# TRANSCRIPT

# LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

## Inquiry into Land Transfer Duty Fees

Melbourne – Wednesday 24 May 2023

**MEMBERS**

Georgie Purcell – Chair
David Davis – Deputy Chair
John Berger
Katherine Copsey
Jacinta Ermacora
David Limbrick
Bev McArthur
Tom McIntosh
Evan Mulholland

**PARTICIPATING MEMBERS**

Gaelle Broad
Georgie Crozier
Sarah Mansfield

**WITNESSES**

Mr Keith Ryan, Executive Director, Victoria, and

Mr Steven Wojtkiw, Deputy Executive Director, Victoria, Housing Industry Association.

**The CHAIR**: I declare open the Legislative Council Economy and Infrastructure Committee's public hearing for the Inquiry into Land Transfer Duty Fees. Please ensure that mobile phones have been switched to silent and that background noise is minimised.

I would like to begin this hearing by respectfully acknowledging the Aboriginal peoples, the traditional custodians of the various lands we are gathered on today, and pay my respects to their ancestors, elders and families. I particularly welcome any elders or community members who are here today to impart their knowledge of this issue to the committee or who are watching the broadcast of these proceedings. I also welcome any members of the public watching via the live broadcast.

Before we begin, we will quickly introduce committee members, starting with Ms Copsey.

**Katherine COPSEY**: Katherine Copsey, Member for Southern Metropolitan.

**Evan MULHOLLAND**: Evan Mulholland, Member for Northern Metropolitan.

**The CHAIR**: Georgie Purcell, Northern Victoria.

**David LIMBRICK**: David Limbrick, South-Eastern Metro.

**Bev McARTHUR**: Bev McArthur, Western Victoria.

**Tom McINTOSH**: Tom McIntosh, Eastern Victoria.

**The CHAIR**: Thank you very much.

All evidence taken is protected by parliamentary privilege as provided by the *Constitution Act 1975* and further subject to the provisions of the Legislative Council's standing orders. Therefore the information you provide during this hearing is protected by law. You are protected against any action for what you say during this hearing, but if you go elsewhere and repeat the same things, those comments may not be protected by this privilege. Any deliberately false evidence or misleading of the committee may be considered a contempt of Parliament.

All evidence is being recorded. You will be provided with a proof version of the transcript following the hearing. Transcripts will ultimately be made public and posted on the committee's website.

For the Hansard record, can you please state your full name and the organisation you are appearing on behalf of.

**Keith RYAN**: Yes, good afternoon. My name is Keith Ryan. I am the Executive Director for the Housing Industry Association in Victoria.

**Steven WOJTKIW**: Good afternoon, my name is Steven Wojtkiw. I am the Deputy Executive Director for the Housing Industry Association in Victoria.

**The CHAIR**: Great. Thank you. We now welcome your opening comments but ask that they be kept to around 10 to 15 minutes to ensure we have plenty of time for questions and discussion.

**Keith RYAN**: Of course. Thank you very much, members of the committee, for inviting us here today. The Housing Industry Association, just quickly, as you probably know, is the peak industry body for the residential building industry. Our membership consists mainly of builders but also suppliers and contractors and others who provide services to the home building industry. Most of our members are more in the detached low-rise building space, but we do have some members as well who work in some of the more medium high-rise buildings as well.

The Housing Industry Association has a very clear position on stamp duty. Stamp duty is a tax that we feel is a major distortion to our economy, and we are very pleased that the committee has chosen to conduct this inquiry.

I really cannot go too much further without acknowledging what happened yesterday. The announcement by the Victorian government that they will be working towards a removal of stamp duty for commercial and industrial properties is very much welcomed by the Housing Industry Association. We see it as a very good decision and, more importantly, a good start. We would make the point, though, that this is only one part of the stamp duty. I was told yesterday that maybe 15 to 20 per cent of stamp duty revenue for property comes from commercial and industrial property. The bulk of the volume, as well as the quantum, is still obviously with residential property.

I would also make the point, though, that this decision by the government should enhance economic activity in Victoria. It should lead to some business growth. And that is our view, even though that we would say that some of the other announcements yesterday, including the increases in payroll tax and the increases in land tax, will have a negative impact on business activity. We still expect that this decision to remove stamp duty for commercial and industrial will be beneficial.

We would also, though, take it a bit further. Commercial activity can be enhanced, but commercial activity only takes place when you have a workforce. At the moment Victoria, like the rest of the country, has serious issues with attracting a skilled and attractive workforce. And Victoria is competing against other parts of the country, as well as other parts of the world, to attract good labour. We would suggest that if the Victorian government is going to look at enhancing the attractiveness of Victoria as a place to work, cutting stamp duty for commercial and industrial is a great start, but realistically you also need to remove the barriers to entry for the workforce – give them the ability to more easily buy residential property in Victoria. One of the best ways to achieve that, and to also encourage an improvement in the supply of housing in general, is to look at replacing over time stamp duty for residential property. So we would argue that yesterday's announcement by the government is a fantastic start – and we strongly welcome it – but the job is not complete. It needs to be progressed further. We acknowledge that will not be happening immediately, but we would suggest that over time it will become very difficult for any government in Victoria to maintain the stance that residential property, but not commercial and industrial property, needs to have stamp duty.

