



REIA

REAL ESTATE INSTITUTE
OF AUSTRALIA

REIA PRE BUDGET SUBMISSION 2020-2021

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PREPARED BY

Real Estate Institute of Australia (REIA)

PO Box 234

DEAKIN WEST ACT 2600

Ph: 02 6282 4277

 [@REIANational](https://twitter.com/REIANational)

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REIA PRESENTS THE GOVERNMENT WITH PROPOSALS FOR THE 2019/20

FEDERAL BUDGET

The Real Estate Institute of Australia (REIA) is the peak national association for the real estate profession in Australia.

REIA's members are the State and Territory Real Estate Institutes, through which around 75% of real estate agencies are collectively represented. The 2011 Census records the Rental, Hiring and Real Estate Services Industry employment as sitting at a total of 117,880. Key data recorded by the Australian Bureau of Statistics (ABS) Census identified, by occupation, 64,699 business brokers, property managers, principals, real estate agents and representatives.

REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social climate and economic development. Property contributes \$300 billion annually in economic activity.

Importantly, REIA represents an integral element of the small business sector. Some 99% of real estate agencies are small businesses and 11% of all small businesses in Australia are involved in real estate. Only 0.6% of businesses employ 50 or more persons.

REIA is committed to providing and assisting with research and well-informed advice to the Federal Government, Opposition, professional members of the real estate sector, media and the public on a range of issues affecting the property market.

Introduction

The Real Estate Institute of Australia (REIA) welcomes the opportunity to present the Government with proposals for the 2020/21 Federal Budget and in the context of its preparation, seeks Government consideration of four specific matters.

The two primary focuses of REIA's proposals are firstly taxation as it relates to property and the need for a holistic approach and secondly housing affordability for first home buyers.

The REIA welcomes the Government's post Election appointment of a Minister for Housing as recognition of the importance of the property sector as a driver of economic growth. REIA has long advocated for housing being a ministerial responsibility and has proposed that in past Pre Budget Submissions.

REIA's 2020/21 Pre Budget proposals are aimed at contributing to Australia's continuing economic development and productivity.

Economic Background

The 2019-20 Mid-Year Economic and Fiscal Outlook (MYEFO) shows that whilst the economic circumstances are showing signs of improvement the outlook has deteriorated since the 2019-20 Budget was delivered and business and consumer confidence is still low despite six years of record low interest rates.

Real GDP growth is forecast to be 2¼ per cent in 2019-20, which is half a percentage point less than was previously expected. Growth is expected to strengthen to 2¾ per cent in 2020-21. MYEFO predicts wages growth at lower levels than forecast at Budget time. Unemployment remains at 5.3%, which is 0.2% higher than the forecast unemployment rate.

In 2019, the recovery of the global economy continued, albeit at a slower-than-expected rate with growth in the economies of Australia's major trading partners being below their historical average.

The RBA's Minutes of its December 2019 Board meeting note that "Members observed that there had been little change in the global outlook over the previous month, but that some of the downside risks had receded" and that "weak trade outcomes had continued to restrain growth in output, particularly for export-oriented economies."

On the domestic economy the RBA states "Australia had continued at a moderate pace since the middle of the year" and that "households' expectations about future economic conditions had declined significantly since June. Members noted that the prolonged period of slow income growth had affected both consumer sentiment and growth in household consumption".

September quarter 2019 National Accounts show that quarterly growth in Australian GDP slumped. Australia's economy expanded by just 0.4% during the quarter. The annual rate of GDP growth was 1.7% over the year to September, well short of the economy's 3% trend rate of growth. The three sectors of the economy which shrank during the quarter were engineering construction, residential building and private business investment.

For a number of years now, as Australia's economy transitions from resource investment to other drivers of growth and economic activity, significant differences in economic performance across industries and regions have been a distinctive feature of the economy. Whilst it has been expected that

the weakening Australian dollar would provide a much needed stimulus to a number of sectors the impact of this is still to be seen.

Importantly, dwelling investment supported by historically low interest rates had been a significant contributor to growth in the Australian economy since 2013/14. This however is now on the wane. Australia's property industry has been a main driver of economic growth and increased employment in the transition away from a decade-long reliance on mining. New home building has been a crucial support to economic growth over the previous three years.

