TRANSCRIPT

LEGISLATIVE COUNCIL ECONOMY AND INFRASTRUCTURE COMMITTEE

Inquiry into Land Transfer Duty Fees

Melbourne – Thursday 25 May 2023

MEMBERS

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

PARTICIPATING MEMBERS

Gaelle Broad
Georgie Crozier
Sarah Mansfield

WITNESSES

Mr Andrew Meehan, President,

Mr Quentin Kilian, Chief Executive Officer, and

Ms Sarika Bhalla, Marketing and Communications Manager, Real Estate Institute of 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 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 or who are watching the broadcast of these proceedings. I also welcome any other members of the public watching via the live broadcast.

Before we begin we will just introduce committee members to the witnesses.

John BERGER: John Berger, Southern Metro.

Evan MULHOLLAND: Evan Mulholland, Northern Metropolitan.

David DAVIS: David Davis, Southern Metropolitan.

The CHAIR: Georgie Purcell, Northern Victoria.

David LIMBRICK: David Limbrick, South-East Metro.

Bev McARTHUR: Bev McArthur, Western Victoria.

Tom McINTOSH: Tom McIntosh, Eastern Victoria.

The CHAIR: Thanks, Tom.

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 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 full name and any organisation you are appearing on behalf of.

Quentin KILIAN: Yes. So it is Quentin Kilian appearing on behalf of the Real Estate Institute of Victoria.

Andrew MEEHAN: Andrew Meehan, President of the Real Estate Institute of Victoria.

Sarika BHALLA: Sarika Bhalla of the Real Estate Institute of Victoria.

The CHAIR: Fantastic. Thank you. We now welcome your opening comments but ask that they be kept to a maximum of 10 to 15 minutes to allow plenty of time for discussion and questions.

Quentin KILIAN: Thank you, Chair, and thank you, members of the committee, for inviting us to contribute to this inquiry. My name is Quentin Kilian. I am the Chief Executive of the Real Estate Institute of Victoria, commonly known as the REIV. We serve as the peak professional association for the real estate industry across metropolitan and regional Victoria. The REIV has been supporting the Victorian real estate market since 1936 and works closely with our local, state and national members to advocate on their behalf across real estate policy and legislation in Victoria. I am glad to be participating in this hearing to contribute to the conversation surrounding land transfer duty fees and the urgent need for a reviewed approach to stabilise and futureproof Victoria’s housing market.

This week through the state budget we have seen the state government yet again bungle property policy with its announcement of a land tax lift. The informed reaction from all quarters these past two days, from property leaders to economists and analysts and everyday participants, demonstrates yet again that government should not try to write property tax policy in isolation. It needs to engage experts in the sector and take advice from those actually in the know when it comes to real-world application, and this certainly should be the case when considering stamp duty. Anything less could be reckless.

In our submission we call for and rationalise the removal of stamp duty from the commercial and residential property sectors, a perspective shared by most contributing submissions on this hearing to date. This has been drawn to the forefront of political conversation this week as the state budget unveiled a transition away from stamp duty fees for commercial properties. This move, however, is not the answer, especially for the residential market, as while it initially removes stamp duty from the transaction, it replaces this with a new property tax that will over time grow to a greater rate than the initial stamp duty. As you would have seen, this announcement was rolled out alongside increased land tax for property investors. Increased land tax will make property investment more costly, force rental prices upwards and further perpetuate Victoria’s rental crisis. What the sector and our members call for is a solution to property taxation that maintains state revenue without increasing the barriers to home ownership and investment and furthering the pressure already being felt on Victoria’s stretched housing supply.

Our members are being contacted more frequently by investors reviewing their options on selling up and moving out of the rental market due to rising costs. A recent conversation I had with a leading agent in Mooroolbark told me that he had already lost between 10 to 12 per cent of available rental properties as investors explore other means to futureproof their finances as living costs soar. I also met with a number of agents in Horsham two weeks ago. They informed me that they have also lost a number of investors who were finding it too difficult to maintain their rental properties with rising costs and overburdensome regulations.

We appreciate that taxation levels must be maintained in the case of any transition, with stamp duty currently delivering 40 per cent of the state’s revenue. However, the solutions being tabled throughout the hearing need to better account for investor protections and long-term sustainability and genuinely address the core issues driving market instability. Private investors provide 70 per cent of the rental stock. Their critical role in the market cannot be overlooked. Investors are being met with roadblocks to market entry at every turn, and supply is not holding up to current demand.

