IPTI Xtracts

Property Tax and Assessment News from Around the World

AUSTRALIA – January 2020

Contents

EASY TARGET

At the time of writing the State and Federal transport ministers have recommended a 5 per cent increase over two years, in the form of higher fuel tax to the feds and higher rego charges to the states.

Still, that's better than the 11 per cent figure which was being bandied about before their recent Transport and Infrastructure Council meeting, right?

Well yes, assuming the owners of trucks and cars and motorbikes and train commuters are the only beneficiaries of federal and state spending on roads and rail lines.

But they're not. What about all the owners of land that increases in value when governments build a major road or rail line nearby, making the land vastly more attractive to developers? For the land owners it's like winning the lottery, except they often don't have to pay much tax on it, if they pay any tax at all.

Many tens of billions of taxpayer dollars are being spent in the big cities on new roads and rail lines. But how much extra in current taxes like GST, stamp duty and capital gains tax are the federal and state governments collecting from the land-owning beneficiaries who are enjoying windfall gains in land value?

Our bet is it's nowhere near the extra revenue that's going to be collected from the trucking industry.

For years we've been hearing rhetoric from state and federal governments on both major sides of politics about the necessity of "value capture".

Value capture is like "user pays", which every truck operator knows a lot about (the most recent version is toll roads that can't be avoided). But in this case it's "beneficiary pays".

Under most definitions it involves taxing a portion of the unearned increase in land values that comes with government spending on transport infrastructure. There are many possible ways of doing it, including a broadened land tax which just about every economist in Australia is in favour of.

But none of the value capture methods being widely advocated by academics, government departments and business groups are as easy as simply slugging the trucking industry with higher charges.

Value capture is politically difficult. Who likes a new tax? Much easier to whack the general taxpayers as usual, and truckies.

And sure, state governments might sometimes charge developers usually low one-off "infrastructure contributions" towards the cost of new regional roads, or sell the "air rights" for development above new railway stations, but most economists don’t regard these as fair dinkum types of value capture.

Reneging on taxing land owners

Back in 2016 in these pages we rather naively reported that value capture would have to happen if state governments wanted federal help with big transport projects.

That was based on one of the Federal Government’s newly-released "Principles for Innovative Financing" of transport, which said -- and still says: "The funding shares from the Commonwealth and the state and territory governments should be determined after taking into account contributions made by the beneficiaries."

The Queensland Government told us in a fairly enthusiastic statement at the time: "Value capture is a tool that governments everywhere are investigating. The Australian Government now requires value capture to be considered in the assessment of publicly-funded transport projects.

"Value capture, if used appropriately, could help Queensland deliver more essential infrastructure sooner, improving the lives of Queenslanders and driving economic growth."

But what did Queensland do with its first big opportunity to implement value capture? It squibbed it, for the $5 billion-plus Cross River Rail project.

As a result, the Feds refused to give Queensland any money for the project. Same for Victoria’s $10 billion Melbourne Metro. They stuck by their principles.

But the Feds apparently caved in and gave Victoria $5 billion towards the planned $13 billion Melbourne Airport Rail Link – with no value capture related to uplifts in land value that’s visible on the horizon so far. And they handed NSW nearly $2 billion towards the similarly value capture-free $12 billion Sydney Metro City and Southwest rail project.

And there’s no sign yet of any uplift-related value capture for the $7 billion North South Rail Link to Western Sydney Airport, for which the Feds are coughing up half the money. That’s despite the fact that a big consortium of land-owning developers even offered to contribute to the cost.

The $100 million business case for that rail line hasn’t been done yet, so the cart is going before the horse.

Both governments are pledging the rail line will be finished before the airport opens in 2026. But even the Federal and NSW Government’s own advisers say the airport rail line won’t even be needed until sometime in the 2030s. In their ‘Western Sydney Rail Needs Scoping Study – Outcomes Report’, transport bureaucrats say fast buses will be able to do the job on the $4 billion worth of new roads that are going in to service the airport. Government advisory body Infrastructure Australia says the same thing.

Those roads and the rail line are already inflating the values of surrounding land, and as one planning expert puts it, the horse probably bolted on taxing lucky landowners once these huge infrastructure decisions were announced and the land value speculation started.

So next time governments want to grab a bit more out of the pockets of truck owners and their drivers, ask yourself this: is everybody footing their fair share of the transport infrastructure bill?

Confidence rebuilds in wake of land tax uncertainty

Confidence in South Australia's property sector is rebuilding in the wake of uncertainty surrounding the State Government's land tax changes, which passed Parliament in November last year.

