

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 Copsy

Jacinta Ermacora

David Limbrick

Bev McArthur

Tom McIntosh

Evan Mulholland

PARTICIPATING MEMBERS

Gaelle Broad

Georgie Crozier

Sarah Mansfield

WITNESSES

Dr Allison Stewart, Deputy Chief Executive Officer, and

Mr Llewellyn Reynders, Director, Research and Economics, Infrastructure 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 pay my respects to their ancestors, elders and families. I particularly welcome any elders or community members who are here 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.

We will begin by introducing committee members to our witnesses.

John BERGER: John Berger, Southern Metropolitan Region.

Evan MULHOLLAND: Evan Mulholland, Northern Metropolitan.

The CHAIR: Georgie Purcell, Northern Victoria.

David LIMBRICK: David Limbrick, South East Metro.

Bev McARTHUR: Bev McArthur, Western Victoria Region.

Jacinta ERMACORA: Jacinta Ermacora, Western Victoria Region.

Tom McINTOSH: Tom McIntosh, Eastern Victoria.

The CHAIR: Thank you for coming along today. 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 the organisation you are appearing on behalf of.

Allison STEWART: Dr Allison Stewart, Infrastructure Victoria.

Llewellyn REYNDERS: And Llewellyn Reynders, Infrastructure Victoria.

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

Allison STEWART: Thank you very much, Ms Purcell, and thank you to the members of the committee for the invitation to appear here today. We do appreciate it. Infrastructure Victoria is the state government's independent infrastructure advisory body, and today we would like to draw your attention to a report that we recently published titled *Our Home Choices*, which was submitted as part of our submission as well. Infrastructure Victoria has three key roles as the government's independent infrastructure adviser. We prepare a 30-year strategy for infrastructure in the state, which we update every three to five years, as required by our legislation. We also do independent research on matters related to infrastructure, and we provide advice to government upon their request as well.

We wanted to quickly brief the committee on how our work intersects with the terms of reference for this particular inquiry. In short, Victoria's current land transfer duties are one factor that influences the choice that people make about what home to buy. These decisions affect the pattern of development in Victoria and how much infrastructure we need to build to serve those new homes, and that was really the subject of the report that we looked at. Over the course of 18 months up to March 2023, when we released the report, we undertook a variety of different types of research to help us pull together the recommendations that are in this report itself. The research specifically was looking to examine the housing choices that Victorians face and their preferences for different types of homes. We found that families on moderate incomes and first home buyers are being locked out of Melbourne's middle suburbs, pushing them further away from schools, hospitals and public transport. The research that was conducted was Australia's largest ever study of people's housing preferences. We talked to over 6000 people from Melbourne, Geelong and Ballarat about the type of home that they would choose if they had to move today. One in five households told us that they would trade a detached home in a new suburb for a townhouse or an apartment closer to city centres and existing infrastructure but that there is very little choice within their budget in those areas. Melbourne and our urban regional centres need more well-designed three- to four-bedroom homes for families on moderate incomes, including first home buyers, closer to schools, hospitals and public transport. This will help to make the most of the infrastructure that we already have and ease the task of delivering new infrastructure where it is needed most.

We developed a package of reforms in this paper to unlock more housing options for Victorians, especially families on moderate incomes and first home buyers. Together we believe that our reforms will give families and first home buyers more choice in many more areas with better access to jobs, services and public transport. Within these policy options that we have provided there are three different categories of options, and the subject of this inquiry really goes to one of them, which is to reduce financial disincentives to purchasing homes in established areas. Specifically one option we identified was to remove the distortions created by stamp duty concessions and ultimately to abolish stamp duties altogether, potentially by replacing them with a broad-based land tax. We know that land transfer duties affect people's home choices in a couple of ways.

Firstly, land transfer duties – or stamp duties, as they are commonly referred to – affect people's housing mobility because they introduce a large penalty for people who decide to sell their home and buy an alternative residence. I am sure you have heard many things about that over the course of this hearing. The effect of older people choosing not to downsize their homes is well documented, but our research has also documented the potential effect stamp duty can have on upsizing. People are aware of the cost of stamp duty, and they make intelligent choices about trying to prioritise their home purchases to really maximise the benefit available to them through various grants and subsidies. We know that stamp duty is one of the things that lead to them planning their home purchase to avoid having to move in the future. This can lead to people focusing on buying their forever home as their first home purchase, especially for people that are planning to have families. This means that stamp duties encourage people to buy larger homes long before they need the extra space, instead of buying a smaller home first and upsizing to a larger home if they need to. This helps fuel demand for the larger, more affordable detached homes in growth areas rather than smaller, better located alternatives.

Secondly, we are aware that stamp duty concessions also introduce incentives for people to preference certain types of homes over others. The Victorian government currently provides a concession for first home buyers on homes valued up to \$600,000 and a partial concession for homes valued up to \$750,000. For a household seeking to buy a larger home, such as for raising children, the only feasible option to receive this concession in Melbourne is to buy a home in a growth area. We looked at a variety of pricing data to really look at what the options were that were available to families on moderate incomes with children at home and what the implications of that would be, and this assertion is based on the data that we collected, which I can expand on more if required. This means that the concession for stamp duty is also fuelling the demand for homes in Melbourne's growth areas.

