

REAL ESTATE INSTITUTE OF AUSTRALIA

Pre-Budget Submission 2022

Growing Australia's homes and jobs markets.

28 January 2022



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 South Fremantle home in Western Australia.

Western Australia has throughout the COVID-19 pandemic remained Australia's most affordable destination.

REIA's latest Housing Affordability Report revealed that there was an improvement in affordability in Western Australia over the September quarter, with the proportion of income devoted to loan repayments decreasing to 26.3% (national average of 32.6%).¹

¹ Real Estate Institute of Australia, 2021. *Housing Affordability Report - September Quarter 2021*.

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INTRODUCTION

The Real Estate Institute of Australia (REIA) represents Australia's real estate agents and agencies, who employ an estimated combined workforce of 133,360 Australians through a network of 46,000 real estate businesses.

99% of agencies are small businesses and employ professionals across business brokers, property managers, principals, sales agents and representatives.

Last financial year, property sales totalled around \$350 billion and agents collected an estimated \$50 billion in rent. The real estate sector accounts for 1 in 4 jobs indirectly and represents around 13% of Gross Domestic Product (GDP).

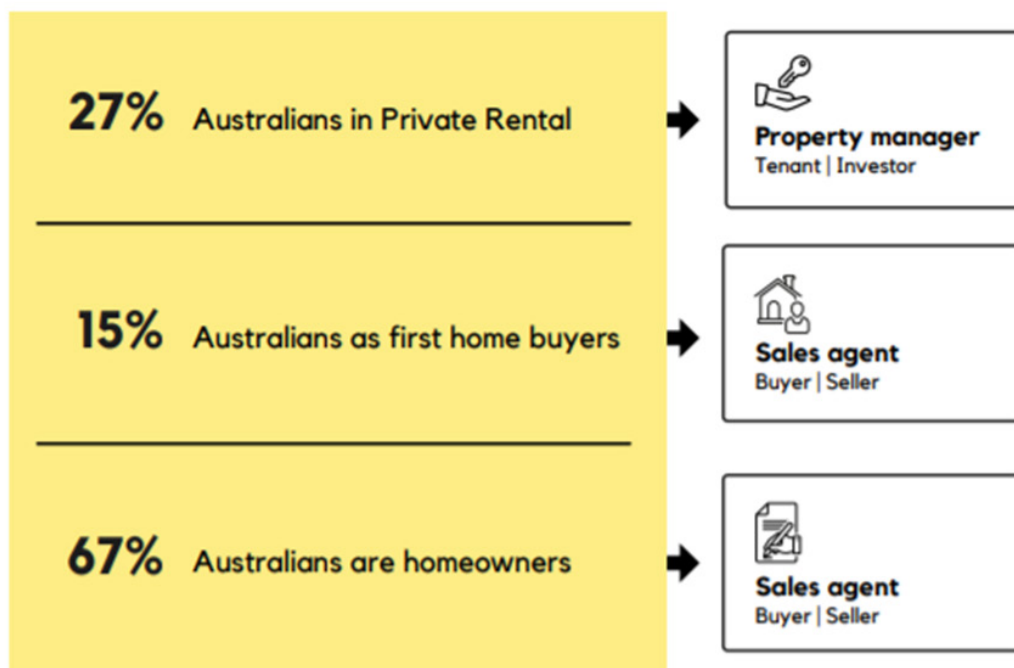
As the national voice for Australia's real estate agents and agencies for almost a century, through our Federated network of Real Estate Institutes (REIs), REIA represent approximately 85% of the sector.

The significance of the real estate industry is highlighted through the pandemic, as property helps the economy continue to grow.

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.

The role of real estate agents

Sales agents & property managers assist +96% of the housing spectrum



Source: National Housing Finance and Investment Corporation, 2020.

Real estate and the Australian economy



46,793

There are 46,793 real estate agencies in Australia.



99%

99% of real estate agencies are small businesses.



130,000

Agencies employ 130,000 Australians across principles, sales agents, property managers and other business and operational support.



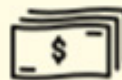
6.9 million

Agents help 6.9 million Australians into new homes and rentals each year.



5 Years

In the past 5 years agents have facilitated on average around 500,000 sales each year.



\$360 billion

Sales amount to nearly \$360 billion per annum as at June 2020.



\$49 billion

There are 2.7 million rental properties in Australia with around 80% of properties managed by agents collecting \$49 billion each year in rent.



13% GDP

Real estate and property activity combined amounts to 13pc of GDP; and a combined workforce of 1 in 4 Australian jobs.

SUMMARY

REIA welcomes the opportunity to outline our priorities to the Federal Government for the 2022/23 Federal Budget.

This REIA Pre-Budget Submission 2022 seeks to grow Australia's homes and jobs markets through three recommendations. This strives to help Australia's aspiring first home buyers, to unlock housing supply (and thus affordability) and to create unique jobs opportunities for Australians.

REIA's three recommendations will benefit the economy, the real estate industry and Australians at large at this phase of the COVID-19 economic and health recovery.

