PROPERTY COUNCIL of Australia

WESTERN AUSTRALIA STATE BUDGET SUBMISSION

2021/22

PROSPERITY | JOBS | STRONG COMMUNITIES

INTRODUCTION

Western Australia has, to date, outperformed other Australian states and the world in managing the impacts of COVID-19 on the economy.

As the only Australian state in surplus, the Western Australian Government is well positioned to deliver a 2021 Budget that supports future growth and removes tax obstacles that will inhibit future investment. Our shared goal is to ensure a thriving WA community, a home for all, and to keep WA on a course for years of economic prosperity.

As the state continues to grow, the property industry will be critical to delivering the homes, schools, hospitals, offices, retail and tourism precincts needed for the future. After a period of prolonged economic downturn, building strength in the property and construction sector is an important priority for this 2021 Budget period.

The Property Council's Pre-Budget submission provides an overview of the industry we represent, current market conditions and immediate steps the government can take to help harness opportunities and address social challenges, such as housing supply. The submission builds on the recommendations provided in our election platform *Recovery and Growth: Powered by Property.*

The Property Council's immediate priorities are to:

1. **Remove barriers to housing supply**
2. **Drive population growth**
3. **Create jobs for the future**
4. **Maintain momentum through uncertainty**
5. **Revitalise Perth's CBD**

The Property Council's Pre-Budget submission is our plan to work in partnership with the McGowan Government to continue Western Australia's strong economic growth trajectory.

Sandra Brewer
WA Executive Director
Property Council of Australia

ABOUT PROPERTY COUNCIL OF AUSTRALIA

The Property Council of Australia champions the industry that employs more than 300,000 Western Australians and shapes the future of our communities and cities.

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

On behalf of our members, we provide the research and thought leadership to help decision makers create vibrant communities, great cities and strong economies.

We support smarter planning, better infrastructure, sustainability, and globally competitive investment and tax settings which underpin our members' contributions to the economic prosperity and social wellbeing of Western Australians.

IMPACT OF COVID-19

Economic turbulence created by the COVID-19 pandemic impacted each sector of the property industry differently. Stimulus measures, such as the Building Bonus delivered by the McGowan Government, drove activity particularly in the greenfields residential market. However, a rapid shift in market performance and social practices created unimagined challenges in some sectors.

COMMERCIAL PROPERTY

Prior to COVID-19, the commercial office sector was experiencing weak economic conditions, with CBD office vacancy hovering at 17.6 per cent – the highest in Australia.

The commercial office sector has been hit hard by COVID-19, with stay-at-home directions in 2020 and further lockdowns earlier this year eroding occupancy in the CBD. According to a Property Council survey conducted after the April lockdown, the requirement to wear masks in an office environment was the main deterrent for workers returning to the CBD.

Additionally, property owners were called on by federal and state governments to support small and medium business by providing rental relief under the Commercial Tenancies Code of Conduct. Deloitte estimates **WA property owners extended $4 billion in financial relief** to the sector. As an industry, we are proud of this contribution to support Australian businesses.

Despite the losses incurred by landlords forfeiting rent and other associated costs of lockdowns, optimism is returning to the office market. Further measures are needed to **encourage workers back to the CBD** and lowering the cost of doing business will aid CBD recovery.

RESIDENTIAL PROPERTY

State and federal government incentive schemes created a strong pipeline of construction work, primarily in greenfields markets. The Property Council has welcomed extensions to scheme deadlines which have allowed for more projects to be eligible.

The rapid increase in demand for residential construction has had an unintended consequence of creating a **labour shortage for key trades**. Additionally, recent natural disasters have increased demand for trades across Perth and the regions.

According to the Urbis Perth Apartment Essentials, Q1 2021 apartment sales have also slowed modestly in the most recent quarter.

The greatest challenge for the residential market is how to deliver stock to the rental market. The Urbis Apartment Essential Q1 2021 data revealed that in the last quarter, approximately 121 apartment sales were purchased by investors. However, new apartments sold in the quarter equate to less than half of the number of units that are rented each week across Perth. According to Property Council modelling, to meet the private rental targets outlined in the WA Housing Strategy 2020-2030, 60 per cent of all new dwellings built would need to be put onto the rental market.

INDUSTRIAL PROPERTY

Prior to the pandemic, Property Council members indicated strong optimism in the industrial property sector as mining investment created demand for industrial space.

Despite a pause during the pandemic, WA's strong position and the pivot towards local manufacturing across multiple sectors has generated further momentum.

Consequently, the key challenge facing industrial property is a steady pipeline of land supply and premises that can be developed to meet increasing demand as supply chain patterns change.

The Property Council welcomed the McGowan Government's $50 million Industrial Land Development Fund commitment, announced during the recent state election campaign. The commitment was complemented by $5 million earmarked for master planning of a High-Tech Manufacturing Hub around Rockingham and Kwinana. Delivering on these positive commitments in a timely fashion will be important to maintain the momentum while the opportunities exist.

REMOVING BARRIERS TO HOUSING SUPPLY AND AFFORDABILITY

The State Government's strong management of COVID-19 has resulted in a lift in population growth and an increase in fly-in-fly-out workers choosing to domicile in WA. A growing population has placed additional pressure on the residential housing market in both the rental and owner occupier spaces. Residential rental market vacancies are at their tightest levels in more than a decade, according to Perth agents.[1]

Policy interventions are needed to secure adequate housing supply, and in particular to ensure private sector rental dwelling targets are met over the immediate and long term.

The WA Housing Strategy 2020-2030, launched in October 2020, sets **a target of 130,000 new private sector rental dwellings**[2]. Meeting this target will require the supply of significant additional rental accommodation above business-as-usual. To put this into perspective there are roughly 21,500 dwelling commencements in WA each year, on average, over the last decade[3]. If private sector dwelling approvals over the next decade remain in line with this average approval rate, **60 per cent of all new dwellings must be added to rental market each year to meet this target.** Currently, approximately 23 per cent of stock in the WA market is private rental.

