REAL ESTATE INSTITUTE OF AUSTRALIA

REIA Budget Submission 2024-2025

Real solutions for Australia's cost of living

January 2024

100 YEARS OF SERVING THE REAL ESTATE INDUSTRY

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.

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SUMMARY

Australia is at the tipping point of a worsening cost of living paired with a housing crisis.

Whilst there have been several measures to address support for renters and declining rates of homeownership, it is the supply side that needs concerted action across all levels of government.

The Real Estate Institute of Australia (REIA) vision is to advance Australia's prosperity.

Central to this vision, is a home for all Australians: homeowners, home buyers and renters.

It is important to note that home loan affordability is now at it's worst level in 20 years, exceeding the conditions facing mortgage holders in the Global Financial Crisis of 2008. Rental affordability by comparison has remained relatively stable.

It is these market segments that our Budget 2024 recommendations are targeted at.

CURRENT CONDITIONS AT A GLANCE AS PER THE REIA HOUSING AFFORDABILITY REPORT AND REIA REAL ESTATE MARKET FACTS:

4.35%
RBA Cash Rate

45.5%
National household income to home loan ratio

23.6%
National household income to rents paid ratio

3.2%
Annual increase in median house prices across 8 capital cities

10.3%
Annual increase in median house rents across 8 capital cities

THE CURRENT LANDSCAPE

AUSTRALIA’S ECONOMIC OUTLOOK

Inflation, Domestic economic growth (GDP) & geopolitical outlook

Amid the swift succession of global crises brought about by the pandemic and geopolitical tensions, Australia's economic prospects appear to be on par with most advanced economies.

The Reserve Bank of Australia (RBA) anticipates a sluggish economic growth in the coming year, with GDP growth projected to remain below the trend as cost of living pressures and higher interest rates continue to weigh on demand.

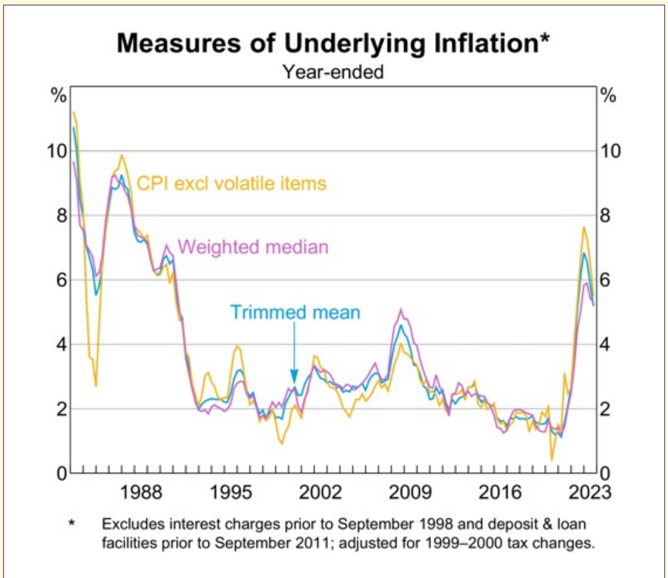
Inflation is expected to decelerate more gradually than previously forecasted, while unemployment is expected to increase due to the more subdued outlook for economic activity. The OECD estimates that inflation has peaked for the Australian economy. Australia’s CPI rose 5.4% over the September quarter last year, with the housing component making a particularly strong contribution.

All this taken into account, economists predict that the RBA will start cutting rates in the later half of the year. With cash rate on hold since November 2027, a rate rise will be highly likely as domestic services inflation are still sticky.

Business investment

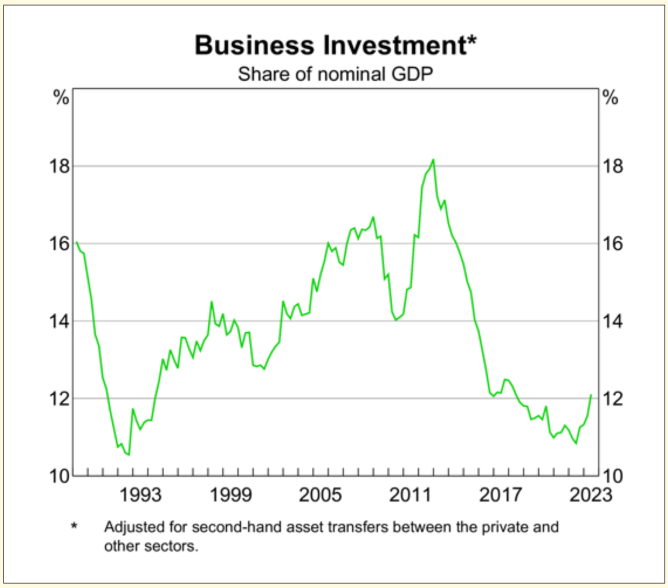
The trend estimate for buildings and structures rose by 13.7% in the September quarter compared to the same period last year while equipment and machinery capital expenditure rose by 7.9%, mainly attributable to the construction industry as supply-chain disruptions eased. Business investment, as shown in the graph below, is displaying a steady rise over the past year.

Chart 1: Measures of Underlying Inflation in Australia, December 2023



Sources: ABS; RBA.

Chart 2: Business Investment as a share of nominal GDP, December 2023



Sources: ABS.

