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NSW Treasury
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2 March 2020

Dear Mr Hunter and committee members

Consultation Paper: Buying in NSW, Building a Future

Domain's purpose is to inspire confidence for all of life's property decisions. As a property marketplace for all Australians, we support a tax structure that gives people the confidence and opportunity to act on property decisions that make sense for every stage of life.

We support a fair and sustainable tax system and endorse a change to the NSW property tax system that gives people the choice between stamp duty and annual property tax.

Domain is a leading digital property marketplace. We value the opportunity to share our views on:

- The changing landscape of property ownership;
- How the friction of stamp duty impacts job productivity and quality of life;
- Current market sentiment toward the proposed property-tax; and
- How we can support Treasury with a successful implementation of the property tax.

We welcome the opportunity to discuss our submission with you and to engage in further



Yours sincerely,



CEO
Domain

Buying in NSW, Building a Future

Submission by:
Domain Group



Overview

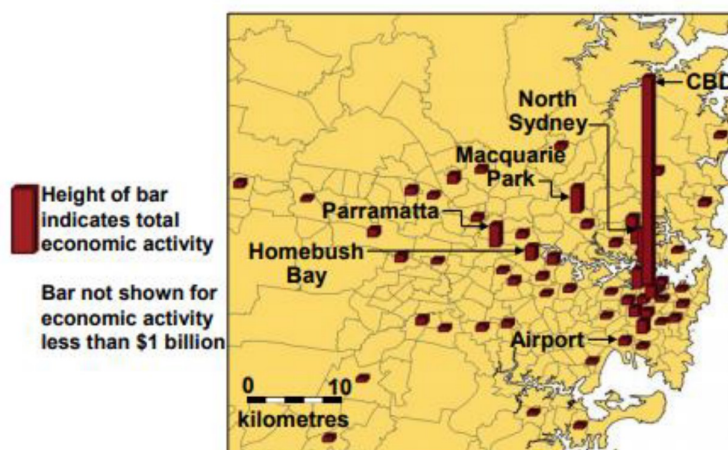
Where you live has a significant impact on your lifestyle and your ability to participate in the labour market. Since 1865 when stamp duty was introduced in NSW there have been significant changes in the Australian and NSW labour market, the way people live, and the property market. These factors are cause for a change to the property tax structure.

1. The impact of professional, flexible workforce trends on the property market

Australia has transitioned from an industrial workforce to a professional one. In 1906, 50% of Australia's population lived on rural properties or in a small town of fewer than 3,000 people. By 1966, this had already changed dramatically - 3 in 5 Australians lived in a city with a population greater than 100,000, and by 2008, 2 in 3 Australians lived in a capital city¹. What has continued to occur is the steady shift of work to the cities and away from rural and regional areas. The decline of employment opportunities in rural areas has meant a steady shift towards the city as the dominant economic force in Australia.

The NBN rollout across regional and rural NSW has enabled more people to access high-speed internet and participate in the digital economy that was largely limited to those residing in major cities. In 2020, Australia's digital economy evolution was accelerated by COVID-19 and the forced work-from-home measures that were introduced. On Domain, as a result of this, we saw a spike in property search activity in regional and rural areas, and for properties that have a home office. However, while these forces may fundamentally change the flexibility and options we have available for us to carry out work, we do not anticipate notable, sustained reduced pressure on living affordability near the major economic and employment hubs of NSW.

Figure One: Concentration of economic activity in NSW



Source: Grattan Institute 2014 Economic Mapping

¹ ACTU Regional Inequality in Australia and the Future of Work Submission

Half of Greater Sydney’s economic activity is generated on less than one percent of its landmass². Higher property prices are associated with inner-suburban locations because people have historically favoured living closer to economic hubs.

Lower-income households are being pushed into what is classed as generally less favourable locations. There is a marked decline in housing accessibility for low to medium-income households in the inner areas of Sydney, where the majority of employment opportunities exist. Households with limited labour market status are increasingly restricted to middle and (especially) outer suburban locations, with a negative impact on their ability to improve their earning potential.

