

27 January 2023

Budget Policy Division  
Treasury  
Langton Cres  
Parkes ACT 2600

*Electronic submission*

To whom it may concern

## **Re 2023-24 pre-budget submissions**

The Urban Taskforce is a non-profit organisation representing Australia's most prominent property developers and equity financiers. Our membership is made up of many of the largest property investors and developer organisations in Australia. However, our focus is primarily on the state of NSW.

The Urban Taskforce provides a forum for those in the development and planning of housing and the urban environment to engage constructively with both government and the broader community.

The Urban Taskforce welcomes the opportunity to outline what it sees as some of the greatest challenges facing families, businesses and the broader national economy – namely the cost of housing and the apparent inability of the State's to ensure adequate supply to meet growing demand. The supply and affordability of housing has a major bearing on the productivity, liveability and fairness of our nation.

The Urban Taskforce welcomes the clear signal of intent expressed by the Federal Treasurer, Jim Chalmers in an opinion piece in *The Australian* on 25 November 2022, where he stated:

*"Housing Supply and affordability is one of the biggest challenges facing our economy and our communities."<sup>1</sup>*

After a decade of near neglect by the Commonwealth, the renewed interest of the Albanese Government in the housing space is a positive development.

It was encouraging to see the commitment to a Housing Accord as a centrepiece in the recent budget handed down in October 2022. Together with the establishment of the Housing Supply and Affordability Council, they

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<sup>1</sup> Dr Jim Chalmers, Opinion Piece, *The Australian*, November 25, 2022

establish a framework and a way forward to address housing supply and affordability.

The focus on housing is to be applauded, but it needs to be followed through. The initial investments such as the \$350 million fund to incentivise large institutional investors to embrace affordable housing as an asset class is merit worthy, but needs greater financial support.

The Federal Government has identified housing as one of the greatest challenges facing the nation. Whilst early days, it cannot fail to follow up its initial forays into the housing space and set out how it will exactly address the challenges it has identified.

The 2023-24 budget represents a timely opportunity to put in place policies and programs (with the appropriate level of funding) to address this acute and growing crisis.

For example, there are existing NSW programs to deliver infrastructure and housing for Sydney and the NSW regions which are welcome but are insufficient. There is an opportunity in the Federal Budget to assist the NSW to further deliver the infrastructure required for the growing housing needs of NSW, which in turn would make a significant contribution to the national housing supply goals of the Commonwealth.

Tax reform has been in hiatus over the last 2 decades. A move towards a broad based land tax, one of the key recommendations of the Henry Tax Review of 2010 needs to be revisited and States incentivised to embrace productivity lifting tax reform.

Accordingly, the Urban Taskforce has provided a number of recommendations that should be considered when preparing the Federal Budget for 2023-24, as well a broader economic reform which will help address housing well into the future.

### **Setting the scene - Housing Supply not meeting demand**

The Commonwealth's recently released 2022 Population Statement which projects NSW' population to increase from 8.15 million in 2021-22 to 9.13 million in 2032-33- almost an additional one million residents over the next 11 years.<sup>2</sup> On average that equates to approximately 90,000 additional residents each year.

The 2022 Population Statement was far more bullish in terms of NSW population projections than NSW Planning's published modelling, particularly in the case of Sydney – where it projects Greater Sydney only reaching 6.1

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<sup>2</sup> Australian Government's Centre for Population, *2022 Population Statement*, p.,30

million by 2041- as opposed to Federal modelling which has the population reaching the same level by 2032-33.

In terms of NSW population assuming 2.5 people per household, this means that based on the 2022 Population Statement projects, that an additional **36,000** housing units are required just to meet new demand and not add to the existing shortage.

On top of meeting future demand, additional housing is needed to address historic undersupply and place downward pressure on prices.

Determining the precise figure when it comes to shortages is complex and figure vary depending on assumptions and methodologies.

It is critical that the new Housing Supply and Affordability Council establish a common assumptions framework to stop different jurisdictions simply manipulating the numbers to suit local political circumstances. The Commonwealth will never achieve its housing supply goals if it simply relies on the States to deliver.

