



**LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL
TERRITORY**

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into land valuation in the ACT)

Members:

**MR R MULCAHY (The Chair)
DR D FOSKEY (The Deputy Chair)
MS K MACDONALD**

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 29 NOVEMBER 2006

**Secretary to the committee:
Ms A Cullen (Ph: 6205 0136)**

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents relevant to this inquiry which have been authorised for publication by the committee may be obtained from the committee office of the Legislative Assembly (Ph: 6205 0127).

WITNESSES

BLACKSHAW, MR PETER, President, Real Estate Institute of the ACT88

The hearing commenced at 2.07 pm.

BLACKSHAW, MR PETER, President, Real Estate Institute of the ACT

THE CHAIR: I formally declare these proceedings commenced. I need to read to you some information before we proceed. The committee has authorised the recording, broadcasting and rebroadcasting of these proceedings in accordance with the rules contained in the resolution agreed by the Assembly on 7 March 2002 concerning the broadcasting of Assembly and committee proceedings.

Before the committee commences taking evidence, let me place on record that all witnesses are protected by parliamentary privilege with respect to submissions made to the committee in evidence given before it. Parliamentary privilege means special rights and immunities attached to parliament, its members and others, necessary to the discharge of functions of the Assembly without obstruction and without fear of prosecution.

While the committee prefers to hear all evidence in public, if the committee accedes to such a request, the committee will take evidence in camera and record that evidence. Should the committee take evidence in this manner, I remind the committee and those present that it is within the power of the committee at a later date to publish or present all or part of that evidence to the Assembly. I should add that any decision regarding publication of in camera evidence or confidential submissions will not be taken by the committee without prior reference to the person whose evidence the committee may consider publishing.

The matter the committee is examining today is the land valuation inquiry, or the inquiry into land valuation in the ACT. The inquiry was initiated by this committee. I am joined here at the moment by my colleague Dr Foskey. I believe Ms MacDonald will be joining us shortly. Before we take questions from committee members I would invite you to make a statement for the record, if you would like to expand on any of your views. Would you like to do that?

Mr Blackshaw: Yes. Firstly, I am here representing the Real Estate Institute of the ACT. I am the current president. The Real Estate Institute of the ACT and its members are concerned about the impact of property taxes and the way they are levied on property. Not only do they have an impact on the whole community but also on our membership pretty directly. I think it is fair to say that the Real Estate Institute of the ACT is more concerned with the land tax issue than the way properties might be rated. That is probably a point worthy of discussion. Our feeling is that land tax has a very detrimental impact on affordable housing. I think that, as land taxes increase and have increased, there is a very strong disincentive for people to invest in residential investment property. As a result, we are not seeing the rental pool growing.

Flowing on from that, we are experiencing very low vacancy rates and very high rents. Yet even with the high rents there is not a very attractive return flowing to the investor. This is exacerbated by the fact that we have a very attractive stock market at the moment and a change to the superannuation regulations. These are causing some people to sell investment properties and tip the proceeds into a super fund. We also

have a bit of a problem with interest rates, which obviously impact on the housing market generally.

The area the government has very direct control over, and probably the area which has the greatest impact on rents, is land tax. Obviously, the flow-on is to low-income families and also to first home buyers. If they are paying a lot more in rent, it is much more difficult for them to save a deposit.

Land tax here in the ACT is the highest in Australia. It is 10 times higher than in Victoria. There is no threshold applicable here, whereas there is in New South Wales. You can virtually go across the border to Jerrabomberra and buy almost any house. At the moment, if it is the first house that you buy for investment, you will pay no land tax at all.

We are also concerned about stamp duty. We think that is an impediment to housing affordability. That is something that could be looked at as well. That is probably enough from me as an opening statement.

THE CHAIR: That is fine. I appreciate that. In terms of land valuations and the way in which properties are currently being valued, do they have any impact, do you believe, on any of these factors? Have you taken your mind to that?

Mr Blackshaw: What I have a bit of a problem with, and what I think the industry has a bit of a problem with, is the fact that different land is valued differently. I think the attempt is to truly value or assess what the likely market value of a block of land, wherever it be might be, might realise any time it is offered for sale.

