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Cities and urban productivity
Housing affordability
Harnessing global capital

Federal Pre-Budget Submission 2017-18

Executive Summary

Australia has benefited from 25 years of uninterrupted economic growth. Maintaining this will require critical short term and long term reforms to support growth and lift productivity.

In addition, Australia is rightly engaged in a debate about our diminishing levels of housing affordability. This is a very significant social and economic issue. It has been pleasing to see the Government bring more focus to this issue, notwithstanding that many of the policy levers rest with other levels of government.

The Property Council urges the Government to ensure that measures to grow the economy are central to the 2017-18 Budget. We recognise that this objective is limited by the Government's need to repair the budget and secure a pathway back to surplus (expected by 2020-21).

The property industry has played a vital part of helping Australia transition from a mining led economy[1] by:

- contributing $182.5 billion (or 11.5%) to gross domestic product, more than any other single industry;
- employing 1.1 million Australians, more than mining and manufacturing combined;
- supporting one in four wages either directly or indirectly;
- generating retirement income and wealth for 14.1 million Australians who have a stake in property through their superannuation funds; and
- contributing $72.1 billion in taxes to fund community services, more than 16% of all government taxation revenues.

The property industry can be a key source of growth and strength for the national economy, despite the fact that Australia is passing through the top of the construction cycle.

Economic reform is necessary to increase productivity in our cities, ease housing affordability pressures and boost international investment in Australia.

The Property Council's 2017-18 Pre-Budget Submission sets out a road map to leveraging Australia's strengths to drive greater productivity and growth across three areas:

- **Cities and urban productivity** – Australia's cities generate more than 80 per cent of our gross domestic product. City Deals and long-term infrastrucutre planning and delivery are vital to maximising the potential of our cities to deliver even greater productivity, liveability and sustainability.
- **Housing affordability** – Despite recent record levels of housing approvals and record low interest rates, many Australians still suffer from unacceptable levels of housing stress. We need policy frameworks to boost the supply of housing, unlock housing choices for seniors, and support innovative solutions for affordable rental housing.
- **Harnessing global capital** – Australia depends on foreign investment as a means of generating jobs and prosperity and must put in place policy settings to support and drive global capital to Australia.

[1] AEC, 2015

Summary of budget recommendations

Cities and urban productivity

- ⇨ Maintain $4.6 million for National Cities Agenda (Smart Cities Plan) for further City Deals to get underway in 2017-18.
- ⇨ Allocate infrastructure funding to assets from Infrastructure Australia's priority list, including metro rail.
- ⇨ Maintain $50 billion rolling infrastructure program over four years, and look for opportunities to expand this (within current budget constraints).
- ⇨ Provide states and territories with funding from Infrastructure Australia to prepare first-rate feasibility studies and business cases.
- ⇨ Re-establish the asset recycling program, reallocating the $854 million from consolidated revenue and undertake an investigation and audit of potential assets to privatise.
- ⇨ Create a framework for infrastructure funding which includes trialling Tax Increment Financing. This guarantees no new or increase to federal taxes imposed on property through value capture.

Housing affordability

- ⇨ Continue to work with all states and territories on implementing an incentives-based model to improve housing supply and affordability.
- ⇨ Allow full-rate homeowner age pensioners (aged 75+) to downsize their home and 'quarantine' a portion of the excess sale proceeds from the asset test.
- ⇨ Allocate $3 million to better inform older Australians (and their families) about residential and lifestyle options through a telephone support service and industry-led awareness campaign.
- ⇨ Allocate funding to investigate models to establish affordable rental housing solutions for key workers.
- ⇨ Retain negative gearing and carefully canvass any changes to the capital gains tax discount for property investment.
- ⇨ Allocate $2.3 million to revive the Housing Supply Council to capture, scrutinise and map key data on housing supply across Australia.

Harnessing global capital

- ⇨ Ensure budget measures are designed to support and drive global capital to Australia, and do not create roadblocks to investment.
- ⇨ Apply funds from Foreign Investment Review Board application fees to improve the timeliness and quality of publicly available data on foreign investment in Australian real estate.
- ⇨ Ensure the regulatory and tax framework for the corporate and limited partnership collective investment vehicle regimes are harmonised with existing managed investment trust rules, and are not limited to funds that are part of the Asian Region Funds Passport.
- ⇨ Remove unworkable regulatory hurdles within the *Foreign Account Tax Compliance Act (FATCA)* and the *Common Reporting Standard (CRS)* rules to ensure listed property trusts can be freely traded by investors.

