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Productive Cities

Housing Affordability

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Energy Security and Climate Change

Federal Pre-Budget Submission

2018 - 19

Executive Summary

The property industry is a vital part of Australian life.

The Australian property industry creates jobs and builds communities. We build the homes, offices, hospitals, factories, public spaces and other structures Australians rely on.

We are Australia's biggest employer and largest industry.

Every day, we hand over the keys to 630 new homes and keep more than 1.4 million Australians in jobs.

Another 14.1 million Australians have a stake in the property industry through their super fund.

Every year, the industry generates almost one seventh of Australia's GDP.

As Australia continues to grow and evolve, the job of the property industry is to respond to the changes in our country – from creating the spaces for business to flourish to alleviating the pressures on housing affordability.

That's why the focus of this Pre-Budget Submission is on supporting Australian communities.

The measures outlined in this submission will benefit our communities through making our cities more productive; creating jobs; making housing more affordable, assisting the transition to ageing; and reducing Australia's carbon emissions.

The property industry has a proud record of working in partnership to achieve results. We work in partnership with individuals, with families and with communities. We also work in partnership with governments in all Australian jurisdictions to develop policies and programs that benefit the communities we both serve.

We look forward to continuing to work in partnership with the Commonwealth Government to drive productivity and strengthen communities for all Australians.

Summary of Recommendations

Productive Cities

- Expand the Cities Agenda to incorporate the suite of cities related recommendations outlined by the Productivity Commission in the 5 Year Productivity Review.
- All major capital cities to receive a City Deal by 2019 centred on driving economic growth.
- Sufficient financial and other resources to be allocated to ensure that the Government can deliver existing City Deals in full, in addition to developing and implementing new City Deals in all major capitals.
- The Commonwealth's infrastructure capital and budget allocation strategies to be aligned with the City Deals agenda.
- Major City Deals incorporate incentives for reform to housing supply and planning frameworks.
- Continue to work with all states and territories on implementing an incentives based model to improve housing supply and affordability. Establish a reform fund to underpin such an approach. Payments should be used to encourage best practice reforms in planning, zoning and infrastructure delivery to increase housing supply.
- Task the Australian Council for Competition Policy with responsibility for incentive payments, receive recommendations and input to allocate payments, and ultimately decide on issuing payments.
- Commit $500m to fund the incentive payments.
- Bring forward the allocated infrastructure spending for the National Urban Rail from 10 years to 5 years, with a focus on partnering with state and territory governments to deliver urban rail projects in all our major cities.
- Continue to provide states and territories with funding from Infrastructure Australia to prepare first rate feasibility studies and business cases.
    - Implement the recommendations outlined in ASBEC's "Bang for Buck – delivering better business cases to realise more value from our infrastructure investments".
- Continue to invest at least $50 billion in infrastructure funding over the next 4 years.
- Ensure Commonwealth funding for major infrastructure projects is only allocated to projects which have had their business cases approved by Infrastructure Australia.
- Adopt more innovative funding and financing strategies that are coupled with the appropriate governance arrangements to support infrastructure prioritisation and delivery.
    - Ensure that new methods of financing and funding infrastructure enhance delivery, productivity and value for money – new funding cannot be derived from simply adding an additional tax.
- In partnership with states and territories, the Australian government should establish effective corridor protection mechanisms for future infrastructure priorities informed by long-term strategic planning.
- Re-establish the asset recycling program, and undertake an investigation and audit of potential assets to privatise.
- Create a framework for infrastructure funding which includes trialling Tax Increment Financing. This guarantees no new or increase to federal taxes imposed on property through value capture.

- Ensure the on-going operation and funding of the Australian Building and Construction Commission.

Housing Affordability

- Identify more land disposal opportunities for new housing supply – with money raised during the sales process allocated to the National Housing Infrastructure Facility.
- Incentivise planning reform to make housing cheaper to produce - given charges incurred through the planning process, compliance costs for regulation and holding costs all add to slow planning approvals processes and increase the cost of new housing.
- Work with the states to assist people getting into the market by providing low deposit home loans similar to the Keystart model in Western Australia.
- Encourage pensioners to downsize by quarantining a portion of surplus cash from the pension eligibility test.
- The National Housing Supply Council - or an equivalent body - is reinstated, and data produced (for example: supply projections and demand/ supply gap analysis) be used as key indicators in the National Cities Performance Framework and to make recommendations to the Australian Council for Competition Policy on reform opportunities.
- Provide a minimum of $2.5 million per annum to support the work and operations of the National Housing Supply Council - or an equivalent body.
- Facilitate the emergence of the Build-to-Rent asset class, and attract investment into affordable rental housing by:
    - Provide a commitment to support the establishment of a Build-to-Rent sector in Australia.
    - Confirm the availability of the 15% MIT withholding tax rate for Build-to-Rent assets.
    - Limit the 60% CGT discount to affordable rental housing only.
    - Lower the MIT withholding tax rate to 10% for affordable rental income.
- Instigate a process through COAG to work with the states and territories to achieve a pipeline of affordable rental housing through the establishment and promotion of a Build-to-Rent sector.
- Consider mandating Build to Rent uses in the disposal of suitable redundant Commonwealth property to help the sector establish in Australia.
- Retain Negative Gearing and carefully canvass any changes to the CGT discount for investment property.

