Submission to the Standing Committee on Infrastructure, Transport and Cities

Inquiry into Options for Financing Faster Rail

Steve Skinner, March 3, 2020

All references and more photos available on request

Please also see the attached 2019 academic research carried out for the University of Sydney, which contains a lot more detail on land tax and urban transport value capture.

Barangaroo Station under construction with Crown's Sydney casino development rising in the background, October 2019

The Murray Valley Highway between Cobram and Yarrawonga, Victoria, March 2019

THE GREAT DIVIDE

SUMMARY

Governments are reluctant to properly tax landholders in Sydney, Melbourne and Brisbane on the sometimes-massive windfall gains they enjoy from roads and rail lines being built on or near their properties.

This situation is making the playing field of opportunity between country and city people in Australia more uneven than it already is. And it is depriving communities of vital government funds – including for investment in safer regional roads and rail lines.

Before governments consider "value capture" to help fund faster rail between major capital cities and regional centres, they need to learn lessons from the failure to properly tax the land-holding beneficiaries of road and rail projects within the big cities.

To show the need for reform of the current system, this submission outlines numerous case studies from Sydney, Melbourne and Brisbane of individual landholders getting what look like great deals courtesy of the taxpayers' spending on transport.

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Introduction

The amount of government money to be spent helping victims of the recent devastating bushfires sounds impressive.

The Federal Government is allocating $2 billion for its bushfire recovery fund. The NSW Government has pledged $1 billion for an infrastructure repair fund.

But $3 billion is less than half what these same governments are spending on just one new rail line through marginal seats in Sydney which even their own advisers say won't be needed for many years.

And $3 billion is just the cost of the blowout alone on a separate new Sydney rail line which will now cost more than $15 billion.

Meanwhile, the biggest winners from all the new big city roads and rail lines are landholders who often don't contribute much, if anything, towards their construction. The bigger beneficiaries of government charity at present are these city landowners, not people devastated by bushfires.

Railway stations in particular can enable lucky landowners nearby to see their property values increase two, three or four-fold.

Both city and rural landowners will benefit hugely from faster passenger rail stations being built on or near their properties. So, there needs to be serious implementation of "value capture", not the token effort we have seen in the capital cities so far.

The definition of value capture assumed in this submission is some form of tax on the uplift in land value which occurs when governments build a new road or rail line – or both – which makes land in the catchment area more attractive for property development.

Most independent experts and the development industry seem to agree that the ideal form of value capture is a broader form of annual land value tax compared with the current system. For example, the current land tax only applies to owners of commercial or industrial land, but not to farmers or private homeowners – the latter accounting for the majority of land value in Australia.

As several inquiries have concluded, unlike taxes on capital and labour, taxes on land don't affect people's incentive to "have a go" and be "lifters" in the economy. And amongst the many other virtues of taxing land is the fact that you can't hide land in a tax haven.

Land tax supporters have included everyone from Milton Friedman on the right to Marxist economists on the left.

Yet Australia's booming capital city land values are taxed very lightly compared with what wage earners and businesses must pay on their sweat and toil.

Melbourne land lot prices are reported to have doubled over the past decade and risen by more than 60 per cent in Sydney. But wages have stagnated in that time.

Economists say a broad-based land tax – i.e. including the family home and urban farmland – would help act as an "equalizer" between city and country, because cities enjoy most of the population growth and economic activity that comes with it, and therefore their limited supplies of land should be more highly taxed.

Government advisory body Infrastructure Australia says if governments don't bring in a broad-based land tax, they should at least use "other value capture mechanisms". There are lots of these to choose from, each with their own pros and cons.

One example is betterment levies when land is rezoned for far more valuable uses, for example from agricultural to residential or from industrial to high-density residential. There might be another fee at the actual development approval stage, and/or or when higher floor space ratios are allowed. The Australian Capital Territory has a 75 per cent "lease variation charge" (LVC) along these lines, and Singapore has something similar.

The Property Council of Australia opposes Canberra's LVC, but isn't against transport-related levies per se (with conditions). In its submission to this inquiry the Property Council supports an additional levy applied to developments "when the provision of new infrastructure is accompanied by a significant rezoning to increase density and change-of-use".

Another example of a possible value capture mechanism is an annual metropolitan-wide "transport levy" on both homes and businesses to help cover transport infrastructure spending which country areas usually don't benefit from. Such a levy would avoid what the Property Council calls "politically designed hardship zones" subject to localised forms of value capture, presumably such as levies on properties within a kilometre of new rail stations.

Then there is the idea of a special high-rate capital gains tax on benefiting landowners to pay for transport, to be collected by the Feds and given to the states. At present, capital gains tax is paid to the Federal Government only, at whatever your marginal rate is – and with a good accountant you can get that down to 10 per cent via a self-managed super fund, for example.

No form of value capture is ideal but neither is taxing businesses and workers a third of their profits and wages.

The revenue foregone in not using value capture doesn't just apply to NSW. Victoria and Queensland are good at letting land-owning beneficiaries of their massive capital city transport programs largely off the hook too – at least compared with what they could be contributing.

The alternative is continued reliance on taxes, tolls, debt and privatisation of public assets.

Fire Insurance Fiasco

A frightening number of bushfire victims in NSW didn't have insurance, and no wonder, when in NSW the insurance industry says premiums are at least 25 per cent more expensive than they need to be.

That's because the NSW Government has so far failed to follow the lead of most other states and base a contribution for its fire and emergency services levy based on land value. Instead, the Government taxes people who do the right thing in trying to look after themselves, by taxing insurance policies.

It's yet another example of a crazy land taxation system (or rather, lack of) which most people don't know about, and most media in the big cities don't care about.

But other people are concerned and want a much bigger tax contribution in general from landowners. They include just about every economist in Australia; planners; developers; big businesspeople; government advisers; and a lot of politicians.

Indeed, it's official Federal Government policy that if the states want money for major transport infrastructure, they must hit up land-owning beneficiaries for a contribution.

But the Feds aren't uniformly enforcing this rule. More on this later.

