



# Introduction

The Property Council of Australia has prepared this Election Policy Briefing Note to assist national policymakers.

It draws on extensive new and original research commissioned by the Property Council. Further research and modelling is currently underway.

The Property Council's members finance, develop, own and operate Australia's major retail, office, industrial, retirement living and business assets. They are also major developers of new residential housing.

Please feel free to contact the Property Council of Australia for more information.

Yours sincerely,

A handwritten signature in white ink, appearing to read 'Peter Verwer', is positioned above the printed name and title.

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# Policy Goals

The Property Council has prepared these initiatives to support six clear public policy goals:

- boosting economic growth and employment;
- providing a better environment for business;
- incentivising sustainability in the built environment;
- encouraging deeper and more liquid finance markets;
- improving the liveability of Australian communities; and
- promoting good governance.

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**NATION  
BUILDING  
FOR THE  
FUTURE**



## Deliver A National Urban Strategy

A National Urban Strategy should provide a detailed blueprint for reinvigorating Australia's urban communities.

A comprehensive strategy should deliver these elements:

- a Minister for Urban Affairs and Population, supported by the Treasury and located in Cabinet;
- performance targets and year-by-year benchmarks for all levels of government;
- to help deal with the chronic shortage of land and to improve housing affordability, undertake a coordinated roll-out of suitable surplus Commonwealth land for housing;
- tie all State government infrastructure payments to performance against COAG's agreed criteria for effective city planning adopted in December 2009;
- set up an independent authority to monitor, assess and report on performance against these criteria;
- tie all local government payments to performance against key criteria such as faster development assessment and the implementation of the Development Assessment Forum (DAF) model;
- launch a new program to seed fund critical city infrastructure, through Infrastructure Australia, linked to a cities policy; and
- set up a National Centre for Urban Design Excellence to promote better urban design.

### WHY

By lifting the performance of our major capital cities we will lift the performance of our economy and create more liveable and sustainable communities.

### COST

Establishment funds to create the independent authority, which can be met through existing budgets. Direct infrastructure funding and seed funding: \$5 billion per annum.



## Deliver a National Population Strategy

A National Population Strategy must identify how and where new residents will be housed, educated, cared for and employed.

This strategy requires a framework and principles to manage future population growth, backed by metrics to measure performance.

It will address:

- future growth areas;
- specific plans for each future growth area, with identifiable 30-year targets and trigger points for action;
- new economic and social infrastructure needed to support a growing population;
- immigration policy targets to meet clear economic goals;
- the impact of growth on the natural and built environment; and
- a new dashboard of metrics to measure performance in critical areas of community need.

The strategy should be updated in conjunction with the Intergenerational Report.

### **WHY**

As Australia continues to grow, our cities need to be able to meet the evolving needs of larger communities.

### **COST**

None. Funding for the Strategy is already being delivered through existing Budgets.



## Turbo-charge infrastructure investment

Develop a sustainable model to finance new infrastructure and cater for future economic growth, while ensuring there is no further decline in housing affordability.

Government must act to strengthen its long-term commitment to minimise the front-end loading of taxes and charges onto the family home and businesses.

This new approach to infrastructure funding should:

- establish a National Ministerial Roundtable of industry and government representatives, which will prepare a white paper on the future of infrastructure funding by mid-2011;
- this paper should support a COAG-led agreement on national infrastructure provision and funding; and
- immediately trial the provision of Growth Area Bonds (GABs) in key urban renewal areas – using increases in tax revenue to amortise the cost of infrastructure investment – to fund critical urban infrastructure.

### WHY

Infrastructure shortfalls can be met by increasing private sector involvement and adopting innovative funding solutions.

### COST

Funding will be required to develop the white paper and support the Roundtable. Under the trial, some taxation revenue will be deferred, but recouped over time.



## Maintain the Australian Building and Construction Commission (ABCC)

The compliance powers and operations of the Australian Building and Construction Commission (ABCC) should be retained to maintain law and order on construction sites.

### WHY

The ABCC has successfully reduced unlawful behaviour within the construction industry. Its valuable work needs to continue.

### COST

None.



## Boost the Housing Affordability Fund

The Housing Affordability Fund (HAF) needs to be injected with another round of funding and expanded to target key growth areas and planning reforms.