THE SOLUTIONS

Provide land tax discounts to allow build-to-rent development to thrive

A permanent land tax concession is necessary to ensure the build-to-rent industry in WA can thrive. To stimulate first movers in build-to-rent and support the establishment of the asset class in WA, the Property Council proposes project currently under construction, or that commence before 30 June 2030 should be exempt from land tax:

- Through the "development phase"; and
- Through the "holding and management phase", until at least 30 June 2039

Other jurisdictions made announcements across 2020 to equalise land tax settings for build-to-rent and to partner with industry to deliver pilot build-to-rent projects.

Build-to-rent is an emerging asset class that is well established in North America and the United Kingdom, providing a high volume of apartments for families and prospective residents to lease.

Build-to-rent developments are attractive to institutional investors, including Australian superannuation funds, that have, until now, diverted capital to overseas developments where investment settings are more favourable.

The build-to-rent model sees a single owner develop and manage an apartment complex, as opposed to a build-to-sell development where apartments are owned individually. The model provides genuine choice for consumers, who are currently limited to buying a home, or choosing the private rental market with associated uncertainty of tenure. It is especially appealing to older women who want a long term (10 years +) home but lack the financial means to buy one.

[1] With Perth rental vacancy rates the tightest in ten years, tenants' rights are in the spotlight - ABC News
[2] WA Government Department of Communities, 'WA Housing Strategy 2020-2030', 2020.
[3] Australian Bureau of Statistics

As build-to-rent developments do not rely on apartment pre-sales to access finance, they can be built quickly and added to the rental market at a faster rate than build-to-sell. **Adding rental stock as quickly as possible will relieve pressure on record low rental vacancy rates. However, as build-to-rent developments do not typically use debt financing, the viability of these projects is finely balanced without adjustments to tax barriers.**

For example, an apartment complex containing 250 apartments has an unimproved land value of $88,000. In this complex, an individual owning a single unit would pay no land tax as the unimproved value is below the land tax threshold. However, an institutional investor that owned all 250 apartments would exceed the land tax threshold and be liable for land tax at the highest rate. Importantly, the land tax payable by the developer is not recoverable through a residential lease. This means the developer or owner absorbs the entire cost of the land tax. The disparity in land tax treatment sees no land tax applied to an apartment complex that had 250 separate owners, but land tax would apply to the same complex if it had a single owner.

Drive new apartment construction by making the 75 per cent off-the-plan stamp duty rebate permanent

The Building Bonus and HomeBuilder COVID-19 incentive programs maintained employment in trades associated with single dwelling construction. The incentive programs were designed to favour house and land packages over apartment development to expedite the creation and protection of jobs.

To address a slowing apartment pipeline in 2019, the McGowan Government introduced a 75 per cent stamp duty rebate up to $50,000 for off-the-plan apartment purchases. **The rebate was very effective and provided support for new apartment developments, creating jobs and new housing options.** The rebate is due to expire in October 2021.

Pulling policy levers to **maintain incentives for apartment development will help address long-term housing needs,** including the aim of increasing infill development in key inner-city locations. It will also ensure a steady pipeline of jobs, with National Housing Finance Investment Corporation analysis confirming that every $1 million of residential construction contributes nine full time equivalent jobs to the economy[4].

Perth's new apartment market has benefited in 2021 from a surge in confidence. However, maintaining sector momentum will be vital to ensuring infill targets are met, and that the development industry continue to provide the market with a healthy pipeline of diverse housing options.

Unlike house and land projects, apartment development relies on off-the-plan purchases to secure the capital needed to launch projects. **If the incentive were to expire on schedule, this would significantly slow the pipeline of new projects** at a time when the market is experiencing a rebound and potentially delay the commencement of projects taking pre-sales.

According to Urbis, "whilst demand and confidence in the market is picking up, the number of apartments that are expected to be completed in 2021 will be the lowest level for some years with 1,159 apartments forecast to be completed in 2021 compared to 1,667 in 2020 and 2,102 in 2019"[5].

[4] National Housing Finance Investment Corporation, 'Building Jobs: How residential construction drives the economy', 2020.
[5] Urbis Perth Apartment Essentials 2021 Q1.