Population growth & Migration

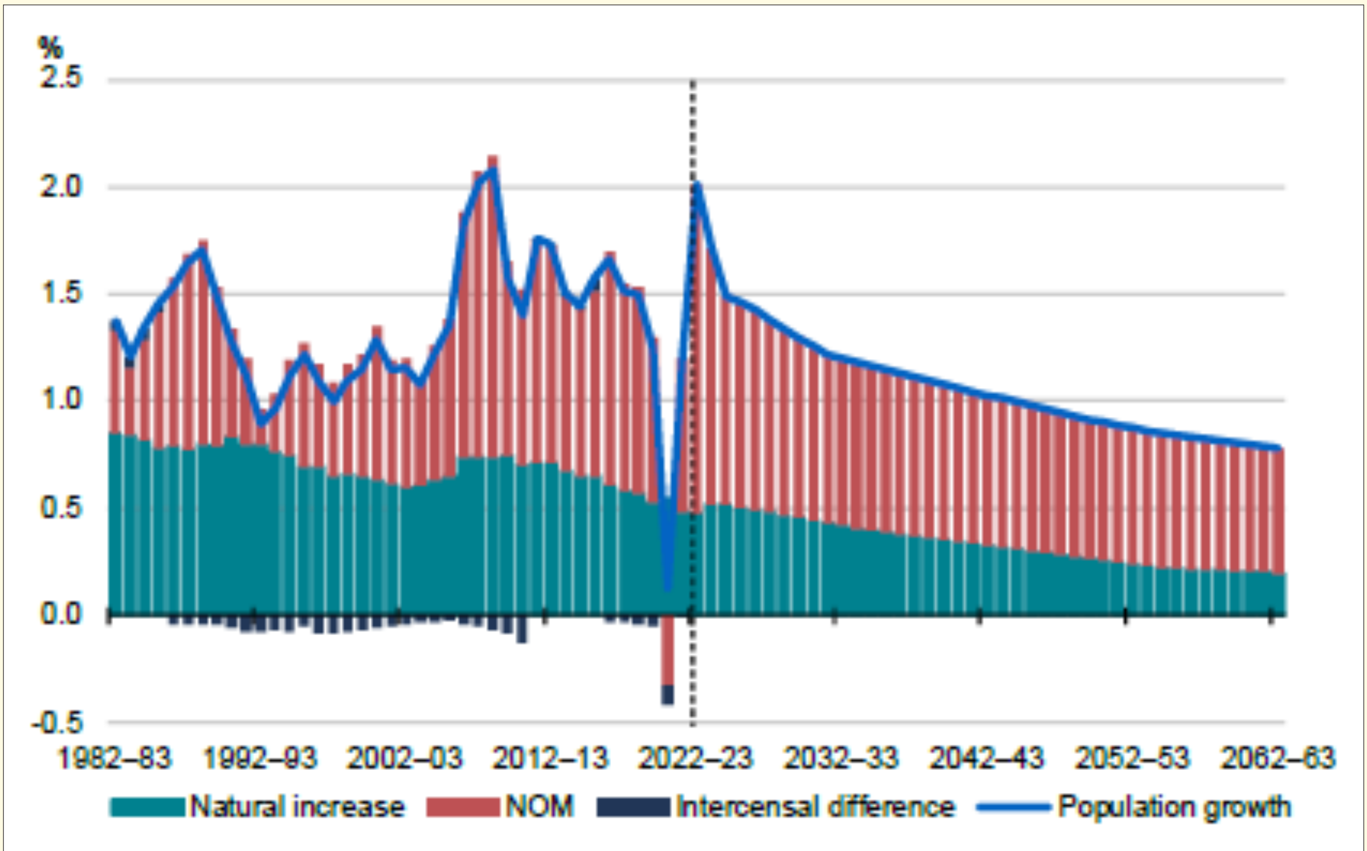
According to the 2023 Intergenerational report, Australia's population growth rate is projected to slow to 1.1% over the next 40 years, with an estimation of 40.5 million people by 2063. Over the past 20 years, Australia's population growth has been higher than that of other G7 economies and this trend is forecasted to continue into the future.

In 2022-2023, overseas migration reached record-breaking levels at 518,000 people.

The OECD International Migration Outlook 2023 expects that migration will continue to contribute to a sustainable population growth as overseas migration growth is expected to partially offset Australia's ageing population. However, cumulative net overseas migration is not expected to catch up to pre-pandemic levels until 2029 – 2030.

A well-planned population growth, along with targeted migration programs will deliver better outcomes for the housing and infrastructure market.

Chart 3: Population Growth Projections until 2062-2063



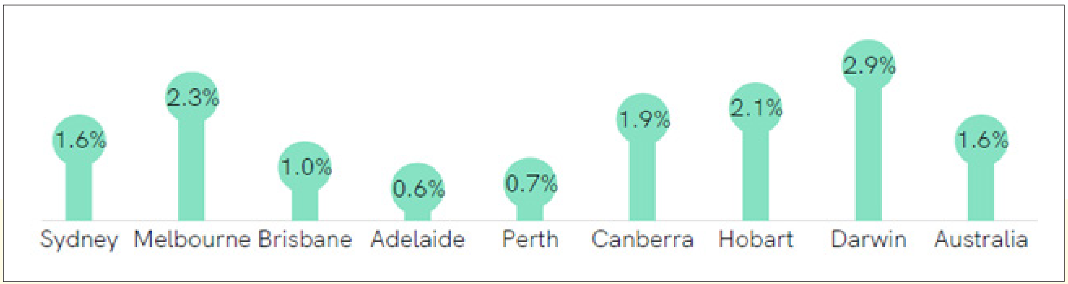
Sources: ABS.

THE AUSTRALIAN REAL ESTATE INDUSTRY

Vacancy Rates and Median Rent

It is widely accepted that a healthy vacancy rate in the housing market is around 3%, where housing supply equates demand from renters and rents are relatively stable. However, according to REIA's Real Estate Market Facts, the September Quarter has also shown that all capital cities have fallen short of the industry benchmark, which indicates a high demand for rental properties, but a lack of housing supply to meet this demand.

Chart 4: Rental dwelling vacancy rates for capital cities[1]



Sources: ABS.

An inverse relationship exists between changes in median rental values and vacancy rates. Rent for 3-bedroom houses increased by 3.2% to $571, with increases in Sydney, Melbourne, Brisbane and Adelaide. Rents remained stable in Perth and Canberra and decreased in Hobart and Darwin. Perth had the largest increase over the year for 3-bedroom house of 17.0%.

Housing Australia forecasts we will fall short of the number of homes we need by around 106,000 over the 5 years from 2023 to 2027. Migration patterns to regional Australia are normalizing back to pre-COVID levels with the gap in migration flows narrowing. Based on this, it is impertinent that policy considerations are addressed differently in regions vs their capital counterparts.

Housing Supply

In the September quarter of this year, the total value of residential dwellings in Australia rose by $261.0 billion to $10,267.4 billion. This rise was recorded in all states and territories. The number of residential dwellings in Australia rose by 52,300 to 11,094,500 and the mean price of residential dwellings rose by $19,200 to $925,400 this quarter.