### WHY

The Fund has helped to improve the affordability of housing, but has only been able to deliver spot funding to a selection of projects.

### COST

Additional funding of a further \$500 million over the forward estimates is suggested.



## Support the creation of a new residential property asset class

A residential property asset class should be supported through improvements to the current operating environment, such as:

- the expansion of the National Rental Affordability Scheme;
- the modernisation of Division 6C rules to remove residential investment barriers for real estate funds;
- a pilot project across several capital cities to refine the commercial delivery model.

### WHY

Overseas experience has shown us that housing delivery, when underpinned with large scale institutional investment, can deliver a better mix of outcomes for multi-family housing.

### COST

Ongoing commitment to NRAS program funding and funding for a pilot project.



## Review the Environment Protection and Biodiversity Conservation Act

The Environment Protection and Biodiversity Conservation Act (EPBC) is causing great uncertainty and delaying the delivery of important community infrastructure. The Act should be reformed by:

- recognising protected areas in state and local planning schemes;
- not overriding state and local planning powers;
- streamlining EPBC review processes for applications and delegating authority to state jurisdictions;
- providing fair compensation for owners who are disadvantaged by restrictions on their land; and
- ensuring the same scientific rigour required is applied to the listing of species on the threatened species list as there is to removing them.

### WHY

Business needs clarity and certainty in the application of the EPBC Act so that it can meet community needs. The Act should not add another layer of regulation to development approval processes, but should establish clear rules that can be integrated into state and local planning rules.

### COST

None.

**MORE  
EFFICIENT  
TAXATION**



## **A new broad-based flat-rate land tax on commercial property**

Replace stamp duty on commercial conveyances and other inefficient commercial property taxes with a broad-based, flat-rate tax on the unimproved value of commercial property. This reform is supported by the Henry Review.

This tax would be administered by the Federal Government and distributed in full to the States (similar to the GST arrangements) in line with an Inter-Governmental Agreement.

As a first step, establish a special task group to consult with industry on the proposal.

### **WHY**

Improved tax efficiency provides a stable source of revenue and promotes economic productivity.

### **COST**

Nil cost with efficiency gains and growth in revenue replaced by equivalent efficient taxes.



## **Set uniform standard rules and definitions for property taxes, including unit trust definitions and corporate reconstruction exemptions**

Adopt standard rules and definitions for all property taxes across Australia to boost tax efficiency, remove unnecessary regulatory and compliance burdens for businesses.

### **WHY**

Property owners who invest across Australia incur substantial legal and administrative costs to comply with different, complex state property tax provisions. This makes investment in some states less attractive and uncompetitive. It inhibits capital investment in Australian property.

### **COST**

Nil cost with efficiency gains and growth in productivity – coherent rules and provisions will foster more optimal investment allocations.



## Ensure councils set equitable and consistent rates and charges

Using the COAG process, work with local government to adopt a standard and uniform framework for equitable and consistent local rates and charges. Industry recognises that funding of local core services are necessary, but reform is needed.

### WHY

Revenue from rates has increased by more than 70 per cent since 1998, but there has been no attempt to ensure that rate charging is consistent.

### COST

Minimal impact to revenue, as the framework will emphasise consistent and equitable approaches to rates and charges.



## Continue to modernise the Managed Investment Trust tax regime

Establish a dedicated Managed Investment Trust (MIT) tax regime that allows trusts to undertake new forms of investment in property with tax flow-through status, including residential and retirement living developments. Clearly define ineligible investment activities and scrap the outmoded 'active/passive' rules.

### WHY

Ordinary Australians who invest in property through MITs deserve the same treatment and opportunities as direct property investors.

Unlike direct investors, MITs including Real Estate Investment Trusts (REITs) are subject to restrictions that impede their ability to earn income from property investment.

Australia needs to modernise its MIT framework to keep up with developments in global markets and to foster new property asset classes that deliver social dividends.

### COST

No net cost.



## Maintain competitive Withholding Tax rates

Continue to reduce withholding tax rates on income distributions for MITs in line with our global competitors.

### WHY

If we want Australia to transition to an Asia-Pacific funds management hub, then we need to remain globally competitive. More than 24 countries have introduced a REIT regime to attract investment capital.