Cities and urban productivity

Cities have become the engines of Australia's economic prosperity. They are the home to the bulk of our population; the location of our most productive businesses; and the generators of much of our wealth.

The Infrastructure Australia audit released in May 2015 reveals the Australian population is expected to grow from 22.3 million in 2011 to 30.5 million in 2031, with three quarters of this growth in our cities. In our four major cities of Sydney, Melbourne, Brisbane and Perth, population will increase by around 5.8 million, or by 45 per cent, to 2031.

The Bureau of Infrastructure, Transport and Infrastructure in 2015 found urban congestion currently costs the nation $16.5 billion every year and is forecast to rise to as much as $37 billion by 2030.

Our cities are not just our best economic assets but should be liveable and vibrant places. We need to ensure that every level of government works together to deliver competitiveness and progress.

Drive productivity through City Deals

In April 2016, Prime Minister Malcolm Turnbull MP and Assistant Minister for Cities Angus Taylor MP released the Government's Smart Cities Plan. In 2016-17 budget allocated $4.6 million to the National Cities Agenda. As a part of this agenda, it commits the Federal Government to leading the establishment of City Deals across Australia in partnership with state, territory and local governments.

City Deals are a contract between an economic region and all levels of government, committing funding for a priority list of infrastructure which has been assessed for its growth potential in jobs and productivity. This essentially lifts infrastructure above day-to-day politics and creates a unified investment strategy focused on a region's economic growth.

City Deals offer an alternative approach that steers scarce funding to projects that are relevant to strategic objectives, boost productivity and increase tax revenues. Leveraging the need to meet key criteria allows governments to prioritise funding on projects and initiatives with the highest relative return. Sticking with good policy over time should be incentivised under a City Deal to allow the community to share the benefits of growth.

In December 2016, the Federal Government, Queensland Government and City of Townsville signed the first Australian City Deal in Townsville. The allocation for the City Deal (based on Townsville Integrated Stadium) was $100 million was allocated over four years from 2016-17 in accordance with 2016 Election Commitment and the Mid-Year Economic and Fiscal Outlook 2016-17. $10 million was provided in 2016-17.

Development of further City Deals are currently underway for Launceston and Western Sydney. Although not finalised, the Launceston City Deal is underpinned by the 2016 Election Commitment and Mid-Year Economic and Fiscal Outlook 2016-17 allocation of $150 million in 2017-18 to relocate and expand the University of Tasmania's campuses in Launceston (and Burnie).

The Property Council is also partnering with the Queensland Government and the South East Queensland Council of Mayors on work which could form the basis of a South East Queensland City Deal.

The 2017-18 Budget should…	Maintain $4.6 million for implementing Smart Cities Plan (National Cities Agenda), that includes City Deals framework. Further City Deals should be identified. The Launceston and Western Sydney City Deals should be finalised. Fund $50 million delivery of Townsville City Deal (Townsville Integrated Stadium). Fund $150 million delivery in Launceston (as part of future Launceston City Deal) to relocate and expand the University of Tasmania to finalise and deliver the Launceston City Deal.

Reinforce the Infrastructure Australia Priority List and Investment

Long-term infrastructure financing, planning and delivery are vital in linking where people live and work, and in boosting productivity and growth. It requires good infrastructure decisions and investments.

The Property Council supports Infrastructure Australia's 15-Year Infrastructure Plan as an evidence based, non-partisan basis for governments to select infrastructure projects to fund. We welcome the Federal Government's commitment to include funding for not only roads and freight rail, but also urban rail projects.

Clear national infrastructure priorities are essential to remove the political risk attached to major projects. This is crucial given investor confidence has been undermined and opportunities wasted through the absence of a well-defined pipeline of projects and high-profile cases of cancelled contracts.

Infrastructure Australia has repeatedly warned that the greatest infrastructure risk facing the country is that scarce public funds are squandered on projects that may not deliver the most optimal benefits to the community. It is also clear that substantial improvements are needed in forward planning, prioritisation and project specification by states and territories.

An important function for Infrastructure Australia should be to build capability across the states and territories to prepare first-rate feasibility studies and business cases. This would complement its own role in independently and rigorously analysing projects that should shape the priorities for investment from the Commonwealth.

The 2017-18 Budget should…	Continue to invest at least $50 billion in infrastructure over the next four years. Support Infrastructure Australia's 15-year infrastructure plan and fund infrastructure from the priority list. This includes funding to both road and rail projects on the list. Provide states and territories funding from Infrastructure Australia to prepare first-rate feasibility studies and business cases.