Both the total number of dwelling units commenced and completed recorded a decrease this year, driven by the fall in private sector residential buildings. Delivering an increase in housing supply is imperative to achieving the National Housing Accord target of 1.2million homes in the next 5 years.

In November 2023, the value of new loan commitments for:

- Purchase of existing dwellings was 14.1% higher compared to a year ago
- Construction of new dwellings was 12.4% lower compared to a year ago
- Purchase of new dwellings was 4.2% higher compared to a year ago

This is primarily driven by the upturn in investor lending. Despite that, latest figures from the ABS still indicate that building approvals are at a low despite a slight increase in higher density buildings.

Master Builders Australia has forecasted that 2023-24 will see around 170,100 new homes built, well below the 240,000 needed per year to meet the 1.2 million housing accord targets. Inflation rate rise, planning delays and labour market shortages continue to be touted as the biggest impediments in housing supply.

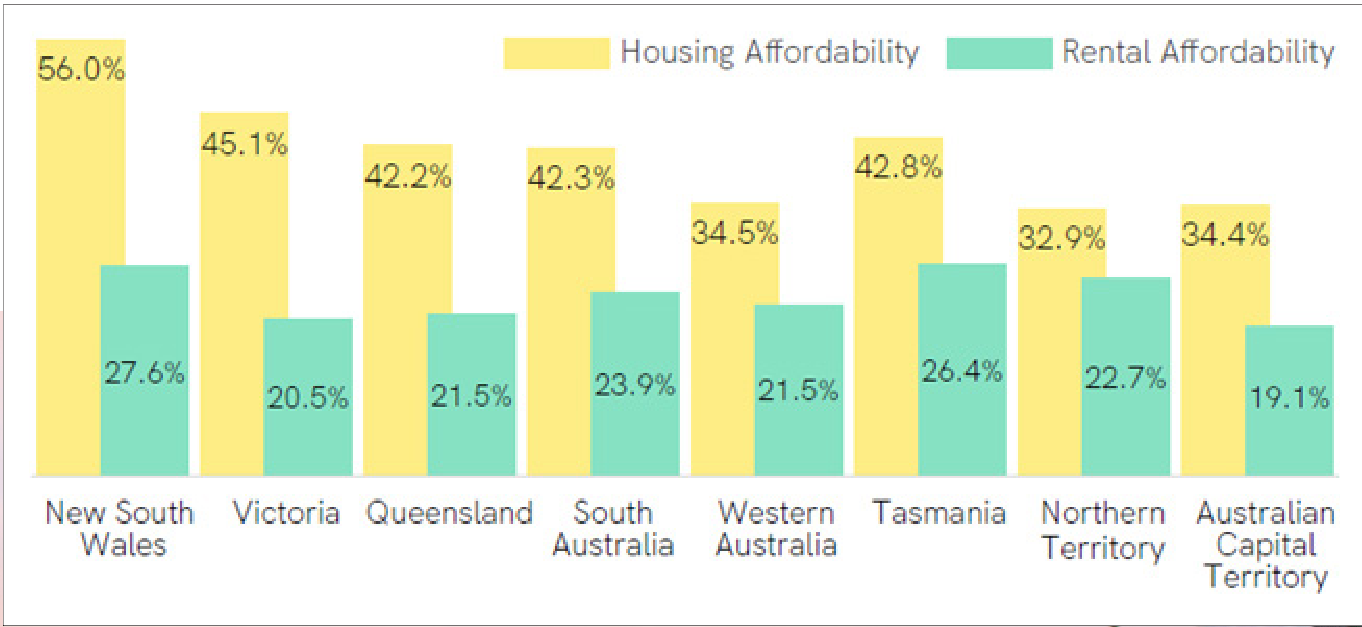
[1] REIA's Real Estate Market Facts, June Quarter 2023

Housing and Rental Affordability

Housing affordability has declined over the September quarter 2023, with the proportion of income required to meet the average loan repayment increasing to 45.5%, a marginal increase of 0.1 percentage points over the previous quarter. To put this in context, over a twenty-year period, home loan affordability has decreased a massive 12.2 percentage points.

Rental affordability declined with the proportion of income required to meet median rent increasing by 0.5 percentage points to 23.6%.

Chart 5: Housing and rental affordability, September quarter 2023



Sources: ABS.

INTERSECTING STRATEGIC POLICY

REIA's recommendations provided in this Pre-Budget Submission are centered around relieving the cost-of-living crisis and are as follows:

GOVERNMENT	OBJECTIVE	SHORT TERM	LONG TERM
Improving housing supply and affordability	Reduce cost of living pressures to home owners holding a mortgage and first home buyers	• Tax deductibility on interest rates for first home buyers • Continue to support First Home Guarantee programs • Explore downsizer initiatives	National stamp duty phase out
	Reduce cost of living pressures to renters	• Immediate occupancy audit of government owned stock • Increase Commonwealth Rent Assistance	Policy certainty provided to property investment as an asset class
Trajectory for Low Energy Buildings	Reduce cost of living pressures on renters and property owners as well as achieve NetZero goals	• Incentives for energy efficient features • Tenant awareness and education	Green loan pilot trial

RECOMMENDATIONS: REAL SOLUTIONS TO COST OF LIVING

REIA has identified three critical areas across the housing spectrum that need to be addressed and will provide relief to cost-of-living as well as housing supply and affordability.

We have provided short-term and long-term pragmatic recommendations to be implemented by the Australian Government, as a key consideration in the 2024 – 2025 Budget.

HOME OWNERSHIP

The latest ABS data on home ownership is some years old and does not account for rising housing costs since the pandemic in 2020.

