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Hon. Dr Mike Nahan
Treasurer; Minister for Energy; Citizenship and Multicultural Interests
Government of Western Australia
13th Floor, Dumas House
2 Havelock Street,
WEST PERTH WA 6005

Dear Treasurer,

2016-17 Pre-Budget Submission

The Property Council of Australia would like to thank you for attending the boardroom lunch with our Division Council on 21 January 2016.

Further to those discussions and subsequent announcements by the Government regarding state taxes, the Property Council would like to present you with a submission ahead of the State Government's 2016-17 Budget. Specifically, this submission identifies three broad areas of reform and Budget initiatives, some of which were discussed at our lunch.

The Property Council of Australia is calling on the State Government to:

1. **Make state taxes fairer and more efficient by:**
   - Not increasing key property taxes;
   - Reviewing land tax aggregation;
   - Only applying stamp duty to the land component in off-the-plan purchases; &
   - Introducing a stamp duty incentive for seniors downsizing their housing needs.
2. **Reform the state infrastructure investment system by:**
   - Aligning state infrastructure provisioning with strategic state planning;
   - Finalising the Perth public transport plan;
   - Introducing more meaningful infrastructure reporting; &
   - Prioritising the funding of the State's Economic and Employment Land Strategy.
3. **Improve the State Asset Sale program by:**
   - Speeding up earlier Budget commitments to divest Government agency land holdings; &
   - Utilising proceeds of major asset sales to fund strategic infrastructure.

The Property Council is the most broad-based industry group representing the WA property development and investment sectors. Our members include developers actively planning and undertaking major projects affected by sub-optimal infrastructure provisioning, and landowners and investors who are adversely affected by a punitive state tax system.

As the mining investment boom continues to fade, WA is more reliant than ever reliant on a healthy and fully functioning property sector to drive the state's economy. In WA the property industry:

- accounts for 12% of economic activity;
- has 1 in 5 people drawing a salary directly or indirectly;
- creates 205,979 direct jobs in WA and supports another 224,331; &
- pays 36.7% of WA taxes, local government rates, fees and charges.

To enable the property sector to participate fully in the state's economic revival and keep WA growing, key economic reforms are required that are outlined here.

1.0 Fairer and more efficient states

1.1 Property Taxes

Significant increases in state property taxes in the past three years and the absence of reform has eroded the WA property sector's productivity and efficiency. The Property Council recognizes the state's budget constraints; however there remains significant opportunities for meaningful reform that will generate economic activity and consequently, revenues to the state. The property sector is carrying a disproportionate load of the state's Budget repair process. The sector contributes almost 40% of the state's total tax revenue and property taxes are growing faster than other industry revenue sources.

The table below identifies the heavy tax burden that the property industry carries in WA compared to other sectors.

Projection of land tax vs total state taxation

Budget Period	**Land Tax ($M)**	**Total State Taxation ($M)**
2012/13	568	8,342
2016/17	998	9,477
% increase over time period	**75.7**	**13.6**

2015-16 Mid-Year Budget Review

As the table shows, land tax is expected to increase by 75.7% in the five years to 2016-17. This is opposed to total state taxation which is only expected to increase by 13.6%. This is evidence of the unfair tax structure that exists in WA today.

Recommendation

- **No increases in property taxes in 2016-17**

1.2 Land Tax

The current land tax regime in WA requires urgent reform. Over the last three years land tax rates have skyrocketed. In the 2013-14 and 2014-15 Budgets land tax rates rose by 12.5% and 10% respectively. In 2015-16 land owners were hit with an even greater tax hike and many have seen their land tax rates go up by over 50% in the last 12 months.

In spite of some broadening of the tax base a minority of land tax payers continue to fund most of the state's land tax revenue. A key contributor to this inequity is the application of the aggregation principle in assessing land tax for owners of multiple properties. In some cases owners of multiple properties are required to pay up to three times more land tax than a system that does not apply aggregation. This has a flow on effect on the supply of affordable rental housing as multi-property owners attempt to obtain satisfactory returns on housing portfolios.

Ultimately, the current land tax structure makes property a less attractive investment, passes higher costs on to business tenants and reduces investor returns. Land tax aggregation significantly distorts investment in the WA property sector and erodes its efficiency. Eliminating aggregation, reducing the number of thresholds and moving to a flatter tax structure will provide a significant economic incentive through the attraction of greater investment and more effective allocation of capital in the property sector.

