Submission to

Senate Economics References Committee

In regards to the inquiry on

Financial regulatory framework and home ownership

Submitted by

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Introduction

SMATS Group was established in 1995 as a specialist Taxation & Finance support service to Australian property investors, especially those living overseas.

We manage the taxation affairs of over 10,000 properties and have arranged finance for almost 6,000 individual acquisitions.

We provide advice and commentary on a regular basis of the merits and activity of the Australian Property market as well as education and news through our regular seminar programs and ownership of the Australian Property Investor Magazine.

We feel well qualified to present this submission to the Committee and provide our views on the matters that are influencing the current market and some solutions that can be considered.

It is our hope that this submission can assist the Committee consider some matters that are not generally in discussion yet have a profound impact on the property and rental market generally and specifically in regard to affordability, as well as provide some factual information to dismiss some myths and messages that may not reflect the actual underlying issues.

We remain available for further comment and participation on request.

What is the real problem?

There has been much debate about the size, scope and need to address property ownership and rental affordability in Australia.

It is estimated that almost one third of all Australian's own their own home, so for this group price values rising is not a problem, rather an opportunity. However Australia is a very socially aware country, so the need to ensure fairness for those without property is paramount as well.

In recent times, many things are being identified as blame points, including the high immigration and above western country average population growth. These soft targets are not the cause of the problem and likely never will be. Migration and population growth is not only normal, but it is essential for a country like Australia where economic efficiency and productivity lag, so the importance of migration cannot be underestimated in bringing new talent and skills to the country.

It is also the key reason why federal and state government tax collections continue to escalate at solid rates as the activity and personal tax collections bring much needed cash flow and economic flow on each year.

In summary, demand drivers will always be in the Australian system from a variety of sources including:

- Natural population growth
- Immigration
- Returning Expatriate population
- Baby boomers now entering their downsizer phase
- Divorce and relationship breakdown
- Inheritance
- Changing lifestyles and accommodation needs
- Geographic spread and improvements

Given the above, I would suggest that it is near impossible for any Government policy to be successful as there are too any drivers to tackle, and fixing one may just exasperate another.

If you can accept this demand side as a long-term permanent issue, then it is clear that the only solution to ongoing affordable housing is to tackle the supply side of the equation, not the demand.

The mission of all Governments should be how to:

- Encourage higher home ownership
- Ensure the general market is fair and reasonable
- Provide opportunity for expansion of housing stock to cope and manage population growth
- Bring consistent supply of residential housing in areas of likely demand to ensure smoother resource and labour management
- Encourage alternative building technologies for short term solutions and reduced delivery time
- Align new housing with environmental and social objectives

To succeed, this needs a genuine long-term, by-partisan, multi-tiered government and national plan as it cannot be done by any single level of Government or industry.

If "affordability" is indeed the enemy of the community, then you must tackle cost contributors and be frank and honest about costs imposed that are not necessarily directly related to the provision and supply of housing stock and quality community building.

Whilst Building costs and time delays have risen as a result of supply and labour issues triggered from the Covid Pandemic, these in themselves are not as significant as the biggest impost in the housing market now, transactional costs.

State Government Entry & Holding Costs

Stamp Duty has been levied by all states & territories for many decades, but for most of that time a modest percentage levy applied against a modest purchase cost was uncomfortable rather than disturbing.

It is noted and considered that there is an importance of this revenue to create capital for States & Territories to build infrastructure, schools, facilities and support services for an expanding population, especially where there is the creation of new living zones.

However, as Australia matures as a property market, populations increase and the value of property prices continue to escalate, the justification for the same percentage levy seems to become very questionable. Especially when you consider the level of "rotation" stamp duty, that of established properties in established areas where the capital spend has been done, versus that of new areas needing creation of services.

Most states have a Stamp Duty top rate of 5% or more, and interestingly, of the major states only Queensland and Victoria have a top bracket threshold higher than the Average House price in their main city, as demonstrated in the below table.

	Stamp Duty Range	**Average House Price (A$m)** Source: REIA REMF June 2024
NSW	1.25%-5.5% (over $1.212m)	$1,662.4
Victoria	1.4%-6.5% (over $2m)	$911.5
Queensland	1.5%-5.75% (over $1m)	$880.0
South Aust	1%-5.5% (over $550,000)	$787.0
West Aust	1.9%-5.15% (over $725,000)	$735.0
Tasmania	1.75%-4.5% (over $725,000)	$935.0
NT	4%-5.95% (over $5m)	$567.0
ACT	0.4%-4.54% (over $1.455m)	$945.0

As if that fact alone is not bad enough, we have seen a rapid increase in the value of Stamp Duty charged due to lifts in values and the percentage levies being unchanged as demonstrated in the below table, comparing Stamp Duty on the average property price in June 2000 against the average in June 2024 (Source: Real Estate Institute of Australia, Real Estate Market Facts).