Meanwhile, *The Australian* recently reported that two state treasurers – NSW Liberal Dominic Perrottet and Victorian Labor's Tim Pallas – both want annual land tax to replace the stamp duty despised by most economists. The ACT Government is approaching the half-way mark in doing this over a 20-year transition period.

Replacing stamp duty with a broadened annual land tax might be an imperfect solution, because stamp duty has some virtues. But consideration of presumably taxing the land value of the family home is a sign that political bravery is possible, despite the understandable reluctance of politicians to tamper with the holy grail of many Australians – speculative gains from property ownership.

Most politicians also seem reluctant to consider politically difficult measures which would reduce the need for multi-billion-dollar new roads and rail lines in the big cities in the first place. These include congestion charging on roads according to location and time of day; allowing more medium and high-density development in established middle-ring suburbs; lowering the rapid rate of population growth; and pushing more population and jobs to the regions.

Winston Churchill's Dilemma

After the Committee's two previous reports involving value capture, there is no need to convince the members of this committee of the concept's virtues, so the rest of this submission will outline some of the many case studies of apparent missed opportunities the Committee may not be aware of.

Most are from NSW, a state I know intimately, but there are examples from Victoria and Queensland too. The main aim is to provide an idea of the current un-earned windfalls involved. The detail of how much or how little tax the lucky landowners are paying can probably never be known.

The case studies are based on the attached academic research completed with a small grant from the Henry Halloran Trust in the University of Sydney's School of Planning; public-record information including many hundreds of news articles; and other research over the past decade.

I haven't had the capacity as a private citizen to seek interviews with private landholders, companies or government ministers, and therefore could stand corrected on some aspects of some case studies. All views expressed are my own.

In no case do I accuse landowners, developers, MPs or councillors of breaking any rules or regulations – they are simply key players in a flawed system. Many battlers who are disadvantaged by the system would no doubt make the most of it if they could too.

Nor do I criticise people who work hard to pay off that block of land which might be their retirement nest egg one day; and of course developers can take a lot of risk in trying to make the most of land they might have gone into a lot of debt to pay for.

Bear in mind while reading these sometimes eye-popping case studies the plight of the worker or business person who slogs it out day in, day out, week in, week out for decades and gets taxed say a quarter, a third or even half of all their earnings.

While they are fully paying their way it's completely possible in theory in Australia to sell farm land to a speculator in a lucky part of a capital city that's enjoying – or will get – huge government infrastructure spending, and pay no tax whatsoever on huge profits from the land, for doing nothing.

That's because farmland is exempt from land tax; the sale proceeds are exempt from income tax because it's an asset; there is no capital gains tax (CGT) payable if the land was bought before CGT was introduced in 1985 (and inheritors only have to pay on gains from the date the purchaser died); stamp duty is only paid when you buy land; there is no GST on land actually being farmed; and any later fixed infrastructure contributions are paid by developers, not the people they bought the land from.

Also bear in mind this pithy observation from Winston Churchill more than a century ago:

"Roads are made, streets are made, railway services are improved, electric lights turn night into day, electric trams glide swiftly to and fro, water is brought from reservoirs a hundred miles off in the mountains – and all the while the landlord sits still."

My qualifications for trying to highlight this issue are combined degrees in economics and social studies from the University of Sydney; three decades as a journalist for Fairfax and the ABC (including *The Bottom Line* business program, *Four Corners*, *7.30 Report* and *Background Briefing*) and Bauer Transport Media; and "coalface" experience in transport as a railway fettler in my youth, and overnight interstate truck driver more recently (which involves a lot of time stuck in city traffic jams).

I grew up in the eastern Riverina region, working on farms as a schoolkid. You can buy a thousand hectares of prime grazing country with some cropping and a magnificent homestead around there for a little over $10 million. But on the urban fringe of Melbourne or Sydney, similar properties of only a couple of hundred hectares are selling for hundreds of millions of dollars – possibly with no or little tax in some cases – to be covered in concrete and houses. You could pay $10 million just for one terrace house close to the Sydney CBD.

No wonder the latest *Australian Financial Review* Rich List says: "Property remains the main vehicle by which fortunes are made." They mean capital city property of course.

Barangaroo Bonanza

Let's start this journey through the often-easy money to be made from taxpayer-funded land improvements right at the heart of Australia's first and biggest city.

In 2009 and 2013 when the NSW Government signed off on proposals from development giant Lendlease and then the Crown Resorts group to build skyscrapers on former wharf land near the Sydney CBD and Harbour Bridge, the deals were secret.

Perhaps NSW taxpayers got a very good deal from the developers. Lendlease is certainly getting a good deal from an anonymous buyer who forked out $140 million for two of its mega luxury apartments off the plan.

But what wasn't known at the beginning was the gigantic scale of the government transport infrastructure that would eventually be built to service the area, which is of direct benefit to Crown and Lendlease.

Barangaroo train station – announced in the 2015 state budget – is being built a stone's throw from the casino at an estimated cost of around half a billion dollars. It is part of Sydney's $15 billion-plus, 30 kilometre Metro City and Southwest rail system under construction (the Government recently confirmed that the cost has blown out by as much as $3 billion).

The new station will directly serve the thousands of workers, residents, tourists and gamblers – including, perhaps, even a few high rollers – who will frequent the Crown and Lendlease towers each day.

That $500 million leg-up comes on top of the long-planned $300 million walkway which links the casino precinct with nearby Wynyard Station – five minutes' walk in the other direction on the existing rail system.

So, what will Crown and Lendlease contribute to government coffers for this $800 million worth of public transport largesse?

"The transport minister, Andrew Constance, and Barangaroo Development Authority are yet to respond to questions about whether developers of Barangaroo South, Lend Lease, or Crown will contribute any money to the initiatives which will make the site easier to access," wrote *The Guardian* in 2015.

I haven't seen any answers on the public record since. This lack of transparency seems like a good example of what planning professors Nicole Gurran and Peter Phibbs describe as a "paucity" of information on infrastructure charging in Australia.

Meanwhile, as holders of the 99-year leases on the government land the developments sit on, Crown and Lendlease won't have to pay any land tax, because Revenue NSW confirms land tax is not payable on crown land.