Many people have examined the economic benefits of changing land transfer duty arrangements and have submitted this evidence to the committee. Our research simply adds to this evidence base. It shows that our land transfer fees and concessions also have implications for the shape of Melbourne and the amount of infrastructure cost that the government will face in the future. We did submit our full report and the accompanying policy evidence report to your inquiry, and if there is anything further about either of those reports that the committee would like me to expand on I am happy to do so. Thank you.

The CHAIR: Great, thank you. We will move to questions from committee members, around 5 minutes each, and we will go round again if time permits. Mr Berger.

John BERGER: Thank you, Chair; and thank you for your attendance and your presentation today. I am just interested in your data and how you went about collecting it. I know in your submission you go into it, but how specifically did you get all of the data from those particular areas that you mentioned?

Allison STEWART: We did three different pieces of our study. We started with focus groups, where we looked at 22 different focus groups of individuals from across those areas, and we really wanted to understand their experiences of why they had chosen to purchase the homes that they chose.

John BERGER: Were they physical focus groups or online?

Allison STEWART: Physical focus groups. I think we had a variety of online and in-person focus groups, and that was partly due to availability and preference of those participants. We did have representation from various groups of different backgrounds and from a wide variety of different areas, particularly in our growth suburbs but through established suburbs as well, to really try and understand that.

In our second part of the study we did price modelling. We obtained data from June 2022 looking at the sales of various types of homes throughout Melbourne in particular, and we wanted to understand what the various characteristics were of those homes, understand their size, understand their floor area where available and then understand what choices were available for moderate-income families – those that are on incomes of between \$88,000 and \$132,000 per year – and truly try to dig into what were the choices available to them in different areas. And that is how we concluded that really there are very few options available that are suitable for families, especially those moderate-income families, who are the largest purchasers of properties in Melbourne's growth areas.

We then did our study of 6000 people across the areas I mentioned before – Melbourne, Geelong and Ballarat – and that was conducted using a panel approach. The panel went out quite broadly, and we received a close-to-representative sample of 6000 individuals, who were asked to choose between different options that we provided to them; this option is called choice modelling. They were asked to choose between different types of properties that had different characteristics – were located in different areas, had different numbers of bedrooms depending on their requirements and were at different prices – and that enabled us to really calibrate our model. That choice model is then built up and used, and we can interrogate it to see what would happen with different groups were they to have different choices available to them. What choice would they have made based on the choices that they have made in the survey to calibrate the model itself? And that helped us to identify what the opportunities were.

John BERGER: It appears to me that your survey is based on Melbourne, Geelong and Ballarat – like a corridor, if you like. Any thoughts on why you may not have gone into the north or into the east or down south?

Llewellyn REYNDERS: Look, we were keen to include regional cities in the study rather than limiting it purely to Melbourne, to understand some of the interaction between Melbourne and other places. Geelong and Ballarat are two very large regional cities where we could get a decent sample to ensure that those markets were represented fairly with a decent sample size. I think once you get to smaller communities it can be quite difficult, using panel methodologies, to get a sample that we can rely on to draw solid conclusions. So part of the limitation was actually us being able to get a large enough sample of responses so that we could rely on the modelling, and that prevented us from interrogating very small towns elsewhere.

John BERGER: It just appears to me that the expansion in both areas is somewhat similar. I would just be interested in what the outcomes may have been had it been directed in another area.

Llewellyn REYNDERS: We suspect that those patterns would be similar in other locations but, as I said, we could not interrogate that directly.

John BERGER: Okay.

The CHAIR: Thanks, Mr Berger. Mr Mulholland.

Evan MULHOLLAND: Excellent. Congratulations on your submission. I was really interested in your report when it came out, and I thought it was very insightful and thoughtful and worrying in terms of the challenges we face as a state and how we create more density and create more homes that people can actually live in. I wanted to talk about something you kind of referenced in terms of homes that people can start a family in. Victoria has a family formation rate of about 1.48 per woman, which is the lowest in the country, and I wanted to ask what you think some of the challenges are to that and whether our current policy framework in terms of stamp duty and other things is a barrier to family formation in terms of having the right types of homes where people can settle down and start a family.

Allison STEWART: We did not look specifically at that question. However, we did ask participants what the minimum size of home was that they would consider and then asked about homes that had additional bedrooms or fewer bedrooms and tried to understand what the options were available to them. So while we cannot comment directly on whether the current policy settings might be leading to choices that are outside of the scope of the report that we did look at, certainly we did find a really interesting variety, particularly within our focus groups, of different pressures that people are facing in terms of the trade-offs that they are making and the decisions they are making based on the choices that are available to them.