Ageing Transition

- Implement a whole of government Ageing Transition Strategy, supported by coordinated government policy and targeted funding. The Strategy should:
    - Recognise the value of rightsizing.
    - Improve awareness of seniors housing options.
    - Ensure clear and expert advice is available to seniors.
    - Provide financial certainty to rightsize.

International Capital Flows

- Do not impose any new taxes or regulations on foreign investment.
- The Government to work with industry to develop a robust solution which allows the real estate sector to continue using stapled structures, but also ensures integrity and sustainability in the tax base.

Energy Security and Climate Change

- Establish an economy-wide target of net zero emissions by 2050 and a sector plan for net zero emissions buildings by 2050 with interim targets and clear responsibility for implementation, review and updating over time.
- Implement energy market reforms so the market is flexible to innovation in energy technology and responsive to community needs, particularly recognising the potential for distributed electricity generation and storage, and fairly reward for energy export from on-site generation.
- Take a leadership role in co-ordinating the harmonisation and extension of energy efficiency schemes across all Australian jurisdictions.
- Provide tax incentives to building owners to encourage investment in capital works that provide a demonstrated improvement in the energy efficiency of their buildings.
- Establish a process for the COAG Energy Council and the Building Ministers Forum to agree and implement long term targets and a net-zero emissions trajectory for the minimum energy requirements in the National Construction Code.
- Reduce Government's energy bills by committing to achieve net zero emissions across all Commonwealth services and operations by 2030.

Productive Cities

CREATE BETTER FUNCTIONING CITIES

Australia's major cities are growing. Between 2011 and 2031 the population of our cities is expected to grow by almost seven million people.

Our biggest cities are growing the quickest, with Infrastructure Australia estimating that Sydney, Melbourne, Brisbane and Perth will each need to deliver an additional 500,000 to 700,000 dwellings over the next 15 to 20 years.

For our cities to thrive it is vital that governments need to 'get ahead of the game' to ensure we properly plan for and address the challenges that our cities face.

The Productivity Commission's recent 5 Year Productivity Review assesses the potential benefit of reform to our cities to be a $29 billion increase in GDP in the long-term.

The Property Council welcomes and supports the thrust of the Report's recommendations for our cities, in particular:

- Ensuring all major rail, freight and road infrastructure projects are subject to cost-benefit analysis to get a better return on investment and improve the efficiency of transport networks.
- Setting a medium-term path to increase the role of user charges and direct pricing on roads to build a sustainable funding base, help manage demand, and better share the tax burden.
- Fixing the current number and complexity of land use and zoning systems that inhibit housing supply pipelines.
- Applying competition policy principles to remedy inconsistent rules around land release, and get better alignment between state or city-wide strategic objectives and local interpretation.   This is supported by the Property Council's 2016 research report (in partnership with Deloitte Access Economics), which found using incentives to fix planning systems and housing markets could deliver a $3 billion boost to GDP.
- Streamlining development assessment systems by adopting the Development Assessment Forum (DAF) best practice principles to reduce the time and cost of project approvals.

The Government currently has a strengthening cities policy framework including city deals and the smart cities and suburbs program. However, given the importance of our cities to Australia's productivity, the Property Council recommends that the Government expands its cities agenda to incorporate the suite of cities related recommendations outlined in the Productivity Commission's report.

Recommendations for the 2018-19 Budget:

- *Expand the Cities Agenda to incorporate the suite of cities related recommendations outlined by the Productivity Commission in the 5 Year Productivity Review.*

CITY DEALS

City Deals provide a key mechanism to deliver economic and productivity growth in Australia's cities, and are strongly supported by the Property Council.

To date only three City Deals have been announced. The Property Council believes it is appropriate that future City Deal cover our larger capital cities, our regional cities and smaller capital cities. However, given the growth dynamics of Australia – where over 75% of population growth is forecast to occur in just our four largest cities – it is imperative that our major capital cities should be an ongoing focus for City Deal development.