Melbourne’s median house price is now up to $956,000, attracting a stamp duty payment of over $56,000. This flies in the face of any other government initiative to incentivise property investment and only widens the gap for Victorians hoping to enter the market. Even in outer suburbs the sprawling developments cannot keep up with soaring costs, with land and house packages once positioned as market entry options now exceeding $700,000 in 2023.

There has been quite some discussion on simply moving from stamp duty to land tax, which essentially staggers the tax over the life of the property rather than it being an up-front amount. What we know from industry consultation and examples in other jurisdictions is that this approach will not address the core issue of undersupply or address the barriers to entry of property investment. It is still a tax on property ownership, simply defrayed over a longer period.

To be clear, undersupply is the persisting issue plaguing Victoria’s housing market. This is then embodied by plummeting vacancy rates, now around 2 per cent in regional and metro Melbourne, and soaring rental costs for Victorians. Huge up-front tax payments discourage people from choosing property as their choice of investment for their future.

As policy makers review how and when land transfer fees can move away from the stamp duty model, it is important to keep in mind that accessible and affordable housing is a basic necessity for all Australians.

Residents are already carrying the brunt of cost-of-living expenses and interest rate hikes, so any additional or alternative taxation simply makes matters worse. There also needs to be consideration of the disproportionate impacts of land tax across sectors, as it will drive up business costs, lead to less employment as owners prioritise repayments over employment and result in less commercial investment. Residentially, there is also an increasing number of retirees sitting on valuable holdings of land who would be impacted when land tax is calculated based on that value, which over time tracks upwards.

I am not an economist, so I will stop short of peddling financial forecasting, but the rental crisis playing out in Victoria must be addressed through stabilising and improving housing supply for renters. Through extensive stakeholder engagement we know that this is only achievable by incentivising mum-and-dad investors to enter and remain within the property market. This is in direct contrast to recent budget announcements that will only build pressure on property investors and drive them away. Despite popular opinion, 70 per cent of Victorian property investors only own one rental property, with 43 per cent of that group earning less than $100,000 per annum according to the ATO. The land tax levy will hit this group the hardest, and it is not the long-term solution for stamp duty replacement due to its disproportionate impacts. We must remove huge tax barriers such as stamp duty and consider diversified means of attracting more investment in, and to prop up, supply.

Alternatively, there is also GST to consider. Based on publicly available data, PwC modelling suggests that GST should increase 2.5 per cent to sit at 12.5 per cent, to replace revenue losses through stamp duty removal, alongside other tax inefficiencies, including insurance levies and reliance on income taxes. Equally, the Centre for International Economics in its report *State Business Tax Reform* in 2009 showed that the required increase in the GST rate under the reform of abolition of stamp duties on residential and non-residential property, removal of insurance duties and reform of land taxes and payroll taxes would be just 0.45 percentage points – that is, the Australian government could fund state tax reform by raising the GST from 10 per cent to around 10.45 per cent. This calculation takes into consideration the positive flow-on effects on the economy that would result from higher revenue collection from other revenue sources as well as the GST through increased consumption.

However, for such a drastic and national change, the government would need to review other ineffective taxes that could be scrapped alongside stamp duty to justify and pacify expected protests from a generalised GST increase. While projected by analysts, these figures need to consider inflation, national labour shortages, interest rate rises and other costs already putting Australians under financial pressure. Australian consumers will ultimately bear the brunt of GST rises, so it must be reviewed by experts that represent the industries, policies and economies it will impact. We agree that this should be in the mix to consider – but not without thorough investigation.

Based on member consultation, the REIV calls for a broad-based tax to replace stamp duty and alleviate pressure imparted through increasing property ownership taxes. What this looks like specifically would require extensive community and stakeholder engagement. REIV urges the committee to maintain this momentum and make this a wider discussion, ensuring that the federal government is involved and contributes to a conversation about accessible and realistic replacement models. We do not want to see short-term improvements paired with inequitable impacts on the communities that would feel the changes the most when it comes to their weekly mortgages and living costs.

