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Australia's property industry

Creating for Generations

February 25, 2019

Hon. Ben Wyatt MLA
Treasurer; Minister for Finance;
11th Floor, Dumas House
2 Havelock Street
WEST PERTH WA 6005

Dear Treasurer

2019/20 WA Pre-Budget submission

Ahead of your preparation of the 2019/20 Western Australian State Budget, the Property Council provides the following submission as the property industry's collective solutions to assist the Government in building prosperity, creating jobs and making strong communities.

The Property Council of Australia champions the industry that employs 233,000 West Australians and shapes the future of our communities and cities.

Property Council members invest in, design, build and manage places that matter to West Australians: our homes, retirement villages, shopping centres, office buildings, industrial areas, education, research and health precincts, tourism and hospitality venues and more.

We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin the contribution our members make to the economic prosperity and social well-being of Australians.

Please do not hesitate to contact myself on 0418 50 10 30 should you have further queries or if you would like any further information.

Yours sincerely

A handwritten signature in black ink that reads 'Sandra Brewer'.

Sandra Brewer
Executive Director WA
cc. Premier, Minister for Planning, Department of Treasury

PROSPERITY | JOBS | STRONG COMMUNITIES



WESTERN AUSTRALIA
**STATE BUDGET
SUBMISSION**

2019/2020

PURPOSE OF SUBMISSION

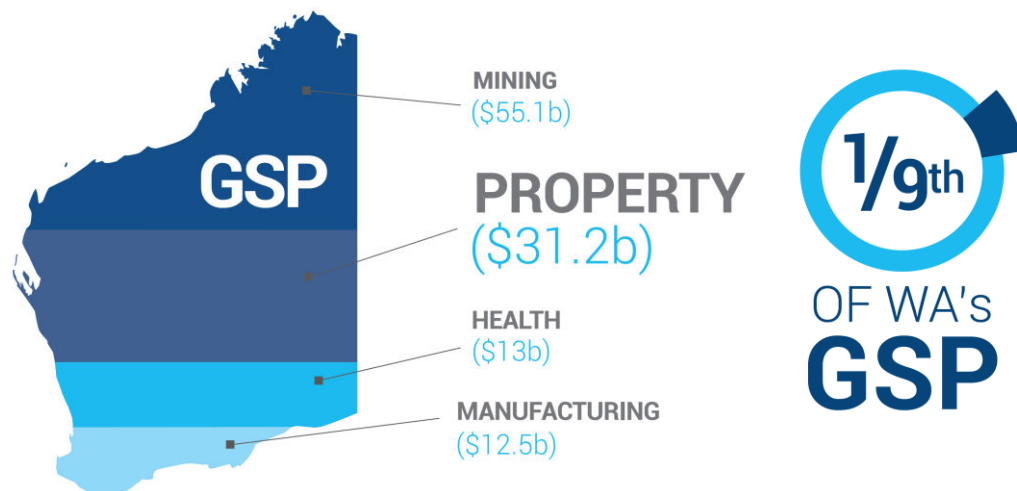
This document has been developed by the Property Council of Australia, the industry association representing the interests of Western Australia's property industry, in anticipation of the 2019/20 State Budget.

The Submission has been prepared against the broader context of the current financial challenges facing the state economy and tentative 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 sector, and to create more jobs and attract higher population growth rates for WA.