Re-establish the Asset Recycling Fund

The Asset Recycling Fund was established in 2014-15 with an initial contribution of $5.9 billion from the uncommitted funds in the Building Australia Fund ($2.4 billion) and the Education Investment Fund ($3.5 billion). The fund was to be increased from the sale proceeds from Medibank Private and from other privatisations.

The proceeds of the fund would be allocated to state and territory Governments based on their application for a 15 per cent top-up in funding. Between 2014-15 and 2015-16, the Asset Recycling Fund allocated $3.3 billion to NSW, Victoria, the Northern Territory and the Australian Capital Territory in return for selling or leasing public assets. According to the Victorian Government, who despite leasing the Port of Melbourne, was denied 15 per cent of the sale, only receiving 9 per cent worth $877.5 million.

According to the 2016 Budget, the $3.3 billion provided by the Asset Recycling Fund delivered a total of $23 billion in infrastructure investment. Funding from the fund was also provided to Northern Australia infrastructure projects and remaining balance of $854 million was allocated to consolidated revenue.

The 2017-18 Budget should…	Re-establish the asset recycling program, reallocating the $854 from consolidated revenue. The Federal Government should undertake an investigation and audit of potential assets to privatise. All proceeds will be allocated to the Asset Recycling Fund.

Develop smarter infrastructure financing solutions

Delivering the next generation of critical infrastructure is vital to lifting the productivity of our cities. We need to look at financing solutions that meet future demand for infrastructure in ways that encourage private sector activity and investment.

Tax Increment Financing (TIF) is a method of funding infrastructure commonly used in the US and UK – and should be trialled in Australia. It involves governments issuing bonds to pay for infrastructure, and recapitalising them through the tax revenues arising from the economic growth that follows. TIF enforces a discipline on governments to make integrated decisions around infrastructure and land use and better time the provision of infrastructure. It is a more transparent approach to infrastructure selection removed from the vagaries of the election cycle. Importantly, TIF avoids the trap of many of the 'value capture' methods being proposed by using existing taxes and tax rates – and only capturing value as it truly accrues.

As Infrastructure Australia outlined in their December 2016 report *"Capturing Value: Advice on making value capture work in Australia"*, the settings in Australia vary greatly from many overseas markets where value capture has been introduced. Property prices also provide an unreliable basis for value capture and is a complex task. Value capture should not include new or increase existing taxes of property that will worsen housing affordability.

The 2017-18 Budget should…	Create a framework for infrastructure funding which includes trialling Tax Increment Financing. This guarantees no new or increase to federal taxes imposed on property through value capture.

Housing affordability

Housing affordability is undeniably one of the highest priority issues for the community and for governments across Australia.

Australia has one of the highest levels of population growth in the OECD, and the demographic composition of our society is also changing significantly. We need supply side settings which enable the production of new housing needed to meet this growth and change.

Our cities need housing that is affordable to rent or to buy, in locations that are well serviced with infrastructure – not just roads, but schools, childcare and hospitals – and close to employment opportunities.

Boost housing supply and affordability through an incentives-based framework

Despite stronger levels of housing commencements and record low interest rates, a significant housing deficit remains due to a decade of undersupply and inaction by governments that only saw an annual average of 153,000 homes completed over the past decade. The ABS household formation statistics show that 164,000 households are being formed each year from 2011 to 2016. This number is expected to be 172,000 per year from 2016.

These numbers indicate a significant deficit of housing supply in Australia and one good year will not make up for a decade of underbuilding. Despite the planning reform undertaken in various jurisdictions over the last decade, Australia has a significant lack of housing supply, both in terms of the volume of dwellings being delivered, but also the type and location of housing supply.

National Competition Policy was instrumental in driving reforms in the 1990s that unlocked significant economic benefits for the country. Success lay in the provision of modest incentives to tackle difficult micro-economic reform.

Adopting a similar approach to drive reforms targeted at improving housing supply outcomes can in turn improve affordability, create growth and generate jobs. This is essential given planning systems across the country remain complex, inconsistent and inefficient.

Under a new incentives model, states and territories would receive incentive payments to reform their planning systems, turbocharge housing supply pipelines, and deliver innovative affordable housing solutions. Analysis from Deloitte Access Economics shows the potential economic gains from improved housing outcomes could be around $3 billion a year.

On 9 December 2016, the Federal Government signed an Intergovernmental Agreement (IGA) on Competition and Productivity Enhancing Reforms with New South Wales, Western Australia, Tasmania, the Australian Capital Territory and the Northern Territory. This establishes a framework for potential competition payments with an early focus on planning, zoning and construction approvals.

