TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Land Transfer Duty Fees

Melbourne – Thursday 11 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

Nicholas McGowan

WITNESSES *(via videoconference)*

Mr Matthew Kandelaars, Chief Executive Officer, and

Mr Jack Vaughan, Director of Policy, Urban Development Institute of Australia Victoria.

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 I 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, and I also welcome any other members of the public watching via the live broadcast.

Before we begin, we will just go around the table and have committee members introduce themselves to the witnesses, starting with Mr Mulholland.

Evan MULHOLLAND: Evan Mulholland MP, Northern Metropolitan.

Tom McINTOSH: Tom McIntosh, Member for Eastern Victoria.

John BERGER: John Berger, MP for Southern Metropolitan.

David DAVIS: David Davis, Southern Metro.

The CHAIR: Georgie Purcell, Northern Victoria.

David LIMBRICK: David Limbrick, South-East Metro.

Bev McARTHUR: Bev McArthur, Western Victoria Region.

The CHAIR: Great. Welcome to our witnesses this morning.

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 the 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 name and the organisation you are appearing on behalf of.

Matthew KANDELAARS: Yes, thank you, Chair, and thank you, committee. My name is Matthew Kandelaars, and I am the Chief Executive Officer of UDIA Victoria. To my right I am joined by –

Jack VAUGHAN: Good morning, all. Jack Vaughan, Director of Policy at UDIA Victoria.

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

Matthew KANDELAARS: Absolutely, and again thank you, Chair. Look, I might just begin with a little bit about us as the UDIA. I would like to discuss, more broadly, the tax burden on the property sector and Victorian homebuyers, a little bit about the current state of the market and what our members are facing and then, just briefly, the broad inefficiencies with stamp duty as a taxation method.

So to begin, the UDIA, the Urban Development Institute of Australia, is the peak body for the urban development industry. We are a not-for-profit advocacy, research and educational organisation supported by a membership of land use and property development organisations across the private sector and Victoria's public service. We are committed to working with both industry and government to deliver housing infrastructure and livable communities for all Victorians.

The development industry, more broadly, is one of the state's leading employers. Direct employment in residential construction increased to approximately 54,000 jobs – that was direct – and indirect to 188,000 jobs in FY 2022, creating a total of nearly 250,000 direct and indirect jobs during that financial year. Residential development directly contributes a total of $6.7 billion annually to the Victorian budget through a combination of development charges to the tune of $2.5 billion and $4.2 billion of taxes on residential development.

UDIA Victoria has previously modelled the contribution of taxes, fees and charges towards the cost of a new home in Victoria. On the purchase of an average apartment in middle-ring Melbourne, 42 per cent of the cost is attributable to taxes, fees and charges. To put this in context, on a $650,000 apartment in middle-ring Melbourne, $273,000 goes towards taxes, fees and charges.

In the FY 2021–22 property taxes represented 52.7 per cent of state taxation revenue. This percentage was expected to moderate slightly through the current financial year to 48.1 per cent, but those ratios or proportions are generally what we are seeing – just shy of 50 per cent each year of property taxes as a proportion of total state taxation revenue. In particular stamp duty receipts in FY 2021–22 were $10.2 billion. The last state budget forecast that stamp duty would moderate slightly and would raise $8.2 billion and $8.3 billion respectively in 2022–23 and 2023–24, which would take into account the weakening market sentiment and expected, and since realised, interest rate rises. Since 2014 a total of $57.1 billion in property-related stamp duties has been collected, and annual property-related stamp duty receipts have increased by over $6 billion or over 140 per cent throughout that period. So it is certainly our position, Chair, that the over-reliance on property taxes is a key driver of housing unaffordability, and until that over-reliance on property taxes is genuinely addressed, housing affordability will remain at risk and the dream of owning a home will remain out of reach for the average Victorian family. More broadly, the current reliance on property tax has also placed Victoria's economic recovery at risk. Stamp duty relies of course on the strength of the property market in any given year, so there are fluctuations. We do see fluctuations each and every year in terms of the strength of the residential property market particularly and of course stamp duty receipts. So it certainly leaves the budget position of our state open to fluctuations, and we consider that an over-reliance on property is a year-on-year risk to the certainty of setting our state budgets.

The evidence is clear, Chair. We believe that tax reform to reduce the burden on Victorian homebuyers will support housing affordability, which will stimulate jobs and economic activity and de-risk the state's economic recovery.

I might just talk very briefly about the state of the market at the moment. Of course it has been in the news quite a bit over the past couple of months, but conditions that are faced by the development industry are perhaps the most challenging that we have seen in decades. In fact we speak to our membership – as you would expect, as a membership body, we speak to our members all the time – and we hear from a number of our members that the conditions at the moment are as challenging as they have seen in their careers.