Providing a stimulus to economic activity outside the mining sector, including the housing and building sectors, was amongst the main reasons for the RBA to keep the official cash rate at record low levels since August 2013.

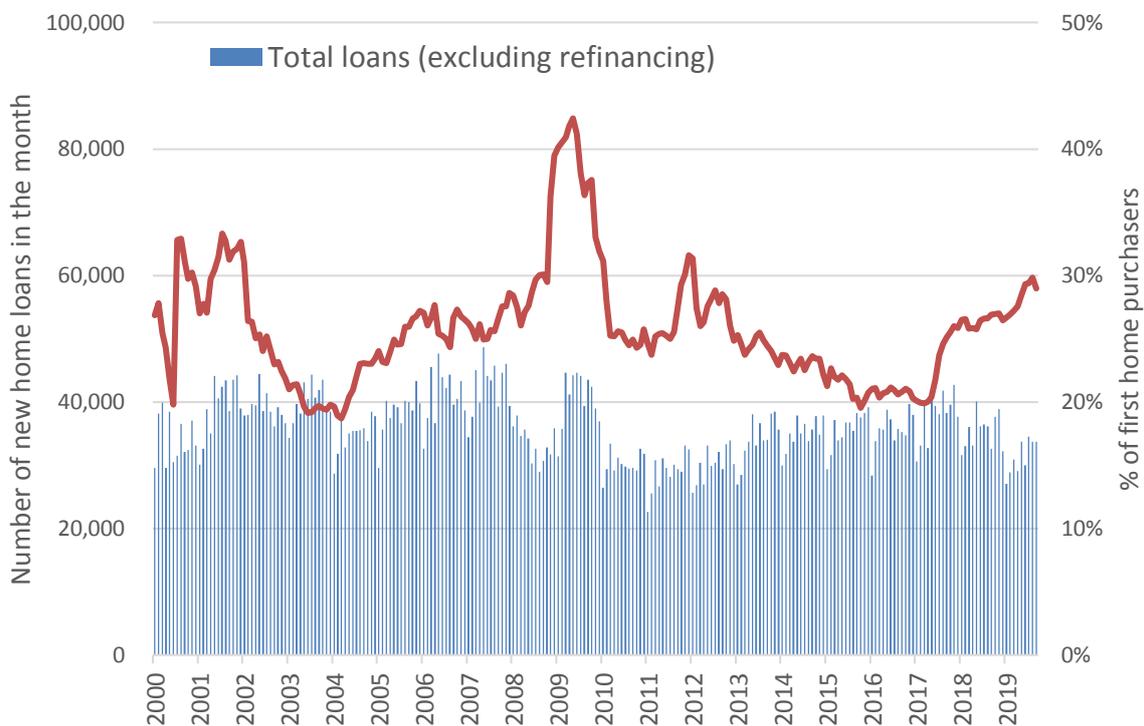
The challenge during 2020/21 will be to manage the transition to lower volumes of new home building.

It is against this background that REIA's Pre Budget Submission for 2020/21 is framed and seeks Government action to maintain activity in the property sector which is critical to the Australian economy.

Whilst investor activity in housing has in large part been responsible for the supply response from the building sector contributing to economic growth, this, up until recently, had been at the cost of first home buyers and their ability to enter the housing market.

The graph below shows the number of loans to home buyers (excluding refinancing) and the proportion of first home buyers in the housing finance commitments from November 2000. We can see that since April 2012, when official interest rates were 4.25 per cent compared to the current 0.75per cent, the participation of first home buyers declined by 17 percent until a pick up in 2017. This decline was despite ten cuts in the official interest rate over that period. The participation of first home buyers has improved over the last year. The current level of 29.9 per cent is however well down on the levels twenty years ago.

Finance Approvals and the Proportion of First Home Buyers (excluding refinancing)



Source: 5609 Housing Finance Australia 2000 – 2002 (ABS), 5601 Lending indicators 2002 – 2019 (ABS)

Whilst historically low interest rates may make mortgage payments achievable for first home buyers it is the deposit gap together with stamp duties that are the insurmountable hurdle.

