REIV THE STANDARD FOR SUCCESS

SUBMISSION

STATE BUDGET 2016-2017

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ABOUT REIV

The Real Estate Institute of Victoria has been the peak professional association for the Victorian real estate industry since 1936.

Over 2,000 real estate agencies in Victoria are members of the REIV. These members are located in city, rural and regional areas.

The businesses employ more than 10,000 people in Victoria in a market which handles over $100 billion of transactions totalling 30 per cent of GSP.

Members specialise in all facets of real estate, including: property management, residential sales, commercial and industrial sales, auctions, business broking, buyers agency, owners' corporations and valuations.

Our mission is to lead the industry and promote the delivery of professional services by our members to the public and to ensure the integrity, credibility and ethical standards of the real estate industry.

Introduction

The REIV is the peak body for real estate agents in Victoria with 2,000 member agencies and more than 5,000 individual members. Our members specialise in all facets of real estate, including: residential sales, commercial and industrial sales, auctions, business broking, buyers agency, property management, owners' corporations management and valuations.

Key Priorities

The REIV's key priorities for the 2016–2017 State Budget are as follows:

1. Provide further stamp duty reductions for first home buyers
2. Continue to provide funding for the First Home Owners Grant and extend this grant to those purchasing established properties
3. Ensure land tax rates are competitive
4. Promote investment and infrastructure in Victoria
5. Ensure the budget and associated policy settings assist the economy to provide solid growth and low levels of unemployment

REIV Response

First Home Buyers

Home ownership is the great Australian dream and the REIV supports continuing high levels of home ownership, particularly as our population ages and demand for aged care residential facilities increases. We strongly encourage measures to assist first home buyers in entering the property market.

We note that the Final Housing Supply and Affordability Reform report agreed to by COAG has stated:

Australia's housing market plays an integral role in providing a source of shelter and a base for people to participate in communities and the workforce. It is the largest store of the nation's wealth, a major source of retirement savings for homeowners, and a market for investors. As such, the housing market makes an important contribution to broader economic efficiency, productivity growth, and the liveability of our cities.

Strong capital growth in Victoria's median house and apartment prices in recent years has made access to the housing market more difficult for first home buyers. In 2015, the metropolitan Melbourne median house price rose eight per cent to $718,000, while the median apartment price increased five per cent to $537,500.

The REIV believes it is prudent for Governments to assist first home buyers because:

- They must compete with second - and third - home buyers who have the benefit of equity built from previous purchases;
- The current levels of taxation act as a significant barrier to entry; and
- The housing market and related industries benefit from first home buyers moving from renting to ownership.

Therefore, the REIV considers it crucial the Government continues to assist first home buyers to gain a foothold in the property market through the First Home Owners Grant and that assistance to these buyers be increased, particularly through stamp duty reductions.

Cutting stamp duty for first home buyers

The REIV has previously advocated for first home buyers to be exempt from stamp duty and welcomed the reduction to 50 per cent, effective from September 2014. This reduction is available to first home buyers who purchase a new or established property valued at $130,000-$600,000. The REIV believes additional assistance to first home buyers should be delivered by this means.

In its 2016-17 Federal Budget submission, the Real Estate Institute of Australia called for stamp duties to be abolished for first home buyers nationwide, requesting the Federal Government take a leadership role in this. Our position is consistent with this.

Reducing stamp duty provides a more efficient outcome for both the buyer and the state, as it reduces the number of transactions and red tape created through the application process.

The REIV favours this method of assistance for first home buyers for two additional reasons: firstly, if the structure is based on a proportion of the tax paid, the benefit to the buyer is less likely to be diminished by increases in house prices; and, secondly, the assistance is the same for all first home buyers.

We recommend:

- Further reductions in the stamp duty payable by first home buyers, with a target of a further 30 per cent stamp duty discount (from 50 per cent to 80 per cent) over four years - by 2019/20 - for these buyers.

First Home Owners Grant

The REIV congratulates the Government on its continued provision of the First Home Owners Grant and recommends this grant not only continue, but be extended to first home buyers purchasing established properties.

At present, the $10,000 grant is available for the building or purchase of a new home valued at $750,000 or less. However, it must be the first sale of the property as a residential premises.

In its Housing Occupancy and Costs publication, the Australian Bureau of Statistics reports that in 2011-12 only 25.9 per cent of Victorian first home buyers with a mortgage were buying new homes with 74.1 per cent purchasing established dwellings. This means almost three quarters of the state's first home buyers are not eligible for the grant.

Allowing first home buyers purchasing established properties to access this grant will greatly assist them in competing with investor buyers, who are not eligible for the grant.

Sales of established homes to first home buyers in many cases led to purchases of new housing by the sellers. In such cases the multiplier and employment affects are probably greater than when a first home buyer purchases a new house, as the size and cost of construction of dwellings purchased by upgraders is generally more than that of first home buyers. Furthermore, first home buyers of lower valued established homes usually embark on a program of home improvement and renovation, thus providing a stimulus to the building sector.

We recommend:

- Continuing the $10,000 First Home Owners Grant and extending this grant to first home buyers purchasing established properties.