PROPERTY'S CONTRIBUTION TO THE WA ECONOMY

WA'S SECOND BIGGEST INDUSTRY
ACCOUNTING FOR 13.3% OF THE STATE'S ECONOMIC ACTIVITY



CREATING JOBS - PROPERTY IS WA'S LARGEST EMPLOYER

233,500 JOBS
PROPERTY INDUSTRY



83,400 JOBS
MANUFACTURING



91,800 JOBS
MINING



BUILDING PROSPERITY BY PAYING
\$13.7 BILLION IN WAGES & SALARIES

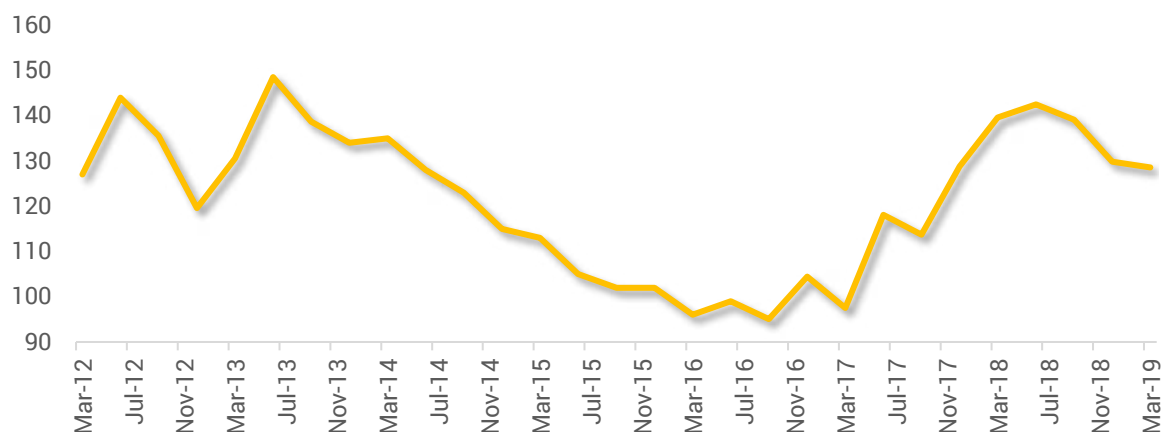
\$6.9 BILLION IN TAXES

PROPERTY IS THE LARGEST SINGLE INDUSTRY CONTRIBUTOR PAYING 42.3% OF WESTERN AUSTRALIA'S TAXES.



GIVING CONFIDENCE TO INDUSTRY

Western Australia - ANZ/Property Council industry sentiment index



The confidence of WA's property industry remains unsteady.

The national ANZ/Property Council Survey, which tracks property industry sentiment, has recorded that WA confidence levels have fallen over the last three quarters.

WA confidence currently sits at 129 index points (with 100 being neutral), well above the post-mining boom negativity experienced in 2015-2016, but noticeably lower than 143 index points recorded in June 2018.

Expectations of a recovery in the property market and discussion of 'green shoots' have been tempered by reality. Concerns regarding debt finance availability, and the fallout from the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry present a serious challenge to buyers and the market more generally.

Economic uncertainty necessitates pursuing the right policy settings for the property industry to thrive and grow. This will require keeping property taxes low, pressing on with planning and strata reform, and implementing Infrastructure WA. It also necessitates a positive story being expressed by the Government, to draw positive attention to the potential of our City and strong economic future.



RECOMMENDATIONS

- 1. Attract investment through property tax reform*
- 2. Fast track Infrastructure WA**
- 3. Broaden the scope of METRONET*
- 4. Embark on planning reform*
- 5. Encourage more public-private partnerships for infrastructure delivery*
- 6. Incentivise infill housing objectives*
- 7. Less red tape in construction*
- 8. Inject vibrancy into Perth city precincts*
- 9. Unlocking building upgrade investments*

* Noting announcement on 19 Feb 2019

ATTRACT INVESTMENT THROUGH PROPERTY TAX REFORM

Western Australia's property tax framework is holding back the state's economic potential, by increasing the costs of doing business in WA, acting as a disincentive to investment, and driving up the cost of housing.

WA has suffered from some of the highest rates of property tax increases being experienced across the country. Over recent years the rates of Land tax and Metropolitan Region Improvement Tax (MRIT) have increased significantly, which have come at a very real cost to WA businesses still recovering from the end of the mining boom.

The Property Council contends that if WA is to maintain an acceptable level of industry confidence, there is no capacity for further increases in property taxes in the 2019/20 Budget. In fact, the WA property sector desperately needs taxation relief to assist with market recovery.