In the past 2 decades up to 2020, the percentage of Australian homeowners:

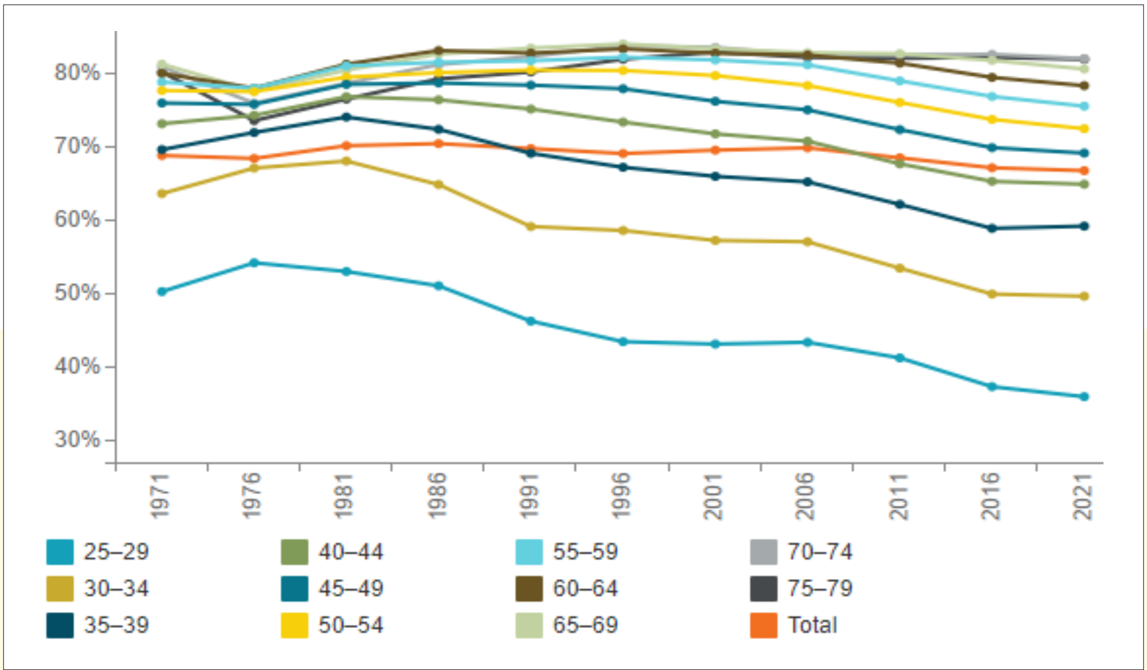
- With or without a mortgage decreased from 71% to 66%.
- Without a mortgage decreased from 39% to 30%.
- With a mortgage increased from 32% to 37%.

Trends in home ownership among specific age cohorts

Home ownership rates have declined dramatically particularly among 25- to 34-year-olds and among people nearing retirement. Nationally, home ownership rates have been in decline for successive generations compared to their older birth cohorts.

Factors influencing these changes over time include house prices, household composition and population growth.

Chart 6: Age-specific Home Ownership Rates, AIHW analysis of customised ABS Census data, 1971–2021



Sources: AIHW analysis of customised ABS Census Data, 2022

Short Term Recommendation:
Continue the rollout of the Australian Government Home Guarantee Scheme, deposit building incentives and first home buyers.

The data and insights from Housing Australia show that:

- An increasing proportion of younger buyers are participating in the scheme, with 14% of all purchases in the scheme made up of first home buyers aged 18 to 24.
- Across Australia, close to 1 in 3 of all first home buyers in 2022–2023 were supported by the Scheme, compared to 1 in 7 in 2021- 2022 due to an increase in available scheme places, expansion of the eligibility criteria and challenging housing environment.
- 37% of guarantees issued under the scheme in 2022-2023 were for first home buyers in regional areas.
- More than 1 in 4 of all guarantees under the FBHG scheme were issued to key workers.

It is essential we arrest the declining rates of home ownership in Australia and ensure Australians at all stages of their life have pathways to achieving this.

Critical policies to ensuring this include:

- Allow first home buyers to deduct up to $5,000 per annum on their interest rate bill.
- Investigate options to better help renters transition successfully to home ownership.
- Continue roll out of the Australian Government Home Guarantee Scheme.
- Aggressive promotion of deposit building incentives like the First Home Super Saver Scheme.

Short Term Recommendation:
Prioritise options to support 'downsizers' to support a well-managed population growth for the future.

Australians are living longer and remaining healthier to an older age, with population growth projected to slow over the next 40 years to 0.8% by 2062 and the number of people aged 65 and older will more than double in the same period.

The McKinnon poll has found that 46% of Australian (mostly Boomer, Post-War and Generation X age cohorts) have no plans to move homes in the next 5 to 10 years. Government intervention to encourage downsizer incentives is necessary to shift housing attitudes among older age cohorts with no plans to downsize.

Real estate practitioners across Australia frequently report that major barriers to Australian's downsizing is twofold. One, not wanting to leave their family residence due to the inability to source new accommodation; and two, reluctance to pay stamp duty on the new or 'next' dwelling.

The 2022 – 2023 Budget included the exemption of home sale proceeds from pension asset testing by 12 months to 24 months and expanded access to make downsizer contributions to superannuation for people aged 55 to 59. Further action in this space is necessary to maximise the utilization of existing housing stock.

Key considerations for the 2024-25 Budget should consider the following recommendations:

- Australian Government to further analyze options to support 'downsizers' move from their family home as part of a broader body of work to investigate taxation options to incentivize higher turnover of housing and home sales.
- State Governments consider offering stamp duty waivers on the purchase of smaller properties for a prescribed category of downsizers.
- The Australian Government to review taxation and cash flow incentives in the context of reducing holding periods and thus increasing housing supply to the market.

Long Term Recommendation:
Phase out stamp duty.

The evidence is strong that stamp duties on housing reduce the turnover of property.

REIA estimates that the removal of stamp duty would conservatively introduce an additional 4% of listings back into the sales market.

The following actions can serve as starting points in the abolishment of stamp duty:

- Federal and state governments commit to long-term stamp reform. This needs to be achieved by the establishment of an Intergovernmental Working Group on Stamp Duty Phase Out in the initial.
- Immediate stamp duty waivers for purchases of rental properties in areas of high need are piloted by State and Territory Governments.

Immediate stamp duty waivers for purchases of rental properties in areas of high need should form a key item for consideration in the Budget.

