IPTI Xtracts

Property Tax and Assessment News from Around the World

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Warnings NSW stamp duty reforms could distort the property market

Legal and accounting professionals have criticised the Berejiklian government's strategy to replace stamp duty with an annual land tax warning the slow transition to the new scheme may distort the property market and sap the state's coffers.

A submission to the NSW government by King & Wood Mallesons, one of Australia's biggest law firms, says the tax overhaul has the potential to create distortions and undermine the economic benefits promised.

Under the reform proposal property buyers will be able to choose between paying stamp duty (an up-front lump sum) or a much smaller annual tax. Once a property has been traded without stamp duty it will remain in the new annual taxation system for all subsequent owners. It is anticipated stamp duty will be fully replaced in NSW by the annual land tax by around 2050.

But King & Wood Mallesons warns that long transition could entrench a less efficient 'two-tier' property tax system for decades.

"Taxpayers who might, for any number of reasons, prefer to pay stamp duty upfront on their property purchase may be dissuaded from purchasing properties that have already been opted-in," its submission says.

"The property market is effectively divided into two types of property – with potentially different groups of prospective buyers."

King & Wood Mallesons partner, Katrina Parkyn, said while the opt-in nature of the proposed tax change was appealing, it created major challenges.

"This model seems to generate a lot of complexity that will undermine some of the benefits that the government is trying to deliver from the changes," she said.

A spokesman for Treasurer Dominic Perrottet said consultations with the community about the proposed reforms were ongoing.

Ms Parkyn said the annual property tax rate could change in future introducing an element of long-term uncertainty not now associated with most property purchases.

The submission warns the challenges of determining property valuations which underpin the new tax would mean “greater potential for costly disputes for landowners and the state.” The proposed changes could also create uncertainty for developers who want to build on multiple parcels of land.

“We suggest that consideration be given to alternative options for transition,” the submission says.

Chartered Accountants Australia and New Zealand, which represents more than 120,000 financial professionals, has also criticised the lengthy transition away from stamp duty and called for greater transparency about the plan.

“We support moving from stamp duty to property tax but there is a real potential of the proposed transitional method having a negative knock-on effect on future generations,” said Susan Franks the group’s senior tax advocate. “The transitional method to ‘opt in’ is likely to be protracted and complex.”

The overhaul will cause a significant short-term revenue loss but the government is yet to provide details on how the state budget will be affected.

Ms Franks said it may take decades to repay debts accrued during the transition.

“It’s good to be bold, but let’s know the facts,” she said.

Treasurer, Dominic Perrottet, announced the reforms last November and released a consultation paper outlining the proposed strategy. No implementation timetable has yet been announced but Mr Perrottet has said the reforms “could be set in motion in the second half of 2021.”

The changes will also apply to commercial property in NSW but awareness about the reforms in the business community is low. A survey by peak body, Business NSW, found 43 per cent of firms did not know anything about the stamp duty reforms. A further 30 per cent had heard about the proposal but didn’t know how it would affect them.

Business NSW said the government has so far “failed to fully explain” the stamp duty reform plan.

NSW government pushed for details on proposed property tax

The New South Wales government’s plan to replace stamp duty with an annual property tax could result in purchaser uncertainty, pricing distortion and policy failure if buyers refuse to opt in, say the top accounting bodies.

NSW Treasurer Dominic Perrottet is currently deliberating over a plan to allow property buyers to choose between stamp duty at the point of purchase or lock themselves and future purchasers into an annual tax based on unimproved land value.

While supportive of the move away from the widely regarded as inefficient stamp duty, both Chartered Accountants Australia and New Zealand and CPA Australia remain concerned over the long opt-in transition period and the need to juggle three taxes concurrently: stamp duty, land tax and property tax.

“We support moving from stamp duty to property tax, but there is a real potential of the proposed transitional method having a negative knock-on effect on future generations,” said Susan Franks, CA ANZ senior tax advocate.

“The transitional method to ‘opt in’ is likely to be protracted and complex, with three tax regimes running in parallel for many decades.”

The proposal’s argument that a property tax will improve housing affordability has also been questioned, with CPA Australia noting that it might not be realised as land values increase and earnings growth fails to pick up.

“The comparison of residential property prices and earnings in the Consultation Paper highlights the rapid growth in average property prices compared to slow earnings growth,” said CPA Australia in its submission. “Similarly, New South Wales land value data reflects similarly rapid increases, raising the concern that property taxes will increase at a rate faster than earnings if current trends continue.

“Therefore, the affordability issues related to stamp duty are not necessarily resolved by the shift to a property tax.

“To the extent that the opt-in property tax does not reduce or dampen property price and land value growth, the potential for property taxes to become burdensome over time on owners, their tenants and the market is high.”