There were some assumptions that we heard consistently throughout the course of the work that we were doing about people not understanding what was available in established areas and not being willing to trade off certain things, but actually we heard very clearly that people that make a choice to choose a home in a growth area have a really good understanding of the choice and the trade-offs that they are making. They really think carefully about those, as everyone does – everyone that we spoke to throughout our study. It really is a choice of maximising the benefits that are available through all the various different options that are presented to them. Part of that is concessions, part of that is different grants that are available – people do make those really specific choices. Certainly the availability of different types of infrastructure is one of the pieces of those choices, including, for example, access to child care and access to schools and the implications of access to those kinds of facilities for families who are choosing to live in different areas. That is certainly one of the complexities of how we continue to serve the population of Melbourne going forward, with that extra million people per decade that we are expecting to come to Victoria over the next three decades. Really thinking carefully about how we can prioritise our infrastructure to ensure that people have the option to access the jobs that they want and the study opportunities that they want – with the adequate infrastructure support to be able to do so – is one of the things that Infrastructure Victoria is really passionate about considering. And that certainly is something that comes out clearly within the work that we did.

Evan MULHOLLAND: Excellent. One town mentioned in a lot of media reports when this report came out – probably the most famous – is a town in my electorate called Kalkallo, which is a growth area, and residents are forced to wait sometimes an hour and a half in their cars in the morning before getting out of their own neighbourhood. I think we see some of the consequences of when we do not properly plan our suburbs and there is not that proper density in the inner city as well. Why do you think there has not been a commensurate investment in infrastructure in these growth areas before people move in? Basically, who bears the cost of this new infrastructure, and why does it lag behind new housing developments in growth areas?

Allison STEWART: One of the other recommendations that we made in the report – one of the other policy options that we specified – was to consider reforms to infrastructure contributions. Infrastructure contributions are one of the broader elements of delivering infrastructure in a timely way. We did identify within that particular option that having a consistent approach to infrastructure contributions across the state would be helpful. We know that currently infrastructure contributions are determined in a really disparate way across different local government areas and that are arrangements that are made are quite challenging. Of course in the growth areas we do have the growth areas infrastructure contribution, or GAIC, which is relatively consistently applied across different infrastructure areas. However, the link between the expectation of that infrastructure and the ability to deliver it in a prioritised fashion in the way that we are growing is a real challenge for the state and for our city in terms of how we continue to expand.

Certainly one of the really strong messages that we hope is coming through in this report particularly is around the need to make sure that we are providing that adequate infrastructure at an appropriate pace for residents in those growth areas. We did find as part of this research that even with significant differences in some of the properties that could be made available in established areas that a large proportion of people would still choose growth areas – a significant proportion of people. Growth areas will continue to be a really significant part of

our future as a city. We need to make sure that we have the capacity to be able to service those areas appropriately and that we have the time and the budget to be able to do so in all of those different areas. And if we continue to expand the way that we are doing – we simply cannot keep up at present with the expectations and the commitments that are being made to their communities without some of the challenges that you have spoken to, which are certainly consistent with many of the growth areas and many of the residents that we spoke to.

Evan MULHOLLAND: Excellent. We might go around and come back later.

The CHAIR: Yes, of course. Thanks. Mr Davis.

David DAVIS: Allison and Llewellyn, thank you for your submission. It is highly interesting, and I agree with Evan about a number of the points he has made. The research that you did – I am highly interested in that. It seems to me that it is quite unique research that has actually dug down a level deeper than a lot of the stuff that has been done previously, and I would certainly be very interested to see, number one, the actual surveys and questionnaires that you did – the actual format of them – and actually some of the raw data, because I would actually like to understand the bits and how it actually all fits together. Perhaps I can give you that on notice, because I think it is actually highly relevant and relatively unique.

The second thing that I would like to say is that you have touched on and Evan has touched on and your paper touches at length on development contributions, infrastructure contributions, the GAIC and other points. What I do not see fully come through in this or in other material is the fact that GAIC is collected and it often sits at Treasury for a very, very long period – a very long period – and the same with development contributions at council level and other infrastructure contributions. So, you know, it is all very well – you collect it, but then it could be a decade before it is actually applied in a particular area. There is also – and you may want to comment on this – no guarantee that the money collected in Greenvale, to pick Evan's example, will be used in Greenvale. It could be used in the south-east – in a growth area, for example, in the case of GAIC. So you might want to just comment on some of those points.

Allison STEWART: Thank you very much. Just on the point, firstly, about the data: we routinely release all of the kind of working reports that we have. In addition to the covering paper, we also have a separate paper on policy evidence, which provides further detail on each of our options and various recommendations and, you know, building on others, trying to provide other references which are available. In addition to that, we have published I think it is four separate reports underpinning that for each of the different pieces of our work. We have a report that looks at the price modelling, which goes into a lot more detail around the data that we used, how we used it and the collection of that and what the interpretation and the methodology was, in addition to the focus groups and the survey – the focus group content and the questions that were asked through the focus groups. And then for the survey as well we have the questions that were asked in the survey, the example of the kind of survey approach and the choice modelling outcomes. Those are all supporting reports that are available publicly on our website, should you wish to look into any further detail about that.

David DAVIS: You might want to just transmit them across to the inquiry for us to take as part of our formal material. That would be very helpful.