This agreement builds on the November 2015 announcement by the Federal Government to consider payments to states and territories for reforms to planning and zoning that improve productivity and lead to economic growth.

The 2017-18 Budget should…	Continue to work with all states and territories on implementing an incentives-based model to improve housing supply and affordability. Establish a reform fund to underpin such an approach. Payments should be used to encourage best practice reforms in planning, zoning and infrastructure delivery to increase housing supply.

Unlock housing equity for pensioners

Australia is facing a looming crisis on funding healthcare and residential aged care for seniors. The 2015 Intergenerational Report projected that by 2055 the number of Australians aged 65+ will be more than double compared with today and government expenditure on residential aged care and community "home care" will nearly double as a share of GDP.

Research by Grant Thornton shows that government saves significant expenditure on residential aged care, mental health, GP visits and hospital stays when seniors live in a retirement village.

However, the age pension asset test acts as a strong disincentive for pensioners who wish to downsize from their family home into smaller, more age-appropriate accommodation (whether a retirement village or other accommodation).

This policy change would enable full-rate homeowner age pensioners aged 75+ to downsize their home and unlock a moderate cash excess which is 'quarantined' from the asset test and ensures the full-rate pension is kept.

The benefits of such a scheme include:

- enabling pensioners to choose housing that is more suitable to their needs, prolonging independent living years and reducing the demand for federally funded residential aged care;
- freeing up housing stock for families and first home buyers in established suburbs and easing housing supply and affordability pressures; and
- enabling seniors to retain a cash excess which could be used, for example, to fund their own healthcare and living needs.

The cost to government in 'making up' the pension that should have been lost can be offset by the savings created when seniors choose to move into a retirement village, namely:

- On average, village residents enter aged care 5 years later than their peers. The 2016 Report on Government Services provided the average annual subsidy per residential place was $56,084 nationally.
- $177 million saved annually through village residents requiring fewer hospital and GP visits, and enjoying earlier discharge from hospital and better mental health.

Modifying the amount of the 'quarantine cap', and actively increasing the proportion of retirement village residents (through introducing other government policies to encourage village development and promoting the attractiveness of village living) could potentially even give government a net financial gain.

The 2017-18 Budget should…	Allow full-rate homeowner age pensioners (aged 75+) to downsize their home and 'quarantine' a portion of the excess sale proceeds from the asset test.

Increase housing choice awareness for seniors

There are several accommodation options available for older Australians including government-funded residential aged care, private aged care, retirement villages, manufactured home parks, aged rental accommodation, and supported residential services.

Living among peers, and in an environment especially designed for older people, has benefits for both seniors and government. Research by Grant Thornton identified that government saved $2.16 billion annually from village residents having delayed entry into residential aged care and reduced use of health and hospital services. The 2013 McCrindle Baynes Villages Census found that 98 per cent of residents felt the village experience met their expectations.

Retirees and their families can find navigating the seniors housing continuum difficult due to:

- the involvement of different levels of government and as a result, the need to consult multiple websites and information sources;

- changes to aged care and home care over the past few years arising from the Living Longer Living Better initiatives; and

- media incorrectly labelling residential aged care facilities as retirement villages and vice versa in (often negative) news stories.

The Property Council is seeking funding of $3 million to run two pilot projects over a 12-month period to increase the understanding and confidence senior Australians (and their families) have in determining residential accommodation options when they are no longer able to continue living in their existing homes:

1. ***Establish a telephone support service*** to help people identify the best seniors housing option for their needs and provide general assistance on pensions, tax and financial issues. Funding would support the training and engagement of 10 specialist advisers for a 12-month period. The service would complement the existing 'My Aged Care' website and hotline which provides information limited to residential aged care and home care.

2. ***Develop and deliver a consumer awareness campaign*** to be coordinated by the Property Council as the peak body representing the retirement living industry, in consultation with the Department of Health and Department of Social Security, and seniors' peak bodies (including the Retirement Village Residents Association) to ensure older Australians and their families have a good knowledge of their residential accommodation options and lifestyle opportunities.

The 2017-18 Budget should…	Allocate $3 million to better inform older Australians (and their families) about residential and lifestyle options through a telephone support service and industry-led awareness campaign.

Investigate market solutions to affordable rental housing

Institutional investors recognise the need for affordable (key worker) rental housing, and are willing to invest as long as the risks and returns are market based and relative to returns from other asset classes.