The move to 7.5 percent withholding tax on A-REIT distributions to foreign investors has vastly improved an A-REIT's ability to raise equity capital globally. Australia needs to maintain this advantage by ensuring that we are at the forefront of competitive global withholding tax rates.

### COST

No net cost.



## Provide equal foreign investment treaty benefits for trusts

Enable Australian MITs to provide foreign investment treaty benefits to their unit holders.

### WHY

Currently, foreign investment treaty benefits are only available to companies and individuals. This means that investors in A-REITs are deprived of those arrangements. The tax treaty benefits should be available to trusts for the advantage of their investors.

### COST

Expanding treaty benefits between Australia and host countries will be at minimal net cost.



## **Extend the Capital Gains Tax exemption to foreign investors**

Extend Capital Gains Tax (CGT) exemptions to foreign direct property investors.

### **WHY**

Currently, foreign direct property investors are unable to sell their real property assets CGT-free but can invest in entities through securities, property linked debt or businesses and sell them CGT-free. This creates a distortion in foreign investment and skews capital allocation towards other investment classes.

### **COST**

No net cost.

# GREENING THE BUILT ENVIRONMENT



## **Establish a clearly-branded eco-efficiency program for the built environment**

Consolidate the 52 separate building-related government environmental schemes into one clearly branded eco-efficiency program for the built environment.

This should be designed to meet specific energy efficiency and greenhouse abatement targets for the built environment.

### **WHY**

A clearly branded scheme will mobilise industry action. Further, by creating an integrated governance framework, this will streamline administrative processes and improve outcomes.

This would allow the effective distribution of existing incentives to deliver a quantifiable, year-on-year abatement target.

### **COST**

Minimal. Any increase in government costs would be outweighed by administrative savings from streamlining existing programs.



## **Establish accelerated green depreciation**

Establish accelerated green depreciation to encourage the retrofit of existing income-earning buildings to a high environmental performance standard and bring forward the retrofit cycle of existing stock.

### **WHY**

There are 330 million square metres of non-residential stock in Australia, the majority of which is more than 25 years old. By retrofitting these buildings with modern energy efficient technology, the aggregate demand for carbon-based energy will decline below business as usual rates of growth

### **COST**

No net cost as this incentive simply changes the investment-return timing gap.



## Set up a nationally consistent energy efficiency 'white' certificate scheme

Set up a national energy efficiency 'white' certificate scheme, drawing together existing state and territory schemes, to help deliver significant greenhouse gas emission abatement.

### WHY

An energy efficiency 'white' certificate trading scheme draws on the principles of market-based approaches, such as the Carbon Pollution Reduction Scheme (CPRS), to encourage greenhouse gas abatement in the building sector.

This scheme will provide a customer-based mechanism to reduce emissions, by increasing the value of energy efficiency – which is more important in the absence of a CPRS as it can create a market for low cost abatement opportunities.

### COST

Administrative set up costs following a COAG level committee to transform existing schemes into a national framework and modelling of different delivery options.



## Remove barriers for green developments

Enable 'green door' policies to fast-track the approval of sustainable developments.

Incentive payments through COAG will encourage state, territory and local governments to remove some of the significant administrative hurdles to sustainable development.

### **WHY**

Faster, easier approval processes will provide a clear incentive to developers to improve the environmental performance of new projects.

### **COST**

Some incentive payments may be needed for state, territory and local governments.

This policy could also be linked to the COAG cities framework and the National Urban Policy.



## **Extend Minimum Energy Performance Standards**

Minimum Energy Performance Standards should be extended to all major types of equipment used in buildings.

### **WHY**

While Minimum Energy Performance Standards (MEPS) have been successfully implemented for consumer appliances in Australia, commercial application has been limited.

MEPS represent a low-cost strategy that ensures inefficient equipment is phased out during typical refurbishment cycles.

### **COST**

Some administrative funding will be required to establish MEPS committees for the additional appliances, but there may be savings from the winding up of existing committees.



## Remove regulatory barriers to micro-generation

Remove existing regulatory barriers to micro-generation at federal, state and local levels.

Develop a suite of incentives, such as gross feed-in tariffs, to encourage the use of such distributed energy solutions.