RECOMMENDATIONS

REIA's three recommendations are aimed at addressing the most pressing issues. These are:

RECOMMENDATION	BUDGET INITIATIVES
1. INCREASE FIRST HOME BUYER SUPPORT	<ul style="list-style-type: none">• Expand the First Home Loan Deposit Scheme (FHLDS) to allow more first home buyers to access the deposit guarantee• Continuously review the FHLDS market caps to reflect current market conditions• Continued expansion of the First Home Super Saver Scheme (FHSSS) including improved marketing, raising the cap and allow for pre-2017 voluntary contributions to be accessed• Make interest rates tax deductible for first home buyers as is the case for property investors
2. UNLOCK HOUSING SUPPLY AND AFFORDABILITY	<ul style="list-style-type: none">• Creating and funding a national plan for housing supply and affordability led by a Property Ministers Forum• Review taxation mechanisms that would unlock supply, starting with stamp duty
3. CREATE AUSTRALIAN JOBS IN PROPERTY MANAGEMENT	<ul style="list-style-type: none">• An end-to-end Property Manager Mentorship Program be established including training, mentorship and re-skilling• Fund a recruitment and mentoring campaign for property managers to immediately support Australians into job placements

ECONOMIC BACKGROUND

COVID-19 has dominated Government's economic policy in the last two years. This will continue as the latest Omicron variant, likely to be followed by others, further impacts economic outcomes.

Throughout the pandemic, Australia's real estate sector has and will continue to be a vital contributor to economic growth and recovery.

It is against this background that REIA's Pre- Budget Submission for 2022/23 is framed.

Housing Sector

Housing finance reached record levels in November 2021. The value of new loan commitments (seasonally adjusted) for total housing rose 6.3% to \$31.4 bln, and was 33.2% higher compared to a year ago and investor housing rose 3.8% to an all-time high of \$10.1bln.

For construction, lockdowns in Sydney and Melbourne resulted in a sharp contraction in new detached home starts in the September quarter, with a 16.5% contraction compared to the record high of the previous quarter.

Chart 1: New loan commitments, total housing (seasonally adjusted), values.

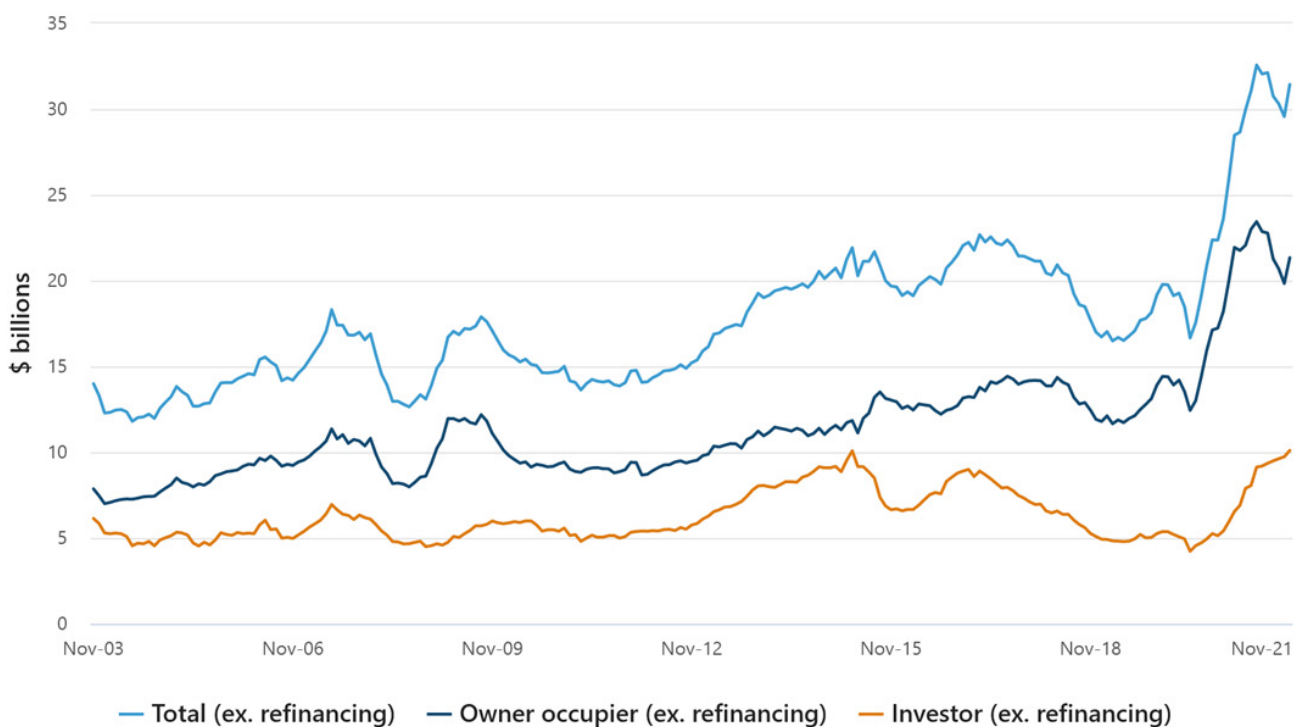


Chart 1 reflects the sharp increase of refinancing across owner-occupier and investor cohorts in November 2021. Source: ABS.

First home buyers

In November 2021, the number of new loan commitments rose 1.9% after nine months of consecutive falls since January 2021 (seasonally adjusted).

This figure remains well above pre-pandemic levels matched only by the Great Financial Crisis, but reflects the challenges experienced by first home buyers.

Chart 2: New loan commitments to owner occupier first home buyers (seasonally adjusted), number, Australia.