We recommend that the Government's City Deal agenda should always have a focus on one of Sydney, Melbourne, Brisbane/SEQ and Perth and that at a minimum, all these cities should have a City Deal in place by 2020.

It is also clear that the Commonwealth's role in City Deals does not end when these are signed. Implementation is very important and requires ongoing commitment. To enable the Commonwealth to both follow-through on implementation while also rolling out a pipeline of new City Deals will also likely involve more resources than are currently being applied to it.

We recommend modest additional resourcing be committed to support City Deal roll out.

The 2017-18 Budget announced the leveraging of the Western Sydney City Deal to incentivise local and state government reforms to accelerate housing supply, by requiring each local government area to develop housing strategies that identify how they will reach agreed housing supply targets.

This should include rezoning land for higher density housing around railway stations or employment centres, reforms that reduce development approval timeframes, and other changes needed to unlock supply.

A commitment in the 2018-19 Budget to expand competition style incentive payments beyond City Deals would be in line with the Productivity Commission's recommendation and has the potential to unlock $3 billion a year in benefits.

Recommendations for the 2018-19 Budget:

- *All major capital cities to receive a City Deal by 2019 centred on driving economic growth.*
- *Sufficient financial and other resources to be allocated to ensure that the Government can deliver existing City Deals in full, in addition to developing and implementing new City Deals in all major capitals.*
- *The Commonwealth's infrastructure capital and budget allocation strategies to be aligned with the City Deals agenda.*
- *Major City Deals incorporate incentives for reform to housing supply and planning frameworks.*

INCENTIVE BASED FUNDING TO IMPROVE HOUSING SUPPLY

The Property Council strongly supports the Productivity Commission's recommendation that there should be national agreement to apply competition policy principles to land use regulation and policies.

The recent legislative reforms are a positive first step, reflected in the bipartisan consensus on the concept of using NAHA to drive reform.

In translating the opportunities for change into the context of an incentives-based model, it is essential to set clear and measurable objectives for change.

The mere act of reform is not sufficient. The success of any initiatives needs to be demonstrable and well-defined. The Property Council recommends testing the benefits of reform against the following goals:

- Supply pipelines actively increasing the total availability of zoned and serviced land across both infill and greenfield locations.
- Cost of development demonstrably reducing the cost of producing new homes through lower compliance costs, removing regulatory burdens and fairer infrastructure charges.
- Rezoning times cutting the time required to rezone land in new release areas or across existing suburbs.
- DA approval times slicing the period attached to development applications seeking a determination.
- Infrastructure servicing a more reliable schedule of infrastructure needed to service and support growth, and more efficient charging regime.

The recent agreement by Treasurers' to finalise the National Housing and Homelessness Agreement, provides the Commonwealth Government with the opportunity to fast-track an incentive based model.

Recommendations for the 2018-19 Budget:

- *Continue to work with all states and territories on implementing an incentives-based model to improve housing supply and affordability. Establish a reform fund to underpin such an approach. Payments should be used to encourage best practice reforms in planning, zoning and infrastructure delivery to increase housing supply.*

- *Task the Australian Council for Competition Policy with responsibility for incentive payments, receive recommendations and input to allocate payments, and ultimately decide on issuing payments.*

- *Commit $500m to fund the incentive payments.*

INFRASTRUCTURE

The Australian government is uniquely positioned to leverage its balance sheet and use tied grants to deliver specific urban objectives in relation to infrastructure delivery, land use and urban planning. However, good infrastructure planning and development in Australia is inhibited by the politicisation of plans and decisions, funding and financing constraints, narrow business case analysis and inefficient procurement.

Clear national infrastructure priorities are essential to remove the political risk attached to major projects. This is crucial given investor confidence has been undermined and opportunities wasted through the absence of a well-defined pipeline of projects and high-profile cases of cancelled contracts.

The Property Council supports Infrastructure Australia's 15 Year Infrastructure plan as an evidence based, non-partisan basis for governments to select infrastructure projects to fund.

We support the Productivity Commission's call for the Federal Government to bring forward infrastructure spending. As an example, the Government's National Urban Rail announcement when implemented will cut congestion in cities and significantly improve productivity. However most of the program's $10 billion funding falls outside of the forward estimates.

The Property Council believes that an important function for Infrastructure Australia should be to assist the states to build the capacity to develop first rate feasibility studies and business cases to complement its own role in independently and rigorously analysing projects.

