REIA SUBMISSION TO THE SENATE ECONOMICS REFERENCE COMMITTEE INQUIRY INTO AFFORDABLE HOUSING

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PREPARED BY

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REIA

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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% of real estate agencies are collectively represented. The 2011 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 64,699 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% 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 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 REIA welcomes the opportunity to make a submission to the Senate Economics Reference Committee Inquiry into Affordable Housing.

Introduction

With first home buyers finding it increasingly difficult to enter the housing market, home ownership in Australia is declining after four decades of stable levels.

Over the five years to 2011, home ownership declined by 1.1 percentage points to 67.0% of occupied private dwellings. The drop was evident across all states and territories and was most pronounced in the 35 to 54 age group. In the decade to 2011, home ownership dropped by 4.5 percentage points for the 35 to 44 age group and by 5.5 percentage points for the 45 to 54 age group. The National Housing Supply Council, in its 2012-13 report, showed that it seemed certain that the rate of home ownership would drop further.

Population growth in Australia as well as changes in the demographic composition necessitates that the supply of affordable housing is addressed as a priority policy issue. Australia's population reached 23.13 million in mid-2013, having added over 407,000 people in the year to June 2013 - this is equivalent to a growth rate of 1.8%

over the year which is well above the long term average. The ABS population projections show net overseas migration is expected to make a stronger contribution to population growth in future years than it has in the past.

Availability of affordable housing is a goal that is shared by the Government, the Opposition and all sectors of the community. Availability of affordable housing impacts on the functioning of the economy as well as the wellbeing of individuals and the cohesiveness of communities and society.

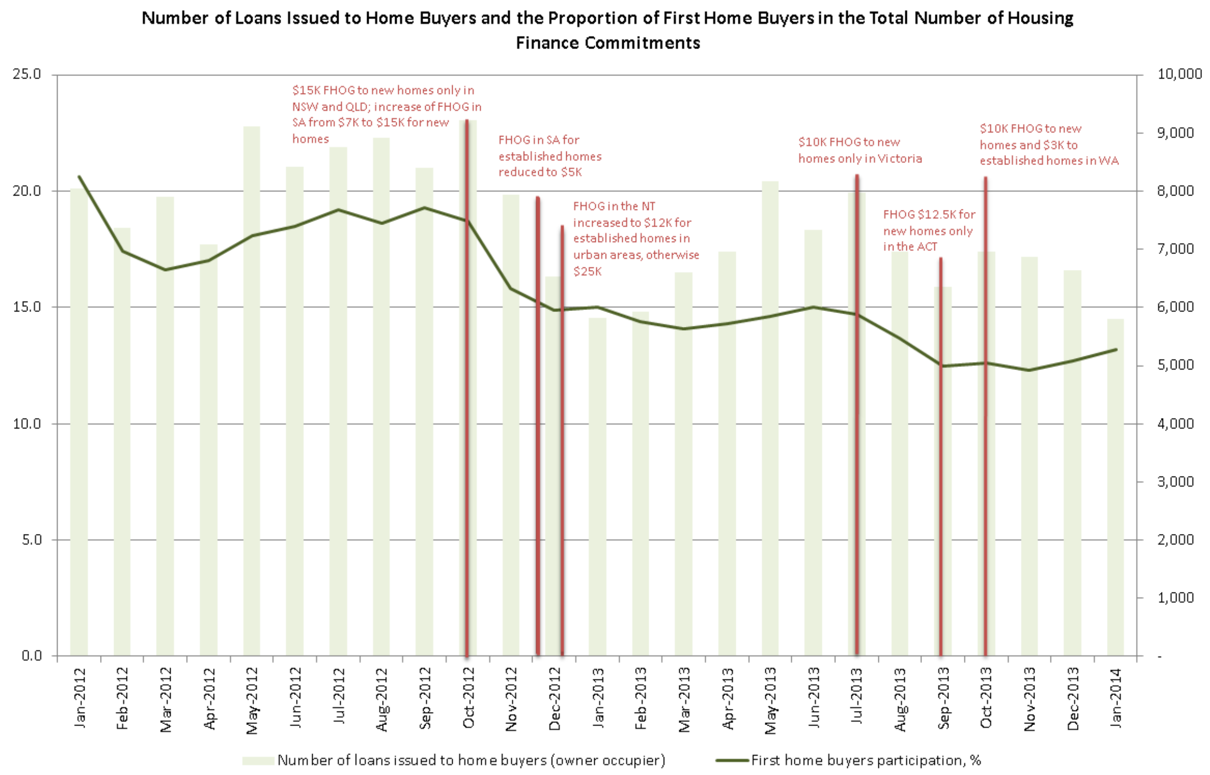
The current Government acknowledged the importance of addressing housing affordability during its pre-election campaigns of 2013 through when it called for improving housing affordability and supporting housing development and promised to improve housing affordability and encourage high levels of home ownership saying "We will work closely with States and Territories who have primary responsibility for housing to reduce red tape holding up the supply of housing and construction and to increase land release for new homes." The Minister for Social Services the Hon Kevin Andrews subsequently acknowledged the need for leadership by in driving a solution to the looming housing supply crisis.

