



LEGISLATIVE ASSEMBLY
FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON ECONOMY AND GENDER AND ECONOMIC EQUALITY
Ms Leanne Castley MLA (Chair), Ms Suzanne Orr MLA (Deputy Chair),
Mr Johnathan Davis MLA

Submission Cover sheet

Inquiry into Housing and Rental
Affordability

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WRT: Inquiry into Housing & Rental Affordability

Att: Standing Committee

I am writing this submission in my role as President of the Phillip Business Community (PBC), using [REDACTED] as it is more flexible with layout options for information.

The input that the PBC provide is based on observations and feedback from our membership over the years. In particular to this submission, we believe that the following should be considered:

- Commercial Land Constraints:
 - Due to the nature of Canberra's layout, and the slow release of commercial land, and the restricting of commercial land to specific centres, there is a concentration of ownership (particularly in the past 20 years) that has resulted in Commercial property being 2-3 times more expensive than say the Gold Coast - a city 25% larger than Canberra in population but similar land area.
 - This has had a negative impact on the Supply/Demand side of Commercial land, forcing prices to be artificially higher.
 - Due to the designs from ACT Government on new releases, only larger property developers and investors can purchase commercial property.
 - The constraint has also seen several of the concentrated owners, particularly some of the older families in Canberra, that own many properties, but also - from personal dealings with them - a complete reluctance to improve buildings due to the complete lack of competition. Meaning that building quality is old and dated, tenants are forced to pay higher prices for leases for lower quality buildings when trying to be in the centrally located commercial districts.
 - An example of this type of concentrated development is Whitlam, where the main shopping precinct is expected to be developed by 1 developer - instead of allowing smaller operators and businesses to purchase the land and build/develop commercial facilities. It is expected that this will drive up Commercial Lease costs for the new tenancies.
 - **Ultimately** what is needed is smaller commercial property opportunities scattered around Canberra (like a normal city) where smaller businesses can potentially purchase the land themselves, or other less wealthy investors, which will drive competition - instead of the heavily distorted marketplace we have currently that sees commercial property being well out of reach of most of the businesses that rent them.
- Commercial Building Quality:
 - Particularly in Phillip, there is an abundance of commercial properties that have not had a serious upgrade or any efforts to make them more energy efficient in many years.

- Many buildings cost 2-3 times as much to heat in winter, and cool in summer, resulting in higher electricity usage and cost burdens to tenants.
- Due to the aging nature of the buildings, and commercial tenants are keen to be more ecofriendly, many buildings are overlooked for tenancies as the rents expected are considered too high considering the effort and cost required to get them up to standard.
- Due to the way that Commercial Leases work, tenants are generally required to make upgrades on entering a lease (at their expense) and the landlords provide very little maintenance until it is urgent or a legal liability.
- Many Commercial properties do not have parking, or don't have adequate parking, available for the tenants which leads to street parking issues with workers competing with potential customers.
- Commercial Lease Arrangements:
 - High Barrier to Entry: Typically, Landlords are looking for 3–5-year leases with fixed increases of 4%. Unlike larger cities (Sydney, Melbourne, Gold Coast) many landlords are reluctant to support the new tenants with entry terms. These in other cities typically take the shape of rent-free periods, or rebates for fit-out costs. As a result, it can cost 2-3 times as much to take out a commercial lease for the exact same size, space and proximity to customers, that you could expect in other cities.
 - Commercial Leases are typically heavily weighted to favour the landlords, which has resulted in some landlords in Canberra behaving in inappropriate ways. (examples in Phillip include older landlords abusing business owners for perceived slights, parking illegally and proclaiming "I own the whole street, so I can park where I like" and other ridiculous behaviours that - while incredibly amusing for observers - put tenants in positions where they feel that they must cop the abuse to keep their businesses going.
 - Many Landlords have NOT passed on concessions received from the ACT Government for rates etc from the Pandemic periods, but tenants are often too scared to complain as the Commercial building owners have threatened to "kick them out" if they make a sound about it.
 - No investigation has been done by ACT Government to ensure support has been passed on.
- Commercial Landlord (varied and inconsistent):
 - Commercial Landlords in their approach to tenants - much like residential - seems to be based on what they believe they can do/say versus. There are fewer legal protections for paying tenants than residential leases, and the only legal recourse is more expensive (legal costs and even engaging the courts) than that experienced by a residential tenant.
 - An example is the owner of the Eastern Corner of Botany St & Townshend St. During the 2020 pandemic the tenancy was vacated (there is 5 versions of the story, and it continues to play out between lawyers and the courts) but the landlord has left the building in the exact state it was when the tenants left. The previous tenants were paying \$100,000 + GST per annum. With no work being done to the building, and in fact the building continuing to decay, the landlord is seeking \$150,000 + GST per annum for the same space. His reluctance to reduce the rents demanded has resulted in the property still being vacant 2 years and 3 months after the previous tenants left. Other former tenants of the building expressed frustration at the landlord wanting to increase their rents 20-25% at the end of leases - but the market increase has not been that remarkable in Commercial real estate as it has for commercial. The building has not had any improvements since the 1990s, yet the rent yields are expected to increase year on year.
 - Another example the owner of the Building opposite National Storage on Shea St, that building was completed end of 2011 and there are still tenancies in that building (at least 5) that have never had a tenant. How can it be justified to have hundreds of square meters of commercial space left vacant for a decade plus and the landlords advertise higher and higher commercial rent rates when enquiries are made.