Recommendations for the 2018-19 Budget:

- *Bring forward the allocated infrastructure spending for the National Urban Rail from 10 years to 5 years, with a focus on partnering with state and territory governments to deliver urban rail projects in all our major cities.*
- *Continue to provide states and territories with funding from Infrastructure Australia to prepare first rate feasibility studies and business cases.*
    - *Implement the recommendations outlined in ASBEC's "Bang for Buck – delivering better business cases to realise more value from our infrastructure investments".*
- *Continue to invest at least $50 billion in infrastructure funding over the next 4 years.*
- *Ensure Commonwealth funding for major infrastructure projects is only allocated to projects which have had their business cases approved by Infrastructure Australia.*
- *Adopt more innovative funding and financing strategies that are coupled with the appropriate governance arrangements to support infrastructure prioritisation and delivery.*
    - *Ensure that new methods of financing and funding infrastructure enhance delivery, productivity and value for money – new funding cannot be derived from simply adding an additional tax.*
- *In partnership with states and territories, the Australian government should establish effective corridor protection mechanisms for future infrastructure priorities informed by long-term strategic planning.*

INFRASTRUCTURE FUNDING

Delivering critical infrastructure is vital to ensure and increase the productivity of our cities.

The Asset Recycling Fund supported infrastructure investment by state and territory governments by allocating funding in return for the state and territories selling and leading public assets.

According to the 2016-17 Budget, the $3.3 billion provided by the Federal Government through the Asset Recycling Fund delivered a total of $23 billion in infrastructure investment.

The Property Council believes that the Asset Recycling Fund should be re-established with capital raised through the disposal process to be reinvested into the National Housing Infrastructure facility (NHIF), and that the Federal Government should undertake an investigation and audit of potential assets to privatise.

Funding for the necessary infrastructure cannot only come from Federal and State Government Budgets – it will require financing solutions to encourage private sector activity and investment.

One such solution is Tax Increment Financing (TIF), which is a method of funding infrastructure commonly used in the United States and the United Kingdom, and the Property Council believes it should be trialled in Australia.

TIF involves governments issuing bonds to pay for infrastructure and recapitalising them through the tax revenues arising from the economic growth that follows.

TIF enforces a discipline on governments to make integrated decisions around infrastructure and land use, and the timing provision of infrastructure. It provides a more transparent approach to infrastructure selection based around an integrated strategy as opposed to election cycles.

Importantly, TIF avoids the trap of many of the 'value capture' methods currently being proposed by using existing taxes and tax rates – and only capturing value as it truly accrues.

Recommendations for the 2018-19 Budget:

- *Re-establish the asset recycling program, and undertake an investigation and audit of potential assets to privatise.*
- *Create a framework for infrastructure funding which includes trialling Tax Increment Financing. This guarantees no new or increased taxes imposed on property through value capture.*

PROVIDE ON-GOING SUPPORT FOR THE AUSTRALIAN BUILDING AND CONSTRUCTION COMMISSION (ABCC)

The re-establishment of the Australian Building and Construction Commission (ABCC) in 2016 was a positive step for the property industry and the economy.

The ABCC will tackle industrial disputes in the building sector for the benefit of all building industry participants, and ensure that building work is carried out fairly, efficiently and productively.

The previous time there was an ABCC, Property Council members reported productivity improvements of between 10 to 20%, and similar productivity improvements are expected again.

Recommendations for the 2018-19 Budget:

- *Ensure the on-going operation and funding of the Australian Building and Construction Commission.*

Housing Affordability

The Government outlined policy solutions to improve housing affordability in its 2017-18 Budget with a strong focus on improving supply and the importance of long-term rental as an important form of tenure. This included:

- A scalpel approach to negative gearing to maintain public confidence in the integrity of the deduction and to maintain the delicate balance of rental markets.
- A strong focus on improving housing supply through incentives for planning reform, a National Housing Infrastructure Facility, land disposal and the National Housing Finance and Investment Corporation.
- Charges and restrictions on individual, foreign investors targeting the demand for residential property.
- An intent to remove blockages to encourage long term investment in affordable rental housing.
- Support to overcome the deposit gap and reducing the barriers to downsizing.

The 2018-19 Budget provides an opportunity to expand on the announcements that would have a genuine impact on affordability. The Property Council believes the implementation of the following recommendations would build on the 2017-18 Budget announcements to improve housing affordability.

Recommendations for the 2018-19 Budget:

- *Identify more land disposal opportunities for new housing supply – with money raised during the sales process allocated to the National Housing Infrastructure Facility.*

- *Incentivise planning reform to make housing cheaper to produce - given charges incurred through the planning process, compliance costs for regulation and holding costs all add to slow planning approvals processes and increase the cost of new housing.*

- *Work with the states to assist people getting into the market by providing low deposit home loans similar to the Keystart model in Western Australia.*

- *Encourage pensioners to downsize by quarantining a portion of surplus cash from the pension eligibility test.*

- *Support the establishment of a build to rent asset class (as outlined separately in this submission).*

RESTORATION OF THE NATIONAL HOUSING SUPPLY COUNCIL

The restoration of the National Housing Supply Council will be necessary to measure the on-going performance of any reform initiatives.