Building industry insolvencies have hit their highest level in seven years. Cost-of-living pressures, successive interest rate hikes and market volatility have severely eroded homebuyers' purchasing power, so although we have seen a plateauing of house prices, affordability has not eased at all. The purchasing power of the average Victorian family is under more stress than it ever has been. On the supply side, we have seen over the past couple of years a significant increase in the cost of materials and labour. We have seen time and cost blowouts. Labour shortages have hit our sector hard, and of course, as I said, we are now facing demand-side pressures as well, as consumer confidence has been hit.

It is a challenging period. We are a resilient industry, so we will keep working as best we can. Our members will do what they do best, which is deliver new homes and create new communities and deliver jobs across Victoria. But it is getting harder and harder, and again I think it shows that the reliance of the state budget on the property sector does put the overall health of the Victorian economy at risk.

Just a final comment from me – and then we are very happy to take questions – is on stamp duty itself. Obviously, stamp duty is the key focus of this committee's remit, but stamp duty itself I think is regarded widely as a bad tax and an inefficient tax. It is a tax on mobility. It is a tax which seems to have undue bearing on younger Victorians, who are generally more mobile. It is a tax which discourages mobility and transactions. It limits or inhibits housing supply. Again, we could talk to this through your questioning today, but certainly if you look at the example of perhaps an older Victorian who has been in a family home for many decades – a quarter-acre block with a large garden and lots of maintenance – that home might not be what they desire and might not be appropriate to their needs anymore but there is a disincentive to right sizing. That is just one example of the unintended consequences of stamp duty as a taxation measure. But on that basis, unless, Jack, you have anything to add, we are very happy to take questions from the committee.

The CHAIR: Great. Thank you so much. We will just move around the room with questions. We will try and keep them to 5 minutes and go around again if there are others, starting with Mr Mulholland.

Evan MULHOLLAND: Excellent. Thank you both for appearing before the committee. I wanted to ask particularly about these stamp duty waivers and thresholds of between $600,000, and then they taper off to $750,000. We have got April's CoreLogic figures saying the average unit price in Melbourne is $600,000, so you have only got about half of units being eligible. Then you have got the average house price at $900,000, so most houses have no stamp duty concession at all and yet make up 80 per cent of dwellings. What are your thoughts on the thresholds as I have discussed them? Do you think they are at the right level, and do you think that particularly young families are basically having to make a choice between apartments and going right out to particularly growth areas, where there is not as much infrastructure and amenity and access to decent transport options?

Matthew KANDELAARS: I think, Mr Mulholland, if I may address that final point first and say there is absolute value in both forms of living – apartment and greenfield house and land packages – and I know that our members take great pride in delivering communities which have fantastic amenity. But I take your point that there is a choice that is faced between two very different forms of living. So I suppose in respect of your question about thresholds, you are absolutely right: thresholds are set at any given point in time, but our housing market has changed significantly, and housing values, dwelling values, both units and detached homes, have increased markedly in recent times.

So there is a question about whether those thresholds are set at the right levels. I know your question was framed around concessions, but if I look just generally at stamp duty payable – the bracket creep, if you like – the increase in home values has seen stamp duty receipts increase. But certainly in terms of concessions, how meaningful are those concessions and how much of the market do they actually impact? We would of course like to see those thresholds in respect of any concessions offered increased to reflect increased market values and to be able to cut in at a level where as many families as possible could be supported through that.

Evan MULHOLLAND: Excellent. Can I ask if you have a view or opinion – just slightly changing the topic – just on the amount of development that I guess is being slowed or held up at a local government level, particularly in middle suburbs and the inner city and what effect that is having on the market.

Matthew KANDELAARS: Absolutely. We are very, very happy to step into that space. Look, I do not think there is any doubt that the planning system in Victoria, as it currently stands, is not fit for purpose. As I say, we speak to our members daily, and our members are constantly frustrated by the delays that they face in bringing new homes to market. Of course we have been engaged heavily with the government over the course of the past few years on potential improvements to the planning system. The planning reform package that the government announced – we are very hopeful that that reform package will be back. There have been, obviously, news reports to suggest that it may be close to being on the table again, and we very much welcome that. But certainly – look, I am going to speak very frankly here – there is a challenge, particularly in the inner and middle-ring suburbs, around nimbyism.