Historical Average

City	**Average House Price**		**Increase**	**Stamp Duty Payable**		**Increase**
	30/06/2000	**30/06/2024**		**30/06/2000**	**30/06/2024**	
Sydney	$ 328,000	$ 1,662,400	407%	$ 10,250	$ 74,487	627%
Melbourne	$ 253,000	$ 911,500	260%	$ 10,840	$ 49,760	359%

Brisbane	$ 155,000	$ 880,000	468%	$ 4,138	$ 25,450	515%
Adelaide	$ 135,000	$ 787,000	483%	$ 4,230	$ 37,115	777%
Perth	$ 154,100	$ 735,000	377%	$ 4,132	$ 28,968	601%

As can be seen above, the rate of Stamp Duty has increased greater than the property price over the same period.

There is no doubt that the moder quantum of Stamp Duty is now at a level that it a significant fact in housing affordability and perhaps the biggest impediment to entry into the market.

States have first home buyer concessions, but these are not in line with market trends or needs in the main for many reasons including:

- The thresholds are very out-dated and often are not reflective of pricing in the market so as far as many first home buyers do not qualify for the concession as the properties in that range would not suit their needs
- Often the "first home" someone buys may not be reflective of their primary life needs (ie a single person buys a 1 bedroom apartment early, then needs a family home once married and has children) but the initially acquired property precludes them from concessions on the later home
- NSW has moved to have the Stamp Duty paid as a yearly cost rather than upfront, making it appear easier to enter where in real terms it is a deferral of the problem not a solution, and can indeed lead to a higher cost over a significant period of occupation.

The increases are significantly above the real growth value of 189% from 2000 to 2024, which further emphasises the problems caused by this impost.

GST on New Housing

Another key factor in housing costs is the fact that on the 1st July 2000, GST was introduced into Australia and included in the provision of new property from builders and developers. It is important to note that GST is collected by the Federal Government but flows to the States.

At the time, this seemed a sensible inclusion as the cost of housing was modest and the repositioning of the tax base required a broad collection policy.

Over time this has become increasingly problematic, but many new property buyers do not even realise there is GST applied as it is "included" in the sale price offered in the market.

The GST amount varies depending on whether or not the initial land qualified for the "margin scheme" but for the sake of simplicity I have estimated it to be on approximately 70% of the cost as shown in the below table, adding approximately 6-7% to the cost of every new property and increasing the effective State Tax cost to a total cost on new acquisition of between 9% and 12%.

When you consider that the main way to manage affordability in any market is through the provision and access to genuine new supply, it seems extraordinary that in all Australian States there is an effective "double dip" on tax revenue on new supply.

New Property Summary State Cost Summary as at 30th June 2024

	Avg House Price	Stamp Duty	GST (70% Portion)	Total Duty & GST	% of Value
Sydney	$ 1,662,400	$ 74,487	$ 105,789	$ 180,276	11%
Melbourne	$ 911,500	$ 49,760	$ 58,005	$ 107,765	12%
Brisbane	$ 880,000	$ 25,450	$ 56,000	$ 81,450	9%
Adelaide	$ 787,000	$ 37,115	$ 50,082	$ 87,197	11%
Perth	$ 735,000	$ 28,968	$ 46,773	$ 75,741	10%

It is noted that from time to time, various “off-plan” incentives have been offered to encourage buyers to acquire newly constructed instead of established property, but at the time of submission, only Western Australia has any such incentive available.

Where this underlying cost becomes even more concerning, is that the GST distorts the true cost of property delivery into the market and in many cases makes the sale price much less attractive when compared to the established market.

This in turn can lead to an increased demand in the established sector due to relative value perception, enhancing price rise pressure in that sector, while making it harder for Developers to attract buyers at the required scale and price point needed to meet the supply requirements of the general market and keep prices stabilised.

Removing GST from the new property market would allow States to still benefit from activity there as they still get the improved revenue from the Stamp Duty charged, but importantly it encourages housing expansion and new stock activity.

There would need to be some level of governance to ensure that Developers don’t simply absorb the full GST savings, but even if they did, it would likely mean that projects currently considered to be marginal and not advancing, would now move to be economic and move from planning to delivery.

It is impossible to estimate how much activity this would create, but anecdotal evidence would suggest that this would quickly create a strong improvement in regular new supply coming into the market as it could reactivate current dormant projects.

Foreign Buyer Fees

Foreign Buyers have been active participants in the Australian property market for decades.