Since the Council's abolition in December 2013, there has been a lack of reliable data on Australia's housing supply and affordability issues. This data is crucial to underpin an incentive based model to improve housing supply and affordability.

Along with a commitment to improving housing affordability, the Government has committed to improving the performance of cities based on evidence. These critical policy choices can only be made when the performance of our cities is tracked and measured – particularly as this relates to housing affordability and the ability to properly assess housing supply.

Housing affordability is a significant determinant of successful cities and is one of the pressing policy issues of our time. There is a lack of data on national housing supply to inform the necessary policy and investment decisions governing this $6 trillion asset class. As such, there is a risk of undermining the flow of jobs and investment throughout the economy when housing supply is unable to match demand.

Recommendations for the 2018-19 Budget:

- *The National Housing Supply Council - or an equivalent body - is reinstated, and data produced (for example: supply projections and demand/ supply gap analysis) be used as key indicators in the National Cities Performance Framework and to make recommendations to the Australian Council for Competition Policy on reform opportunities.*

- *Provide a minimum of $2.5 million per annum to support the work and operations of the National Housing Supply Council - or an equivalent body.*

BUILD TO RENT

Traditionally, Australia has adopted a "build-to-sell" approach to residential property.

That is, developers build residential properties (typically detached dwellings or strata apartments) that are sold to individual buyers – who either live in the home ("owner occupiers") or rent the properties in the private rental market ("individual investors").

Development stock for sale will continue to remain the dominant form of housing provision in the Australian market.

However, the provision of rental housing will become more important given:

- The number of Australians renting now totals 6.5 million – and continues to grow.
- The average age of first home buyers has increased to 38 years.
- Australia has consistently failed to develop sufficient housing stock for sale to meet the demand of buyers – with the current estimated deficit approximately 150,000.
- House price to income ratios have grown due to the market imbalance, rising from 4.3% to 6.9% over the past 15 years.
- The deposit gap is widening – with 85.9% of an average household's annual income needed to pay the deposit in 2001, which has risen to 138.9% in 2016.

The high rate of population growth in our major capital cities – combined with poor housing supply and planning policies, as well as excessive property taxes – will exaggerate these effects.

Key parts of the Australian property industry are now considering the viability of creating Build to Rent assets in this country. A healthy Build-to-Rent sector is highly aligned with the Government's housing agenda and provides significant benefits for Australia. There are very good public policy reasons for governments to help facilitate the establishment of Build to Rent in Australia:

1. *A better quality experience for people who rent.*

    - purpose-built facilities with common areas, concierge services and pooled amenities.
    - a curated approach to community.
    - professional management.

2. *An additional source of housing supply that is not linked to traditional build-to-sell construction cycles.*

    - the Government has rightly prioritised initiatives to encourage more housing supply to address housing affordability in a sustainable way.
    - normal build-to-sell housing construction will occur when a developer believes they can sell for a profit – supply surges and slows as a result.
    - Build-to-Rent housing creates an asset designed to generate long term rental income flows.
    - while build-to-sell will always be the dominant source of housing supply, Build-to-Rent can provide additional supply that is not linked to traditional construction cycles.
    - this additionality of supply is a key reason for the UK Government's strong support for the Build-to-Rent sector in that country.
    - in the US, investment in multi-family housing actually increased following the GFC.

3. *A willing partner to achieve a pipeline of affordable rental housing.*

    - Commonwealth, state and local governments are increasingly interested in incentivising the provision of affordable rental housing.
    - a healthy and growing Build-to-Rent sector provides the best platform for governments to deliver this outcome.
    - governments can incentivise this outcome through tax concessions, density bonuses or mandating outcomes on the disposal of government land.
    - without a healthy at-market Build-to-Rent sector, there is less likely to be a take-up of such government incentives at a scale that will be required to meet the social needs in our large cities.

The housing affordability challenge and changing demographics has resulted in an increasing proportion of people renting for longer periods. The Treasurer has led the debate about alternative rental supply models and the factors holding institutional investment back from this asset class in Australia.

A commitment in 2018-19 Budget to support the establishment of a Build-to-Rent sector in Australia is entirely consistent with the Government's boarder housing policy agenda to improve housing affordability outcomes.