REIV's key message today is that we must open up the conversation and dedicate a comprehensive review of the current market and where stamp duty or its removal sits within future economic mapping. We need to wait and watch how changes in the commercial market will impact residential properties and see what the longer term planning is for a transition already in process according to the recent budget. But whether it is from Horsham or inner Melbourne, mum-and-dad investors or renters, REIV is regularly hearing about the pressure being felt to purchase, maintain or simply find a suitable home. The momentum created to date cannot be squandered, and the issue of property transfer taxing needs to be seen through with meaningful commitment from all relevant expert stakeholders. We need to consult and follow industry experts and economic forecasting and centre what is best for the next generation of Australians, with an industry solution that encapsulates long-term security for property investors, renters and home owners. Thank you.

The CHAIR: Thank you very much. We will now move to questions from committee members. Mr Berger.

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

The CHAIR: Great. Mr Mulholland.

Evan MULHOLLAND: Excellent, I have got a few. Thanks for your submission and your opening statement. In your submission you said that taxation revenue levels should be maintained. In that context, what is your view on the new land tax announced this week, given that is an increase in the tax burden, and what impact do you think this will have on investment in housing supply and on rents as well?

Quentin KILIAN: The new land tax that was announced is a disproportionate attack on investors. It will have an impact, and it already is having an impact. We are already hearing from our members that they are receiving phone calls – from the moment it was announced – from investors that are looking to get appraisals on their properties to divest themselves of them. So the impact is going to be on supply, and that is where we need to be focusing the efforts – on increasing that supply so that we can look at adjusting the pricing, not disincentivising it.

Evan MULHOLLAND: And so you believe that this will have an impact on rental prices?

Quentin KILIAN: It is possible. There are processes that need to be gone through to adjust your rents. But the impacts I think are going to be felt the most in the supply issue. It is already difficult for many people to find a property – we see often 40 to 50 people attending opens for rental properties. By further diminishing that supply, it is going to put further pressure on people finding shelter and a home to live in.

Evan MULHOLLAND: Yes. And just to exacerbate I think those issues that you are talking about, we have seen just days after this was announced the government say it is considering the idea of capping rents. What are your thoughts on this policy, and what do you think a rental freeze would do overall to supply in the market?

Quentin KILIAN: We would certainly urge in the strongest terms not to bring in any form of intervention in the form of a rent cap or a rent freeze. There is ample evidence around the world that interventions of that nature do not assist the market; in actual fact they probably again discourage or dissuade investment into the market.

Andrew MEEHAN: Can I just add something to that? The biggest issue driving rent prices is supply, so lack of supply. Anything that makes it less attractive for investors to hold onto their investments will lead to a shortage of supply, which will increase prices. Rents are not set by costs, they are set by the market, so a shortening of supply would drive up prices.

Evan MULHOLLAND: Excellent. I might keep going and come back.

The CHAIR: Thanks. Mr Davis.

David DAVIS: Just to recap, Quentin, what you said before, it seems from what you are saying that about 70 per cent of people with rental properties have one rental property.

Quentin KILIAN: Correct – in Victoria.

David DAVIS: In Victoria. I am only interested in Victoria. The rest of the country can look after itself. The other point I think you made – and I just want to be quite clear about this – is that the overwhelming bulk of them earn under $100,000 per year.

Quentin KILIAN: According to ATO statistics, 43 per cent of that cohort of one-property owners earns under $100,000 a year, yes.

David DAVIS: So this new tax that was announced a couple of days ago in the budget is going to smash people who are hardworking, modest-earning people who are actually saving for their retirement or some other form of investment?

Quentin KILIAN: It certainly will impact on that cohort, but it will impact right across a whole spectrum of investors, whether they are in the upper end of the lower socio-economic end. But certainly those that are earning less and are probably carrying negative gearing on their properties already will further feel this impact. We have also seen with the lowering of the threshold, going from $300,000 down to $50,000, that it will now capture a much larger cohort of investment properties that were not previously impacted by land tax.

David DAVIS: So it will hit the investors, it will diminish supply – I think that was the other conclusion – and finally, the other point is it is likely to push up rents.

Quentin KILIAN: It will certainly impact on supply. It will impact on all parts of the transaction, so all costs involved in being a landlord or being a rental provider will be impacted by an additional tax levy on those rental providers.

David DAVIS: It has got to go somewhere – someone has got to pay for it – and these thrifty investors and the renters are effectively being asked to pay for the government's mismanagement of the budget and the huge debt that we have got. That is the truth of the matter. They are the patsies; they are the people who are being forced to pay for the government's incompetence.

The CHAIR: We might need a question in that.