This has been an important part of our property investment and rental market and valuable contributor to economic activity for many reasons including:

- Under our Foreign Investment Review Board (FIRB) rules foreigner investors can only acquire newly constructed property which in turns means valuable new housing stock and economic value through construction jobs and spending
- As foreign investors in the main live overseas, the overwhelming majority rent their properties into the market providing valuable rental stock that has kept the market in stabilisation
- In our experience, foreign landlords have been more conservative on rental demands (until recently when Land Tax has escalated) keeping rental affordable for quality long term tenants
- In our experience, foreign investors in the Australian property market have stayed as owners over longer periods, creating stability for the specific tenant and the general market
- Foreign buyers have been instrumental in supporting large scale apartment developments over a long period, helping developers meet important pre-sale conditions of finance, largely due to their cultural acceptance of off-plan acquisition when the Australian buyers showed reluctance

For FIRB purposes, a Foreign Investor is someone that does not have Australian Citizenship or a Permanent Residence Visa.

Some exemptions apply such as:

- A foreigner married to an Australian and buying as joint tenants
- A Temporary Visa holder (such as a student) buying an established property to live in while they are in Australia, but they must sell on expiration of the Visa

Many Australians are unaware that foreign investors are precluded from the established property market (except in limited circumstances under temporary visa’s) and confuse new migrants with foreign investors.

Prior to 2015, there was no additional cost for a Foreign Investor to acquire an Australian property. In 2015 the Federal FIRB Application Fee was introduced at a cost of A$5,000 for new properties under A$1m. This fee has been progressively increased and is currently A$14,700 for new properties under A$1m with significant increments for each additional A$1m value.

Established properties now attract a higher application fee of A$44,100 for a property under A$1m, rising to A$88,500 if value between A$1m & A$2m, and then lifting each additional million in value thereafter by A$88,500 per million uplift.

The higher cost for a Temporary resident to buy into the established market is justifiable, as the primary objective is to protect the local buyer from being outbid.

However the ever increasing fees for newly constructed properties seems to be misplaced, as the significant economic value and expansion of the rental pool is a highly desirable outcome and key lever in maintaining housing affordability, especially for rentals.

Foreign Buyer Additional Stamp Duty

In addition to the Stamp Duty cost requirements, foreign buyers are required to pay an additional transfer duty in all states.

This recent levy started in Victoria on the 1st July 2015 when it began imposing a 3% surcharge for foreign buyers, being anyone that did not have Australian Citizenship or a Permanent Residency Visa. The surcharge has been increased and now is levied at 8% of the purchase price.

NSW introduced their surcharge in June 2016 initially at 4% and now lifted to 8%. Importantly, NSW does not exempt Permanent Resident Visa holders unless they have been living in Australia (or intend to) for more than 200 days in the previous 12 months,

Other States have now followed suit and now all have a similar levies, currently between 7-8%.

<table>
<tr><th></th><th>Foreign Buyer Exclusion</th><th>Foreign Buyer Duty/Surcharge</th></tr>
<tr><td>NSW</td><td>Australian Citizen or PR Visa if more than 200 days in Aust</td><td>8%</td></tr>
<tr><td>Victoria</td><td rowspan="8">Australian Citizen or PR Visa Holder</td><td>8%</td></tr>
<tr><td>Queensland</td><td>8%</td></tr>
<tr><td>South Aust</td><td>7%</td></tr>
<tr><td>West Aust</td><td>7%</td></tr>
<tr><td>Tasmania</td><td>8%</td></tr>
<tr><td>NT</td><td>Nil</td></tr>
<tr><td>ACT</td><td>Nil</td></tr>
</table>

At the time of these surcharges being introduced, the Foreign Buyer activity was peaking, hitting a record high of 40,121 (Victoria accounted for 17,525 of these) in the 2015-16 financial year according to the FIRB Annual Reports which I have graphed activity below for reference.

There had been a rapid rise in Foreign Buyer activity from 2009 primarily as a result of the Rudd Governments decision to relax the rules that previously prohibited more than 50% of any development being sold to Foreigners.

When that rule changed, there was a flood of Foreign Developers (not individual buyers which is often the misconception) came into the market to build "Shoe Box" apartments, especially in Melbourne. They had the resources and sales networks in Asia to sell on mass to their home country clients, who found the Australian property market relatively cheap in comparison and were more than willing to buy "off-plan" and which meant they easily satisfied FIRB Purchase rules.

At the time, Victoria had in place an "off-plan" stamp duty concession, where Stamp Duty was levied on the value of the property at time of signing instead of contract price. As such the earlier you bought the lower the stamp duty cost.