Similarly the Shadow Treasurer, the Hon Chris Bowen, has indicated that housing affordability will be a key area of policy that the Opposition and has said that " there are no easy solutions or magic bullets and ….this is an issue which requires buy in from each of the three levels of government".

First Home Buyers

Housing affordability is an acute issue for first home buyers. The easing in monetary policy started in November 2011 resulted in 225 basis points reduction in the official interest rate which has, albeit with a longer lag than expected, resulted in an increase in housing finance approvals. This improvement however is due to a return of investors and changeover buyers. The rate of growth in investors has however been greater than that of upgraders. In November 2013, the proportion of first home buyers in the total number of owner-occupied housing finance commitments collapsed to its historically lowest point of 12.3% indicating the urgent need for policy makers to address the issue.

The graph below shows the number of loans to home buyers and the proportion of first home buyers in the housing finance commitments from January 2012 to January 2014.

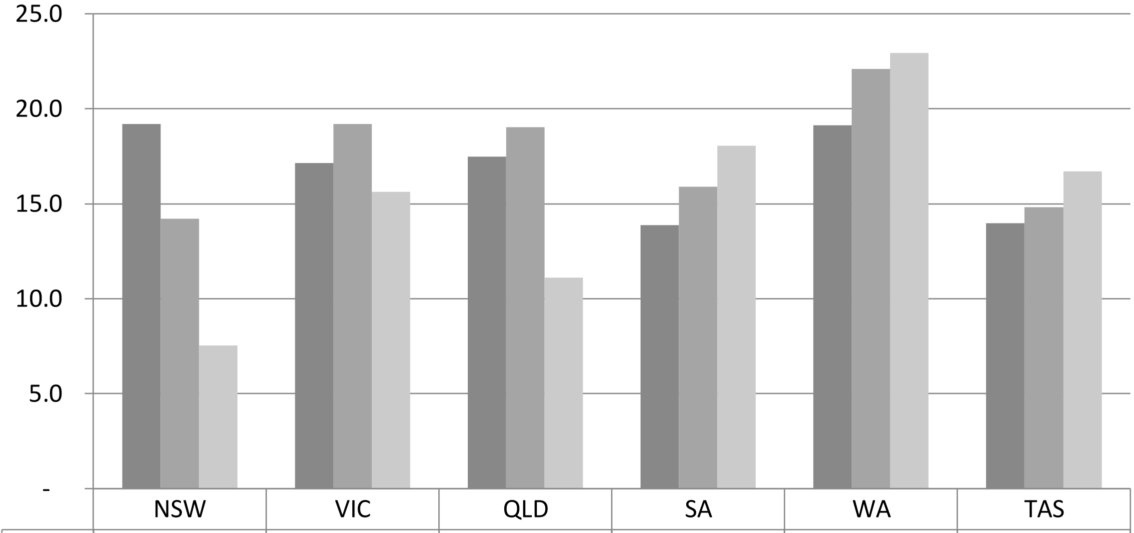


Source: ABS, Revenue Offices of each State and Territory.

One of the most important housing policy instruments in assisting first home buyers is the First Home Owner Grant (FHOG), which was introduced in July 2000. As part of the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-States Financial Relations signed in June 1999, the states and territories agreed to provide financial assistance to Australians who are buying their first home through the establishment of the FHOG. The IGA stated that assistance to first home buyers would be “uniform” and that “an eligible home would be new or established”. All states and territories in signing off on the IGA had the clear intention of providing assistance to all first home buyers.

By the end of 2013, New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania and the Australian Capital Territory announced changes to the assistance in their jurisdictions with the majority stating that they would only provide assistance to those first home buyers purchasing new homes. Attachment 1 details the changes by jurisdiction to the eligibility of the FHOG and illustrates the impact these have had on the proportion of first home buyers.

