticising infrastructure investment and introduce more rigour into decision-making. Public Private Partnerships, special tax incentives such as Growth Area Bonds and Tax Incremental Financing, and 'user pay' models.

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[1] *Economic Briefing Report,* South Australian Centre for Economic Studies (December 2014) page vi.

[2] As above note 2, page xi.

[3] State Accounts, Australian Bureau of Statistics, www.abs.gov.au, November 2014.

The benefits of alternative funding and financing mechanisms is that they will ensure greater infrastructure delivery without compromising the State's ability to deliver core services.

Recommendation

- Establish an independent infrastructure body to guide decision-making and depoliticise infrastructure planning and delivery.

Planning

Planning reform is one of the most important triggers that will enable the property sector to unlock growth opportunities in South Australia. It is important that South Australia gets the implementation of planning reforms right and that there is a clear pathway to delivering the reforms.

The property industry is calling on the Government to fully fund the proposed electronic planning system, so that the system can be truly modernised. Technology projects require careful implantation planning and costings (for instance there are learnings from the overspend and delays around implementing the new electronic health record system). The property industry would like to see the Government prioritise funding in this area to bolster its other planning reforms aimed at modernising the system. Users increasingly expect Government services to be accessible online. An online planning system is the next logical step for our planning system to remain current, valuable and reliable.

Similarly, we need to adequately resource other planning reforms so that they can be implemented quickly to unlock growth in the economy, such as the infrastructure around the regional development boards and the mooted State Planning Commission. These are spending areas that will actually improve the economy, so they ought to be of the highest priority for the Government.

Recommendation

- That the State Budget provides adequate funding for a modernised planning system, including funds for the introduction of an electronic planning system.

Master Plan for the City of Adelaide

There is currently no overarching plan that envelops the central business district (CBD) from terrace to terrace. Whilst the reinvigoration of the Riverbank precinct is important, the rest of the city should not be left behind. The property sector notes that there are a number of Government owned planning and development opportunities coming up in the CBD, including the existing Royal Adelaide Hospital site, the State Administration Centre parcel of land, the Central Markets, Victoria Park, the southern side of North Terrace, and the existing Women's & Children's Hospital. These are great development opportunities in isolation, but would benefit from a coordinated approach under a clear vision to ensure that we are fully leveraging these opportunities for the city and the state more broadly.

Despite our proud planning history and successful spate of recent projects, the property and development sector yearns for a sophisticated, instructional master plan that has a holistic view for development (particularly in relation to the release of Government land and assets). If South Australia is to grow its economy, create jobs, boost its population, attract more foreign investment, build prosperity and stronger local communities, we need to strategically plan.

The Property Council believes that other Australian cities can provide useful learnings in this area. For example, both Sydney and Brisbane have developed master plans.

Sydney's master plan (Sydney 2030) is about changing the way Sydneysiders live, work and enjoy entertainment in their city now and into the future. Their tag line is *Green/Global/Connected*. Another example of Australian city planning is the Brisbane City Centre Masterplan. Brisbane is placing and marketing itself as the "New World City", "Subtropical City" and "a river city", clearly harnessing those elements that are distinctly and characteristically Brisbane. The Brisbane city centre is currently projected to grow dramatically. Approximately 50 more office and apartment towers will be needed to accommodate demand and there will be an 80 per cent increase in public transport journeys. This growth presents itself as an opportunity for Brisbane to transform its city centre. Brisbane's vision is that of an open city – they want to be open for business; they want to open the door to every enterprise big and small – and to encourage new ideas to grow and prosper.

The recent planning review in South Australia has demonstrated that it's time to shift the planning power balance in the best interests of progress, development, economic growth and job creation. There are some great things about South Australia's current planning system, but there are also some shortcomings that need to be addressed to achieve greater economic growth and prosperity.

The property industry in South Australia encourages the Government to act promptly and decisively and bring to life the vision the Panel has for a more efficient, responsive and modern planning system.

Recommendation

- That a Master Plan be developed for the city of Adelaide in collaboration with the City of Adelaide to ensure that public development/land release opportunities are coordinated and leveraged to support economic development. This plan ought to align with the soon to be updated 30 Year Plan for Greater Adelaide.