Quentin KILIAN: That is not a question, and I will leave the commentary to others.

David DAVIS: You are not dissenting from it, though.

Quentin KILIAN: I will leave the commentary to others, Mr Davis.

The CHAIR: Any further questions, Mr Davis?

David DAVIS: I do have one further question, and it partly comes out of this levy that has come in. You know, I think the state government, this state government, cannot be trusted, and I think the risk is that what they will do is put on the stamp duty and the land tax. Now, we have seen this happen in Canberra where, in theory, the stamp duty was going down and the land tax was coming up over a lengthy period, but now we are kind of frozen part way with both. Do you think that is a risk for these kinds of reforms in Victoria?

Quentin KILIAN: I will not directly answer your question, because there was a fair bit of commentary in there as well, but our biggest concern with replacing the stamp duty with some form of property tax is that you simply overlay one tax on top of another. When you look at the commercial stamp duty removal that has been mooted in the recent budget, it does give some latitude over a period of time for the removal of stamp duty before the property tax kicks in, but it then actually takes what was the original stamp duty and puts it into a 1 per cent tax which then overlays on top of the land tax, and that is something that we would absolutely suggest should never be done in a residential market. Replacing stamp duty with another tax in the form of a property tax does not actually remove the burden, it simply defrays it over a period of time.

David DAVIS: Well, I will put on record my fear with this government is we will end up with both.

The CHAIR: Thanks, Mr Davis. Mr Limbrick.

David LIMBRICK: Thank you. And thank you for appearing today and your submission and evidence. Much of the evidence to this inquiry has been around stamp duty either disincentivising transactions or incentivising people to go into transactions for a property that may not suit their purposes. And I know that your members are right at the coalface of facilitating these transactions, so I am interested in what sort of feedback you are getting from members.

Some of the examples that we have heard are young families or a couple intending to have children buying a house much larger than what they need because they are planning for the future and they do not want to have another transaction. Other situations might be families that have children, and they are in a smaller house than what they would otherwise need, but they are sort of sticking with it because they do not want to have to pay the stamp duty. And another type of situation that we have heard given to this inquiry is empty-nesters – so families that live in a big house with lots of empty rooms. They do not want to downsize, because they do not want to pay the stamp duty. Does that correlate with the feedback that you are getting from your members about the decisions that property purchasers are making?

Quentin KILIAN: Very much so. And a large part of that, particularly with empty nesters, is driven by the fact that they are potentially at the end of their buying cycle. The thought of having to pay $50,000, $60,000, $70,000 in taxation to downsize is a real disincentive. If you might indulge me, Mr Limbrick, I will refer to our President Mr Meehan, given that he is actually –

Andrew MEEHAN: Licensed.

Quentin KILIAN: a licensed agent in the industry and is seeing this on a more regular occurrence.

Andrew MEEHAN: Yes. And I think that is a very fair comment. I think mobility between types of homes, the removal of stamp duty would absolutely facilitate that, and I think it is right across the spectrum. So through all the classes that you mentioned there, from elderly people – empty-nesters, if you like. You know, they are certainly not moving to smaller houses because of the stamp duty and those considerations. I think the more you can make it easier to transact between property types, the more mobility you will see, and you will see a better fit, if you like, within the community of houses to the number of people in it. I mean, I hate to think of the number of empty bedrooms that exist in Melbourne when we have got a shortage of housing. So certainly the removal of stamp duty would absolutely help facilitate that.

David LIMBRICK: And you make a good point about the empty bedrooms, because many of these scenarios are effectively people living in a property that is far greater than what they require – for various reasons. Would it be your view that if stamp duty was removed and people made decisions to purchase property that was optimal to their living situation, effectively this would free up a large number of properties for either purchase or rental? We heard evidence from – I cannot remember which witness it was. But they showed some evidence on the number of empty bedrooms. Now, not all empty bedrooms are simply because of misallocation. People might want a spare room or whatever. But they said there were something in the order of 700,000 empty bedrooms in Victoria – a very, very large number – and it would be safe to assume that some of that was people making these decisions due to stamp duty. Would you agree with that statement?

Andrew MEEHAN: Absolutely. I think those people have got a lot of equity in those homes. The thought of actually downsizing and paying $50,000-plus to the government is absolutely an inhibiter from them doing that, and I suppose what then comes with that too is economic benefit, because they are actually materialising their capital gains, if you like, themselves as opposed to passing them onto their children because they do not want to pay the stamp duty. I think it would absolutely free up those bedrooms, if you like, yes.