Allison STEWART: Yes, sounds good. On your second point, in terms of the collection of contributions and the lag in distribution of those, our recommendation is around reforming the contribution system, which we know has challenges. We are not the first people to point those out. We recognise, and many have recognised, that that is not currently working efficiently or effectively. Hypothecation of those particular funds is obviously always a challenge, and how the government goes about doing so is really the government's business. So what we are trying to do in this is to point to the work that others have done to really be able to articulate some of the challenges of that system and to try and recommend where we believe that system can be reformed, and then there are obviously further steps that would need to be considered in terms of then how to extend that into the delivery of the services that are required. I do not know if you have anything to add on that, Llewellyn.

Llewellyn REYNDERS: Probably just to point out that even if we could fix all of those problems, at the current rate GAIC does not go anywhere near fulfilling the level of cost that that infrastructure will require funding for.

David DAVIS: I think that is right, but the point is that it is actually collected. It pushes up the price of bringing the land to market, and then the money sits over here in Treasury for an eon. Meanwhile the people out here do not have the new school or the oval or the community centre or whatever it is. Even if it could not fund all of it, it could fund some of it. This hypothecation of some type and the early application – I mean, one way is works in kind, another way is actually, you know, as you outlined, some hypothecation into the actual region, so that people who are paying the tax – let us call it for what it is – actually get some early benefit from it.

Llewellyn REYNDERS: Yes. And one other point: I guess the thing is, you know, as infrastructure planners we are very aware that at times the infrastructure demand that comes from building a new estate, particularly in the transport system, for example, may not appear close to that estate. So if you build an estate on the edge of the city and people are travelling into the middle of the city, the point at which that congestion might appear actually might be quite far in. So it is not always the case that the infrastructure need created by a new community always occurs in that community.

David DAVIS: All of the needs. It will certainly create local needs.

Llewellyn REYNDERS: Yes. But it is not always confined to that geographical location.

David DAVIS: That does not excuse them sitting on the money.

Llewellyn REYNDERS: No. I do not think we are trying to.

David DAVIS: The other related point to this – and this is not the growth suburbs, it is everywhere but the growth suburbs – is the windfall gains tax, which creates another tax coming out of property development. Have you looked at that? Have you modelled the impact of that?

Llewellyn REYNDERS: No.

Allison STEWART: We have not modelled the impact of the windfall gains tax on this, partly because it is a broad-based tax that applies across a range of areas. For this particular study it was not the subject of the work that we were looking at.

The CHAIR: Mr Davis, we might need to go to Mr Limbrick, and we will come back if there is time. Mr Limbrick.

David DAVIS: That is all right.

David LIMBRICK: Thank you, Chair, and thank you for appearing today and for the report that you have put together. One of the things which is quite different in your report – like many submissions you have recommended eventually abolishing stamp duty and replacing it with a broad-based tax. Many others have recommended that. The one thing that is quite different to many other recommendations is we have had a lot of people say that the concessions need to be adjusted to account for bracket creep, and your submission is quite different in that you are saying that concessions should be removed, effectively. And if I am understanding it right, you are saying that that is distorting choices because people are selecting greenfields properties because they are the only ones that will fit the concession profile. What do you think would be the effect of removing those concessions, though?

Llewellyn REYNDERS: I guess, firstly, one of the effects of removing them is that you are reducing the distortion in the market. What the concessions do in a sense is make the price differential between different products more extreme and actually tip people towards a cheaper product, which is generally only available in growth areas, so we could reduce that effect. I guess the other suggestion that goes to one of the other recommendations is we think there might be more effective ways, if we are going to spend public money to help housing affordability, to achieve that. And one of the models we looked at was in fact government co-owning – so a shared equity scheme, which the Victorian government already has, but it is a very small scheme at the moment. I am actually looking at that mechanism which actually might, firstly, target people better and actually give support to those who most require it and, secondly, actually be able to recycle that funding over time. The beauty of a shared equity scheme is that in fact usually in the end the equity is paid back and then it can be re-used for another family in the future.

David LIMBRICK: Thank you. If that market distortion exists, then it sort of implies that those people that are buying greenfield properties to qualify for the concession could otherwise purchase a more expensive property somewhere else and they are being incentivised to purchase a cheaper one. But in many cases that is not really going to be the case, is it? Like, if they can only afford a new greenfields development, it would not necessarily follow that if that incentive through the concession was removed, they would choose something more expensive, because they probably would not have the capital to do that because the whole reason that they are buying a cheap property is because it is their first home and they do not have a lot of money. Do you think that that distortion is really significant?

Allison STEWART: That is where some of our other recommendations come in. That is a really significant challenge in our current housing market – that the only choice that is available to many of these moderate-income families and to first home buyers in that income category is a home in the growth areas. They are not able to choose other products, because other products are not available. So what we have tried to recommend with some of our other recommendations here or policy options that we have put forward are things to unlock some of the planning settings to be able to increase the potential to buy different types of homes and to really increase the diversity of home types that is available in other areas so that people have those choices. Part of the challenge, as you say, is the lack of availability of choice, and that is what we really would like to target through this package of reform options, to try and increase that choice, so that people who would make a different choice were that product available could do so, which they cannot at present.