All this contrasts with the easily accessible information on the "major beneficiary contribution" that a big office and retail developer is making to the massive A$30 billion Crossrail project in London.

The Canary Wharf Group is forking out about A$300 million towards a A$1 billion rail station on its site, which is also former docks land but about twice the size of Barangaroo. The private owner of Heathrow Airport is contributing around A$150 million to Crossrail in return for its public transport benefit.

In fact, value capture, including levies on businesses along the line, is contributing about 30 per cent of the Crossrail capital costs.

Martin Place Motza

Next stop on the Metro City and Southwest line will be Martin Place, near the headquarters for Australia's Reserve Bank. It's another piece of prime real estate in the centre of one of the world's most expensive cities, and the NSW Government says the new station will be the "epicentre" of the Metro.

Martin Place is also home to Macquarie Bank, which has pulled off what looks like a terrific bargain with the Government, in an "unsolicited" deal which wasn't put out to tender.

But a 2018 Government press release made it look like the taxpayers were the big winners:

"The NSW Government has awarded Macquarie Group a $378.6 million contract to deliver the largely underground station component of the new Martin Place metro station," said the press release.

"As part of the first value capture agreement on Sydney Metro, the NSW Government will receive $355 million from Macquarie Group for the air rights above the new metro station and Macquarie will deliver new commercial buildings, pedestrian connections and retail space."

That makes it sound like "delivering" new commercial buildings is terrific for the taxpayers, except that the taxpayers won't actually own them.

One of the skyscrapers is the north entrance tower, which Macquarie is keeping for itself. The other is the 29-storey south entrance tower, at 39 Martin Place.

Nevertheless, at least it looks like the Government will only have to pay a net $23 million for the new Martin Place underground station, right?

But hang on, in 2016 the Government bought the southern 39 Martin Place site for over $300 million from property group Dexus, as part of compulsory acquisition for the Metro. A 22-storey building had to be knocked down.

It acquired the north tower site too, including a 26-storey building at 55 Hunter St which also had to be knocked down but there is no information that I can find on the public record about how much all this cost.

So, when you include compulsory acquisition costs, doesn't that mean it's actually costing the taxpayers well over $300 million for the new station?

But wait, there's more.

According to online industry media outlet *The Urban Developer*, it's costing Macquarie Bank $688 million to build the two towers (Lendlease is constructing both the towers and the station).

But Macquarie has just on-sold the south tower at 39 Martin Place which is still under development, for nearly $1 billion.

Let's assume their much bigger north tower is "only" worth $1 billion as well. That's at least $2 billion of value for Macquarie, for an outlay of less than $1 billion, leaving at least $1 billion worth of cream. Not bad "work" in just a few years, courtesy of a giant taxpayer-funded transport project.

Maybe there will be a bit of cream left over for the taxpayers: "Once the new buildings are complete in about 2024, Macquarie is likely to make another payment to the government to reflect the increased value of the land," said an article in the *Sydney Morning Herald*.

But that vague-sounding possibility wasn't mentioned in the official press release, and the Metro people told me the only publicly available information is in the press release. So again, not much transparency.

Meanwhile, there's the reported likelihood of the planned $20 billion Western Metro also having a CBD station at Martin Place, making Macquarie's assets even more valuable.

No Federal Strings Attached?

"Air rights" would surely have to be the easy pickings in any definition of value capture, because they are such a no-brainer concept for any new train station.

Let's hope air rights achieve a lot more for taxpayers from the rest of the Metro stations, because it appears that so far they are the main way the NSW Government is planning to recoup some of the Metro City and Southwest costs.

The other main form of value capture mentioned in the business case for the Metro City and Southwest is what it calls "passive" value capture from existing taxation regimes, for proposed property development along the rail corridor.

This "project induced tax benefit" totals more than $7 billion. It's estimated the Metro would reap $3.1 billion in state stamp duty; $1.6 billion in state land tax; and $2.6 billion in federal capital gains tax.

That shows how important stamp duty currently is for government revenues. These three types of taxes are what governments already need to fund community services generally. They're not designed to catch steep uplift in land values from spending billions on new rail lines.

The Metro business case mentions possible "special infrastructure contributions" (more on those one-off, fixed-rate payments later). It also mentions fares, but the key information is blacked out.

In any case, fares are usually thought of as a form of "user pays" – not "beneficiary pays". And fares only cover about 20 per cent of public transport operating costs in Sydney and Melbourne anyway. (Of course, there's hardly any public transport in regional areas compared with the capital cities.)

So all-up the Metro City and Southwest appears to be a case of the Federal Government not carrying through on its apparent demand that the states implement value capture if they want federal funding.

The Government's February 2016 *Principles for Innovative Financing of Transport* said: "The funding shares from the Commonwealth and the state and territory governments should be determined after taking into account contributions made by the beneficiaries."

But just three months later, in the May 2016 Budget, the Federal Government gave NSW $1.7 billion towards the Metro City and Southwest line without any publicity on what, if any, value capture was going to be involved.

Meanwhile, as the Committee on Infrastructure, Transport and Cities has noted in one of its earlier reports, huge property price gains have been made along the earlier $7 billion Sydney Metro Northwest line, which opened in May 2019.

A standout comment on that driverless metro rail line was made in a submission to the Inquiry into the Australian Government's Role in the Development of Cities, by the Committee for Sydney.

The Committee for Sydney supports new uplift-related value capture. Its powerful line-up of members includes News Corp Australia; the Cities of Sydney and Parramatta; the NSW Departments of Planning and Transport; John Holland, Lendlease and Stockland; Westpac and NAB; and Sydney Airport.

In its 2017 submission, the Committee for Sydney warned of not repeating past mistakes in failing to implement value capture.

"It is widely accepted now … that a value capture approach should have been implemented in relation to the building of the North-West Rail Link (now Sydney Metro Northwest) as the costs of this massive project were carried by the public sector but the returns were privatised by landowners," wrote the Committee.

"We must avoid similar unearned private uplift to land values around the Western Sydney Airport arising from public intervention as rezoning there provides a real opportunity to introduce value capture with widespread public support."

Airport Land Values Take Off

Unfortunately, it looks like what the Committee for Sydney was warning about is exactly what has happened with the Western Sydney International Airport.