Table One: Median dwelling price comparison, Sydney vs Regional NSW

	Median dwelling value				Change in median dwelling value		
	Dec-20	Dec-19	Dec-15	Dec-10	Annual	5 year	10 year
Sydney	\$1,012,778	\$968,893	\$889,439	\$567,855	4.5%	13.9%	78.4%
Regional NSW	\$546,879	\$502,653	\$411,989	\$329,067	8.8%	32.7%	66.2%

Source: Domain House Price Report December Quarter 2020

Research highlights that:

- Workers living in capital cities spend an average of 66 minutes travelling to and from work each day – an increase of 22% since 2002³.
- Long-distance commuters (two hours or more a day) are less likely than short-distance commuters (less than one hour) to be satisfied with their working hours, work-life balance and even pay. Therefore, they have lower levels of overall job satisfaction. These long-distance commuters are more likely to quit or lose their jobs within the next year³.

Long commute times are impacting the quality of work-life and work productivity. Highly skilled people are being locked out of employment opportunities due to the lack of suitable affordable housing near major employment centres.

When businesses have a range of employees available to them they are more likely to choose the best skill-fit for the job, improving labour market productivity. Making it easier for the working-age population to access jobs is a significant consideration to the benefits of removing stamp duty. As the discussion paper highlights, Australians are likely to navigate 17 job changes across five different careers over their working lives. This means job opportunity and access trump job stability and tenure. Almost six in 10 Australian workers are wanting jobs that would also allow them to juggle study, parenting, side businesses, travel plans, or increasing caring responsibilities as our population ages⁴.

² <https://grattan.edu.au/wp-content/uploads/2014/07/814-mapping-australia-economy1.pdf>

³ <https://melbourneinstitute.unimelb.edu.au/hilda/publications/hilda-statistical-reports>

⁴ <https://alphabeta.com/wp-content/uploads/2019/03/flexibilityandfairness-whatmatterstoworkersintheneweconomy.pdf>

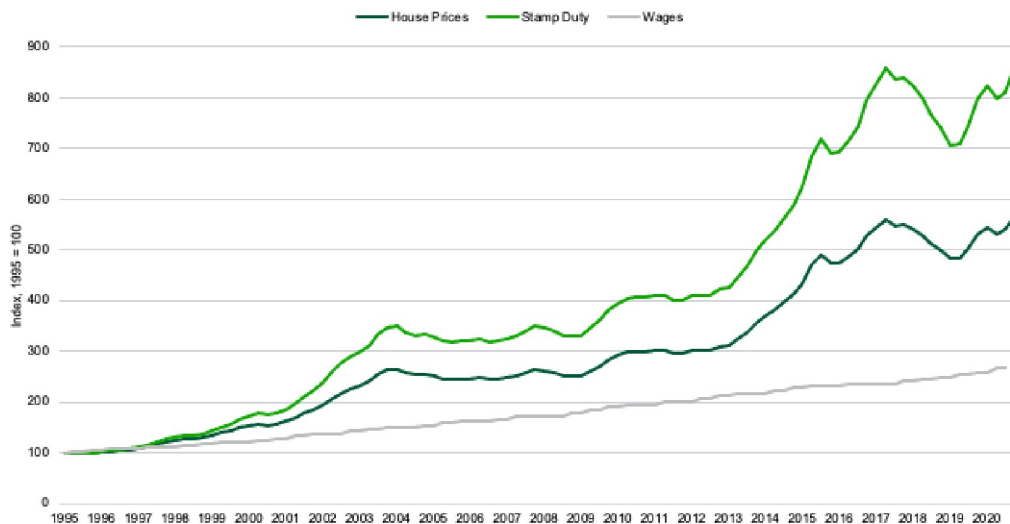
The rising contingent and flexible workforce further contribute to the requirement of a low-friction, dynamic property market. A property market where people can buy and sell homes without unnecessary significant upfront cost, allowing them to live in a way that enables them to participate in today's flexible and mobile employment market.

A reason for introducing stamp duty was to create friction in selling properties to stabilise the market. This friction is now counterproductive to supporting the way people live and work. We could see a widening gap between those that 'can afford' and those that 'can't afford' the cost of frequently changing homes in line with changing jobs. Those without the financial means to pay stamp duty will be further disadvantaged in the modern workforce that is characterised by flexibility and mobility.