New loan commitments to owner occupier first home buyers (seasonally adjusted), number, Australia

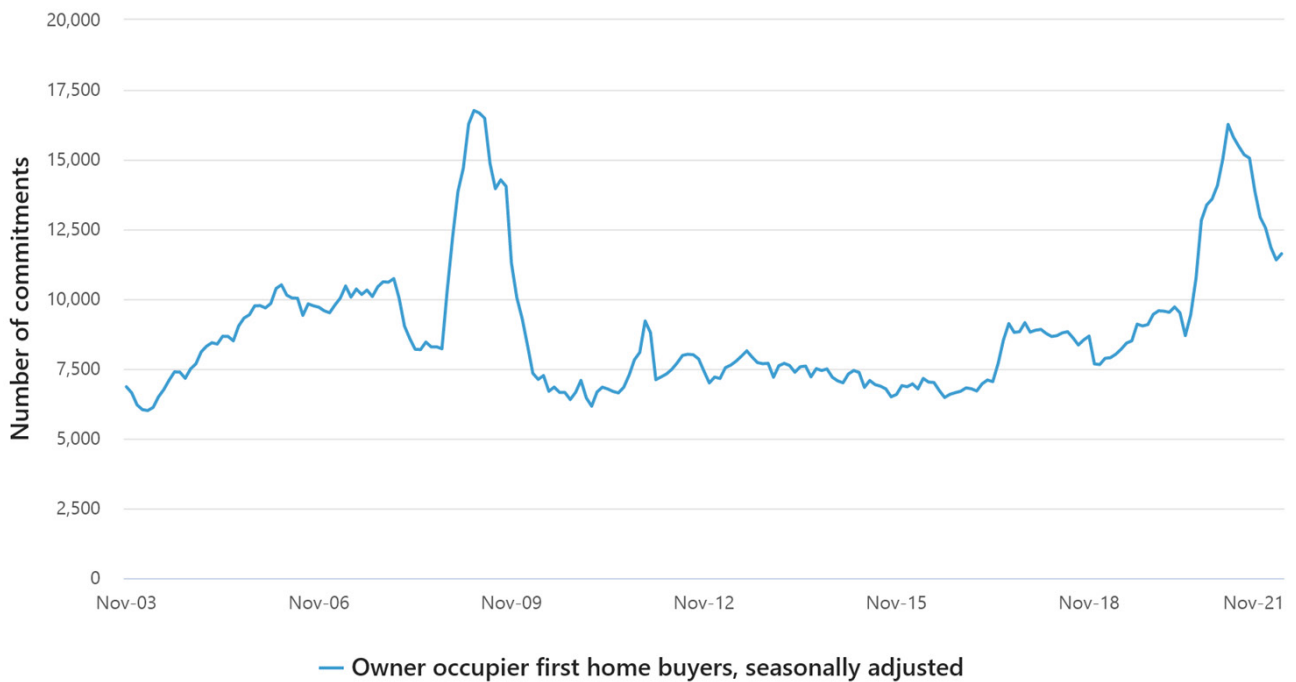


Chart 2 shows that first home buyer new loan commitments began to decline from a peak period at the end of 2021. Source: ABS.

Employment

MYEFO forecasted unemployment to drop to 4.5% in 2022 and down to 4.25% by the June quarter of 2023.

Seasonally adjusted employment increased by 65,000 people (0.5%) in December 2021 (ABS) while the unemployment rate decreased by 0.5 pts to 4.2% - the lowest in the past decade.

High levels of employment are also a product of skills shortages across the country, particularly in services and logistics. This has impacted the real estate industry as there is a drastic deficiency of property managers, with job vacancies equaling to approximately 10% of the workforce. Reskilling employees from covid-impacted sectors would assist in employment as the economy recovers.

GDP

In December 2021 MYEFO reported that the Australian economy was rebounding strongly from the impact of COVID. Australia's economy was forecast to have a strong recovery from the September quarter fall. Real GDP was forecast to grow by 1.25% in 2020-21, by 4.25% in 2021-22 and 2.5% in 2022-23.

The ABS National Income, Expenditure and Product statistics reported that GDP fell by 1.9% in seasonally adjusted measures in the September 2021 quarter.

The September quarter saw household spending in NSW, VIC and ACT falling by 8.4% compared to a 0.7% rise for the rest of Australia.

The Omicron variant, additional supply chain disruptions and intensifying skill shortages may place a considerable constraint on the anticipated economic recovery in 2022.

Chart 3: GDP Growth 1996-2021.