David LIMBRICK: There was one other bit of contrary evidence, provided by Department of Treasury and Finance, on this particular topic of older people who are empty-nesters or people who no longer have children living with them. They put forward the idea that much of the disincentive was not in particular due to stamp duty, although that was clearly a disincentive, but a lot of it was around assets tests for pensions and things like this. They put forward the position that removal of stamp duty would not remove those disincentives that they thought were actually a larger disincentive for people downsizing. What are your views on that?

Andrew MEEHAN: I am not really across pension asset tests personally, so I do not think I am in a position to comment on that.

David LIMBRICK: Okay, fine.

The CHAIR: Thanks, Mr Limbrick. Mrs McArthur.

Bev McARTHUR: It may be a question for Mr Meehan, given you are in the market. I am interested in the rental market. The anecdotal evidence I get from constituents is that the 185 regulations that impact a landlord, along with the inability to remove a recalcitrant tenant, are a major disincentive for investors in the rental market – added to extra taxes – and they will either sell the property or turn it into Airbnb. Is that something you have come across?

Andrew MEEHAN: That is certainly something we have seen in the market with the 130-odd changes to the *Residential Tenancies Act*. From a personal perspective we certainly saw about 10 per cent of our rental providers now – they are no longer called landlords –

Bev McARTHUR: That would be sexist, I suppose.

Andrew MEEHAN: It is elitist or something. We saw about 10 per cent leave the market because it was just sort of too much for them. What has to really happen is that governments need to recognise that the majority of our rental stock is coming through private investors and the more we disincentivise those people in the market from holding investment properties or buying investment properties, we are going to see a shortage of supply, which is what we are seeing, which will lead to higher rental prices. There is talk of negative gearing, and I was pleased to see the Prime Minister absolutely eliminate that as an option, because when those sorts of discussions start to take place, what you see is investors start to get skittish and start to make financial decisions, particularly now when interest rates are so high, to take their money and invest it at much higher rates than you are getting in the market. The typical return on investment property is only 2 or 3 per cent. It is not a huge return per se, other than the capital gain, which is why most people invest in rental stock. But if it gets too hard or we are not sure what is going to happen in the future, then they start to leave the market, which puts pressure on supply, which pushes up rental increases, which is the exact opposite, obviously, of what you want.

Bev McARTHUR: I am interested that you are suggesting there should be a whole proper discussion about tax reform, and I totally agree. I think changing certain taxes in a piecemeal fashion is not going to lead to a simpler, fairer, more efficient tax system overall, and I notice that you have suggested that we should increase the GST. But what about broadening the base? It is currently only on 40 per cent of goods and services – and declining. You would not need to increase the rate if you broadened the base.

Quentin KILIAN: That would be part of the holistic package. You would look at either-or or a combination of both. But as we have said in our submission, we are not economic experts. We have been assisted in putting this modelling together through our national office at the REIA in Canberra, and they have done a lot of work on this using PWC and other data. The argument is that if you both broadened and just slightly increased the GST – and a 2 per cent increase sounds like a lot, but over the broader spectrum it can be absorbed – what this would lead to is the ability for state governments across Australia, not just here in Victoria, to abolish inefficient taxes.

Bev McARTHUR: That would have to be the requirement, wouldn’t it? They would have to. Here we have got 45 new taxes – and rising. The only reason you would get the extra revenue would be that you would abolish the taxes.

Quentin KILIAN: Correct.

Bev McARTHUR: Yes. Also, I am interested in – maybe Mr Meehan could also comment on this – how school zoning distorts the market.

Andrew MEEHAN: School zones are an interesting one, certainly. Desirable school zones certainly push prices up. People are very keen to get within school zones.

Bev McARTHUR: So if we abolished school zoning, what would be the outcome?

Andrew MEEHAN: I do not know the answer to that, sorry.

Bev McARTHUR: Okay. I will go to rural properties. To my mind a broad-based property tax would have a major impact on the farming community, the agriculture sector, if they have got to pay an annualised tax. They are already paying a disproportionate amount of local government tax – I am calling it a tax; it is not rates, it is tax. This would be another tax on their bottom line, which they would not be able to pass on because they are price takers, not price makers, in the market. Have you looked at how your rural property sector would be affected by a broad-based property tax?