Recommendations for the 2018-19 Budget:

- *Facilitate the emergence of the Build-to-Rent asset class, and attract investment into affordable rental housing by:*
    - *Provide a commitment to support the establishment of a Build-to-Rent sector in Australia.*
    - *Confirm the availability of the 15% MIT withholding tax rate for Build-to-Rent assets.*
    - *Limit the 60% CGT discount to affordable rental housing only.*
    - *Lower the MIT withholding tax rate to 10% for affordable rental income.*
- *Instigate a process through COAG to work with the states and territories to achieve a pipeline of affordable rental housing through the establishment and promotion of a Build-to-Rent sector.*
- *Consider mandating Build to Rent uses in the disposal of suitable redundant Commonwealth property to help the sector establish in Australia.*

Negative Gearing and Capital Gains Tax

The Property Council supports the retention of the current treatment of negative gearing on property.

Negative gearing applies to all forms of investment and is not a property-specific tax arrangement. It is simply the ability to deduct legitimate expenses against income, which has been available in Australia for over 100 years.

Negative gearing supports the supply of rental housing in Australia, and assists over 2 million Australians to help save for their retirement through investment in rental properties.

The Property Council notes that the related 50% capital gains tax discount also ensures that governments only tax real capital gains – it is designed to encourage investment and remove the impact of inflation. We have previously proposed reducing the capital gains tax discount to 40% and moving to a two-year qualifying period as part of a comprehensive tax reform package.

Recommendation for the 2018-19 Budget:

- *Retain Negative Gearing and carefully canvass any changes to the CGT discount for investment property.*

Ageing Transition

Eight Point Plan

Retirement village owners and operators – through the Property Council's sector leadership group, the Retirement Living Council – have developed an action plan to ensure greater transparency and higher standards across the retirement living industry.

The Eight Point Plan will deliver a Code of Conduct, clearer and simpler information about costs and contracts, and better training for village managers and sales staff.

It is a key element of the Retirement Living Council's ongoing focus on residents and constructive work with federal and state governments to rebuild confidence in retirement villages.

The Retirement Living Council's Eight Point Plan

1. Support nationally consistent retirement village legislation and contracts.

2. Ensure there are transparent and easy-to-understand descriptions in contracts of entry pricing, ongoing service fees, reinstatement costs and fees and payments relating to departure, so residents have certainty about the costs associated with living in a retirement village.

3. Encourage all potential residents to seek independent legal advice before signing a contract, and work together with government and the legal profession to make this happen. We will also encourage potential residents to share this information with family members and trusted advisers.

4. Improve training and professional support for village managers, sales people and other staff who engage directly with current and potential residents.

5. Commit to improve industry village accreditation standards and coverage, and support government initiatives to make accreditation a mandatory requirement for operating a village.

6. Work with the Australian Retirement Village Residents Association to implement an industry Code of Conduct to set and maintain high standards about the marketing and operation of villages, as well as dispute management procedures for all operators and residents.

7. Commit to the establishment of an efficient and cost-effective government-backed independent dispute resolution process, such as an Ombudsman or Advocate, for disputes that are unable to be solved at a village level.

8. Maintain and strengthen the relationship between industry and the Australian Retirement Village Residents Association to make sure resident issues are clearly identified and addressed.

Ageing Transition Strategy

Australia's population is increasingly ageing. This will create significant economic and societal changes as the proportion of older people in our communities increases.

It is critical that we have the policies and programs in place not only to ensure the health and well-being of elderly Australians, but to assist people as they plan the transition into the final stages of life. A critical element of this is to ensure that ageing Australians have clear information about, and ready access to, appropriate housing and accommodation for their particular circumstances and needs.

The Retirement Living Council recommends the development of a whole of Government Ageing Transition Strategy, as part of the Government's broader Seniors Policy.

While there are many government initiatives to support older Australians, there is no clearly articulated pathway to help people understand and make decisions that will ease their transition into an ageing lifestyle.

A whole of Government Ageing Transition Strategy should include the following key elements:

1. Recognise the value of rightsizing

It is important to raise people's awareness of, and normalise the idea of, rightsizing in their retirement. Retirement villages must be part of the government's policy considerations for rightsizing, which should also include other forms of housing, care delivery, cities planning, aged pension eligibility rules and taxation.

The Retirement Living Council recommends the government undertakes a Seniors' Housing Supply Study to investigate and make recommendations on supply and demand issues for purpose-built and managed housing options for older Australians.

2. Improve Awareness of Seniors Housing Options

To help raise awareness and normalise the idea of rightsizing, the Government should conduct an awareness/education campaign to better inform people of their housing options, and to encourage people to plan a transition from larger homes before these decisions are overtaken by critical health incidents.