However, there are a number of barriers that make projects too costly, risky or difficult to execute for patient long term capital.

Over the course of 2016, the Council on Federal Financial Relations asked the Affordable Housing Working Group (Working Group) to investigate innovative financing models aimed at improving the supply of affordable rental housing. The Working Group report was released in December 2016 and acknowledges that without reforms to existing policy settings, the current undersupply of affordable housing is likely to intensify, which will exacerbate the pressures on government expenditure on housing and other assistance.

The Working Group determined that the establishment of a financial intermediary to aggregate the borrowing requirements of affordable housing providers and issue bonds on their behalf (the bond aggregator model) offers the best chance of facilitating institutional investment into affordable housing at scale, subject to the provision of additional government funding.

Further work is required to investigate and test the feasibility and effectiveness of the bond aggregator model, compared to other possible market solutions, in delivering affordable rental housing at scale. Work is also required to further investigate other potential affordable rental housing models for key workers, who fall outside the Working Group's terms of reference.

The 2017-18 Budget should…	Allocate funding to investigate models to establish affordable rental housing solutions for key workers.

Retain current negative gearing and capital gains tax arrangements

Over 2 million Australians help save for their retirement by owning an investment property[2], providing a steady supply of essential rental housing.

Negative gearing is nothing more than the ability to deduct legitimate expenses against income. It applies to all forms of investment and is not a property-specific tax arrangement.

While the Federal Opposition took a policy to the last election proposing substantial changes to negative gearing and capital gains tax, two key supporters of this policy estimated this would have a minimal impact on housing affordability. The McKell Institute (the authors of Labor's policy) estimated it would have a 0.49% impact on house prices, while the Grattan Institute estimated it would have a 2% impact on prices.

Negative gearing is primarily used by everyday Australians, 73 per cent of whom own only one investment property, with another 18 per cent only owning two[3].

And investors have been crucial in supporting new developments with up to 40 per cent of all new developments financed by investors[4] – helping projects move from conception to construction.

The 50 per cent capital gains tax discount also ensures that governments only tax real gains – it is designed to encourage investment and remove the impact of inflation.

The discount was set at a fixed rate of 50 per cent to overcome the previously complex requirement to calculate inflation impacts for each year of ownership. The Property Council has previously proposed reducing the capital gains tax discount to 40 per cent and moving to a two year qualification period.

The 2017-18 Budget should…	Retain negative gearing and carefully canvass any changes to the capital gains tax discount for property investment.

[2] ATO, 2013-14
[3] ATO, 2013,14
[4] ABS, 2016

Reinstate the Housing Supply Council

Since abolition of the National Housing Supply Council in December 2013, there has been a lack of reliable data on Australia's housing affordability and undersupply problems.

The Council was established in May 2008 to monitor housing demand, supply and affordability in Australia. Between 2008-09 and 2011-12, $9.2 million was allocated to the Council.

Improved data collection and monitoring on housing supply and demand will lead to better long-term policy development in this crucial area and underpin an incentives-based model to improve housing supply and affordability.

Without this information, the extent of the policy failure cannot be fully investigated or addressed, and similarly the success of any policy solutions will not be fully understood.

The 2017-18 Budget should…	Allocate $2.3 million to revive the Housing Supply Council to capture, scrutinise and map key data on housing supply across Australia.

Harnessing global capital

Since Federation, Australia has been reliant on global capital to fund the shortfall between national investment and national savings. According to the ABS, this gap has been on average about 4 per cent of GDP over the last few decades.

With $3 trillion of foreign investment in Australia, including $735 billion in direct investment, Australia depends on foreign investment as a means of generating jobs and prosperity.

Drive global investment to Australian real estate

Foreign investment underpins commercial construction – building the shopping centres, office blocks and manufacturing precincts that Australia needs.

The foreign investment rules also direct investment towards new housing supply and not existing housing. This ensures that foreign investment contributes to construction and in turn, new housing stock.

Foreign investment in the property sector has a powerful multiplier that extends throughout the economy so that every Australian experiences or shares in some of the economic and social benefits.

Australia competes with countries around the world for investment capital and must resist isolationist policies that can only harm our economic interests. It is vital that Australia has the right balance of taxes and investment rules to attract patient long term global capital and drive economic growth.

The 2017-18 Budget should…	Ensure budget measures are designed to support and drive global capital to Australia, and do not create roadblocks to investment.