The NSW government has now been urged to provide further modelling to inform stakeholders of the impact on future revenue and property prices.

“There is currently no modelling available to answer serious questions that range from the sustainability of NSW’s revenue model to housing impacts on retirees and first home buyers,” Ms Franks said.

“Typically, in tax reform, it’s best to ‘rip the Band-Aid’ and implement quickly, but there’s some further work required in NSW before that happens; we at least need the right information to guide us.

“We currently have a hot property market, with record-low interest rates, high auction clearance rates and forecast double-digit property value increases over the coming two years, so educating buyers around this tax change is going to be essential.

“Otherwise, we may end up with a dangerous mix of even higher prices for market entrants, and an ongoing property tax as well.”

Hobart and Sydney markets lead the way as property values climb higher in March

Property values across the country continued on their upward trajectory last month according to the latest figures from Corelogic, and it was the Hobart and Sydney markets leading the surge.

During March Corelogic’s *national home value index* rose by a considerable 2.8% which, the property data provider says, is the ‘fastest rate of appreciation’ recorded since October 1988.

Home values increased across every capital city by at least 1.5% during the month, though Hobart and Sydney recorded the largest gains. The harbour city led the way with a 3.7% increase in March, while values in Hobart rose by 3.3%
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That increase added $32,000 to the median home value in Sydney compared to the February figure, with the median value now sitting at $928,028.

“The last time Sydney housing values recorded a quarterly trend this strong was in June/July 2015. Following this brief surge, the pace of growth rapidly slowed as limits on investor lending kicked in to slow the market,” said CoreLogic research director, Tim Lawless.

Australian home value changes - Corelogic Home Value Index (March 2021)

	Month	**Quarter**	**Median value**
Sydney	3.7%	6.7%	$928,028
Melbourne	2.4%	4.9%	$736,620
Brisbane	2.4%	4.8%	$548,260
Adelaide	1.5%	3.2%	$486,555
Perth	1.8%	5.0%	$505.850
Hobart	3.3%	7.6%	$548,686
Darwin	2.3%	5.4%	$451,408
Canberra	2.8%	6.0%	$727,032
Combined regional	2.5%	6.3%	$448,819
National	2.8%	5.8%	$614,768

With the market booming, questions are once again being raised about housing affordability though. New research released last week by the National Housing Finance and Investment Corporation (NHFIC) revealed that of potential first home buyers in Hobart and Sydney, the bottom 60% of income earners would only be able to afford 10-20% of properties in their respective market.

Likely compounding this further is the fact that the research is based on data from June 2020 - well before the latest round of price rises.

So what could take the heat out of the market?

According to Lawless a number of factors have caused hot property markets to cool in years past, including rising interest rates, worsening economic conditions and tighter credit conditions. Though it’s the latter, he says, that is most likely to have an impact this time around.

"Looking at each of these factors, we aren't expecting a lift in short term mortgage rates any time soon, and the economy has some positive momentum, so the most likely factor that will slow housing conditions is a new round of credit tightening along with housing affordability becoming more of a challenge, especially for first home buyers," he said.

"While a new round of macroprudential policies is looking increasingly a matter of when not if, the catalyst for such a policy intervention is more likely to be based on a worsening in the quality of lending standards or increase in mortgage related household debt, rather than as a response to heat in the housing market.
"Tighter credit conditions would probably have an immediate dampening effect on housing market activity, while continuing to let record low interest rates support the ongoing economic recovery."

Land values around Sydney's new airport soared dramatically ahead of rezonings

Land values around Sydney's new airport soared dramatically even before the land was rezoned, with some properties increasing by almost 250 per cent ahead of planning overhauls.

The first study of its kind by the state's valuer general found that property values rose years ahead of rezonings, in an analysis released ahead of a NSW parliamentary inquiry sparked by widespread upset over land acquisitions for the major infrastructure project.

Valuer General David Parker said the review of the precincts announced as part of the planned Western Sydney Aerotropolis was designed to aid future negotiations over fair value, including for landowners whose properties are being acquired by government agencies.

"The aim is to provide fairness," Dr Parker said following the review's release on Tuesday.

"I would like to think that the parties will read the review and one would hope they would use it to inform their discussions."

Dr Parker said there was a huge industry in speculating about rezoning. The report concluded it was possible to show upward trends in land value before the changes occurring.

The report took in 48 sales over a four-year period between January 2016 and December 2020 in areas rezoned under the western Sydney airport state planning policy.

In the Badgerys Creek precinct, it was found land values increased by 238 per cent, with the uplift being most significant in 2017 and 2018, when market speculation about the rezoning started. The valuations appeared to have steadied after rezoning.