I will ask Steven to talk more about our submission. It is also important to stress that at the moment the residential building industry is going through quite a substantial challenge. I do not need to tell you too much about that. You are aware of it. We have got materials shortages, labour shortages and cost increases. There have been concerns about the insolvency of builders. Unfortunately we have had a number of insolvencies. We are hoping that will slow down, but we still may see some more. But I would also make the point, though, that the housing industry is very resilient. We have done well to survive two years of some extreme COVID restrictions. There is a bit of a misunderstanding out there or a myth that construction was open for business as usual during the COVID restrictions. That is not quite right. A lot of our members, particularly those who worked in occupied homes, were subject to restrictions on either entering the worksite at all or on numbers of staff or numbers of sites they could visit. So whilst, yes, they did not necessarily have as bad a time of it as some other industries, they certainly did still take quite a hit, and that has now been compounded by the recent economic conditions and interest rate rises. So our industry is resilient, but we have taken a hit, and we always look for good news. I would make the point that eventually if we can have some better tax settings which encourage more investment and more housing supply, that would be good not just for our industry but also for the Victorian economy. I will pass over to Steven to go through some more of the detail.

**Steven WOJTKIW**: Thank you, Keith. Thank you, Chair and committee members. I just wanted to add to Keith's comments around the context of this inquiry and why it is important to HIA. Whether it is to make those new homes available for workers and others seeking to visit the state or for existing Victorians, we cannot take that task for granted. Previous strong industry activity was buoyed by low interest rates. It was supported by government incentives such as the federal government home builder grant and industry and also worker support too, with the JobKeeper program, for example, through COVID. Those drivers of growth in Victoria in terms of housing industry activity have very much evaporated as we have moved into, and as we are moving through, 2023. What we are facing now, as Keith has mentioned, as a sector is what have been the effects of successive interest rate rises, which continue to flow through to the economy and to consumer confidence; housing affordability that is at its lowest level ever; sharp building material costs; costs associated with labour, and very scarce skilled labour, which is vital to the industry; and supply-side shortages and delays. They have all eroded industry profitability, and viability in many cases, so much so that we have seen those insolvencies that Keith has spoken about.

The latest ABS data is telling in terms of just what the industry is facing and what the immediate short-term prospects are. We have seen home lending effectively stall. New home sales are down nearly 50 per cent from where they were at the same time last year. New home commencements have eased, and over the next year we are likely to see the lowest level of new home commencements since 2013. In fact HIA forecasts that we are likely to see only about 50,000 new dwelling starts in 2024, and that compares to something like 70,000 in 2018.

The problems confronting the housing sector, and new home buyers for that matter, are not necessarily around a lack of demand. Those fundamentals remain strong. We have a strong economy in Victoria, a diversified one. Jobs growth is still positive, and we are likely to continue to see into the future strong population and migration growth. What is the problem is the absence of new housing supply and affordability, and unfortunately in Victoria's case especially punitive rates of stamp duty exacerbate supply and affordability problems and cause other undesirable outcomes. As our submission points out, the rate at which stamp duty is levied in Victoria is the highest of all the states. On many occasions the state government claims it has significant credentials in so much of its tax competitiveness against other states. In so much as stamp duty rates applying to land conveyancing, that is not the case. Our rates in Victoria are almost double those paid in Queensland and well above those in comparable states like New South Wales.

What are the effects? If I can just recap briefly, the effects really are upon three stakeholder groups, and important groups as such. Homebuyers, first and foremost, lose out because stamp duty erodes the amount of money they can put towards purchase of a new home. Put simply, after factoring in the cost of stamp duty they are forced to either buy a cheaper home, accumulate more savings or take on more debt. If they do purchase a less expensive home, livability is compromised. Livability, again, is something in which Victoria strives to demonstrate that we are leading among many other states and territories. For homebuyers that might mean fewer rooms, smaller living spaces, no backyard and certainly a longer distance to commute to work. Living further from friends and family can lead to mental health pressures, social isolation and potentially forgone employment opportunities – preventing people from effectively moving to where the jobs are. And as we signalled earlier, that can include migrants and others who factor housing affordability into their locational decision-making, and that is going to be a deterrent into the future for a state like Victoria that has historically been and will continue to be heavily reliant on net population and migration growth.

In terms of homebuyers, there are several cohorts that are particularly affected: young people with growing families – families with new job opportunities typically move more often; vulnerable households – those who have to move home due to changes in circumstances, such as the death of a family member or loss of income; and of course retirees – older persons looking favourably initially at the prospect of downsizing from a large, empty home to a smaller one. That prospect is diminished when a sizeable portion of the profits from the sale of that family home is eroded by stamp duty.

Of course it is not just homebuyers. It certainly is the effects of stamp duty on the supply of land and housing. Not only is the sale of land itself subject to stamp duty but stamp duty makes an investment in new homes less profitable. At the end of the day sellers have to factor in buyer stamp duty costs as part of their willingness to pay and their capacity to pay, and that results in a lower market housing price and potential returns to sellers more than otherwise would be the case in the absence of stamp duty.

Last but not least, of course governments themselves have become and remain dependent on an unreliable revenue source. As Keith signalled, stamp duty is a significant source of state government revenues, making up around $7 billion per annum. And there is considerable volatility in that share of revenue coming from stamp duty on a year-to-year basis. We saw that in the global financial crisis and we are seeing it now. In fact the state budget papers released yesterday forecast that land transfer duty will fall by 21 per cent this current financial year. That highlights the great level of uncertainty as a revenue source for governments, who ordinarily should rely on stable, predictable sources of revenue, and in this case we have a source that really is dependent on the vagaries and performance of the property market and transaction volumes. And for governments that does not bode well. Certainly having regard for my earlier remarks about the forecasts in terms of new dwelling commencements over the next 12 months, there is a great likelihood that we will not see the level of revenue attached to land transfer duty that governments would ordinarily like to see. They rely on that predictable and stable revenue stream, not least to help pay down debt.