2. Sluggish wage growth a barrier to home rightsizing

The average⁵ full-time ordinary earnings in NSW have grown incrementally over the past 20 years. Low wage growth has been accompanied by a fall in household gross disposable income, which includes all income received by families and individuals (wages, investments, other income streams). OECD data indicate that per capita real household gross disposable income in Australia has not grown since mid-2012⁶. Over the same period, median Sydney house prices and corresponding stamp duty have soared. Since 2005 Sydney house prices have risen 130 percent while the cost of stamp duty has escalated 169 percent. Regional NSW house prices have risen 102 percent since 2005 while stamp duty has risen 151 percent. This demonstrates that stamp duty thresholds have not moved following house prices over time, and have not kept pace.

Figure Two: Sydney median house price, corresponding stamp duty and NSW average wage, index to 1995.

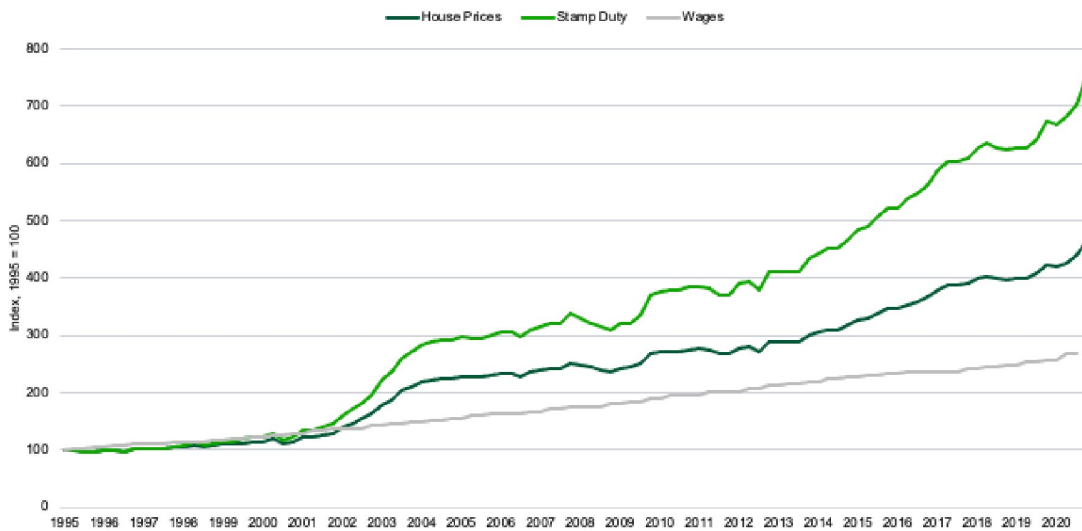


Source: Domain stratified median Sydney house price, NSW historical stamp duty calculated on Domain's median house price, ABS average weekly ordinary time earnings NSW

⁵ Based on average full time earnings, persons, NSW, ordinary time earnings. ABS 6302.0 Average Weekly Earnings, Australia

⁶ NSW Parliamentary Research e-brief Slow Wage Growth, August 2017

Figure Three: Regional NSW median house price, corresponding stamp duty and NSW average wage, index to 1995.