Even if you do that accurately the problem occurs, especially in the case of renting that property, when you do so and then land tax is calculated on that land value. You can have a house down in Gleneagles, for example, which might be quite a large, newish house. But because of the land value being much lower there than in, say, a suburb like Griffith, it will attract much less land tax, despite the fact that the rent generated from that property will be significantly higher than perhaps an older house in Griffith.

There are instances in the inner south—this is absolutely the case—where, because the house is a bit run down but is sited on a very valuable block, the rent will not equal the land tax and rates. So you have no incentive. There are people I know who choose not to rent their house because the return is less than what it might cost to pay land tax rates and put aside something for the maintenance of the house. If you are going overseas on a posting and come back a year later, you may have to repaint and you might even have to recarpet. For some people the difference—the rent that you will have left after your land tax and rates—just will not cover that maintenance.

THE CHAIR: In an opinion piece in the *Canberra Times* on 10 October, which I am sure you read, the Treasurer, Jon Stanhope, mentioned several facts about the ACT rental market. He attempted to refute your claims identifying land tax as a key factor behind the low take-up of Canberra investment properties. I will read what he said:

The fact is that the investor share in the ACT housing market has remained stable

for many years—including since the introduction of land tax on residential properties. Investment properties make up about 20 per cent of the residential property stock—about the same proportion as when the tax was introduced in 1991.

Do you have a view on that defence from the Treasurer?

Mr Blackshaw: That may be the case—I do not have the evidence to support or refute that—but the fact is that we are going through a period of expansion, certainly as far as the federal public service is concerned. As I mentioned, we have probably the lowest vacancy factor I have known in 18 years in the ACT as a real estate agent.

With unemployment levels at less than three per cent, I think it is fair to say that the federal government is going to suck people in from out of town. Many of those people will not be in a position to purchase a house straight up, so they are going to rent. There just is not enough rental property at the moment to support a massive influx. I think we are going to see a real crisis in housing affordability. Of course, it impacts those people who are least able to do it. If you come in with a terrific job with the federal public service, you will be able to outbid someone who is a lowly paid person in whatever work.

These people might not be able to afford a house. They are either going to be knocking on the door of the government—ACT Housing—or they are going to be sharing a house or moving into a caravan. I do not know. Whilst what Stanhope has said may or may not be true, the fact is we do not have enough rental property at the moment to support the demand.

THE CHAIR: In a buoyant climate like we have with low unemployment and a prosperity that is unrivalled, would you have expected that the percentage of people getting into the investment business should have increased rather than, as the Chief Minister said, remained unchanged since 1991?

Mr Blackshaw: There is plenty of money floating around. We Canberrans have never been wealthier than we are at the moment. There is certainly an opportunity for people to invest in residential property. You have to ask: why would they not do it? The reason they will not do it, or they are not doing it to the extent that they should be, is that the outgoings of rates and land tax are very high. You also have a very attractive stock market at the moment. I think those things in combination are dissuading people from investing in residential property.

THE CHAIR: In that same article Mr Stanhope claimed:

... investment returns on three-bedroom houses in the ACT in the year to June 2006 were higher than for every other capital city—except Perth.

Do you believe that is right, that the investment return is higher, or is it more the case that the gross rental is higher?

Mr Blackshaw: I think the gross rental may be higher. But if you look at the land tax that is levied on property in Canberra or the ACT versus the other states, we are 10 times higher than Victoria. On a house with a median land value you are about \$5,000

a year behind the eight ball. Why would you buy the same house in Canberra when you can buy it in Melbourne and be \$5,000 better off, year in and year out for the life of that investment? The cumulative effect of being \$5,000 behind the eight ball is really significant over a 10-year term or a 20-year term, if that was how long you proposed to own the property.

THE CHAIR: You would contend that it could be a higher gross return, but in fact a lower actual return?

Mr Blackshaw: Yes. I think what has happened is that the rents are very high because the supply is not being kept up to the market. Yes, the gross rents are high, but they have to be high. This problem will not correct itself until the rents get so much higher that, once you deduct the land tax and the rates, you are getting an equivalent return to the return you might get in other cities around Australia.