### **WHY**

These reforms would 'buy' emissions savings of 18Mt by 2020. The reforms represent an effective strategy to complement the traditional brown grid which is typified by wasteful energy generation and large transmission losses, with a green grid of locally-produced precinct power that takes on increasingly renewable form, such as co-generation.

### **COST**

The development of a complementary 'green grid' will significantly reduce future investment in 'brown grids'. These anticipated savings can fund feed-in tariffs.



## **Rationalise sustainability reporting schemes**

Rationalise the data collection for schemes including the National Greenhouse Energy Reporting Scheme (NGERS) and Energy Efficiency Opportunities Act (EEO).

Through COAG, state and territory governments should be encouraged to abolish their own reporting schemes, where there is regulatory overlap.

Data collected from NGERS, EEO, and mandatory disclosure should be combined into a one-stop green data shop, which is accessible by government, industry and the community.

There should also be an independent and publicly transparent review of NABERS, examining and reviewing its performance.

### **WHY**

Each of the government reporting schemes currently in place collects the same information in a variety of different formats. This adds significantly to the time spent by property companies collecting and reporting energy use data.

Rationalisation will reduce compliance and administrative costs for government and business.

The integrated data will allow for more detailed and effective benchmarking of environmental performance and will free companies up to focus on improving their environmental sustainability.

### **COST**

Some incentive funding may be required for the states and territories.



## **Develop a national framework for climate change adaptation**

Establish a National Climate Change Adaptation Panel, comprising government, industry and academic representatives that specifically addresses built environment issues.

### **WHY**

Tackling the likely impacts of climate change on the built environment will require a nationally coordinated approach. This will ensure consistency across all governments, rather than ongoing ad hoc policy development.

Government responses to climate change should be planned, coordinated and based on strong scientific evidence. A planned approach to managing the likely impacts of climate change will allow for early and efficient action, and minimise the cost of adaptation.

### **COST**

No cost – funds will come from existing departmental budgets.

**ENCOURAGING  
DEEPER AND  
MORE LIQUID  
DEBT MARKETS**



ENCOURAGING  
DEEPER AND  
MORE LIQUID  
DEBT MARKETS

## Guarantee AAA-rated asset backed securities and debt instruments

Provide a government guarantee to AAA-rated asset backed securities and debt instruments.

### WHY

The domestic banking market is unable to supply the level of debt needed to fund future refinancing obligations and promote sustainable investment growth. The market needs diverse non-bank sources of debt. A government guarantee on AAA-rated asset backed securities will stimulate demand for Commercial Mortgage Backed Securities (CMBS) and other debt instruments that can be accessed by the entire economy.

### COST

The government would charge a fee for the use of the guarantee and would thus generate revenue.



ENCOURAGING  
DEEPER AND  
MORE LIQUID  
DEBT MARKETS

## Banks to apply aggregation policies fairly

The government should ensure, via the APRA, that Australia's banks apply aggregation policies fairly for property groups and fund managers.

### WHY

Bank debt aggregation policies are unnecessarily limiting access to bank debt for large organisations. Banks are rolling up the debt within a group and attributing it to the head corporation even where there is no recourse to the head corporation. For example, debt obtained by a fund will be counted as debt of the head corporation even where there is no obligation for the head corporation to pay that debt on default.

### COST

Nil cost – will remove impediments to lending.



ENCOURAGING  
DEEPER AND  
MORE LIQUID  
DEBT MARKETS

## Banks to better rate risks for property debt

The government should ensure, via APRA, that Australia's banks better rate risks for property debt.

### WHY

Bank risk weighting for property is out of step with the actual risk of default and creates high debt costs to property companies which, in turn, stifles development and investment.

### COST

Nil cost – will remove impediments to lending.



ENCOURAGING  
DEEPER AND  
MORE LIQUID  
DEBT MARKETS

## Promote a liquid public debt market

Provide the Australian Office of Financial Management (AOFM) with a mandate to buy CMBS. This will deepen the market for debt in Australia.

### WHY

The domestic banking market is unable to supply the level of debt needed to fund economic growth. The market needs diverse sources of public and private debt. Stimulating the existing, but frozen, CMBS market will promote more liquid public debt markets to deepen and diversify the supply of debt.

### COST

This measure will stimulate the market for CMBS and any high grade investment will provide a positive return over the risk free rate.