South Australia, Western Australia and Tasmania are the only states which currently provide grants for first home buyers purchasing established housing. It is in these three states that we see that as housing affordability has improved largely by interest rate cuts that the proportion of first home buyers of the total of finance commitments increases. In other states despite the cut in interest rates the lack of assistance to those first home buyers wishing to purchase established housing has seen their presence fall.



	NSW	VIC	QLD	SA	WA	TAS
2011	19.2	17.1	17.5	13.9	19.1	14.0
2012	14.2	19.2	19.0	15.9	22.1	14.8
2013	7.5	15.6	11.1	18.1	22.9	16.7

Source: ABS.

Victoria, Queensland and Western Australia do provide stamp duty concessions for first home buyers purchasing established housing.

The ABS in its Housing Occupancy and Costs publication reports that in 2011-12, only 18.6% of Australian first home buyers with a mortgage were buying new homes with 81.4% purchasing established dwellings. As shown in the table below 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.

First Home Buyers with a Mortgage, by Dwellings Type by State and Territory (%), 2009-10

Dwellings Type	NSW	Vic	Qld	SA	WA	Tas	ACT and NT	Australia
New	12.5%	25.9%	16.5%	9.3%	29.2%	5.3%	8.7%	18.0%
Established	87.5%	74.1%	83.5%	90.7%	70.8%	94.7%	91.3%	82.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: ABS, REIA special data request.

Another dynamic of the housing market is that sales of established homes to first home buyers in many cases lead to purchases of new housing by the sellers. In these cases the multiplier and employment affects are probably greater than where a first home buyer purchases a new house. Furthermore first home buyers of established homes usually embark on a program of home improvement and renovation providing a stimulus to the building sector.

Distortion of assistance away from buyers of existing housing is contrary to the IGA and needs to be addressed.

The REIA proposes that all states and territories either recommit to the IGA in Federal Financial Relations Schedule A, which states that assistance to first home buyers, whether a grant and/or stamp duty concessions, will be "uniform" and that "an eligible home will be new or established", or sign a new IGA.

The 2012 Mortgage Choice Future First Homebuyer Survey found that for 11.4% of first home buyers an adequate deposit was the biggest barrier to purchasing a property. According to the survey, only 16.1% of first home buyers said that they would have a 20% deposit.

The REIA believes that more should be done to assist first home buyers save for a deposit.

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). According to the Association of Superannuation Funds of Australia Superannuation Statistics in 2009-10, the average accumulation for men was $71,645, for women it was $40,475 (aged 15-59).

For those in the first home buyer age groups and with superannuation in the accumulation phase the median balance in July 2007, the latest available ABS data was $15,000 for 25 to 34 year olds and $32,000 for 35 to 44 year olds.

Allowing access to a proportion of superannuation funds would help prospective buyers to save for a deposit faster. That proportion could be either a fixed percentage of the total or their voluntary payments over and above the super guarantee contribution.

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.

Furthermore, access to superannuation for the purchase of a first home by helping reverse the trend of falling home ownership, addresses the looming large policy problem of large numbers of long-term renters aged 45 years and over remaining in the rental sector and possibly requiring rental support in later years.

Using retirement savings towards buying a home has already proven to be successful in Canada, New Zealand and Singapore.

In Canada, the Government has established the Canadian Home Buyer's Plan, which allows Canadian first home buyers to withdraw up to $25,000 from their retirement savings plan, to purchase or build a home. Funds withdrawn from the retirement savings plan need to be repaid over a 15 year period so that withdrawing the funds will not have a major impact on the ability to secure a comfortable retirement. The scheme has been operating since 1992 with around one-eighth of first home buyers aged 25 to 44 participating.

In Singapore, the Central Provident Fund (CPF) – a social security fund where a portion of an employee's salary is set aside for retirement, healthcare and housing – is integrated with home ownership through CPF housing schemes. A Housing Development Board (HDB) flat may be bought under the Public Housing Scheme for occupation, or a private property may be purchased under the Residential Properties Scheme for occupation or rental.

Monthly contributions to CPF go into three accounts: ordinary, special and Medisave accounts. CPF ordinary account savings up to the valuation limit can be used for full or partial payment of the property, as well as to service the monthly housing payments. Ordinary account savings are available only after at least 5% of the purchase price has been paid in cash. Stamp duty, legal fees and other costs related to the purchase or mortgage may also be paid using savings in the ordinary accounts. Since its introduction in the 1960s, housing schemes have been successfully assisting Singaporeans to purchase their home. In 2013, the home ownership rate in Singapore was 90.5% with over 70% of home owners servicing their housing loans solely with CPF savings. Whilst there are elements of the Singapore scheme that would not be applicable to Australia and first home buyers, there are important core elements that could be adopted for Australia.