THE CHAIR: Mr Stanhope in that same report—and he said this in the Assembly—claimed that the ACT does not require owners to aggregate the values of their properties in determining land tax as in other state and territory jurisdictions. Does that in fact work out as a better deal, or does it work out as a disadvantage if you do not aggregate?

Mr Blackshaw: I think that in New South Wales you are at a disadvantage if you own a lot of property. The fact is that the majority of people will own one investment property. There are not too many people who own multiple investment properties. That is the point. It might be that there are some advantages to a small group of people to invest in the ACT versus somewhere else. But it is a bit like saying it is really bad in the ACT but in some areas it is worse. It does not make it good for the ACT.

I think the fact that we have an affordable housing crisis not just in the ACT means that other governments need to look at this. I know that, in recent elections in Victoria and Queensland, the oppositions came out and proposed significant cuts to property taxes as part of their platforms. I think politicians are slowly starting to realise that there is a very direct negative impact particularly on low-income earners when you levy such high property taxes.

THE CHAIR: In your commercial capacity you would represent a sizeable number of the rental investment owners in Canberra, would you?

Mr Blackshaw: Yes. Our head office manages about 500 properties, or actually about 600 properties, and our franchise offices would probably manage a similar number.

THE CHAIR: As a percentage of the ACT, I take it that that is pretty significant.

Mr Blackshaw: Yes, it is fairly significant. There are 120,000-odd properties in the ACT. We are managing about one per cent of those. Of the rental market that would be much higher.

THE CHAIR: What recommendations could you make to this committee that we might consider in terms of improving the affordability of rental housing in Canberra

and encouraging more people to invest in rental properties in the territory?

Mr Blackshaw: Firstly, the way it is levied, it is a very inequitable tax. To assess it on land value is not very fair. The fact that you might have a high land value does not translate into a high income. The condition and size of the house will be a much greater factor in the rent that would be generated. I think a fairer way to assess land tax would be to say, "We are going to take a percentage of your rent."

I spoke with Ted Quinlan about this some time ago. He said, "But people would just misrepresent what the rent is." That is not going to happen any more than people are going to avoid land tax at the moment by saying they are not renting the house.

The thing is that you have to lodge a bond with the rental bond board. Tenants and landlords have a habit of not getting on all the time. There is no way a landlord in his right mind is going to risk not paying land tax, if you like, as a percentage of the rent by trying to hide the fact that he has a tenant. That was not, in my view, a legitimate argument. I think that would be a much fairer way of assessing it. At the moment there is an amazing discrepancy. You might find that some properties are paying less than 10 per cent of their rent in land tax and others might be paying 90 per cent.

There can be arguments put forward that certain areas might experience better capital growth than others. Well, there are little blips that might occur as a short-term variation of that but, by and large, it is a bit like the tide rolling in. Little ships and big ships all rise at a similar rate. I think the capital gain on the outskirts of Canberra has been just as good as it has been, percentage-wise, in the central parts of Canberra.

I think that would be a fairer way of doing it, but the bottom line is that you have to give a worthwhile return to property investors to encourage them to invest in residential property. If you do not do that, you are going to be faced with some real, nasty social consequences. The way I think the ACT has grown with this influx of federal public servants, we are looking at a crisis that is going to become very severe in the short term. We already have a vacancy factor of approximately one per cent, which is the lowest it has been in years. There is not a lot of room to manoeuvre. If it goes much below that, we will see rents skyrocketing.

You can say that that is the market working, and that that is a good way to get more people into the investment market because they will be getting much better rent. But the consequences of that very high rent are, of course, that a lot of people are driven out of the market. It has an impact directly on low-income earners and also on people who are saving for a deposit. If a young couple are forced to pay an extra \$100 a week in rent, it will mean that they will be in rental accommodation for maybe some extra years before they can actually get their deposit together. These are the impacts that need to be considered. I think that, to a large extent, this has been overlooked.