My view is that elected officials – and I say that across all tiers of government and all political persuasions – are allergic to the conversation around density. It is a conversation that often falls back on our members, on developers themselves, to be having with the local communities, as opposed to the hard decisions about the need for more housing supply as an essential ingredient to affordability and the very fact that if you want more housing supply, you need density – appropriate density. We have never as an organisation called for, you know, Hong Kong-style towers through Melbourne suburbs but for appropriate density that best utilises established infrastructure, existing infrastructure. We absolutely need state and local government to be leaning into that conversation and having those difficult conversations with the community. So without doubt there are handbrakes on supply, and that has a very large impact on affordability throughout Melbourne – there is no question.

Evan MULHOLLAND: Great answer. Thank you. I might pass around.

The CHAIR: Thanks, Mr Mulholland. Mr McIntosh.

Tom McINTOSH: I will ask some more questions later, after this, but I am just hoping you could just – we were just talking about the concessions briefly. I think with somewhere in the order of 20 to 25 per cent of the total volume of revenue that comes in the concessions are applied, but with the way those concessions are currently targeted, how do you see that benefiting those looking to purchase homes?

Matthew KANDELAARS: I am going to take an example from recent times. There were some concessions put in place, particularly targeting inner Melbourne, so the Melbourne LGA. They were stimulus measures that were brought in on the back of the pandemic, and obviously we saw, at the outset of the pandemic particularly, the central Melbourne apartment towers empty out. Supply and demand are intrinsically linked, so what you really need is a forward pipeline of supply. Developers look obviously to debt and equity finance, but in terms of debt finance, you need projects to be feasible for the bank to invest and lend some money. So certainly in terms of those concessions, we saw that they were a very welcome measure. They were supported by us. They were supported by other industry groups, supported by the union movement and supported by the City of Melbourne. What that did was bring transactions forward, bring economic activity forward. So what we saw there was certainly an improvement in transactions in inner Melbourne. That was welcomed. It was welcomed by our members. So I think that is important.

The other part I should say there is it was time limited, and that provides a little bit of a burning bridge for people looking to buy a home. They know these concessions are limited, they know to get in as quickly as possible, and it really does provide some stimulus, which was welcome at the time and will be welcome again. We have actually had some research conducted on our behalf by an independent firm which suggests that the central Melbourne apartment pipeline over the next five years will be half of that of the previous five years, so there is a significant supply issue in central Melbourne. Again, concessions were an important part of that through the pandemic and, with luck, concessions will be an important part of that moving forward as well.

Tom McINTOSH: As for the concessions that are available to individual purchasers, do you have a view on – I mean, I suppose that is a bit outside your remit; I might come back to that a bit later. With regard to nimbyism, as you were talking about before, have you got some examples of how that is impacting on developments? I would definitely be interested to hear a couple of examples there.

Matthew KANDELAARS: I am loath to pick winners and losers between our membership of course. I think all of our members would decry nimbyism wherever they are operating. But certainly we get the arguments, and I am not going to shy away, as a developer industry association – it is not too difficult for a nimby to look at a poor example of development and turn around and say they do not want that anywhere near them. And that is absolutely understandable. It comes with design, it comes with car parking, it comes with all of these different factors, which slows down the development process and the planning process. At a local government level of course I understand that councillors are elected by their local communities, and whether we like it or not, it is a political process. We would like planning to be as best as it possibly can be and – I am pragmatic; I am not suggesting it is an easy fix – depoliticised. We would like planning considerations to be undertaken on their merits rather than on political bases, but certainly it is not difficult. We could provide examples, but again, it might be picking winners and losers within our membership.

I will not mention this one by name, but there was a very public example in Melbourne’s northern suburbs recently, a proposal which is right by a train station, within 7 or 8 kilometres from the CBD. I would expect that every textbook planner would suggest that that is an appropriate place for appropriately dense development to support housing supply. That process went through a number of years in the system and then ultimately was carved up and spat back out in a manner that, at least that proponent suggests, is not commercially viable.

Tom McINTOSH: Thank you.

The CHAIR: Mr Berger.

John BERGER: I do not have any questions at this time, Chair.

The CHAIR: Great. Mr Davis.

David DAVIS: Mr Kandelaars, it is a pleasure to talk to you. I have got a list of questions here. The first of all goes to the tax issue that you have raised. Around 40-odd per cent – 42 per cent – of the make-up of a new apartment is taxation and charges and fees, and the government seems to be intent on putting in new taxes. There was a go last year to try and put a new social housing tax on, and that would have added about $20,000 to a median-priced house. So I guess my first general question is about these new taxes, and then I want to come to one very specific one, which is the windfall gains tax.

Matthew KANDELAARS: Absolutely.