After decades of talking about it, in 2014 the Federal Government finally committed to building Sydney's second airport at Badgery's Creek in the far west.

The Feds are spending more than $5 billion building the airport as a government business. It will open in 2026 and is forecast to support almost 28,000 jobs by 2031.

There is a huge road and rail building program both under way and planned to support the new airport, at this stage fully funded by Federal and NSW taxpayers.

The $4 billion "Western Sydney Infrastructure Plan" involves upgrading 35 kilometres of the Northern Road to dual lanes; upgrading 10 kilometres of Bringelly Rd to dual lanes; and building the new M12 Motorway.

The first stage of the North South Rail Link, costing more than $7 billion, is being funded 50-50 by the Federal and NSW Governments. It will branch off from the existing western line and have stations at the Airport and the adjacent Aerotropolis. There are long-term plans for the track to be extended south through Oran Park and Narellan to Macarthur on the main southern line near Campbelltown; and north to Schofields on the Metro North West line.

The airport line will be finished in time for the opening of the airport.

But intriguingly, the joint government *Western Sydney Rail Needs Scoping Study* says the new rail line doesn't need to be finished in time for the opening of the airport. Rapid bus and coach services connecting the airport with regional centres on the billions of dollars of new roads and motorways could do the job.

The scoping study says the North South Link and future East-West Link (between the new airport and Parramatta) are not projected to become "economically viable" until sometime in the 2030s (p.76).

(The Labor Party goes even further than the Coalition in advocating the full length of the North South line be finished by the time the airport opens.)

With $20 billion or so of government transport spending being flagged in the western Sydney airport area, you didn't have to be Einstein to realise that land values would take off.

Yet the Federal and NSW governments still haven't finished their studies of how to get some value capture from their huge investments.

That's despite the Western Sydney Rail Alliance – including major landholders – telling a local newspaper before the North South line was announced that it was prepared to pay for a "big chunk" of the line through "development levies".

(Their consultant Deloitte has even stated for another alliance that almost $3 billion could be raised from benefiting landowners to fund a proposed light rail line between Westmead and Strathfield, via Sydney's Olympic Park. This would be in the form of voluntary contributions at an agreed rate per square metre of increased allowable floor space ratio in new developments, in other words a "density uplift".)

In a classic case of putting the cart before the horse, at the time of writing the $100 million business case for the North South line hasn't been completed yet, let alone published. Many experts would say that is bad planning policy.

And the draft Western Sydney Aerotropolis Plan, released in December 2019, still only gets as far as saying: "Value sharing mechanisms will be developed as part of the detailed precinct plans."

Either way, it looks like the horse has bolted on capturing speculative gains in land value.

The Committee for Sydney joins many other infrastructure experts in saying value capture has to be worked out early in the planning process, not years after the big announcements have already been made.

In 2015 the Committee warned: "It is important that governments have a regime in place before new transport routes are announced or new high-density precincts are planned … Even a hint of a potential land use change in a press release can increase the value of land in an area. If there is no value capture mechanism already in place much of this value creation can be lost. It can be politically hard to impose new levies retrospectively. It can also be economically distorting. All too often it becomes the "development" that gets levied, not the land. This is then passed on in the form of more expensive housing or if the levy is too onerous it can stop the development, and everyone loses."

Along similar lines GLN Planning's Greg New produced a scathing analysis in late 2018 pointing out that landowners around the Badgerys Creek airport site had already made "huge" unearned gains on the back of the government infrastructure decisions and planning commitments.

He refers to the NSW Government's 2018 Western Sydney Aerotropolis Stage 1 Land Use and Infrastructure Plan (WSA LUIIP). This plan says the standard range of development contributions such as SICs will be used, but there will also be consideration of "additional mechanisms" related to land value uplift.

New's comments on these vague and only briefly-mentioned "additional mechanisms" are worth quoting at length, because it's a stark cautionary tale when it comes to funding faster rail through farmland.

"No details have been provided on the type of value capture (or value sharing) mechanism to be used, the land affected, or the likely impost on the owners," New wrote.

"The WSA LUIIP heralds that it is 'the beginning of a discussion', and that 'the specifics of potential and practical value sharing mechanisms will be explored and developed for reporting in the second stage of the Land Use Plan' (WSA LUIIP, p8).

"However, with land values in the area having already risen at least 200% in the last 4 years, there is a risk that most of the value uplift has already occurred. The longer the State government deliberates on what kind of value sharing scheme should apply to the Aerotropolis district, the prospect of the scheme actually generating worthwhile revenue diminishes.

"The WSA LUIIP nominates the location of the road and rail corridors and junctions indicating the areas that will enjoy maximum accessibility. It also identifies the land that can be redeveloped outside of the aircraft noise and flood zones, and where housing densities of between 45 and 80 dwellings per hectare will be allowed (WSA LUIIP, p22). There is no secret now about the lands that are likely to have the highest value and command the highest prices.

"Although the specifics of land use have yet to be determined, the crucial question for a land deal has been answered. If the land is unconstrained by environmental issues, it is for valuation purposes de facto urban land. Investors, developers and speculators are buying these lands on the assumption that the unconstrained nominated land will be urban. The value uplift has been factored into the sale price. All of the uplift that has occurred so far has been pocketed by those who have already sold, or those who will sell between now and whenever a value sharing scheme is formally announced (if that ever happens)."

New reminds the reader that the decision to finally proceed with the airport was made way back in 2014, which was a "green flag" for speculators. He says for the lucky sellers, "It's like winning the lotto without buying the ticket, as discussed in a recent media story".

Cash Cows

One of the lucky landowners of farming land near the airport who sold up for a massive windfall was former prominent property developer M

In 2018 M was jailed for nearly 40 years for ordering the 2009 murder of his former business partner .

In 1996 the M family company paid the CSIRO $3.5 million for a 340-hectare cattle grazing property on Elizabeth Drive, literally across the road from what has turned out to be the airport site.

In 2017, three years after the airport was announced, that property – along with another 70 hectares at nearby Bringelly – was reported by the *Sydney Morning Herald* to have been sold to developer Boyuan for a rumoured $500 million.