Ensuring Competitive Land Tax Rates

The 0.5 per cent absentee owner surcharge, announced in the last Budget, came into effect January 1 and applies to all land whether residential or not, in addition to the general land tax of up to 2.25 per cent. As with the stamp duty surcharge for foreign purchasers, this was designed to ensure property owners contribute to improved infrastructure.

The REIV supports measures to improve infrastructure, which in turn impacts favourably on property prices. However, we believe these measures should be kept under review to ensure that there is no negative impact on investment in the Victorian property sector as ongoing costs for investors could be significant.

The REIV would like to see the application of the land tax grouping provisions reviewed. By grouping together landholdings of one company, or group of related companies, the competitive advantage of the middle brackets can be lost.

For example, an investor may own four homes, each valued at $400,000. If these properties faced individual assessment, the total land tax bill would be $2,300. If they are grouped together, the total bill would be $7,775. At the higher end of the bracket, a corporation that owned four industrial properties worth $2 million each would face $11,975, or a total of $47,900, compared to a liability of $137,475 if they are assessed as one landholding.

If this policy exists to reduce tax evasion by structuring one's landholdings to reduce the land tax liability, it is welcome – but the rationale behind grouping unrelated holdings must be questioned.

The policy also needs to be examined from the perspective of stimulating economic activity. The state has been very successful in assisting first home buyers but a case can also be made for commercial and industrial landowners. Higher land tax bills at the upper levels have the same impact on employment as they do at the lower levels. This is an issue that should be considered in the development of a taxation reform plan.

We recommend:

- Individual assessment of residential, commercial and industrial properties for the purposes of calculating land tax within Victoria.

Promoting Investment in Victoria

The REIV welcomed major new investment initiatives by the Andrews Government in the 2015-16 Budget. Such investments enhance the livelihood of Victorians and incorporate the liveability of regional centres and Melbourne's suburbs as the city grows to accommodate its increasing population.

We urge the Government to continue investment in major infrastructure, including roads, rail and other public transport in 2016-17 and beyond. Infrastructure investment is essential to ensure a balanced and healthy property market with a wide range of suburbs attractive to buyers. Properties in suburbs without fundamental infrastructure, such as a train station, have limited buyer appeal and lose value relative to better served areas, while improved liveability supports property prices.

This is illustrated by median house price growth in Melbourne's affordable outer suburbs in the December quarter. This growth was boosted by improved infrastructure in Melbourne's outer ring, making these suburbs more attractive to buyers.

The REIV believes it is important to continue to attract investment from interstate and outside Australia to assist the state's prosperity.

The additional three per cent Land Transfer Duty Surcharge (for non-resident Australians purchasing property in Victoria) ensures that those investing in property from outside Australia contribute to Victorian services and infrastructure. However, we believe that this is low and could be increased marginally, so that these investors contribute more to the local economy.

Infrastructure investment is essential to promote employment, confidence to support a healthy balanced housing market, and to ensure Melbourne maintains its ranking as the world's most liveable city.

The REIV urges:

- review of the three per cent Land Transfer Duty Surcharge, with a view to potentially providing a marginal increase in this surcharge in coming years; and
- continued emphasis on expanding infrastructure, particularly in outer Melbourne, which have supported growth in these areas; and
- economic stimulus drivers that promote economic stability, at a time of economic challenges within the wider region and globally.

The Victorian Economy

The state of the local - and national - economy are key factors governing confidence in the housing market. Concerns about the economy, particularly job retention, business and consumer confidence, have a direct bearing on buyers' willingness to enter the market, to borrow to improve their homes and to upgrade.

Victoria's economic performance under the Andrews Government has been strong, with ABS figures released in early March showing the state is growing faster than it has in more than five years. Victoria now leads the nation in economic growth with state final demand growth over the year to December 2015 at 4.6 per cent – nearly double 2014 figures when it was 2.4 per cent. Economic growth has been widespread with dwelling investment among the key drivers.

Victoria's growth has been the strongest of any eastern seaboard state, and since the Government came to power the local economy has created more than 73,000 jobs and unemployment has fallen to 5.6 per cent.

Buyer and vendor confidence in Melbourne remained buoyant in the early months of 2016 with high auction numbers and solid clearance rates in the mid-70s.

One of only two Australian states with the Triple-A credit rating from both Moody's and Standard & Poor's, Victoria is in a strong reputational position; but maintenance of a sound Budget and solid ratings from international agencies will help improve confidence.

It is essential to avoid complacency, for while Victoria's economy is performing well when compared to other non-resource states it remains under pressure from a range of structural and external factors. To respond to these issues it is imperative Government policies:

- Boost job creation and participation rates;
- Prioritise investment in infrastructure;
- Promote increased productivity;
- Remove impediments to business investment from local and international business;
- Invest in the knowledge economy; and
- Support agriculture.

We welcome Government strategies such as the creation of a more competitive manufacturing industry, boosting international education, enabling technology skills and the advancement of key regional centres (including Geelong).

The REIV urges:

- continued emphasis on economic stimulus drivers that promote economic stability, at a time of economic challenges within the wider region and globally.

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