# TRANSCRIPT

# LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

## Inquiry into Land Transfer Duty Fees

Melbourne – Wednesday 28 June 2023

**WITNESS** *(via videoconference)*

Ms Amelia Hodge, Chief Executive Officer, Australian Property Institute.

**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 paying 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.

We will begin by introducing committee members to Ms Hodge. We will get members to raise their hands so that you can identify who they are, since you are on Zoom. We will start down this end.

**Evan MULHOLLAND**: Evan Mulholland, Northern Metropolitan Region.

**Katherine COPSEY**: Katherine Copsey, Southern Metropolitan Region.

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

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

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

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

**Amelia HODGE**: It is lovely to meet you all. Thank you for having me.

**The CHAIR**: Thank you for coming along.

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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, could you please state your full name and the organisation you are appearing on behalf of.

**Amelia HODGE**: Yes. Amelia Hodge, Australian Property Institute.

**The CHAIR**: Great. Thank you very much. We now invite you to make your opening statement, but we ask that it is kept to 10 minutes maximum to ensure we have plenty of time for questions and discussion.

**Amelia HODGE**: Okay. The API is the industry body for property professionals. We represent some 8000 individual members and approximately 5000 organisations. What our members do is they obviously provide valuations across much of the Australian economy. That underpins property values. In the financial services sector valuations are provided to underpin the asset portfolios of our banking sector and therefore lots of mums' and dads' shareholder superannuation money. We also provide valuations to all levels of government in relation to rating and taxing and evaluations for GST purposes. In our view the valuation profession underpins a large part of the property assets of Australia.

I just want to say at first that we welcome the opportunity to contribute to any improvement to taxation policy and also the regulatory frameworks for the Victorian property sector. In our view the Victorian property sector must be underpinned by a robust valuation framework. I did note with interest the various arguments for and against some of the reforms proposed, and I think it is really admirable and important that the Economy and Infrastructure Committee conduct these far and wide consultations, so it appears.

We believe that our most important consideration is that any potential change to the current system be transparent in its application as to the impact on and to ensure the accuracy in future land valuations. These valuations and this accuracy are vital to ensure the ongoing integrity of the Victorian property, government and financial sectors. I think the trick is to balance then any surety around Victorian budget implications also. So we suggest any reform requiring payment of an annual property tax, which is one of the elements proposed, and the amount of that tax is an important factor in determining an accurate valuation, but also any details of that tax and how that tax is made is publicly available or available to property professionals to enable the valuation profession to ensure the accuracy of these valuations. They are two fairly important things as far as our profession goes. I am happy to take questions from anyone around the table, but that is the principle that underpins our submission.

**The CHAIR**: Thank you very much, Ms Hodge. We will commence questions around the table. We might start up the other end this time, with you, Mrs McArthur, if you are ready.

**Bev McARTHUR**: Thank you, Chair, and thank you, Ms Hodge. I have just been a little concerned that everybody who comes into this inquiry, apart from one lot of witnesses, seems to be favourable to tax. We have got a government that is addicted to tax, and they want to increase it, expand it and add new ones all the time. I do not know whether we are up to about 50 now over the last few years –

**David DAVIS**: 49.

**Bev McARTHUR**: 49 and counting, thank you, Mr Davis. Would the Australian Property Institute have a view that we would be better to do away with property taxes altogether?

**Amelia HODGE**: I do not know that our profession would have a view, particularly, on that question. Our role as property professionals is to assess the property and understand all of the elements around that property, both in residential property and also commercial property, and then to apply our professional expertise to assigning a value. I think some of the other stakeholders that you have consulted on would come at the question from a different angle, and they would be representing the personal interests of their members. So therefore in reading some of the submission feedback that you have received, I can see why tax has been a focus, but for our profession it is really the asset value and the legislative framework around that property that assigns a value.

**Bev McARTHUR**: Thank you. I am pleased that you focus on transparency and accuracy in the whole issue of valuation. We currently are in a situation where local councils apply rates based on property values, but they are done by the valuer-general these days and not by outside valuers, it appears. I think many people question the accuracy and the transparency of that valuation that is undertaken and how rates are applied. Certainly I am from a rural electorate, and rural landholders, farmers in particular, are being hit exponentially at the moment by massive increases in rates based on valuations. What would you say about that?

