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Senator the Hon Zed Seselja
Assistant Minister for Treasury and Finance
Parliament House
Canberra ACT 2600

By e-mail: prebudgetsubs@treasury.gov.au

PROPERTY COUNCIL PRIORITIES FOR 2019-2020 FEDERAL BUDGET

Dear Minister

Thank you for the opportunity to provide a submission outlining the Property Council's priorities for the 2019-20 Budget.

As you know, the Property Council of Australia represents the leading companies that invest in, own, manage and develop property across the residential and non-residential sectors. Our members shape Australia's cities and create prosperity, jobs and strong communities across the country.

The property and construction industry is also the nation's largest, accounting for 13 per cent of our GDP, and employing some 1.4 million Australians, more than mining and manufacturing combined.

The Property Council's key priorities for the 2019-20 Federal Budget are:

1. Negative Gearing and CGT – keep the existing settings to support confidence in the market

The Property Council endorses the Government's position that there should be no change to these tax settings. Negative gearing - deducting legitimate expenses against income - supports the supply of rental housing and assists over 2 million Australians save for their retirement through investment in rental properties.

Changing negative gearing and capital gains tax arrangements risks a significant negative impact on the housing market and spiralling rents.

Retaining confidence in the residential market is particularly important at this uncertain time in the residential property cycle.

2. Housing Affordability – Federal leadership to measure and incentivise better planning

Australia stands to generate an additional $3billion of economic activity through a national competition policy-style dividend for state planning improvements. State governments should be incentivised to plan for high-amenity growth around activity centres and transport corridors and hubs.

The National Competition Policy (NCP) reforms of the late 1990s are a roadmap for the Federal government driving a reform agenda across the states through the use of incentive payments in return for observable one-off improvements.

The Property Council endorses the appointment of a Federal Minister for Housing to drive improvements in state and local planning and zoning, whose responsibilities would include the establishment of State planning reform metrics, from which States would then competitively bid for Federal funding incentives.

The Government should also revive the National Housing Supply Council to provide governments with a true evidence base for planning and land use decisions.

3. Build-to-Rent

Build-to-Rent is an established and successful housing option overseas that puts the customer at the heart of the rental experience. It is housing that is purpose-built for people renting, with longer-term tenure options and leases that are centrally and professionally managed.

Build-to-Rent also improves housing affordability through extra housing supply regardless of the cycle – new rental housing can be developed even when other housing construction is suppressed due to adverse economic conditions.

We welcome the fact that the Government has legislation before the Parliament that specifically enables Build-to-Rent housing to be included within a managed investment trust. The Federal Government can further enhance the development of the Build-to-rent sector by:

1. Championing the emergence of Build-to-Rent housing in Australia with a full review of the benefits to the community of this form of housing and other supportive changes needed, and an implementation task force with close involvement from state governments; and
2. Removing a barrier to investment in Build-to-Rent housing by adopting withholding tax rates that are consistent with other forms of institutional real estate.

4. A Positive National Population Plan and reviving the Asset Recycling Fund

We need a positive national approach to creating great cities within the context of a significant population growth. We advocate for a national population policy with a strong and stable immigration program to underpin our economy.

75% of Australian population growth occurs in Sydney, Melbourne, Brisbane and Perth and they generate the majority of our national wealth while at the same time, cities like Adelaide and Darwin are experiencing significantly lower levels of growth. A successful population and cities plan will be based on improving the liveability, prosperity and sustainability of our cities as their populations, diversity and density inevitably increase.

While the Government is considering ways to incentivise some new migrants to settle in lower-population growth regions of Australia, even with such a program, the populations of our key cities will still grow strongly. Australia needs both an overt population policy and a system of policy settings geared for growth and change in our larger cities where most of Australia's population growth will still occur. The objective must be to create great Australian cities in the context of population growth.

The 2019-20 Budget should:

1. Create a national population policy that

- Supports a strong migration program to underpin our economy
- Sets forward immigration numbers at stable levels to support certainty for planners and businesses
- Identifies the infrastructure, planning and governance our cities need to support their growth into great cities

- Identifies the economic development platforms that our smaller capital and regional cities need to prosper
- Creates clear datasets for policy makers

2. Implement the productivity-boosting reform agenda set out in the Productivity Commission's *Shifting the Dial*[1] report of 2017, including its planning, cities and infrastructure recommendations;

3. Boost federal infrastructure spending in projects assessed by Infrastructure Australia as being high priority; and,

4. Reinstate the highly successful asset recycling fund to incentivise the new state infrastructure our cities need.

5. City Deals – give them a turbo-boost

City Deals bring together all tiers of governments to deliver the much needed long-term, evidence-based planning and infrastructure shaping strategies, supported by investment from each level of government.

The Federal Government has wisely introduced the City Deals concept to Australia and it needs to be expanded and accelerated so that City Deals are anchored around investment in city shaping infrastructure, efficient land use and are delivered in all major capital cities.