Alternative use of the GM Holden Plant

The 124-hectare site of GM Holden is a significant economic asset and offers the potential for attracting investors to generate new productive activity and employment.

The Property Council supports the development of a strategy to attract alternate businesses to the site prior to its closure in 2017. It is important that the Government acts now on the alternate use of the GM Holden site, so that South Australia can build on its opportunities and support diversification of the economy.

In this vein, there are a number of examples of reinvention around the world that Adelaide can learn from. Pittsburgh, Pennsylvania, in the United States, embarked upon an ambitious economic transition from the early 1990s. This transition took Pittsburgh from being a declining steel industry dependent city to one of the US' most liveable cities with a thriving diversified economy focussed on higher education, tourism, corporate headquarters, banking, and high-technology.

There are many lessons to learn from this experience. In the early 1990s, a White Paper was commissioned which led to a roadmap for economic development and a growth alliance bringing together business, community, academia and various levels of Government to work together towards the ultimate goal of transitioning a city dependent upon the declining steel industry to a modern, thriving economy.[4]

South Australia needs to get serious about diversifying the economy. It is recommended that land at the GM Holden site is brought to a development-ready status to support growing industries.

Recommendation

- That a plan for the GM Holden Plant be developed collaboratively with the community, industry and academia.

Cost of living concessions for retirement village residents

The state government recently announced that it was replacing the council rate concessions with a new cost of living concession. Pensioners, low-income earners and self-funded retirees holding a Commonwealth Seniors Health Card will be entitled to receive the cost of living concession.

The Property Council of Australia is pleased that the government has decided to continue to support pensioners; however, we note that no explicit commitment to include retirement village residents has been made.

Eligibility requirements released to date stipulate that the cost of living concession is payable per household. The Government needs to ensure that retirement village residents are not inadvertently excluded from receiving this concession and it should be made clear that ‘households’ include retirement villages.

Recommendation

- That the eligibility requirements to access the cost of living concession include those individuals living in retirement villages.

Local Government Reform

Council rates fall under the *Local Government Act* (1999) SA and represent more than $1 billion worth of revenue for local councils each year. Industry and residents are overly burdened with council rates and charges. Furthermore, there are inconsistencies and inequities in the ways different Councils structure their rates.

The Property Council encourages the State Government to consider following Victoria’s example, which undertook reviews through the Auditor-General on asset management, maintenance and the organisational sustainability of smaller councils. New Zealand has also examined local Government rates and charges through its Funding Local Government report, which recommended the abolition of differential ratings, and found that rate charges for commercial properties are often set in a non-transparent and arbitrary manner.[5]

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4 *Toward a Shared Economic Vision for Pittsburgh and South-western Pennsylvania*, Carnegie Mellon University (1993)
5 *Funding Local Government,* Report of the Local Government Rates Inquiry, pages 117-118.

South Australia needs to critically examine the role of local taxation through the lens of efficacy, consistency and driving economic development. The State and Federal Governments should not solely bear the burden of driving our economy. Ratepayers (whether they be families or commercial property owners) need to be assured that any hikes in rates are the result of careful analysis of cost pressures and service provision requirements rather than simply an arbitrary exercise in revenue raising. A sustainable Council rating system should be implemented that provides Local Governments with funding for services without discouraging economic development. The Property Council encourages the State Government to examine introducing rate capping in South Australia in line with New South Wales.

Another option mooted by the Grattan Institute is that Council rates could be collected centrally by the State Government, which would potentially reduce costs of collection compared to the current situation, which duplicates administrative processes across councils resulting in inefficiency, red-tape and expense.[6] Furthermore, collection could be streamlined through online systems and a one-bill system, which would result in efficiencies for businesses and households and provide more transparency and clarity around where taxes are collected and what they are spent on.

Recommendation

- The Property Council recommends a review into Council rate setting, valuation principles, efficacy and consistency be undertaken to ensure transparency and taxation integrity for ratepayers.

Building Upgrade Finance

The Property Council welcomes and supports the proposed amendment to the *Local Government Act* (1999) to introduce enabling provisions for a new financing mechanism for upgrading commercial buildings in South Australia.