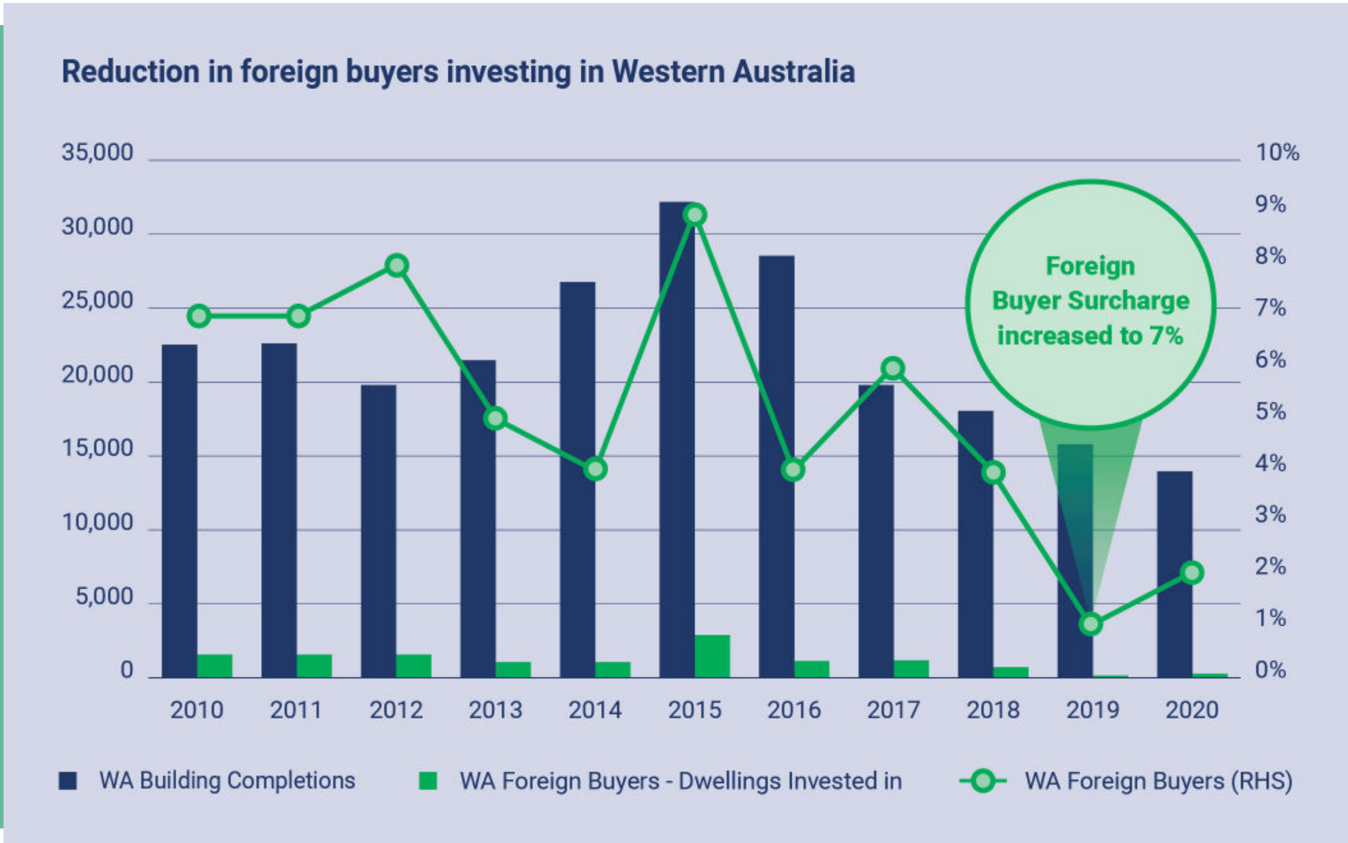
Encourage new apartment construction by removing the Foreign Buyers Surcharge

Foreign buyers are key investors, particularly in the off-the-plan apartment market, and often provide the necessary equity to expedite the commencement of a project. Introduced in January 2019, the seven per cent Foreign Buyers Surcharge (FBS) has **led to a significant decline in apartment investment in Perth.**

The impact of this surcharge was felt immediately on apartment sales, and in August 2019 then Treasurer Ben Wyatt told a Property Council breakfast audience that "we are a government that is flexible and responsive to demands and advice from those who know more than us," signalling he was open to reconsidering the existing of FBS in WA. **Now is the time for this reconsideration to occur.**

While some foreign buyers purchase as owner-occupiers, many others invest to leverage off strong rental markets. Although domestic investors are starting to come back to the WA residential market, the return is likely to be slower which can, in part, be attributed to the tempered growth in the WA residential sector over the past decade in comparison to our east coast counterparts.

The impact of losing foreign buyers is significant as it reduces the amount of rental stock available in WA. In the 10 years prior to the introduction of the surcharge, foreign buyers accounted for approximately 6 per cent of transactions. In 2019-2020, they accounted for 2 per cent of transactions. Based on an annual average of 21,500 new dwellings per year this represents a decline of over 800 dwellings, many of which would have been added to WA's rental market.



According to Property Council's analysis of Budget papers, in 2019-20, FBS collected was $19 million. Applying a conservative dwelling price of $400,000, foreign buyers accounted for roughly 679 transactions although the actual number of transactions is likely to be lower, with forward estimates predicting an increase in transactions is unlikely over the forward projection. Currently, most foreign buyers purchase apartments. The average price for an apartment in WA is $650,000. Using this figure, which is still conservative, foreign buyers accounted for roughly 418 residential buyers.

Removing the FBS will place WA in a more competitive position relative to comparable markets interstate and overseas as a safe place to live and invest. The proposed removal of the tax presents an opportunity to leverage WA's economic and health strengths, and the State Government is well positioned to encourage population growth and skilled migration to support our economic recovery.

Securing a pipeline of private sector investment and construction will be important in the medium to long term once the effects of COVID-19 stimulus efforts are phased out.

Support Keystart to support future apartment construction

A key barrier to accessing housing for young people is the affordability of the deposit. With banks generally requiring a deposit of 10 - 20 per cent, this represents a hurdle for those continuing extended study and/or at the beginning of their career. In Western Australia, this barrier has been addressed by Keystart, which is unique in the home loan market and designed to help people get into homes faster by lowering the entry costs.

Our recommendation is for the State Budget to implement an expansion of Keystart eligibility to address this barrier and to support a strong pipeline of construction activity and jobs in the apartment sector.

1. **Introduce a deposit grant for apartments sold off-the-plan.** Just like the Building Bonus supported a strong pipeline of house and land package construction, an Apartment Bonus would be an incentive to encourage people unable to meet typical deposit requirements to make a commitment to buying an apartment prior to construction. A deposit grant assists developers in that it meets the pre-sales requirements of their commercial lenders.

2. **Introduce a purchase guarantee provided by the Department of Communities.** A challenge for prospective Keystart buyers of off-the-plan apartments is that Keystart is not able to finance the deposit and valuations for unconditional finance approval are difficult in the pre-construction phase. We understand that developers and their finance providers would welcome a purchase guarantee should the Keystart consumer be unable to proceed, as it provides securitisation enabling project commencement.

DRIVING POPULATION GROWTH

According to Australian Bureau of Statistics data from April 2021, WA's current unemployment rate is 4.9 per cent – a rate not seen since 2013. In 2011, unemployment reached 3.9 per cent. However, WA's employment market was supplemented in 2012 by 52,000 overseas migrants – a scenario which, according to Federal Budget estimates, in unlikely to be repeated in the short-term.

Low unemployment is a good indicator of WA's current strong economic performance. However, **businesses are increasingly reporting their inability to fill job vacancies with local labour.** While interstate migration will be positive for the first time since 2013, interstate migration will not meet the labour supply shortages generated by a deficit in international migration. **Skills and people shortages are compromising the pipeline of significant projects** and economic activity in the short- to medium-term.