In New Zealand, KiwiSaver is a voluntary, work-based saving initiative to help New Zealanders with their long-term saving for retirement. KiwiSaver members choose to contribute 3%, 4% or 8% of your before-tax pay and the employer is required to pay 3%. The initiative has two features to help many New Zealanders to get their foot in the property market: KiwiSaver home purchase withdrawal scheme and KiwiSaver home deposit subsidy scheme. Both of these features of KiwiSaver can also be used to help with the overall deposit when buying land to build a first home house on. Furthermore, if a person has previously owned a home but is currently in a similar financial position to a first home buyer, they still may be eligible for both features.

Below are outlines of the two schemes.

First Home Withdrawal	First Home Subsidy
• If you have been a member of KiwiSaver for at least three years (regardless of whether or not you have been contributing), you may be able to withdraw all, or part, of your savings to put towards buying your first home. • Your individual contributions, your employer contributions and any investment returns make the amount you are entitled to withdraw. • Government contributions are not paid out in the first home withdrawal. • Your home will be your primary residence. Withdrawal cannot be used to buy an investment property. • Additional requirements for those who have previously owned a home.	• After three years of contributing to KiwiSaver you may be entitled to the deposit subsidy. You have to contribute at least the minimum percentage of your income, currently 3%). • The subsidy is $1,000 for each year of contribution to the scheme ($3,000 for 3 years of contributing, $4,000 for 4 years of contributing and $5,000 for five years of contributing). • The minimum you can get is $3,000; the maximum you can get is $5,000. • You can use the deposit subsidy if you are buying a house, or a land to buy your first home. House price caps apply. • The subsidy will be paid to your solicitor on settlement day. • Your home will be your primary residence. If you move out before 6 months, you will be required to pay the subsidy back. • You can only receive the subsidy once. • Additional requirements for those who have previously owned a home.

The United Kingdom can also provide lessons for Australia where recent changes to assistance for first home buyers have been directed to those purchasing established housing extending assistance beyond the new build buyer. Since October 2013 the UK government scheme was extended from only newly built homes to include established homes up to a value of £600,000 (or around A$1m). Buyers need a minimum 5% deposit, they have to borrow from a participating lender, it must be the buyer's only property and, the government for its guarantees repayment of the mortgage to the lender.

The UK also has an equity scheme for first time buyers, although directed at new dwellings valued to £600,000. Buyers need a 5% deposit. The government then contributes 20% interest free for five years with the remaining 75% being a conventional mortgage. After five years the 'equity loan' attracts a fee of 1.75% of the loans value, which is adjusted each year to the CPI. The 20% loan has to be paid back when you sell.

The REIA proposes the Commonwealth Government assesses the various schemes that assist first home buyers overseas, with the view of establishing a scheme(s) to encourage young Australians to purchase their first home.

Housing Supply

One of the factors that contribute to increases in house prices and declining affordability is the undersupply of housing. Supply has been unable to keep pace with demand due to a number of reasons identified below.

Land Availability

Considerable tracts of land suitable for housing are held by government – state and commonwealth – and private land holders / developers. With the Department of Defence having considerable holdings on the outskirt of Sydney as shown in the table below from the register of surplus Commonwealth land potentially suitable for housing. This land or at least parts of it should be systematically released to meet the demand for housing.