I think just to draw as well on the point that Llewellyn made: the question of housing affordability and first home owner purchases are highly related but they do not overlap completely. I think it is important to consider the underlying policy rationale for which first home owner grants and stamp duty concessions are introduced and to make sure that the mechanisms that we are introducing, the policy mechanisms that we are introducing, are having the intended effects. While things like the first home owner grant sound like they are good for affordability, in practice we have not found that affordability has increased at all over the time that that has been in effect. That is a real challenge. If we cannot draw that causal link between the policy mechanism that we are trying to use in order to increase affordability to that particular cohort, then actually we need to try and think about what other policy levers might be available, such as the shared equity scheme that Llewellyn spoke about, to be able to actually help that issue more clearly.

David LIMBRICK: Thank you. I did not see anything about this in your report, and it was not really on my radar until later in this inquiry – the potential effects of the punitive stamp duty rates for foreign buyers. We heard evidence yesterday that this is actually a significant effect, because for some of these developers that do large-scale developments – my understanding is, as we heard yesterday – there will be a pool of buyers, and some of those will be foreign and some of them will not be. Because of these punitive stamp duty rates the foreign buyers are disincentivised to form part of that pool, and if the pool does not meet a large enough size, then the development will not reach a financial decision and will not go ahead. How significant is this effect, do you think, of sort of disincentivising foreign capital from investing in residential property in Victoria?

Allison STEWART: It is a good question. It is not one that we looked at through this report, because we were looking at trying to understand individuals' housing choices. One somewhat related element is that in terms of our study we looked at the various diversity of backgrounds of people that are choosing to purchase homes in growth areas to really understand some of the drivers of those choices. We did find that there is a significant proportion of people who have been in Victoria for less than two years. Was it less than 12 months as well?

Llewellyn REYNDERS: I think it was slightly longer – up to five years.

Allison STEWART: Up to five years. Certainly people who have arrived in Victoria relatively recently have made the choice to purchase in growth areas in a really significant way, and thinking about the choices that are available in other areas, the experiences of people – and often people who purchase in growth areas are people who have previously rented homes in established areas or purchased homes in established areas and made a choice to move to a growth area deliberately because of the difference in availability of home type – and really understanding some of those drivers and the roots of those decisions and the choices that people make deliberately when they come to Victoria and choose Victoria as their future home, as many more will do in the coming decades, are part of what we need to be thinking about. Where people are choosing to come and make Victoria their home and invest their capital in a home in Victoria, the availability of that choice and the

implications of the choices that are available to them and, for us, providing infrastructure equitably to different areas are really critical. We really need to make sure that we are thinking carefully about that and that we are making deliberate choices and decisions around what the future shape of our city looks like and how we wish to provide that infrastructure to support those people who are choosing to come and call Victoria home.

David LIMBRICK: Thank you. Just back to the concessions and the sliding scale, you could also argue that the sliding scale itself is a distortion because you have got higher rates. Putting aside the abolition of stamp duty for a moment and moving to some other form of tax, if we were going to change those scales to remove distortions, are you suggesting that we remove concessions and just have a flat rate across everything? How would that scale look if we were going to do an adjustment of the scales?

Llewellyn REYNDERS: We did not look into different designs of stamp duty. We really examined the stamp duty structures that were in place and the concession arrangements that are in place today and were keen to draw the links about how that is affecting the market. One of the most interesting observations we found, certainly when we did our focus groups, was many people specifically mentioned the fact that part of the reason for choosing a home in a growth area was that they were trying to maximise the incentives that government gave them, and that included stamp duty concessions and it included first home owner grants. We actually, in our survey, measured various attitudes, and one of the attitudes we measured was whether people thought it was important to maximise government grants and concessions in making their home choice. What we found was that was actually the largest differential between the decision to buy in a growth area and the decision to buy in an established area, so we very much concluded that the availability of these different concession arrangements and grants and those kinds of things is very salient in the choice and the thinking behind what people are going to buy and where they are going to live.

David LIMBRICK: Just one point of clarification, when you mention ‘concession’ in this report, would it be true to say that you are not just referring to the stamp duty exemption but also the sliding scale, because that could be considered a concession as well because cheaper properties have a lower rate. Some of them are zero if it is a new home. Is that what you are referring to or is it just the exemption itself?

Llewellyn REYNDERS: I think we were purely focusing on the exemption. We very much understand your point about the sliding scale, but it is not an issue we interrogated in any detail.

David LIMBRICK: Okay. Understood. Thank you.

The CHAIR: Thanks, Mr Limbrick. Mrs McArthur.

Bev McARTHUR: Thank you, Chair. Talking about market distortions and individual choices, isn't the education zoning policy a major distortion of the market?

Llewellyn REYNDERS: Certainly we are aware that there have been a few studies that have looked at school zonings. In fact school zoning and the perception of the quality of a school can have effects on house prices. So certain school zones, particularly around schools that have a particularly good reputation, actually show a measurable increase in house prices, where clearly people see a benefit to paying extra for a home in those locations in order to be able to access that school.

Bev McARTHUR: So shouldn't that distortion be removed?

Allison STEWART: We did not look specifically at that within this study. It is a good question. Certainly, thinking about the implications for school zoning, I guess the challenge is that the particular problem that we were looking at within this study was trying to understand why people are choosing to live in growth areas and how might they make a different choice. With the example that has just been provided, the areas which are zoned, particularly around well-performing schools, tend to be significantly outside of the range of possibility of purchase for many of the moderate-income homebuyers who are really fuelling a lot of that growth area purchasing. You know, it is sort of an adjacent topic, but one that is worthy of consideration.