Meanwhile, the Badgery's Creek area and further south past Bringelly Road is home to one of Australia's biggest dairy farms, owned by the P family's Company.

According to a 2017 land tax judgement in the NSW Supreme Court, more than 660 hectares of Company property, taking in the site of the former famous Oran Park Raceway on Northern Road, was bought in 1984. That was lucky timing, just a year before the introduction of capital gains tax.

A lot of that land is now covered in thousands of houses as part of "Oran Park Town", with much more yet to be built in partnership between the P family's and the NSW Government corporation Landcom.

You might be wondering about the effect of future possible plane noise on land values in the Oran Park area, especially as there will be no curfew – unlike for Sydney Airport.

But in 2014 T P was quoted as saying if a preferred "Option A" runway configuration wasn't chosen: "There will be community uproar if this flight path isn't adopted and I'll be right behind them financially."

Mr P has deep pockets, with the family estimated to be worth more than $2 billion in the latest *Financial Review* Rich List. As well as being big players in the dairy industry and development, the family owns a half stake in the nearby giant Narellan Town Centre, and it owns the Oran Park shopping centre.

A North South rail line station is planned to be built across the road from this Oran Park Podium.

Oran Park and neighbouring estates have already been big beneficiaries of previously built roads and rail lines in the so-called "South West Growth Area".

Oran Park and Harrington Grove across the road are served by the upgraded arterial roads Camden Valley Way and Narellan Road; as well as Leppington station on the South West Rail Link about 10 kilometres away, which opened in 2015.

Harrington Grove followed on from Harrington Park, and they are suburbs built by the development company owned by the late Lady Mary Fairfax, on originally grazing land bought by her late husband Sir Warwick Fairfax in the 1940s. A new neighbouring estate called "Catherine Park" is currently springing up.

When Lady Mary died in 2017 it was reported her fortune was worth around $500 million, but that was mostly courtesy of housing development, not newspapers.

The developers of Oran Park and Harrington Grove/Catherine Park have had to pay fixed rate contributions towards the state-provided infrastructure in their residential areas, such as the state and regional roads; regional open space; schools; and emergency services.

The Western Sydney Growth Areas Special Infrastructure Contribution (SIC) is currently a little over $200,000 per hectare for residential land. That works out at about $13,000 for a block of 650 square metres at Oran Park Town, which last year would retail for about $500,000.

Last year I emailed Landcom asking for any information on the public record about which party in the partnership paid the SICs; any other types of value capture involved with the joint development; and the profit split between Landcom and Greenfields – none of which appears in their annual reports. However, I did not receive a reply.

Wilton Housing Handouts

Massive new housing developments on former grazing paddocks bring a lot of cars doing long trips to work and other destinations in peak hours. Governments can't generally keep up with the cost of providing more road space for all those extra cars.

Take the tiny township of Wilton, on the intersection of Picton Road and the Hume Highway, 80 kilometres from the centre of Sydney, and way past the current south-west edge of the city. Wilton is going to transform into a "leapfrogged" mini-city of almost 45,000 people over a couple of decades under current NSW Government growth plans.

Low density housing is forecast to make up 80 per cent of all dwellings. The big landowners/developers at Wilton include Walker Corporation and Lendlease.

The NSW Government is planning to charge the developers a total of $650 million for road works to cater for all the extra cars involved. (There is no train station planned.)

That would have to make it the biggest transport infrastructure contribution in Australia, and it's got to be a big step in the right direction.

But it's still a long way short of the cost of providing adequate road space out there, based on research by Dr Martin Nichols, a former land use and planning manager with the NSW Roads and Traffic Authority (RTA), and who now works as a consultant.

Dr Nichols completed a PhD on Sydney road costs in 2017 through the School of Planning at the University of Sydney.

Nichols says it's far more expensive for the governments to build and widen roads on the fringes for mostly detached houses, compared with roads much closer to the city designed for mostly medium density villas or high-rise apartments closer to public transport and job centres.

His estimate for the cost of roads needed at Wilton is in the order of $200,000 for each new dwelling. That's for the costs of all roads in the local area as well as for the attributable costs of widening major roads much further away to cope with the extra cars, to maintain current levels of service and congestion.

For example, he says significant funding would be needed to put in more overtaking lanes and safety barriers on the already very busy Picton Road, which is a state arterial between Sydney and Wollongong. And extra lanes will likely be needed on sections of the Hume Motorway to and from Sydney.

Nichols' estimate of about $200,000 per block at Wilton compares with the contribution that developers will pay under the Special Infrastructure Contribution of a little over $40,000 per block.

Under a draft contributions plan produced by the local Wollondilly Council, developers will pay roughly $5,000 per lot for local collector roads.

Developers' own costs for roads inside their subdivisions are not made public but Nichols guess-timates they would be in the order of $20,000 to $30,000 or so for Wilton.

All that adds up to less than $100,000 from the developers, which means at least another $100,000 per block will be paid for by NSW taxpayers for the remote Wilton development.

Nichols says roads for new developments always involve a public subsidy. His main concern is with the sheer scale of the road costs, rather than who pays. Developments closer to the built-up area of Sydney generate more modest impacts.

Compared with the Wilton total of around $200,000, Dr Nichols' rough estimate for the average cost of providing roads for Sydney's 35,000 new households per year is in the order of $100,000 per household to maintain current levels of service. He estimates the attributable cost of roads for high density developments near rail stations in the built-up areas of Sydney are in the order of $50,000 per household.

Even the planned Menangle Park and Mt Gilead developments, just 15 kilometres closer to Sydney than Wilton – but next to already built suburbs in the south-west – come in at only $75,000 per household for total road costs.

He says for towns and cities in regional areas in NSW, the figure may also be less than $100,000 per household because of the shorter trips and greater current network capacity in those centres. Those regional costs, however, have yet to be tested.

And Dr Nichols says a detailed independent study is needed to confirm his estimates for the Wilton area.

Meanwhile, it's not just the cost of roads on the fringes to taxpayers, developers and new homeowners which can be huge. The costs of running cars and long commutes can be enormous too.