With those issues in mind, our submission does make several recommendations. I will not talk to them all at length – I am just mindful of time – but we do believe that along the way in terms of that longer term path to the abolition of the stamp duty there are things governments can and should do. Our recommendations range from the indexation of the stamp duty thresholds annually to keep pace with rising median house prices – and you would see an example in our submission, which points out that in 2003 the stamp duty paid on a median-priced property has risen by over 300 per cent since that time. Over that same period of time the average earnings of Victorians have increased by less than 100 per cent, so disposable income is certainly not keeping up with the rise in property prices and the rise in stamp duty that is attached to that. We also recommend increasing the first home owners grant to $20,000 – in other words, doubling the current amount which that grant makes available to eligible applicants. That is the level that already exists for regional Victorians, and we see no reason to differentiate between homebuyers in regional Victoria versus other parts of the state. We see the first home owners grant as making an important contribution to easing the financial barrier for first home buyers, and we believe it should continue to be funded and the grant amount increased along the lines that I have indicated.

Last but not least, we support maintaining funding for the Homebuyer Fund over the forward estimates period and also changing the eligibility requirements so that applicants only require a 3.5 per cent deposit and are eligible for a 35 per cent shared equity contribution, compared to current arrangements which see the requirement for a 5 per cent deposit and 25 per cent shared equity in partnership with the government. That concludes my summation of the main features of our submission. I will hand back to you, Chair. Thank you.

**The CHAIR**: Thank you very much for your detailed opening statement. We will move to questions, moving around the room for about 5 minutes each, starting with Ms Copsey.

**Katherine COPSEY**: Thank you. There has been some disagreement I suppose from some of the witnesses we have heard today about the extent to which stamp duty acts as a disincentive on transactions. It is a very popular conception. But we also heard from the Treasury submission on our first day of hearings that really the largest barrier around transactions is the actual cost of properties themselves. Do you have views on how stamp duty interacts with housing prices overall and whether, separate to the disincentive that is popularly seen around transactions, stamp duty's contribution to housing unaffordability exacerbates that issue?

**Keith RYAN**: I will start, and maybe Steven wants to jump in as well. Our position generally at HIA is that any tax is going to increase the cost of housing and restrict housing affordability. Stamp duty is significant, and, as Steven mentioned, it is quite large amount of money here in Victoria – larger by a factor of two than Queensland, for example. So it does build into the price. It also has an impact on potential demand and supply, because if you know that you are going to have to pay more and there is an extra tax to pay which you can avoid by not transferring land too often, it also can be a dampener, and at the moment obviously the increased interest rate costs and some recent drops in market value also have led to supply of stock to be sold reducing. So I would suggest that, as a general rule, stamp duty is just another tax which creates a disincentive to buying property. It adds to the cost. I do not think you can argue that taxes do not increase the cost of property. I know there is a debate today about the impact of the land tax increases on rentals, which is an interesting debate, but I would suggest that it does have an impact. Steven, is there anything you would like to add?

**Steven WOJTKIW**: Just to say that, yes, houses are costly. I think we could debate all day as to what some of the drivers or reasons for that costliness are. Many would say they are overpriced. It is not a phenomenon that is unique to Victoria or necessarily Australia. Whether those costs or that price of houses, the median house prices, are driven by material costs, labour costs, costs of capital, embedded taxes – I am sure there are many influences, and there are. What stamp duty does is very real. It is very transparent. It is a further layer. It makes costly housing costlier.

**Keith RYAN**: Yes. I would also add it is probably a tax that is very much in the mind of a person who is looking at buying a property. When you go and apply for your mortgage, when you are looking at the costs of buying a home, it is a very clear line item that sticks out, and it is there as a big number. It makes a difference.

**The CHAIR**: Thanks, Ms Copsey. Mr Mulholland.

**Evan MULHOLLAND**: Cool, thank you. You kind of touched on it before, but I thought I would ask this. Just with the changes and the increases to land tax yesterday, we are seeing some narrative that they will have no impact on rents from some quarters. But I believe, from the majority that I have seen, landlords and associations and others have said that they absolutely will be passed on through to tenants, particularly renters. What is your view on this?

**Keith RYAN**: It is certainly true that it will be a deductible expense. I understand that has been a point made today, which is correct. So it does mean that to some extent the impact of this increased cost for supplying a home for the rental market can be matched by tax deductions, but it is still going to be an increase. It will have an impact. There is probably also the fact that it is going to be, the way it has been described to us, a 10-year increase. It is a disincentive. If you are already on the edge of thinking, 'Is it worth being in the rental market? Is it worth supplying rental stock?', it adds to that. So we will probably have some resulting decrease in supply, and that by itself will start to lead to an increase in rental prices, unfortunately. So I suspect the answer is between the two schools of thought: no impact and being passed on completely. It will not be passed on completely, but at the moment when you have got a massive undersupply of new housing stock coming through and migration increasing dramatically to make up for the COVID deficit, we are going to see that market forces are going to be pushing up rentals anyway. It will be difficult to work out how much of that was caused by this particular tax setting. In practice it is not easy to work out the true impact, but it will have an impact.