Bev McARTHUR: It is very significant that people are paying more for houses in an area because of the school zoning, so if you are into removing distortions in the market, like first home owner grants and stamp duty concessions, then you surely need to look at all distortions in the market.

Allison STEWART: There are many more distortions to the market that we could have looked at. A whole range of different distortions exist in terms of markets for different areas; however, for this particular study – and part of the challenge, I am sure you appreciate, is just trying to limit the scope of some of these pieces of work, because once you pull on one particular string a whole bunch of other strings come with it – we were really trying to understand, specifically for those people who are choosing to purchase in growth areas, what would help to influence a different home choice and what it would be that would provide that different home choice, and because the properties in areas that are zoned specifically around particularly well-placed schools are very widely out of range for most of the people that would otherwise purchase in growth areas, that was not something that we considered in this particular study.

Llewellyn REYNDERS: But we did look quite closely, actually, at access to infrastructure more generally, and that included schools. One of the things that we found is that not just around school zones but broadly across the inner and middle suburbs of Melbourne these are locations with good access to infrastructure, and that does influence the price differential between the inner and middle areas. But that effect applies well beyond the education system. It applies to transport infrastructure. It applies to hospital infrastructure. It applies to many types of infrastructure that do not have zoning systems, so we see this effect of being close to infrastructure, whether or not there is a zoning system around it, as adding to the price differential between different parts of Melbourne.

Bev McARTHUR: Okay. So we have now gone to infrastructure, which is great. Following on from Mr Davis's issue about the windfall gains tax, which clearly has a consequence if it is not hypothecated, a 50 per cent tax on uplift, with it going into consolidated revenue and not infrastructure, is going to, we have heard, slow down the ability of people to be interested in developing areas. In fact I would suggest it could lead to land banking, because why would you enter into a development proposition under this regime, which is clearly a disincentive to invest? The infrastructure, which is critical to these growth areas, will potentially not occur, as a result of that huge tax benefit that the government can obtain, so wouldn't it be important for your organisation to really challenge the proposition that, if you are going to have a windfall gains tax, the tax should be hypothecated back into that area where infrastructure is going to be required?

Allison STEWART: It is a good question. It is not one that we considered within this particular report.

Bev McARTHUR: Are you intending to look at it?

Allison STEWART: We do not currently have any research on that particular topic.

Bev McARTHUR: But do you have a plan to look at how the windfall gains tax will affect infrastructure in Victoria?

Allison STEWART: Not at present.

Bev McARTHUR: Okay. Mostly your submission involves housing. But there is another critical area that would be affected by a broad-based property tax, and that is rural farming properties. I am assuming you have not looked at that either and how that cohort would be affected by a broad-based property tax based on the value of a property that is probably done down here in St Andrews Place or somewhere via the valuer-general. Have you considered what the impact to agriculture is going to be of the broad-based property tax?

Allison STEWART: We did not look at that specifically within this study, because then that was not the focus. However, there are many other organisations that have looked at the application of a broad-based land tax and how that could be done equitably. It certainly has been recommended by many organisations other than us. We have considered that evidence in this particular problem, and that is what we have reflected within our study.

Bev McARTHUR: But you are the government body that is responsible for suggesting infrastructure. If a tax is going to be applied to a certain cohort, surely you must be the body that needs to know how that tax will be used for infrastructure in particular areas and how that will affect the ability to pay of certain cohorts. Certainly with agriculture and farmers being price takers, not price makers, they cannot just up the price of a product, because they are subject to market fluctuations, the weather, international markets et cetera, but this is a tax on their bottom line.

Tom McINTOSH: Sorry, Chair. I have gotten a bit confused on this. Sorry, Bev, I have just lost the train of where you were.

The CHAIR: I was just about to say as well, Mrs McArthur, we will need to go to Mr McIntosh – once you have answered.

Bev McARTHUR: Just on the issue of the tax, how it will affect farming and the agriculture community?

Llewellyn REYNDERS: I can certainly add that a number of the other studies that have been done on how you might apply a broad-based land tax generally consider it for urban land rather than agricultural or indeed consider a differential rate, as we already see with stamp duty and other taxation mechanisms. Understanding the particular need of primary producers and agricultural products should be taken into consideration, and most of the proposals that have come up around that do make that distinction.

The CHAIR: Thanks, Mrs McArthur. Mr McIntosh.

Tom McINTOSH: I do not have any questions. Thank you.

The CHAIR: No problems. Thanks, Mr McIntosh. Ms Ermacora, do you have any questions?

Jacinta ERMACORA: Thank you. Yes, I do. Thanks for your contribution. I heard you saying that the sample size would be distorted if you went any bigger than the two inner regional cities and Melbourne. I just wondered if you have done any comparative modelling in the rest of Victoria – regional communities – against the data that actually exists.

