IPTI Xtracts

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Property prices soar in Australia's major cities

Property prices are continuing to rise with a number of Australian capital cities entering uncharted territory.

There's no sign house prices in Australia's biggest cities are slowing down any time soon, with the median house price in Sydney rising 10 per cent in the past 12 months.

The median price in Australia's biggest city rose to $1.1million, according to Domain, and prices also rose by 10 per cent in Hobart and Melbourne.

Adelaide's median price hit more than $500,000 for the first time ever.

Domain's Chief Economist, Andrew Wilson, said nationally the median house price was now more than $780,000 up 7.7 per cent in the last 12 months.

"One of the key drivers for the Sydney and Melbourne market is strong migration," he said.

"Net migration into New South Wales in the last financial year was over 60,000, and net migration into Victoria over 80,000 last financial year and of course that is a key driver of demand."

A five bedroom home on a 550 square metre block sold in the western Sydney suburb of Rooty Hill - 42 kilometres west of the CBD - sold for $1million a few weeks ago.

Nidus Group real estate agent, Ismail Ates said it was a record price for the area.

"It achieved a million dollars in the first open home, we had 30 people come through the open house and it sold smack bang on that day so it took seven days to sell," he said.

He said soaring prices, were changing the demographics of the community.

"Definitely, we're seeing a big mix of buyers come through, starting to see heaps of the Asian community come through the property, we're also seeing buyers from out of the area," he said.

At $1 million, the Rooty Hill property is just under the new Sydney median house price according to property group Domain.

Domain says prices for units rose 3.4 per cent, but around the country it was a mixed bag.

Values fell last year in Hobart, Brisbane, Perth and Canberra but rose in the other capitals.

Mr Wilson said it was making it harder for those wanting to make the switch away from renting, especially in the larger cities.

"With rents rising now in Melbourne and Sydney faster than incomes, it means that those personal balance sheets of tenants are going to come under real stress," he said.

Dwelling price growth is expected to ease this year. and NAB has revised up its forecast for national house price growth from 0.4 per cent to 3.4 per cent.

Apartment prices, which were expected to fall, are now predicted to rise by nearly 1 per cent.

This slow down should appease the Reserve Bank board, but NAB economist Riki Polygenis says what the RBA will do with official interest rates will depend on the state of the domestic economy.

"And on that front we're still expecting a slowdown of growth into 2018 and we believe the RBA will be forced to cut the cash rate in the second half of 2017 to prevent a rise in unemployment in 2018," she said.

It comes as Sydney was named as the second most unaffordable housing market in the world - according to the annual Demographia report just behind Hong Kong.

NSW land tax surcharge for foreign persons

Commencing from the 2017 land tax year, foreign persons will be liable to pay an additional land tax surcharge of 0.75% on residential land owned in NSW. This surcharge will first apply to foreign persons who owned residential land as at 31 December 2016.

Who is a 'foreign person'?

A 'foreign person' refers to the same definition used for FIRB purposes, as defined in the Foreign Acquisitions and Takeovers Act 1975. Typically, the main inclusions are:

1. an individual not resident in Australia; or

2. a corporation, trust or general partner of a limited partnership for which either:
(a) a non-resident individual, foreign corporation or foreign government has a substantial interest (usually 20% interest); or
(b)two or more of the above hold an aggregate substantial interest (at least 40% interest); or

3. a foreign government or another entity through which a foreign government has a qualifying substantial interest.

Note: Australian listed corporations and trusts should ignore unrelated foreign interests of less than 5% when applying the aggregate substantial interest test (2.b. above).

Calculation and application of the land tax surcharge

The land tax surcharge will be calculated using the same 'taxable value' of the residential land that is also used to calculate the general land tax liability. However, unlike the general land tax liability, no tax-free threshold will apply when calculating the land tax surcharge and will therefore be calculated as 0.75% of the entire taxable value of the residential land. This means that foreign persons can be liable for the land tax surcharge even where they do not pay general land tax - for example if the aggregate taxable value of their residential land was less than $549,000 as at 31 December 2016 (the 2017 tax-free threshold for general land tax).

Foreign persons will only be liable to the land tax surcharge to the extent of their proportional interest in residential land, such as if they hold residential land jointly with others. If a foreign person holds an indirect interest in residential land, then tracing through multiple entities (companies and trusts) will be required to determine whether the foreign person has an aggregate substantial interest and whether the ultimate landholder is liable for the land tax surcharge equal to the foreign person's proportional interest.

To the extent the foreign person uses the residential land for non-residential purposes then the land tax surcharge will not apply. This means that for land/buildings that have both a residential and commercial purpose, apportionment will be required to calculate the land tax surcharge applicable to the residential proportion.

Exemptions

Whilst the 'principal place of residence' exemption will not apply with respect to a foreign person's liability to the land tax surcharge, there may be other exemptions that may apply - for example to residential parks, retirement villages and primary production land.

Unlike Victoria, the NSW regime does not offer an exemption for large-scale developers who can demonstrate that their activities contribute to the economy and should otherwise be exempt from the land tax surcharge.

Default in paying land tax surcharge

In situations where a foreign person defaults in paying its land tax surcharge liability, it is important to note that the Commissioner can require the following entities to pay the unpaid land tax surcharge:

- if the defaulting foreign person owns residential land jointly: the other joint owners, whether or not they are Australian or a foreign person; and
- if the defaulting foreign person is a trust beneficiary: the trustee of a trust.

LAND VALUE CAPTURE - Critics question Australian infrastructure spending

The federal government says the country is nearing the limits of financing infrastructure projects entirely with taxpayer money.