Beyond the extensive pipeline of public sector projects due to be delivered in this term of government, there is a significant pipeline of private sector work expected to commence over the next two years. Considering just the projects progressed though the State Development Assessment Unit (SDAU) – a $1.88 billion pipeline of work under assessment and seven projects worth $225 million approved – it is clear we will see extra pressure applied to an already constrained labour market.

THE SOLUTIONS

Introduce a payroll tax rebate for employers that relocate staff to WA for a two-year period

Historically, the WA economy has mitigated some labour pressure and skills shortages by supplementing the labour force with fly-in-fly-out and skilled worker visa holders. However, COVID-19 has made this a much more challenging and expensive exercise for employers.

The Property Council acknowledges the commitment of the McGowan Government to increasing the size of WA's skilled labour force though training and apprenticeships. This proposal seeks to **address the immediate challenge with labour supply** and secure a healthy pipeline of experience to create opportunities for and to foster future apprentices.

Fund a campaign to attract skilled labour to WA from interstate

In 2020, Western Australia recorded its first annual net interstate migration gain since 2013, with a gain of 1,395 people [6]. Over a similar period, job vacancies increased from 27,600 to 40,000, an increase of 12,400 vacancies.

[6] https://www.abs.gov.au/media-centre/media-releases/net-migration-regions-highest-record

The current challenge for government is not simply a skills shortage, but a population shortage – exacerbated by federal restrictions on migration. In 2020, Victoria experienced a net interstate loss of 12,700 people. **WA needs to attract a significantly larger portion of interstate migration to meet labour demand generated by increased economic activity.**

A campaign aimed at attracting labour from other Australian jurisdictions would drive prolonged economic activity in WA.

Develop a Business Pathways Plan for quarantine to enable greater certainty for workers travelling to WA

Many businesses are reporting challenges attracting talent and investment from east coast jurisdictions, with workers facing ongoing scenarios where border restrictions prevent business travellers from entering or returning to WA.

The Property Council recommends funds be allocated towards investigating a **fast-track pathway or quarantine program for business travellers who are fully vaccinated**, which would enable such travellers to be subject to a different level of restrictions if border closures to a jurisdiction become necessary.

Support the recommendations of the Western Australian 2021 Skills Summit

The Western Australian 2021 Skills Summit hosted by the Premier and Minister for Education and Training will provide recommendations to support the development of a pipeline of skilled workers. The Property Council proposes State Budget funds be set aside to action recommendations from the Summit.

JOBS FOR THE FUTURE

THE SOLUTIONS

Fully finance the $50 million Industrial Land Development Fund and High-Tech Manufacturing Hub Master Plan

Unlocking industrial land across Western Australia, particularly around Perth, will help the State Government to meet pre-election commitments in its WA Jobs Plan. Emerging industries prioritised through a refreshed New Industries Fund and given special projects designation under the WA Jobs Act are all reliant on a strong and stable supply of industrial land to thrive. These opportunities include the identification of wind turbine, iron ore car component and stand-alone power system manufacturing as potential strategic projects.

The supply of industrial land and premises is a current challenge facing the industry, according to Property Council members. Similarly, the provision of enabling infrastructure to service industrial areas such as sewerage, electricity and roads is an opportunity for quicker industrial development. **The proposed Industrial Land Development Fund will assist developers and private industries to grow strategic industries by providing the funds required to unlock industrial land.**

Funding a strategic master plan of the proposed High-Tech Manufacturing Hub surrounding Kwinana and Rockingham will also provide a blueprint for the integrated and expanded use of industrial land in that area. A master plan will also identify the transport, infrastructure and the supply chain needs to establish a manufacturing hub, as well as its role in complementing the proposed Outer Harbour nearby.

Fund Property Council 'Girls in Property' Program to identify career opportunities for high school students in the property industry

Girls in Property offers female high school students the opportunity to engage with property industry leaders, explore exciting property projects and gain an insider's view into the industry. The program emphasises the broad range of jobs and professions to choose from across the spectrum of the property industry.

A modest State Government funding contribution towards the Girls in Property program would allow the initiative to expand and reach more high school students. It would **encourage greater workforce participation** by showcasing the local opportunities for education, skill development and job prospects after high school graduation. It is an efficient way to highlight the range of future job opportunities and identify both the skills and training needs to fill those roles. The Tasmanian Government has recently recognised the important role Girls in Property plays in the local industry, and recently agreed to provide $25,000 in funding for the program.

Provide financial incentives for businesses who employ apprentices, Indigenous Australians or employees who are 50 years or older

Many businesses are currently reporting they are unable to balance the challenges of meeting existing workflow demands and training potential staff who are not yet “job ready”. Businesses also report current market instability and uncertainty of future pipelines makes it very difficult to commit to training new apprentices, particularly in circumstances where the apprentice commits the business to a four year time frame.

The Property Council proposes the State Government fund a program to incentivise the employment of apprentices, Indigenous Australians or employees who are 50 years or older.

The proposed program could build on the existing Federal Government Restart [7] program which provides financial incentives of up to $10,000 (GST inclusive) to encourage businesses to hire and retain mature age employees who are 50 years of age and over.

The proposed program could also be extended to included businesses who relocated workers of any age or ethnicity from interstate to meet skills shortages in regional areas.