Register of Surplus Commonwealth Land Potentially Suitable for Housing

State/Territory	Property*	Owner Agency	Site Area (approximate hectares)	Target Time for Release
ACT	Belconnen Naval Transmitter Station, Baldwin Drive, Lawson, ACT	Department of Defence	143	2012-13
NSW	Fort Wallace, Fullerton Road, Stockton, NSW	Department of Defence	32	2012-13
NSW	Stockton Rifle Range, Poppewell Road, Fern Bay, NSW	Department of Defence	111	2012-13
NSW	Training Depot, Centre & Lennox Streets, Casino, NSW	Department of Defence	2	2012-13
NSW	Badgerys Creek Road, Bringelly	Department of Defence	115	2013-14
NSW	Londonderry Road, Londonderry	Department of Defence	63	2012-13
NSW	Nirimba Drive, Quakers Hill, Schofields	Department of Defence	141	2012-13
NT	Lee Point, Lee Point Road, Darwin, NT	Department of Defence	84	2013-14
QLD	Witton Barracks, 3 Lambert Road, Indooroopilly, QLD	Department of Defence	1	2012-13
QLD	Mt Vince Rifle Range, Wollingford Road, Eton, QLD	Department of Defence	169	2012-13
QLD	Maryborough Rifle Range, 29 Walker Street, Maryborough, QLD	Department of Defence	190	2012-13
SA	Elizabeth North Training Depot, Broadmeadows Road, Smithfield	Department of Defence	33	2013-14
VIC	Corner Colac and Henry Road, Belmont (Geelong)	CSIRO	6.37	2012-13
VIC	Commercial Road, Notting Hill	CSIRO	0.16	2012-13
VIC	Graham Road, Highett	CSIRO	9.3	2012-13
WA	Part of the Artillery Barracks site, Queen Victoria Street, Fremantle	Department of Defence	0.6	2012-13

Source: Department of Finance, http://www.finance.gov.au/property/lands-acquisition/register-surplus-commonwealth-land.html

Length and Cost of Approval Process and Zoning Policies

The table below shows estimated time taken for land to complete different stages of the land supply process.

Time to Complete Land Supply Processes for Capital City Planning Areas

Stages of Process	Sydney	Melb	Adel	Perth	Darwin	Canberra
Locate site and assemble land	ne	2-12	1-24	12	ne	ne
Initial planning and due diligence	3-8	6-47	1-55	ne	ne	ne
Rezone land / amend planning scheme	16-78	18	24-30	9-48	1-6	24
Structure plan	36	26-78	ne	12-72	ne	ne
Prepare subdivision application	4-10	3-22	2-6	3	ne	ne
Decision on subvision	4-6	3-6	5-24	2-36	2-4	ne
Address approval conditions	3-12	1	6	12	ne	ne
Install infrastructure	12	ne	36+	ne	ne	ne
Total	ne-119	30-60+	24-133+	36-120+	ne	ne

Source: Performance Benchmarking of Planning, Zoning and Development Assessments, Productivity Commission, 24 March 2011.

The table below shows the wide range of statutory timeframes for deciding development applications, with a minimum between 14 to 84 days and a maximum between 42 and 196 days.

Timeframes for Deciding Development Applications

State/Territory	Min days	Max days
NSW	40	60
Vic	60	60
Qld	28	140
WA	60	60
SA	14	196
Tas	42	42
ACT	28	63
NT	84	84

Source: Performance Benchmarking of: Planning, Zoning and Development Assessments, Productivity Commission, 24 March 2011.

The lengthier the delay in meeting the land supply and development the greater the holding costs of developers and the higher the land price when it is released. Streamlining these processes would improve housing affordability.

In addition approval fees (fixed amount or depending on the value of the development proposal) sometimes have to be paid regardless of whether the proposal was approved. A comparison of costs for infill and greenfield development is shown below.

Cost Components of Developing Infill and Greenfield Dwellings by Capital City

	Sydney		Melbourne		Brisbane		Perth		Adelaide	
	Infill									
	$'000	%	$'000	%	$'000	%	$'000	%	$'000	%
Land	$85.00	15%	$32.18	6%	$72.00	14%	$60.00	11%	$47.62	10%
Govt Taxes & Charges	$91.49	17%	$83.18	14%	$85.44	17%	$75.86	14%	$71.41	15%
Professional Fees	$24.07	4%	$16.61	3%	$16.04	3%	$16.90	3%	$7.45	2%
Construction	$282.14	51%	$301.85	52%	$290.81	58%	$308.07	58%	$290.56	63%
Development Costs & Interest	$70.93	13%	$55.71	10%	$61.07	12%	$59.90	11%	$51.35	11%
Development Profit	-$1.28	0%	$88.30	15%	-$24.52	-5%	$12.68	2%	-$5.82	-1%
Total	$552.34		$577.82		$500.84		$533.42		$462.57	
	Greenfield									
	$'000	%	$'000	%	$'000	%	$'000	%	$'000	%
Land	$151.88	24%	$50.00	12%	$54.00	13%	$52.00	14%	$49.71	12%
Govt Taxes & Charges	$130.05	21%	$71.20	17%	$75.71	19%	$69.64	18%	$65.56	16%
Professional Fees	$9.77	2%	$2.05	0%	$3.05	1%	$8.59	2%	$4.07	1%
Construction	$211.15	34%	$212.91	51%	$201.59	49%	$219.20	57%	$217.29	52%
Development Costs & Interest	$57.87	9%	$38.60	9%	$35.41	9%	$34.52	9%	$38.49	9%
Development Profit	$64.97	10%	$44.22	11%	$37.70	9%	-$0.69	0%	$39.94	10%
Total	$625.68		$418.97		$407.45		$383.96		$415.06	

Source: URBIS, National Dwelling Cost Study – FaCHSIA, January, 2010.