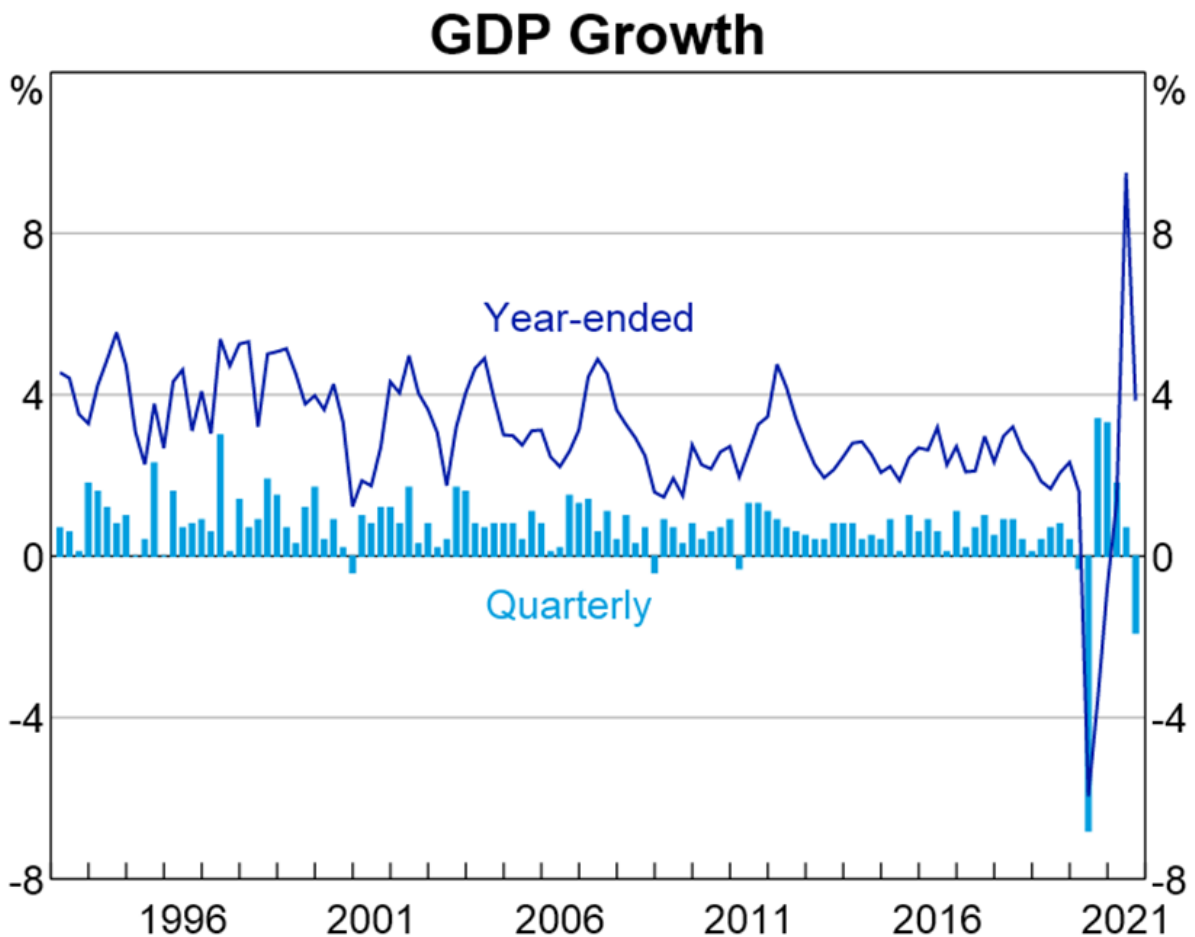


Chart 3 tracks the decline in GDP by 1.9% in seasonally adjusted measures in the September 2021 quarter. Source: ABS.

CPI

MYEFO expects CPI growth to be 2.75% for the year to the June quarter of 2022 before moderating to 2.25% in subsequent years.

For the December 2021 quarter, the All Groups CPI, increased by 1.3%. This represents an increase of 3.5% over the year. Major contributors to the increases were new dwelling purchases by owner-occupiers (up 4.2%) and fuel (up 6.6%).

CPI not only impacts the cost of new dwellings, but also the cost of rent, vacancy rates, construction and repair/ maintenance of properties. When CPI rises, costs can reduce supply and make rental markets more competitive, both negatively impacting affordability.

Monetary policy

One of the major factors impacting the housing market will be interest rates.

While the Reserve Bank of Australia (RBA) decided at its most recent meeting in December 2021 to maintain the cash rate target at 10 basis points and the interest rate on Exchange Settlement balances at zero per cent, there is broad speculation that the RBA will change its policy as early as mid-2022.

RECOMMENDATION 1

INCREASE FIRST HOME BUYER SUPPORT



Overview

Australian first home buyers are defined by NHFIC as 24 – 39 year olds².

Stimulus, low interest rates and a decline in investor activity saw increased first home buyer activity during 2020 and 2021.

In 2020, there were 17 policy measures in place to assist first home buyers across State and Federal jurisdictions, including concessions on stamp duty, Homebuilder, First Home Buyer Grant, First Home Super Saver Scheme and the Builder Bonus grant.³

Sustained growth in house prices and an uptick in investor activity are now causing declines in first home buyer activity. These factors will continue to make it more difficult for young Australians to enter the market without targeted and increased Federal support.

REIA's Housing Affordability Report (HAR) reflects that during the September quarter, the number of first home buyers decreased by 12.6% to 37,782. This decrease was experienced in all States and Territories, with the largest decrease in South Australia of 21.6%.⁴

Chart 4: First home buyers' share of dwellings financed.

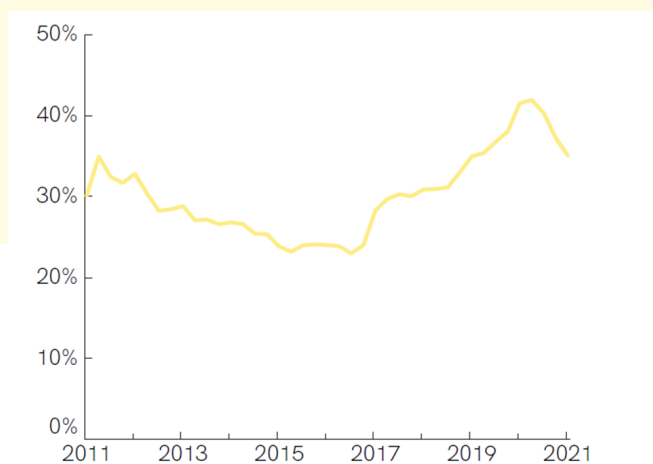


Chart 4 shows a sharp decline from the pandemic peak in FHB activity. Given economic circumstances, this is expected to continue trending downwards as FHBs continue to face challenges in entering the market. Source: REIA.