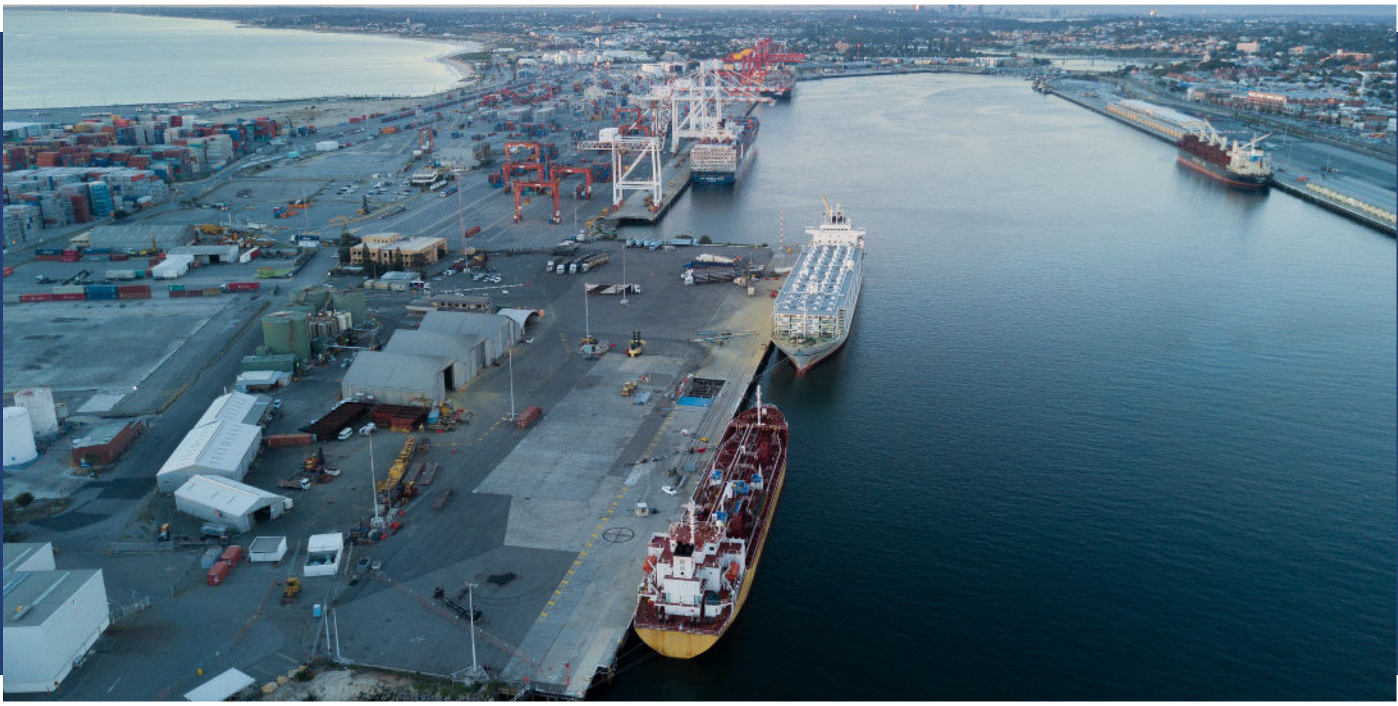
The Property Council believes a state program that boosts existing federal incentives will encourage additional investment in training and supercharged employment in WA.

[7] https://www.dese.gov.au/restart-help-employ-mature-workers

Work with the property sector to promote the wide range of roles available within industry

The property industry is committed to developing a strong and secure local workforce to build WA. This commitment includes monetary contributions to the Construction Training Fund to assist skill development, and other forms of collaboration with the Construction Futures Centre to highlight the job opportunities available.

The WA Jobs Plan, released by the McGowan Government ahead of the most recent election, committed to working with industry to develop industry-specific content and information to help high school students fully understand their career prospects within WA. The property industry is willing to work with the government to identify and provide relevant information that can be used in careers and skills promotion material, should funding for these resources be included in the Budget. Industry’s commitment to assist in guiding the development of those resources is also matched by it's willingness to identify the skills and job gaps currently facing the property sector through collaboration with Vocational Education and Training providers, also highlighted in the WA Jobs Plan.



MAINTAINING MOMENTUM THROUGH UNCERTAINTY

WA's strong economic performance though the COVID-19 pandemic has been commendable. However, there is still a long way to go before "normal" economic conditions return. According to the OECD, global economic conditions have improved, however the economic recovery is "likely to remain uneven and dependent on the effectiveness of vaccination programmes and public health policies". [8]

The OECD has urged governments to prepare for a strong and sustainable recovery by investing in healthcare, cleaner infrastructure and digital technology to foster a transition to a more resilient and sustainable economy while also focusing on structural reforms that can boost medium-term growth in productivity and employment.

THE SOLUTIONS

Conduct a comprehensive state review and commit to the delivery of genuine tax reform by 2025

Property taxes and charges are the most critical industry issue for State Government, according to the most recent ANZ Property Council Survey. In its election platform *Recovery and Growth: Powered by Property*, the Property Council called on the State Treasurer to commit to a strategic review of property taxation. This should be completed before the next election.

Reviewing WA's property tax framework and investigating a fairer way to share the tax burden and reduce the cost on businesses and homebuyers is a worthy priority of government. Data shows that property is taxed heavily, with tax per $1 of GSP contributed second only to taxes on gambling and gaming (see table).

The cost of doing business has a crucial role to play when investors are choosing where to place capital. A favourable tax environment will attract capital investment away from jurisdictions where there is less certainty. This will be critically important in coming years, as confidence wanes.

The opportunity in the coming years is to work towards **creating a fairer property tax system that would give WA a productivity boost, increase our competitiveness, and make the economy more resilient** over the long-term.

[8] https://www.oecd.org/economic-outlook/

Property industry's contribution to Western Australian taxes in to other industries, 2018-19:

Industry	Tax estimate ($M)	Tax per $1 of GSP contributed ($)
Arts and recreation services	$276.00	$0.21
Property related taxes	**$2,777.90**	**$0.11**
Mining	$7,296.70	$0.07
Financial and insurance services	$754.30	$0.07
Public administration and safety	$426.30	$0.04
Professional, scientific and technical services	$236.80	$0.03
Administrative and support services	$160.60	$0.03
Education and training	$261.10	$0.03
Health care and social assistance	$387.50	$0.03
Manufacturing	$271.20	$0.02
Wholesale trade	$170.10	$0.02
Retail trade	$169.20	$0.02
Accommodation and food services	$101.10	$0.02
Agriculture, forestry and fishing	$35.10	$0.01
Electricity, gas, water and waste services	$44.00	$0.01
Transport, postal and warehousing	$167.70	$0.01
Information media and telecommunications	$34.50	$0.01
Total Western Australia	**$15,294.0**	**$0.06**

Fund the establishment of an agency to support the development of a startup community in WA

In 2016, the Victorian Government established an independent agency responsible for developing and fostering a startup ecosystem in Victoria. LaunchVic was created with a mandate to support startup founders, entrepreneurs and investors, corporates and universities to build a startup ecosystem that could strengthen the economy and encourage more people to work with and for startups.