**Evan MULHOLLAND**: I just wanted to touch on your points about supply gaps. There is sort of a growing cohort of particularly young Australians and young Victorians describing themselves as yimbys: 'Yes, in my backyard'. I happen to be one of them. I wanted to get your thoughts on the supply constraints, particularly at a local government level. There has been a lot of attention on this lately, on local government holding up supply of new housing. There have been a few proposals floated lately. One is that the government could just absorb all planning powers away from councils. Another is setting housing targets with a carrot and stick to try to boost that supply. What is your thought on the general supply issues and policy proposals to fix it with local government?

**Keith RYAN**: Look, yes, this is obviously an issue that has been very much in the minds of my team here in Victoria as well as around the country. We welcome the news that the Victorian government is considering planning reform. They had a chance to do it last year, and unfortunately for various reasons that did not quite eventuate. We are reasonably encouraged by the new –

**David DAVIS**: That's a very kind description.

**Keith RYAN**: I try to be kind, David. Thank you. Look, it is a difficult job because you have to balance some very strong competing interests. I have had the opportunity to meet the new planning minister, and she is in an electorate where nimbys, if I can use that term, would have some sway, but she is showing some appetite for looking at increasing the amount of infill in established suburbs. Now, a lot of people have had that same urge in the past and have struggled, but let us wish her the best and hope she does well. Certainly we would welcome any government moves to improve that. The greenfields continue to be an important source of new housing stock, and we should not underestimate the value to people of having their own block of land and having their own home and their backyard. Yes, there is probably going to be over time an evolving taste by some to move towards medium housing stock – maybe high-rise in some cases – but traditionally in Australia we have had more of a move towards the outer suburbs to meet that desire to have a block of your own, to have your own land. And consumer preferences will change over time. We obviously noticed the Infrastructure Victoria report which talked about ways the government can encourage people – maybe a bit of a push rather than a pull – to move to infill, and that is not necessarily a bad thing. We do accept there are challenges with providing more infrastructure as we expand the size of our city. Melbourne and Sydney, for that matter, are both by international standards very large geographical areas, so there is a case for some more infill. We would certainly welcome government measures to encourage that, but at the same time we are also respectful of people's right to choose the style of housing that they have, and we do not think it is the government's role to be compelling people unreasonably as to where they can live.

**Evan MULHOLLAND**: Cool.

**The CHAIR**: Thanks. Mr Davis.

**David DAVIS**: I have got three questions actually. The first relates to the government's announcement yesterday that it will put a land tax on commercial properties and so forth. Do you see that there is anything that would stop them putting that in but then later bringing back some stamp duty as well?

**Keith RYAN**: Look, realistically, each Parliament is sovereign. Each government has its rights to choose how it imposes new policies and new laws. It is always possible, yes. That said, we will take the government at their word that their plan is to have a transition, and realistically, imposing –

**David DAVIS**: You are very generous.

**Keith RYAN**: Look, to be fair, if the government is going to take this step and encourage more business investment by removing the stamp duty, if they have gone in one direction, to then reverse it dramatically would –

**David DAVIS**: Or just to add the extra tax on top –

**Keith RYAN**: Well, they could do that –

**David DAVIS**: like a version of what has happened in Canberra.

**Keith RYAN**: It could happen, but once again, it could happen with any future government. We have to deal with what is in front of us at the moment. We always know of course whenever a tax is introduced there always will be a healthy degree of cynicism about whether that tax rate will remain the same, and that will be a concern with this new land tax coming through: will that rate stay the same? We have to assume there is a chance it will one day go up, and that certainly would be a concern. Whether there will be a more fundamental shift back – I think we need to give the government the benefit of the doubt at this stage and expect them to keep their word.

**David DAVIS**: In your submission you talk about the bracket creep issue, which I think is a very real issue. Have you quantified the size of that bracket creep – the number amount over the last two terms of government, say the last eight years?

**Keith RYAN**: I do not think we have done it for the last eight years, no.

**Steven WOJTKIW**: Not for that particular time period, no. We could certainly provide on notice some estimates as to where that bracket creep has gone. I have given you one example today that comes from our submission, just the extent to which stamp duty has increased so significantly because of the rise in house prices over a period of time. So I am happy to provide that.

**David DAVIS**: So it is only New South Wales and South Australia that have got any indexation, as I understand it, but essentially the government has trousered those increased collections.

**Keith RYAN**: Yes, the governments do get the benefit of this bracket creep, as other taxes also do at times. It is not unique to stamp duty but obviously much more telling and impactful with stamp duty because of the size of the transactions.

**Steven WOJTKIW**: And as you would well know, many government rates and charges are indexed against inflation, so I think in this inflationary market it would be beneficial to have some indexation of stamp duty thresholds in so much of current inflation rates.

**David DAVIS**: In a similar way.

**Steven WOJTKIW**: Yes.

**Keith RYAN**: Yes. We would certainly be very welcoming of any move to index. That would be an excellent start, even though obviously our position is that eventually stamp duty should be removed entirely. As I said before, I suspect it would be very hard for either this government or maybe a future government to retain stamp duty for residential but leave it off commercial and industrial. But in the meantime let us make the tax at least better than it is at the moment.

**Steven WOJTKIW**: Particularly too, if I could just add, the taking it off insurance as well, or business insurance conveyancing.