I liken this a little bit to when Keating was Treasurer in the Hawke government. For a short time he did away with negative gearing. The impact of doing away with negative gearing was that we had a flight from residential investment property. In no time we had incredibly low vacancy factors and spiralling rents. The change to that legislation was reversed. Over time, we have seen state and territory governments gradually nibble for more and more in the way of property tax, and it is now getting to

this crisis situation.

THE CHAIR: Thank you for that.

DR FOSKEY: Can I first of all clarify a figure that you gave earlier on. You said there are 120,000 properties. What kinds of properties? Are they rental dwellings?

Mr Blackshaw: Well, 120,000 is the entire Canberra housing stock.

DR FOSKEY: Is that all it is?

THE CHAIR: I think it is 107,000.

Mr Blackshaw: Is it? Yes.

DR FOSKEY: You said you were managing one per cent of those.

Mr Blackshaw: Approximately, yes.

DR FOSKEY: How many is that?

Mr Blackshaw: We probably have about 1,200 under our umbrella.

DR FOSKEY: You have 1,200 rental properties?

Mr Blackshaw: Yes.

DR FOSKEY: There were interesting things that you said. First of all, I want to know if there are other jurisdictions which levy land tax in the way you suggested, which is as a percentage of rent.

Mr Blackshaw: I do not think there are. In all jurisdictions I am aware of, land tax is a function of the land value.

DR FOSKEY: There must be some reason for that—ease of establishing it.

Mr Blackshaw: Possibly. I do not know. I cannot see that it would be difficult to administer a tax as a function of the rent. There are too many ways for people to be checked.

You can imagine that, if you have a bit of a falling out with your tenant and it is clear that you are not giving receipts or you have not signed a lease, then I think the tenant is likely to go to the rental bond board or the rental tribunal or whoever, and say, “Look, I do not think my landlord is playing it straight,” or, “I am slipping him some cash every week.” Let me tell you: the reason agents manage the majority of properties is because there is tension between landlords and tenants. Tenants do not pay rent on time, and landlords do not always rectify problems in a timely fashion.

DR FOSKEY: I will not go into what I think, but I am interested in whether you have been able to put that idea to the Chief Minister’s high-level steering group on

affordable housing.

Mr Blackshaw: I am actually having a meeting with Jon Stanhope in about an hour.

DR FOSKEY: Are you?

Mr Blackshaw: Yes.

DR FOSKEY: I see. Is that in relation to the affordable housing steering group?

Mr Blackshaw: Affordable housing is one of the issues we will be discussing—and a few other related issues.

DR FOSKEY: I would, of course, be disappointed if that group had not sought your advice, as a representative of a very important stakeholder in this whole business. Good. You say that the ACT has the highest land tax in Australia—which, by the way, is disputed by the Chief Minister in his response to your article.

Mr Blackshaw: It is a little bit like comparing mobile phone rates. It is not an easy thing to get a handle on, because there are so many different scales and thresholds and all the rest of it. What I am saying is that, when you look at a property that has a \$200,000 land value, it might be taxed much higher in a whole lot of other states than here, but then if you look at the median house price or land value, the ACT is higher.

DR FOSKEY: I am wondering if some of the other states and territories might just have higher stamp duty or other charges.

Mr Blackshaw: Victoria has slightly higher stamp duty, but I am not even sure whether that is not going to be reviewed by the Bracks government. I think Victoria has the highest stamp duty but, as I said, land tax is one-tenth of what it is here. You see, stamp duty is a significant tax. But if you buy an investment property, hold it for 20 years and amortise that stamp duty over 20 years, it is a much smaller amount than the land tax in the ACT versus Victoria.

DR FOSKEY: You mentioned—and it is obviously an issue—that a number of investors, although I do not think it would be all investors by any means—are weighing up the returns they are going to get from their super and from the stock market in relation to investing in housing. Do you not think it would be a little bit difficult for the government, then, to determine its policies on land and other taxes in relation to where all that sits in this volatile market where investors are throwing a few balls in the air? This is not a territory with a whole lot of opportunities for making revenue. That is obviously the crux of the problem.

I am really asking two questions. One: should the government change its taxes in relation to how the stock market and superannuation taxes look? Two: what about the role those taxes play in creating the social and physical amenity which bring people to Canberra in the first place and provide your market?