As part of a campaign, additional functionality and information should be added to the www.myagedcare.gov.au website, so that it becomes a one-stop-shop for all seniors housing and care information. Currently the website only provides information on Federally funded and regulated home care and residential aged care services, but does not provide information on state regulated retirement villages or other seniors' accommodation options, such as aged rental and manufactured home parks.

3. Ensure Clear and Expert Advice is available to seniors

One of the benefits of living in a retirement village is the fact that average entry prices are only 69% of the average equivalent general residential home in the same postcode area. This price is driven, in part, by a tenancy model which has evolved in response to a commercial and tax environment that makes it very hard to viably and sustainably own and maintain retirement villages that are rented, or sold, in the same way as general residential properties. Many of these issues are canvassed in the Build to Rent section of this submission.

By choosing to enter a retirement village and take advantage of purpose-built facilities, which have been proven to reduce hospital and GP visits and defer entry into residential aged care by up to five-years, residents need to make a complex set of decisions about how the lower entry price might impact their pension eligibility, and whether to potentially move to less suitable properties that might even give them access to Commonwealth Rent Assistance.

Older Australians need to be able to access expert financial and legal advice, to ensure they are able to make informed, smart and timely decisions about their housing options. However, currently there is a lack of specialist knowledge regarding retirement villages and other aged accommodation, which is causing people to defer decisions, or make the wrong decision about their housing options and the cost of accessing care and support as they age.

It is recommended that the Government works with the industry, law societies and consumer organisations to fund and develop an online training course to provide lawyers and financial advisers with the information and training needed to provide specialist advice to seniors wanting to understand the opportunities and costs of rightsizing.

4. Provide Financial certainty to 'rightsize'

Seniors should be encouraged to rightsize their homes, and not be unduly discouraged by financial impediments including taxes and charges.

The RLC recommends that this could be achieved by:

- Enabling aged pensioners to 'Unlock Home Equity' when rightsizing and selling their family home.

  In many cases, the new home or retirement village unit will cost less than the sale price of their family home. These excess sale proceeds are included in the age pension assets test, creating a significant disincentive to rightsizing to a more appropriate home. A targeted change to the pension assets test could allow full rate age pensioners, who unlock a modest sum from the sale, to retain their full pension.

  The cost of 'topping up' the pension that would otherwise have been lost can partially be recouped when a pensioner moves into a retirement village due to the health, hospital and aged care savings created by retirement village living.

- The Commonwealth encouraging the states to undertake a pilot of a "Last Home Owners Grant" that would cover the transactional costs of 'rightsizing'. This could include the payment of a cash lump sum or a deduction of stamp duty payments.

Recommendation for the 2018-19 Budget:

- *Implement a whole of government Ageing Transition Strategy, supported by coordinated government policy and targeted funding. The Strategy should:*
  1. *Recognise the value of rightsizing.*
  2. *Improve awareness of seniors housing options.*
  3. *Ensure clear and expert advice is available to seniors.*
  4. *Provide financial certainty to rightsize.*

International Capital Flows

Foreign Investment

Foreign investment is vital to the strength of the Australian economy. Foreign investment provides the pool of capital necessary to finance the investment that underpins Australia's economic growth.

Foreign investment is particularly important to the property sector. It helps provide the long-term patient capital that underpins commercial construction – building office blocks, shopping centres and manufacturing precincts, and contributes to funding residential construction – helping to supply much needed housing stock.

This investment, in turn, benefits the economy as a whole. According to ACIL Allen:

- A 20% reduction in foreign investment for the development of new commercial buildings would reduce Australia's real GDP by a cumulative total of $21.4 billion over 10 years; and result in a cumulative loss of $8 billion in Commonwealth Government revenues and $2 billion in state revenues over the 10-year period from 2017-18 to 2026-27.

- A 20% reduction in foreign investment for development of new residential dwellings would reduce Australia's real GDP by a cumulative total of $14.8 billion over 10 years; and result in a cumulative loss of $5 billion in Commonwealth Government revenues and $1 billion in state revenues over the 10-year period from 2017-18 to 2026-27.

While Australia is a very attractive investment destination due to our population growth and the transparency of our markets – global capital is mobile, and we compete with the rest of the world for this capital.

Therefore, we must resist isolationist policy settings that can only harm our economic interests and deter foreign investment. It is critical that Australia offers a competitive and robust investment framework to attract foreign investment. Foreign investors do not lack choices, and will factor complexity and profitability risk into their investment decisions.

Currently, Australia's foreign investment framework for real estate is more stringent than other comparative countries with which Australia competes in the market for global capital. This is especially the case in regard to residential investment.