**David DAVIS**: On a related point of supply, the windfall gains tax has had, anecdotally I hear everywhere – it is due to come in on 1 July, so parallel with these other changes. Do you believe that has restricted the new supply coming through? And what is the scale of that? Do you have any surveys of members or anything of that sort?

**Keith RYAN**: We have not done formal surveys, but certainly the feedback we are getting is that, yes, once again anecdotally, it is discouraging investment. However, we do need to be a bit careful, because the current climate as well is also a big deterrent to considering investments at the moment. So we would not be claiming necessarily that decisions not to go ahead with certain projects –

**David DAVIS**: Solely, but it would not have helped.

**Keith RYAN**: Oh, it definitely has not helped, and it does also have an impact on Victoria's competitiveness against other states when it comes to future developments. My expectation is it will take a few years for the true impact to become clear. But certainly, yes, anecdotally we are already hearing it is having an effect – and realistically it has to, because it is another cost which is quite dramatic.

**David DAVIS**: But an unpredictable one, stifling and blocking new projects coming through.

**Keith RYAN**: That is right. And we need to be careful not to attribute necessarily some decisions which are caused by the current climate as well. Other issues are causing problems, so it is part of a very bad mix for people who are looking at development projects at the moment.

**The CHAIR**: Thanks, Mr Davis. Mr Limbrick.

**David LIMBRICK**: Thank you. Thanks for appearing today and for your submission. I think, Steven, earlier you were speaking about the attractiveness of Victoria as a place to buy a house. The government, with removing the stamp duty on commercial and industrial properties, clearly are hoping that investors will see that as attractive and build shops and factories. Do you think that Victoria could get a first mover advantage if we did this on residential as well, because if someone is moving from overseas or interstate, presumably that would make Victoria a more attractive place to buy a house. Do you think that that would give us a competitive advantage against other states?

**Steven WOJTKIW**: Well, we do, if that approach – that treatment – were to apply to residential property, the answer would be yes, I think, in short. Because whether it is an investor, an individual, a migrant, a skilled worker or even someone interstate, they are looking very closely at the costs, the direct costs, the indirect costs and the other sort of antecedent benefits that go to moving from one destination to another. I guess stamp duty costs and the overall price of housing, as well as support, amenities and infrastructure of course – there are many factors one would weigh up in terms of deciding ultimately about where to invest or where to live – but if we can make houses more affordable, that would have to be a big tick in Victoria's favour, particularly as you say, if we led on the front foot and were to introduce that particular reform ahead of other states.

But we do have, I guess, similar measures already potentially in train in the ACT – for some time now. It is halfway through its reform program to do as much. We were on the cusp of a similar approach in New South Wales until recently with the change of government. So other governments are alive to these opportunities to improve the affordability of housing and, in doing so, the competitiveness of the industry that supports and provides houses.

**Keith RYAN**: I probably will just add to Steven's answer as well and make the point that Melbourne is rapidly moving towards becoming the biggest city in Australia again – a position it has not held since I think the 1920s.

**David DAVIS**: The ABS says it might already be there.

**Keith RYAN**: It could be, depending on how you define Melbourne. But regardless of which definition you use, Melbourne is probably going to end up overtaking Sydney. Now, it is probably worthwhile asking: why has that happened, or why is that happening? And I would suggest part of the reason is that the unaffordability of housing in Sydney, which is even worse than Melbourne, is a major factor in that, particularly for younger people, who now see no hope of ever getting a chance to own their own home.

I would just make the point that we are not there yet, but if we are not careful here in Victoria, we could find that Melbourne ends up going through the same experience in another 10, 20 years, and we could find ourselves becoming the major drain place which loses younger people because we have become the most unaffordable. And if we are going to look at changing stamp duty, that might be a good way to head off that potential future problem as well.

**David LIMBRICK**: Thank you. And you also spoke about the lack of new supply – like there has been a drop-off in new starts. What is driving this supply? I know you mentioned some factors – like labour and materials is one thing. We have also spoken at length in this committee about some of the planning issues. What are the major factors that are stopping this supply coming on board, because clearly there is still demand?

**Keith RYAN**: Okay. Well, look, if I can identify villain number one at the moment, unfortunately it is the Reserve Bank of Australia. The interest rate increases have clearly done their job. They have well and truly led to a drop-off in new home sales. They have also led to an increase in cancellation of existing sales as well – and later in the piece.

**David LIMBRICK**: So that is like someone that has paid their deposit and then they have backed out.

**Keith RYAN**: That is right, someone who has paid. Often it may even be just an initial deposit. It might only be a couple of thousand dollars or less. We have a whole range of transactions which enter towards a building contract.

**David LIMBRICK**: Sorry to interrupt. Is that because the purchaser calculated it as affordable under the old interest rate regime and now they calculate that they cannot afford this anymore, and then that is their reason for cancelling?

**Keith RYAN**: It is two factors. One is that in some cases the consumer has signed a contract which is not the actual final building contract, so they do not have a fixed building price yet, but they do have a commitment from the builder that they will be able to build for them. In those cases there will be a price increase to reflect the fact that there has been so much change. The planning system has also contributed, along with the subdivision process, because the gap between contracts being signed and land being available to build on has increased, which has aggravated this problem. But interest rates have also, essentially, led to people being uncomfortable about taking the risk.