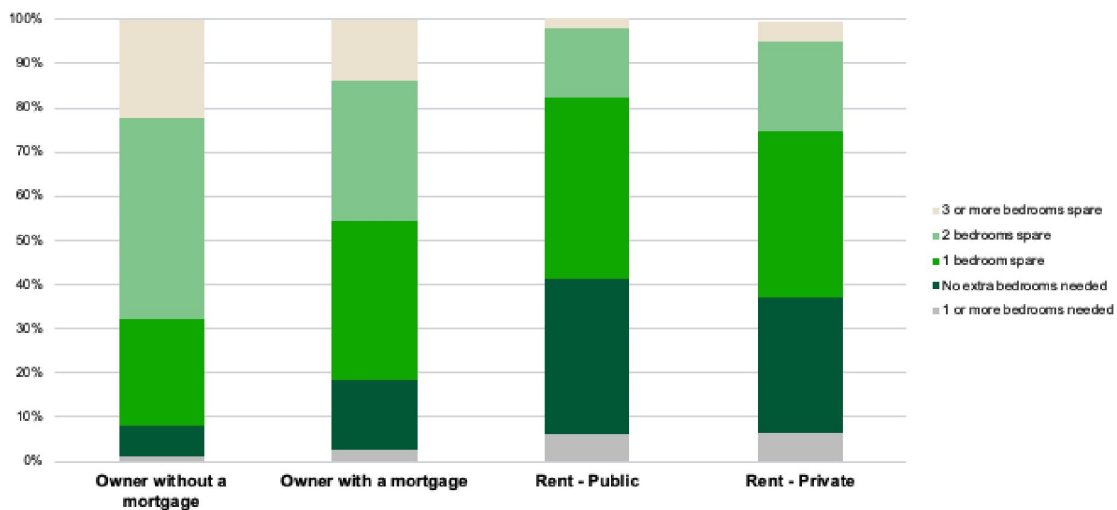


Source: Domain median Regional NSW house price, NSW historical stamp duty calculated on Domain's median house price, ABS average weekly ordinary time earnings NSW

3. Stamp duty contributing to the misallocation of housing stock

The financial burden of stamp duty can be linked to peoples' willingness to change homes. Bedroom capacity by home ownership status implies that Australians may not be living in dwellings that suit their current needs.

Figure Four: Australian household capacity by property ownership status



Source: Housing utilization, ABS 4130 2017-18

Figure Four shows:

- **Spare bedrooms are more common among owner-occupiers than private tenants.**
This suggests the upfront transactional costs associated with purchasing a home are deterring homeowners from downsizing or younger families planning for their future housing needs sooner than needed.
- **One quarter of privately rented dwellings have more than two spare bedrooms compared to 68 percent of homeowners.**
This suggests owner-occupied dwelling choices are less fit for purpose compared to those that are rented. This indicates the financial burden of transacting a property may be a barrier to moving. These transactional costs are not associated with the rental market, therefore offering lower levels of friction to adapt homes in accordance to lifestage.

Removing stamp duty may encourage housing turnover, driving more 'fit for purpose' living choices. This includes increasing the accessibility for people to live closer to major employment hubs where housing prices are typically higher than in non-major employment hubs.

It could also encourage retirees and downsizers to change houses, freeing up stock. Anecdotal feedback from agents who have spoken to older occupants reinforces this point.

“At the moment stamp duty on a new purchase is prohibiting them to sell their large family homes to downsize” - NSW real estate agent.

The cost of downsizing and access to suitable housing stock is further reiterated in a recent Australian Housing and Urban Research Institute Report⁷.

Rightsizing our homes should be encouraged by the removal of stamp duty, although this needs to be met with a diverse array of housing to meet the aspirational needs of our ageing population.

⁷ https://www.ahuri.edu.au/__data/assets/pdf_file/0033/56886/AHURI-Final-Report-325-Effective-downsizing-options-for-older-Australians.pdf

Table Three: Stamp Duty change by Major City 2005 vs 2020

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Hobart	Canberra
2005	\$19,172	\$17,105	\$3,640	\$13,342	\$15,366	\$7,458	\$14,852
2020	\$51,637	\$51,232	\$13,467	\$25,556	\$20,768	\$20,971	\$28,448
\$ increase	\$32,465	\$34,127	\$9,827	\$12,214	\$5,401	\$13,514	\$13,597
% increase	169%	200%	270%	92%	35%	181%	92%

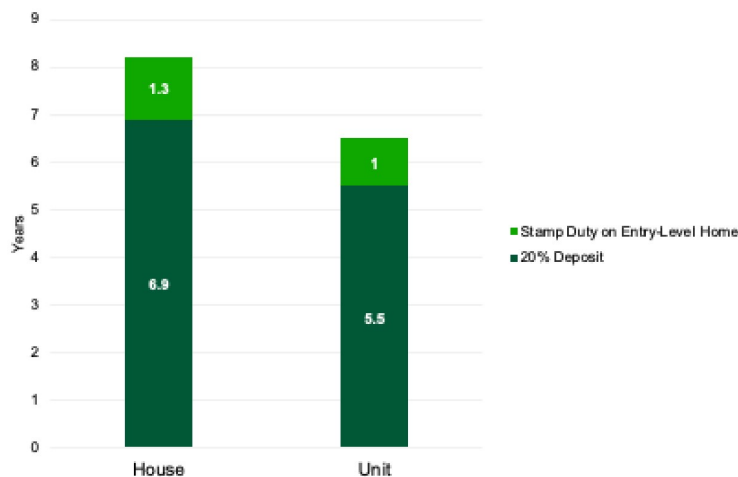
Source: Domain stratified median house prices and stamp duty calculated based upon each state and territory thresholds. Figures are rounded to the nearest dollar

Table three shows how Sydney stamp duty has increased in comparison to other major cities. Noting that Sydney has the highest median house price⁸, the 169% increase adds considerable stress to the reality of entering the NSW property market.