**Recommendation 1 – the Housing Supply and Affordability Council establish a common assumptions framework in relation to population projections to ensure a clear and consistent approach to housing targets.**

The situation in NSW is particularly problematic for the Commonwealth. NSW Treasury's Intergenerational Report states that NSW needs to provide an average of 42,000 homes each year for 40 years.<sup>3</sup> While it is difficult to quantify precise the deficit in terms of housing stock, in 2020 the NSW Productivity Commission estimated that an accumulated shortage of 54,000 total dwellings existed in 2020, and project that the status quo would leave a deficit of 100,000 by 2038.<sup>4</sup>

On top of this is a further challenge to actually make housing more affordable in Australia. This can only be achieved through further supply to drive prices down and offer broader choice for potential buyers and renters.

For these reasons, Urban Taskforce maintains that NSW requires at least 60,000 new dwellings each year for at least the next five years to address future demand arising from population growth, historic shortages, as well as efforts to place some downward pressure on property prices.

Yet the data shows that NSW is struggling to address these mounting pressures.

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<sup>3</sup> NSW Treasury, *2020-21 Intergenerational Report*, p.5

<sup>4</sup> NSW Productivity Commission, *White Paper 2021- Rebooting the Economy*, pp.268-269

- NSW Plannings Urban Dashboard's shows that in the 12 months to September 2022, Greater Sydney only completed 23,350 housing units.<sup>5</sup>
- The most recent ABS data shows that a mere 3,371 approvals were finalised in November 2022, (noting that not all approvals lead to completions) - driven by a collapse in multi-unit dwellings<sup>6</sup>
- ABS data for the September 2022 quarter shows that there were only 12,490 dwelling commencements and 12,699 completions<sup>7</sup>

The NSW Planning system is failing to deliver the housing needed to meet current and future demand and represents the greatest threat to the Commonwealth's housing supply and affordability ambitions.

With the Housing Accord seeking the agreement of the States, the Federal Government needs to explore a range of taxation, policy and program options that will help address the housing supply and affordability crisis.

The 2023 Federal Budget represents a timely opportunity to deliver reform and assistance in meeting the housing needs of all Australians.

### **Build to Rent – treatment of foreign investment**

Urban Taskforce members are concerned about the missed opportunity to secure capital investment from international institutional investors who have direct experience and desire to build new apartment stock for the purpose of deriving a long-term steady rental return.

Urban Taskforce members are at the forefront of progressing the Build to Rent asset class. Apartment approvals have dropped significantly in NSW (primarily in Sydney) and there is a need to stimulate this market.

When the rules surrounding the MIT taxation rates were last amended in 2017, the housing market was very different. The NSW Government has recognised the opportunities available through Build-to-Rent and have taken steps to establish a fast-track planning assessment process (State Significant Development planning pathway – provided the development meets the financial threshold and the building is held for at least 15 years). The NSW Government has reduced the foreign investor Stamp Duty surcharge and also applied a 50% reduction in Land Tax to encourage investment in the asset class.

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<sup>5</sup> NSW Planning, Greater Sydney Urban Development Program Dashboard

<sup>6</sup> <https://www.abs.gov.au/statistics/industry/building-and-construction/building-approvals-australia/nov-2022>, accessed 19 January 2023

<sup>7</sup> <https://www.abs.gov.au/statistics/industry/building-and-construction/building-activity-australia/latest-release>, accessed 19 January 2023

Urban Taskforce sees the post COVID recovery as an opportunity to adjust both the Company and withholding taxation rates for institutional investors which wish to build an asset and hold it whole (not able to Strata) for a defined period. Young professionals frequently move from city to city following specialised work. Have a high quality, high amenity BTR option suits the lifestyle of many younger Australians.

As a general principal, the taxation system should not discriminate between asset types. This is particularly the case when one considers the current housing affordability and housing supply problems outlined in this submission.

A change to the taxation rates to realise equality between residential buildings and retail centres or commercial towers would stimulate significant investment from foreign institutions from around the world. Further, this would encourage Australian Superannuation funds to allocate more money to the Australian market rather than looking for residential rental returns through off-shore investments.