Nichols estimates the private cost to households in terms of car costs and time spent on the road, based on current driving patterns, will average between $40,000 and $50,000 per household per year at Wilton.

Melbourne Fringe Fortunes

Massive windfall gains in land values related to transport and the stroke of a planning pen are no smaller on the fringes of Melbourne than they are in Sydney.

Following are some examples. I would urge members of the Committee to consider how any value capture involved in the form of capital gains tax, might compare with the rate of tax paid by average wage and salary earners.

First up is an article from *The Age* newspaper a decade ago: “Developer Stockland said it would build Melbourne's largest urban development project, six times the area of the CBD, which would house 30,000 people in a new outer northern suburb.

“The project, worth $4 billion in end land value, will transform the tiny town of Kalkallo on the Hume Highway, 35 kilometres from the CBD, which came inside the urban growth boundary when it was moved in July.

“A farming family is set to make more than $300 million after signing a deal with Stockland to sell in stages its sheep grazing property, Lockerbie.

“Furniture maker and businessman Ernest Henry Leonard Burgess bought the bulk of the 1121-hectare property in 1979, paying about $920,000. His daughters stand to make what is believed to be the biggest windfall to a private landholder in Victoria.”

A Stockland executive is later quoted as saying: “It's very well serviced for a greenfields site, normally we wouldn't expect … rail, road, power, sewer and water all virtually to the boundary.''

That development is now called Cloverton, and sits right beside the Hume Freeway, near the start of the 17-kilometre Craigieburn Bypass which opened in 2005 and cost taxpayers $300 million, shaving an estimated half an hour off travel times in peak hours. In years to come the planned outer orbital will run nearby, whizzing residents to either the airport or the city in quick time.

At Beveridge, just on the northern side of Cloverton – and just inside Melbourne’s northern growth boundary – another farm sold for big money in 2018.

“Melbourne-based Zeng Xiong Lin has paid about $200 million to buy the 600-hectare Deloraine farm from the Laffan family, who have owned and farmed it for the past 54 years,” reported the *Financial Review*.

“Incredibly, the Laffans paid just £82,000 at auction in 1964 (about $13 million in today's money) for Deloraine when it was offered for sale as one of the best ‘carrying and fattening [cattle] properties between Melbourne and Sydney’”.

The article goes on to report another $200 million deal, for much less land – 92 hectares – at Clyde in Melbourne’s south-east, sold by seventh-generation farmers.

Notes *Financial Review* real estate writer Larry Schlesinger: “Much like the land boom of the 1880s, landowners on the Melbourne fringe have found themselves sitting on proverbial housing gold mines with their land rezoned for housing within newly gazetted suburbs or included in the city's enlarged urban growth boundary.

“Much of this ‘gold’ has been converted into cold, hard cash with developers now prepared to pay well over $1 million a hectare for sites already zoned.

“Last year, Chinese development giant Country Garden paid a record $400 million for a 363-hectare site in the city's west sold by ASX-listed Phileo Australia. Phileo paid just $14.5 million for the rural property in November 2004.”

That mark-up of $385 million, after rezoning and a planning permit, was for former cow paddocks 40 kilometres west of the CBD but near the new Wyndham Vale railway station and the planned Outer Metropolitan Ring Road.

There doesn't appear to have been an attempt to capture any of the ongoing uplift in land values enabled by the Wyndham Rail station, but similar to NSW, there is a one-off fixed charge to the developers.

It's called the GAIC – Growth Areas Infrastructure Contribution – and it's set at about $100,000 a hectare, half the cost of the SIC in western Sydney. The Victorian Government plans for the GAIC to pay for 15 per cent of state infrastructure in the designated outer growth areas.

Developers complain the GAIC collections are running well ahead of the infrastructure they are supposed to help fund.

Melbourne Rail Riches

Meanwhile, it appears that beneficiaries of multi-billion dollar new rail lines closer in to the Melbourne CBD won't have to contribute anything at all for their windfall gains in land value.

The $11 billion Melbourne Metro Tunnel project will run for 9 kilometres under the Melbourne city area, freeing up space in the city loop to run more trains. There will be five new stations. However, as *The Age* newspaper reported, there will be no uplift-related value capture.

"Victoria has ruled out increasing taxes on property owners who benefit from the Melbourne Metro Rail tunnel, despite what it claims is a push by the federal government to do so," said a 2016 article.

"After announcing plans to 'go it alone' and fund the $10.9 billion project without Commonwealth help, Public Transport Minister Jacinta Allan has written to her federal counterpart to say no landowners will be hit with higher taxes.

"Prime Minister Malcolm Turnbull has long spruiked the concept of 'value capture' to pay for big projects, although he has remained vague about how this would work in practice ... In April Mr Turnbull described Victoria's business case for Melbourne Metro as 'underdone', insisting the state government needed to demonstrate how it would generate economic benefits from increased property prices generated by the new tunnel project."

However, in contrast to the Melbourne Metro, there appears to be no hard line from the Federal Government on value capture for the planned rail line between Melbourne Airport and the CBD.

In early 2019 the Victorian Government was giving nothing away about what, if any, value capture would be involved in a project which didn't even have a business case yet.

"The business case will be delivered by 2020 and will assess station and procurement options, value capture and creation opportunities, and economic analysis," said a Victorian Department of Transport 2019 media release.

"The Victorian and Federal governments have committed up to $5 billion each to deliver the missing link, with the total cost of the project estimated to be in the range of $8-13 billion."

As well as the value capture issue, is there too much focus on hugely expensive radial rail lines and freeways funnelling so many people into the CBDs of Sydney and Melbourne anyway?

Peter Seamer, CEO of the Victorian Planning Authority for a decade, certainly thinks so. He wants to see multi-centred cities that are more localised and equitable.

In his book *Breaking Point – The Future of Australian Cities*, Seamer points out that the Australian population is expected to grow at the rate of a city the size of Canberra every year for the next 30 years.

"Most of this growth will occur in the major cities, and already its effects are being felt: inner-city property prices are skyrocketing, and the more affordable middle and outer suburbs lack essential services and infrastructure," Seamer writes.