4. Housing affordability showing no signs of improving

Housing affordability has declined rapidly as Sydney house prices have roughly doubled every ten years for the past two decades, significantly outstripping wage growth.

Figure Five: Time it takes for a couple aged 25-34 years to save for an entry level home



Source: Domain, ABS, RBA. Entry prices are based on Greater Sydney's 25th price percentile, at an entry house price of \$730,000 and entry unit price of \$585,000. The time taken to save is based on Greater Sydney's average personal income of a couple aged between 25-34 years old (ABS Personal Income in Australia, Table 4). An estimate of current salary is calculated by factoring wage price growth using the ABS Wage Price Index. The time required to save a deposit is based on a dual income, with each person saving 20 percent of post-tax income on a monthly basis that is deposited in a standard online savings account (interest earned is taxed at the individuals' tax rate). Savings rates are sourced from the Reserve Bank of Australia, F4 Retail deposit and investment rates.

⁸ <https://www.domain.com.au/research/house-price-report/december-2020/>

Sydney's house price to income ratio shows a 73 percent rise since 2000. While historically low interest rates have aided the serviceability cost of a home loan, it also hurts affordability.

Government support measures, a remarkable recovery in consumer confidence, successful containment of COVID-19 outbreaks and the pessimistic outlook for property prices failing to materialise have played a role in supporting market activity and prices. Record low interest rates have spurred buyer activity with cheaper credit easing the affordability of mortgage repayments. Sellers have responded as more homes are listed for sale and more auctions held in the final quarter of 2020 compared to the same period the year prior. A rebound in buyer activity in the latter half of 2020 quickly absorbed the increase in new house listings. This has ultimately created competition between buyers, driving house prices higher. Housing affordability is challenged in the face of rising prices to a point that the benefits of lower mortgage rates are diminished.

There is the potential for the removal of stamp duty to also cause prices to rise, however this cost is borne over a 30 years mortgage, rather than a one off up front cost (stamp duty), that is a significantly larger barrier. Shifting from stamp duty to a property tax could improve housing affordability by reducing the upfront costs of buying a property. This could boost purchasing power, enabling first-home buyers to enter the market sooner. It will be important to understand the intentions of the RBA over-time to ensure serviceability does not become a challenge.

The RBA has signalled a low-interest-rate environment for at least another three years, and this may keep demand and prices growing.

Table Four: Comparing upfront cost of property transaction vs years of property tax payments

		Bayside Council	Inner West Council	City of Parramatta Council	Northern Beaches Council	Mosman Municipal Council	Canterbury Bankstown Council
Stamp Duty		\$56,505	\$76,649	\$51,005	\$98,745	\$226,455	\$38,535
Cumulative Property Tax	5 yr	\$15,572	\$19,688	\$15,383	\$17,622	\$37,034	\$13,160
	10 yr	\$32,863	\$41,635	\$32,459	\$37,232	\$78,606	\$27,720
	15 yr	\$52,097	\$66,137	\$51,451	\$59,090	\$125,313	\$43,866
	20 yr	\$73,530	\$93,531	\$72,610	\$83,492	\$177,828	\$61,805
	25 yr	\$97,450	\$124,196	\$96,221	\$110,772	\$236,917	\$81,772
	30 yr	\$124,186	\$158,562	\$122,606	\$141,308	\$303,441	\$104,035

Source: Domain. Stamp duty is calculated based on the current NSW threshold using median prices for each LGA as of December 2020. Annual Property Tax accrued is calculated based upon the median unimproved value across the geographical boundary of the LGA. The annual tax is calculated based on the NSW property tax proposal of \$500 plus 0.3% of the unimproved land value each year factoring in a 2.5% increase in land value per year.