Improve transparency and data on foreign investment in Australian real estate

Recent changes to the Foreign Investment Review Board (FIRB) rules has lifted the veil and dispelled myths about foreign investment and agricultural property. The same transparency is vital in the housing and commercial property sectors.

The imposition of fees for FIRB applications was intended to cover the cost of administering the regime, and also be applied to improve the collection of data about foreign investment in Australia. Critically, this data collection must be comprehensive and systematic, and made available to the public. Without reliable facts to underpin the broader community debate about foreign investment in real estate, Australians are losing sight of the economic benefits that flow from foreign investments.

While the ATO has indicated it may consider publishing certain data sets (sanitised to protect individual privacy), it has yet to formally commit to the type of data it will collect and the frequency of reports.

FIRB also releases some data in its annual reports, however unlike many similar entities these reports are not released in a timely manner. For example, the FIRB annual report for the year ended 30 June 2015 was released ten months later in April 2016. It would be more beneficial for key datasets to be released quarterly, to allow timely analysis of key trends that could shape both public debate and policy development.

If this information were to be centrally collected and regularly made available at least to industry if not the general public, it would improve understanding about the importance of foreign investment to the property industry, and allow for the identification of trends in investor activity. This information would be useful for both Government and industry, and lead to more evidence-based policy making in this area.

The 2017-18 Budget should…	Apply funds raised from Foreign Investment Review Board application fees to improve the timeliness and quality of publicly available data on foreign investment in Australian real estate.

Establish a globally competitive Collective Investment Vehicle regime

Australia's attractiveness as a funds management hub will be enhanced with the introduction of a practical Collective Investment Vehicle (CIV) regime to encourage global investment into Australia.

Australia is an outlier in global funds management because it relies solely on trusts rather than the corporate or limited partnership CIVs that are common worldwide.

While government is developing corporate and limited partnership CIVs for the Asian Region Funds Passport (ARFP), these CIVs must also be available to collective investments that are not part of the ARFP regime. Limiting the scope of CIVs to only ARFP funds will waste an opportunity to grow the economy.

A universal CIV needs to utilise regulatory frameworks that are familiar to Australian property and harmonise with the recently introduced Australian Managed Investment Trust (AMIT) regime.

The 2017-18 Budget should…	Ensure the regulatory and tax framework for the corporate and limited partnership collective investment vehicle regimes are harmonised with existing managed investment trust rules, and are not limited to funds that are part of the Asian Region Funds Passport.

Avoid market disruption for property trust investors

The property industry supports implementation of the *Foreign Account Tax Compliance Act (FATCA)* and the *Common Reporting Standard (CRS).*

The purpose of FATCA and CRS is to identify and report non-Australian investors who invest in certain Australian financial products – the regimes are not intended to discourage investment in Australian listed property trusts.

The FATCA rules (on which the CRS rules are based) were designed for the US market. In the US, FACTA applies to depository intermediaries that onboard (open accounts) and hold custody of securities, as well as, maintain share records.

Critically, Australia does not have depository intermediaries and the investment process instead is split between brokers (on boarding investors), issuers (securities) and share registries (recording trades).

For transactions on the Australian stock exchange, brokers are the only entities that have the power to collect information from investors before the trade is executed, and stop trade when information is not provided. However, brokers are not a part of FATCA or CRS.

Listed investment entities do not have the authority to enforce compliance with FATCA or CRS before a trade is completed (pre-trade) because they do not have a direct relationship or contact with the investor. Listed investment entities will be in technical breach of FATCA and CRS from the moment the brokers complete the trade.

Imposing a strict "pre-trade" approach will cause investors and listed property trusts to face higher brokerage cost, execution delays and potentially decreased liquidity with respect to their investments due to the blocking of trades. This will have a material impact on the value of investments held by investors, thus jeopardising not only the listed property industry but also the savings of many millions of Australians (either directly or indirectly through their superfund investments).

Importantly, any mandated pre-trade solution that only affects listed investment entities will put the industry at a grave disadvantage compared to other listed Australian securities and foreign jurisdictions such as the UK, Canada, Hong Kong and New Zealand.

While we appreciate that the government is working with industry and the US, industry recommends a wholesale adoption of a UK style post-trade identification without penalties for delay. This solution has been designed to fit within Australia's current retail trading market and will allow FATCA and CRS to be implemented in a manner that does not discourage investment in Australian listed investment entities.

The 2017-18 Budget should…	Remove unworkable regulatory hurdles within the *Foreign Account Tax Compliance Act (FATCA)* and the *Common Reporting Standard (CRS)* rules to ensure listed property trusts can be freely traded by investors.

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