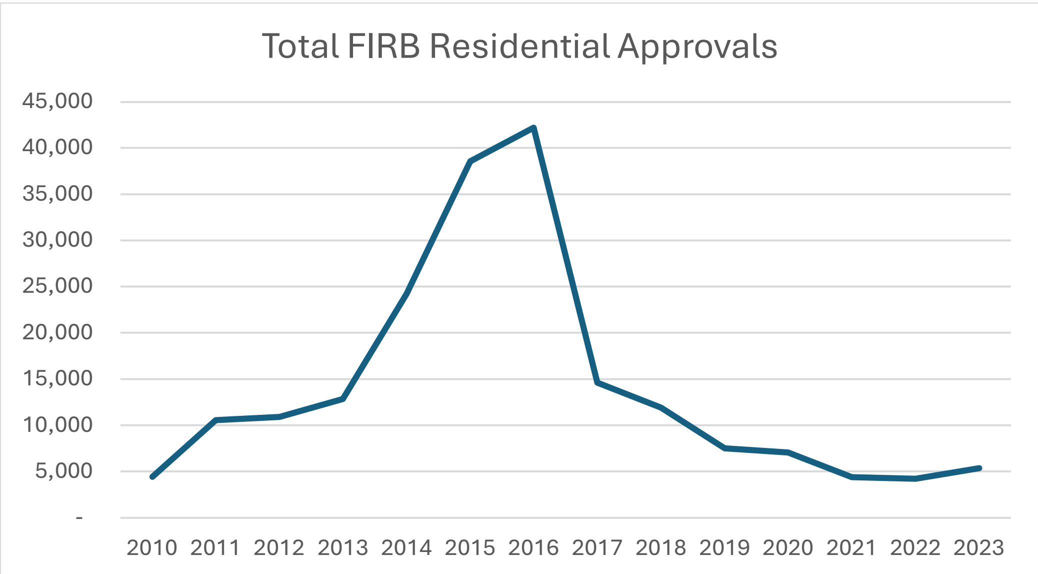
This was a key incentive for investors (Australian & Foreign) that kept Melbourne an active construction industry and sold rental pool.

In FY2010 Victoria had 1,801 foreign buyer sales which has lifted to 4,573 in FY 2013 before lifting sharply to 10,042 in FY2014, 16,525 in FY2015 and peaking at 17,525 in FY2016.

So it did make sense to introduce a 3% Foreign Surcharge to balance out this concession and water it down for Foreign Buyers in preference to local buyers. And the levy at 3% was fair and reasonable at the time, but unfortunately that was short lived as they increased the surcharge to 7% on 1 July 2017 and then again to 8% on 1 July 2019.

Sadly, things changed drastically for the worse when Victoria ceased the Off-Plan Stamp Duty concession on 30th June 2017.

With all States following suit, this meant foreign Buyers now paid approximately 4-6% normal stamp duty, then from around FY2016 started also paying FIRB fees and Stamp Duty Surcharges.



It seems no coincidence that soon after the introduction of these new surcharges, have led to a significant drop in the level of Foreign Buyer activity, falling quickly from the record high in FY2016 of 40,121 to 7,513 in FY 2019 even before the impacts of the Covid 19 Pandemic were ever imagined.

This has been an Australia wide issue, with all States experiencing similar patterns and clearly demonstrates that the important sector of Foreign Buyer activity, which had been essential to expanding the rental pool.

Ironically, the States desires to raise more revenue through higher duties has led to lower revenues through suppression of activity.

It should also be noted that many of the Foreign Buyers, particularly in Victoria, have not enjoyed any gains or profits as prices have not risen, and in many cases have retracted, in that market.

State Land Tax Levies

Land Tax has not been a significant issue on the rental property market until recent times.

This is largely because for most Australian's Land Tax is not even a consideration, as it is not charged on the family residence and also there are tax free thresholds that kept most investment properties under the point where Land Tax would start to be levied.

Those were the good old days!

What has happened recently, is that the Land Tax Values has been increased significantly by each State's Valuer General, with more and more property coming up above the thresholds and creating a Land Tax cost.

This impost is only on Landlords, and as such they have a bigger cost burden and that inevitably leads to them seeking a higher rent to help recover some of the costs of the Land Tax bill.

Land Tax, similarly to other taxes and duties, is a cumulative cost and the more Land Value you have the more the rate of Land Tax applies, so for any investor owning multiple property in one State, the burden of Land Tax escalates quickly often beyond the capacity for the rent to rise to cover it.

This is becoming a significant dis-incentive for investors and we are experiencing many Landlords chose to sell up due to the uneconomic proposition that an ever rising Land Tax burden creates.

This is best demonstrated by the latest statistics from the Australian Taxation Office which released how the property holdings of individuals lodging returns.