Recommendation

- **Review land tax aggregation, reduce the number of thresholds and introduce a single flat land tax rate structure**

1.3 Stamp Duty for Off-The-Plan purchases

The property market in WA is affected by an unbalanced stamp duty system, which penalizes purchasers in the off-the-plan housing market. In WA, stamp duty must be paid on the full purchase price of an off-the plan dwelling prior to construction. In stark contrast, stamp duty in residential land subdivisions prior to building a home, only applies to the land value.

This unbalanced application of stamp duty is a factor that is contributing to Perth struggling to achieve the infill development targets in key state policies like Perth & Peel @ 3.5 million, which requires 47% infill housing development by 2050. However Perth is currently only achieving an infill rate of around 30%. To further compound the challenge facing infill development in Perth, the effective rate of infill in the future will need to be in excess of 47%, and closer to 60%, for the 2050 policy targets to be achieved.

Other states have recognized this imbalance and have achieved success in promoting infill development by reforming the application of stamp duty on off-the-plan housing purchases.

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. This brings the application of stamp duty for high-density housing in-line with practice in single-detached dwellings where stamp duty is paid on the full transfer value of a property (house and land) on the urban periphery.

Recommendation

- **Only apply stamp duty to the land value component in off-the-plan dwelling purchases prior to construction**

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1.4 Stamp Duty reform to support seniors downsizing

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

Housing availability and affordability are two key barriers to downsizing for seniors. Research by Bankwest Curtin Economic Centre found 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[1]. This is a major constraint in the orderly functioning of the property market.

To support seniors downsize, the WA Government should introduce a grant of $8,500 for persons over 60 years of age selling their existing residence and purchasing a newly built place of residence under $550,000.

A grant is an effective price signal to motivate housing decisions and the nomination of $8,500 is based on a similar scheme operating in South Australia. 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 recorded by the Australian Bureau of Statistics[2].

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, creating jobs and fostering growth. Furthermore, the scheme could be introduced as a 2 year trial. This would allow the Government to measure the success and feasibility of the scheme.

Such a scheme would promote housing mobility and free up much needed housing stock for families or redevelopment for greater housing diversity. This will also assist with achieving the infill housing development targets set out in Perth and Peel @ 3.5 million. According to Perth and Peel @ 3.5 million, the central region of Perth, which includes most established suburbs, will

[1] Bankwest Curtin Economics Centre (2014) Housing Affordability: The real costs of housing in WA

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

need to hit a housing supply infill target of 215,000 homes. Policy initiatives like assistance for seniors' downsizing will greatly assist in meeting Perth's infill targets.

Recommendation

- **Introduce a grant of $8500 for persons over 60 years of age selling their existing residence and purchasing a newly built principle place of residence up to $550,000**

2.0 Reform state infrastructure investment

2.1 Aligning state infrastructure provisioning with strategic state planning

In light of Infrastructure Australia's recent report, *Priorities and Reforms for our Nation's Future*, the 2016-17 Budget is an ideal opportunity to commence a reform agenda aimed at improving infrastructure planning, prioritisation and delivery.

The report is particularly relevant to economic policy makers in a state budget context. A key recommendation is that all state and territory governments should deliver long-term infrastructure plans. These plans should take a 15-year-plus view, be updated regularly and integrated with long-term land-use planning processes. By taking a long-term view of infrastructure, governments can better plan for projected changes in demand, identify emerging challenges and establish a pipeline of well-conceived infrastructure reforms and investments. The result is a long-term strategy that lays the foundation for a more productive Australia over the coming 15 years and beyond.

The Infrastructure Australia message is very timely for the setting of the 2016-17 state Budget and the urgency around economic growth.

Poor infrastructure planning, prioritisation and delivery is negatively impacting the Western Australian property sector and, as a result, the State more broadly. In its 2013 report, *Mind the Gap*, The Property Council estimates that when 10% of property development projects are delayed over the course of a year, then up to $965 million of gross value added would be delayed and GSP could be reduced by 0.4%. Up to $1.2 billion could potentially be deferred from the State's economy.

A single long term plan would create more certainty resulting in a pipeline of investment, which increases the quality and reduces the cost of infrastructure[3]. Furthermore, the establishment of a pipeline of future investments, as a result of rigorous long-term planning, provides the public and private sectors with the necessary information to effectively plan and coordinate their resources.

Recommendation

- **Align state infrastructure provisioning with strategic state planning in a single plan for infrastructure**

2.2 Perth public transport plan

The Property Council is a long-term advocate for an integrated public transport plan for the Perth and Peel region. Increasing traffic congestion and limits on the reach of Perth's public transport system is adversely affecting the planning of development in the metropolitan area.