**Amelia HODGE**: We have seen around a 30 per cent increase, particularly in Victorian regional valuations. We do have a number of members inside the VG’s office as well, and I think other states do contract that work out to private entities. I think there is an education exercise around valuation and local government rating valuations. One that I think that we have been dealing with the Queensland government at the moment is into improving the valuer-general process around valuations, objections and mediation, where there are objections. I hope that our submission in that regard will be successful because I believe it will increase transparency and be less adversarial around the valuation process. But the way the valuations work is that the valuation, say it was done on 30 October last year, then that is the valuation that the rates are assessed against. So by the time the rates notices are issued – I think they were issued in April or May in Victoria this year – the property may have declined but the rates are based and assessed on the former valuation. I think there is a great opportunity to have an education process, particularly to consumers, so they understand the way that rating valuations work, but also in greater transparency and even greater communications between the department and your constituents, I would suggest.

**Bev McARTHUR**: I would like to think the education program –

**Amelia HODGE**: What happens is everybody goes –

**Bev McARTHUR**: Sorry?

**Amelia HODGE**: I just think what happens is because it lacks some transparency it becomes adversarial unnecessarily early.

**Bev McARTHUR**: It does appear to be flawed, because you could have a property that has a small land footprint that gets sold for a very high per acre value which bears no relation to the productivity that might result from that land. Therefore the neighbouring property will have its rates increased based on that value which was perhaps not even for it to go back into agriculture, and so it seems a very unfair system. Would you agree?

**Amelia HODGE**: And valuations for local government are based on the unimproved value of land and obviously comparable settled sales. Sometimes that is, as you say, a dollar per hectare or acre. I do think the *Valuation of Land Act* does need to be reviewed as part of ongoing legislative reform.

**Bev McARTHUR**: So we are in a situation here where, if we were or the government were to accept an idea that we move to a broad-based property tax, it would be based on valuations – your department, effectively.

**Amelia HODGE**: Yes.

**Bev McARTHUR**: Yet many of us would argue, especially out in the rural areas, that the current system of valuing land for council rates, which is what we have got to go on, is wrong and is flawed, so how could we have any faith in a valuing department valuing property for land tax when we would argue they have not got it right now?

**Amelia HODGE**: I think it is a really good question and I think collaboration between government and the industry body in reviewing the process and the frameworks around that is a great next step, to be honest.

**Bev McARTHUR**: Okay. I have done my bit.

**The CHAIR**: Thank you, Mrs McArthur. Mr Limbrick. We will probably have time to come back to you, Mrs McArthur.

**David LIMBRICK**: Thank you, Chair, and thank you, Ms Hodge, for your submission and appearing today. I am afraid Mrs McArthur cut my lunch. I was going to talk about confidence in the valuation system and how crucial it will be if there is going to be some sort of land tax, a sort of broad-based regime. But I am interested in what you hear from your members around the idea of, firstly, with the current stamp duty, what sort of a hindrance is that to things like transactions actually taking place, and secondly, if we had a new broad-based tax system, how would that effect ongoing management – because I know that your organisation has members that do property management? That is going to be an additional cost on top of the other costs that the customers of your members would have to bear. What sort of influence do those taxes have on both the transactions completing and the ongoing management?

**Amelia HODGE**: And we have members who are in the property development sector also where there is a double tax, or triple tax in some cases. Look, I do not think there is any disagreement that stamp duty is an inefficient tax. It will be very interesting to see what comes out of New South Wales and the ACT, and shortly the South Australian model, around a broad-based tax system or a land tax system in the case of New South Wales for first property owners. It is too early to tell the broader impacts as yet, because we are yet to see a change play out, but I think any number of economic institutes – I mean, even the Grattan Institute recommended any tax change be phased in over 10 years, so that you can assess and then reassess any impacts and adjust going forward.

**David LIMBRICK**: Thank you. Another thing that has been brought to the attention of this committee and I have asked a few other witnesses about is the idea that Victoria, if we abolished stamp duty, could effectively make Victoria a far more attractive place to both invest and live. Do you think that that might be a significant consideration for people considering interstate or international migration to Australia, if they see that the up-front cost of a house or a factory or whatever they are building would not have stamp duty applied? Do you think that that would have a significant effect in making Victoria more attractive?