Quentin KILIAN: This is why we are suggesting that it needs to be a bigger, broader discussion. And this is where again we suggest that before making a move to something like that you would definitely need to have a longer discussion, a broader discussion, with a group of experts who could examine issues like that and say, ‘Well, okay, how does it impact? What would be a way around it? What are the other measures?’ We bring to the table the need to change, the need to examine this and the need for it to be a very broad and very in-depth discussion with some serious expertise in there.

Bev McARTHUR: So far we have had all the experts, and nobody thought of how it was going to impact the rural properties, which is curious to say the least. I will leave it at that, Chair.

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

Tom McINTOSH: I was going to ask about your view about a broad-based tax and explore some of the options, but I take what you are saying that it is not sure point of expertise. If you do want to talk to that, you can. I was also just interested in some of the points that Mrs McArthur raised around rental conditions – as you said, there was a 10 per cent transition of rental providers – and just any feedback you may have had through your members around tenants' experience, understanding there may have been a transition of providers and as properties are moved and new properties come onto the market that have, say, perhaps better thermal ratings et cetera or better conditions for tenants. Have you heard from tenants that there have been some benefits in that for them and their lived experience in their homes?

Quentin KILIAN: We do not necessarily seek that information out, but I am sure that having quality housing is very important. Having quality conditions is very important. We would never endorse not having good living conditions available to all tenants. Beyond that, though, with 130 changes that have come into the *Residential Tenancies Act* just a couple of years ago, there have been a number of inconsistencies in the legislation that have caused blockages in VCAT and have caused issues with recalcitrant tenancies. Again, we are not calling for a wholesale, massive change to the RTA. What we are calling for, and have been for the last couple of years, is to sit down and review the changes that came in so that we can find a balance. The rental system is a very fragile ecosystem. On one side you have the rental providers, on the other side you have the renters. Both must balance out, both in supply and equity, right? There must be that balance. At the moment we have a regulatory system that is not fairly balanced, and it needs to be rebalanced.

Andrew MEEHAN: And if can say, we absolutely support minimum rental standards, no question of that, but there are certainly properties out there that cannot comply with the requirements of the *Residential Tenancies Act*, which means that those properties are being lost as rental properties, which is putting people out of those properties. We talked about some rural properties where people were quite happy to be renting those properties. They met minimum standards but they did not comply with all the requirements of the *Residential Tenancies Act*, so those tenants were forced to leave those properties. There has to be a balance between the requirements and what people are happy to rent too. But I absolutely support minimal rental standards. But, yes, certainly the changes went too far.

Tom McINTOSH: Yes, it is always a balance between people's wellbeing obviously in other areas like rooming houses as well as residential properties, that people are safe and whatnot. All right. That is all for me.

Andrew MEEHAN: And just one final comment on that: a lot of those things are requirements above and beyond what we expect from people in their own homes. That does not make sense to me. If there is a requirement for a renter to have certain things within a home, why aren't we having that with all properties? I do not think we should. It is just a matter of being sensible about those requirements.

The CHAIR: Thanks, Mr McIntosh. Mr Berger, do you have further questions?

John BERGER: I have nothing.

The CHAIR: Mr Mulholland?

Evan MULHOLLAND: Cool. Thank you. I wanted to ask just in regard to your views on particularly supply. I know that it is quite a problem, and I have faced this in my own electorate, with local government getting in the way of sensible density in our city. There have been some proposals out there that the government could just kind of absorb planning powers. Other expert witnesses and economists to this committee have suggested housing targets might be a better way, with a carrot and a stick in terms of incentives to boost supply, particularly in our inner and middle suburbs. What is your view on this challenge and potential policy solutions to this?

Quentin KILIAN: The issue of supply is a very broad one, and I will not come down to targets and other suggestions. More so to say that, again, this is one of those issues that we need to have a more holistic view of, whether it is institutional investment or whether it is incentivising for private landlords to grow. And particularly the supply of public housing needs to be very much examined as to how can that increase. We have a sizeable group of people that are being essentially pushed into the private rental market because subsidised housing, or lower cost housing, is not available to them or the waiting lists are far too long. So unfortunately they are having to meet the demand of the private rental market, which is higher than where they should be, which then puts rental stress on them and puts stress on their incomes. So I think as a supply issue we need to look at every aspect of it. Whether it involves local councils, state governments, federal government, it needs to be examined as a whole and say, 'How can we address the various sectors of the housing supply issue? How can those demands be met and how can we increase that supply as quickly as possible, as efficiently as possible?'