The Property Council has been a staunch advocate for the loan scheme and believes it will be of considerable assistance to commercial building owners and developers looking to access loans to retrofit their buildings.

We believe that the proposed Building Upgrade Finance Scheme will remove barriers to upgrading commercial buildings and lead to a more sustainable built environment.

Assisting building owners to retrofit their buildings to enhance environmental efficiencies including reducing energy and water consumption, preventing or reducing pollution and ensuring discharge or waste is not harmful to the environment, is an approach that will deliver more green buildings for South Australia.

South Australia has a large proportion of existing buildings in need of significant retrofitting. The vacancy rate for D-grade office space alone is approaching 20 per cent in the Adelaide CBD. This is largely due to the transition away from office accommodation of the past, to office accommodation of the future.

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[6] Daley, J., Wood, D., Weidmann, B. and Harrison, C., 2014, *The Wealth of Generations*, Grattan Institute, pages 34-35.

Enhancing energy efficiency is no longer just about new green buildings, but importantly about greening the existing built environment. Buildings and businesses that are energy efficient are more financially secure and better able to maximize growth opportunities.

The Property Council supports the progression of Building Upgrade Finance as a voluntary mechanism and looks forward to working with Government to deliver the right policy framework that will incentivise and promote green building refurbishments.

There has been some positive movement in recent times with a number of older and under-utilised buildings being converted into hotels and restaurants, such as the new Mayfair Hotel, 2KW and Electra House. These buildings, in prime locations, had remained empty for a number of years before their recent and successful conversion and refurbishment.

By encouraging adaptive re-use through the Building Upgrade Finance Scheme, the conversion of old and empty office space into residential developments can drive positive economic, social and environmental outcomes for the city. Potential benefits include:

- Increasing the residential population, evening economy and vibrancy in our CBD;
- Increasing the diversity of residents in the CBD, from students to retirees;
- Improving design outcomes and street activation by unlocking pockets that are currently dull and quiet outside normal business hours;
- Maximising the use of existing infrastructure;
- More bespoke residential, commercial and retail offerings suited to international investors and visitors;
- Increasing work and economic activity in the City of Adelaide for the contractors and service providers who will undertake the conversions; and,
- Driving down the overall vacancy rate.

Recommendation

- Pending the passage through Parliament of the Building Upgrade Finance legislation, the Property Council recommends that the Government fund an information and implementation program that supports up-take of finance opportunities.

Revenue - Taxation

In our recent submission to the Treasurer, the Property Council made a number of recommendations around reforming the State's taxation system. A competitive taxation system coupled with prudent fiscal reform is vital to a healthy and growing economy. It is also essential to attracting global capital and encouraging domestic investment in property.

A copy of this submission can be found on the Property Council's website:

http://www.propertyoz.com.au/sa/Article/Resource.aspx?p=21&submission=1125

Foreign Investment Tax

Victoria's decision to tax foreign property investors presents incredible investment opportunities for South Australia.

Recently, the Victorian Government announced massive increases in stamp duty and land tax for foreigners – a move which poses dire risks to housing supply and affordability in that state. Under the Victorian budget announcement, foreign investors buying real estate in Victoria would be subject to an additional three per cent tax on the property's purchase price and a 0.5 per cent land tax on new and existing properties.

This announcement means that South Australia could capitalise on spill-over investment from foreign investors driven out of Victoria by these punitive taxes. Victoria's foreign investor tax will jeopardise that state's property sector and potentially diminish its attractiveness as an international investment capital.

A national wave of new housing construction that benefits Australians by creating jobs and making housing more affordable has been driven by foreign investment. Introducing a financial penalty on foreign investment will only discourage such stimulation.

The Property Council supports the Government's intentions to improve South Australia's competitiveness for international capital and is calling on the Government to rule out adopting this new punitive tax on foreign investment.

Compared to other states and territories, South Australia already has some of the highest property taxes in the country – 42 per cent of State revenues come from property taxes.

South Australia is in an investment competition with the rest of the country and globally when it comes to attracting foreign investors. During tough economic times, the Government needs to do everything it can to attract more investment capital into Adelaide as a destination, and South Australia more broadly.

Recommendation

- That the Government rules out introducing a foreign investment tax in its Budget.

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