With first home buyers finding it difficult to enter the housing market, home ownership in Australia is declining after four decades of stable levels. This drop is being evidenced across all states and territories and is most pronounced in the 35 to 44 age group.

Not with standing measures introduced in the 2017 Budget to address housing affordability by first home buyers and the 2019 Election commitment to introduce the First Home Loan Deposit Scheme on 1 January 2020 scheme which will provide a guarantee to allow 10,000 eligible borrowers to purchase a home with a deposit of 5 per cent the need to address supply of affordable housing as a priority policy issue continues.

At a roundtable discussion on housing affordability convened by the REIA in 2014 with participation by Government, including the then Minister for Social Services, the Hon Kevin Andrews, and industry leaders from real estate, construction, finance and community sectors, it was agreed that the availability of affordable housing is a goal that is shared by governments and all sectors of the community. It impacts on the functioning of the economy as well as the wellbeing of individuals and

the cohesiveness of communities and society. The roundtable participants all agreed that a priority policy issue is to address the undersupply of housing.

Without addressing supply the gap between the supply and demand for housing will increase in the future, putting further pressure on housing prices.

Affordable housing is a complex issue, with a number of economic, social and infrastructure factors influencing it. These include: the deposit gap for first home buyers; demographic change; the effect of stamp duties and taxes; development application processes; skills shortages, and; lack of urban infrastructure.

The property sector needs to be a crucial and integral element of the 2020/21 Budget and housing affordability and the taxation of housing need to be addressed in a holistic manner.

Taxation and Housing Supply

Taxes are one of the factors determining investment in housing and thus housing supply and influencing housing affordability.

With increasing house prices in Australia's two largest capital cities there have been many claims that the current tax treatment of negative gearing and capital gains of residential property is exacerbating housing affordability issues. This is simply not the case. Indeed the public interest is being served and advanced through negative gearing and the treatment of CGT.

The current taxation arrangements provide many Australians with the opportunity to invest in property and augment their savings in particular their retirement savings and at the same time improve rental affordability through an increased supply of rental housing.

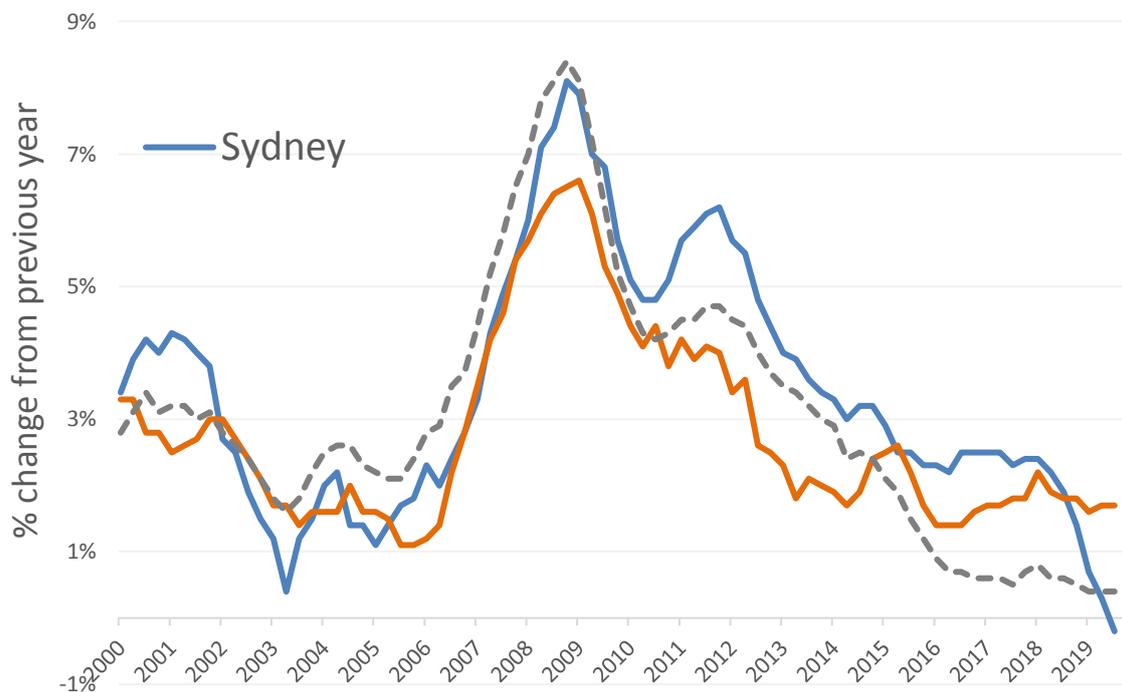
The repeal of the current arrangements would shrink savings and investment and see increases in rents and the need for greater government investment in social housing.