Individuals 2021–22		
Property interests	**Total individuals**	
no.	**no. 2021–22**	**Portion**
1	1,620,663	71.45%
2	428,020	18.87%
3	132,338	5.83%
4	47,633	2.10%
5	19,530	0.86%
6 or more	19,977	0.88%
Total	**2,268,161**	**100.00%**

Over 90% of property investors, just over 2 million, own 2 properties or less.

What that shows is that despite the overwhelming desire to be a landlord and create wealth through property, the reality once you become an owner is quite different and the costs and inconvenience of the purchase becomes daunting once with euphoria of owning subsides.

As such, few progress beyond their 2nd property once the harsh reality of a cumulative Land Tax, lending restrictions and often underwhelming returns, are actually experienced.

In my opinion, the recent trend of Governments and media to attack Landlords as the cause of rental crisis is not helping the situation and creating pressure on landlords to exit rather than encourage them to escalate.

That in itself is an issue, as in current market conditions, the most likely buyer of a rental property sale is in fact an owner occupier, which in turn reduces the rental pool adding further pressure to the rental market and most likely to have a inflationary impact on rents.

Alternatively, if these property investors could be encouraged to expand their portfolio's and we could get some of the 1.6 million single owners to buy their second investment property, or the 428,020 dual owners their third, then we could quickly expand the rental pool.

This is in reality the quickest and most cost-effective option to solve the rental supply problem, especially if we incentivise toward new property in particular (such as with the current building depreciation write offs), as you would be mobilising an existing active investor base that could quickly deploy to bring in more valuable rental stock and help solve the availability issue on an ongoing basis.

There may be issues on access to finance that need to be addressed, however in my opinion it is more a cost impost and personal resistance issue. Landlords serve an important role in the community and deserve more respect and appreciation than they are currently being shown, especially by State Governments.

Foreigner Land Tax Surcharge

The Land Tax issue discussed above is even more significant when we consider the plight of Foreign Investors.

From 2016, when Victoria & NSW started introducing Land Tax surcharges for Foreign Owners, we have seen a drastic escalation in this cost both from the rate of the charge and the underlying value of the property according to State Valuers.

This is another, if not the major, reason for the rapid reduction of foreign investment in the residential property market from 2016 to now as previously shown.

We have been in the property support industry since 1995, so we have seen many changes and trends, favourable and unfavourable but in my opinion, this is the worst thing that Australia has done in the international stage and had a major impact on Foreign Investment.

When you consider that:

- prior to 2016 over 150,000 properties had been acquired by Foreign Investors
- they bought on the logical assumption of fairness by Government in law and tax
- they contributed valuable capital and economic activity
- any new buyers are now paying a significant surcharge on acquisition already
- the increase in the rental pool was significant and ongoing creating balance and reasonableness of rent
- the level of activity creates an ongoing economic benefit from support services and capital improvements
- many of the owners were considering Australia as a retirement or relocation option

Then to change tax regulations so harshly and not provide any level of retrospective protection was repugnant.

I can understand that any new purchaser should be charged a surcharge if you believe it to be appropriate, but they have the advantage of knowing these costs and assessing them in the decision to acquire.

For those that bought prior to 2016, they did not have any chance to consider the impact of these additional costs, and many are now in financial distress because of these surcharges that are beyond reasonable.

Victoria, the State with the highest Foreign Investor activity, recently changed their method of Land Tax to slash the tax-free threshold to just $50,000 and increased the surcharge to 4%. This means that an apartment worth A$400,000 with a likely Land Tax Value of say $100,000 would be charged A$4,000 a year as an Absentee Landlord, or in effect A$80 per week additional cost which inevitably needs to be passed on to the tenant.

The issue here is largely one of perception and ideology.

Foreign Investors are very much blamed in the public environment as the cause of price rises and rental increases and marked as "deserving" of the higher imposts.

Nothing is further than the truth, as this group of investors are indeed critical to the overall health and expansion of our property markets, most likely to rent their property, and also most likely to invest in any cycle, good or bad.

This sector can also be quickly mobilised to support rental pool expansion, if as a Country and at Government level we can learn to find some level of respect and appreciation.

As it stands and similar to local investors, we are seeing an increase in the number of Foreign Investors selling their property due to the higher costs of Land Tax making the property uneconomic, putting further pressure on the rental pool.

In NSW, this issue is massively worse than anywhere else due to the decision to apply the Foreign Surcharge to owners even where they hold Permanent Resident Visa status.

Many Australians have yet to transition to Citizenship and have remained or returned overseas, so to be aggressively taxed on the property rented out seems unjustified.

Similarly, many Australian citizens have married Foreign Nationals and may have bought property with them while living abroad.

If they own property in NSW then the costs of Land Tax are becoming incredibly unreasonable and in some cases the Land Tax cost can be 70% or more of the annual rent the property generates, so the capacity to cover the other expenses dwindles further. This may not be an "investment property" rather it may have been the family home that will be rented during a temporary work relocation overseas.