David DAVIS: New taxes make properties more expensive. Is your organisation opposed to new taxes on developments?

Matthew KANDELAARS: The short answer is yes, we are. We consider that our industry and our members are taxed more than enough as it is, and I think that, in expanding that answer, tax is part of the cost base in a new development. So there were arguments at the time; if you take, for instance, Mr Davis, the social and affordable housing contribution – I should say, and I am on the record, and we have said this, you know, a number of times: we support absolutely extending secure funding streams for social and affordable housing. We consider that it is an issue beyond simply and solely the development sector, in particular the residential development sector, and we think it is a community-wide issue, and it deserves as such a community-wide solution.

But during the course of that debate last year there were arguments to say that the cost, that 1.75 per cent contribution, would be taken off the price of land. In many cases that simply cannot be done. If you take, for instance, the south-east growth corridor of Melbourne, and I do not have the exact figure, but there or thereabouts 80 per cent of that land in the south-east growth corridor is actually in developer hands as we speak. It has already been transacted. It is held by developers. They have purchased that land from, you know, the farmer for a particular price based on a set of assumptions and with a particular cost base in mind. So adding an extra 1.75 per cent – they simply cannot absorb that: (a) of course their business models, you know, would not particularly like that but (b) if they are debt-financed, you know, the bank will have something to say about that as well.

David DAVIS: And the purchaser.

Matthew KANDELAARS: So absolutely, the cost base is what it is, and it will need to be passed through. So that is the first part of that, and I think, you know, absolutely we did oppose that particular mechanism. We are hopeful of having a conversation about a broader mechanism that will support social and affordable housing. But it is one example of course that taxes do get passed through to homebuyers, and they need to be.

David DAVIS: And on the windfall gains tax in particular, what impact is that going to have on housing affordability? That has already been brought in. I understand that it actually applies from 1 July this year.

Matthew KANDELAARS: That is right. So it does commence on 1 July 2023. It was legislated at the end of 2021. So our position on windfall gains tax is, again, it will hurt housing supply and affordability. The windfall gains tax will apply in regional Victoria. It will also apply in Melbourne's inner and middle ring. In essence it is a disincentive for developers to take the risk. You know, we have spoken about time delays. We have spoken about the costly planning process. They take significant risk in bringing a product to market and getting it rezoned, and this will be, once it commences, a 50 per cent tax on that risk. So certainly if you take the case, you know, in inner- to middle-ring Melbourne, of an old service station site on a main road that could otherwise be purchased by a developer – rezoning is sought, remediation takes place and, you know, a few apartments go up. That is a really costly process. It is a risky process. You know, contamination on one of those sites needs significant remediation. That is not an easy process. It is not a cheap process. So it is an absolute disincentive in that sense.

On the other side of the equation in regional Victoria, we have got significant land supply pressures in regional Victoria, particularly in those larger regional centres – Geelong, Ballarat, Bendigo – and again, it is a disincentive to putting more supply into the market. So there is a real risk there to affordability.

David DAVIS: Just to understand what this might mean, it is a tax on those developments – so those taxes will be passed through, and the stamp duty would be applied on the increased value, or the increased cost base? The stamp duty goes on the end of all the taxes, am I correct on that?

Matthew KANDELAARS: That is right. Once, say, a parcel of land in regional Victoria is subdivided, sold off and settled to each individual purchaser, the stamp duty is applied at the purchase price of the end user.

David DAVIS: So it has got the taxes in it. And are you aware of any developments that have stalled with the windfall gains tax, talking about supply?

Matthew KANDELAARS: Well, yes and no. I should say any that have stalled, obviously the tax has not commenced. We are aware through our membership that it has led to significant uncertainty and significant questions between vendor and purchaser around what that tax means and how it will be applied. There is a huge amount of uncertainty as to how it is actually going to play out in practice. At the time that the tax was announced we did go and work, as you would expect, very closely with our membership. At that point in time we had members come to us with their wide examples of developments across the state, both inner ring, middle ring and regional Victoria, where they say to us that their projects would no longer be viable based on a 50 per cent windfall gains tax. So on the back of that work, we modelled that the windfall gains tax would cost Victoria very close to 7000 new dwellings, 20,000 direct jobs and over $7 billion in economic output.

David DAVIS: Would stop?

Matthew KANDELAARS: Would stop.

David DAVIS: Thank you. I will come back with other questions after.

The CHAIR: Thanks, Mr Davis. In your submission you have suggested the need for urgent reform. Can you take us through some of the alternatives that you see could be a pragmatic option without having that impact on the budget?