The table below shows that equalising the MIT at a 15% rate for foreign investors would stimulate new investment and new economic activity. It would also result in additional taxation revenue compared to “build for sale” investments.

Federal Tax Proceeds	Total	Yr-1	Yr-2	Yr-3	Yr-4	Yr-5	Yr 6-10
<b>BtR</b>	<b>\$1,243m</b>	\$113m	\$91m	\$215m	\$190m	\$17m	\$618m
GST	\$688m	\$113m	\$91m	\$215m	\$190m	\$16m	\$63m
MIT <sup>1</sup>	\$556m	-	-	-	-	\$1m	\$555m
<b>For-Sale Development</b>	<b>\$852m</b>	-	-	-	-	-	\$852m
GST	\$852m	-	-	-	-	-	\$852m

<sup>1</sup> 15% MIT Withholding Tax rate for foreign investors

**BtR results in an additional -\$400m in Federal tax revenue**

**\$626m accelerated Federal Tax**

See below a summary of the Managed Investment Trust (MIT) withholding tax rates that apply to distributions to non-residents (in an Exchange of Information country) where the distribution does not relate to a “clean building” MIT.

	Ordinary income	Capital gains
Office / retail / industrial – third party	15%	15%
Office / retail / industrial – cross staple	15% (de minimis) 30% (other)	15%

Hotels	30%	15%
Residential (Build to Rent)	30%	30%
Student accommodation	15%	15%
Serviced apartments/Hotels (if leased to a third-party operator)	15%	15%

The current tax provisions effectively exclude investment from foreign pension funds from the Australian residential housing sector. This is a missed opportunity. This has a direct impact on housing supply and can easily be reversed.

**Recommendation 2: the Commonwealth amend the tax schedule to treat foreign investment in Build to Rent residential property in the same way as an investment into other classes of property where the asset is established for the purpose of deriving a long-term rental return (i.e., reduce the withholding tax rate from 30% to 15% and the tax on capital gains also be reduced from 30% to 15%)**

### **GST Treatment of BTR, Seniors Living and Housing for those with a disability**

A second related adjustment in the **GST treatment of “Build to Rent”** assets which actually discriminates against the production of new rental properties. “Build to Sell” residential assets benefit from instant write off (or off-set) provisions. By contrast, Build to Rent assets are required to be held for 5 years before the GST can be offset.

This would be on the basis that the asset must be held for a minimum period of 5 years. This simple measure alone would make BTR investment more attractive for both foreign investors as well as home grown superannuation funds.

Similarly, GST inputs should immediately be able to be claimed in the case of the development of housing for seniors living and for those that meet NDIS (through NDIA) criteria.

**Recommendation 3: the Commonwealth change the GST treatment of Build to Rent residential assets, NDIA compatible housing and seniors living, to allow the construction costs to be instantly off set on the provision that the asset is held for a minimum period as rent deriving asset**

### **BTR should be treated as a “going concern”**

Build to rent should become a critical part of the strategy to deliver more affordable housing options. Another key policy shift that would incentivise and promote build to rent would be for the Federal Government to apply the “going concern” exemption to Build to Rent properties when they are sold, on the proviso that it remains under single ownership and that the properties remain rental properties.

This would ensure the Build to Rent is treated like commercial properties. Such a change would align the GST treatment of BTR with investment-generating income.

**Recommendation 4: the Commonwealth apply the “going concern” exemption in relation to GST to Build to Rent properties**

### **Local infrastructure grants to support and accelerate new housing**

The NSW Government has recognised the need to incentives and reward Councils willing to boost housing supply through its \$1 billion Accelerated Infrastructure Fund (AIF) and \$1 billion Housing Acceleration Fund for critical infrastructure projects. The AIF Round 3 targets funding to support the delivery of local infrastructure in high growth Councils - with 60% going to metropolitan councils and 40% to regional councils.

While the funding is welcomed, it is insufficient. There is an opportunity for the Federal Government to assist the States and councils where there is expected high population growth and demand for housing.

The establishment of a Local infrastructure fund could target and assist Councils drive new housing supply above that which was planned through existing published strategies. This would (by design) result in commensurate reductions in local infrastructure fees and charges while ensuring that Councils and communities are motivated to over-achieve on housing supply and housing approvals.