The graph below shows the impact of the increase in investment properties in Australia and in Sydney and Melbourne, where the greatest investment activity has occurred, has had on rents. From the end of 2011, when investment in housing started to pick up, the rate of increase in rents has plummeted.

The September 2019 CPI figures show that rents increased by 0.1% for the quarter and increased by 0.4% for the year. This is the lowest annual increase in rents since December 1998. The average annual change has been less than 1.0% since December 2015.

The CPI figures show that the increased investment in housing has kept growth in rents lower than they have been historically and is clear testament that the current taxation arrangements benefit renters and that any change in the treatment of negative gearing and capital gains tax would see an increase in rents.

ANNUAL CHANGE IN RENTS: AUSTRALIA, SYDNEY AND MELBOURNE



Source: 6401.0 Consumer Price Index, Australia 2000 – 2019 (ABS)

Both Re-think and the Henry Review, note that stamp duties are some of the most inefficient taxes levied in Australia. Re-think goes on to say whilst stamp duties on the transfer of property are the second-largest source of state tax revenue (generating 24 per cent of state tax revenue) they are a highly volatile tax, with revenue fluctuating by over 50 per cent in previous years. Stamp duties also impact on consumers by increasing the cost of buying and selling houses. As house prices increase over time, unadjusted progressive tax rates also increase the tax burden associated with stamp duty. This adds to transaction costs and contributes to the high costs of moving which discourage mobility, impedes economic growth and leads to an underutilisation of the housing stock as older residents are reluctant to downsize.

Stamp duty is also inequitable for those who move more frequently, for work related reasons for example, than those that do not as they face higher costs even if their circumstances are otherwise similar. Choices between renting and buying and between moving house and renovating are also distorted by stamp duties.

According to the Henry Review “stamp duties on conveyances are inconsistent with the needs of a modern tax systemand should be replaced with a more efficient means of raising revenue”.

State governments cannot eliminate inefficient taxes without going into deficit or having to reduce expenditure substantially. Hence cooperation between the Australian Government and the States is needed to undertake reform of inefficient state taxes.

Economic analysis shows that economic activity in Australia can be lifted by just shifting the composition of taxes from high economic cost State taxes to lower cost Australia-wide taxes, without changing the overall level of tax revenues. The Centre of International Economics in its report, State Business Tax Reform in 2009 showed that the abolition of stamp duties on residential and non-residential property, removal of insurance duties and reform of land taxes and payroll taxes is projected to increase long run GDP by 1.7 per cent per year and investment by 4.4 per cent per year.

Stamp duties are also a major hurdle for first home buyers and older home owners. For first home buyers stamp duty often makes the difference between the ability to buy and not to. For older home owners considering down sizing to accommodation more suited to their needs in retirement stamp duty is frequently given as the reason preventing such a move. Stamp duties are thus preventing a more efficient use of the housing stock and could be exacerbating the supply problem.

A study by AHURI on taxation reform comparing reform of stamp duties, capital gains tax and changes to negative gearing in terms of their economic and social impact and on affordability concludes that state tax reform delivers greater benefits than changes to CGT and negative gearing.

The Federal Government needs to show leadership in addressing housing affordability by taking a coordinated and holistic approach of all levels of government in objectively addressing all property taxes.

REIA recommends that the Australian Government take a leadership role in taking a coordinated and holistic approach of all levels of government in objectively addressing all property taxes.

REIA recommends that until a coordinated and holistic approach in objectively addressing all property taxes is undertaken that negative gearing and capital gains tax on property investments are retained in its current form.