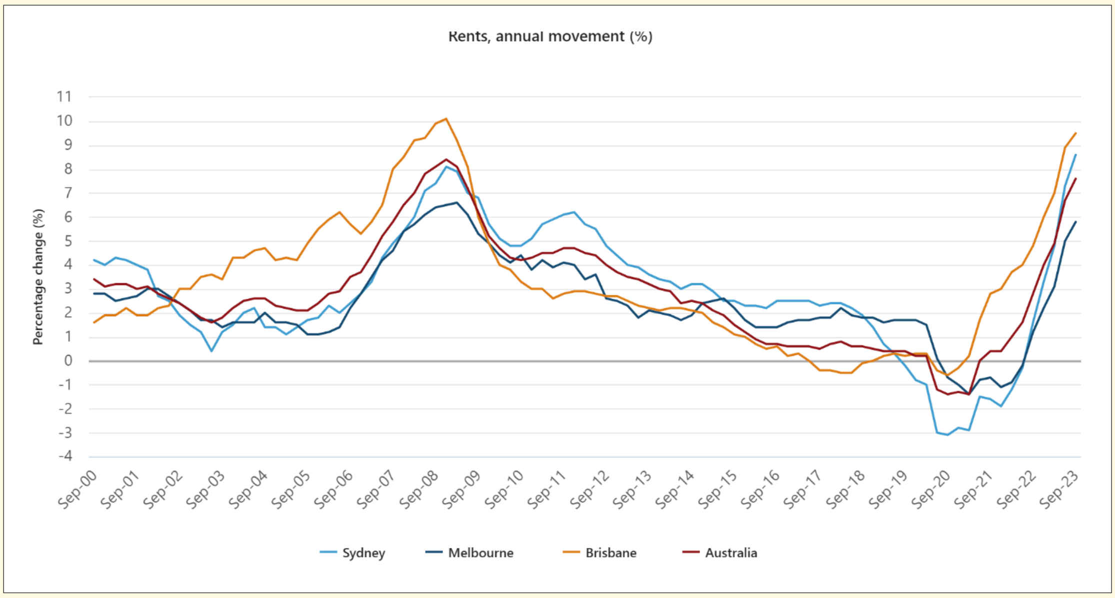
Other options to consider through a national lens perspective include:

BIG PICTURE REFORM	SMALLER SCALE REFORM
Stamp duty is phased out as part of a broader holistic taxation review	Stamp duty is waived for all first homeowners and rightsizers Australia wide
Stamp duty is replaced with a broad-based tax as was promised with the phase out of the GST	Stamp duty is paid on a 'buy now pay later' or HECS style basis

PRIVATE RENTALS

This year, rental prices recorded the largest annual increase since 2009 at 7.6%, reflecting low vacancy rates and undersupply of housing in capital cities. Noting, the increase was partially moderated by the 15% Commonwealth Rent Assistance.

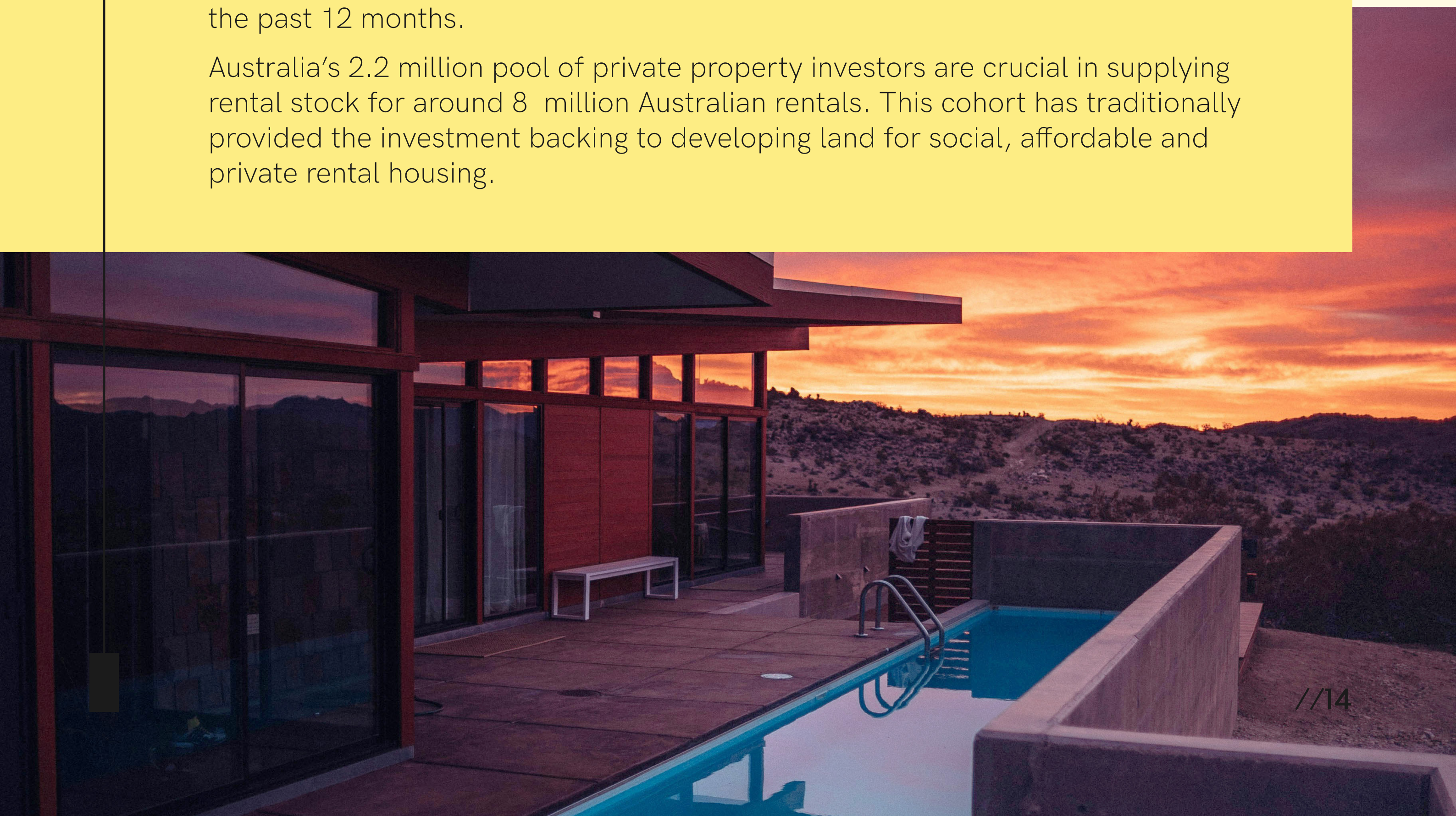
Chart 7: Annual percentage change in rents



Sources: ABS.