According to the latest ANZ/Property Council Survey, statewide confidence in South Australia sits at 117 for the March 2020 quarter, increasing by 16 points on last quarter. The survey includes responses from property industry professionals from South Australia and across the country.

"While South Australia still sits at the back of the peleton, confidence levels have picked up by 16 points since last quarter – the equal highest quarterly increase on record," said Property Council SA Executive Director Daniel Gannon.

"Unfortunately, this record-breaking quarterly uplift follows last quarter's 43-point deterioration in the midst of the land tax uncertainty.

"If there is any good news in these numbers, it is that confidence is rebuilding and business uncertainty has been eliminated from the market. Property owners big and small now know what the tax environment will look like from July this year, which is important.

"While confidence levels sit 5-points below South Australia's historic average and 6-points off the national pace, the trend is now back in the right direction.

"In terms of the State Government's performance, we're still in negative territory. This means there is much work to be done in order to restore trust in government decision-making.

"That said, South Australia is a 'commercial stamp duty free zone' and now boasts a more competitive land tax regime, which as a package is a compelling proposition for investors.

"This state's anti-competitive land tax rates and low thresholds have long discouraged investors from looking to invest here, which means it's time to advertise our new tax settings."

The survey also revealed the following:

- National economic growth expectations, whilst still in negative territory, have experienced the biggest quarterly increase in more than six years
- State economic growth expectations are 'back in black' with a 25-point quarterly increase
- Residential house price growth expectations sit 8-points above the historic average, with a 21-point quarterly increase
- Office price growth expectations have experienced the biggest quarterly increase on record, as have retail and industrial price growth expectations

New land valuation notices to be delayed due to bushfire crises: NSW Valuer General

New land valuation notices will be issued later than usual to give NSW property owners time to recover from the summer bushfire crisis.

The NSW Valuer General has completed land valuations for the year ending July 2019, which found land values across the state decreased overall by 5.4 per cent to $1.73 trillion. Most residential rural areas held up over that period despite the drought while Sydney values fell as the city went through its market downturn.

The Acting NSW Valuer General Paul Chudleigh said he would delay issuing new valuation notices to bushfire affected regions until April to avoid further distress to property owners impacted by the events.

"We're very aware of the current bushfire situation and the impact it has on those communities. The south coast has been severely impacted by that so we're very conscious of that," Mr Chudleigh said.

The majority of decreases were recorded for residential lands in Sydney and some coastal areas, with almost all regional areas experiencing an increase to varying degrees, following analysis of 45,000 residential sales statewide.

The Sydney Coast North region, which includes the north shore and northern beaches, recorded the largest drop of 11.4 per cent.

It was followed by Sydney Central, which includes Burwood, Canada Bay, Parramatta, and the inner west. It dropped 9.8 per cent in the 12 months ending July 2019.

Mr Chudleigh said the valuations had not captured the recovery.

"These valuations are made at 1 July 2019 … though the market has shown signs of recovery from that time, it reflected the market at that point," he said.

Residential Land Values

REGION	1-JUL-18	1-JUL-19	CHANGE	NUMBER OF PROPERTIES
Western NSW	$602,935,784	$642,099,329	6.50%	19,343
Wollongong	$32,243,448,708	31,941,599,630	-0.09%	63,565
Sydney West	$187,176,425,857	$177,547,298,214	-5.10%	361,488
Sydney Coast South	$241,596,876,143	$215,087,535,753	-11%	164,501
Sydney Coast North	$189,444,543,909	$167,934,962,465	-11.40%	104,777
Sydney City	$60,102,913,798	$57,157,876,052	-4.90%	24,065
Sydney Central	$367,988,356,232	$331,889,495,308	-9.80%	309,245
South East Regional	$11,408,887,668	$12,379,481,340	8.50%	48,526
Riverina	$60,037,892,270	$6,223,121,915	3.10%	54,313
North West	$4,111,795,580	$4,116,333,510	0.10%	41,169
Hunter	$12,820,034,161	$12,945,512,331	1.00%	69,892
Central West	$4,122,481,464	$4,261,666,238	3.40%	46,935
Murray	$5,222,074,450	$5,371,285,990	2.90%	42,105
Hunter Coast	$110,819,074,866	$104,101,850,366	-6.10%	265,870

REGION	1-JUL-18	1-JUL-19	CHANGE	NUMBER OF PROPERTIES
Central Tablelands	$8,204,589,090	$8,842,707,150	7.80%	60,478

Source: *NSW Valuer General*

Meanwhile, country NSW recorded some of the largest increase in land value over the same time, a period that pre-dated the summer bushfires.

The South East Regional area, which includes the Snowy Monaro region, Yass Valley and Upper Lachlan, recorded an 8.5 per increase in land values – the largest jump in the state.