Allison STEWART: We have not done any further modelling in other areas. Certainly we are aware that of the cities that are facing the growth area pressures – it is not just Melbourne; other regional cities are experiencing growth area expansion, and certainly Geelong and Ballarat are seeing significant expansion in their growth areas, which is why we had included those. Again, while we were not able to look at each individual regional city, the underlying and underpinning findings that we have we expect would apply to any regional city experiencing similar challenges in terms of growth. Now, some of the recommendations that we have and the options are more suited to Melbourne and Melbourne's size than they would be to a smaller regional city. However, the potential options and certainly some of the planning-related options that we have articulated would be applicable for consideration to really anywhere that is experiencing similar challenges. But we have not specifically modelled that.

Jacinta ERMACORA: Thank you.

The CHAIR: Any other questions, Ms Ermacora? No. We do have time to go around again. Mr Berger?

John BERGER: I think I am okay, thanks, Chair.

The CHAIR: Mr Mulholland?

Evan MULHOLLAND: I will go around again. I want to ask about density challenges, which again is mentioned in your report, and just in particular around Melbourne where you think the challenges are most stark. I look at places like Hawthorn and Camberwell, which compared to other areas, in my view, seem to be doing better at approving and building more apartments and creating that density. But then I look in areas, particularly in my own electorate like Carlton and Brunswick, where we see miles of one-storey terraces. I know that Merri-bek council in particular has been quite poor, in my view, in approving developments where there are sensible five storeys, seven storeys. We see news reports about it where development is being blocked. I will ask a two-part question. Where do you think the pressure in Melbourne is most stark? And the second part of my question is: there have been ideas floated about this kind of reform. One idea is that the government could absorb planning powers from local government. Other expert witnesses and economists to this panel have recommended housing targets for local government with a carrot and a stick in terms of incentives. What is your view on those as well? So there are just two parts to that question.

Allison STEWART: Yes. Absolutely. Certainly that is something that we speak about quite a lot within our report outside of the consideration of stamp duty. Part of the challenge is that we do not have really good data to draw on to be able to actually point to the specific areas. We have the same anecdotal data, where we can

look at things and go, 'This looks like an area that has more growth than that area,' but we do not actually have a good, solid data measurement baseline to really understand where density is happening. That is one of the recommendations we made – that we need to understand and have a consistent form of measurement so that we have a good starting point to compare to and we can identify those areas in which we are not seeing significant growth. That said, one of the other recommendations that we have made is also around housing targets. We definitely agree with and support the idea of housing targets for LGAs and the need to make sure that that is done in conjunction with local government but really in terms of understanding the potential of different areas and really trying to unlock a whole range, a whole diversity, of density. So we are not speaking about requiring high-rise everywhere. That is certainly not what we think is required and not what we have put forward. We think that this is really a diversity question, right? And we need to have a whole range of housing diversity in Melbourne to be able to accommodate a lot of these specific requests.

So within this study specifically we have advocated for two properties on one lot to be made possible under the planning system and to be made much more straightforward to apply for. Our recommendation is through a code-assess approach, with really specific visual guidance around what is required to be able to do that. So that specifically we think will help to unlock those kinds of properties. We have also recommended that there be some more specific guidance around low-rise apartment buildings as well. We are conscious that that is a portion of the housing market that has not been really significantly delivered and that there would be some particular areas where that kind of lower height property would be more applicable than having high-rise towers. We think that there is going to be a role for all different housing types in the future. Certainly within this study when we were looking at properties for households with children, we were looking at kind of three and four bedrooms typically that families are looking for to be able to accommodate their housing preferences. Thinking about a whole range of housing types is really important.

In terms of Infrastructure Victoria's previously done work that we published, 'Density done well' looked at a panel of citizens to really try and understand what would be acceptable trade-offs in exchange for density. That work found that good-quality urban design and good access to the types of infrastructure that we all enjoy, like open space, would be necessary if we were to increase density. So again, that is another piece of work in terms of trying to provide clarity on what types of areas would be appropriate. In particular of course we also recommend that areas with good access to existing infrastructure – with good-quality public transport, with good access to schools, to healthcare facilities and to childcare facilities – are those that are really potentially more suitable for increased density.

Evan MULHOLLAND: So you would not be able to make a judgement on where you think in Melbourne there is the greatest challenge?

Allison STEWART: I think there are many areas in Melbourne that have exactly the same profile that you have just described in your electorate. Certainly Melbourne is one of the lowest density cities in the world. We know that there is a really significant disparity. It is part of what makes Melbourne a great place to live, so it is not something that we want to completely destroy. But we can have a more diverse density within our city without having to change it into a completely different character. And that is more what we are trying to tap into – what are the opportunities for that diversity and density – rather than shifting completely from low density to high density. There is a whole spectrum in the middle that many other cities overseas – which I am sure many of us have travelled to – really exemplify, and we need to make that choice of how we want to do that here in Melbourne.

Evan MULHOLLAND: Cool. Thank you.

The CHAIR: Thanks, Mr Mulholland. Mr Davis.