**Recommendation 4: the Commonwealth allocate \$1 billion over 3 years for a Housing Acceleration and Employment Lands Fund to deliver the infrastructure required to service additional housing supply and jobs in Sydney.**

## **Critical Enabling Infrastructure – roads, water and sewerage**

The completion of the Western Sydney Airport and the potential economic and employment boost deriving from it is predicted on road infrastructure servicing the adjoining employment lands. Presently, there is no funded deliver basic but critical infrastructure necessary to deliver the employment surrounding the airport which is anticipated to justify the investment in that asset. For example, there is no current commitment to upgrade critical roads that will service these employment lands – such as 15<sup>th</sup> Avenue, Badgerys Creek Road, Elizabeth Drive and Mamre Road.

Urban Taskforce is concerned that a failure to commit to these roads is jeopardising investment in a number of employment generating developments. When both local and foreign investors see that we are years away from being ready, they take their dollars elsewhere.

There has been too much ribbon cutting and not enough action on the ground.

Other critical enabling infrastructure such as water and sewerage remains on ongoing challenge in Western Sydney.

Whilst a combination of Federal, State and Local Government funding has been allocated for 5 projects to deliver 30,000 homes, additional projects within the North West and South West Growth Areas and Wilton, if funded, could realise a significant boost to housing and employment.

**Recommendation 5: the Commonwealth allocate \$1 billion million to a Western Sydney Enabling Infrastructure Fund to contribute towards critical infrastructure such as roads, water and sewerage to deliver more housing in the growth areas of Sydney North West, South West and Wilton and deliver road infrastructure serving employment lands particular around the new Western Sydney airport.**

## **Regional Housing assistance**

While the undersupply of housing in NSW has historically been most pronounced in Greater Sydney, the dramatic escalating cost implications of supply not keeping pace with demand in Sydney, together with changes to settlement preferences has seen this housing supply and affordability crisis shift to Regional NSW.

This too has productivity impacts, particular in the difficulties the agricultural sector has in attracting and retaining a labour force for its seasonal work.

The inability of regional NSW to provide housing for current and future residents continues to place pressure on the cities, with the concomitant impacts on productivity due to congestion etc.

Since the arrival of COVID-19, population growth in many regional communities has accelerated. People are remaining in or relocating from metro areas to many regional centres. The subsequent lack of housing supply in regional NSW has inflated prices and squeezed locals out of the rental market.

This is an issue across Australia. The Domain Rent Report for the December quarter, 2022 states shows an alarming increase in median rents in a wide range of localities <sup>8</sup>.

The table below shows that this escalation in prices reflects an under supply across NSW. Some LGA's have experienced more than double-digit annual rent growth over the last five years.

Regional NSW LGA	% change 12 months to Dec 22	% change last 5 years
Forbes	14.3	64.9
Federation	14.6	60.0
Muswellbrook	15.0	53.3
Upper Hunter	15.1	51.8
Richmond Valley	13.6	51.5
Tweed	8.7	47.1
Cessnock	10.6	42.1
Ballina	7.7	41.4
Maitland	14.6	41.0
Wagga Wagga	11.9	38.2
Port Stephens	13.7	38.1
Albury	8.9	36.5
Broken Hill	14.3	28.0
Tamworth	10.8	24.2

*Data taken from Domain Rent Report (December Quarter 2022)*<sup>9</sup>

While many have been caught unawares, the recent growth in demand for regional homes has been exacerbated by a simultaneous shortfall arising from the lack of long-term strategic planning, including the identification of land suitable for future rezoning.

<sup>8</sup> Domain, powered by APM, Dec 2022, 'Domain Rental Report', accessed Jan 13, 2023, <<https://www.domain.com.au/research/rental-report/june-2021/#sydney>>

<sup>9</sup> Ibid., accessed Jan 13, 2023

Many regional communities have suffered from not having the funds available to commit to the construction of critical infrastructure (water, sewerage, roads). This causes local Councils to be conservative when it comes to planning. However, the changes in demand as reflected by the current supply shortage across NSW is clear evidence that support for regional infrastructure is greatly needed.