The table shows that across various NSW suburbs a house would have to be owned for approximately 15 years minimum before the owner would come close to matching the upfront cost of stamp duty. The current cost of property transaction can prohibit people from moving homes to suit their life with the belief that they need to stay in the property for a period of time to 'claw back' the cost of stamp duty. The significant length of time people can own a house with property tax obligations may improve confidence and optionality to move houses more frequently in line with their stage of life.

Table Five: NSW stamp duty and the time taken to accrue the same in property tax on unimproved land value is 60% of the purchase price

Property Purchase Price	Stamp Duty	Time taken to accrue same in property tax
\$200,000	\$5,435	7
\$400,000	\$13,335	11
\$600,000	\$22,335	13
\$800,000	\$31,335	15
\$1,000,000	\$40,335	16
\$1,200,000	\$51,005	17
\$1,400,000	\$62,005	18

Source: Domain. Stamp duty is calculated based on the current NSW threshold. The time taken to accrue the same dollar amount of stamp duty in property tax is calculated based upon the following: the assumption that the unimproved land value is 60% of the purchase price. The annual tax is calculated based on the NSW property tax proposal of \$500 plus 0.3% of the unimproved land value each year factoring in a 2.5% increase in land value per year.

There is a risk of market segregation, with owner-occupiers purchasing 'forever homes' choosing to pay stamp duty, while investors (driven by tax incentives) and areas with higher turnover opt for an annual property tax. This could create a greater divide between 'investment stock' and 'owner-occupier stock'. In reality, it may take decades for property tax to surpass stamp duty which is evidenced in Table Five.

Understanding market sentiment toward the proposed property tax

Domain is committed to supporting NSW Treasury with a successful roll-out of the property tax. We are driven by our purpose to provide confidence for all life's property decisions. That starts with understanding the needs of our customers, many of whom are based in NSW and will be impacted by the much-needed introduction of a property-tax.

Providing the market with clear information, tools, and resources promptly is critical to maintaining the trust, integrity, and continuity of the NSW property market. This is particularly important after what have been some of the toughest times in real estate due to credit restrictions imposed as an outcome of the royal commission, market uncertainty created before the last federal election, and further uncertainty caused by COVID-19.

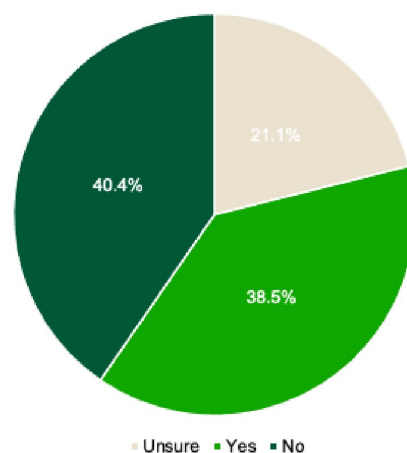
1. Snapshot of consumer market sentiment

Looking to our highly engaged audience, Domain conducted an online survey of NSW consumers to understand their sentiment on the property tax reforms.

The results of this preliminary research highlight that there are mixed responses to the introduction of a property tax. Age, financial position, homeownership status, and understanding of the proposed property tax all play a significant role in people's perception and support for the introduction of the tax.

Figure Six: Consumer sentiment toward proposed property tax

Do you support the proposed property tax reform in NSW?



Source: Domain consumer sentiment survey February 2021

Home ownership status, which is linked to age, has an impact on support for the property tax.

Figure Seven: Sentiment to property tax by property ownership status

Support for new tax reform in NSW at different times of the property journey



Source: Domain consumer sentiment survey February 2021

First-home buyers are the biggest supporters of this proposal

- First-home buyers are the biggest supporters of an annual property tax (53%)
- 27% would wait to buy until the property tax was introduced and then look to buy as soon as they can with the belief property prices will go up under the introduction of a property tax

This suggests that the lump sum stamp duty may be a hurdle to market for some first-home buyers. While there are stamp duty waivers in NSW for first home buyers, the eligibility criterion does change.

