

27 April 2011

The Hon. Wayne Swan MP
Deputy Prime Minister
Treasurer
PO Box 6022
Parliament House
Canberra ACT 2600

Dear Treasurer,

RE: Reported changes to negative gearing and/or new property-based transaction taxes

The Urban Taskforce is a non-profit organisation representing Australia's most prominent property developers and equity financiers. We provide a forum for people involved in the development and planning of the urban environment to engage in constructive dialogue with both government and the community.

We write in reference to an article in *The Age* newspaper on 21 April 2011 claiming that the Gillard government has sounded out unions on a proposed new "sales" tax for property investors and restrictions to negative gearing for investors owning multiple properties. According to the report, there is a belief that new taxes or new restrictions on negative gearing might make housing more affordable.

We think it would be a serious mistake to impose punitive taxes on people investing in more than one rental property. **Such a policy would cripple Australia's supply of new housing and have severe economic impacts.**

Investors are an important source of funding for new home construction. Given that our national undersupply of housing now exceeds 200,000 homes, the government should be encouraging more investor participation in the residential property market, not less.

Investor activity in the residential market-place boosts the housing supply, by funding the construction of new homes that renters cannot afford to own outright.

Most residential investment properties are medium and high density homes. For most medium and higher density residential development projects, the contribution of investor purchases will be in a range of 40 per cent to 70 per cent. The substantial role of investors reflects the contribution of medium and high density housing to the provision of new rental housing. Across the mainland state capitals, 56 per cent of medium and high density homes are occupied by renters.

Higher density homes are preferred by many people because of their good locations and their relative ease to maintain. But they are more expensive to build. An analysis by the National Housing Supply Council showed that construction costs for greenfield houses hover at around \$200,000 a dwelling, while the construction cost for higher density homes approaches \$300,000 a dwelling. Construction costs are between 34 per cent and 44 per cent more expensive depending on the city. Development and interest costs are also more expensive. Investors fund new housing construction through their off-the-plan purchase, and

rent new homes out to people who want well-located, low maintenance housing, but can't afford to fund these construction costs.

Tax changes that are designed to reduce prices by lowering the demand for new homes risk forcing asset prices below their replacement cost. **If tax policy is used to deliberately engineer a collapse in prices for medium and high density homes, property owners, many renters and building workers will be left worse off, as new home construction dries up.**

While investors are less likely to be purchasers of newly built detached houses, they do play an important role by purchasing the older stock of houses sold by upgraders (who are moving on to newer and better stock). Investors then make those older homes available to low and middle income families as rental housing. Upgraders may be unwilling to sell their older homes if tax changes significantly reduce prices in the market for these established houses. As a result demand for new housing stock will dissipate. Australia will lose out on the social and economic benefits of new housing, with lower and middle income families who need to rent a house missing out too.

The idea of singling out owners of larger property portfolios with harsher tax rules was also explicitly rejected by last year's Henry Tax Review. The Henry Tax Review found that levying higher land taxes on larger holdings discourages investment in rental housing.

By allowing investors to purchase housing without punitive taxes, new housing supply is possible, which in turn means more homes available to renters. This helps mitigate the strong upward pressure on residential rents arising from our chronic undersupply of housing.

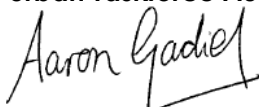
The best way to make housing more affordable, on a sustainable basis, is to reduce the cost of supplying new homes. This could be achieved through:

- lower and more rational development levies;
- a simplified planning approvals system that reduces developer holding costs; and
- a planning system that allows more competition between landowners, to reduce the cost of development site acquisition.

We would be more than happy to discuss this issue with you or your officers.

Yours sincerely,

Urban Taskforce Australia



Aaron Gadiel
Chief Executive