Most regional councils are slow in processing planning proposals. Some councils use the process to stymie new development as a means of pandering to the small, but vocal, calls for 'no change' to local character that are heard in many communities. More often however, Council staff are daunted by the complexity of the rezoning process under the NSW Planning system as well as the need for funding to deliver critical infrastructure.

To highlight the significance of the housing supply shortage, many regional communities have businesses ready to invest in new business activities in regional NSW. The biggest problem is there is no-where to accommodate the staff.

Many regional Councils struggle to recruit staff required to address the planning requirements needed for new housing because they are unable to offer appropriate housing options for potential staff. This is a real chicken and the egg conundrum that is having real impact in terms of housing and the local economic development in many parts of regional NSW. Rental prices are risen rapidly.

The housing supply shortage in the regions represents a serious bottleneck for economic development and productivity. Regional Australia can play a key role in boosting the nation's economic productivity. The planning system in NSW is one key reason why it is struggling to fulfil its potential and not play its part.

**Recommendation 6: the Commonwealth create a targeted \$500 million Regional Housing Acceleration Fund to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated**

### **Housing Accord and Housing Australia - a good start but more needs to be done**

The 2022-23 Budget delivers \$350 million in additional Federal funding to deliver 10,000 affordable homes over five years from 2024, on top of our existing election commitments. The funding aims to incentivise superannuation funds and other institutional investors to invest in social and affordable housing as a potential asset class by covering the gap between market rents and subsidised rents.

While welcomed, and a more flexible approach the rigidity of the National Rental Affordability Scheme, Urban Taskforce believes that a significantly higher amount of funding needs to be set aside to fund the gap when it comes to affordable housing.

As the CEO of AustralianSuper, Paul Schroder, recently publicly commented in relation to superannuation funds investing in housing:

*“Does it normally stack up? No, it doesn't. Usually the risks are too high, and the returns are too low. So that's been the history of affordable housing. That's why most people don't do much of it.”*

*Paul Schroder, The Australian Financial Review, November 8*

Mr Schroder noted that his fund would be looking for a return of between 6 to 11% on residential housing, depending on the risk. These returns reflect the risk, much of which is actually embedded in the uncertainty of the State's

#### **Case Study - Sydney**

**If we use Sydney as a case study, where unaffordability is at its most acute, the magnitude of the challenge to deliver affordable housing can be clearly scene.**

**The median value of an apartment in Sydney is \$780,000.**

**Assuming an average market return of 3%, and a 6% return on that investment (as a minimum return expected from the superfunds) this would require the Government to fund the gap – in this instance amounting to \$23,400 per dwelling per annum.**

**The 3% return is calculated by \$530 per week (av rent) x 50 weeks, less 10% expenses = \$23,850, which is 3% of the median price of a Sydney apartment.**

**Another aspect to the challenge of affordable housing is the need to ensure key workers live closer to their place of work – which represents higher costs in the more affluent suburbs of Sydney.**

**The higher the value, the higher the gap subsidy – where a dwelling costing \$1 million would, on the same assumption over returns, require a \$30,000 annual gap payment.**

**If you assume Sydney requires 40,000 new dwellings annually, and the Federal Government wishes to deliver 30% of that stock as affordable, and that large institutional investors are looking for a return of at least 6%:**

**40,000 dwellings (approximate number of new dwellings for Sydney annually)**

**x 30% (percentage of affordable housing)**

**x \$23,400 (3% gap between market return and the 6% minimum return required by super funds on a \$780,000 apartment)**

**= \$280.8 million per annum**

Planning systems. Reform in this area could reduce much of this risk, yet the funds would still be faced with seeking a gap payment on the difference between market returns from housing investment and the returns they are expected to deliver to their members.

When you consider that affordable housing in the context of key workers largely entails providing housing in the more expensive suburbs in our major cities, this will only further draw down on the current allocation.

Based on these assumptions, 80 per cent of the \$350 million allocated by the Commonwealth could be directed to the Sydney market in the first 12 months alone.

The above case study shows the magnitude of the crisis and the cost of the solution.

If the Government is to attract the long-term interest of the large institutional developers, a significantly larger funding pool is required.