Matthew KANDELAARS: I should say – and again, Jack, feel free to jump in at any point – that we actually do not have an endorsed position around a land tax and stamp duty swap. We do not yet because we understand it is a very complex piece of policy, and we have seen, obviously, other jurisdictions try this and have varying levels or varying degrees of success.

David DAVIS: Failed, actually.

Matthew KANDELAARS: So our position has been we do not like stamp duty, of course, but rather than just simply advocating for a swap between stamp duty and land tax we are calling for and we have called for a holistic approach. We have called for a holistic review of the state taxation system, particularly with a view to its over-reliance on the property sector and property taxes. In that of course the question of stamp duty and land tax should be examined – the swap between the two, I should say, should be examined, particularly around the question of revenue neutrality. We also say that just the rate of stamp duty should be examined, the thresholds, and trying to address bracket creep. The foreign purchaser taxes – if you look at stamp duty for instance, Chair, not only is there the rate of stamp duty for a local purchaser, you could add 8 per cent to a foreign purchaser, so what does that mean, particularly again for central Melbourne apartment stock? If you are turning away foreign purchasers, you need a certain level of presales to get a project off the ground, so what does that actually mean? Rather than what does it mean for demand, what does it actually mean for supply? So we would like the government to have a serious conversation with significant community and industry input into the broader taxation system. We would like that to move forward and for a report with recommendations to be put forward as a matter of urgency. But again, rather than just looking at stamp duty and land tax as alternatives, it needs to be holistic and needs to look at that issue amongst a whole range of other issues, and again with the ultimate intent of reducing the burden on one particular sector.

The CHAIR: Great. While we are operating under stamp duty, in your view are there any changes that could be made to concessions or exemptions to make buying a first home more affordable for Victorians?

Matthew KANDELAARS: Again, going back to the first question from Mr Mulholland, I think certainly looking at the thresholds would be, if I can use this term, low-hanging fruit from a policy perspective. If you have got thresholds that cut in at, say, $650,000 – you have got the average price of a dwelling at that plus X per cent – how do we enable as many first home buyers as possible to have access to these concessions to support them into the market? I think that would be certainly our first recommendation – to look at those thresholds. Certainly we can look at first home buyers as a particular segment. We know that home ownership is getting less attainable by the day. Even with property prices perhaps not decreasing but certainly plateauing over the past 12 months with rate rises, that has not led to an increase in affordability. In fact it has been the absolute opposite, with purchasing power reducing significantly. I know that certainly Jack and our team have had a look at that purchasing power and what the average couple might be able to receive in terms of debt finance at the moment for a mortgage. There are not too many dwellings available for that sort of purchasing power, I can tell you. So I think thresholds would be absolutely a first and quite simple mechanism to address this.

The CHAIR: Great. Thank you. Mr Limbrick.

David LIMBRICK: Thank you, Chair, and thank you, Mr Kandelaars and Mr Vaughan, for your submission and appearing today. Going through your submission I think the most striking thing to me is your analysis that the median-income family cannot afford the median house price, and yet 42 per cent of that house price is made up of taxes, fees and charges. Are taxes, fees and charges killing off the dream of home ownership for average Victorians?

Matthew KANDELAARS: Look, they are certainly not making it easier. Our public position has always been that you cannot tax your way to housing affordability. It is as simple as that. Certainly Jack is across those details, around the purchasing power and the affordability, and I might throw to him to outline some of those in a bit more detail for the committee's benefit.

Jack VAUGHAN: Thank you, Matt. Just to that point, Mr Limbrick, we have cited some of the research that was conducted by Westpac, which shows 23 per cent of 25- to 34-year-olds, who sit within that traditional first home buyer age bracket, have approximately $15,200 saved towards buying a home. In a dual-income household this equates to $30,000 roughly or a third of the total deposit. So, as you said, it makes the median metropolitan house, detached or unattached, increasingly and prohibitively expensive. Obviously, as we have highlighted, taxes, fees and charges constitute a significant portion of that end property value. I think it is probably important to know as well that because a significant portion of that is generally borrowed, effectively you are borrowing to pay those taxes, fees and charges, and you are incurring that interest as well as the principal on that too.

David LIMBRICK: Thank you. That is quite concerning. One of the other things that you mentioned in your introduction was labour costs and labour shortages. Is one of the sources of those labour shortages the fact that your members are effectively in competition for labour with government projects?