Rents are at the same level of affordability as 2017 – 2018 conditions and continue to be fueled by undersupply and critically high demand. Rental affordability declined in the September quarter 2023 and over the last year, with the proportion of income required to meet median rent increasing to 23.6%, an increase of 0.5 percentage points over the quarter, and an increase of 0.9 percentage points over the past 12 months.

Australia's 2.2 million pool of private property investors are crucial in supplying rental stock for around 8 million Australian rentals. This cohort has traditionally provided the investment backing to developing land for social, affordable and private rental housing.

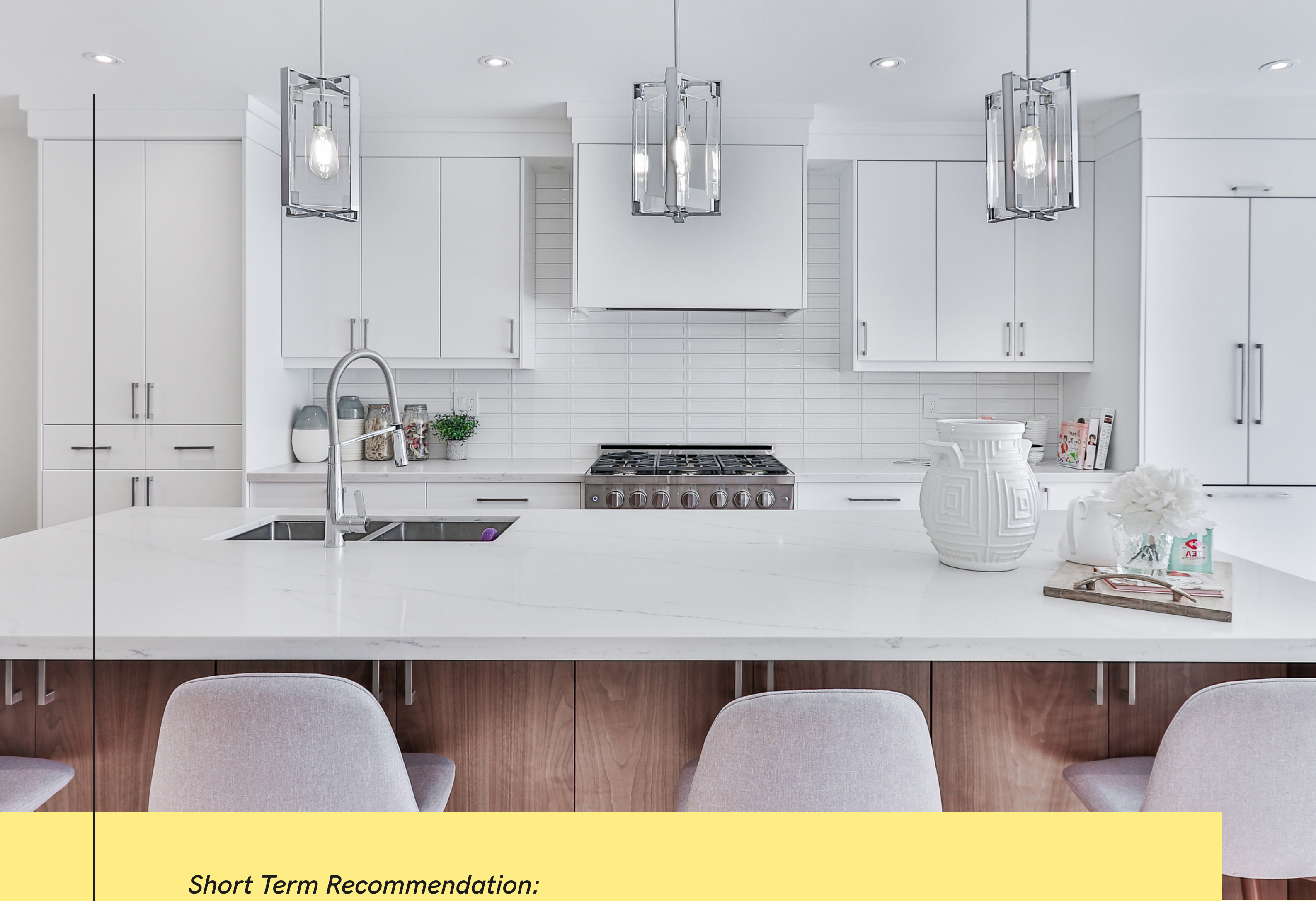


Short Term Recommendation:
Commission an immediate occupancy audit across Government-owned and funded housing by collaborating with local governments and communities.

To identify the extent of underutilization, an occupancy audit is necessary. This will be crucial to utilize existing housing stock and enable the usage of transparent data in providing more social housing.

Qualitative feedback from real estate practitioners across Australia indicates latent occupancy across government-owned housing, with considerable variation across states and territories. This ranges from public, social and affordable accommodation, defence housing and other state-owned and managed housing.

The 2022 Productivity Commission's review of the National Housing and Homelessness Agreement explored land use planning and zoning, including a recommendation to acknowledge the importance of housing supply as a solution to housing affordability and replace planning reforms with housing targets.



Short Term Recommendation:
Increase the rollout of the Commonwealth Rental Assistance.

The 2023/24 Budget included a 15% increase in the CRA. This is a welcome start but does not assist with alleviating rental stress in the same way it used to.

REIA has always argued that CRA must be pegged to market rentals to continuously support renters, particularly vulnerable renters.

Chart 8: Commonwealth Rent Assistance as a proportion of weekly rent 2002 – 2022

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%

Sources: REIA's Australian Real Estate Market Facts 20-year report, 2022.

Long Term Recommendation:
Policy certainty provided to property investment as an asset class including the establishment of a 'Private Rental' taskforce

The interim National Housing Supply and Affordability Council believes that the emergence of an institutional market for housing can add to the supply of rental stock and improve rental affordability.

The value of Australia's housing stock is about $9.9 trillion – greater than the value of the Australian Securities Exchange and the government and corporate bond markets combined.

Policy certainty must be provided by the Australian Government in the 24-25 Budget cycle, which includes maintaining the current negative gearing and Capital Gains Tax policy settings.