A \$3 billion fund over the next 5 years would deliver an almost ten-fold increase in affordable housing backed by the Commonwealth and make significant inroads into affordability in the two largest, most expensive and least affordable housing markets in Australian – namely Sydney and Melbourne.

The funding also needs to be made available as soon as possible, particularly given the recent interest of institutional investors. Given the urgency of the housing supply and affordability crisis, the current commitment to allocate \$350 million from 2024-25 builds in delay. Action is needed now, and the funding should be made available from July 1 2023.

**Recommendation 7: the Commonwealth allocate \$3 billion over 5 years from 2023-24 through Housing Australia to leverage large institutional investment in more affordable housing.**

### **National Housing Australia Future Fund**

Urban Taskforce is concerned to ensure that the private sector has the maximum possible scope to work with the community housing sector and the Commonwealth to assist in the enormous goal of delivering 30,000 homes over the 5 year timeframe.

NHFIC have shown over a number of years that they have the independent research and analytical capacity to work with and understand the levers that operate within the property sector. Their success in the delivery of 30,000 affordable homes through the HAFF will rely on the extent of the “availability

payment” made available to the private sector, the level of government underwriting, as well as the taxation treatment of investments in affordable homes.

As raised above, greater assistance will be required in areas closer to the centre of cities where median land costs are considerably higher, especially in cities like Melbourne and Sydney, where the need and challenge of housing sections of the community like key workers closer to employment and transport infrastructure is much greater.

If the Commonwealth is to be successful in delivering affordable homes in the more expensive cities, additional financial support for the HAFF will be required to then leverage the involvement of superannuation funds and private investors. The Government should also ensure that there is an equal taxation treatment for Community Housing Providers and private investors where they are delivering social or affordable housing.

**Recommendation 8: the Commonwealth provide additional support to the HAFF to leverage greater involvement of superannuation funds and private investment in affordable housing**

**Recommendation 9: the Commonwealth ensure equal tax treatment for Community Housing Providers and private investors in cases which entail the delivery of social or affordable housing**

### **Land tax reform**

Urban Taskforce acknowledges at the outset that Stamp Duty is a State Government tax responsibility. Nonetheless, every report on tax reform published in the last three decades has called for the abolition of Stamp Duty, otherwise known as a conveyance or transfer tax, which is paid up front when a property is transacted. Stamp Duty is highly inefficient and fosters intergenerational inequity as it:

- Reduces potential housing market transactions and limits the supply of existing homes for sale by deterring people from changing homes when they otherwise would, to down-size for example
- Simultaneously punishes first home buyers, who can least afford to pay.

The Henry Tax Review established that the “welfare loss”, or inefficiency, associated with Stamp Duty is between 30-40% because of its distortionary impact on behaviour, which reduces productive activity).<sup>10</sup>

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<sup>10</sup> Australia’s future tax system – Final Report, (Henry Tax Review), p13.

“Stamp duty more than doubles most transaction costs. This deters transactions, results in significant under-utilisation of the housing stock and has an estimated loss of benefit to the community in the order of \$375 million per annum. Replacing stamp duty with a broad-based land tax could release a significant amount of under-utilised housing and reduce house prices by about 6% after several years”.<sup>11</sup>

The Review argued a powerful case for the broadening of the property tax base that would see a shift away from Stamp Duty towards a broad-based land tax:

*“Stamp duties are a highly inefficient tax on land, while land tax could provide an alternative and more stable source of revenue for the States. When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue. This efficiency arises from the immobility of the tax base and, unlike most other taxes, levying different rates of land tax in different States has very low efficiency costs.”*<sup>12</sup>

Importantly, replacing stamp duties with a broad-based land tax would increase the volume of housing market transactions and improve the utilization of land.