For larger landholders, WA's land tax rates are the least competitive in Australia – as demonstrated by the graph below. Companies weighing up the merits of investing in a significant WA property asset face the

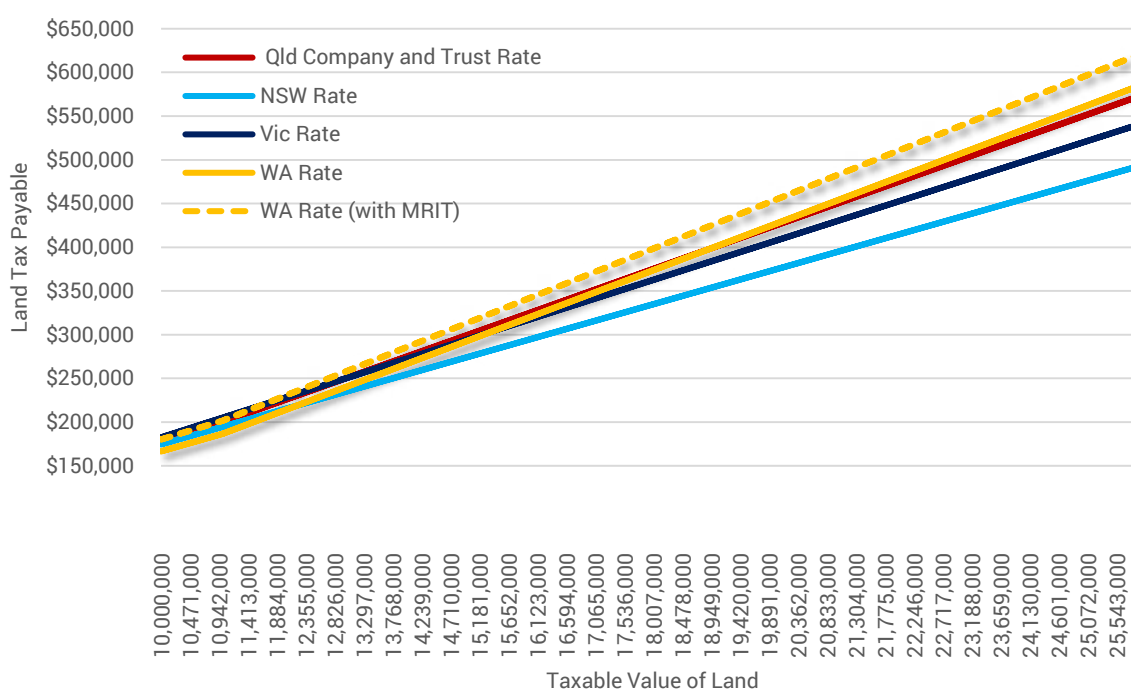
economic reality that they will be subjected to higher level of taxation.

Any increases to these rates will further erode the state's investment competitiveness, and drive capital away from WA at an acute time for the local industry.

WA's land tax system also suffers from a systemic imbalance which is progressively forcing most of the tax burden onto a smaller number of commercial property owners. The Property Council's research has documented that this pattern has been progressively getting worse with increases to the minimum threshold and the disaggregation of land holdings to minimise tax obligations.

The buildings owned by the declining number of investors that are bearing the vast majority of the land tax burden are occupied primarily by small and large businesses that employ the bulk of WA's workforce. Any increases to land tax impact on all sectors of the WA economy.