Matthew KANDELAARS: Yes, it is. We have had very constructive conversations with the government on this topic, I should say, but certainly there is no doubt that there is pressure in the market at the moment. If you look at the subdivision of land, it is actually not too dissimilar to a civil infrastructure project. On a major state-funded freeway as opposed to a road in Melbourne's growth corridors, the work is the same and the contractors are the same. So certainly when you look at the state infrastructure programs, which are generally on a cost-plus basis, I understand, it is increasingly difficult for our members and members of the civil construction industry to compete, because costs are going up. I do not have the exact figures, and we can certainly take this on notice if you would like, Mr Limbrick, but the cost of a truck, for instance – the daily rate for a truck to haul things to and from site – I understand is somewhere in the vicinity of $3,500 a day at the moment, where 12 months ago it may have been a thousand per day or slightly over a thousand a day. Absolutely, both on the cost of materials and the cost of labour, it is increasingly difficult. We understand also that the government has a very ambitious infrastructure agenda, and a lot of that should be applauded. But it does create unintended consequences and flow-on effects for the industry.

David LIMBRICK: Thank you.

The CHAIR: Thanks, Mr Limbrick. Mrs McArthur.

Bev McARTHUR: Thank you, Chair. And thank you, gentlemen, for appearing. I am interested in a few matters, the windfall gains tax being one, and the fact that exacerbating the problem, I would have thought, is that the tax is not hypothecated so therefore no infrastructure is likely to result in that particular area where the tax is collected. It just goes into consolidated revenue to assist the bottom line of this government. So I would like you to comment on that, but also on the issue of the other handbrakes to development, which are the red and green tape issues which result from all the requirements of cultural heritage reviews, the social inclusion policy, the number of quangos that you have to deal with in terms of the EPA, the FRV and water boards et cetera. In my area and the Great Ocean Road area there could be 30 you might deal with. What cost does that add to housing affordability?

Matthew KANDELAARS: If it is okay, Mrs McArthur, I might start with that question and work backwards. I could not tell you what the cost is precisely, but it does add cost, without doubt. You are right that there are many, many dozens of agencies that a developer needs to deal with and work with through a planning process. Some of those are, if I can put this delicately, less responsive than others and less concerned about finding an outcome than others. No doubt there are challenges for the industry, and again I referenced this earlier in terms of the planning reform work, but the work that Anna Cronin did through the course of 2019 and 2020 as Commissioner for Better Regulation around a reduction of red tape and the removal of red tape – we support all of those recommendations, and we would like to see those implemented as a matter of priority. I can say that we continue to work with authorities and agencies directly but also through ministerial officers. We would like to see very much a focus, a coordinated focus, at a government level and at cabinet level, on affordability and how we drive cohesion between all of these agencies and have them working in the same direction. So that is one. Again, to answer your question directly, I could not tell you how much cost is added, but there is certainly a material cost that is added through that process.

To your first question around the windfall gains tax and its lack of a hypothecated fund, these funds will go into consolidated revenue. That was certainly an issue that we raised at the time. We advocated that those funds should be hypothecated. In fact we supported some amendments that were moved in the Council at the time which would have hypothecated those funds. Again, pragmatically I understand that I do not think there has ever been a Treasurer who would really relish hypothecated funds, but certainly in this case, in the sense of the windfall gains tax, we spoke about its impact on regional Victoria. We do not see that there is any justification for taking funds out of Western Victoria, Eastern Victoria or Northern Victoria and putting them into a marginal seat in suburban Melbourne.

Bev McARTHUR: Thank you. Yes, all those bleating about the lack of housing availability and rental accommodation actually supported the government on that matter. But going to the whole issue of tax churning, where we give on the one hand a first home owners grant but take on the other stamp duty or whatever it might be – windfall gains tax, development tax and so on – what is your position on that? Are we actually just making the whole system incredibly inefficient? We always hear that if you give a first home owners grant, you will just increase the cost of the property to that buyer. Isn't it better to have a system where this does not apply so that we get the government out of the system in the way of intervention?

Matthew KANDELAARS: I will go back to some commentary we made on the back of the 2020–21 state budget; that was when the windfall gains tax was announced. It was announced in conjunction with an increase to land tax and stamp duty rates as well. Again I apologise but I forget the exact figures, but at the time the increased tax take on property through those three measures was something akin to $2.8 billion or $2.9 billion, and on budget day there was a concession provided – a stamp duty concession – which we welcomed, I should state. Those concessions were worth about $50 million, so the net take out of property for that budget, notwithstanding those concessions, was incredibly significant. I think to your point, Ms McArthur, we would certainly welcome, again through the holistic review of the state taxation system, a much simpler and more efficient system. To use your term, we do not need this tax churn – the in and out – we can just get it right the first time and from the base level.

Bev McARTHUR: Thank you, we will all wish for that.

