REIA SUBMISSION TO THE TREASURY'S CORONAVIRUS BUSINESS LIAISON UNIT

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

The REIA's members are the State and Territory Real Estate Institutes, through which around 75-80 per cent of real estate agencies are collectively represented. The Census records the Rental, Hiring and Real Estate Services Industry employment sitting at a total of 117,880. By occupation the key data recorded by ABS Census were some 65,000 business brokers, property managers, principals, real estate agents and representatives.

The 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 per cent of real estate agencies are small businesses and 11 per cent of all small businesses in Australia are involved in real estate.

REIA is committed to providing and assisting research and well-informed advice on a range of issues affecting the property market.

Introduction

The REIA welcomes the opportunity to provide a submission to the Treasury's Coronavirus Business Liaison Unit recommending approaches that will assist the real estate sector achieve the Government's objective to keep as many Australians as possible employed and contribute to the economy as it recovers from the impact of the COVID19 pandemic. The REIA seeks Government consideration of nine specific matters:

- Extension of JobKeeper
- Extension of JobSeeker
- Abolish Stamp Duty on residential property
- Abolish Payroll Tax
- Abolition or Concessions on Land Tax
- Assistance for Renters
- First Home Buyer Assistance
- Support for Regional Areas through Infrastructure Investment and Support for Businesses Locating to Regional Areas
- Review the Lower Limit for HomeBuilder Eligibility.

The focus of the measures on Australia's property industry recognises that it has been a main driver of economic growth and increased employment in the transition away from a reliance on mining. A healthy property sector has been a crucial support to economic growth over the previous three years. It stands to reason then that in these unprecedented times Government would consider a stimulus to the sector to boost expected low levels of unemployment and address growth in the Australian economy.

The recommendations by the REIA are made after its member state and territory Real Estate Institutes have surveyed real estate agents and agencies in their jurisdictions. The survey, and recommendations, thus reflects a regional perspective a well as a national aggregate.

Extension of JobKeeper

The introduction of the JobKeeper scheme needs to be applauded for keeping many employed in the real estate sector. Many of these employees have been engaged in providing the essential service of keeping tenants housed during the pandemic. The real estate profession has acted quickly and responsibly in response to developments to date including managing day-to-day issues between tenants and owners and being responsible for the care and maintenance of the property and ensuring the health and safety of tenants, their visitors, customers, clients and staff.

For those engaged in the real estate sector the easing of business restrictions and social engagement does not however signal a return, albeit slowly, to business conditions anywhere near normal because of the long lead times between a pickup in buyer and seller enquiry levels and payment of commission.

It can be a year or more between when a salesperson first receives contact from a potential seller and settlement which includes payment of the commission. The process usually starts with the salesperson conducting an initial inspection and meeting with the client. This then leads to a proposal being produced and this is presented to the sellers. More often than not the sellers will then take their time attending to improvements identified by the agent to be completed prior to putting the property on the market. Once this is done, the agent then needs to prepare the marketing. Whilst for some properties this will take less than forty five days some sellers will not be ready to go to market for many months or even a year in some cases. Then there is the time frame to actually achieve a sale of say thirty to sixty days followed by the settlement period which is somewhere between a further thirty to ninety days.

It will take some three to six months for incomes to fully reflect the slow down in activity since the initial "hibernation" of the Australian economy.

The Homebuilder package, whilst providing much needed assistance for employment in the building may further delay the time taken for some properties to reach the market.

At the same time exacerbating this is the expectation of a continuation of falling sales volumes. Anecdotal evidence suggests that we are likely to see at least a fifty percent reduction in the volume of sales across Australia as sellers retreat from the market. Some parts of Australia will be harder hit than others. Melbourne and Sydney certainly will be highly impacted but many of our regional communities particularly those affected by bushfires, flood and drought can expect a larger impact on income and employment.

It is not surprising then that the survey undertaken by REIA member Real Estate Institutes shows that over 80% of respondents saw the need to extend JobKeeper for the real estate sector. Many leading agents have an expectation that we will not return to the market levels we have seen for many years. Even when the health issues surrounding Corona Virus have been addressed the economic aspects will see a protracted period of high unemployment and low economic growth.

In addition estate agents are bracing themselves for the termination of the non-eviction periods for tenants who have not been unable to make their rental periods. Agents will be required to deal with these matters on behalf of the owners whilst not having received any income from those properties for a number of months. This loss will be compounded by the anticipated lower income from lower listing numbers and sales.

It is for these reasons that REIA recommends an extension of the JobKeeper scheme for the real estate sector beyond the announced cessation of September.

