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Australia's property industry

Creating for Generations

05/06/20

Mr Tony Ferrall

Secretary

Department of Treasury and Finance

The Treasury Building

21 Murray Street, Hobart TAS 7000

Via: secretariat.PESRAC@treasury.tas.gov.au

Premier's Economic and Social Recovery Advisory Council

Dear Mr Ferrall,

The Tasmanian Division of the Property Council of Australia represents a broad range of interests across the industry including property owners, developers, planners, architects, engineers, economists, lawyers, banks, insurers, and real-estate agents.

Whilst we appreciate the health imperative that the state government is facing due to the global pandemic, it is the looming economic challenge that is also of grave concern.

The Property Council's message is simple: The Tasmanian economy is on life support with JobKeeper payments keeping the state afloat.

Consequently, and as a matter of urgency, the state government must put people back to work in a way that achieves the greatest economic benefit to the community.

Further our "call to arms" is supported by key findings from EMRS research commissioned by Federal Group Tasmania.

- Broadscale concern for jobs, business, and the economy.
- Strong use of the COVID Safe app.
- Strong adherence to social distancing.
- Strong desire to travel and stay in paid accommodation.

We respond to your specific questions below and conclude with suggested actions.

1. What impacts are currently being seen by your sector or members (including clients/households/individuals as relevant in your context) and what impacts are anticipated in the coming weeks and months?

- Land sales are down 60 per cent.
- Residential sales are down in the order of at least 50 per cent and based on trends this will only get worse.

PROSPERITY | JOBS | STRONG COMMUNITIES

- The residential sales already lost will negatively impact the revenue of residential construction companies in six to nine months.
- Property investors' income has declined by 20 per cent, but if only private sector tenants are considered, income is down by 80 per cent.
- The short to medium impacts on valuations and equity values will be significant.
- Finance is becoming a problem and keeping property deals together is very challenging.
- Unconditional contracts are starting to fail as banks are now only offering 50 per cent of the lend, down from 70 per cent. Consequently, purchasers are left trying to source additional finance or lose their deposits.

2. What factors are likely to shape the medium and longer-term impacts for your sector/members?

- The short, medium, and longer-term solvency of commercial tenants especially small retail, food and beverage, and restaurants remains questionable.
- Solvency is the biggest single issue for every business and the impacts to local, state and federal government revenues will be long term if they don't implement initiatives to increase aggregate demand and reduce costs to business.
- Governments are too slow to act and trying to protect their own income sources without appreciating who pays the bills.
- There is a strong economic headwind to investment from the private sector. This is most keenly felt in the hospitality and tourism sectors (hotels, entertainment venues), but also in small to medium scale property investment (multi-unit housing and commercial).
- Government investment (e.g. social housing, health, tourism) is needed to support the property sector across the medium term.
- The effect of social distancing is also impacting how buildings operate, how tenants occupy the space, and is also forcing businesses to operate differently. For example, three days at home two in the office. This could result in less property and leasing transactions in the short term and an overhaul of the office market into the future.
- Opening the borders is crucial, allowing investors to travel again and to enable the flow of mainland and overseas investment and relocation. Population growth is a key economic driver for Tasmania.
- It should be recognised that our industry is also very fragile and will not respond well to the emergence of other risks – such as supply chain issues.

3. What data or information can currently be provided to the Council on the nature and magnitude of impacts for your sector/members?

- Some businesses are holding up well, but next financial year's income is headed for a significant decline.
- Office and retail rental income in the current quarter is down by 26 per cent, and carpark income down by 51 per cent. We foresee office, rental, and carpark income declining by these percentages for at least six months.
- 20 per cent of tourism businesses will either not re-open or re-open with new owners.
- UTAS is significantly impacted with a decline of \$100,000,000 this financial year alone.

4. What mitigation measures are currently in place that aim to address these impacts?

- JobKeeper is enabling our members to maintain employment numbers. Given the likely confluence of significant committed work downturn and the conclusion of JobKeeper in September, the end date for this program will need to be reviewed.
- If wage (e.g. PAYG, JobKeeper) and business support (e.g. rate, rent, Aurora, TasWater, land tax rebates) are not maintained, or, in the case of business support, not made

easier and clearer to access, then business costs (i.e. employment costs) will need to be reduced as the largest cost is wages.

- Some councils are putting in place measures such as rates relief and waiving fees etc.
- Some authorities are waiving or deferring payments.
- However, many of these relief payments are very difficult to apply for meaning the take up rates are low.

5. What impacts are not being mitigated or for which there is no plan in place to mitigate?

- The short, medium, and long-term solvency of commercial tenants (which can transfer on to property owners) especially small retail, food and beverage, and restaurants is questionable.
- Solvency is the single largest issue for every business and the impacts to local, state, and federal government revenues will be long lasting if they do not start increasing aggregate demand and reducing costs to business.
- The continuation of state and local government and instrumentalities charging payroll tax, rates, land tax, electricity, and water charges as well as regulators.
- There is no ease or certainty regarding rates, Aurora, TasWater, and land tax rebates.
- The Code of Conduct has gone some way towards managing these circumstances, however Tasmanian Legislation is twelve months in duration while all other jurisdictions are set at six months.
- While uncertainty remains, many will tend to be risk averse to ensure the ongoing viability of their business.
- It is important to appreciate that while banks and landlords are allowing deferred payments, economic problems cannot be just pushed around or pushed forward.