The proportion of income required to meet loan repayments increased to 36.2% nationally. The national median house price is now \$961,642, an increase of 4.5% over the September quarter and 23.4% over the year.⁵

Home ownership is a part of our social and cultural fabric with 75% of Australians considering home ownership to be part of the 'Australian way of life'.

This values-based demand for home ownership is supported in the Federal Government's Retirement Income Review, which noted the individual and national benefits of home ownership. This includes: a store of wealth and source of equity, sense of prosperity and security, appreciating (in majority of cases) investment, stability and control in living situation and quality in life in retirement by drastically lowering pensioner living costs and providing a 'nest egg'.⁶

² National Housing Finance and Investment Corporation, 2020. *State of the Nation's Housing 2020*.

³ Ibid.

⁴ Op.cit. Real Estate Institute of Australia.

⁵ Ibid.

⁶ Australian Government: The Treasury, 2020. *Retirement Income Review - Final Report*.

Recommendations

It is REIA's strong view, given the current affordability challenges combined with the proven benefits of home ownership, that more support of first home buyers is required. For the Budget 2022/23 initiatives should include:

1. Expand the First Home Loan Deposit Scheme (FHLDS) to allow more first home buyers to access the deposit guarantee

2. Continuously review the FHLDS market caps to reflect current market conditions

3. Continued expansion of the First Home Super Saver Scheme (FHSSS) including better marketing, raising the cap and allow for pre-2017 voluntary contributions to be accessed

4. Make interest rates tax deductible for first home buyers as is the case for property investors



RECOMMENDATION 2

UNLOCK HOUSING SUPPLY AND AFFORDABILITY



Overview

NHFIC has predicted that project completions will fall by 12% this year and that demand will fully rebound by 2023.

After 2023, housing demand will lift to 144,700 dwellings in 2023. By 2024, demand will fall back close to pre-COVID levels of around 178,800 dwellings.

From 2023 to 2025, NHFIC anticipates new demand is expected to exceed new supply.

“Over the longer term, NHFIC’s projections see housing demand bouncing back and will exceed housing supply between 2023 and 2025. Affordability for renters and prospective first home buyers could deteriorate if supply is not responsive to the strong rebound in demand.”⁷

If NHFIC forecasts hold, the gap between the supply and demand for housing will continue to increase.

From a practitioner standpoint, the better measure of supply across housing stock is listings (homes brought to the market for sale) which hit a national 10 year low in August 2021 at 215,911 dwellings (houses and units), with 65,948 remaining on the market for less than 30 days.⁸

Chart 5: Aggregated national property listings (showing days on market) 2010-21.

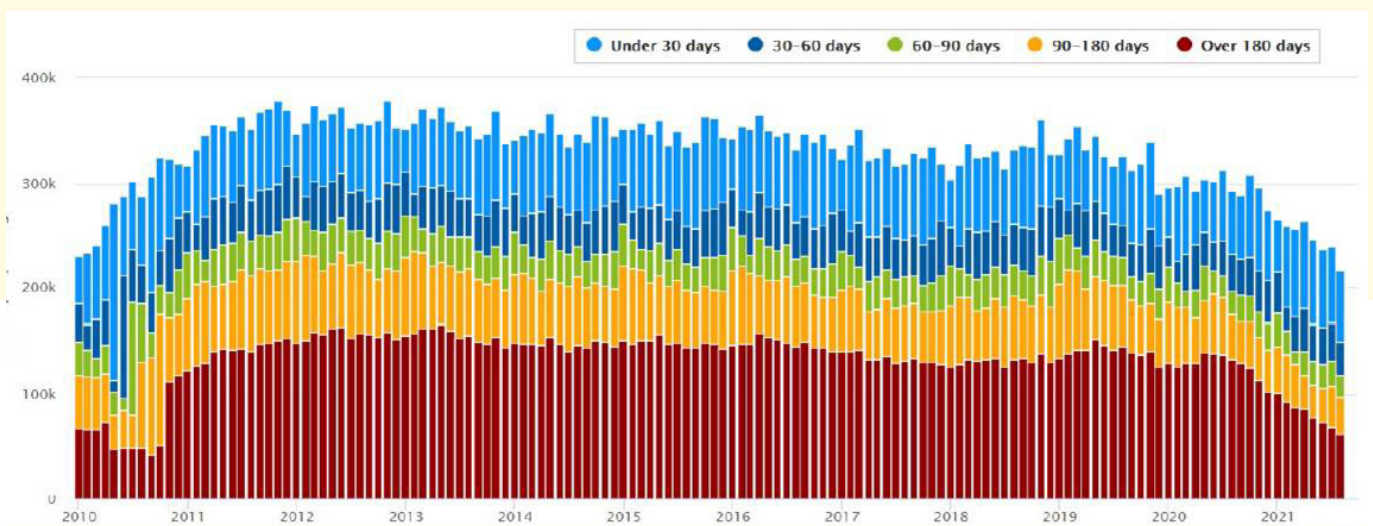


Chart 5 shows the recent decline in how many days properties spend on the market, highlighting high demand and competition. Source: SQM Research

The long-term downward trend for listings has been most intense in regional areas with listings down nearly 40% from pre-pandemic levels.⁹

In real terms, this means that we are seeing inadequate supply to meet demand across the country.