Tax implications may be a barrier to support from property investors

- 44% of investors are against the property tax and 22% unsure

This may suggest the ongoing tax implications associated with a property tax create uncertainty for investors regarding their returns. The reduced barriers to entry because of a property tax may also lead to lower demand for the types of properties investors seek to rent out.

Owner-occupier share similar sentiment to property investors

- 44% of owner occupiers are against the property tax

Anecdotal feedback from this cohort highlights their primary reason for being against the property tax is due to their desire to hold onto their property for a substantial period whereby a property tax would outweigh the financial impact of stamp duty.

Market wide observations from the research

Across all cohorts we can see themes emerge regarding sentiment which can be used to guide education and communication initiatives from Treasury and supporting parties.

- Regardless of property ownership status, close to one-quarter of respondents are unsure if they are for or against the property tax.
- Close to 30% of all respondents cited they need help in understanding the property tax.
- Over 60% of all respondents cited a property tax calculator would be beneficial to their property decision-making.

This indicates education and resources are required to help people understand the impact of the tax vs stamp duty on their personal situation

- Those over 45 years are more likely to be deterred from buying a property with ongoing property tax obligations.
- First-home buyers are split; half would be deterred buying a property with ongoing property-tax associated with it, 50% would not.

It is interesting to consider people's reaction to a cost that is a tax vs a duty or fee. Anecdotal comments from the research highlight that people already feel they 'pay enough tax'. The introduction of a new tax, even though it may be more financially beneficial than a stamp duty, has negative connotations.

When advocating for tax reform, it is expected that there will be some criticism due to irreversible decisions which people have made on existing tax arrangements. Homeowners have already paid stamp duty under current arrangements. If the option of a property tax is introduced, previous home buyers, particularly those that purchase near the introduction date, may feel aggrieved because they have had to allocate significant funds to tax rather than a property.

2. Snapshot of agent sentiment

Domain has deep and trusted relationships with real estate agents across NSW. Agents play a critical role in the property market ecosystem, and ensuring they are informed of the property tax will be essential to a successful transition to the new system. It is not uncommon for buyers, sellers, and renters to turn to agents for information.

Below is a snapshot of comments from agents when asked about the impact of a property tax:

“Service levels to vendors and buyers will increase and marketing strategies will need to be altered”.

“There will be increased reliance on accountants and financial planners.”

“Anticipate increase in property prices and turnover.”

Reflecting on the *possible reform framework* outlined as point 5.0 in the consultation paper, based on research we can say that:

Table Six: Elements of the Framework highlighted in market research

Domain has reviewed the Framework put forward by Treasury. Where there are market insights that align to the framework, these have been detailed in the table below.

Framework	Market Feedback
The property tax will be an annual tax on unimproved land value	People require greater clarity on how 'unimproved land value' is assessed at any given point in time, and over time. Without a precedent, understanding likely annual increases will be critical to support people in their property decision making and their budgeting decisions.
Balanced rates	Introduction of balanced rates so residential owner-occupiers pay lower rates than residential investment and commercial properties would be well received by owner-occupiers but may be less supported by investment and commercial property holders.
Buyers will be given the choice of which tax to pay	There is scepticism in the market that double taxation will occur on their property. People are looking for a guarantee that they will not have to pay property tax in the future on a property they've already purchased and paid stamp duty on. This applies to all types of property owners.
Protections	Protections should be considered for pensioners.
Revenue neutrality	There is suspicion that the government will raise property-tax out of cycle to subsidise any government financial short-fall.
First-home buyers	First-home buyer concessions would be continued.

Supporting the successful rollout of the property tax

Domain recognises that designing a successful tax system for NSW is only one part of the equation to improving the accessibility of homeownership in NSW and reducing the friction to rightsizing your home based on life stage.

Domain ready to support NSW Treasury

Domain has the relationships with the market, the data, and the digital resources to support a smooth transition to a new property tax system. Domain has relationships with more than 2.8 million property seekers⁹, owners, and renters and over 32,000 NSW agents⁹. Domain produces more than 60 editorial and content pieces each week with education, inspiration, and insights to give them confidence in their property decisions.

To maintain trust, consistency and confidence in the property market and support a successful rollout, we recommend:

1. Transition period

Stamp duty concessions are made available for recent residential owner-occupier purchases.