Evan MULHOLLAND: Yes. Excellent, cool.

The CHAIR: Thanks, Mr Mulholland. Mr Davis.

David DAVIS: Quentin and Andrew, one of the things you have just said is that the rental system is a fragile ecosystem, and you have laid out some of the impacts of the recent tenancy changes – the unintended impacts, people leaving the market, about 10 per cent. Given these new tax arrangements that have been announced, which I think will hit investors, how many do you think will leave the market? Is there an estimate of that? Is it a similar sort of number – 10 per cent? Is it greater than that? Is there some number that you think –

Andrew MEEHAN: I think it would be hard to put a number on it, other than to say in the last day a number of members that I have spoken to have had significant inquiries about getting appraisals on their properties. And I think particularly in a market at the moment where there is a shortage of stock to sell, if you like, and there is quite a good buyer depth, the opportunity for those properties to be sold is pretty significant.

David DAVIS: You cannot rule out that 10 per cent or 20 per cent might leave?

Quentin KILIAN: We would be loath to even estimate or to start guessing; we would like to see no departures. I mean, we want to see more supply. We would like to see the opportunity for more growth so that there is more availability of stock. This morning I had a text message from one of our members, a large franchise group, that noted in their Mildura office just today they had four investors contact their office and ask for appraisals on their property –

Andrew MEEHAN: Which is unheard of.

Quentin KILIAN: in a market the size of Mildura.

David DAVIS: So it could lead to a stampede of some type. This is bad for rental stock, really.

Quentin KILIAN: I will not address the comments, but yes, the reality is that anything that puts a level of pressure on the investment market like this could have very disastrous effects going forward if it is not addressed. We need to come back and focus on increasing supply. Supply is the underlying issue, and it is the one that must be addressed.

David DAVIS: This certainly will not help it.

Quentin KILIAN: No.

The CHAIR: Thanks, Mr Davis. Mr Limbrick.

David LIMBRICK: One other thing that has not been canvassed a lot in many of the submissions – and I would be interested to see if you have got any anecdotal experience of this – is the punitive stamp duty rates for foreign purchasers. We have heard from some developers that this is a big deal and is actually preventing local people from purchasing as well, because they form a pool in a greenfield development. What sort of effects have you seen from foreign purchasers that might want to purchase for rental properties, for example? Do you think that this has had a big effect, this extra stamp duty rate for foreign investors?

Quentin KILIAN: Look, I could not speak to that, Mr Limbrick. I have not done any studies into that. We could certainly take it on notice and come back to you with a comment if you wish.

David LIMBRICK: But your members do deal with foreign purchasers as well.

Andrew MEEHAN: They do. My agency is in Mornington, so we do not have a lot of foreign investors, so I am unable to comment on that either.

David LIMBRICK: All right. Thank you.

The CHAIR: No more questions, Mr Limbrick? Mrs McArthur.

Bev McARTHUR: Yes. Can you tell us whether you have done any work on or have any evidence from your members about how the windfall gains tax is going to impact investment and supply, which you have identified is the major issue.

Quentin KILIAN: We have not done any extensive studies into the windfall gains tax. However, like anything else, any additional taxes that disincentivise people purchasing in a certain area or potentially being punished for simply having a windfall gain are not going to help supply, and they are certainly not going to help people looking to enter the housing market.

Bev McARTHUR: Going back to the issue of the regulations on renters, in the rural community we have got a massive housing issue for workers, and there are often houses available on rural properties which I suspect would barely ever meet the requirements as set down by the new bureaucracy. Have you got any anecdotal evidence about how those regulations are impacting rural housing, especially for workers?

Quentin KILIAN: In actual fact we do. Mr Meehan and I were just recently, as we said, in Horsham talking –

Bev McARTHUR: Yes, my electorate – a wonderful place.

Quentin KILIAN: Lovely town – first time I have been there. Some of the anecdotal evidence that was coming back to us from our members up there was largely around farmhouses. While they were suitable accommodation, they did not meet the standards that were required, but the owner was going to have to spend $40,000, $50,000, $60,000 to bring these farmhouses up to the current standards or release them from the rental market. Now, these make perfect accommodation for workers; however, they are being taken off the market because the owners cannot at any time during the life of that property get a return on that investment. To put that size of investment in to meet the standard, they could never recoup that in the life of that property. So the easier thing is for them to remove it and to either keep it for themselves or sell it – give it to children, it does not matter. But it is not a rental stock anymore.