After releasing a draft public transport plan for comment in 2011, the State Government still hasn't finalised a plan. This is critical for our members who need greater commitments from Government to ensure worthwhile investment and support infill development in Perth.

Recommendation

- **Finalise the Perth public transport plan**

2.3 Infrastructure reporting

Western Australia is the only state that doesn't include an integrated infrastructure or capital works statement as part of its annual budget. In NSW, for example, the Government releases a separate document which outlines the Government's infrastructure investment program. This supports transparency and accountability by reporting on planned capital expenditure covering new projects and existing ones and explains how the resources have been allocated. It goes further by making publicly available the State Infrastructure Plan adopted by the Government.

[3] Australian Infrastructure, Plan Priorities and reforms for our nation's future Report, February 2016

The Property Council would like to see the Government adopt a similar practice to other states and introduce more meaningful infrastructure reporting in the budget.

Recommendation

- **Introduce a separate report on infrastructure investment and provisioning in the state budget**

2.4 Economic and Employment Land Strategy

The Property Council is concerned with the Government's decision to disband the Industrial Land Supply (ILS) Taskforce. The outcomes of the Economic and Employment Land Strategy (EELS) will be much harder to accomplish without a recognised body to inform the delivery of the strategy. Without the ILS taskforce, it is critical that the State Government refocus its effort to prioritise the funding of the State's Economic and Employment Land Strategy.

The Perth market is still experiencing undersupply of readily available and well located industrial land. Since the release of the Property Council's report 'Encouraging Industrial Land Development in Perth' in 2013, the supply of new land remains relatively subdued in the Perth market, relative to demand levels. In particular, supply is constrained in terms of various factors, including location, infrastructure, quality of premises and size.

To encourage strategic industrial land development, the State Government needs to prioritise and coordinate the funding of the key implementation actions of the Economic and Employment Lands Strategy. By clarifying infrastructure prioritisation, coordination, funding and delivery for the private sector, the Government can ensure that adequate forward planning is undertaken for the on-going provision of industrial land in both the Perth metropolitan and Peel regions over the next 20 years and beyond.

Recommendation

- **Prioritise the funding of the State's Economic and Employment Land Strategy**

3.0 Improve the State Asset Sale program

3.1 Land sales

In the 2015-16 Budget the Government made a strong commitment to extend its land asset sale program. This included the sale of joint venture land holdings. However the property sector is frustrated with the slow progress of this sale program.

The Property Council would like to see the Government speed up its commitment to divest agency land and joint venture holdings. This will lead to greater revenue which can be reinvested into major infrastructure projects, specifically public transport projects.

Furthermore, speeding up the land sales program, especially in metropolitan Perth, will support urban development as the city attempts to hit the infill targets set out in Perth & Peel @ 3.5 million. Late last year the Government released more than $20 million worth of land in its Connected Living plan. The sites span the metro area and are all situated near train stations and is are an excellent example of land release which is supporting infill development and housing affordability.

Recommendation

- **Speed up an earlier budget commitment to divest Government agency land and joint venture holdings**

3.2 Sale of State electricity networks

The Property Council is supportive of the Government's recent announcement of the possible sale of the state's electricity network operator Western Power. Significant revenue could be generated from the full divestment in Western Power. Other states, including Victoria and South Australia, have privatised their electricity networks and NSW has just embarked on a sale program.

The sale of Western Power would bring in revenue which would allow the Government to invest in much needed infrastructure projects. NSW is using the revenue from the leasing of its 'poles and wires' to invest in public transport projects such as the rapid transit rail extension of the north-west rail link to ease traffic congestion within Sydney.

Recommendation

- **Utilise proceeds of a sale of the State's electricity networks to fund major state infrastructure to support development**

Conclusion

The property industry has the potential to be the state's leading economic driver after the mining investment boom. However inequitable taxes and poor infrastructure planning are acting as handbrakes on the property industry.

Strategic reforms, like the initiatives outlined in this submission, are very important for the industry to be effective in the economic transition process for WA. The 2016-17 Budget is a landmark opportunity to implement these reforms aimed at improving the efficiency and performance, and therefore the productivity, of the property industry and the State more broadly. A Budget that aims to achieve these measures will keep Western Australia growing.

The Property Council thanks you for the opportunity to present our submission for the 2016-17 Budget. We look forward to continuing our dialogue regarding the key priorities outlined in this submission.

Kind regards,

Joe Lenzo
Executive Director