I should also, for completeness's sake, acknowledge that some of the recent media reporting about the state of the building industry has not helped. We have a number of reports from members that consumers are just saying, 'I want to hold off for the moment,' and it is partly because they are worried their builder might not be around to finish the job. I would suggest that in many cases that is a wrong fear, but I can understand why it would happen. That is also not helping – but it is mainly interest rates. We also of course have the issue that we had a bit of a surge in demand with HomeBuilder, which led to some work being brought forward, but I would suggest most of that has probably dissipated by now. We have planning restrictions, which obviously make it harder. We have the cost of land still being an issue. We also have issues about finding labour to do the work – that is a massive problem for us. The Big Build in particular, and to some extent the Big Housing Build and perhaps the Commonwealth Games, have led to a drain of the workforce.

**David LIMBRICK**: So you are saying – and this was brought up by a previous witness – that the government effectively going into competition for labour is driving up the cost of homes and driving up the inability to find labour to build your projects.

**Keith RYAN**: Yes, and it is not just that, but most of those contracts are, I understand, cost-plus contracts, where the price of the actual build can vary. Unlike domestic builders, when you are doing commercial work you are quite able to have cost escalation, you are allowed to have cost-plus arrangements without restrictions, because you have clients who are obviously much better placed to look after themselves. Unfortunately, though, that does mean that if you are competing for this very time intensive work as a commercial builder, you will be entering into arrangements whereby you are paying a lot for your workforce as well. And you have probably seen some of the media reporting about some of the relatively unskilled but important work where the pay rates would probably be getting awfully close to $150,000, $200,000 per annum, and that is compared to the average wage of roughly $70,000. That is very difficult. Whilst domestic builders will pay well for good trades who work for them, they cannot match those rates without the prices of homes being dramatically increased.

**Steven WOJTKIW**: In simple terms, land is scarce – there is a cost to bring it to market and to build homes. Those who have made that investment need to see a return on that investment having regard for the cost of capital, materials and labour and having a little bit of predictability and confidence around that demand – what does that look like? The demand profile at the moment – consumer demand we know has been hard hit. There has been hesitance on the part of homebuyers. They too face a similar, if you like, profile of costs and cost of living. Disposable income has been compromised. When all of those factors combine on both the demand and the supply side, it is not necessarily a great environment right now for homebuyers or for those wanting to develop land and build homes.

**David LIMBRICK**: Thank you.

**The CHAIR**: Thanks, Mr Limbrick. Mrs McArthur.

**Bev McARTHUR**: Thank you, Chair. Thank you, gentlemen, for appearing. I just want to correct the record a bit. I think the Reserve Bank have a mandate to keep inflation down if governments keep spending and applying fiscal policy inappropriately.

**David DAVIS**: Ill discipline.

**Bev McARTHUR**: Ill discipline. The Reserve Bank has only monetary policy to try and control rising inflation, which is also a great burden to a house builder or a house owner. But going to the issue that my colleague Evan Mulholland has raised and Mr Limbrick has touched on, the issue of planning – along with construction shortages, planning is obviously a restrictive issue affecting housing supply. How important is tax reform actually? Are we just tinkering around at the edges with tax reform if planning is the main or a major problem?

**Keith RYAN**: That is a fair question. I do not think it is fair to suggest that tax changes would be tinkering. They do have meaningful impacts when you make these decisions. They are financially important, and they would be, in their own right, of some benefit. That said, you are right as well to mention that the planning system is a major impediment. It causes not just increased costs but also significant delays and uncertainty about the progress of projects. A lot of planning permits are being required at the moment when realistically it would make more sense that they be as of right.

There are also concerns about the way the process is administered. Councils are subject to rate caps. They struggle to handle their existing workload, and that by itself leads to delays when it comes to making decisions under the planning framework. You also then of course have the not unimportant issue of local politics and keeping the local electorate happy, and that is not illegitimate by itself. It is important that the councillors when they are given that role recognise the needs of the local community, but that also probably leads to sometimes the risk of being afraid of making an unpopular decision, further delaying the making of a planning decision, and there is unfortunately in the existing legislation a number of ways that can be used to stall the inevitable undesirable decision from the local perspective. So that all does make it worse as well, but I would still suggest that even if tax law changes in isolation, it would still be of some benefit. It will not be as beneficial as a more global series of reforms, but it would certainly be beneficial.

**Bev McARTHUR**: Why would any potential investor get involved in the market these days? They have got windfall gains tax, which is not even hypothecated so the benefits of it do not end up in infrastructure in that particular area, and if you are thinking of entering the housing rental market, you have got 185 regulations that are applied to landlords, which almost make it prohibitive to be a landlord these days. Why would you enter that particular market if you are a potential landlord these days?

**Keith RYAN**: Look, it is certainly not easy to be involved in any business or investment activity, including owning an investment property. However, we probably should be slightly more optimistic. Let us not forget that for all the issues Victoria has been through over the last 20 or 30 years, we have actually done very well compared to many other parts of this country. Victoria is still a very attractive place to live, as is Australia. We sometimes lose sight of the fact that compared to most parts of the world we are extraordinarily lucky with the society we live in – a stable political system, a relatively stable economy. We are very well off.