With more cranes in the sky than the US and one of the developed world's highest rates of public infrastructure spending, Australia has become a magnet for global investors from Canadian pension funds to Chinese high-speed train operators.

But higher levels of scrutiny are falling on the public funding model behind the infrastructure spending, which is highly beneficial to developers racing to take advantage of rising property prices.

Australia's public investment in roads, rail, waterways, marine ports and airports, at 1.6 per cent of gross domestic product, is the highest among major countries in the Organisation for Economic Co-operation and Development.

PricewaterhouseCoopers and Oxford Economics forecast Australia to invest 4.9 per cent more taxpayer money each year into transportation projects over the next decade, slightly above the average global rate of 4.7 per cent.

State governments have sold assets worth almost $68 billion to groups, including Middle Eastern sovereign wealth funds, to raise money for the projects, according to Dealogic data. At the same time, rundown suburbs are receiving a facelift as town planners map out new high-rise apartments, airports, parks and metro lines to serve a fast-growing population.

But concerns are growing that Australia is letting private investors profit too much from higher land and property values generated by the new transportation projects. Australia lags behind places like Hong Kong, London and Denver, which use mechanisms to ensure private real estate developers — not just the public purse — help pay for infrastructure, critics say.

"We're spending money, but we're losing value," said Joe Langley, a director in the infrastructure advisory unit of engineering services firm AECOM Technology in Sydney.

In London, where a new train line known as Crossrail is set to be completed in 2019, authorities charge developers and businesses various levies to siphon off some of the rise in land values. This concept, called value capture, pays for a third of the Crossrail project.

Developers in Australia aren’t saddled with such costs.

In the leafy suburb of Baulkham Hills, about 30km from central Sydney, land values jumped 82 per cent in the four years after the $20bn Sydney Metro project was unveiled in 2011. Sydney Metro aims to connect outer suburbs with the central business district with rail links.

The price rise outpaced the 57 per cent growth in residential property prices in the London suburb of Shenfield, a similar distance from the city centre, in the six years since Crossrail got the go-ahead, real estate firm Knight Frank said.

Politicians have signalled a need to change tack. The federal government said in November that the country is nearing the limits of financing infrastructure projects entirely with taxpayer money, and value capture is a possible solution.

NSW Transportation and Infrastructure Minister Andrew Constance said the government was exploring new funding options, including value capture.

Real estate lobby groups are preparing to push back. Urban Taskforce Australia recently said “value capture isn’t a magic pudding that will fund all infrastructure”, while the Property Council of Australia recently warned politicians against introducing “new taxes under the cloak of value capture”.

Some developers think they can solve the public funding dilemma and benefit at the same time. MTR Corporation, which operates the Hong Kong railway and helped construct London’s Crossrail, offers to build new train lines with private money in exchange for the right to develop land near stations. Property firms wishing to build apartments or office towers would pay a land premium and those proceeds would flow back into the railway. MTR has tested the model in Hong Kong and Shenzhen.

Last year, Centurion Group of Companies, representing state-owned China Railway Engineering, proposed a similar value capture model to pay for a high-speed train line linking several Australian east coast towns.

Meanwhile, Consolidated Land and Rail Australia, a consortium backed by former US secretary of transportation Ray LaHood, is working on a proposal for a super-fast train between Sydney and Melbourne.
Chairman Nick Cleary said the project was driven by the prospect of turning cow paddocks into prime property.

“This is a real estate plan as opposed to a railway plan,” said Mr Cleary, who added that the consortium already had secured 50 per cent of the land needed to build eight new cities along the train line.

VICTORIA - Two per cent cap for rates

COUNCIL rates rises will be capped at two per cent for the 2017/18 financial year as part of the state government’s policy to limit any rises to the rate of inflation.

The consumer price index (CPI) was forecast to be two per cent by the Victorian Department of Treasury and Finance.

Local Government Minister Natalie Hutchins decided not to accept advice from the Essential Services Commission recommending a cap of 2.15 per cent for municipalities across Victoria.

The Labor state government pledged to cap rates before Premier Daniel Andrews won office at the 2014 election in a policy it dubbed “Fair Go Rates”.

“In the decade before we introduced Fair Go Rates, council rates increased by an average of 6 per cent per annum. This has now stopped, making things fairer for ratepayers,” Ms Hutchins said in a statement.

“Victorians have told us they want more of a say in council decision-making, and now is the time for councils to speak with their communities about their budgets for next year.”

Mornington Peninsula Shire says it will continue to review services to deliver “value-for-money” programs and projects “within its funding capacity”.

Shire chief financial officer Matthew Green said council “has already introduced measures, including organisational reviews and restructures and purchasing efficiencies to operate within the state government’s rate cap”.

“Mornington Peninsula Shire’s rates remain among the lowest in the state, and the shire will ensure its services and community infrastructure is delivered in a financially-responsible manner,” Mr Green said.

Councils across Victoria can apply to the Essential Services Commission for exemptions from the rate cap if it can be proven rate rises above inflation are needed for specific circumstances.

“Council is yet to consider whether it will apply to the Essential Services Commission for a variation to the rate cap,” Mr Green said.

He said council had abolished the $180 municipal charge last year.

The shire dropped the municipal charge and introduced a waste service charge which it said at the time would ensure a “fairer redistribution of the rate burden”.

The then mayor Cr Graham Pittock said the $193 a property waste charge would raise $19 million, an amount that “fully recovers the cost of collection and disposal of refuse”.

The shire’s 2016/17 income was put at just over $214 million.

The budget also shows shire staffing costs will rise by $3.067 million to $70.094 million – about 30 per cent of total expenditure.