Extension of JobSeeker

The impact on jobs of the pandemic has been far from uniform across industry sectors. Some recipients of JobSeeker are in industries that will be slow to recover. Those that were employed in hospitality, tourism and travel, entertainment and the arts will continue to be impacted by ongoing restrictions on social distancing.

Whilst Treasury estimates that unemployment across the country will reach 10 per cent by June with a reduction thereafter many industries have been impacted by more.

The hospitality industry continues to be hit the hardest with a third of jobs in the accommodation and food services sector lost. The number of jobs in arts and recreation services has fallen by 27 per cent. Jobs in the rental, hiring and real estate sector are down more than 13 per cent and mining has lost 11 per cent of jobs.

To enable those that are in disproportionately impacted sectors meet their financial commitments such as rent, extending JobSeeker would also minimise the flow on impacts.

REIA thus recommends an extension of the JobSeeker scheme beyond the announced cessation of September for those sectors that are slower to recover.

Abolish Stamp Duty on Residential Property

Taxes are one of the factors determining investment in housing and thus housing supply and housing affordability. The housing sector is one of the most heavily taxed sectors of the Australian economy, both in absolute and relative terms.

There are many studies that show that stamp duties are an inefficient tax with detrimental economic and social impacts. 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. This will certainly be the case with reduced activity in the real estate sector as discussed above.

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 system … and should be replaced with a more efficient means of raising revenue."

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.

Whilst REIA has long advocated for the abolition of stamp duties and realises it is a state based tax, in the current circumstances REIA recommends that the Federal Government take a leadership role in coordinating state Governments for at least a temporary cessation of stamp duties.

Abolish Payroll Tax

Payroll taxes are taxes paid on the wages and salaries of employees and is calculated on the amount of wages, superannuation and benefits a business pays its employees including directors' fees. In short it is a tax on unemployment when reducing unemployment now is a higher priority than it has ever been.

The Henry Report stated that payroll tax should be replaced with broad cash-flow tax or an efficient broad-based tax that 'captures the value added of labour.' More recently Ken Henry has said that the deteriorating tax system will fail to support the economic recovery from the coronavirus crisis and has called for a new tax on business cash flow to replace amongst other taxes payroll tax.

He said that today's tax systems are not capable of supporting the acceleration in economic growth that will be required to ensure a sustained recovery.

Whilst reform of the tax system is a complex consideration and understandably cannot be completed for the recovery stage of Australia's economic recovery which has a priority of getting people back to work and businesses up and running, a medium term suspension or reduction in payroll tax would provide a valuable incentive to get businesses to hire and thus reduce unemployment.

REIA thus recommends that the Federal Government take a leadership role in coordinating state Governments for at least a temporary cessation of payroll tax.

Abolition or Concessions on Land Tax

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

Land tax, which currently applies to residential investment property, has a number of consequences which are detrimental to boosting activity in the housing sector and are at odds with the objective of the HomeBuilder program announced by the Government to boost activity in the construction industry.

Land tax on residential investment property discourages the supply of housing. Re-think suggests that levying land tax at progressive rates on total landholdings leads to higher taxes on large landholdings, compared to smaller landholdings. The OECD argues that this introduces a bias against large investments in residential property and discourages institutional investors from investing in private rental housing.

Any constraints on supply should be avoided, particularly in current circumstances of boosting employment in the construction industry.

Land tax also increases rents, which at time when many tenants are struggling to pay their rent should be avoided.

Land tax on property investment is inequitable to those that choose to invest in property as compared to other investment classes such as shares or bonds. A tenet of tax policy is that similarly positioned individuals should pay similar taxes. A land tax fails this test. Land tax discriminates against those that have chosen to invest in real estate rather than other asset classes. Land tax amounts to a surcharge for holding one's savings in real estate whereas other asset classes have no such charges for merely holding onto them.

Whilst REIA realises land tax is a state based tax, in the current circumstances REIA recommends that the Federal Government take a leadership role in coordinating state Governments for at least a temporary cessation of land tax on residential investment properties.

Assistance for Renters

There are some 3.3 million properties that are rented or available for rent across Australia. Many of these are rented by people who have lost their jobs in the pandemic. Some are in industries that may be slow to recover such as those that will continue to be impacted by ongoing restrictions on social distancing such as hospitality, tourism and travel, entertainment and the arts.

REIA understands the stress and anxiety that tenants may be feeling at this time and many agents have taken a responsibility and a duty of care to look after the interests of the tenants and the property owners by negotiating interim arrangements.