As previously mentioned, the issue of Land Tax is a recent problem, but it is likely to be the single most problematic issue in the coming years as rising Land Tax bills get passed on to unsuspecting tenants or properties get sold and removed from the rental pool.

The revenue being collected seems to be disproportionate to the income of the property and is creating a barrier to invest and own that needs to be addressed sooner than later.

Income & Capital Gains Tax Issues

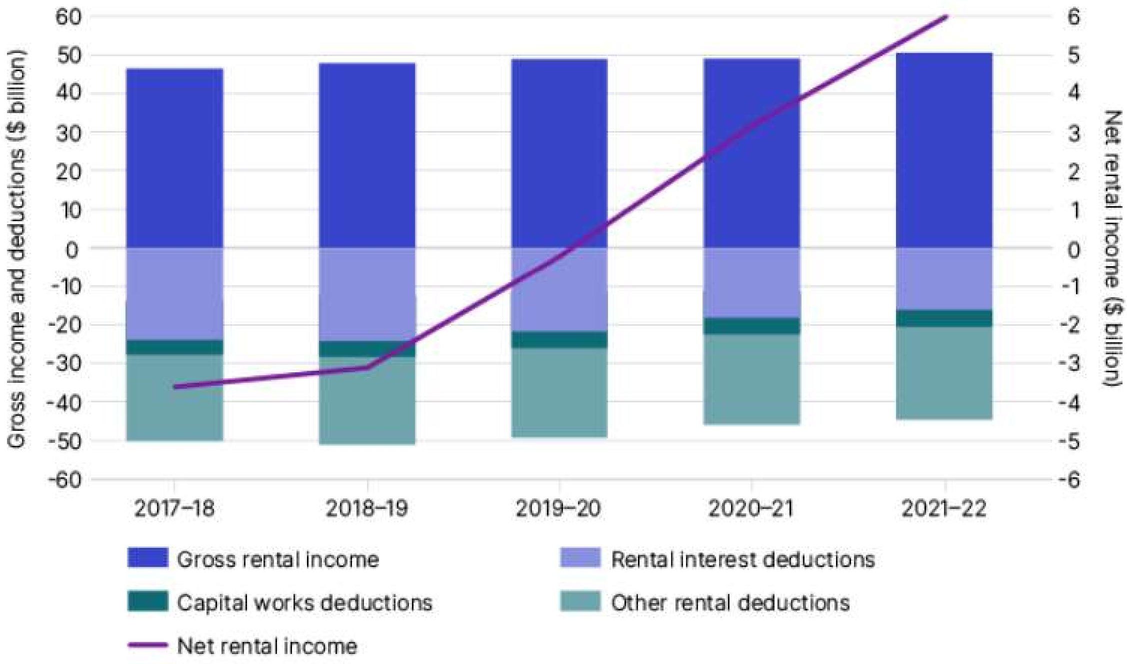
Income tax treatment of Landlords, and in particular negative gearing, is bever far from discussions.

Regardless of your view on the topic, we have seen a reduction of incentives to property investors over recent years including:

- Removal of interest claims during construction
- Removal of travel to inspect as an expense
- Removal of depreciation benefits when buying an established property
- Claw-Back of Building Write off on Sale
- Removal of 50% CGT Discount if owner living overseas (Australian or Foreigner)
- Removal of historical entitlement to Principal Residence CGT if owner sells while living overseas (Australian or Foreigner)

In addition, the economic impact or rising rents and lower net borrowings as prices rise mean that the economic power of landlords is improving and they are now an significant contributor as per the Australian Taxation Office statistics in the table below.

Chart 10: Individuals – rental income and deductions, 2017–18 to 2021–22 income years



Net Rental income has now moved into significant positive area with positive A$6bn in rental in 2021-22. This can in part be linked to the lower interest rates during the Covid19 period, but also displays a shift in sentiment from accumulation to revenue.

This sentiment change is also a large reason why investor activity has slowed and rental pools are shrinking adding pressure to rental affordability.

As we discussed earlier, if this net income pool can be harnessed by encouraging further investment, then we can quickly increase the investor activity and build valuable rental stock for the community.

We do not feel that any changes are required to the current income tax regime, other than continue to encourage new property over old property with items such as the Building Write-Off.

We note that in this years Federal Budget, it was proposed to lifting the write-off from the current 2.5%pa to 4%pa for large scale institutional investors, but not individuals.

Given the sheer size of the individual property owners group (2.2m according to ATO Statistics at 30th June 2022) and the desperate need for additional rental stock, it could be wise to extend the 4%pa to individuals as well.