Promoting residential investment as an alternative asset class will offer a number of diversification benefits especially to mum and dad investors.

This is necessary because the private rental market meets the housing needs of many people and injects housing stock into the country.

An additional key consideration would be to replicate the UK Government's "Private Rented Sector Taskforce" by engaging a working group of property professionals across the country to accelerate the development of the private rental sector as an investment market.

Such initiatives are absolutely critical in the current rental market conditions with no existing government advisory forums focused on this task.

SUSTAINABILITY

The 2015 Paris Agreement committed to limiting the rise in global temperature to 1.5-2.0°C above pre-industrial levels.

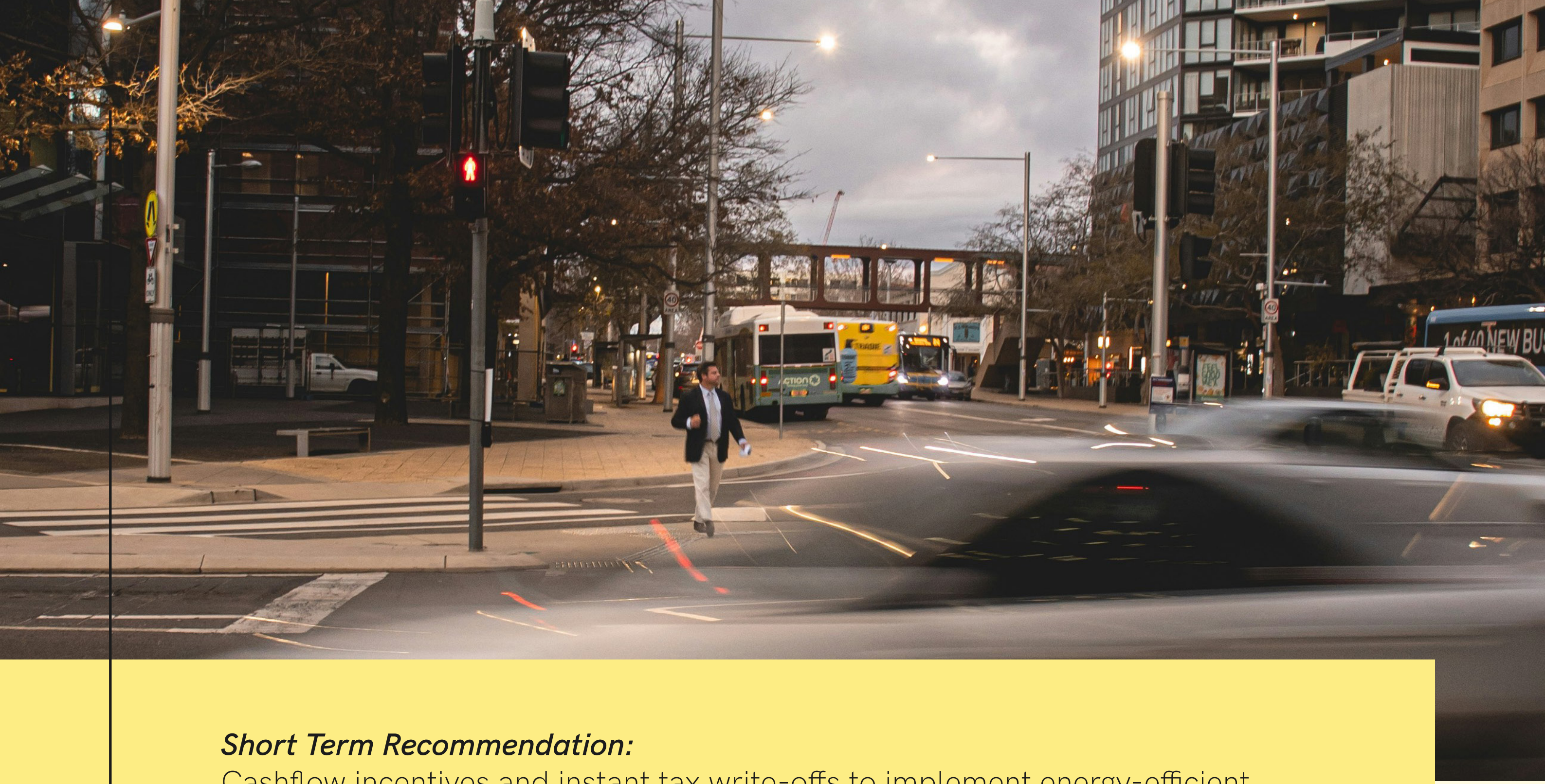
The Intergovernmental Panel on Climate Change in 2018 further stated that to limit global warming and avoid the most damaging impacts of climate change, global warming would need to be contained by 1.5°C.

The newly elected Australian Government September 2022 legislated (the Climate Bill) for Australia's revised emissions targets to be: 43% and net zero emissions by 2050.

Australian households are reported to spend 90% of their time indoors, with two-thirds of this at home. Without a doubt, better building standards and informed public awareness programs will take us faster to achieving Net Zero targets.

The International Energy Agency has highlighted that the greatest efficiency gains are achieved through policy packages that combine 3 main mechanisms: Regulation, Information and Incentives. The 2023-24 Budget delivered more than $1.6 billion for energy-saving upgrades for homes and businesses through the Energy Savings Package.

To reach net zero emissions by 2050 or earlier, all sectors of the economy need to rapidly cut emissions.



Short Term Recommendation:
Cashflow incentives and instant tax write-offs to implement energy-efficient features that target family investors.