Funding a program to foster a strong startup ecosystem in WA would have numerous positive economic benefits. Benefits include increasing demand for office space, diversify the economy though encouraging the development of new industries, generate opportunities for skills development and new job creation, as well as position Perth as a leading global startup market, close to Asia, when international mobility of labour returns.

According to the December 2019 LaunchVic Impact Report, since its foundation LaunchVic has supported "over 320 individual startups and up-skilling more than 4,800 aspiring entrepreneurs". At the time the report was released there were more than 2,700 startups in the state – 1,700 of which are using new and innovative technologies.

Prior to the COVID-19 pandemic, the Victorian Startup sector was growing at a rate of 23 per cent per annum and was the 5th fastest growing startup ecosystem in the world.

WA has already demonstrated a capacity to attract start-up businesses. In March 2021, a dedicated space for proptechs opened at 110 William Street, in the centre of Perth's CBD. Already the PropTech hub is home to over fifteen property startups.

REVITALISING PERTH'S CBD

Perth's CBD contributes around $45 billion to Australia's economy annually, according to the Grattan Institute. In fact, economic activity in Perth's CBD is higher than any other part of the state, with Perth CBD generating $124 per work hour, compared with $76 per work hour across Greater Perth.

Prior to COVID-19, office vacancy rates – the amount of office space under lease – across both the Perth CBD and West Perth markets were 17.6 per cent and 17.5 per cent respectively. The national pre-pandemic average vacancy rate was 8.3 per cent. Twelve months later, Perth's CBD vacancy rate had increased to 20 per cent, with West Perth sitting at 22.1 per cent and the national rate at 11.7 per cent.

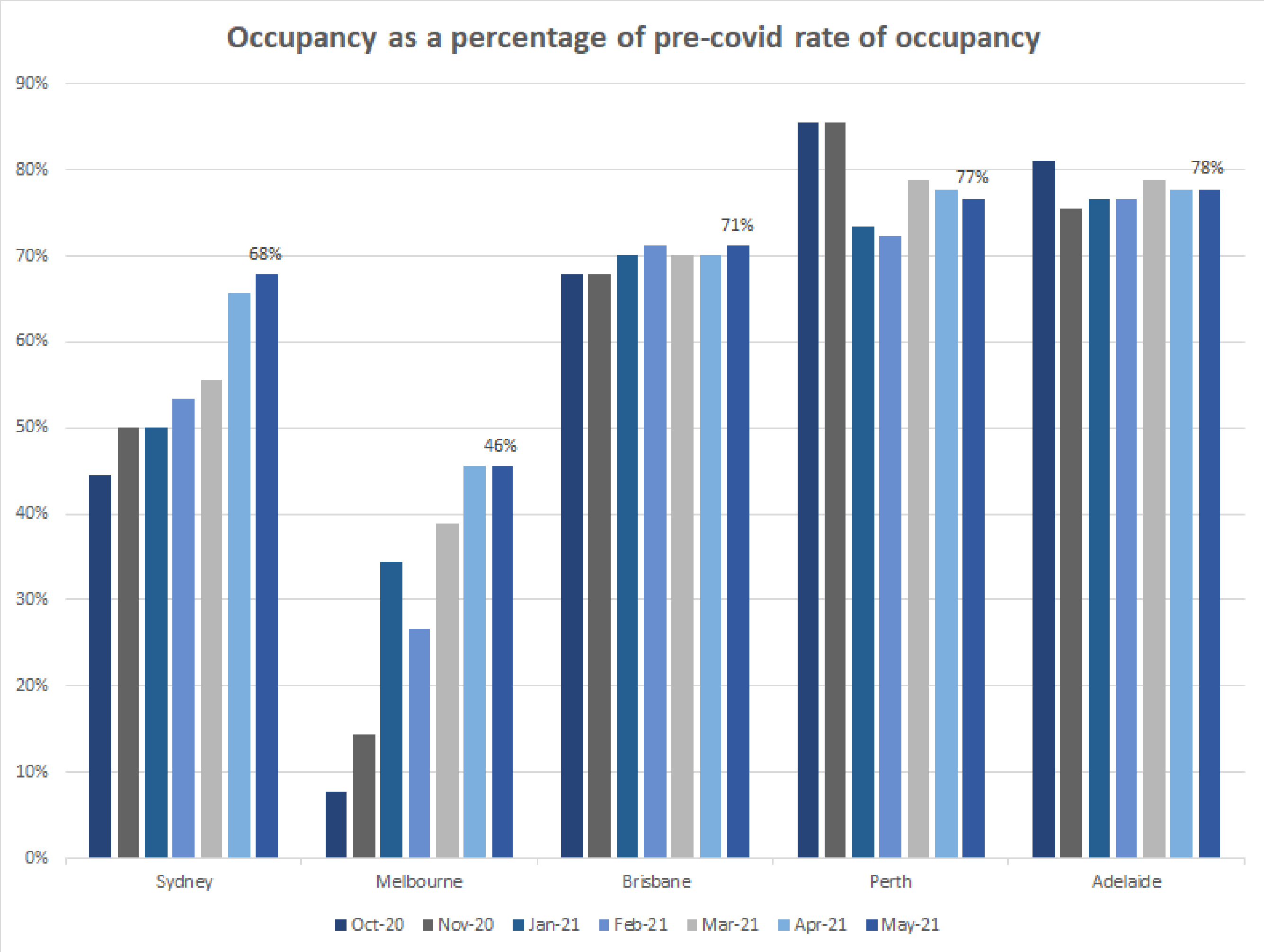
Reporting Period	Perth CBD	West Perth	Australia
January 2020	17.6%	17.5%	8.3%
January 2021	20%	22.1%	11.7%

Source: Property Council of Australia Office Market Report

The increase in Perth office vacancies between August 2020 and January 2021 can be attributed to a decline in demand for office space in the Perth CBD and West Perth markets, as pre-existing leases expired throughout 2020. The national increase in office vacancy is explained by new office stock being delivered in key eastern states markets.