Andrew MEEHAN: And it was not just the farmhouses too, it was some of the smaller towns with older style properties. The agents that we spoke to were pretty disappointed that they could not be providing those houses for rental accommodation.

Bev McARTHUR: Can you give us some examples of the sorts of regulations that prohibited these properties from coming onto the market or staying in the market? I know of houses that will just be left derelict, actually.

Quentin KILIAN: Look, I think there are a number of areas in the *Residential Tenancies Act* that are in need of alteration and change. I think if we were to start down that track, we could be here for the next few hours. We do have a submission that is being prepared. We have spoken with government and with the Minister for CAV on this matter.

Bev McARTHUR: Could we get a copy of it – this committee?

Quentin KILIAN: Yes, certainly.

Andrew MEEHAN: I think it is fair to say that those regulations were written around urban properties. I do not think any consideration was given to rural properties.

Bev McARTHUR: Landlords have said to me that they might be able to comply, and they are happy to with one or two or three or four of the requirements. But when you take the entire package as a whole, it is just not feasible to comply with that, and then you have got the added problem of how you actually have a renter exit the house. The only way you can take back the house is usually if you sell it, or you have to move into it.

Andrew MEEHAN: As I said earlier, we absolutely support minimum rental standards. The issue that I have with the *Residential Tenancies Act* is it has become very prescriptive, and so it is not flexible in terms of the way it has been written. It certainly inhibits particular types of properties from being able to be rented, basically because they cannot comply with those regulations.

Bev McARTHUR: Thank you.

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

Tom McINTOSH: Nothing more from me. Thank you, all.

The CHAIR: Thanks very much. We do have some more time if anyone else has further questions. Mr Davis.

David DAVIS: I was just going to say one. So you have not analysed the windfall gains tax – just picking up Mrs McArthur's point, the impact on supply of the windfall gains tax.

Andrew MEEHAN: No, we have not. I have heard anecdotal sort of stuff that it is inhibiting development, but I have no hard facts on that.

Quentin KILIAN: But, Mr Davis, I think it is a given that any taxation that hits on purchasing, on development, on investment is going to be an inhibitor, but we have not done any detailed analysis on it at this point.

Bev McARTHUR: And also, if you are looking at it, the tax is not hypothecated, so all that revenue does not stay in that area. The ratepayers and taxpayers are going to have to pick up the bill for the infrastructure required around the development that might occur, rather than it being taken out of that tax that was collected.

Andrew MEEHAN: And we have obviously got a shortage of supply. Anything that inhibits investment to encourage supply is going to diminish supply.

David DAVIS: Just finally on the tax, the Premier said yesterday that you can just deduct it, knock it off your tax. Do you think that is a satisfactory response? Do think that actually understands the impact that is going to have?

Quentin KILIAN: I am assuming that the Premier's comments were directed at negative gearing, because he was saying you could take it off your federal tax, so there would be a negative gearing issue. The problem that exists with that approach is that I suspect many of the investors that sit in that 70 per cent of investors that earn less than $100,000 a year probably already have their properties heavily negatively geared as it currently stands. Negative gearing is only available if you make a loss. If you are making a profit, you do not get negative gearing. That loss can only be gained once a year, at the end of tax time, which means that the investor, the rental provider, has to carry the losses throughout the year, which is on top of their own mortgages, on top of their own cost-of-living increases and on top of the costs of their schooling and their family and everything else. Once a year they could apply for negative gearing relief, which is not the totality of their losses – you do not get back in negative gearing the totality of your losses throughout the year.

David DAVIS: There is another group, too, though, isn't there? There is a group of people who actually own the property – they bought it over a period of time, own the property and are living off the rent. They will not necessarily be able to deduct it.

Andrew MEEHAN: No, it would still be a deduction.

David DAVIS: But you have got to be over the threshold. They might be a pensioner under the threshold, in which case they will just lose the money.

Quentin KILIAN: I am not an expert in tax law.

The CHAIR: Well, there is a rental inquiry proceeding as of yesterday. Thank you very much for coming along today and for your submission and sharing your responses with the committee. I declare the hearing closed.

Committee adjourned.