This would be important to maximise new investor activity to new build which adds to the rental pool rather than just buying an established property. The impact of buying established is that it is not creating any additional rental stock, limited economic stimulus and can remove a home potentially suited to an owner occupier.

To create sufficient incentive at this important time, the Government should also seriously consider removing the claw back on Building Write off in order to create a compelling incentive for investors to seek out new as a preference, expanding the rental pool and creating jobs and economic activity in the construction industry.

Non-Resident CGT Changes

As mentioned above, two key changes occurred in Capital Gains Tax impacting Non-Residents (both Australians abroad and Foreigners).

The removal of the 50% CGT Concessions (for assets held more than 12 months) occurred in May 2012. At the time we argued strongly in Submissions that it would have a damaging effect on foreign buyer activity and it has.

This was a contributing factor to the decline in FIRB approvals since 2016 in conjunction with higher State acquisition costs. It just was something no one realised until later as they came to sell.

From 1 July 2000, there was a further change removing the entitlement to tax free gains under the Principal Residence Exemptions for anyone selling their home if they were overseas at the time of sale.

This has created a incredibly unfair position where you could lose many years of genuine tax free entitlement just for being overseas on work assignment for a short period.

Consider a situation where a taxpayer has lived in their home for 15 years then moves abroad in a offshore posting required by their employer for a 3 year assignment. If they chose to sell their home after being abroad just 6 months, then the full gain on the property is taxed despite having lived in the property for 15 years.

In our experience, we feel that many owners and property investors that would traditionally exit the market at some stage, are now reluctant to sell their properties once aware of the higher CGT impact and put off any sale indefinitely.

This does have an impact on the market as there in turn is less property for sale and it puts additional pressure at a time when demand remains strong.

The introduction of these higher exit taxes to Non-Residents has a genuine impact on supply and demand and should be reviewed.

Supply Type

One item of conversation that is often lost in the generalisation of the topic of property is the balancing of new supply so that it meets the needs real demand of the increasing population and market.

There is a genuine risk of making simple decisions to increase any property, where it is important that new property creation is targeted in areas of highest demand.

In our opinion these include:

- Affordable housing (house, townhouse, large apartment) near city/transport for small families
- Family living zones with good support services
- Downsizer properties for early retirement into final care
- Good size inner city apartments

This may seem obvious, however we have seen in the past a trend to build properties of convenience rather than demand.

Perhaps the best example of this is the Melbourne CBD where a preponderance of smaller living apartments was built on quality sites, but the general market has no desire to live in them. Students and travellers fill the space created, but this isn't helping the local market and distorts the numbers.

In the Melbourne case, it could have been a major positive if the properties were just that little bit bigger each (min 50+sqm 1 bedroom, 70+ sqm for 2 bedroom, 100+sqm for 3 bedroom). Larger apartments satisfy the wider community and market and build stronger, more enjoyable living areas that enhance the cultural aspects of living in Australia.

Problem Summation

I hope I have appropriately articulated that the issues with the housing affordability in Australia is not a single point of issue but embedded in number of issues that have changed in recent times.

The rapid acceleration of entry stamp duty and land tax ownership costs, the diminishing of investor tax incentives, the building of inappropriate supply are more dominant in my mind than interest rates, landlord regulation and pre-GST property costs.

At the end of the day, stable and appropriate supply is the only way you can balance a market in a real and permanent manner.

I hope that our identification of these issues assists the Committee in their deliberations.

Short & Long Term Solutions

The identification of issues affecting housing is not enough, we need sensible and affordable solutions as well to bring about long term, productive change.

Below I have outlined some options for consideration that I believe will make a genuine contribution to a better Australia.

Tax Free Room Rental Program

Any fix to the Housing problems will take time, possibly years.

To find suitable sites, get approvals, funding and construction will take years if not decades to bring about enough difference to help people, and that could be too long for many.

I have formulated this concept of "Tax Free Room Rental" as a temporary but immediate fix that could help many people now, until the system can find and deliver remedies over the medium to long term.

There is no doubt that there is significant number of homes with unused rooms, so my concept is to encourage those to be made available by incentivising the owners to rent out, and the biggest incentive is tax free revenue.

I do not feel this is a great cost to Government as there is no revenue now and likely the Government has great cost of homelessness and affordability support now. In addition to providing more accommodation options, the benefit of such a scheme is that it can also support those in need of additional revenue as we move through this period of cost of living pressure.

A simple legislative confirmation and online register would be all that is required to make this a reality based upon some key points including:

- 2-3 years period to allow construction and deposit savings catch up
- Income & Capital Gains Tax Free impact
- Not Affecting Pensions or Government Benefits
- National Register and must register to qualify for status & benefits
- No Land Tax or Stamp Duty Implications
- Change CGT laws post 3 years to allow room rental of maximum half available rooms in a home without impacting CGT PPR exemption
- Ensure Local Government rules allow
- No real cost to Government in short term and additional tax revenues post 3 years

This concept will have social impacts, both positive and negative, but by making it voluntary means it can largely be self managed and having it through a online registration process means it can be tracked effectively.