Land tax rates comparison



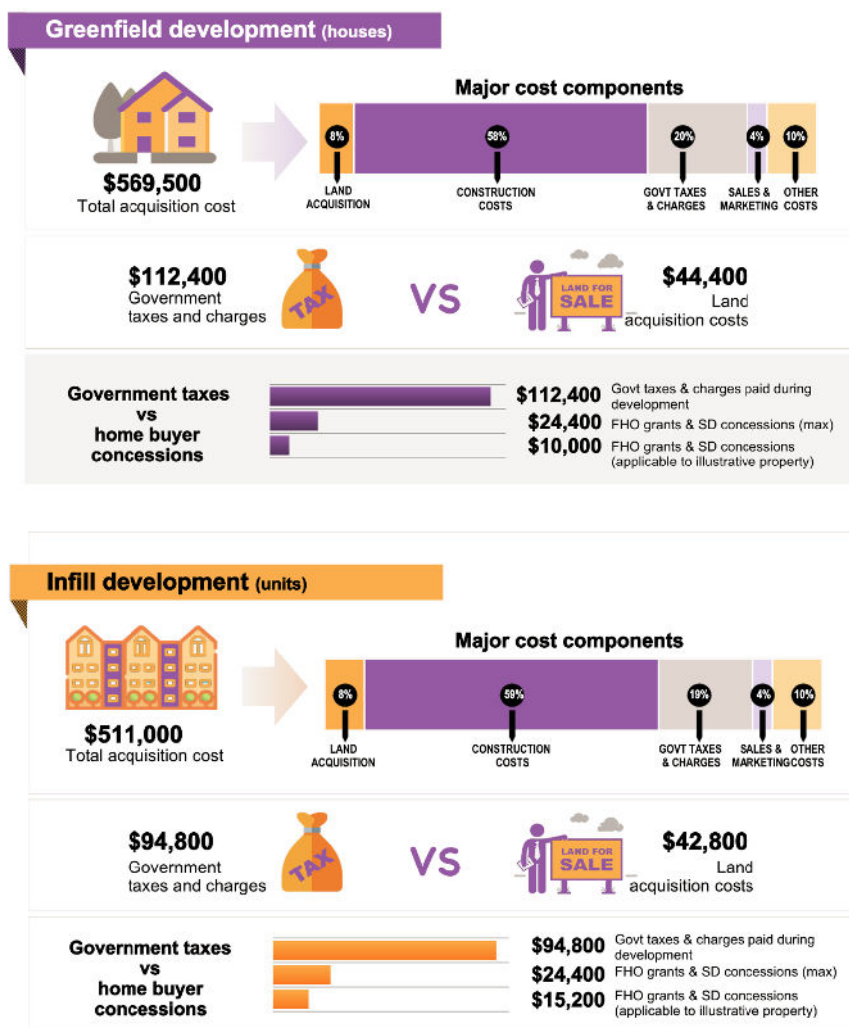
Additionally, the high rate of taxation in the property sector directly affects housing affordability. Research by ACIL Allen Consulting, conducted for the Property Council, shows that government taxes and charges represent 20% of the purchase price of a greenfield home in Perth. For the average new apartment in Perth, as is typical in infill developments, the rate is 19%. (See infographic below).

more resilient over the long-term and less one dimensional around the resources sector.

The Property Council calls on the WA Government to a commit to review and modernise Western Australia’s property tax framework, with a view to achieving a fairer, simpler and more competitive tax environment.

A review of WA’s property tax framework could investigate a fairer way to share the tax burden and reduce the cost on businesses and homebuyers. A fairer property tax system would give WA a productivity boost, increase our competitiveness, and make the economy

Composition of Perth housing costs



Source: ACIL Allen Consulting, 2018, Taxes and Charges on New Housing

FAST TRACK INFRASTRUCTURE WA*

The Property Council has been supportive of the State Government's commitment to the establishment of Infrastructure WA.

Until now Western Australia was the only State without an independent infrastructure body. The result of this was a lack of prioritisation, poor linkages between infrastructure agencies and land-use planning, and inadequate business cases for federal infrastructure funding.

Ultimately, the lack of an arm's length infrastructure body resulted in WA missing out on its fair share of Commonwealth infrastructure allocations.

The 20-year strategy that will be developed by Infrastructure WA, will secure investment long into the future, as well as providing a clear road map for development opportunities and locations for future affordable housing. Infrastructure WA will unlock the development potential of the State by providing certainty of infrastructure investment and job creating projects.

Western Australia will also be in a much stronger position to attracting much-needed federal funding through the development of rigorous and compelling project business cases.