REIA’s consultation with State and Territory institutes reflect the low levels of stock were impacting sales transactions, with Victoria seeing a 21% reduction in transactions compared to 2016.

REIs reported that this is not expected to change in the near future.

⁷ Op.cit. National Housing Finance and Investment Corporation.

⁸ SQM Research, 2021. *Total Property Listings: National*.

⁹ PropTrack, 2021. *Listings Report, December 2021*.

Chart 6: Monthly total for sale listing trends.

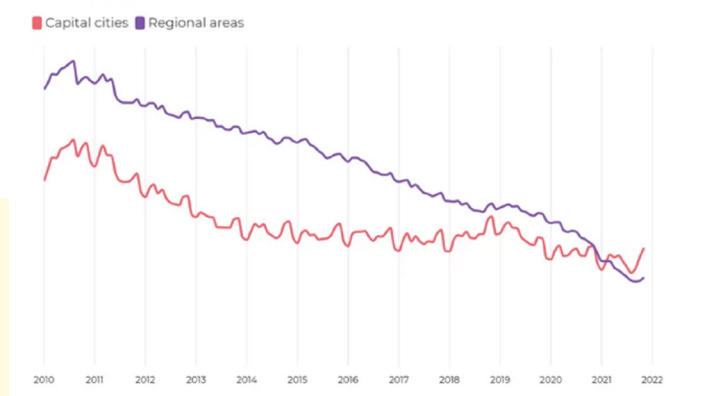


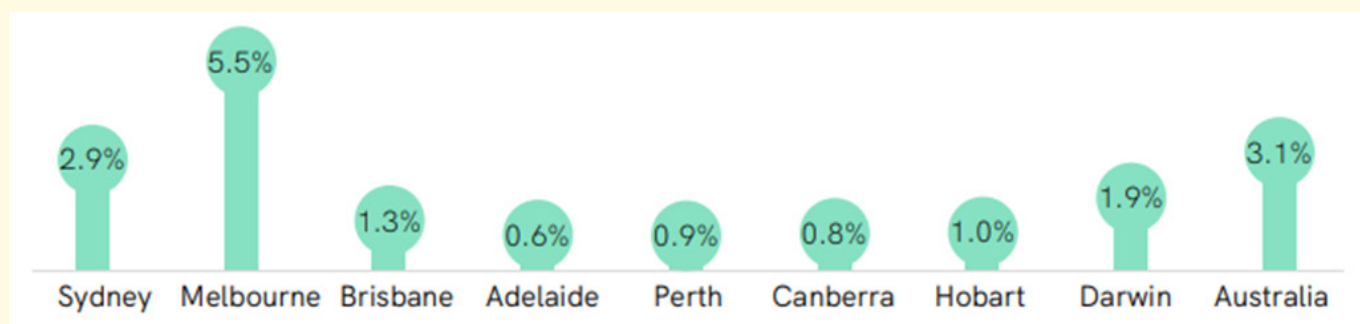
Chart 6 indicates the more dramatic decline in listings in regions versus cities. Source: Proptack.

Supply will continue to challenge Australians and continue to impact affordability. This is not only an issue on the sales side, but in the rental market as well.

REIA’s latest Real Estate Market Facts (REMF) found that the vacancy rates were critically low, with the exception of Sydney and Melbourne. Adelaide (0.6%), Perth (0.9%), Canberra (0.8%) and Hobart (1.0%) all had vacancy rate of 1.0% or less. Brisbane remained stable with a vacancy rate of 1.3% and Darwin’s vacancy rate rose to 1.9%. Sydney and Melbourne, in a quarter where both cities were locked down, had reduced vacancy rates of 2.9% and 5.5% respectively. Any form of rental property is now very competitive with tenants facing far fewer options.

The average median rent is now \$464 per week for 3 bedroom houses and \$430 per week for 2 bedroom other dwellings.¹⁰

Rental vacancy rates – September quarter 2021.



Non-locked down cities faced extremely tight vacancy rates. Aside from Melbourne, all cities were below the 3% considered a healthy vacancy. Source: REIA Real Estate Market Facts

¹⁰ Real Estate Institute of Australia, 2021. *Real Estate Market Facts, September Quarter 2021.*

AUSTRALIAN CAPITAL TERRITORY

In the ACT it is estimated that the supply shortfall in 2021 is around 2,562 listings for sale and 4,145 listings for rent or 30% more of the current stock on the market.

(Source: REIACT)

SOUTH AUSTRALIA

Vacancy rates are half what they were in 2020 (June – June); and sales agents report 3 – 5 offers received on houses within the media range, with a supply surplus not anticipated in the near future.

(Source: REISA)

VICTORIA

The number of residential sales transactions has reduced by 21% compared to five years ago (2016).

(Source: REIV)

WESTERN AUSTRALIA

Buyer habits have changes, with the average homeowner now more reluctant to change homes. Renovations are now preferred over selling and sourcing a new property, with stamp duty being a major factor.