As far as immediate impact, nothing would be cheaper or quicker to do than this simple solution, buying valuable time for more significant programs to catch up with needs and ensuring any other bottlenecks don't worsen the current predicament.

Remove GST from all New Residential & Construction

As discussed, GST is a significant cost to new supply entering the market.

At the time of introduction, it is unlikely that anyone considered how much the average cost of house would increase over time.

TO be applying both Stamp Duty and GST on these higher prices is adding 10-11% on the new supply.

If we are genuine about fixing the supply equation, then the only option is the eliminate the current double dipping (and triple dipping if you include foreign buyer surcharges) and make new stock our priority and more affordable.

This change can be immediate, effective and provide:

- Permanent cost reduction to all
- Encourages construction for new supply and economic activity
- Improved business environment for the construction sector
- Funded by ever increasing revenues from established market transfers

Cap or Reduce Stamp Duty in Each State

Stamp Duty is the largest single entry cost and should be review and reduced to more sensible levels.

Given the lift in prices has been so significant, it could easily be justified to half Stamp Duty Australia wide, as the "loss" per transaction would likely be recovered by more activity as people feel more confident to upgrade and downsize to suit their changing lifestyles.

First home owner caps should be removed, and consideration to second home concessions implemented.

Some of the issues to review and improve

- Bracket & Value Creep is overly excessive
- Transactional cost beyond reasonable levels
- Reduce % and consider a cap
- Remove all Stamp Duty for any first home buyer at any cost
- Remove or significantly reduce Foreign Surcharges to encourage investment where property rented for initial 3 years
- Switching Stamp Duty to deferred payment program is no solution
- Downsizer Stamp Duty Incentive
- Remove Land tax disincentives of multi ownership

Cap or Reduce Land Tax in Each State

Land tax is now disproportionate to the reality of rental collection and will no doubt become the major influencing factor in the rental market within 10 years, if not already.

The rapid rise has and will continue to be passed from landlord to tenant as the landlords simply cannot afford to cover the rising costs alone.

- Either reduce rates or introduce a cap on amount for single residential property
- Consider Landlord incentives or reductions
- Consider excluding any Foreign Investor that purchases prior to 2016 from Absentee/Foreign Surcharges as their decision making was not able to foresee this nor factor it in their costings
- NSW should reconsider the inclusion of PR as exempt and/or exclude partners of Australian Citizens from Foreign Surcharge

If Land Tax is not reigned in soon, then we will definitely be heading to a contraction of rental pool and what we consider to be a crisis today will blow up many times in the very near future.

Improve Supply Flow

Encourage Landlord and new build activity to improve supply of rental accommodation & new housing.

- Encourage the two million plus current landlords to continue to invest

- Release of desirable land stocks to public tender, and possibly keep the Government as a stakeholder for equity and profit participation
- Recognise and encourage personal investors into real estate, especially at State level
- Recognise and encourage importance of foreign investors, especially at State Level
- Set clear guidelines on supply types to match market demand (size, location, style)
- Re-assess tax changes and view appropriately how much they have affected the current market

Superannuation Access for Deposits

The best solution for stopping a rental crisis is to encourage ownership.

The ability to access your Superannuation for part or all of a deposit is well worth considering and would benefit people, not harm them.

The argument from the Superannuation industry of the risk of lower Super balances is simply a falsehood, as it doesn't matter how much your Super is, if the reality is that it all goes in rent.

This needs to be explored and some points worth considering include:

- Allow Super to be used as deposit on first home to 3rd home only (rollover)
- Paid back from sale (if not rolled over) plus 4%pa interest on a deferred basis
- Maximum Super withdrawal of 25% of fund balance

Using your own money to build a better future and the permanence and protection of your own home is a extremely worthy reason to use some of your nest egg.

Provide Further Taxation Stimulus for New Property Investment

Taxation has long been a tool of Government to encourage private sector activity in areas of need, and when it comes to property this is no exception.

One of the key reasons we have enjoyed a balanced and sensible rental market for so long was that we had the right mix on incentives and disincentives in place.

Having altered these over years has led to the unintended consequence that we currently face.

Using the tax system to cause remedy can be just as effective in today's environment as it has been in the past.

Some items to consider include:

- Remove building write off clawback on sale to allow investors additional encouragement to invest in new property to expand the rental pool and increase economic activity
- Increase new build write off for individuals to match that proposed for institutions
- Consider special write off claims for improving energy efficiency to help tenants lower occupation costs