With a long-term strategy and priority projects in place, Infrastructure WA will inform important decision-making and provide greater stability for the private sector to make investment decisions, maximizing the property industry's capabilities to create jobs and keep WA growing.

The Property Council encourages the Government to appropriate resourcing in the 2019/20 Budget to ensure Infrastructure WA can begin work next financial year.

* The Property Council congratulates the Government on the announcement on Feb 19, 2019 that Infrastructure WA legislation will be imminently introduced to Parliament and the appointment of Chair-Designate.

BROADEN THE SCOPE OF METRONET

Research conducted by the Property Council reveals 9 in 10 West Australians believe METRONET will be good for Perth.¹ There was 91% agreement that, 'METRONET (new railway lines and stations) will be good for Perth'. 58% of all respondents strongly agreed with this statement, with consistent support across all age groups.

The property industry is calling on the State Government to capitalise on this positive sentiment and broaden the scope of METRONET to include all station precincts, not just the new lines and extensions to ensure the project delivers the housing diversity and infill targets in Perth's strategic growth plans.

Expansion of the network was a key finding of a 2018 report for the Property Council by Urbis, 'METRONET Station Precincts – An Industry Perspective on Making Them Happen'. The report makes five key recommendations:

1. Extend the scope for METRONET precincts to the existing network and identify some key short-term development opportunities.
2. Support the creation of a 'new' precinct planning governance framework where the local political landscape is preventing project delivery.

3. Develop a framework for transitional uses where land values at station precincts do not support the ultimate development at day one. This may include methodologies for affordable housing, build to rent, leasehold, light weight construction.
4. We need demonstration projects on how suburban station precincts can be transformed. The progress of the METRONET team at Bayswater station is a good example and further stations in inner city locations should be identified for similar redevelopment.
5. Develop partnerships with the private sector for the provision of infrastructure, amenity, mixed use, residential and employment opportunities.

The report found that those areas which offer the greatest potential for density are often the most resistant to change and the report identifies inconsistent local planning rules as a major threat to METRONET.

The 2019/20 State Budget should allocate funding for converting existing railway stations in high-value locations to METRONET precincts, recognising the broad community support and goodwill for the METRONET brand.

¹ Source: Property Council commissioned research by Thinkfield, poll of 841 people in December 2018

EMBARK ON PLANNING REFORM

The industry has long advocated for a planning system that ensures planning and development decisions are made as effectively and efficiently as possible, while incorporating the views of interested stakeholders and the wider community.

As the industry responsible for delivering the communities of the future, the property sector has a strong interest in working with government and the community to get the policy settings and legislative frameworks right. We have a shared interest in creating liveable and productive communities with diverse and affordable housing options, accessible jobs and services, within vibrant precincts that connect to a well-functioning public transport network.

To do this it is critical that the planning system is a facilitator of great development outcomes, and that the State planning agencies and local government decision-makers complete the shift from a purely regulatory approach to clear direction-setting that also accommodates flexibility of outcomes where they will produce the best long-term community-creation results.

It is the property industry's position that the best way to deal with challenges in the planning system is to create a better system that is clear and legible to all stakeholders, transparent to its users, embodies clarity of process and decision-making framework, but accommodates flexibility of outcomes according to the relevant context and an appropriate balancing of all critical issues at the time of the decision.

The Property Council notes that the State Government has also built momentum behind a planning reform process. To date the following progress has been made:

- In **November 2017** the Minister for Planning commissioned an independent review of the planning system to identify ways to make it more efficient, open and understandable to everyone.
- A Green Paper was released for public comment in **May 2018** which proposed five key reform areas – strategically-led, legible, transparent, efficient and delivering smart growth.
- Submissions were invited on the Green Paper until **20 July 2018**.

Once the final reform initiatives are agreed by Government, implementation of these must begin as soon as possible and be adequately resourced.

The Planning Reform Team within the Department of Planning, Lands and Heritage should be adequately resourced in the 2019/20 Budget to progress the planning reform process.