David DAVIS: Again, thank you for your submission. Just reading part of your submission, you deal with a section 'Precincts benefit from strategic coordination of housing and infrastructure', and you talk about the NEICs and in particular the Suburban Rail Loop in part of that. You say these are examples of places that can accommodate more new homes. One of the risks that I see with the Suburban Rail Loop – and just to explain to the committee, the government has taken those planning powers there; they are now held by the planning minister jointly with the transport minister for a 1.6-kilometre radius around each of those stations, and people can do the π^2 and work out how much square area that is. But the government has also said that a third of the cost of the Suburban Rail Loop will come from levies and taxes inside those zones. I just wonder whether you

have looked at how much money is left after the \$35 billion, \$40 billion, \$50 billion for the first stage – \$125 billion according to the budget office for the first two stages. You know, that is about \$15 billion, \$14 billion, \$12 billion – something in that area of tax that has got to come out to build the rail loop. How much is left for infrastructure? Have you looked at that?

Allison STEWART: So how much of –

David DAVIS: Of these levies that the government is talking about and taxes in those zones, how much is left out of that for the infrastructure that we are talking about: the parks, the schools –

Allison STEWART: I mean, we did not look into that specifically within this work. More broadly, the application of any choice of government in terms of how they apply those is obviously a decision for government. When we are saying that density is a good thing to have close to public transport, the Suburban Rail Loop is an example of high-frequency public transport where we would expect to see an increase in established infrastructure, and it certainly does go through established areas, which typically do have good access to infrastructure.

David DAVIS: But my question effectively is: the infrastructure levies that they are going to put on there will be used to fund the transport; what is left for the rest? All of the services that are needed: health –

Allison STEWART: I think that is probably a question for the Suburban Rail Loop Authority.

David DAVIS: You have not looked at how these –

Allison STEWART: We have not looked at that, no.

The CHAIR: Thanks, Mr Davis. Mr Limbrick?

David LIMBRICK: Thank you. The government a few days ago, when the budget was announced, did announce some significant changes to stamp duty for commercial and industrial property. Was Infrastructure Victoria consulted about these changes before the government announced them?

Allison STEWART: We were not. The government is not required to consult with us before they make any decisions. We advise; the government decides.

David LIMBRICK: Have you given advice specifically about commercial and industrial stamp duty changes, though?

Allison STEWART: We have not given any specific advice to government on those specific changes. Certainly when it comes to stamp duty, the recommendation, or the policy option, that we have put forward in this paper was specifically to apply to residential properties because that was the subject that we were looking at. That said, the initial application and any move towards consideration of different taxation approaches from that perspective is at least a step towards what we have recommended within this paper itself, and we look forward to seeing what the results of that are. But, no, we have not provided any specific advice on that.

David LIMBRICK: And I would be interested in your thoughts: we had one submission by an individual – she was a tax expert. Before any sort of wholesale changes to stamp duty, she urged the committee to recommend simply reducing the stamp duty rate. Her view was that the current stamp duty levels are significantly impeding transactions, and reducing the rate would incentivise more transactions to go ahead. Therefore the financial loss to government would be less than what otherwise would be expected, because more transactions would go through and it would have a beneficial effect for very little effort and could be almost instantaneous. What are your views on that type of experiment, I suppose?

Allison STEWART: I mean, without having reviewed that evidence particularly – the reduction of stamp duty – what we have seen is that we do see the distortions coming into effect in terms of the application of those expectations to people's choices about the homes that they purchase. Were that to be less, potentially that would affect the choices. We have not tested what a different stamp duty rate would look like. Certainly with the evidence that we have considered and the work that a lot of others have done, the central recommendation has been replacing stamp duty, which is a relatively inefficient tax, as others have commented in detail about, with a different type of tax that would be more efficient in terms of directing the outcomes that are sought to be

achieved through that taxation policy. So that would remain our central recommendation. But I do not know if you would add anything to that.

Llewellyn REYNDERS: Well, I mean, just to say that the standard economic analysis is correct. If you reduce the size of the distortion and the size of the tax, the size of the distortion also reduces. The challenge remains the same: whether you abolish it completely or just reduce it, you still need something to replace that revenue with.

The CHAIR: Sorry. I thought we had the capacity to go little bit over because we have a 15-minute break, but I have just been advised the witnesses have a 12 pm.

David LIMBRICK: Yes.

The CHAIR: So are you finished now, Mr Limbrick?

David LIMBRICK: Yes, I am fine. That is all right.

The CHAIR: Yes. Mrs McArthur has got one more question.

Bev McARTHUR: Just very quickly: given that you have looked at the issue of Geelong and Ballarat, what do you think about the fast rail project in Geelong being scrapped by the government? Was that an issue for people needing accommodation in Geelong and looking at the housing market?

Allison STEWART: Certainly public transport in regional cities is something that is very much of consideration for Infrastructure Victoria, and we have in our 30-year strategy considered several recommendations about the types of infrastructure that are required to service our growing populations in various areas around Victoria.

Bev McARTHUR: Do they need a fast rail project?

The CHAIR: I am not convinced this is part of the terms of reference for the witnesses.

Bev McARTHUR: It is all about the infrastructure and housing for Geelong.

The CHAIR: Yes, I understand that, Mrs McArthur, but the witnesses need to go, and I think we have gone well and truly past what we are inquiring into today. On that note, I am going to –

Bev McARTHUR: You let them off the hook. I will put it on notice.

The CHAIR: I am going to declare the hearing closed.

Witnesses withdrew.