The Federal Government must provide significant additional staffing resources to enable more City Deals to be pursued, including more than one 'big city' City Deal at a time. In addition to City Deals for smaller and regional cities, the Government should set a target of creating a City Deal for each of our larger, fast growing cities (which are accommodating 75% of Australia's population growth) within five years.

A Cities Advisory Board should be established to optimise land-use strategies around major infrastructure projects by:

- evaluating and advising on the selection and implementation of City Deals;
- collating data to evaluate the performance of cities in real time along with traditional cities performance indicators; and
- providing independent research and advice to all levels of governments on how the productivity and liveability of cities can be improved.

6. Energy and Emissions – market signals and a pathway to net zero emissions for buildings

Australia has committed to limit global warming to below 2°C and to pursue efforts to limit temperature increase to 1.5°C. This effectively means Australia is transitioning to a net zero emissions economy by about 2050.

The challenge is to make this transition with the least cost to the economy. Many of the least-cost emission reduction opportunities are to be found in the built environment, which accounts for 23% of Australia's total emissions. [2] Cost-effective action in Australia's buildings could deliver over $20 billion in financial savings by 2030.

Our sector needs reliable, affordable and low emissions electricity. Our priority is a regulatory framework with market signals for long term emissions reduction, including a balance of supply and demand side initiatives to ensure reliable energy to bring down prices for businesses and households. Low-energy, high

[1] Productivity Commission *Shifting the Dial: 5 year productivity review*, 2017
[2] ClimateWorks for Australian Sustainable Built Environment Council (ASBEC), *Low Carbon, High Performance*, 2016

performance buildings play a major role in limiting peak demand and reducing energy consumption. This can deliver lower bills and reduces the burden on the electricity grid.

Additional measures should include a national net zero buildings plan, including a clear trajectory of future upgrades to the National Construction Code, energy efficiency targets set in accordance with a clearly modelled trajectory, net energy targets and a clear set of rules and processes for implementation and expansion of the future scope of and targets in the Code, a nationwide energy efficiency scheme, accelerating distributed energy for buildings/precincts by reducing red tape and addressing the challenge of split incentives for building stakeholders.

7. Business Confidence, International Investment and a Strong Banking Sector

Over the past 50 years, Australia's cities have been heavily reliant on foreign investment flows to help Australians' finance construction of our homes, offices, retail centres, industrial sites, education precincts and health facilities. Foreign investment is also critical for the provision of the infrastructure that builds and connects our cities and regions.

The Property Council calls on the Government to ensure that the 2019-20 Budget Australia contains measures that will support a tax and regulatory framework that encourages foreign investment flows. As it stands, there are many ad hoc taxes on property at state and territory level.

The Property Council supports a strong governance framework for the banking and financial sector, within which every effort is made to optimise the flow of domestic credit for business and individual investment. With the Hayne Royal Commission due to be handed down this week, it is also important that the Government carefully considers the potential economic impacts of any actions it takes in response to its findings. While the Government clearly needs to take action to address issues uncovered by the Royal Commission, however it should not take actions which further restrict the supply of credit to the economy.

8. Stapled Structures – the Parliament should pass the Government's package

The Government's legislative package on stapled structures and managed investment trusts is currently before the Parliament as part of *Treasury Laws Amendment (Making Sure Foreign Investors Pay Their Fair Share of Tax in Australia and Other Measures) Bill 2018*.

This legislation has been subject to an extensive consultative process with industry and will provide greater certainty around the rules for institutional investment in real estate.

The Property Council supports passage of this legislation before the end of this Parliamentary term, notwithstanding our concerns with the withholding tax settings around Build-to-Rent housing.

9. Recognising the value of retirement living

The Government has shown leadership in recent budgets removing superannuation disincentives to downsizing.

For this budget, the Property Council notes that the My Aged Care website is focused on directing consumers to government funded services and does not provide support for people looking to understand broader options, like retirement living.

Research for the Property Council in 2014 revealed that retirement village residents saved government $2.16 billion annually through delayed entry into aged care, less frequent and shorter hospital stays, fewer GP visits and savings through improved social wellbeing[3].

[3] Property Council of Australia, National overview of the retirement village sector, 2014

The Property Council encourages government to include retirement villages in policy considerations, and publicly available information relating to aged care options for Australians.

Government should also remove financial impediments that discourage seniors from 'rightsizing' into purpose-built accommodation.

The Property Council recommends that aged pensioners be allowed to 'Unlock Home Equity' when selling a family home and moving into a retirement village, which typically will cost less than the sale price of a house. These excess sale proceeds are included in the age pension assets test, creating a significant disincentive for those contemplating 'rightsizing' into purpose-built seniors' housing. A targeted change to the pension assets test could allow full rate age pensioners, who unlock a modest sum from the sale of a family home, to retain their pension entitlements. The cost to the budget of this initiative could be offset by the aforementioned savings to health budgets.

For further information on the issues raised in this submission please contact Richard Lindsay – Manager Government Relations on rlindsay@propertycouncil.com.au or 0422 22 746.

Yours sincerely

Ken Morrison
Chief Executive