The Henry Report summarised the problem with Stamp Duty as follows:

*“Stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of State tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue.*

*Conveyance stamp duty is highly inefficient and inequitable. It discourages transactions of commercial and residential property and, through this, its allocation to its most valuable use.*

*Conveyance stamp duty can also discourage people from changing their place of residence as their personal circumstances change or discourage people from making lifestyle changes that involve a change in residence. It is also inequitable, as people who need to move more frequently bear more tax, irrespective of their income or wealth.”*<sup>13</sup>

In December 2016, Infrastructure Australia found that “a broad-based land tax can provide an efficient, sustainable and permanent approach to value

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<sup>11</sup> Abelson, P., *“Housing Costs and Policies: With special reference to Sydney”* Paper prepared for NSW Treasury, Applied Economics PL, May, 2016, p91 (also see p.63)

<sup>12</sup> Ibid., p46.

<sup>13</sup> Ibid., p49.

capture ... This approach would provide a fairer, more efficient way of raising infrastructure funding, and move away from the many challenges posed by the volatility and unpredictability of property prices".<sup>14</sup>

It is easy to see why state governments have been slow to wean themselves off Duty. It's delivered 'rivers of gold' to treasuries during the boom times of high property inflation we've more or less enjoyed since the 1991 recession. But this transaction tax has worked against housing supply and the efficient allocation of housing.

Nonetheless, a broad-based land tax is less volatile and more predictable than any transfer duty. An analysis by Coates and Nolan for the Grattan Institute found that an annual flat rate tax of 0.05% (\$5.00 on every \$1,000) on unimproved land value would be sufficient to fund the abolition of Stamp Duty in NSW.<sup>15</sup>

A broad-based land tax is an efficient mechanism for funding infrastructure, as it is based on the underlying land value, which will increase with the delivery of new publicly funded infrastructure or rezoning. It is more effective in this respect than forms of 'value capture' that focus on individual sites or projects with implications for equity and implementation, particularly given the complexity and subjectivity associated with identifying and quantifying the factors that contributed to the value uplift.

Land tax is the only tax on property that keeps pace with economic growth<sup>16</sup>. It facilitates infrastructure contributions from all of society that benefits from economic growth and subsequent general land value increase, and from owners close to new infrastructure, who enjoy a higher value uplift and therefore would pay more land tax.

Land tax would also encourage downsizing amongst older homeowners, which fosters the efficient use of housing stock and land, which are our most valuable assets.

The incentive for councils or strategic planners to leverage strategic planning to raise funds would be removed. For example, Councils or strategic planners may include lower FSR or height controls than suggested by sound planning analysis, then offer developers 'bonus' height or density in exchange for contributions to local or state infrastructure implemented through Planning Agreements. Instead, the emphasis would be on creating plans that are transparent and straightforward.

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<sup>14</sup> Infrastructure Australia, "[Capturing Value: Advice on making value capture work in Australia](#)", Dec, 2016, pp 6-7. See also pp 23-24.

<sup>15</sup> Coates, B. and Nolan, J., "[NSW should swap stamp duties for a broad-based property tax](#)", Grattan Institute, Dec, 2009, p8.

<sup>16</sup> Ibid., p7.

The tax system should automatically generate additional funding when new infrastructure is required because of changes to density or changes in land use. There should be no need to haggle over infrastructure and contributions with developers. The burden of new growth-related infrastructure would be shared between the society as a whole and the purchaser of a new home. Presently new entrants to an area, which often represents younger and migrant populations, pick up a disproportionate high cost of funding the new infrastructure required in new developments.

A broad-based land tax will also help address the well-being and productivity of the labour force. Stamp duty represents a significant financial disincentive to relocate as a result of changing the location of your employment. A worker may have originally settled in a suburb that was either close to or well connected to their place of employment in terms of transport linkages. A change in job may mean that the workplace is now distant to the home. This will result in increased transport costs, increased congestion in some instances, as well as the worker spending more time travelling to their place of employment.

A broad-based land tax addresses these potential productivity losses by creating no financial disincentive to relocate should their circumstances change. This is particularly true if they were already paying a land tax on their property. A higher tax would only be paid if their new home's land value was higher – in fact moving to an area where land values are comparatively lower (for example in the regions) could act as an incentive for workforce movements to areas where they are needed.

Any broadly applied land tax will pose difficulties in implementation, as seen in the recent decision of the NSW Opposition to oppose even the most meagre of reforms in this space. Urban Taskforce acknowledges there are challenges for people who are asset rich but income poor, but nonetheless think that this can be catered for in a fair and efficient way, such as the ability to defer land tax liabilities to the family estate.

