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CGT and negative gearing in a fragile environment

The escalating debate on potential changes to negative gearing and capital gains tax (CGT) is reaching fever pitch in the lead up to the looming Federal election. We are already seeing a dramatic shift in investor sentiment with negative housing market implications – a now starkly different economic and housing environment to the one operating when the changes were initially proposed.

SQMs research asserts that the opposition's proposed changes to negative gearing and CGT will increase rents by as much as 5% and that home values will fall by as much as an extra 15% in capital cities. Against the backdrop of political instability and the Hayne Royal Commission, there has already been a 30% reduction of investor approvals.

Australia has relatively low residential property yields of 2-4% pa but having the option to claim negative gearing tax breaks has allowed mum and dad investors, (who make up to 30% of the market) to absorb these low yields. The complementary CGT discount sees 50% of any capital gain from the eventual sale of an investment property taxed. For the past 20 years, these two tax settings have created an acceptable long-term investment option for independent private investors, who typically only have one to two properties in their portfolio.

Given the low residential yields for property investors, changes to negative gearing and CGT will very likely drive investors away from residential property as an asset class. This will significantly reduce rental housing supply, resulting in higher rents for Australians. Research shows that for a decade, almost a third of investment in housing has been from private investors - a significant sum in the $136 billion industry, which also employs nearly 1 million.

UDIA believes that this is not the time to "shock" the market, and no changes should be made whilst property markets are unstable. The full impacts of any likely flow-on effects need to be properly understood. Before making changes, government needs to view taxation policy and the delivery of housing supply as part of a cohesive infrastructure ecosystem designed to create more liveable cities.

Building more integrated liveable cities requires a three-pronged approach:

1. Getting population settings right, whilst
2. Boosting housing diversity as well as supply, and concurrently
3. Planning and delivering integrated urban infrastructure.

With a rapidly diminishing tax base largely due to Australia's ageing population, it's also imperative that migration and population settings continue to drive our nations prosperity.

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Skilled migrants contribute to our GDP by improving labour force participation and productivity, and by helping businesses to source skills gaps at short notice. According to Treasury's 'Shaping a Nation' report, migrants have accounted for two-thirds of the 850,0000 net jobs created over the past five years. Such economic activity and taxation revenue are so crucial for the funding of much-needed infrastructure in our Australian cities. Of the current migration program, 128,550 or almost 70% are skilled migrants and of working age and therefore, are a crucial offset to our ageing population and diminishing tax base.

Capital cities like Sydney and Melbourne are struggling to cope with infrastructure pressures and housing supply issues. These pressures arise from an "infrastructure deficit". The problem being experienced by our two largest cities isn't about too many people, it's about having too little essential infrastructure. The solution lies in more effectively planning and delivering urban infrastructure with a concurrent boosting of housing supply.

Australia in effect, needs an 'Infrastructure Accord' where our major parties agree to permanently insulate the identification, funding and delivery of significant infrastructure from partisan politics. Under an Accord, we would envisage the Federal Government driving the development of adequate housing supply consisting of diverse design options, whilst supporting the delivery of integrated and timely public transport and related infrastructure in concert with all levels of government, across each state.

The goal should be "30-minute cities" – where Australians can travel between home and work within 30 minutes, either by car or public transport. Successive policies have fallen short of this goal resulting in the current situation where residents in our major capital cities are experiencing a significant drop in their economic and liveability standards. Average households in cities like Sydney and Melbourne, can no longer afford to live in areas that have better accessibility to jobs and face long commute times and high transport costs.

With significant population pressures on our two largest cities, significant infrastructure deficits around the country, an already-fragile retreating residential property market, now is not the time for populism, or short-termism in policy.

What is needed is a bold vision for our nation, supported by clearly-articulated and coordinated population, settlement and housing strategies, all linked to jobs and growth plans and supported by timely delivery of the essential infrastructure.

Our industry – Australia's Urban Development Industry – is keen to play its part.

Background:

- Growth in rental yields in Australia's capital cities is flat
- Ten investment hotspots for 2018
- Ireland offers best yield in Europe for buy-to-let landlords
- Rental Yields in Europe
- Migration program planning levels

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