First Home Buyers

Housing affordability is an acute issue for first home buyers.

Based on ABS data for November 2019 the proportion of first home buyers, as part of the total owner-occupied housing finance commitments (excluding refinancing), was 29.9 per cent. The current rate is higher than the historically low point of 12.9 per cent in March 2016 but is in contrast to the high of 31.4 per cent in May 2009 when the Government increased the First Home Owner Grant (FHOG) as part of its GFC measures, indicating the urgent need to address the issue.

With three quarters of Australian first home buyers having less than a 20% deposit and thus incurring mortgage insurance, the 2019 Election commitment to introduce the First Home Loan Deposit Scheme on 1 January 2020 scheme which will provide a guarantee to allow 10,000 eligible borrowers to purchase a home with a deposit of 5 per cent is most welcome. However, the 10,000 loan cap,

however seems rather arbitrary and represents less than 10% of first home buyers. As such it is a lottery. The bulk of first home buyers will not benefit.

REIA believes that the scheme should be expanded to cover all eligible (income and house price limits) first home buyers. This will be equitable, administratively easier, avoid any surges in demand and provide a stimulus to construction activity.

REIA recommends that the First Home Loan Deposit Scheme be expanded to cover all eligible (income and house price limits) first home buyers.

It is critical that first home buyers have an additional way of supplementing their deposit savings.

REIA believes in the benefits of continuing the high ownership level in Australia, particularly as the population ages, and strongly encourages the Commonwealth Government to help implement solutions that will assist aspiring first home buyers. Such assistance should be uniform and should not discriminate between buyers of new or established housing.

Superannuation is an important financial asset of Australian households. Aside from home ownership it is the second most important financial asset with 82.1% of all Australian households holding at least some savings in their superannuation account and the average value across all households at \$142,429 (HILDA Survey).

Superannuation and home ownership are both components of a retiree's "nest egg" and not competing products. By buying earlier in life retirees have every prospect of having a higher equity on retirement and a larger "nest egg" on downsizing. Too much attention has been focused on the accumulation of a nest egg through superannuation at the expense of other more practical considerations which not only improve the quality of life at an earlier age but result in a greater retirement "nest egg".

Furthermore, access to superannuation for the purchase of a first home could help reverse the trend of falling home ownership and address the looming significant policy problem of a large numbers of long-term renters aged 45 years and over remaining in the rental sector and possibly requiring rental support in later years. A recent study by the Centre of Excellence in Population Ageing Research (CEPAR) has found that the current trend toward delaying home purchase has demographic and housing policy implications. The link between housing and ageing and with the Australian retirement system built on the premise of homeownership means that indefinite deferral of home purchase will have disadvantageous consequences in retirement.

The 2017 Budget measure of allowing first home buyers to apply to withdraw voluntary contributions made to super after 1 July 2017 for a home deposit recognises this and is a welcome initiative.

Allowing access to a pre 1 July 2017 voluntary contributions to superannuation funds would help prospective buyers to save for a deposit faster. The mechanism for accessing these funds has already been established by the 2017 Budget initiative of the First Home Super Saver (FHSS) Scheme.

The use of retirement savings for a first home purchase has already proven to be successful in Canada, New Zealand and Singapore.

The REIA proposes that the Commonwealth Government extend the current First Home Super Saver (FHSS) Scheme to allow first home buyers to have access to their pre 1 July 2017 voluntary superannuation contributions, including earnings, for the purpose of raising a deposit for a home.

REIA Recommendations

In summary, REIA asks the Commonwealth Government to consider the following:

- **Take a leadership role in taking a coordinated and holistic approach of all levels of government in objectively addressing all property taxes**
- **Until a coordinated and holistic approach in objectively addressing all property taxes is undertaken that negative gearing and capital gains tax on property investments are retained in its current form**
- **The First Home Loan Deposit Scheme be expanded to cover all eligible (income and house price limits) first home buyers.**
- **Extend the current First Home Super Saver (FHSS) Scheme to allow first home buyers to have access to their pre 1 July 2017 voluntary superannuation contributions, including earnings, for the purpose of raising a deposit for a home.**