**Amelia HODGE**: I think we have seen those government-led investment opportunities play out in many states. I know in Queensland the whole airport precinct, the Queensland government looked at having stamp duty concessions and other concessions. I do think mathematically it would make Victoria a more attractive place to invest, but only if it was accompanied by, I guess, certainty of investment and certainty of the framework in which to invest. So I do not think stamp duty on its own. In the commercial sector it may be an element, but I certainly do with people relocating interstate for jobs. I think it is a whole combination of: is there a job? If there is a job, what are the economics of us relocating to Victoria? Given the extent of and how high the Victorian stamp duty regime is, and particularly in the residential sector, having been a payee myself, I think it definitely is a factor to review.

**David LIMBRICK**: Lastly, this is also something that was brought to the attention of this committee and something I am quite interested in – the relationship between the stamp duty rate and overall transactions. One of the suggestions put forward to this committee was the idea that if we simply lowered the rate of stamp duty that would incentivise more transactions and therefore it is possible that we may be able to have the benefits of a lower stamp duty without necessarily having as much revenue lost as what we might otherwise think, because stamp duty is not just a function of price, it is also a function of the number of transactions. Therefore lowering it would incentivise more transactions. Do you think there is much merit in that concept?

**Amelia HODGE**: I think you would have to estimate the numbers. What also feeds into that is supply.

**David LIMBRICK**: Of course.

**Amelia HODGE**: You know, so I think that would be for your Treasury department to run numbers on. You know, on what the greater impacts of the budget would be on lowering the rate. I guess it keeps it very simple; however, there are a lot more taxes and duties and levies that need to be considered whether the stamp duty rate is decreased or not. You know, you have got windfall gains.

**Bev McARTHUR**: I am glad you have raised that.

**Amelia HODGE**: You have got congestion levies, cladding rectification levies. We have been very engaged with cladding and fire safety standards around valuation.

**David LIMBRICK**: One of the barriers caused by stamp duty is that it is this very large up-front cost, right, and that that is a disincentive to transacting. What are your thoughts on the idea of, rather than eliminating stamp duty, amortising it over a long period of time, so that, you know, maybe it is over 10, 15, whatever – some long period of time – so that there is no large up-front cost. That would smooth out government revenue over time and would not require all the problems associated with valuations and things like that ongoing. What are your thoughts on that sort of concept?

**Amelia HODGE**: I have read some submissions and some economic modelling on that. I think obviously the devil is in the detail, but you would have to ensure that the amortisation was recouped potentially on sale if the person sold it in five years and it was being advertised over 10, for example. That would come down to the framework in and of itself.

**David LIMBRICK**: Yes, and there would presumably have to be some sort of interest applied to make it equitable and that sort of thing.

**Amelia HODGE**: Mmm.

**David LIMBRICK**: Thank you.

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

**David DAVIS**: Thank you for your submission. It would be more work for your members, I think, if we had greater turnover of properties.

**Amelia HODGE**: Yes, it would, if they were obtaining mortgages on those properties. Yes, it would, definitely. It depends on what the properties are.

**David DAVIS**: Yes. And let me ask another question. The windfall gains tax in Victoria – I do not know whether you have focused on that and the work that your members are likely doing valuing properties.

**Amelia HODGE**: Yes, we are working on something around that at the moment, around what that differential might look like in the windfall gains tax area.

**David DAVIS**: The uplift – the initial valuation of the property, a planning instrument and then a new valuation two weeks or so after I think is the way I am reading it –

**Amelia HODGE**: Yes.

**David DAVIS**: And then there is the differential, and then half of that would go to government.

**Amelia HODGE**: Mmm.

**David DAVIS**: Do you think this process with the windfall gains tax is going to slow supply?

**Amelia HODGE**: Look, it may. We are in really tricky times around any development at this time, even government development, with rising costs and time blowing out on existing buildings. It is hard to say. It might increase appetite to invest, but until –

**David DAVIS**: You think the tax might increase an appetite to invest? It is not the normal way of tax – if you put more tax on it –

**Amelia HODGE**: No, decrease – sorry – the appetite to invest.

**David DAVIS**: Decrease, yes.

**Amelia HODGE**: Yes.

**David DAVIS**: I am just looking at elasticity of demand and so forth. If you increase the costs, you slow the consumption, as it were.

**Amelia HODGE**: Yes, and windfall gains on development has been something many, many state governments, as you would know, have tried to grapple with – that uplift in changing planning zonings – and I am not sure that I at least have seen a lot of detail around the value in that at this point in time. But we are definitely in Victoria working on this windfall gains tax and potentially a perspectives paper around that.

**David DAVIS**: And you are no doubt aware that other states have got varying different regimes here. Are you aware of any state that has a windfall tax of 50 per cent?