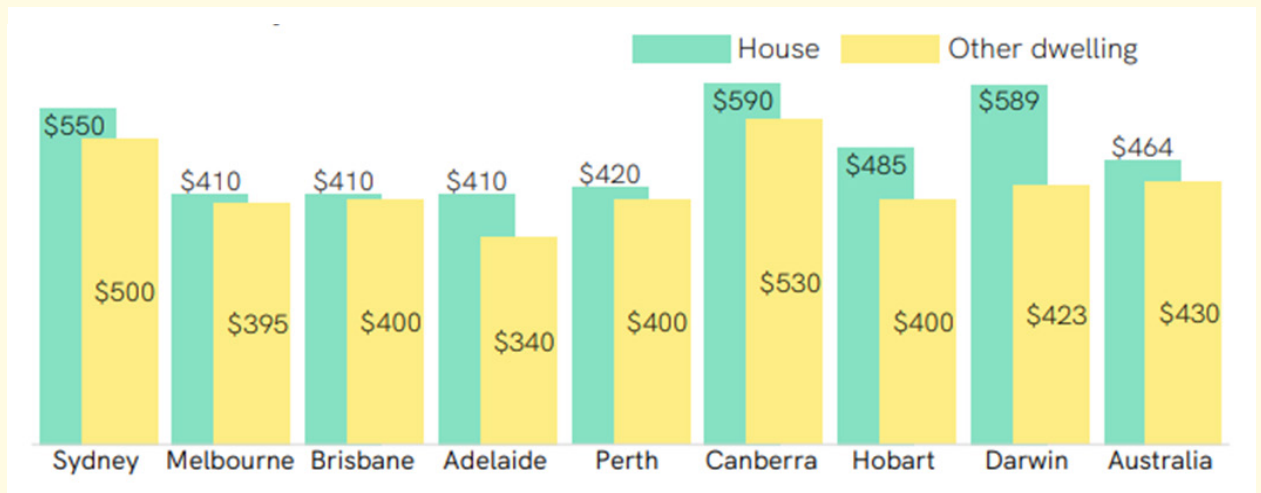
An estimated shortfall of 27,104 listings for sale per year (45 per cent more than current) and 7,517 listings for rent per year (15 per cent more than current).

Current WA supply shortfall is 3000 listings.

(Source: REIWA)

Source: REIA.

Median weekly rents.



Median rents across the eight capital cities and nationally in houses and other dwellings. Source: REIA.

With lack of rental supply on the market, tenant demand is outpacing supply. REIACT reported this is serious in the ACT, with demand 30% higher than supply.

Young Australians are more likely to be in rental properties, facing more competitive and expensive markets. Naturally, with higher living costs, the goal of home ownership is pushed further away as Australians struggle to afford to stop renting.

A clear plan, involving the three levels of government and regular industry engagement, needs to be undertaken. A strategic approach will respond to current inefficiencies, data, and feedback from buyers, renters, and agents on the ground.

Recommendations

Government leadership is needed to combat undersupply and improve affordability.

Whilst unlocking supply remains challenging, REIA strongly advocates a bi-partisan, Federated approach to addressing these challenges through:

1. **Creating and funding a national plan for housing supply and affordability led by a Property Ministers Forum**

2. **Review taxation mechanisms that would unlock supply, starting with stamp duty**



RECOMMENDATION 3

CREATE AUSTRALIAN JOBS IN PROPERTY
MANAGEMENT



Overview

Since the onset of the pandemic, job vacancies have increased significantly in the Rental, Hiring and Real Estate Services sector. ABS data reflects that the real estate sector was amongst the most heavily impacted, with vacancies increasing around 80% over 2021.

In September 2021, there were approximately 4,300 Property Manager (PM) positions on SEEK, equating to around 10% of the current total national workforce.

PMs play a vital role in housing Australian’s with approximately 80% (2.7 million) of rental properties in Australia under management. This includes management of property maintenance, rent collection, tenant management and recruitment and compliance.

This work is all the more so vital with 27% of Australians living in private rentals.

Chart 7: Job Vacancies ('000s) – Rental, Hiring and Real Estate Services 2016-2021.

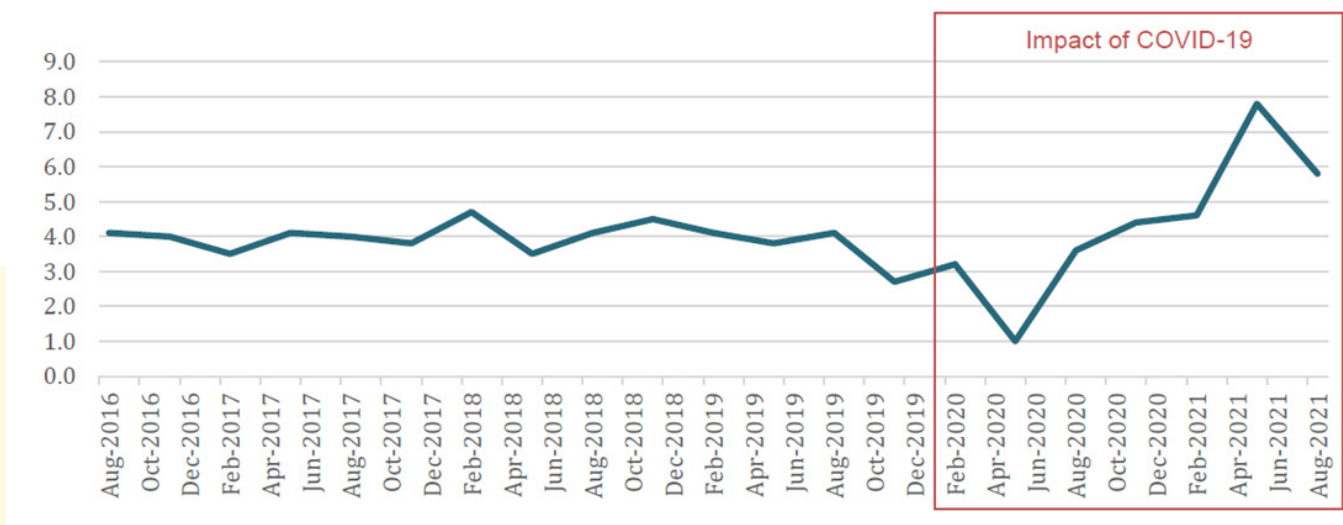


Chart 7 indicated the impact of COVID-19 on job vacancies in this sector. Source: ABS

