REAL ESTATE INSTITUTE OF AUSTRALIA

REIA Budget Submission 2023 – 2024

Real solutions to Australia's housing crisis.
January 2023

Acknowledgment of Country

The Real Estate Institute of Australia (REIA) acknowledges the Traditional Owners of Country throughout Australia. We pay our respect to them, their culture and their leaders, past, present and emerging.

Cover art acknowledgement

This photo was supplied by Mr Hayden Groves, dethridgeGroves Director and REIA President, of this East Fremantle home in Western Australia.

REIA's latest Housing Affordability Report revealed that there was a decrease in affordability in Western Australia over the September quarter, with the proportion of income devoted to loan repayments increasing to 31.4% (national average of 42.2%).

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SUMMARY

Australian housing and rental supply are at crisis point.

There are a range of Australian Government initiatives to support of 'Safer and more affordable housing,' and these are welcomed. It is expected they will be restated in the coming Budget.

Despite inflationary pressures, it is without doubt Budget 2023 – 2024 has a much better than expected economic outlook.

However, this does little to alleviate pressure on Australians seeking to buy or rent a home immediately and look to address structural issues inhibiting supply and affordability in Australia.

REIA's Budget Submission 2023 – 2024 focuses on recommendations to assist Australians across all parts of the housing spectrum with the aim to deliver ***real solutions to Australia's housing crisis.***

REIA BUDGET RECOMMENDATIONS 2023 – 2024	
DO NOW	1. Commission an occupancy audit of all government owned housing 2. Pin the rate of Commonwealth Rental Assistance to market rents 3. Make interest rates tax deductible for first home buyers 4. Commission a rapid response study to identify faster ways to build houses 5. Work with Local Governments to identify latent capacity
MUST DO MID TO LONG TERM	1. Unlock existing housing supply 2. Build enough homes for Australians

THE AUSTRALIAN REAL ESTATE INDUSTRY

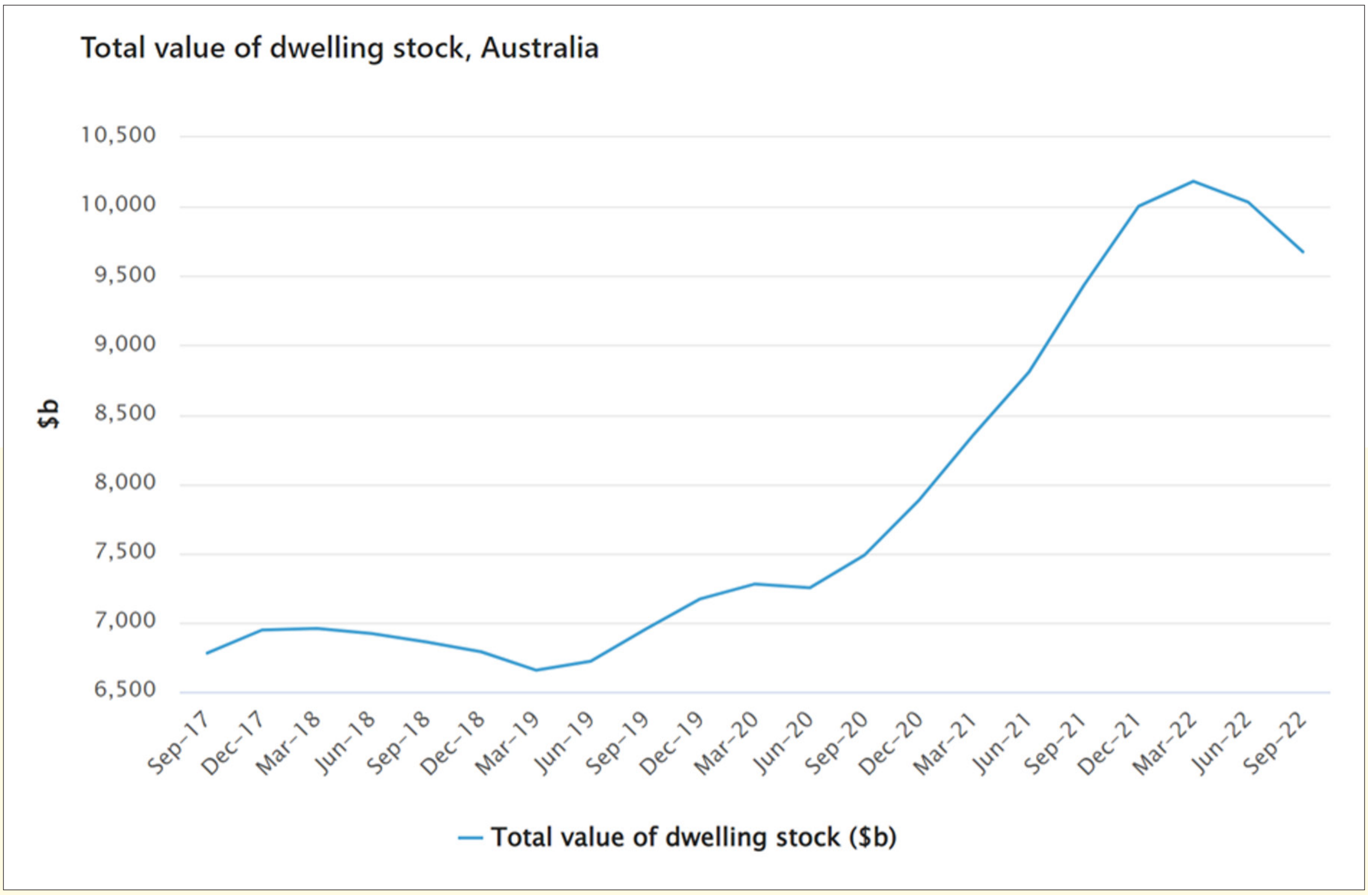
Property is the largest component of the household balance sheet followed by superannuation and a major part the Australian economy being its biggest industry and second largest employer.