**Amelia HODGE**: No, I am not.

**David DAVIS**: What is the next-highest rate? You may not know the exact number. You can take it on notice.

**Amelia HODGE**: I do not know the answer to the tax rate. I think, as you know, different states have different frameworks, so it might be something around infrastructure charges, but that is just a tax. I do not know the details on the states, but I am happy to do some work on that because our members would be able to find that.

**David DAVIS**: That would be lovely. Thank you.

**The CHAIR**: Thank you, Mr Davis. Mr McIntosh.

**Tom McINTOSH**: Thank you for your time. I was hoping you might be able to talk through government investment in services and infrastructure and the benefits that has for property owners, the property and the value of that property.

**Amelia HODGE**: Our valuations are compliant with international valuation standards, right through. Every valuer must comply with these standards, and as part of that you must look at things around a particular property that you have to take into account. There is no doubt that the availability and suitability of infrastructure attracts investment but also attracts mum-and-dad decisions around where they live and where they buy. Therefore a greater impact on demand, a greater provision of infrastructure and services, will naturally have an increase in value. Then, if you are a government, local or state, the valuation increases, therefore the taxes and rates also increase. So that investment is significant, particularly in these days where the trend to work from home – I mean, I am sitting here in my home. But location has, we have seen, become a large factor in people's choice, and therefore if there is no infrastructure or services provided in those areas, the valuations are no doubt less.

**Tom McINTOSH**: So there is a real benefit to property owners from government investment in the services and infrastructure?

**Amelia HODGE**: We certainly see that.

**Tom McINTOSH**: Fantastic. That is all from me.

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

**Katherine COPSEY**: Thanks, Ms Hodge, for your submission and for your time with the committee today. I am just interested – if you could take us through from your perspective – in some of the impacts that you see on movement within our property market, transactions and lack of mobility that arise due to stamp duty. Are there any impacts of our current stamp duty regime that you would care to comment on?

**Amelia HODGE**: I do not think particularly. I think in these times where we have got the things we have discussed around construction and development, the pressure on family budgets will keep people in their homes probably for longer, as long as they can sustain that housing affordability with rent increases. I saw that the CPI was only 5.6 today – the inflation rate, sorry, was 5.6 per cent today – so that is good news for house owners with mortgages, we think, next week. But I just think the whole economy impacts the ability for people to be mobile and, as I said before, the location of services and infrastructure in those precincts. People talk about the 20-minute suburb and the higher value and the attraction to people and demand in those areas where they can have a 20-minute suburb, and particularly here in Victoria I think we all place a very high value on having a 20-minute suburb now. We spend much more time in the suburb and our local area. I do not know of any particular economic or market report – there would be many out there – that would demonstrate that.

**Katherine COPSEY**: Thank you. To summarise, if I have got that correct, you would regard stamp duty's impact as one among many rather than a primary driver of people's choices –

**Amelia HODGE**: Yes.

**Katherine COPSEY**: around their homes. Thank you. So I suppose it follows – I was wondering, just from your perspective, whether you think that there would be any benefit in terms of the accuracy of valuations from more regular – I suppose if you do not foresee that there would be much of a change to transaction volumes as a result of any potential abolition of stamp duty, then you would not see that there would be necessarily a correlation of more available data to improve accuracy of valuations, and so on.

**Amelia HODGE**: Look, I think there are a few things in that. I think, going back to accuracy of valuations, using data and technology as an input to get to an evaluation conclusion is one thing, but as we said before around infrastructure and services, all of those things input into a valuer's determination of value. I think in the past, but we are very quickly catching up, with the desktop assessments that some clients, whether they are government or the banking sector, request from valuations – that is just the desktop with no inspection – sometimes the data is old, sometimes the photographs are wrong. So all of the system involved in that and then the risk taken by the particular customer in ordering a desktop valuation or an inspectional valuation is very high. A full valuation is very accurate because somebody is there looking at the property and looking at what is around, and we can use different technology to look at that these days, but I think in the desktop valuation and in the titles office, with getting up-to-date data, with PEXA, the property exchange, that is much faster these days, but I think the accuracy issue is a legacy issue that is getting less and less and less these days.

Going on to the rates conversation earlier, I think it is more around communication and education of a system and a review of the legislative framework that will improve that whole piece, but I think the accuracy of valuation question should just be clarified in that discussion so you can see the inputs. It is the inputs that impact the accuracy more and the request for the product from the client.