Chart 8: Job Vacancies, % change from Feb 2020 by industry.

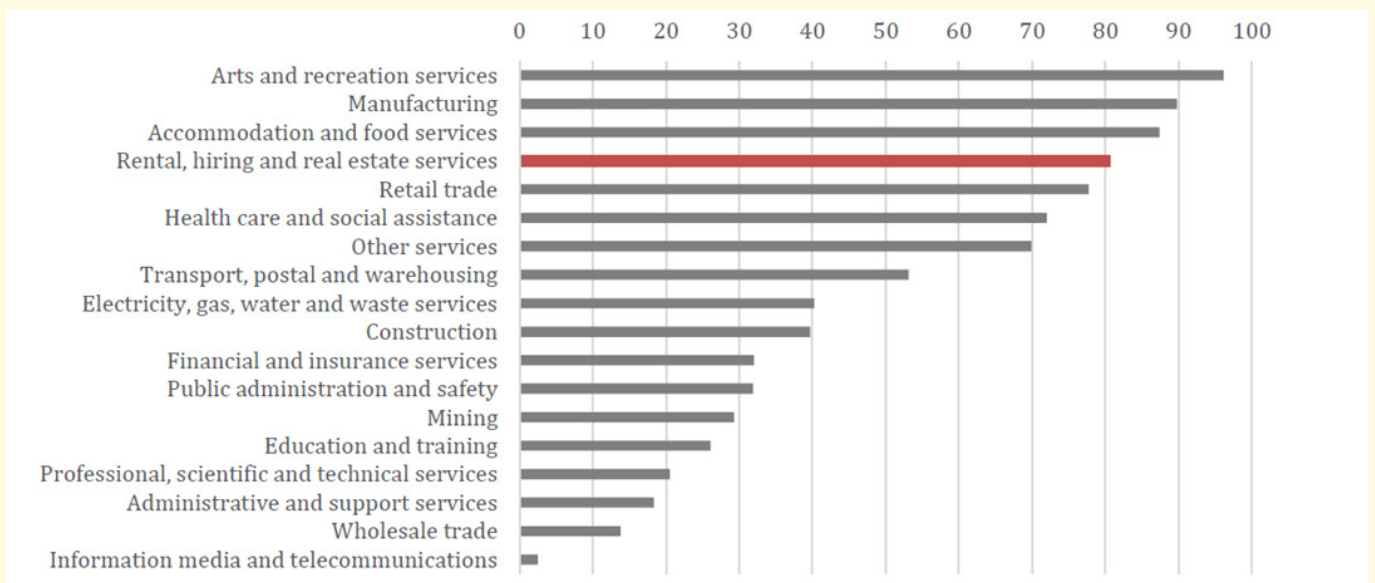


Chart 8 tracks comparative shortage in rental, hiring and real estate services. Source: ABS

A survey undertaken by REIA in November 2021 showed that skills shortages have reached a crisis point with 39.94% of respondents stating that their business was facing staff shortages due to the lack of skilled candidates. A further 30.03% also claimed to have trouble with staffing, citing workplace stress fueled by the COVID-19 pandemic as their biggest challenge.

This exodus has a range of factors, including compliance burden, lack of training, intergenerational lag and implementation of the national rental eviction moratorium.

The Opportunity

REIA sees property management as a significant opportunity to get more Australians working, especially from heavily COVID-19 impacted sectors including tourism, retail and aviation. These have adjacent skill sets.

Property management is also a female-dominated industry (67% female), REIA also sees an attractive opportunity for women re-entering the workforce to be re-trained into Property Management as a part of broader progress on Women's Economic Empowerment.

Recommendations

To attract new jobs candidates to Australia's real estate sector it is recommended that:

- 1. An end to end Property Manager Mentorship Program be established including training, mentorship and re-skilling.**

This would have a dual benefit of reskilling Australians and employing experienced property managers as mentors. REIA estimates this would cost \$14,500 per place and funding from existing reskilling programs could be utilised.

- 2. Fund a recruitment campaign for property managers to immediately support Australians into job placements, with a specific focus on transitioning professionals from COVID-19 impacted sectors into property management.**

This would include: development of a digital prospectus highlighting the benefits of property management as a long-term career, a micro-website and targeted email campaigns, digital advertising for Jobseekers, including social media direct to Jobseeker audience and cross leveraging agency outreach platforms.

CONCLUSION

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

1. Increase first home buyer support

2. Unlock housing supply and affordability

3. Create Australian jobs in property management

These measures will help Australia continue to recover and prosper by advancing jobs, productivity, home ownership and affordability and economic growth. Employment and home ownership in particular have non-material positive impacts as well, as this adds value, security and fulfilment to Australians.

THANK YOU