In recent years, there has been a significant raft of reforms introduced targeting foreign investment in real estate – including the introduction of a fee regime for FIRB applications, 12.5% CGT withholding tax on property sales and an annual vacancy charge on residential property. This is on top of the significant foreign investor stamp duty and land tax surcharges that have been levied across the states and territories.

For global patient capital looking to invest with a long-term horizon, these continual increases in taxes and regulations adds a risk premium when assessing whether to invest in Australia.

The complexity of Australia's foreign investment regime is exacerbated due to the lack of harmonisation regarding the definition of 'foreign' across the FIRB, CGT and state-based foreign investor regimes.

It is vital that Australia has the right balance of taxes and investment rules to attract global patient capital which is essential to drive economic growth. Our rules are amongst the toughest in the world and we should not seek to impose further taxes and regulations on foreign investment.

Recommendation for the 2018-19 Budget:

- *Do not impose any new taxes or regulations on foreign investment.*

STAPLED STRUCTURES

The Government is currently undertaking a review into the use of stapled structures in Australia.

The real estate industry has used stapled structures since the 1980s and there are no integrity concerns regarding the use of stapled structures with property.

Concern has been raised that stapled structures can be used to inappropriately shift profits from a company to a concessionally taxed trust, through the fragmentation of an integrated business.

Property groups do not use stapled structures to fragment integrated businesses. Rather, property groups use stapled structures to combine complementary businesses, typically by 'internalising' activities that can readily be performed by unrelated parties.

If the use of stapled structures by the real estate sector is restricted then the overall result will be that the real estate sector will be inappropriately impacted from a taxation perspective, which would impact on the sector's ability to attract international capital.

The Property Council understands the Government's desire that stapled structures are not used inappropriately and that there remains integrity and sustainability in the tax base. We are keen to work with the Government to enable a solution that will ensure integrity, but not impact on the use of stapled structures by the real estate sector.

Recommendation for the 2018-19 Budget:

- *The Government to work with industry to develop a robust solution which allows the real estate sector to continue using stapled structures, but also ensures integrity and sustainability in the tax base.*

Energy Security and Climate Change

The Property Council welcomes the Government's current focus on energy security, energy pricing and emissions reduction. Australia needs an economy-wide framework to better address its energy pricing, supply and emission reduction objectives if we are going to overcome challenges that exist from escalating energy costs.

A consistent, reliable and credible policy framework is required for Australia's property industry to make investment decisions crucial to meeting three fundamental goals:

- achieving a globally competitive energy price that gives Australia an economic advantage.
- reforming markets to increase the supply of reliable, affordable and secure energy, and foster innovation and investment.
- helping property make the transition to net zero emission buildings consistent with the sustainability mandate of leading property companies and contribute to economy-wide emissions reduction targets.

The potential of Australia's built environment sector to reduce emissions should not be underestimated: Australia's buildings could meet over half the National Energy Productivity Target (NEPP) and a quarter of the national emissions target with the right polices and incentives in place.

The technology already exists today to achieve zero carbon buildings. Market leading Australian property companies have demonstrated the potential for energy performance improvements over the past decade. These and other improvements across the sector have led to emissions reductions of over 180 megatonnes; nearly twenty times the annual emissions of Australia's largest coal fired power station.

The report *"Low Carbon, High Performance",* authored for the Australian Sustainable Built Environment Council (ASBEC) by Climate Works, identifies a range of energy efficiency opportunities that could deliver almost $20 billion in financial savings by 2030.

However, whilst the built environment represents some of the lowest cost emissions abatement opportunities, there are a number of persistent barriers to the uptake of energy efficiency and distributed energy that require strong and targeted policy support from the Government to address.

Recommendations for the 2018-19 Budget:

- *Establish an economy-wide target of net zero emissions by 2050 and a sector plan for net zero emissions buildings by 2050 with interim targets and clear responsibility for implementation, review and updating over time.*

- *Implement energy market reforms so the market is flexible to innovation in energy technology and responsive to community needs, particularly recognising the potential for distributed electricity generation and storage, and fairly reward for energy export from on-site generation.*

- *Take a leadership role in co-ordinating the harmonisation and extension of energy efficiency schemes across all Australian jurisdictions.*

- *Provide tax incentives to building owners to encourage investment in capital works that provide a demonstrated improvement in the energy efficiency of their buildings.*

- *Establish a process for the COAG Energy Council and the Building Ministers Forum to agree and implement long term targets and a net-zero emissions trajectory for the minimum energy requirements in the National Construction Code.*

- *Reduce Government's energy bills by committing to achieve net zero emissions across all Commonwealth services and operations by 2030.*

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