The impact of the working-from-home trend is yet to be fully understood; however indications from property owners and agents suggest market optimism and demand in WA are improving, with strong levels of enquiries and increasing transaction activity over the first half of 2021. This may see a reduction in office vacancy rates by the next reporting period in August 2021.

The Property Council has measured office occupancy rates – the amount of office space being physically occupied by office workers – on a monthly basis throughout COVID-19 to understand the impact on Australian CBDs.



Source: Property Council of Australia Monthly Office Occupancy Survey

The second half of 2020 saw Perth's office occupancy almost recover to pre-pandemic levels. Short lockdowns during early 2021 saw Perth's occupancy figures decline, while occupancy levels in most Australian CBDs have increased over the same period. The call to action for city stakeholders, including the State Government, is clear: incentives are required to increase CBD visitations and usage.

THE SOLUTIONS

Reduce the Perth Parking Levy

Commercial landlords with premises that provide more than five car parking bays in central Perth, West Perth, East Perth and Northbridge are charged $1,169.20 per car bay each year. **The cost to landlords is passed onto tenants, adding to the cost of doing business in the city centre**. High parking costs, coupled with stagnant office occupancy and the highest office vacancies in Australia, present a risk to the economic activity and agglomeration effect[9] the Perth CBD provides.

The Perth Parking Levy costs car commuters an additional $711 per year in parking fees above the base parking rate charged by car park operators. The $711 per year impost assumes a commuter parks for eight hours a day for five days a week each year, excluding public holidays and four weeks' annual leave.

[9] EY Sweeney & Property Council of Australia, 'Reimagining our economic powerhouses: how to turn CBDs into central experience districts', 2021

NAB's Consumer Insights research identified factors to influence CBD visitation behaviour across the country and demonstrated key steps governments can take to restart CBD economies. Although Western Australian attitudes to visiting the CBD remained more optimistic than other cities, **40 per cent of Western Australians responded that parking cost was the biggest factor keeping them out of the CBD.** [10]

Source: WA Government Gazette, Property Council of Australia

The Perth Parking Levy is a responsibility of the State Government under the *Perth Parking Management Act 1999* and is administered by RevenueWA for the Department of Transport. Industry has welcomed no increases over the past three years. However, we believe waiving the levy, at least while the CBD recovers from the COVID-19 pandemic, will act as a much-needed incentive and restore vibrancy across the city.

Include funding for Perth City Deal projects not included in previous budget

The Perth City Deal was announced in September 2020 and includes 15 initiatives to attract more people into the city centre and provide better accessibility to the Perth CBD. The 2020/21 State Budget included funding over the forward estimates for more than $250 million of the McGowan Government's approximate $467.2 million contribution towards the Perth City Deal.

To secure the success of the Perth City Deal, the Budget should include all remaining State Government funding commitments to ensure project delivery remains on schedule. Confirming this funding arrangement will generate additional confidence and attract further private investment.

[10] NAB Consumer Insights Report, 'Impact of COVID-19 on Australian CBDs & what would encourage us to visit more often', 2021

Encourage public transport patronage and higher CBD visitation

In a recent survey of Perth Metropolitan respondents, a large proportion of respondents said that free public transport would encourage them to visit the city more often for shopping, dining and entertainment. Public transport costs are often cited by CBD workers as a barrier to a full return to the workplace. The state government can support CBD recovery through two alternative options:

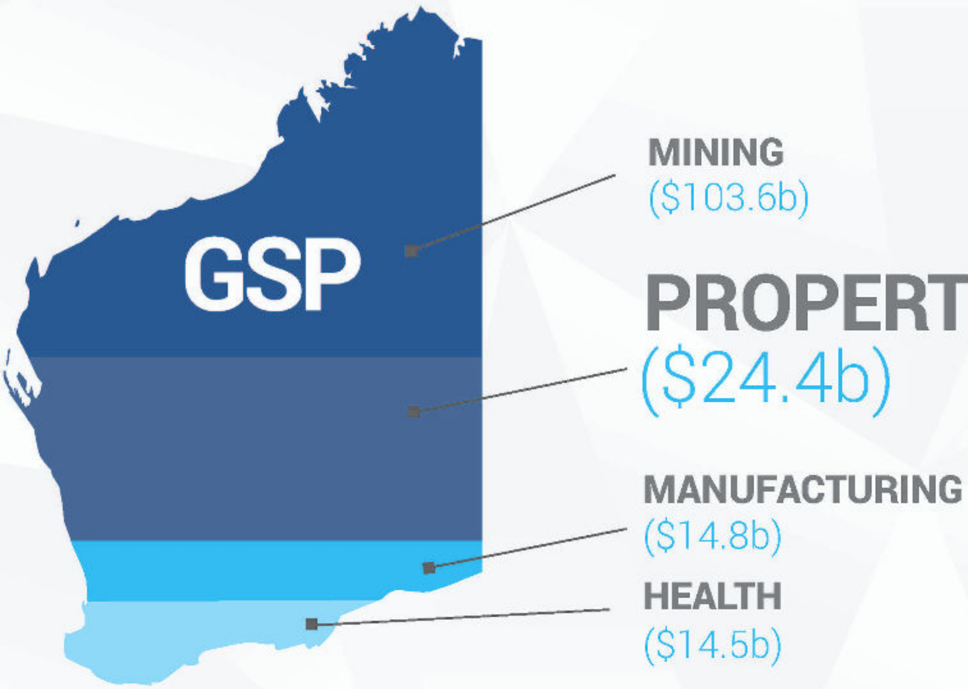
1. **Free or heavily discounted public transport.** A particular day or days could be promoted by relevant stakeholders (including property owners, retail shopping centres, office building management) to highlight the offer, such as “FOMO Fridays” (Melbourne) or “#Fridaysinthecity” (Brisbane).
2. **Provide "Golden Tickets" to reward and encourage patronage.** As the state government has done in Queensland, Transperth could give commuters the chance to win one of four ‘golden tickets’ over the month, with a prize of a year's free public transport.