In the Aerotropolis Core precinct, directly south of the airport, it was found there were large increases in land values in most years preceding the rezoning, with land values overall increasing by 58 per cent up until the year preceding the rezoning.

"What the review shows is that when people say things like 'everybody knew the value was going to go up for land around Badgerys Creek', they were correct," Dr Parker said.

"The problem is when everybody knows the value of the land is going to go up, most people hold onto that land rather than sell. You then get, as the review shows, relatively few transactions in the market."

Labor and the Greens have joined to launch an inquiry over the acquisition of land for major transport projects.

Orchard Hills residents fear they will be short-changed by the state government acquiring large swathes of land for a new metro station, before rezoning surplus land and selling it to property developers for much higher prices.

Western Sydney Minister Stuart Ayres acknowledged the community's concerns that the Sydney Metro Authority may exploit the limits of the Land Acquisition (Just Terms) Compensation Act for profit when speaking to a NSW parliamentary hearing last month, but said it was largely a matter for the courts.

Dr Parker's review also soberly confirmed the designation of vast tracts of land as green open space surrounding the airport limited the use of land for affected properties.

Western Sydney Liberal MP Tanya Davies recently described that draft policy as "legalised theft" during a meeting with residents from Bringelly, Luddenham and Rossmore, calling for a solution that would not "bankrupt people who are the salt of the earth".

Queensland land values increase for rural communities

Outback Queensland landholders have been left stunned after their land values skyrocketed by more than 150 per cent.

On Wednesday, Queensland's Valuer-General released new land values, effective from June 30, for 25 shires across the state.

Key points:

- Land values for 25 of Queensland's Local Government Areas have increased after revaluation from the Queensland Valuer-General
- The biggest increase is in the Diamantina Shire in Western Queensland, which saw primary production land values rise by 155.1%
- Landholders are able to object the increase, they have 60 days to do so.

The biggest increase in value of primary production land was in the Diamantina Shire, which increased by 155.1 per cent.

The next highest was the Bulloo Shire Council area, with an increase of 127.5 per cent, followed by the Quilpie Shire with a 108.4 per cent rise.

John Thomas from the State Valuation Service said continued strength in beef and commodity prices, combined with historically low interest rates, resulted in the increases for all primary production land.

"This revaluation program is really a rural oriented program," Mr Thomas said.

"That's where the most significant movement has been and it's really been driven by ... a combination of low interest rates and beef prices that continue to stay up."

New values 'unrealistic'

Geoff Morton is the only remaining owner operator in the Diamantina Shire, with the majority of the land in the shire owned by large pastoral companies.

His property Roseberth, just outside of Birdsville, has been drought declared for nine years.

Mr Morton said the rise in land values was unrealistic.

"I doubt there would be anyone that would pay more for my property now than they would have 12 months ago," he said..

"If there are people out there that would want to pay that sort of money...I'll pack my bags now."

Mr Morton said calculating the increase on strong commodity prices and low interest rates was not sustainable.

"Sooner or later both those things will turn," he said.

"I wonder if land values will change accordingly."

Each shire saw a rise in the value of their primary production land and, according to Queensland's Valuer-General, rural properties in south west and central Queensland were red hot.

The volume of title transaction in the first half of the 2020/21 financial year went up by 10 per cent on the same period the previous year, thanks to renewed confidence in rural industries.

Mr Thomas said most of that demand was from landholders looking to buy more land and expand their business.

"It's driven by landholders seeing confidence in the industry and expanding their businesses," he said."

Land holders 'punished' for high property prices

Mr Morton said he would officially object to the increase, saying recent property purchases in the Diamantina Shire had skewed the overall value of the land.

"There's been some pretty ridiculous prices paid for some very uneconomical properties in the last couple of years," he said.

"They've obviously taken those into consideration.

"I guess we're being punished for what I would consider bad financial decisions by some buyers."

2021 Land Valuations

New land valuations for Primary Production Land, effective from June 30, 2021:

Balonne Shire Council: 89.3%

Banana Shire Council: 16.4%
Barcaldine Regional Council: 39.1%
Barcoo Shire Council: 82.2%
Blackall-Tambo Regional Council: 60.2%
Bulloo Shire Council: 127.5%
Burdekin Shire Council: 11.9%
Central Highlands Regional Council: 99.8%
Charters Towers Regional Council: 96.9%
Cook Shire Council: 34.6%
Diamantina Shire Council: 155.1%
Gladstone Regional Council: 10.2%
Gympie Regional Council: 15.1%
Isaac Regional Council: 96.7%
Longreach Regional Council: 29.9%
Maranoa Regional Council: 44.8%
Murweh Shire Council: 85.4%
Paroo Shire Council: 84.4%
Quilpie Shire Council: 108.4%
Somerset Regional Council: 17%
Southern Downs Regional Council: 42.4%
Tablelands Regional Council: 51.9%
Toowoomba Regional Council: 28.5%
Western Downs Regional Council: 27.4%
Whitsunday Regional Council: 49.2%