"The result is inequality: while wealthy inner-city dwellers enjoy access to government-subsidised amenities – public transport, cultural and sporting facilities – new homebuyers, pushed further out, pay the lion's share of costs."

Seamer estimates that the capital cost of the Melbourne Metro will be a staggering $300,000 for each new job it creates (p.37).

And here's another amazing statistic which will surprise a lot of people: Despite all the government spending to serve the city centre, only 15 per cent of Melbourne's jobs are in the Melbourne CBD (p.101). It's a similar figure for Sydney.

Brisbane Beneficiaries

In 2016, then Queensland Labor Government Infrastructure Minister, Jackie Trad, provided this author with what seemed like an upbeat comment on value capture.

"Value capture is a tool that governments everywhere are investigating," Ms Trad said in an emailed statement. "The Australian Government now requires value capture to be considered in the assessment of publicly funded transport projects. Value capture, if used appropriately, could help Queensland deliver more essential infrastructure sooner, improving the lives of Queenslanders and driving economic growth."

But just a year later the Queensland Government declared it would not be using value capture to help fund its $5 billion-plus Cross River Rail project, which is rated as a "High Priority Initiative" by Infrastructure Australia.

An article in the Brisbane *Courier Mail* said: "It's understood the Commonwealth wants details of how much the state can raise in new taxes from homes and businesses in the rail corridor that benefit from the project under value capture ... But Ms Trad said Queenslanders should not be forced to pay more than residents in other states for necessary infrastructure ... 'We have said we would look at value capture and we did. But we don't want unfair taxes imposed on Queensland that no other state has to pay."

In the same article the *Courier Mail* reported that the Property Council Queensland had backed the State Government.

"We welcome the Deputy Premier's comments today that some forms of value capture are just unfair taxes," Property Council executive director Chris Mountford was quoted as saying.

"It is important to remember that property owners already directly pay infrastructure charges, GST, stamp duty, land tax, local government rates, capital gains tax and a raft of state and local government fees when developing and owning property. Most of these taxes already increase when the value of a property increases."

Jackie Trad had told me in 2016: "Value capture is a relatively new concept and has not been used extensively to fund infrastructure in Queensland."

There are at least two major examples of that.

Westfield benefited big-time when the Queensland Government built the Southeast Busway at cost of about a billion dollars nearly 20 years ago. There is a bus station out the front of Westfield's giant Mount Gravatt Plaza.

But Griffith University's Professor Matthew Burke says it appears Westfield effectively didn't have to pay anything towards the public transport infrastructure which brings so many shoppers past its door each day.

In the early 1990s their Springfield Land Corporation paid just $8 million for 2,860 hectares of forestry land 26 kilometres south-west of the Brisbane CBD. That has turned into an estimated $18 billion worth of end value so far, with Springfield saying its potential is nearly $90 billion.

Crucial to the success of the award-winning master-planned city of more than 40,000 people is a combined freeway and rail line project to Springfield which opened in 2014 and cost the Queensland Government $1.2 billion. The rail line has two stations at Springfield and is planned to ultimately loop around to Ipswich past other big new developments.

Jackie Trad had confirmed that the critical 2014 infrastructure didn't rely on value capture from Springfield Land Corporation.

Nevertheless, Springfield told *Australasian Transport News* they made "significant contributions" to the original corridor, highway and associated works completed in 2000.

Rezoning Rewards

Chief executive of the Greater Sydney Commission, Sarah Hill, made an interesting comment in a speech at the University of Sydney last year.

"There is an exceptional windfall that can be gained by achieving a significant up-zoning," Dr Hill told the audience at a Henry Halloran Trust event.

"For example, the rezoning of land within greater Sydney from industrial to high density residential can result in a doubling or even a quadrupling of the residual land value. This practice has become part of greater Sydney's DNA."

Dr Hill could almost have been talking about "Mascot Central" near Sydney Airport, developed by giant apartment builder Meriton, whose founder is "High Rise" Harry Triguboff.

In a 2016 online article in *The Fifth Estate*, journalist Tony Jewell reported on a planning forum, and quoted prominent Sydney expert Patrick Fensham, Principal and Partner at SGS Economics and Planning.

"Fensham said we should be concerned by these massive windfall gains that occurred because of decisions made by governments on behalf of the community," Jewell wrote. He quoted Fensham as saying: "There is a clear market failure in these instances and a public interest case for change."

The most obvious case for change was when industrial land was rezoned to high-density residential. Fensham used as an example, using estimates, the property near Sydney Airport and beside Mascot rail station owned by Meriton.

The former industrial site was being redeveloped as Mascot Central, which would contain more than 800 apartments, nearly 400 serviced apartments and more than 5,000 square metres of retail floorspace.

The Mascot site was purchased from Goodman by Meriton for $100 million. Fensham estimated that with stamp duty and holding costs, the initial cost could have been around $150 million. Development costs, factoring in 25 per cent profit, could have been $700 million.

With revenues beginning to roll in as product is released, $1.25 billion could be realised. The value of the land after the development was estimated at $450 million.

"So on the basis of these relatively conservative estimates – stressing that they're estimates – the mere act of rezoning the site has increased the value of the land by about $300 million," Jewell quotes Fensham as saying.

Fensham said he was unaware of any voluntary planning agreement for the development that would have captured any of the land value uplift. But he wasn't blaming the developers, who he said were just operating within the system that currently exists.

Adding to the value of Meriton's land around Mascot and to the value of the new residents' apartments will now be the $17 billion Westconnex tollway. The Westconnex St Peters Interchange is being built nearby.

The Federal Government has given $1.5 billion to Westconnex as well as a $2 billion loan.

Its 2016 discussion paper, *Using Value Capture to Help Deliver Major Land Transport Infrastructure*, had some stunning figures on just how much landholders can benefit from new roads.

Melbourne's City Link tollway road system – which runs from Melbourne Airport south to the Melbourne CBD and through tunnels just beyond the CBD towards the south east – was estimated by SGS Economics and Planning to have increased land values for property owners by nearly $30 billion.

It was also boom time for owners of industrial land in the catchments of Brisbane's M1 Motorway, Melbourne's EastLink and Sydney's M7 Motorway. Industrial land values in those areas shot up by as much as 50 per cent, between the time of the routes being identified and the first traffic running on them.