In the September quarter of 2022 the total value of residential dwellings in Australia was $9,674.4 billion – a fall of $358.9 billion in the quarter, as shown in the graph below. This is the largest quarterly fall in the value of residential dwellings in Australia since the series commenced, in September 2011. The total value of residential dwellings fell in all states and territories except the Northern Territory. The result was driven by New South Wales, Queensland, and Victoria.

The fall follows the fastest annual growth on record of 23.7% in 2021.

The number of residential dwellings rose by 45,300 to 10,872,900 and the mean price of residential dwellings fell $36,800 to $889,800 in the September quarter of 2022.

Chart 1: Total value of dwelling stock



Source: ABS

A strong housing sector industry is a vital component of economic growth as has been witnessed as mining declined a decade ago and more recently during the Covid-19 pandemic. However, we are already witnessing contraction of activity with transactions falling since mid 2022 in most capital cities. This is set to continue due to the rapid increase in interest rates.

In December 2022 the value of total new housing loan commitments continued to decline in December by 4.3% from record high levels earlier in 2022. New owner-occupier loan commitments fell 4.2% to $15.6 billion, while new investor loan commitments fell 4.4% to $7.9 billion.

New mortgage commitments for first home buyers have fallen for eleven consecutive months. In December 2022 in seasonally adjusted terms for owner-occupier first home buyers, the number of new loan commitments fell 4.2% to 7,646, after a 5.4% fall in November. It was 53.1% below the January 2021 high of 16,307.

It is first home buyers' affordability that is being particularly impacted by rising borrowing costs despite falling prices.

IMF, in its country assessment of Australia, in February 2023 said that –

"Policies should aim to alleviate deteriorating housing affordability … Affordability concerns are increasing given strongly rising rents and higher mortgage rates. A strong focus on boosting housing supply remains essential, supported by well-targeted support for lower-income households."