**David DAVIS**: People fled during COVID.

**Keith RYAN**: People fled, and some are coming back.

**Bev McARTHUR**: They are still fleeing to Queensland as well, Mr Davis.

**Keith RYAN**: There has also been a longer term move by people towards Queensland, but I still would suggest that Victoria, despite all these challenges – and I accept that more regulation does not help. It is far from ideal and it makes things worse, and we would never support new regulation unless it was clearly shown to be justified. However, I think we also still need to be somewhat optimistic about the future. Melbourne is, as I said before, becoming the biggest city in the country. The Victorian economy is still doing very well. All these things you have mentioned are all relevant factors, but people also look at where they want to live, where they want to have their business activity and what trust they want to have in the stability of the institutions that look after them, and Victoria and Australia as a whole generally do very well in that regard. So you are right; all these new laws, all these extra restrictions, make it harder, but I still would urge that we keep in mind that Victoria is still a very good place to live and a good place to do business despite the challenges of recent years.

**Bev McARTHUR**: You are very optimistic and kind. I think the rating agencies do not seem to be quite so enthusiastic towards our economic output. But I will be devil's advocate again: don't first home owner grants and other distortions to the market just increase the price of housing?

**Keith RYAN**: Look, that is a debate which will go on forever. All interventions to some extent by governments to help people will cause distortions. That is the simple fact. The key thing about the first home owners grant – and keep in mind it is very much focused on new builds – is it is very much about giving people who are otherwise struggling a chance to get their foot in the door.

**Bev McARTHUR**: Don't you just put up the price of a house accordingly?

**Keith RYAN**: You do potentially have an impact on the overall price, but you are giving people a chance to get in. And let us not underrate the importance of actually owning a home. It is not just the financial security, it is also the emotional security, the knowledge that you are safe and able to have some security where you live, knowing that you do not need to worry about looking for a new rental property maybe in a year's time or less, knowing that you have got some financial capacity. These are all important things, so giving people a chance to move from being a renter to becoming a home owner, the benefits of that are so great, we would suggest, that yes, if you have a potential distortion – and I am not convinced it is as great as many people make it out to be – you still have that massive benefit to our society as a whole of people getting into their own home, and that is why a first home owners grant is such an important part of the government's tools to help people –

**Bev McARTHUR**: A vote-buying exercise really, isn't it?

**Steven WOJTKIW**: It has got more people into homes than would otherwise be the case. We have seen that for many years now in so much of the growth of our corridors, whether we like it, and growth brings with it challenges too – more pressure on amenities, on infrastructure – but it is putting people into homes. And for the reasons Keith has mentioned, homes, houses, are important to Australians. It is part of our iconic, if you like, character. If it is a distortion, then it is one we –

**Bev McARTHUR**: We like.

**Steven WOJTKIW**: probably like – correct.

**Keith RYAN**: Or accept. But I would also make the point that I think most of our electorate, most of our fellow Victorians, have to consider a large number of factors when they make their decision to vote.

**The CHAIR**: Thank you, Mrs McArthur. Mr McIntosh, do you have any questions?

**Tom McINTOSH**: First of all, thank you both for your time. I am sure you are busy men. I do not have any questions, so I will not hold you up too much, but it is great to hear that there is a belief in the Victorian economy. I am a proud Victorian, and I think a great belief is a good thing. I definitely will not waste any of your time with hypotheticals about future governments' decisions – governments that do not exist yet. I think those of us on this side of the table share a clear understanding of how parliamentary democracies work, particularly those with years of experience. Thank you very much for your time. It is a clearly laid out submission, and I understand the points you are putting forward, so thank you very much for your time.

**Steven WOJTKIW**: Thank you.

**Keith RYAN**: Thank you.

**The CHAIR**: Thank you, very much, Mr McIntosh. Do we have further questions from members? Mr Mulholland.

**Evan MULHOLLAND**: Just a quick one. It has been in the media even today, but there has been this policy proposal floated out there calling for a rental freeze. I just want to get your views on a rental freeze. What would that do to supply and what would that do to the housing industry more broadly?

**Keith RYAN**: Look, a rental freeze would be, unfortunately, a very drastic move, and it would cause I would expect a great deal of disruption. We need to keep in mind that a lot of the providers of rental stock for housing are mums and dads, people who might own a house or two who are doing it hard with interest rate increases, further regulation, extra costs, and for them a rental freeze would be disastrous. Yes, I know there can be an argument of, 'Well, if you own more than one property', which obviously now has become a bit less, 'you have to pay more tax, land tax'. But we should not be making life worse for them by imposing rent freezes. I appreciate the superficial attraction, but ultimately it would lead to a lack of supply of homes for rental, and that cannot be great for tenants. They are already queueing up by the dozen to get into a house to look at trying to rent it and then having to go into a bidding war potentially in some cases to get that house or home. We certainly do not want to see that continue. We would be very concerned if there was a rental freeze. We understand why it looks attractive, but unfortunately it just will not work and will only make a bad situation even worse.

**Evan MULHOLLAND**: Great point. I agree. Thanks.

**David DAVIS**: Just the land tax increases that were announced yesterday on second or holiday homes or other homes, rental homes, do you agree with the Premier that nobody should be worried because it is deductible?

**Keith RYAN**: We do not. We do not agree with the Premier. He is right that it will be tax deductible and therefore the impact will be mitigated, and to some extent if the government does a good job with its future housing policies, the increase in housing stock will also help to deal with the rent. So it may be that a lot of the impact can be mitigated, but no, I would not be 'not worried'. I would still see it as a concern.

**David DAVIS**: In many cases there is no deduction available.

**Keith RYAN**: Well, as I would understand it, it is a state tax, not a Commonwealth tax, so I would have thought it would be deductible.

**David DAVIS**: If you are using it for income-generating purposes, but some people hold properties for lengthy periods for whatever reason.