It is acknowledged that there needs to be Commonwealth and State support for change or reform is unlikely to be realised.

The Commonwealth Government should therefore put in place incentives for the State's to undertake property taxation reform. These incentives should address the loss of revenue that is entailed in a transition away from property transfer duties.

States need support to remove improve their planning systems and remove anti-competitive and restrictive regulations that artificially limit supply. This fund could be modelled after the National Competition Council payments of the 1990s, which were successful in promoting micro-economic reform in the competition space at the State level.

**Recommendation 10: That the Commonwealth government take the lead in discussions with the States to abolish Stamp Duty and replace it with a broad-based tax, which will stimulate housing market transactions and activity, and more fairly generate funds for new infrastructure that will enable growth and stimulate the economy. The Commonwealth provide Incentive payments for States that embark upon positive tax reform such as transitioning from stamp duty to broad based land tax arrangements.**

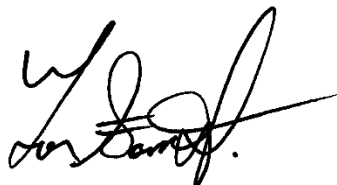
## **Conclusion**

The Albanese Government has taken important initial steps in addressing one of the largest and most complex challenges facing Australia – housing supply and affordability.

The 2023-24 Budget represents an important and timely opportunity for the Commonwealth Government to build on its initial commitments and deliver a range of policy reforms and funding programs that are focussed on delivering more housing stock across the nation.

Should you wish to discuss this matter further, please call our office on 02 9238-3969 or via email [ceo@urbantaskforce.com.au](mailto:ceo@urbantaskforce.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read 'Tom Forrest', written in a cursive style.

**Tom Forrest**  
Chief Executive Officer

## Recommendations

**Recommendation 1** – that the Housing Supply and Affordability Council establish a common assumptions framework in relation to population projections to ensure a clear and consistent approach to housing targets.

**Recommendation 2:** the Commonwealth amend the tax schedule to treat foreign investment in Build to Rent residential property in the same way as an investment into other classes of property where the asset is established for the purpose of deriving a long-term rental return (i.e., reduce the withholding tax rate from 30% to 15% and the tax on capital gains also be reduced from 30% to 15%)

**Recommendation 3:** the Commonwealth change the GST treatment of Build to Rent residential assets, NDIA compatible housing and seniors living, to allow the construction costs to be instantly off set on the provision that the asset is held for a minimum period as rent deriving asset

**Recommendation 4:** The Federal Budget allocate \$1 billion over 3 years for a Housing Acceleration and Employment Lands Fund to deliver the infrastructure required to service additional housing supply and jobs in Sydney.

**Recommendation 5:** the Commonwealth allocate \$1 billion million to a Western Sydney Enabling Infrastructure Fund to contribute towards critical infrastructure such as roads, water and sewerage to deliver more housing in the growth areas of Sydney North West, South West and Wilton and deliver road infrastructure serving employment lands particular around the new Western Sydney airport.

**Recommendation 6:** the Commonwealth create a targeted \$500 million Regional Housing Acceleration Fund to build regional infrastructure which directly supports regional housing supply where a shortage can be demonstrated

**Recommendation 7:** the Commonwealth allocate \$3 billion over 5 years from 2023-24 through Housing Australia to leverage large institutional investment in more affordable housing.

**Recommendation 8:** the Commonwealth provide additional support to the HAFF to leverage greater involvement of superannuation funds and private investment in affordable housing

**Recommendation 9:** the Commonwealth ensure equal tax treatment for Community Housing Providers and private investors in cases which entail the delivery of social or affordable housing

**Recommendation 10:** the Commonwealth take the lead in discussions with the States to abolish Stamp Duty and replace it with a broad-based tax, which will stimulate housing market transactions and activity, and more fairly generate funds for new infrastructure that will enable growth and stimulate the economy. The Commonwealth provide Incentive payments for States that embark upon positive tax reform such as transitioning from stamp duty to broad based land tax arrangements.