The NSW Valuer General said the Snowy Monaro region saw a 20.7 per cent rise with strong increases also in Jindabyne and other surrounding areas which was “influenced by investment in the Snowy 2.0 project”.

It was followed by the Central Tablelands, including areas such as Bathurst Regional, Blayney, Cowra, Lithgow, Oberon and Orange, which recorded a 7.8 per cent increase in residential land values.

The NSW Valuer General said the strongest increases were seen in Blayney (16 per cent) and Oberon (13.2 per cent) which offered “affordability and close proximity to larger centres” while Orange saw a 10.7 per cent increase with demand for larger blocks.

Mr Chudleigh said tree-changers had been contributing to residential land values in rural areas remaining steady or even recording moderate increases.

“There’s a bit of influence in that rural residential lifestyle blocks, that’s had an impact,” he said.

He said while the impact of the bushfires was yet to be seen on residential land values this year, recovery in Sydney land values should be expected in July 2020.

NSW steals a march on growth

NSW has been anointed the economic leader among the states, elevated by the right combination of policy and strategy, and is well positioned to ride the recovery in the residential property market where new data shows approvals have soared.

Economists zeroed in on NSW's massive infrastructure investment and tax reform, highlighting its ability to beat economy-wide growth as part of The Australian Financial Review's quarterly survey.

A 119.9 per cent month-on-month surge in NSW apartment approvals underpinned a shock 11.1 per cent increase in national residential building approvals in November, official numbers showed on Wednesday. That beat the market's expectation for 2 per cent growth.

"NSW has led the economic reform agenda over recent years in infrastructure and now in tax," said Industry Super's Stephen Anthony. "Before that the ACT was a leader on tax reform in the early 2010s [through] lease variation charges and land tax changes, but there has been some backsliding with reforms in recent years."

NSW has had to invest heavily in infrastructure to meet the needs of a growing population, making it both the most populous and fastest-growing state.

"I think NSW has got the mix right. Everyone else is lagging to some extent," said Warren Hogan from UTS Business School.

The same could be said of Victoria based on its willingness to also tackle large infrastructure projects, economists said. Both states have been major beneficiaries of a housing boom that peaked in 2017, and will again be rewarded if house prices sustain their recovery into 2020, as economists anticipate.

"In the near term, NSW and Victoria will benefit more from higher property taxes on the housing recovery, ongoing employment and population growth and the consequent need to deliver on public infrastructure," said Yarra Capital's head of macro and strategy, Tim Toohey.

"State governments viewing each other as competitors rather than partners is part of the problem. Trying to best a competitor state by operating in the self-interest of that state is a recipe for sub-optimal national outcomes.

"We have long seen the economic cost of different regulatory environments, different energy policies, different subsidies and incentives for business and households, the poaching of major events and the inability of the federal and state governments to agree on the priorities for crucial infrastructure investment."

Population advantage

Westpac chief economist Bill Evans suggested both NSW and Victoria would nonetheless benefit from reforming planning guidelines.

Bank of America Merrill Lynch's Tony Morriss warned that NSW could be more exposed to a slowing consumer than Victoria.

"Victoria appears to have more momentum to growth from stronger population growth, infrastructure spending and a favourable industry mix," he said.

"[And] signs that the housing downturn has eased in Western Australia is welcome news."

Mr Morriss said Queensland could benefit more than other states from a weaker Australian dollar through resources and tourism exposure. However, the state "faces challenges in terms of debt management", he added.

Queensland's mid-year budget update saw forecast growth lowered by half a percentage point to 2.5 per cent and unemployment unfavourably adjusted to 6.25 per cent from 6 per cent.

The hit to revenue from a lower coal price added to state Treasurer Jackie Trad’s woes, with the slide in the price of the commodity wiping $677 million from the royalties forecast.

The federal budget update had more bad news: estimated GST payments to Queensland were lowered by 2.43 per cent to $13.87 billion for the 2020 financial year.

Tasmania and South Australia elicited praise from independent economist Saul Eslake, who highlighted "an overtly business-friendly orientation and competent management of their state budgets". Mr Eslake also commended Tasmania's "competitive" tax structure.

Michael Blythe, Commonwealth Bank chief economist, acknowledged there are just some factors that are outside of a state's control, such as interest rates.

That leaves the "three Ps" of population, labour force participation and productivity.

"The smaller states seem to do better on productivity," Mr Blythe said. "But NSW and Victoria probably have the most upside given the big infrastructure spend underway."

While NSW is on the right track, Yarra Capital's Mr Toohey made the point that strategic plans can change quickly with election cycles.

"Most state government strategic plans are junked once an election is held and lost," the economist said.