**Keith RYAN**: Okay. In that scenario, yes, that would be different.

**Steven WOJTKIW**: There are limitations on deductibility, but as you say, even if there were, there is the cash flow impact along the way in terms of having to remit your land tax before you might well claim that deductibility.

**David DAVIS**: It might be years before you claim any deduction.

**Steven WOJTKIW**: Correct.

**Keith RYAN**: That is true, yes.

**David DAVIS**: It also presumes that you have a significant income to deduct it against.

**Steven WOJTKIW**: Against – yes.

**The CHAIR**: Thanks, Mr Davis. Mr Limbrick.

**David LIMBRICK**: Thank you. In Australia we do have this sort of – I am not sure if it is unusual globally – phenomenon in that a lot of the rental stock is held by small-scale investors. Why do you think that is? I am quite familiar with the Japanese market, for example. They have major corporations that will build apartment buildings, then they manage the tenancy and all of that sort of stuff and they get economies of scale because they are doing large numbers of tenants at once. Why don't we see that sort of activity in Australia so much? It is all these small-scale investors with third parties, like real estate agents, managing the tenancies?

**Keith RYAN**: I think you are right. It is a relatively rare phenomenon, and Australia is one of the few places where it happens. It is probably just some legacy of how we just did not have the companies out there who were able to provide that service in the past and so the smaller players have filled the gap. I would argue that is probably as much a cause. Probably also Australia does have, often compared to most countries, a relatively high level of first home ownership, which has meant that it is easier to then springboard onto getting a second home which you can use for investment purposes. So that has probably also contributed. Whether that trend will continue is obviously questionable, particularly if the tax settings and regulations which are imposed make it more difficult to hold a second home. So, yes, it would be arguable that with what is happening at the moment, and it is not just because of what happened yesterday in the budget – it is happening probably more widely across the country regardless of who is in government – we could see a move away from that, which will be disappointing because it is a great opportunity for more flexibility, a greater range of home stock being provided, and I think it is actually an attractive part of the Australian housing market.

**Steven WOJTKIW**: We see a fair amount of institutional sort of retail investment into commercial properties, retail properties obviously, for that type of investment. Superannuation funds and others and banks and whatnot probably see it as a very predictable, stable, I will say reasonably not high-growth but a good yield in terms of the overall rates of return, whereas the housing market by contrast might be seen to be a little bit more volatile, very much subject to the vagaries of the economic cycle, perhaps more so than other I guess alternative investment options. So it could be a lack of knowledge, it could be maybe they have done their sums very well and they just understand that there are better returns to be had. But we take your point and would like to see more, if you like, institutional investment into the housing sector. The place and space are big enough for all manner of investment from those small lot holders to large institutional investors.

**David LIMBRICK**: Speaking of investment yield, if we removed stamp duty, effectively what we would be doing from an investor's point of view is lowering the up-front capital cost and replacing that with an ongoing hit to yield I suppose. It will be deductible, but it will provide a hit to the yield on it. Do you think that overall effect is neutral, or do you think it makes it more attractive, removing those up-front capital costs to investors?

**Steven WOJTKIW**: Well, the ACTU's experience would suggest that it is more attractive over the longer term.

**Keith RYAN**: You mean the ACT, not the ACTU.

**Steven WOJTKIW**: I beg your pardon. Correct. The ACT's experience in so much of making that switch has, I think, from independent studies suggested that there is a net benefit over the longer term by moving away from stamp duty to a single, simple –

**David LIMBRICK**: Is that because the up-front debt financing is lower?

**Steven WOJTKIW**: Yes.

**Bev McARTHUR**: Just one quick, final question. Do you have any estimate as to the number of workers, I suppose it is, being lost to your industry while the government embarks on this infrastructure so-called big build where they usually do it incredibly incompetently?

**Keith RYAN**: We do not have an exact estimate. We could have a go at it. I would stress, though, that we also need to keep in mind that there have been other sources of leakage of workers, including dealing with insurance claims, particularly in the northern rivers in New South Wales and Queensland as well as in other parts of New South Wales and more recently of course in Victoria. That has also been a major cause of distortion. We can have a look at it and see what we can provide on notice, but it would be an estimate.

**Bev McARTHUR**: Are they paying sort of higher rates than you would in, you know, the normal building industry?

**Keith RYAN**: If you are working on a government project or a large commercial project, you are generally going to be an employee subject to an EBA and you would be paid a fairly good rate. A lot of our members and their workforce, though, do prefer the benefits of contracting and the freedom. We do have a lot of trades who are extremely happy being contractors, and they have been even happier in the last couple of years because the good ones are in massive demand and their surfing holidays are very good and their weekend recreation. We are getting lots of reports of trades working three or four days a week making a very good living, and fair enough to them – they have worked hard and they deserve to benefit. But, yes, generally even they would not be receiving the financial remuneration that you get on those projects.

**Steven WOJTKIW**: And it is not just the highly skilled workers that have been lost to other industries. Across Victoria much of industry, from the point of view of apprentices, are losing apprentices to simple, low-skilled labouring roles because they pay more, which does not augur well for our apprenticeship intake and completion and ultimately the future stock of workers that Victoria needs, not least in the housing industry but across industry to meet future demand.

**Bev McARTHUR**: Thank you.

**The CHAIR**: Thank you very much, Mrs McArthur.

Thanks so much for coming along today and sharing your very detailed submission and responses to questions with us. That concludes the public hearing.

**Witnesses withdrew.**