This will limit the risk that people abstain from purchasing property until the tax is introduced and may limit backlash from those who have recently purchased and feel aggrieved by not having property tax available.

We support transitional arrangements to address these concerns. It is paramount this is communicated and understood by all individuals well before its implementation in order to alleviate uncertainties, particularly around the transitional and concessional dates.

2. Tailored education and communication

Preliminary, high level market research carried out by Domain highlights there are varying levels of support for the introduction of a property tax, and varying levels of education in the market. Domain can provide demographic breakdowns, to help NSW Treasury assess:

- What are the primary concerns by populations;
- What populations are against the tax.

⁹ emmaCMV™ conducted by Ipsos Australia, People 14+ for the 12 months ending Sept 2020, P14+ Nielsen Digital Panel data calibrated to Digital Content Ratings Sept 2020, Domain's NSW property seekers, owners and renters audience based on Domain & allhomes digital and print audience in NSW (Digital: domain.com.au and allhomes.com.au & Print: Domain Magazine (in the SMH, in the AFR), Prestige and allhomes magazine, all in L4W Net), Data for NSW.

⁹ Domain Group Internal data.

This will support NSW Treasury to deliver tailored and relevant communication and education to the market. It can aid in identifying where to allocate efforts to deepen community or industry engagement to minimise disengagement with the reform.

3. Leverage the highly engaged audience and trust the market has in Domain

Domain communicates regularly to over 2.8 million NSW residents⁸ and over 32,000 NSW agents⁹. We have highly engaged audiences that connect with property and related information through a range of channels. We can offer NSW Treasury access to our communication channels including:

- Social media channels: Facebook, LinkedIn, Instagram and YouTube;
- Direct email;
- Mass audiences through editorial and sponsored content; and
- Podcast Channel: Property Unpacked by Domain

Leveraging the high trust people have in the Domain brand as a place to go for up-to-date and credible information, we can provide Treasury with a timely way to release critical information on the property tax, including key dates, official information sources, and specifics of the tax.

Agents cited case studies, 'quick sheets' and fact guides as important to educate consumers so they can make informed decisions. Domain has the means to distribute such communication through our channels.

4. Invest in the creation of digital tools for education, forecasting and confidence in decision making

Domain has experience building a range of calculators and tools, including;

- Home Loan repayment;
- Stamp Duty;
- Refinancing calculators;
- and features like Domain for Owners to support people to make decisions with confidence.

With information from Treasury on property tax rates and forecasts, Domain can build digital tools to support confidence for buyers and sellers in a property tax environment.

5. Leverage real-time reporting to assess market impact

Domain has access to real-time data that can show the Treasury how the market is responding to the introduction of a property-tax. This can assist in budget forecasting, property market confidence and provide up-to-the-minute statistics to support political communications. Table Seven demonstrates how proprietary Domain data can provide

insights into various geographies in the state.

Table Seven: Real-time insights Domain can share with Treasury

Domain Data	Insight	Geography
Buyer Demand Indicator	Have stamp duty changes brought more prospective home hunters to market? Are we seeing behavioural changes around key announcements?	State, GCCSA, SA4, SA3
Listings volume change	Are sellers reacting to changes? Listing to meet a certain deadline?	State, GCCSA, SA4, SA3, Suburb
Open home attendance	Have key announcements or changes aligned to a rise/fall in people attending open homes?	State, GCCSA, SA4, SA3
Keyword searches	Are prospective home-hunters actively avoiding homes that have opted in for property tax?	State, GCCSA
Search criteria	Have we seen a change in home size searches?	State, GCCSA, SA4, SA3, Suburb

Concluding remarks

Evolving the NSW property tax system to reflect the work and lifestyle of today and future populations is important to ensuring NSW remains accessible and attractive for people to call home.

Domain is committed to inspiring confidence in all property decisions that NSW residents face in their property journey. We champion:

- **Transparency** on the drivers of what the property tax rate will be;
- **Commitment** that properties that have stamp duty paid on them will not have property tax applied whilst still under the same ownership; and
- **Consistency**, transparency and timely information on changes in the property tax rate.

Supporting NSW Treasury in a smooth and successful introduction and implementation of a property tax is critical to delivering to our purpose and respecting the trusted and important role we have in the NSW property landscape.