For those tenants on JobSeeker, the Corona Stimulus Package provides rent assistance in addition to their Centrelink payment. For a couple with two children 30% of this payment enables them to pay $473 per week, which is well above the Australian median rent of $430, and still have $912 per week to live on. It is only for houses and other dwellings in Sydney and other dwellings in Melbourne that the median rents are higher at $500, $530 and $460 respectively.

The REIA recommends that rental support be extended for those in vulnerable industry sectors.

First Home Buyer Assistance

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, for whom housing affordability is an acute issue.

The current proportion of first home buyers, as part of the total owner-occupied housing finance commitments 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 effectiveness of measures aimed at first home buyers in stimulating the property sector.

An extension of the 2019 Election commitment to introduce the First Home Loan Deposit Scheme on 1 January 2020 providing a guarantee to allow 10,000 eligible borrowers to purchase a home with a deposit of 5 per cent has been a success is one way of replicating the success of the 2008 measure. The current 10,000 loan cap, however seems rather arbitrary and represents less than 10% of first home buyers. As such it is a lottery with the bulk of first home buyers not benefitting .

REIA thus recommends that the scheme should be expanded to cover all eligible first home buyers of established and new dwellings with the appropriate income and house price limits. This will be equitable, administratively easier, avoid any surges in demand and provide a stimulus to construction activity and support employment in both the building sector and the real estate sector.

It is imperative that any assistance to first home buyers should be uniform and should not discriminate between buyers of new or established housing. Less than 20 per cent of Australian first home buyers buying new homes with over 80 per cent purchasing established dwellings. First home buyers in New South Wales, Queensland, South Australia, Tasmania, the Northern Territory and the Australian Capital Territory were above the national average in their preference for established homes. These choices are made on affordability of older dwellings in locations that provide proximity to work, leisure activities and infrastructure including public transport.

REIA recommends that the First Home Loan Deposit Scheme should be expanded to cover all eligible first home buyers of established and new dwellings.

Support for Regional Areas through Infrastructure Investment and Support for Businesses Locating to Regional Areas

One of the upshots of the imposed period of self isolation and working from home is that work practices will change with the need for all to work from a central office no longer the norm. This then impacts on where people choose to live.

There is anecdotal evidence that the level of enquiry for property, both rental and to buy, in regional areas particularly in relatively close commuting distance from a major city has increased dramatically in recent weeks. Previously the motivation stemmed from more affordable housing which whilst still true has now the added motivation of lifestyle and life work balance.

The benefits of reversing the population drift to major capitals are shared by both the recipient regional area and the major cities.

To facilitate this expected movement requires regional investment in strategic investments that build workforce, cultural capital and infrastructure to support and attract jobs and ensure the benefits are captured.

REIA is aware that the Government is committed to supporting regional Australia and has delivered a number of major investments in regional Australia. In the 2018-19 Budget, the Government committed to funding over 100 new regional programs that create jobs, support economic growth and improve access to essential health, education and communications services.

This commitment needs to be accelerated to improve long-term productivity, increase and spread Australia’s economic growth, and deliver higher incomes.

Some of the investment should be directed at climate event mitigation. The devastating bushfires and floods of the summer just past has highlighted the need for this with Australia’s science agencies having told us that we can expect more extremes in the future.

REIA recommends that Government support for regional areas through infrastructure investment and support for businesses locating to regional areas be accelerated.

Review the Lower Limit for HomeBuilder Eligibility

The REIA is supportive of the Government’s HomeBuilder housing stimulus package for new builds and renovations to give the construction industry a much needed boost to activity and employment. The package will revitalise building activity over the next few months when the viability of builders and their jobs as well as related sectors will be most under threat.

The REIA understands that the eligibility criteria have been determined by the need to maintain integrity for the package, eliminating rorting and maximise employment generating.

The extent of the employment generated will be determined by the number of projects undertaken and the size of those projects.

Feedback that the REIA has had on the package clearly suggests that a lower limit on renovations would result in a much greater uptake and thus enhance the employment generation – the very objective of HomeBuilder.

Further, the employment generation of a $75,000 renovation is proportional to a $150,000 renovation. There is nothing inherent about higher priced renovations that have a higher labour content than a medium priced renovation. A $150,000 renovation does not employ more than twice the amount of tradespeople than two $75,000 renovations. Indeed it is quite likely less, as higher priced renovations tend to have higher level fittings which are often imported.

The REIA firmly believes that a lower limit on the eligibility of renovations would generate more employment with the integrity of the scheme still being maintained through conditions such as the requirement of a licensed builder.

REIA recommends that Government review the lower limit for renovations under the HomeBuilder package with the view of reducing it.