**Katherine COPSEY**: Thank you. And finally, on reading the submission I take it you are fairly agnostic on taxation reform proposals, as long as they are thoroughly consulted on and transparent and effective. We are a state government looking to explore this: do you have a view on behalf of API around transition models – what would be attractive and any factors that API would want to see considered when selecting an implementation model or policy design?

**Amelia HODGE**: I think collaboration – exactly what you are doing now – with all of the relevant people, because as I said, there will be people on one side of the spectrum and people way on the other side of the spectrum. Hats off to you for navigating between the two. I do think that if there is any broadbrush tax reform, that we also give consideration to other tax reform around federal government GST and Commonwealth grants – the decisions to be made about whether it be improved or unimproved value. Improved valuation comes with a whole raft of other considerations that are much more complex than unimproved, of course. Our view is that stamp duty is an inefficient tax essentially, but in evolving the valuation system that supports all the other parts of the ecosystem, we would love to be involved in helping you craft that transition model.

**Katherine COPSEY**: Thank you. Those are my questions.

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

**Evan MULHOLLAND**: Hi, Amelia. Thanks so much for appearing before us. As property professionals, do you have a view about local councils slowing development? I have heard a lot over my travels from planning professionals and surveyors who would painstakingly go through a proposal with sensible recommendations and work with the developer and the industry and the staff at the council and then make a recommendation only to have all of their work blocked at a local government level. Do you have any views about whether this process can be improved?

**Amelia HODGE**: Yes. It is essential that local government planning and state government planning in that respect are improved. That is the way through to greater supply of housing and greater affordability in our view. Do not forget – I think this is the point you are making – it impacts the holder of that land and therefore impacts the feasibility of that project and then the end price to the mum and dad if they are buying something at the end. We have this natural tension between the development community quite often around the feasibility and the valuation of that land and the holding cost to be applied and the other costs that a developer puts on that land. The local council planning regulations process is a very large part of those holding costs, and then what happens as all of those increase is that the price at the end of the day to the owner is increased. Developers have a different perspective of value than what a valuer has, so there is this natural tension sometimes between when that mum and dad are in the retail sector of the bank applying for their home loan – the valuation may not meet the value that the developer puts on it. I think that is one cog in the wheel that really needs to be addressed.

**Evan MULHOLLAND**: No worries. Just on the valuation stuff, I have got growth areas in my electorate – the town of Kalkallo is probably the most famous – where investment has not kept up with growth and where it takes in that town in particular over an hour for residents to get out of their own estate at peak hour in the morning. We are seeing news about the Growth Areas Infrastructure Contribution Fund not being spent for two years, which would go to things like bridges, bus stations, train stations and transport access. What does this lack of investment from government have on valuations?

**Amelia HODGE**: I think it decreases demand or the attractiveness to people for those sorts of estates or those communities. There will always be people that do not mind the hour commute – I cannot imagine many that would – but I think investment in infrastructure and services is vital. On the other end of the stick, if there is an increase in valuation because of that investment, it should go towards paying for some of itself. I think that is the purpose of a state government – to provide those infrastructure investments.

**Evan MULHOLLAND**: You would think so. No worries.

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

**Bev McARTHUR**: Thank you. Ms Hodge, following on from Mr Mulholland, the lack of investment in various areas where a development has occurred, isn't that going to be exacerbated by a windfall gains tax which is not hypothecated?

**Amelia HODGE**: Well, I think the attractiveness of an investment for windfall gains tax to developers will be less, but the economics of a development will stack up with a developer or they will not. You know, developers are very brutal with selecting sites and understanding costs, and windfall gains tax just comes into that feasibility.

**Bev McARTHUR**: Do you have a view, or does your institute have a view, on how school zoning affects the property market?

**Amelia HODGE**: No. That is a really interesting proposition. I will have to look into that.

**Bev McARTHUR**: Okay. You could take it on notice.

**Amelia HODGE**: I will take it on notice.

**Bev McARTHUR**: If you get a revelation, you can get back to us.

**Amelia HODGE**: I will.

**Bev McARTHUR**: That would be terrific. Well, that is about all, I think, Chair.

**The CHAIR**: Great. Thanks, Mrs McArthur. I have just checked with the rest of the room and there are no other questions. Thank you very much, Ms Hodge, for coming along and speaking with us today. I will call the public hearing closed.

**Committee adjourned.**