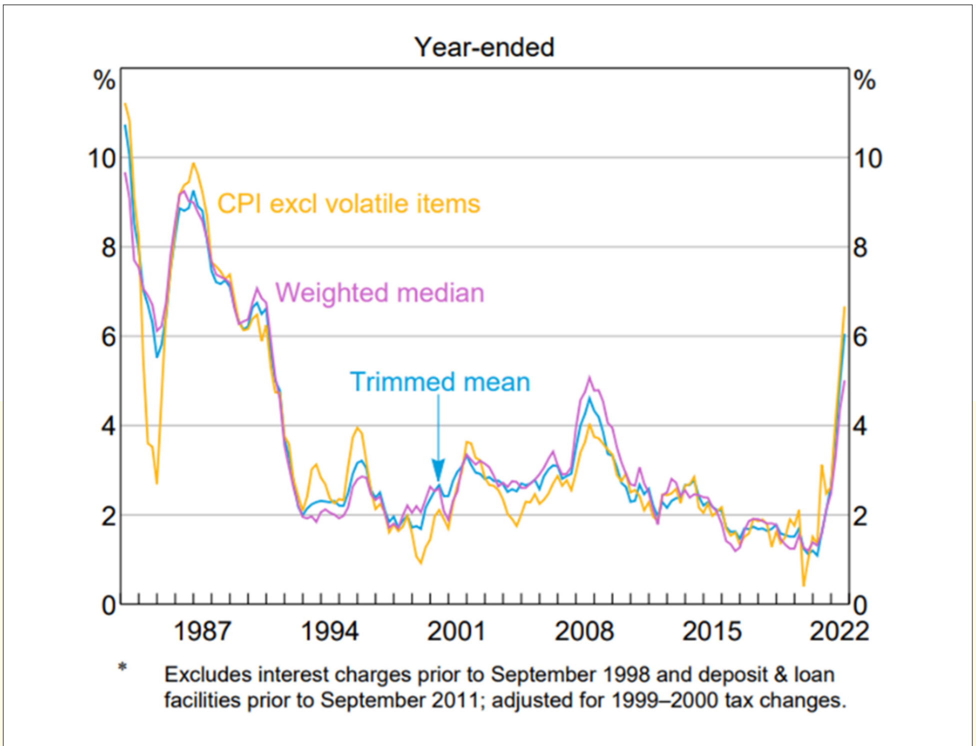
- IMF, Australia country assessment.

AUSTRALIA'S ECONOMIC OUTLOOK

Australia's economy rebounded relatively well from the pandemic with GDP growth among the highest in the world. Household spending has held up and the labour market has seen record jobs growth and a near-50-year low in joblessness.

However, as seen below, inflation is the highest since 1990, with the analytical series trimmed mean the highest since the ABS first published the series in 2003.

Chart 2: Measures of Underlying Inflation



Source: ABS; RBA

Business investment is also flagging, and the RBA has delivered the steepest rise in the cash rate for decades with more increases expected. The full effect of the rate hikes is yet to be seen on mortgage holders and the economy.

Globally, growth forecasts are being downgraded further, inflation has continued to soar and central banks are responding with high interest rates. Earlier forecasts by the International Monetary Fund (IMF) expected much of the world economy to be in recession in 2023.

The stated aim of the October 2022 Budget was to put fiscal and monetary policy settings in lock step in the fight against inflation. GDP growth was expected to peak at $3^{1/4}$% in 2022-23 before slowing to $1^{1/2}$% in 2023-24. Inflation was forecast to peak at $7^{3/4}$ in December 2022 and ease to $3^{1/2}$% by mid-2024.

The RBA forecasts broadly agree with those in the Budget.

The IMF expects that from its strong cyclical position, Australia's economy will come to a soft landing in 2023, although risks are skewed significantly to the downside. Tighter financial conditions, erosion of real incomes amid high inflation, declining housing prices, and soft global growth point to a significant deceleration in Australia. Inflation is projected to decline gradually but remains above target until 2024. IMF's forecasts for Australia are below:

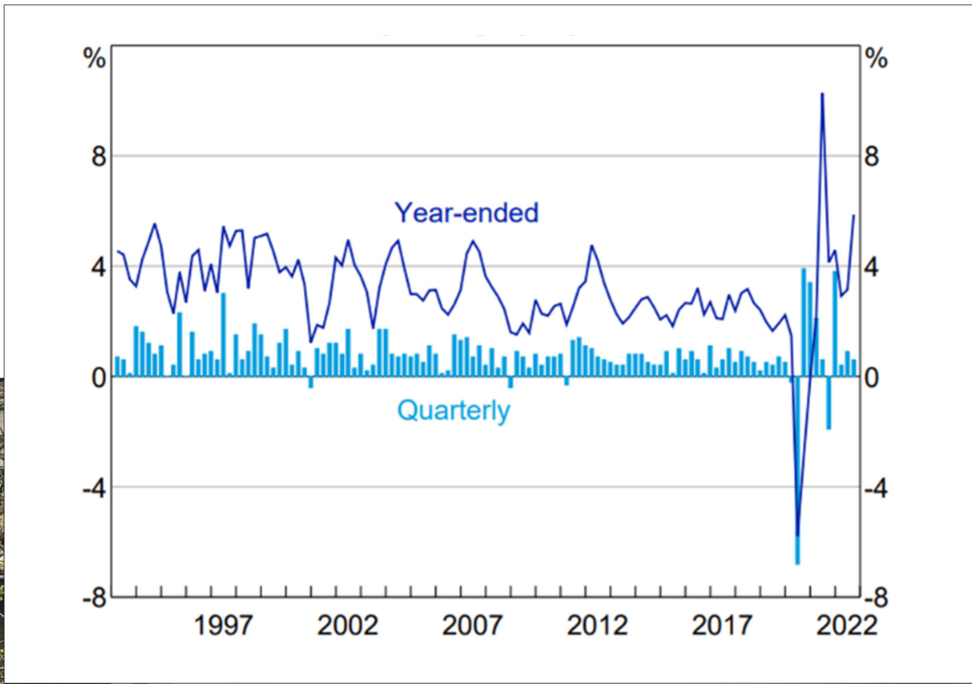
PROJECTIONS

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
REAL GDP	2.8	1.39	-1.8	5.2	3.6	1.6	1.7	2.1	2.2	2.3	2.3
CONSUMER PRICES (AVG)	1.9	1.6	0.9	2.8	6.7	5.5	3.2	2.8	2.5	2.5	2.6
CORE CONSUMER PRICES (AVG)	1.6	1.6	1.2	2.8	5.7	5.3	3.2	2.8	2.5	2.5	2.6

Source: IMF

The budgetary position has improved substantially since the October Budget, through record-high commodity prices and the strong labour market, which has reduced payments to the unemployed and lifted personal tax receipts. These gains, however, are not expected to be sustainable. In the September quarter 2022 GDP grew by 4.3% - the fastest in over a decade albeit from a low pandemic base.

Chart 3: GDP Growth



Source: ABS

A substantial part of the growth in the quarter was by spending by households particularly on services. Most private sector economists are downgrading expected GDP growth reflecting slower demand for exports and weaker domestic demand in response to rising official interest rates, which are yet to peak according to futures market expectations.

INTERSECTING STRATEGIC POLICY

At the same time, there are a range of long-term policy areas that are of key focus to the Australian Government and Australia's real estate industry.

The October 2021 release of REIA's Strategic Policy Agenda: Getting Real – policy priorities for Australia's real estate agents and agencies, articulates our primary areas of focus.

REIA's Getting Real addresses a range of issues central to the Australian Government and Budget 2023 – 2024, including the need to:

- **Increase housing supply.**
- **Plan for the changing and ageing population.**
- **Advance jobs and economic development in cities and regions.**
- **Assist economic recovery post Covid.**
- **Enhance sustainability in real estate.**
- **Increase government investment in skills and training in real estate.**
- **Develop a fit for purpose taxation system.**

Source: REIA

REAL SOLUTIONS TO AUSTRALIA'S HOUSING CRISIS

There remains a severe housing supply crisis in Australia. This is particularly acute for Australia's renters.

Supply is simply not keeping pace with demand with NHFIC estimating a housing shortfall of 164,300 by 2024-2025. This is likely to be a conservative estimate.

There have been many admirable policy intents put in place by the Australian Government since May 2022 including the Housing Accord, the Housing Australia Future Fund and the National Supply and Affordability Council.

