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POLICY FACT SHEET:

TRANSFER DUTY CONCESSION FOR OFF-THE-PLAN TRANSACTIONS

2017 STATE ELECTION

THE ISSUE:

Current transfer duty rules distort the WA property market by favouring house and land packages over off-the-plan apartments.

WHY:

Apartments that are sold off-the-plan are liable for transfer duty on the full sale price of the dwelling. In contrast, house and land packages are typically only assessed on the land component for transfer duty.

This creates a disincentive to buying an apartment for either home ownership or investment. It places an unfair financial burden on buyers and is restricting the full sales potential of the apartment market.

FACTS:

- In the 2016-17 State budget, the WA State Government collected \$1,356 million in transfer-duty revenue from all residential and commercial transactions.¹
- Between 2013 and 2015, there was an average of 7,113 unit sales in the Perth Metro Region of which, on average, 1,610 were from apartment sales.
- Over 70 per cent of listings for sale in the Perth Metro Region are for houses with more than three bedrooms.
- In Victoria, a concession scheme similar to our proposed policy is in place for off-the-plan transactions, where the amount of transfer duty payable is determined by the class of the building (i.e. high rise, multi-lot low rise or single lot freestanding) and the percentage of construction completed at the time of contract.
- The residential property market averaged 37,008 sales across the Perth Metropolitan Region between 2013 and 2015.

As Perth grows and the population demographics of WA changes, diverse housing solutions will be needed to better suit the needs of West Aussies. Incentivising off-the-plan apartment sales will help to add diversity to the available stock of housing.

PROPOSED REFORM:

Offer a 50 per cent concession on transfer duty for all off-the-plan apartment purchases.

ANALYSIS:

At current rates, a transfer duty fee of \$7,315 would be applicable to a house and land package, whilst an apartment of the same value would incur a transfer duty fee of \$21,170.75. The difference of \$13,855.75 would be a major factor in discouraging prospective buyers from choosing off-the-plan apartments over a house and land package.

Over the past three years, there was an average of 1,610 apartment sales transactions across the Perth Metro Region, with a median price of \$571,667. This represents an estimated contribution of up to \$24.6 million towards State transfer duty revenue.

If a concession of 50 per cent on transfer duty for off-the-plan apartment purchases is applied, this would cost the State budget no more than \$12.3 million in the short term, based on activity levels over the past three years.

A concession to off-the-plan apartments is likely to attract buyers into the apartment market. In the event that a concession generates growth of three, five, or seven per cent in the total market, of which is directed to off-the-plan apartments, it is likely to impact the State budget in the following ways.

Transactions in Perth Metro Region (PMR) property market	37,008		
Estimated growth in market towards off-the-plan apartment sales	3%	5%	7%
Increase in sales volumes for off-the-plan apartments	1,110	1,850	2,591
Transfer duty payable on three year average median price of \$571,667 in PMR for apartments under new proposed rules	\$8,299.20		
Additional transfer duty revenue to the State budget	\$9.2 m	\$15.4 m	\$21.5 m
Potential loss to the State transfer duty revenue as a result of concession on existing revenue base	\$12.3 m		
Net gain in transfer duty revenue to the State	-\$3.1 m	\$3.1 m	\$9.2 m

Whilst there is a short term loss of revenue from the concession, the State budget will benefit from an increased number of sales (as outlined in the above scenarios), of off-the-plan apartments expanding its transfer duty revenue base over the long term.

In addition, an increase in sales activity and demand for off-the-plan apartments will encourage construction in

the local economy, increase employment opportunities and potentially increase payroll tax receipts adding to the strength of the WA economy.

Encouraging apartment sales activity will ensure the State's ability to meet infill targets set out in Directions 2031 and Perth and Peel at 3.5 million.

ASSUMPTIONS:

- Three year median price of vacant land in Perth Metro Area is \$260,000.²
- Three year median price of an apartment in Perth Metro Area is \$571,667.³
- The house and land package is built on a median price vacant land parcel and the build cost is \$269,500.
- In order to compare and demonstrate the differences in transfer duty payable on a house and land package, versus an off-the-plan apartment, it is assumed that the dwelling value of both is \$564,500.
- The transfer duty concession is applied by calculating the transfer duty payable on half the value of the off-the-plan apartment price.

ACTION:

REIWA is calling on all political leaders to commit to legislating a 50 per cent concession to transfer duty on all off-the-plan apartment purchases in this State election.