Mr Blackshaw: I guess the government has to weigh up the social impact of high land taxes versus the benefits they can derive from spending those taxes. I have to say

that I do not think there are too many priorities—there are some—that are higher on the totem pole than affordable housing. I think that, ultimately, there are probably a lot of people who are forced to be helped out by the government and supplied a house by ACT Housing because they cannot afford a house in the private sector.

I would argue that, to a certain extent, it is counterproductive to have the high land taxes in terms of the cost benefit to the government. But I also would argue that there are not too many ways that the government could spend their money and do it in a more socially beneficial way than to actually encourage the private sector to take up the slack here. The government cannot afford to go out and buy or build 50,000 or 20,000 houses, or whatever is needed, to alleviate the problem we are seeing at the moment. But they can alleviate it pretty much overnight by significantly reducing or doing away with land tax.

DR FOSKEY: Also there is that thing about just being there in the market along with the stock exchange and superannuation.

Mr Blackshaw: In answer to that comment, I think it is fair to say that if you were to visit any financial adviser in Canberra today you will not find one who will say to you, “Put your 100 grand into investment property in Canberra.”

DR FOSKEY: Well, 100 grand would not go very far.

Mr Blackshaw: Most people might have that. They might put that into it and borrow \$300,000 or \$400,000. I do not know. If you wanted to, you could do a little test on this. You could get one of your staff to have a meeting randomly with half a dozen investment advisers and say, “This is my circumstance. I have \$100,000 that I can tip into an investment. I am thinking of buying a house in Canberra. What do you think?” They will all indicate thumbs down: “Do not do it; there is no return; put it into the stock market; you get the same capital growth or better; you get a franked dividend of maybe five, six or seven per cent at the moment; you cannot get anything like that out of real estate.”

THE CHAIR: Would you be predicting a slowdown in capital growth in real estate in Canberra over the next several years?

Mr Blackshaw: There has been a slowdown. This is something that Jon Stanhope referred to in his article in the paper—that residential investment properties have to be looked at in the context not only of the cash flow but also the capital growth. I think it is fair to say that, when you look in the rear-vision mirror, up until the end of 2003 when we had two successive interest rate rises at the end of the year, there had been very significant capital growth probably for the previous five years.

If you look at the residential property market over the past 50 years, you will find that it is a cyclical market. You tend to have periods of four, five or sometimes longer—up to seven years—of significant capital growth. It then falls into a trough and pretty much stays where it is for four or five years.

THE CHAIR: Do you expect that that will make it worse?

Mr Blackshaw: I think we are in that sort of cycle at the moment that, all things being equal, we can expect to see not very significant growth in the housing market probably for the next three or four years. And we have had three years where there has been very insignificant growth. Again, if you are not getting capital growth and you are not getting a cash flow, then you have to say, “Why am I in the business? What do I do this for?”

There is another factor that needs to be brought into this. That is that there is a real convenience in investing your money in the stock market. You do not have to have an argument with tenants. You do not have to ring up BHP and say, “Hey, listen. I haven’t got my dividend cheque. What is going on?”

There is a bit of a hassle factor when you are dealing with tenants. I think it is fair to say that the tenancy tribunal has a pretty favourable view to siding with the tenants. There are a number of people I know who, after a series of what they consider to be unfair decisions in the tenancy tribunal, have decided that they will not continue to be residential investment investors. That is another minor factor in the mix as well.

DR FOSKEY: You said before that a financial adviser is unlikely to advise a potential investor to buy a property in Canberra. Are they likely to advise them to buy such a property anywhere in Australia, and where would that be?

Mr Blackshaw: I do not know. They may not at the moment; but certainly they are not in Canberra.

DR FOSKEY: There is another comment that the Chief Minister or Treasurer makes in his article that I would like you to comment on. It says:

The fact is, Canberra investors have generally enjoyed very substantial capital gains over recent years, and it is worth bearing in mind that most are able to claim land tax as an eligible deduction for Commonwealth income tax purposes, reducing the impact for those in the top marginal tax rate by about half.