This is welcomed by Australia's Real Estate Institutes. However much of these policy commitments will do nothing to ease pressure being experienced right now by renters, aspiring homeowners, investors and right sizers.

It is in this context REIA's Budget Submission 2023 – 2024 is framed with key 'do now' actions and longer term 'must do's' to fix the current crisis.

These would in addition be key implementation actions to inform the National Plan for Housing and Homelessness.

"Thus far I have been loath to label the residential rental market's current low vacancy, short supply and rising rents as a 'crisis'. My reasoning is that once labelled a crisis, what does one call it if things get worse? A catastrophe perhaps?"

- Hayden Groves, REIA President.

'DO NOW' RECOMMENDATIONS

These are pragmatic "do now actions" that the Australian Government can do to immediately assist alleviating the current crisis across all aspects of the housing spectrum.

REIA has identified five of these.

1. COMMISSION AN OCCUPANCY AUDIT OF ALL GOVERNMENT OWNED HOUSING

The Report on Government Services 2023 – Housing and Homelessness identified around 31,885 known untenantable public, social and affordable homes and 5,375 homes undergoing major redevelopment. This in itself with the right works program would provide an immediate injection in the current supply.

An occupancy audit could further identify any latent opportunity to utilize other housing stock across all Federal, State and Local Government housing programs. This audit could and should include buildings that are not currently housing but could be used for housing.

"Every vacant ACT Housing property puts additional pressure on already stretched private community and social housing providers.

In my capacity as Manager at HomeGround Canberra I received several calls a day from desperate people who had "years" to wait on the waiting list for Government housing but were essentially homeless in the meantime as crisis housing options were also stretched beyond capacity, and caravan parks were full.

Most did not want anything fancy but a secure roof over their head so they had some time to figure out a long-term solution. An adequate supply of government -owned properties with income-based rent assessments is beyond crisis point now."

- Maria Edwards, Chief Executive Officer, the Real Estate Institute of the ACT.

2. PIN THE RATE OF COMMONWEALTH RENTAL ASSISTANCE TO MARKET RENTS

REIA's 20-year analysis, Real Estate Market Facts - Australian Real Estate: A 20 year report 2002 – 2022, revealed that Commonwealth Rent Assistance is not keeping pace with rent increases.

For a family with 2 children in 2002, rent assistance met 24.4% of the median rent for a 3-bedroom house whereas in 2022 this had reduced to 16.9%.

Assistance levels have also varied across capital cities. In 2002 rent assistance was 30.9% of the real median weekly rent for Perth and 21.3% of the median rent for Canberra.

One reason for CRA not keeping pace with rent increases is that CRA is indexed to the overall Consumer Price Index (CPI) (all goods and services) rather than to the rental component of the CPI.

Problematically, the key rental age cohort, 20-45 years, has experienced falls in real income and Commonwealth Rent Assistance does not reduce rental stress to the degree it used to.

Table 5: Commonwealth rent assistance as a proportion of weekly rent

	Sydney	Melbourne	Brisbane	Adelaide	Perth	Canberra	Hobart	Darwin	Cap Cit
2002	22.1%	24.2%	25.3%	28.7%	30.9%	21.3%	30.4%	22.1%	24.4%
2007	21.1%	23.7%	20.4%	23.7%	19.7%	16.9%	21.9%	15.0%	21.4%
2012	14.6%	18.0%	17.5%	19.1%	15.3%	13.3%	18.5%	10.9%	16.2%
2017	15.5%	20.4%	20.4%	22.8%	23.2%	16.5%	21.6%	16.0%	18.8%
2022	14.4%	19.9%	17.9%	19.1%	18.6%	13.2%	16.2%	15.1%	16.9%

"While rents have skyrocketed, the maximum rate of Commonwealth Rent Assistance hasn't kept pace. Each year the payment falls further behind rental costs. Its thresholds are indexed to general inflation, rather than average rental costs. Because rents have grown much faster than Consumer Price Index (CPI), the gap between rental costs and rent assistance payments has been growing. Research from the Productivity Commission shows that since 1995 rents have grown at more than twice the rate of the general cost of living."

- 'Reforming Rent Assistance'. Anglicare Australia. 2023.