- Commercial Vacancy Tax Consideration & Economic Improvement
 - As many buildings in Phillip have been owned since the 60s, 70s or 80s, it is well assumed that many of the buildings do not have any debts/mortgages associated with them.
 - By way of example, then a landlord can have a building with 4 tenancies. If 1 tenant lease can cover the costs of the land tax, rates and other maintenance, there is no incentive for the landlord to rent out the other tenancies at a rate that is reflective of the market. This results in tenancies being vacant for years until a business comes along that has the resources to enter the market.
 - The introduction of a Vacancy Tax could be a useful tool to encourage landlords to provide short-term and/or lower price leases and encourage more business investment.
 - We know that small businesses hire the majority of workers in the ACT, and the opportunity for new entrance, or expansion of less large organisations, would create more competition and lead to many economic benefits: GST revenues, wages for Canberrans to spend locally, increased competition and the price impacts and much more.
 - The need for Commercial Vacancy Tax to be in a shape/form that penalises the landlords who deliberately leave properties vacant chasing rents that the market cannot afford needs to be considered based on the arrangements of the owners. Owners that are leveraged (mortgages/loans against the properties) would be disproportionately impacted versus those older buildings with zero debt. The tax could take the shape or form of an investment requirement to upgrade facilities to have solar panels, double glazed windows (I write sitting in a building with metal window frames, wearing gloves because the electricity is expensive to run).
 - Other buildings that are relatively new, i.e. Shea St, that have had a decade without tenants could be forced to lease their facilities to community organisations at reduced rates. Something to make the landlords realise that the rates they are seeking are outside the realm of businesses ability to afford due to the higher cost of entry.

The fact of the matter is that Canberra's older commercial precincts (Phillip, Mitchell, Fyshwick) are littered with buildings that are out-dated and being leased out at rates that are 150-250% higher than a similar facility in larger cities with more competition. Building quality is only being considered and/or improved in areas that are more closely linked with residential areas (see Braddon, Manuka, Kingston etc). There is a need for building owners, across Canberra, to be incentivised to improve the quality of commercial offerings to match the expected rents. There will be an argument from landlords that rates are too high, which is true in some situations, where rates are sometimes more than a month's Rental Income, but no services are provided to the land that the landlords and tenants don't already pay for themselves.

The Phillip Business Community would love to be engaged more regarding the land releases to happen along Athlon Drive between Hindmarsh Drive and Mawson Drive, we believe that a better version of the ground-floor commercial and upper floors commercial than what was rolled out in Gungahlin would be effective (the floor spaces are too small for most businesses), this would lead to competition, more commercial opportunities and hopefully to landlords taking more ownership for the look, structure, energy usage, parking availability. The Phillip Business Community have raised the parking issues with Minister Steele who has asked the community to bring a consensus view to him, when the community is unable to come to a consensus approach as they are impacted in different ways by Commercial leases, Rates, and other factors. The lack of an integrated approach to Commercial land, parking and usage, shows that Canberra is yet to reach the maturity of organisation required for a city quickly approaching 500,000 residents - we implore the committee to consider stronger engagement with local business groups for future developments.

Tom Adam
President, Phillip Business Community