The CHAIR: Thanks, Mrs McArthur. Do we have Ms Ermacora online at this point? Welcome.

Jacinta ERMACORA: I am here.

The CHAIR: You have missed the opening remarks, but based on the submission, do you have any questions for the witnesses?

Jacinta ERMACORA: No questions at this stage, thank you, Chair.

The CHAIR: Thanks, Ms Ermacora. We have about 10 minutes for further questions, so I will go back around the room again. I just ask that members perhaps keep to a couple of minutes, if possible. Thanks, Mr Mulholland.

Evan MULHOLLAND: Excellent. Thank you again. There has been a policy lately that has been discussed in the media of a rent freeze as part of a solution to increasing rents. I think it has probably got more to do with supply. What do you think of this proposal, and what do you think a policy of a rent freeze would do to supply and development?

Matthew KANDELAARS: Look, very simply, I can say that we do not support a policy that would freeze rents. I think it would have the unintended consequence – the, although perhaps very obvious, unintended consequence – that all it would do would be to reduce supply across the market. The incentive for someone to invest as a landlord into making that property available on the rental market, that incentive would be reduced. I think you would probably quite frankly see a lot of properties move into the short-stay accommodation market rather than the permanent rental market which would have again that unintended consequence on rental affordability.

Evan MULHOLLAND: Excellent. I will just quickly ask about downsizing and the impact of stamp duty on downsizing – talking about empty nesters really. What impact do you think stamp duty is having on people downsizing towards the end of their life, and what solutions are available particularly to help people downsize throughout that?

Matthew KANDELAARS: Absolutely. I am actually going to coin the phrase ‘rightsizing’ rather than downsizing as well. But I think it is a very important consideration, and we need to be thinking about ‘How do we support Victorians to age in place?’ Certainly, I think that the current system and the current stamp duty regime disincentivises rightsizing. Again it is a tax on mobility. Stamp duty is an important part of this conversation, but we could incentivise someone to rightsize – move into a place that is more appropriate for their needs. And again let us use the example of, you know, an elderly Victorian who may have recently said goodbye to a departed. They are left with a large quarter-acre block, and they have got to get, you know, the kids or the grandkids to come around every week to maintain a large garden. They can have that or they can move into a property which is more appropriate for their needs, you know, a smaller place with a courtyard or whatever it might be. There are, you know, numerous examples around that. That then frees up a property for a younger family who might be more suited to that larger garden, or it might otherwise free up that large quarter-acre block for, you know, three or four again appropriately dense – we are not talking towers in the middle of the suburbs – townhomes to house, you know, a couple of young families or younger couples, whatever it might be. So it is important; that mobility is an important part of the housing supply and therefore the housing affordability equation.

Evan MULHOLLAND: Thanks.

The CHAIR: Thanks, Mr Mulholland. Mr Davis.

David DAVIS: I had another couple of questions. One was around the supply issue, which you touched on earlier. There is a large amount of government land near the cities and in regional cities – state government land but also indeed federal government land. You know, I think of one out Mr Mulholland’s way, the old Maribyrnong military complex – huge, scores of hectares. Why aren’t these opened up and brought forward? These seem to be an obvious supply solution. Why are these not brought forward?

Matthew KANDELAARS: Look, the question as to why – I could not possibly tell you, Mr Davis. That is a question for government. But we certainly encourage –

David DAVIS: Would it make a difference? Would that kind of supply of large blocks like that make a difference?

Matthew KANDELAARS: Absolutely. And, as you point out, they are often extremely well located. We certainly encourage the government to actively consider and accelerate any land release program where it is possible. And that provides the government with the ability to do what they want with that land. They can really earmark that early, you know, through a very public tender process, be very clear to proponents and make it known what they want. They can have, you know, a combination of course of educational facilities –

David DAVIS: Parks.

Matthew KANDELAARS: They could have housing, including social and affordable housing, clearly marked for the market. It can be priced in and again, importantly, in appropriate areas so that it is well located, close to transport and amenity. So we actively encourage the government to bring as much of that land to market as they possibly can.

David DAVIS: And another point that you raised about the slowness in planning – you know, people point sometimes at councils, but it is actually not just councils, is it? It is the minister and the failure of the planning department to deal with planning amendments. So there is a huge slowness. Sometimes they sit on the minister's desk for years – an eon – and that stops supply coming forward too.

Matthew KANDELAARS: Look, I think there, Mr Davis, I would say that, you know, again, we welcome any efficiencies and, you know, if a matter can be assessed appropriately but in a timely fashion, we would welcome that. Certainly there have been cases that we have heard where matters might sit on any particular minister's desk – I am not talking about the current minister here but, you know, ministers over decades.