Regional Funding Unfair?

It's very difficult to get a handle on total transport spending broken down according to capital city versus regions. There are plenty of examples of gold-plating and dare I say "pork-barrelling" in both city and country, at both state and federal level, by both sides of politics.

But analysis by the Grattan Institute of the most recent NSW and Victorian state elections has some astonishing figures in terms of promises made – and it was mostly bad news for regional areas.

According to Grattan, the population of regional/rural NSW is about 37 per cent of the state total. But ahead of the 2019 election the proportion of regional transport promises was less than 10 per cent for both major sides of politics.

For the 2018 Victorian election the regional population was deemed to be about 25 per cent of the total. The Coalition pledged about 40 per cent of its transport promises to the regions; but for Labor it was less than 10 per cent. The Greens promised an incredible 100 per cent of their transport infrastructure spending to Melbourne.

Spending according to population is an imperfect measure of fairness but simply trying to define "regional" can throw up some farcical confusion.

Last year the *Improving NSW* website read in part: "Regional NSW produces one third of the total NSW gross state product ... (and is) Home to about 40 per cent of the state's population."

In stark contradiction on the same website it stated in a section titled *A 20-Year Economic Vision for Regional NSW*: "It is home to a third of the state's population, and produces one-fifth of NSW's gross state product."

So which is it – 40 per cent or 33 per cent of the state population? And 33 per cent or 20 per cent of the gross state product?

Meanwhile, the Federal Parliament's Regional Development committee noted a submission from the government-funded Regional Australia Institute which had a very interesting take on our previous discussion about the heavily-subsidised costs of development on the fringes of Sydney and Melbourne.

The Institute says that income and employment prospects are comparable between the urban fringes and regional cities but points out that housing prices and commuting times are obviously far less.

It calculates that for every 100,000 Australians who choose to live in growing regional cities rather than the "big five" capitals, an extra $50 billion will be released into the economy over 30 years. That massive sum is in the form of reduced congestion costs, reduced housing costs and increased consumption.

Commuting times might be far less in the country, but the roads are far more dangerous too. That's why regional road safety featured heavily in Infrastructure Australia's 2019 Priority List.

"The varied quality of Australia's regional road network is resulting in a high number of crashes and fatalities," said Infrastructure Australia.

"Between 2008 and 2016, 55% of road fatalities in Australia occurred in regional areas. Relative to population size, the number of fatalities in regional areas was over four times greater than for major cities over the same period.

"While behavioural factors are a significant cause of road crashes, infrastructure deficiencies such as the curvature of roads are also a cause of accidents. Infrastructure can play an important role in mitigating the consequences of road accidents through features such as safety barriers and the appropriate placement of embankments, poles and other roadside objects.

"There is a risk that the growing road freight task may exacerbate these road safety issues as more heavy vehicles travel on roads in regional areas."

In a theoretical world value capture revenue from urban transport infrastructure could be hypothecated towards much more spending on basic safety improvements to country roads. But the revenue could be used for any number of other important essential services – health, aged care, affordable housing, education, defence, the environment and the list goes on.

Or value capture could help reduce what the *Financial Review* describes as the states' "debt bomb".

Regional Rail Neglect?

Before closing, a few thoughts in the wake of the recent fatal XPT accident at Wallan, just north of Melbourne.

It's great that all sides of politics are keen on faster passenger rail (as long as regional centres don't just become dormitory suburbs), but I would urge Committee members not to forget about freight rail – and to recommend that governments ensure faster passenger rail is built properly the first time, which will save money in the long run.

For example, for decades freight trains have been sharing the same substandard sections of track on the main line between Sydney and Melbourne as the XPT passenger service. These include stretches which have been plagued by mud-holes in southern NSW and northern Victoria, a lot of which is flat and straight terrain which should enable fast speeds. There was a lot of concrete re-sleepering about a decade ago which critics say was botched, but others blame unusually wet weather for problems. Either way the line between Melbourne and Albury is set for another $235 million worth of work this year.

Just a few weeks before the XPT tragedy a freight train broke apart on a bad, slow section of track south of Albury. The runaway section derailed and was hit by a Victorian passenger service. Luckily no one was injured. As incredible as it seems, this is not the first time a freight train has broken apart on a rough section of track between Sydney and Melbourne.

The line is widely regarded by many in the rail industry as a slow old "goat track", so in the modern era of "Just In Time" supply chains it's no wonder most freight between Australia's two largest cities now moves by truck along the now completely divided Hume Freeway.

Thirty years ago I wrote a story for the Sydney *Sun Herald* newspaper on how the then NSW Government had rejected a proposal for a new stretch of both freeway and rail line to share the same new corridor, cutting out a treacherous and winding 20 kilometre section of roughly parallel road and rail line through the Cullerin Range between Breadalbane and Gunning.

Now the freeway runs straight, while the rail line still twists and turns around on itself.

Then at Yass the rail line takes a big detour to the west through Harden, Cootamundra, Junee, Wagga, The Rock, Henty etc before emerging parallel to the freeway again way down at Albury. This is the same original 19th-century alignment past the major grain silos of the era.

Maybe there isn't much that can be cost-effectively done about that western alignment, but in 1981 after leaving school when I was a fettler on the main line between Junee and the infamous Bethungra Spiral near Cootamundra, I even noticed individual rails stamped with 1890s dates.

Surely those old rails have been replaced by now, but it's amazing to read that Victoria's $440 million Murray Basin Rail project used recycled rails dating from before World War One. A report by freight train operator Pacific National quoted in January 2020's *Track and Signal* magazine says: "The rail weight and construction used is only suitable for inefficient locomotives made in the 1960s."

And believe it or not, it's still possible to spot old bull-nose locomotives on Australian rail lines which were built in the early 1950s.

It's hard to imagine the new metro rail lines in Sydney, Melbourne and Brisbane using rails more than a century old, or rolling stock built soon after World War II.

Development meets dairy farming on the urban fringe of Sydney

There are still sections of single-line track on the main rail line between Sydney and Melbourne