3. MAKE INTEREST RATES TAX DEDUCTIBLE FOR FIRST HOME BUYERS

REIA's latest Housing Affordability Report showed that housing affordability declined Australia-wide in the September quarter 2022 with all states and territories recording decreases.

The proportion of income required to meet loan repayments increased by 3.8 percentage points to a huge 42.2%.

Additionally, the number of first home buyers decreased to 26,343, a decrease of 9.6% during the quarter and a decrease of 30.3% compared to the September quarter 2021.

With a series of cash rate increases from the Reserve Bank of Australia (RBA), currently sitting at 3.10%, this has caused a shock for many First Home Buyers taking on large debts and creates uncertainty for potential buyers unsure of their capacity to withstand future interest rates increases at this level.

In the latest board meeting for December, the RBA increased the cash rate by 25 basis points to 3.10%. For a homeowner on a $500,000 home loan with 25-years remaining, paying RBA's existing average owner-occupier variable rate of 2.86% in April, this eight-month consecutive cash rate increase may mean their home loan repayments are now $834 higher each month.

Now, more than ever, first home buyers are suffering from the burden of interest rates and unfairly cannot access tax deductions for this growing expense. To assist first home buyers to purchase with confidence and to manage uncertain economic conditions, government must allow this expense to be tax deductible as it is for investors.

"REIA estimates [making the interest portion of mortgage payments tax-deductible] would provide a benefit of around $4,000 per annum to Australia's first-home buyers, which NHFIC places at around 15% of the housing spectrum."

- Adrian Kelly, REIA Immediate Past President.

4. COMMISSION A RAPID RESPONSE STUDY TO IDENTIFY FASTER WAYS TO BUILD HOUSES

We need more housing now. With housing approvals down 11.3% over the year, it is recommended that a rapid response study is commissioned on safe, sustainable and rapid construction.

That is pretty apparent to people trying to find an affordable rental property at the moment. Vacancy rates are very low. We know that those Australians who are trying to purchase their own homes at the moment have been having difficulty. We know we need to add to supply and that is what we want to do."

- The Hon Julie CollinS, Minister for Housing, Homelessness and Small Business.

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5. WORK WITH LOCAL GOVERNMENTS TO IDENTIFY LATENT CAPACITY IN HOUSING STOCK

Local Governments exist at the nexus of housing supply. A range of initiatives must be explored with local governments to help unlock housing stock across Australia's local governments.

One example of this is in June 2022 the Eurobadalla Shire Council wrote to all rate payers imploring them to place empty homes back into the rental pool.

Additional options should be identified and funded to incentivize vacant homes back to the marketing including rates discounts or waivers.

"We're in a crisis. I shouldn't have to be writing this letter. We can't just keep having meetings and talking about it. There's nothing more frustrating than having a meeting and at the end of it, the outcome is – we're going to have another meeting.

We've got to be active and we've got to be doing something and be seen to be doing something. The community expects more."

- Matthew Hatcher, Eurobadalla Shire Mayor.

'MUST DO' MID TO LONG TERM RECOMMENDATIONS

REIA has long argued that to enable housing affordability, supply of two kinds must be dealt with:

6. UNLOCK EXISTING HOUSING SUPPLY

REIA has long argued for strategic policy reform to support optimum utilization of existing housing stock. This has been centered around the need for a national approach to stamp duty reform which has been backed by 25 different reports of significant since 1975.

Stamp duty reform would:

- Kickstart the economy
- Open up opportunity
- Improve housing supply and affordability

REIA estimates the number of homes for sale would increase by 50% if stamp duty was phased out unlocking much needed housing supply; at the same time saving home buyers up to 4% in transactional costs.

REIA recommends that the an intergovernmental working group is formed to address this as a long term supply and affordability measure.

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7. BUILD ENOUGH HOMES FOR AUSTRALIANS

We need more homes to cope with Australia's post pandemic population and economic conditions.

Simply put, we need to build more houses at scale and move past the current phase of intention setting.

Much of the answers lie to this in the Housing Accord, which now needs to be rapidly and aggressively implemented.

THANK YOU

REIA