SUMMARY OF RECOMMENDATIONS

REMOVING BARRIERS TO HOUSING SUPPLY AND AFFORDABILITY	
1.	Provide land tax discounts to allow build-to-rent development to thrive.
2.	Drive new apartment construction by making the 75 per cent off-The-plan stamp duty rebate permanent.
3.	Encourage new apartment construction by removing the Foreign Buyers Surcharge.
4.	Support Keystart to support future apartment construction.
DRIVING POPULATION GROWTH	
1.	Introduce a payroll tax rebate for employers that relocate staff to WA for a two-year period.
2.	Fund a campaign to attract skilled labour to WA from interstate.
3.	Develop a Business Pathways Plan for quarantine to enable greater certainty for workers travelling to WA.
4.	Support the recommendations of the Western Australian 2021 Skills Summit.
JOBS FOR THE FUTURE	
1.	Fully finance the $50 million Industrial Land Development Fund and High-Tech Manufacturing Hub Master Plan.
2.	Fund Property Council ‘Girls in Property’ Program to identify career opportunities for high school students in the property industry.
3.	Provide financial incentives for businesses who employ apprentices, Indigenous Australians or employees who are 50 years or older.
4.	Work with the property sector to promote the wide range of roles available within industry.
MAINTAINING MOMENTUM THROUGH UNCERTAINTY	
1.	Conduct a comprehensive state review and commit to the delivery of genuine tax reform by 2025.
2.	Fund the establishment of an agency to support the development of a startup community in WA.
REVITALISING PERTH'S CBD	
1.	Reduce the Perth Parking Levy.
2.	Include funding for Perth City Deal projects not included in previous budget.
3.	Encourage public transport patronage and higher CBD visitation.

Together we're Australia's biggest employer

WESTERN AUSTRALIA'S SECOND BIGGEST INDUSTRY DIRECTLY ACCOUNTING FOR 8.8% OF THE STATE'S ECONOMIC ACTIVITY



$6.3 BILLION IN TAXES

TO STATE AND LOCAL GOVERNMENTS IN WESTERN AUSTRALIA
PROPERTY IS THE SECOND LARGEST SINGLE INDUSTRY CONTRIBUTOR
PAYING 33.5% OF TOTAL STATE AND LOCAL GOVERNMENT TAXES AND RATES

Source: AEC Group Economic Significance of the Property Industry to the Australian Economy report 2020

PROPERTY COUNCIL of Australia

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Australia's property industry

Creating for Generations

CREATING JOBS - PROPERTY IS WESTERN AUSTRALIA'S LARGEST EMPLOYER

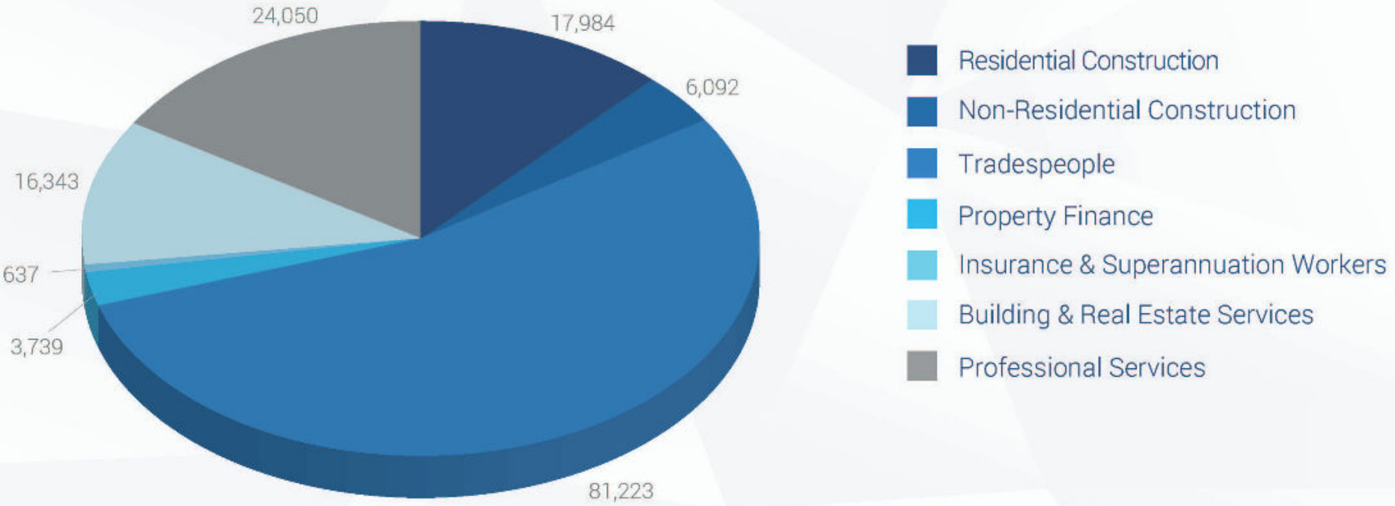
150,100 JOBS
PROPERTY INDUSTRY

82,600 JOBS
MANUFACTURING

37,300 JOBS
AGRICULTURE

The property industry employs more people than agriculture and manufacturing combined.

JOBS IN YOUR **STATE**



BUILDING PROSPERITY BY DIRECTLY PAYING $11.4 BILLION IN WAGES AND SALARIES

MORE THAN 1 IN 5 PEOPLE

DERIVE THEIR WAGE FROM THE PROPERTY INDUSTRY
DIRECTLY AND INDIRECTLY

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