ENCOURAGING  
DEEPER AND  
MORE LIQUID  
DEBT MARKETS

## Enable Australian Banks to issue covered bonds

Australian banks should be given the opportunity to boost their regulatory capital by issuing covered bonds. This will expand their ability to lend and increase lending competition.

### WHY

The covered bond market is the deepest and most liquid bond market globally; it was the first to reopen post-GFC. But Australian banks are currently unable to issue covered bonds because of APRA requirements regarding subordination of deposits. Covered bond issuance can be achieved with adequate deposit holder protection measures.

### COST

Nil cost – will increase the supply of bank debt and competition within the economy.

# STREAMLINING BUSINESSES REGULATION



## Introduce a national system for property law

Negotiate a national approach to property law, modelled on the Corporations Law system, to rationalise existing state and territory systems.

As a first step, the Attorney-General should direct the Australian Law Reform Commission to undertake a comprehensive review of property law in Australia, and report on a process and timeline for delivering a model framework.

### **WHY**

Incompatible property laws add to the cost of doing business.

Australia will only remain attractive to international investors if a national system of property law is adopted.

### **COST**

None. The Australian Law Reform Commission should add this review to its business plan.



## Establish a national regulatory regime for retirement villages

The Minister for Ageing should establish an industry-based taskforce to review and recommend changes to the current rules governing retirement villages.

These recommendations should be considered by COAG and a response developed that ensures a harmonised national framework.

### **WHY**

Retirement villages operate under state legislation which is outdated and does not capture modern industry practice.

Work is needed to streamline these rules and create a consistent regulatory framework for this fast-growing asset class.

### **COST**

Some administrative and research funding for the taskforce will be required.



## Commit to targets for slashing business red tape

All government departments should be required to conduct a stock-take of their suite of regulations and identify candidates for removal or rationalisation.

Departments should be required to deliver a quantitative report on the amount of regulation that has been abolished each 12 months, in line with specific annual cost-reduction targets for each sector.

Departmental funding should be calibrated against the level of regulatory efficiency that has been achieved.

This program should be overseen by the Minister for Finance and Deregulation and run alongside the existing COAG regulatory reform agenda.

### WHY

Unnecessary regulation of industry is expensive, and creates a strong disincentive to invest.

Several reports show Australia's regulatory burden increasing inexorably over the past 20 years.

A rigorous program is needed to reduce this burden and make it easier for business to operate in Australia.

### COST

None. This can be absorbed into existing departmental budgets.



## Reform the Regulatory Impact Statement assessment process

Responsibility for managing the regulatory impact assessment (RIS) of any new regulation should be transferred to the Office of Best Practice Regulation (OBPR).

No department should prepare its own RIS; this should instead be done by the OBPR.

This will ensure independent, transparent analysis of regulatory proposals, rather than allowing departments to provide shallow critiques of their own work.

### WHY

Poorly evaluated legislation adds to compliance burdens on business, and is costly to administer and amend.

### COST

None. An administrative transfer of funds should be made from the regulating authority or department to the Office of Best Practice Regulation for each RIS.



# A simpler Product Disclosure Statement for the property sector

Develop a simple Product Disclosure Statement (PDS) for the property funds industry.

## **WHY**

Most average investors will not read past the sixth page of a PDS, let alone the hundredth page. A short form PDS would improve engagement and understanding by retail investors and their advisers.

## **COST**

Nil.



## Provide mutual recognition for overseas regulatory regimes

Support the Financial Centre Taskforce action plan for mutual recognition of regulatory documents between Australia and key foreign jurisdictions.

### **WHY**

Streamlining and simplifying the marketing of investments across jurisdictions will help Australia become a leading financial services hub. This can be done very effectively by agreeing to the mutual recognition of regulatory documents between favoured jurisdictions to reduce time to market, costs and red tape.

### **COST**

Nil.



## Initiate a regional funds passport to simplify marketing funds overseas

Support the Financial Centre Taskforce action plan for a regional funds passport to simplify marketing of eligible funds across jurisdictions.

### **WHY**

A regional funds passport will allow funds to market their products quickly and efficiently across numerous approved jurisdictions without significantly modifying their documentation. This will reduce time to market, boost foreign investment, reduce costs and red tape.

### **COST**

Nil – self regulating and efficient reform to promote investment and greater market efficiency.



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