David DAVIS: A number of years.

Matthew KANDELAARS: But certainly, you know, where government can make a determination quickly, taking into account – obviously we understand it is a complex journey as well and there is a lot of information that needs to be assessed, but wherever that can be done as quickly as possible, we would welcome that without doubt.

The CHAIR: Thanks, Mr Davis. Mr Limbrick.

David LIMBRICK: Thank you, Chair. I wanted to follow on about planning as well. You mentioned in your statement about nimbyism, and that is sort of a by-product of our planning system. I know Mr Mulholland is also interested in the opposite of that, yimbyism – 'yes, in my backyard.' Do you think that what we are seeing here is a cultural problem? And I know that the yimby movement is trying to say that it is a more moral thing to allow development because you are increasing supply, reducing the cost of housing and building housing in places where there is existing infrastructure. Do you think this is a cultural thing?

Matthew KANDELAARS: I think to a degree – and again, Jack, feel free to jump in. I should say that Jack is a qualified architect, so he is better placed than me to talk about some of these issues, I am sure. But I think it is embedded in our culture, and it is sometimes a fear of the unknown. Certainly if you look at potentially the older generations, they are used to the quarter-acre block. I think homebuyer preferences have changed, and the affordability realities have necessitated a change in thinking as well over time. We never have called and we never will call for inappropriate high-rise development in the middle of the suburbs. It needs to be development which takes into account its context. That is absolutely critical. But I think as an industry, and with government – state, local and federal – support, we do need to be addressing the issue and having the conversation that affordability is reliant on supply. Certainly if you look at an established suburb in Melbourne's leafy inner-eastern suburbs, for instance, it is about their kids and their grandkids and where they can live, if they can buy a home at all. Without doubt it is embedded. It will take time. It is not an easy conversation. If it were an easy conversation, I am sure we would have cracked the nut many decades ago. But it does need government buy-in as well, because I think if we are realistic about our role as an industry body, often if we lead this conversation it is seen with a degree of cynicism. It is viewed with cynicism by the general community. We need government at all levels, of all persuasions, to step in and support that conversation as well.

David LIMBRICK: Thank you.

The CHAIR: Thanks, Mr Limbrick. Mrs McArthur.

Bev McARTHUR: You mentioned the depoliticisation of the planning system, and I wonder if that would go to having perhaps regional planning authorities rather than a myriad of local governments being involved, with all that that entails, and also whether it would facilitate planning approvals if there was a concierge system to weave your way through the quango bureaucracy and if there was a penalty applied to the planning authorities for late and tardy approval processes. That is my first question.

Matthew KANDELAARS: Certainly there have been examples of different models that have worked and that are working and otherwise that have been announced and we are very carefully watching. To that, I know Premier McGowan in WA has recently made a few announcements about the planning system and how that might operate. I am loath to call it a centralisation, because some might view that as taking the appropriate checks and balances away, but it is around streamlining the process and, where possible, as you say, taking the politics out of the process and really assessing on merit. I think in SA, South Australia, Minister Rau in 2014 or 2015 introduced some amendments to the Planning Act there and again that was about, 'How do we get professionals involved in that assessment?' I think some of this is having the politics at the rule-setting stage but not at the assessment stage. At the assessment stage both the community and also the industry are entitled to expect that they will be assessed against the rules that have been set, not a reopening of the rules and a reagitation.

The other point I will quickly make, Ms McArthur, if I may, is there is the opportunity, certainly at local government level, to encourage things like third-party certification around planning or engineering approvals. Again, a prequalification – it is an expert. It is someone who is absolutely independent from the process, but they do not necessarily need to be employed by a council. We know that councils are stretched, and we are not criticising councils. They are stretched. Just like everyone, their resourcing is –

Bev McARTHUR: Especially in rural communities.

Matthew KANDELAARS: Exactly. So where we can assist and where we can provide them an outlet to maintain the quality that they need but to streamline the process and get through that churn and that backlog, I think all of these measures should be considered.

The CHAIR: Mrs McArthur, I do not want you to miss out on another question, because everyone else got two. But we are at time and have another witness, so if you could keep the question and the answer as succinct as possible, that would be great.

Bev McARTHUR: Wave your magic wand and tell us how this committee can assist the planning and development industry. Is that short enough?

Matthew KANDELAARS: Reduce the burden, the state tax burden, on the property sector by at least half. That would be a lovely start.

Bev McARTHUR: Excellent.

The CHAIR: Thank you so much for appearing today, for your contribution.

Witnesses withdrew.