House prices rising at fastest pace in 32 years as listings can't keep up with demand
Australian house prices are rising at the fastest pace in 32 years, as the Sydney and Melbourne property markets stage a full recovery from the short-lived COVID downturn.
Key points:

- Home values in Sydney, Melbourne, Hobart, Canberra and Brisbane are at record highs
- Capital city price rises outpaced regional markets for the first time in a year
- Some economists expect regulators to introduce restrictions as risky lending increases

CoreLogic's monthly home value index rose 2.8 per cent in March — the biggest monthly growth since October 1988.

"It's just quite remarkable to see this rate of increase across Australia," CoreLogic's head of Australian research Eliza Owen said.

Sydney prices had the most rapid rise, up 3.7 per cent in the month and 6.7 per cent over the first quarter of the year — the strongest quarterly growth since mid-2015.
"That was a time when the property market was rising very rapidly off the back of a boom in investor lending," Ms Owen said.

"It's a little different this time around with a greater owner-occupier presence in the market."
Prices in Sydney, Melbourne, Hobart, Canberra and Brisbane are all at record highs.

For the first time in the year, growth in capital city markets outpaced regional areas, which performed strongly as people moved outside the major cities during the pandemic.

"Housing values in regional areas are 11.4 per cent higher over the past year, demonstrating the earlier stronger growth trend," CoreLogic's research director Tim Lawless said.

Capital city house price growth outpaced regional areas in March

Listings can't keep up with buyer FOMO

Buyer demand has been spurred by record low interest rates, which have increased people's borrowing capacity and encouraged first home buyers to enter the market.
But listing numbers remain low, with advertised housing stock over the month more than 25 per cent below the five-year average.

The high demand and lack of supply means new listings are being snapped up rapidly — for every new listing added, 1.1 homes are sold.

"Such a rapid rate of absorption is keeping overall inventory levels low and adding to a sense of FOMO [fear of missing out] amongst buyers," Mr Lawless said.
Ms Owen said listings were particularly low in regional areas, with fewer people moving away to the capitals during the pandemic.

What would slow things down?

In recent months, attention has turned to what measures regulators may take to remove some heat from the housing market and slow the lending boom.
In March, Reserve Bank governor Philip Lowe said that while low interest rates were certainly contributing to higher housing prices, the central bank wouldn't raise rates to explicitly target lower house prices.

"There are various tools, other than higher interest rates, to address these concerns, leaving monetary policy to maintain its strong focus on the recovery in the economy, jobs and wages," Dr Lowe said.
One of those tools would be limits on lending, imposed by the banking regulator APRA, which a number of economists are now predicting could be introduced this year.
APRA chair Wayne Byres this week said that while he was watching developments closely, there was not "cause of immediate alarm".

"At this stage, I think it's unlikely that we're going to see any regulatory intervention, that might be something that happens in the longer-term if lending conditions deteriorate," CoreLogic's Eliza Owen said.

However, AMP Capital chief economist Shane Oliver thinks regulators will step in soon.
"Past experience indicates that surging house prices leads to a deterioration in lending standards and increasing financial stability risks," he said.

Dr Oliver notes there has been an increasing share of lending at high loan-to-value ratios, and an increase in interest-only loans, although off a low base.

"The first thing to do would be to increase interest rate buffers but limits on high loan-to-valuation-ratio lending and high debt-to-income-ratio lending may make sense too."

Other potential changes Ms Owen thinks would put the brakes on property prices include banks lifting mortgage rates and an increase in listings.

Housing currently being built with support of the government's HomeBuilder scheme will also add to supply over the coming months and years.

"The other factor that we'd need to look out for is just affordability constraints.
"An asset price can't continue to rise at an accelerating rate if people can't afford to buy them."

Change in dwelling values	Month	Quarter	Annual
Sydney	3.7pc	6.7pc	5.4pc
Melbourne	2.4pc	4.9pc	0.7pc
Brisbane	2.4pc	4.8pc	6.8pc
Adelaide	1.5pc	3.2pc	8.6pc
Perth	1.8pc	5pc	6pc
Hobart	3.3pc	7.6pc	12.5pc
Darwin	2.3pc	5.4pc	14.2pc
Canberra	2.8pc	6pc	12.1pc
Combined capitals	2.8pc	5.6pc	4.8pc
Combined regionals	2.5pc	6.3pc	11.4pc
National	2.8pc	5.8pc	6.2pc

Source: CoreLogic, March 2021