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 Property Council encourages the WA Government to 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.

INCENTIVISE INFILL HOUSING OBJECTIVES

Removing the stamp duty penalty for off-the-plan property purchasers will stimulate demand in the tentatively-recovering property market and create new jobs.

As the State Government seeks to encourage development in popular inner city and suburban locations to meet the target of 47 per cent of new dwellings in infill locations, removing this discrepancy would be a positive move to encourage infill development.

In WA, apartments are pre-sold off-the-plan with stamp duty payable on the full sales price of the new dwelling. In contrast, for new single-dwelling lot sales, stamp duty is typically payable on the land component only, not the separate home building contract.

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.

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.

The Property Council encourages the State Government to remove the stamp duty penalty for off-the-plan property purchasers.

LESS RED TAPE IN CONSTRUCTION

The report on the review of Security of Payment Reform in the WA Building and Construction Industry makes a series of recommendations that will create red tape and have significant potential to negatively impact any property market recovery.

Property Council members have serious concerns on the application of Project Bank Accounts (PBAs). Our members consider PBA's expensive and inefficient to administer. They are likely to increase the cost of construction project delivery by tying the contractors that would be bound to administer the regime, in unnecessary red tape and could cause further insolvencies by tying up capital that would otherwise be available to contractors to fund other projects, thereby disrupting cash flow when contractors need it most.

However, if they are to exist, we recommend PBA's be applied at every point in the contractual chain (from the client to the builder, to the subcontractor and to the subcontractors' subcontractors), in order to ensure all entities are protected.

INJECT VIBRANCY INTO PERTH CITY PRECINCTS

Great cities of the world are filled with well-known, desirable inner-city neighbourhoods, or precincts that are perceived to have a different 'vibe'. Perth lacks management of parts of the city as distinct places. Our policy settings and regulations are one-size-fits-all. Consequently, there's little differentiation which reduces the pride, attachment and sense of place associated with great places.

Visitors to Perth often perceive our city as a ghost-town compared to other international or east coast cities. That contributes to a feeling of concern for personal safety and security, especially at night. It's an unwarranted perception, as the Perth CBD is one of the safest in the world. We need to fill the city with bustling activity and life to make visitors feel excited and inspired, and happy to recommend a holiday to Perth to their family and friends.

The recent passing of the *Strata Titles Amendment Bill* and *Community Titles Bill* presents an exciting opportunity for truly mixed-use developments, and the Government should be congratulated on the smooth passage of the legislation and implementation of the regulations. To capitalise on the opportunities Community Titles legislation provides, encouraging development in the Perth CBD and fast tracking the delivery of outstanding projects.

The State Government can make the residential densification of the inner city a key priority – by removing barriers and providing incentives. The Government can support precinct management and strategic place positioning by designing and implementing place-specific streetscape features (landscape, signage and other urban theming) to help define areas and streets. Providing grants for projects that fulfil these objectives to organisations that are committed to creating great places is the fastest way to make it happen.

To attract residents to live in Perth, high-quality residential development can be achieved through increased incentives. Plot ratio and other development bonuses for residential developments in the CBD will set residential land uses on another level commercially and make projects viable.

Incentivise organisations to make investments that attract residents and tourists to the Perth CBD.

UNLOCKING BUILDING UPGRADE INVESTMENTS

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

The Property Council is a strong 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.

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 Western Australia.

Western 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 Perth CBD. This is largely due to the transition away from office accommodation of the past, to office accommodation of the future.

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 Perth for the contractors and service providers who will undertake the conversions; and,
- Driving down the overall vacancy rate.

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 building upgrade finance opportunities.**

CONCLUSION

The property industry has the potential to be the state's leading economic driver after the mining investment boom. However, inequitable taxes and an outdated planning system 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 2019-20 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 the Government for the opportunity to present the industry's submission on the 2019-20 Budget and looks forward to continuing our dialogue regarding the key priorities outlined in this submission.



Western Australia Division

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