Could you comment on that? I am fairly ignorant in this. I am a renter in the private market, as I am sure you are well aware. I am certainly not a property owner who is making any money out of any property anywhere. I am just letting you know that I am ignorant and I am asking you this question in that spirit. I refer to the top marginal tax rate. Is this going to benefit a particular group of investors, like people who own a number of properties? Who are the people in this top marginal tax rate?

Mr Blackshaw: This is an interesting thing. The advice I have is that most of the people that own investment properties are not very wealthy people. In Canberra they are middle-aged public servants in the main, who seek to build a bit of wealth and a bit of a superannuation nest egg by investing in residential property.

It is true that if you are highly geared, or if you are geared to any level—that is, if you have any level of debt—the interest will be deducted against income. That has been the case except for that brief period when Paul Keating decided it was not necessary anymore. There was a very serious consequence of taking that away, as I have mentioned.

It is the case that some people have debt and will be claiming some deductions. But if you have no debt on the property, then you have no deductions, although you will be able to claim the land tax back against it. I do not even know whether you can claim it against other income. I cannot recall.

THE CHAIR: Yes.

Mr Blackshaw: You can claim it against other income; yes.

THE CHAIR: You can claim it against assessed income if it is for income earning purposes.

Mr Blackshaw: But if you did not have a debt, you would not need to claim it against other income; you would claim it against the rent.

DR FOSKEY: You said some interesting things. In the end, I do not suppose that we will get rid of land tax—that is in our dreams, your dreams or somebody’s dreams—but you have indicated that there are ways of adjusting it and that it could increase the stock of affordable housing. I am aware that in Griffith a third of the rents that are charged go to land tax, but there could be another category of houses. Your percentage of rent proposal might mean other pockets of houses. I am not sure. We need to think it through.

Mr Blackshaw: I think it would be a fairer way to go.

DR FOSKEY: Yes, but what if we offered incentives for people to offer more low-rent properties by manipulating land tax on particular properties? I do not know the categories. That is a later job—but consider that. We do not want to get rid of all the low-income people in private dwellings in Griffith, let us say, but some of the houses are perhaps less attractive to wealthy people than to others. At the moment they are calling for the same amount of land tax. What can we do?

Mr Blackshaw: I do not know how you would make an adjustment like that fairly. Maybe there is some point. I have not actually thought about it. You mentioned that you are renting in the private market, and you say it might be in my dreams that land tax will be removed. How do you think you will feel when your landlord or your agent comes to you in 12 months time and says, “We are doubling your rent”? You will say, “That is outrageous.” They will say, “But that is the market; we can get that now”. And you will say, “I cannot pay it.”

DR FOSKEY: No, I do not like that thought at all.

Mr Blackshaw: You need to think about it.

DR FOSKEY: I am just one of many people.

Mr Blackshaw: You need to think about it. I think you are probably in a better position to handle that news than a lot of people are. What I am saying is that this is where we are headed. Mark my words. This is going to hurt you, but it is going to hurt

a lot of other people much more.

DR FOSKEY: It may do, but the question of how much the land tax issue contributes to that is still in doubt.

Mr Blackshaw: I think that, if it were abolished tomorrow, we would see a massive increase in the number of rental properties come available. You see, you would create a market. There would be a lot of people who would be saying, "I like the idea of owning property. I feel it is a very secure investment. I understand it. I can drive past it and look at it. I cannot feel any tangibility with stocks."

Australians have in the past been very keen to invest in residential property, but that is changing. A lot of the reason it is changing is because they are going to experts who are saying, "It does not make sense. It is a dumb investment. You are not going to get a return. You are going to have hassles. Put your money in the stock market." They are being convinced that this is the way to go.

DR FOSKEY: Of course it may not be, even though they are being convinced.

Mr Blackshaw: It has been very good in the last few years.

THE CHAIR: Thank you, Mr Blackshaw.

Mr Blackshaw: It was a pleasure.

THE CHAIR: I know you are busy. We appreciate it. We hope your meetings with the Chief Minister are productive.

The committee adjourned at 2.45 pm.