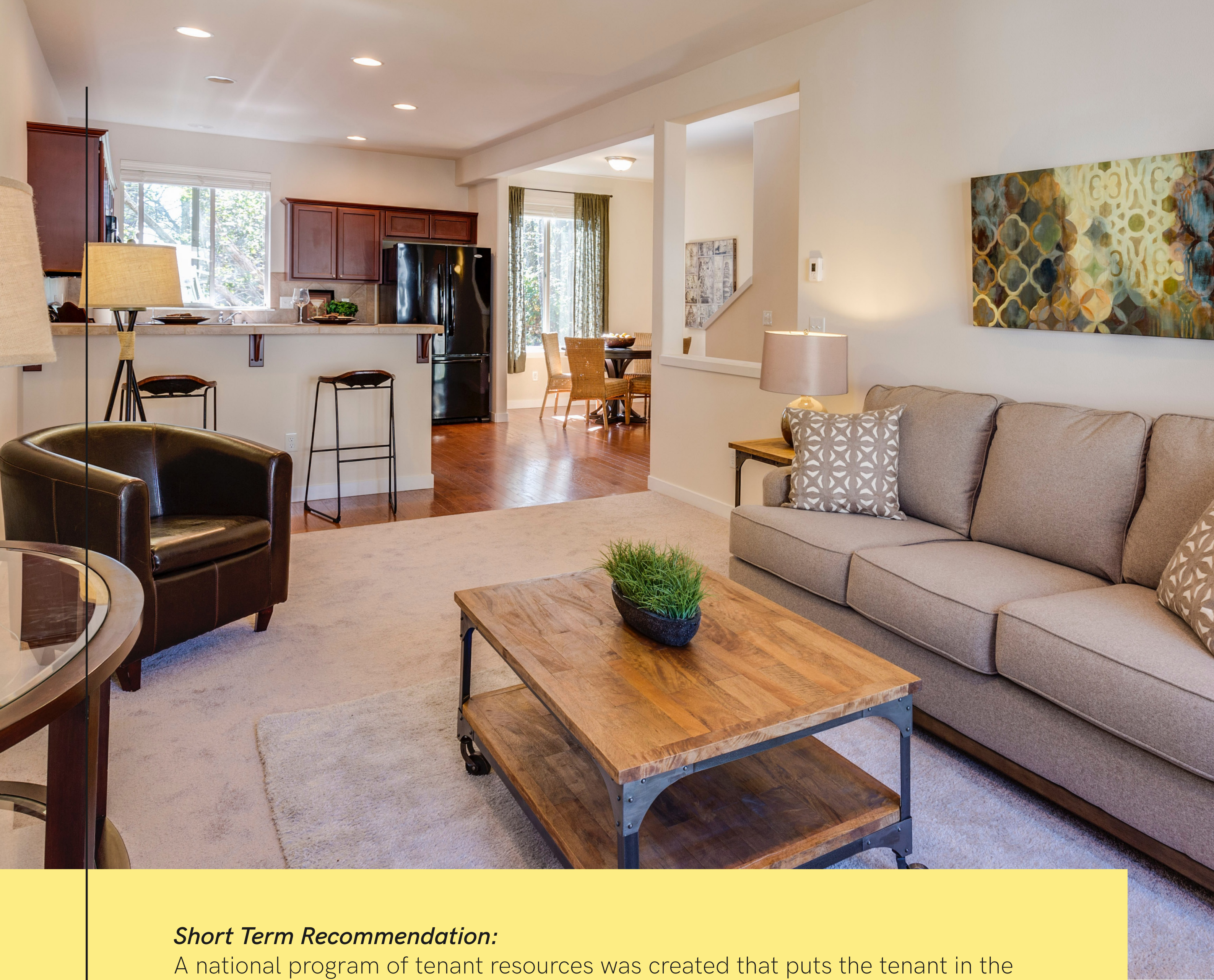
This will allow private capital to be channelled into energy-efficient building renovations and retrofits.

The International Energy Efficiency notes that "Targeted support and ramping up efficiency investments can ease energy poverty, while having less of an impact on budget deficits. Energy efficiency measures structurally lower energy bills, rather than only a temporary fix, and provide a range of other multiple benefits."

Energy use increased by 3% in the commercial and residential sectors due to higher demand for heating and cooling. The importance of energy-efficient features for households takes a strong precedence post-Covid as 41% of Australians regularly worked from home in August 2021.

Additionally, in 2050, most Australians will be living in homes that already exist today, making renovations an essential part of achieving net zero. Ensuring current homes are more energy efficient should be a key priority for the Australian government.

There is a growing body of evidence that the more sustainable a home, the higher the price premium and homebuyers have indicated they will pay more for sustainable features like energy-efficient appliances, windows, alongside features that ensure better air quality. A demand side incentive from the government would encourage landlords to consider energy efficiency as an important feature for rental properties, which would further allow for an increase in sustainable homes within the country.



Short Term Recommendation:
A national program of tenant resources was created that puts the tenant in the driving seat to negotiate and implement energy efficiency upgrades as feedback suggests this is not something tenants are currently initiating.

An awareness and education program, drawing from key behavioural insights is necessary with the government to issue surveys to the public to inform on best practices for a cohesive nation-wide awareness campaign on tailored messages to the Australian public.

To achieve this, the government will need to amplify its voice by collaboration with the private and not-for-profit sectors.

REIA, together with the Tenancy Skills Institute, have made inroads with this regards, producing seasonal resources to assist tenants, property managements and owners work together to negotiate heating and cooling upgrades.

Long Term Recommendation:
Fund a green loan 'pilot trial' that offers property investors the opportunity to refinance through a low-interest green loan and for energy efficiency upgrades to be funded when the current tenant moves out or prior to a tenant moving in.

This could track empirically a range of investment, carbon and household metrics over time such as energy affordability improvements to tenants and improvements in rental yields over time. This also represents a cost-effective solution as ESG factors are increasingly influencing institutional investment into property development.

REIA regards working with the property management sector – which currently has $3 trillion in residential real estate under management – as essential to the successful transformation of the rental stock as the Australian Government embarks on its 2030 and 2050 goals. Wholesale transformation of rental accommodation will otherwise not be possible.

The REIA State of the Industry: Australian Commercial Real Estate also demonstrated the opportunities on offer: 70% of occupiers are willing to pay a premium to lease sustainability-certified buildings, and 72% of investors believe that green certifications drive higher occupancy, rents, tenant retention and overall asset value.

REIA fully supports the Australian government's Green Bond program and encourages expansion into other green investment instruments following an assessment of the program outcome after mid-2024.

CONCLUSION

REIA thanks The Treasury for the opportunity to provide a submission into the 2024 -2025 Budget.

The Australian government needs to develop a clear plan to inject housing supply into the community through a series of short and long-term initiatives.

This will help solve many of the housing challenges that we currently face as a nation; and importantly, provide cost-of-living relief to Australian voters.

THANK YOU

REIA