6. What responses, both within the sector and more broadly, are front-of-mind and over what timeframes - what should be stopped, what should continue and what should be started?

- This is addressed in our suggested actions.

7. What would help create or build business/consumer/community confidence?

- This is addressed in our suggested actions.

8. What would help your sector/members re-employ where there have been reductions in jobs, or grow employment levels?

- This is addressed in our suggested actions.

Suggested Actions

- **Get the public sector back into the city** - as the public sector occupies over 80 per cent of Hobart, Launceston, Burnie and Devonport's office stocks, we rely heavily on them, unlike other cities, and without that foot traffic small businesses will not survive.
- **Don't overregulate** - make it easy for businesses to reopen and use this as an opportunity to expedite approval pathways so that construction occurs without interruption including by removing vexatious delays in approval mechanisms.
- **Start a positive dialogue** - Core Logic released data this week highlighting that Hobart house prices increased in May by 0.8 per cent meaning that we are still the best performing market! We need to stop talk of doom and gloom and property values dropping in the future and use this to our advantage. This positivity will help consumer

consumer confidence, continue to attract investment, and help us recover.

- **Immediately exempt rates and land tax** – this should include the fourth quarter instalments for 2019/20.
- **Waive all government and utility fees and charges for hardship affected businesses** - accessing current concessions is extremely difficult.
- **Immediately exempt all Tasmanian businesses from payroll tax** - this should be for a period of at least two years.
- **Award every possible State, Local Government and GBE/SOC contract to local employers** – this could be achieved through increasing the weighting of the contract selection of local SME criteria to above 40 per cent. A statement of reasons by the relevant Minister should be published if contracts are not awarded to local firms. The threshold amount for direct engagement on state and local government as well as GBE/SOC sponsored projects should also be lifted.
- The Coordinator General should be provided with additional powers, like those of the Secretary of Treasury and Finance in 2009 in response to the Global Financial Crisis, to guide procurement and planning decisions.
- In March 2009, the Treasurer issued Treasurer’s Instruction (TI) 1299 Procurement for projects impacted by the Nation Building and Jobs Plan (TI 1299). It provided streamlined procurement practices, subject to eligibility criteria and reporting requirements. Procurements approved under TI 1299 were exempt from standard planning processes including those required by the State’s Land Use Planning and Approvals Act 1993.
- This is a good short-term model for expedited economic activity.
- Planning decision timeframes more than six months in duration is not.
- **Invest in housing** – a focus on social housing and addressing the general housing shortage. This supports design, construction, and light manufacturing. Stimulus projects need to be well supported in the community and have a real end use.
- Although both federal and state grant announcements are fantastic, it is our opinion that the Commonwealth’s contract cut-off date of December 2020 does not provide adequate time to bring construction work forward.
- There is no need for the ‘contract to commencement’ time to be limited to three months. This will put undue stress on the industry next February and March with most clients and builders holding off contract signing if possible (i.e. December), to ensure they can make the three-month cut off to start.
- **Re-open Tasmanian borders** – this should be no later than the re-opening of Tullamarine (Melbourne) for interstate access and the state government must fight for an adequate schedule of flights because access is critical for business and tourism.
- **Create super-strong tourism campaigns** - this will need to be supported by assistance to tourism businesses for additional cleaning and hygiene measures.
- **Support the University of Tasmania to bring back international students** – each student contributes about \$20,000 in GSP to the economy. It is a very good return on investment.
- **Local government reform** – grants and zero interest loans for capital works and maintenance backlogs for councils that agree to merge. Local government needs a complete overhaul, not just mergers. They play an important role in their communities but are inefficient and do not provide agility in the economy.

- **Grants to Taswater to improve wastewater and stormwater treatment** – provided they commit to completing projects within a strict timeframe.
- **Support for Tasmanian manufacturing** - employment assistance or direct grants.
- **Support for renewable energy projects** - including establishing a strong electric vehicle 'industry'
- **Capital works improvements at State schools and investment in facilities and staff for vocational training** - a new Hobart High School.
- **Grants to highly skilled workers who come and settle in Tasmania** - interstate and overseas migration is critical for the state.
- **Small business grants for capital purchases from Tasmanian manufacturers/companies**
- **Invest in re-skilling the workforce** – UTAS, TasTAFE, college, and vocational training through support in sectors including paying students for apprenticeships.
- **Sustainable infrastructure investment** – solving Hobart's traffic problems.

If you would like to discuss this matter please do not hesitate to contact Tasmanian Executive Director Brian Wightman on 0429 073 773 or via bwightman@propertycouncil.com.au

Yours sincerely



Peter Scott

Tasmanian Division President