The table shows that infill developments are generally at least 10% cheaper than greenfield developments and that government taxes and charges amount to nearly 20% of the cost of a house and land package.

Zoning Policies

The zoning policies of local councils are a major determinant of the type of housing being developed with much land being used for higher value purposes than affordable housing.

Environmental Regulations

At the Commonwealth level, separate approvals for matters of environmental significance may be needed under the Environment Protection and Biodiversity Conservation Act 1999.

In addition there are state requirements that need to be met. For example in New South Wales BASIX or Building Sustainability Index is a scheme introduced to regulate the energy efficiency of residential buildings by reducing water consumption and greenhouse gas emissions. Whilst there associated savings in energy bills these savings are very small compared to the outlay required to meet the requirements. In essence individual homebuyers of new dwellings are meeting the cost of a public benefit whilst affordability is decreased.

Taxation and Housing

Taxes are one of the important factors determining housing supply and influencing housing affordability.

Negative Gearing

Negative gearing in its current form for the purpose of property investment is complementary to the goals of the Government in addressing the supply of rental accommodation.

Over 1.7 million of Australians invest in the residential property market with the majority of investors being ordinary mums and dads saving who have only one investment property. Taxation Statistics for 2010-11 shows that taxpayers who earn an annual income of $80,000 own 72.3% of all loss-making properties with almost three quarters (73%) of investors having only one investment property and less than 10% of investors having three or more investment properties.

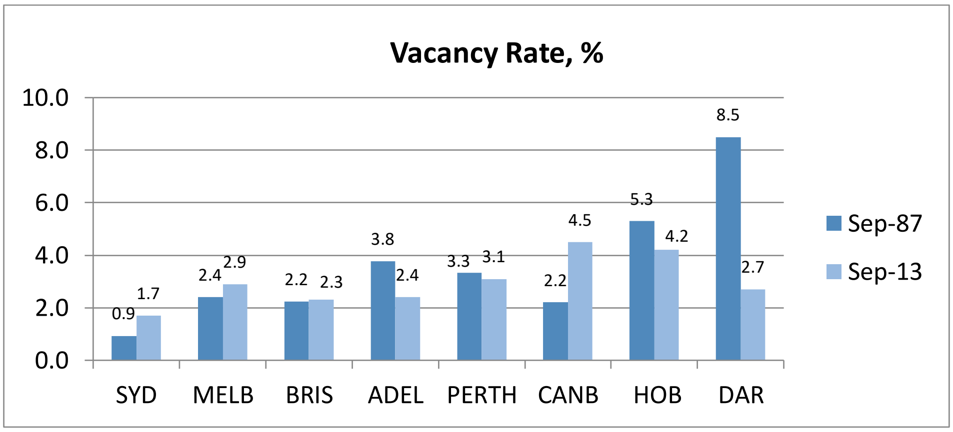
Individuals with an interest in a rental property, 2010–11

No of properties	Number of Individuals	Percentage of Total Individuals	Number of Properties	Percentage of total properties held
1	1,284,852	73	1,284,852	50
2	318,295	18	636,590	25
3	96,991	5	290,973	11
4	34,967	2	139,868	5
5	14,555	1	72,775	3
6 or more	15,264	1	152,640	6
TOTAL	**1,764,924**	**100**	2,577,198	**100**

Source: ATO.

The Henry Review, released in 2010, proposed the replacement of current negative gearing arrangements with the introduction of a 40% discount for income from rental properties. This means that deductions are also discounted by 40%. The argument stated by the review is that the current structure of tax income from savings creates distortions, causing misallocation of savings in particular in the rental property market and leads to investors taking on excessive debt. The Henry Tax Review states the introduction of a broad 40% discount for income from rental properties would mitigate those distortions. The report suggested a smooth transition for highly geared investors in rental properties, phasing in the discount over time, which would allow investors to adjust to the new tax settings and reduce any potential market disruption. Importantly, the review suggests this should only be adopted following reforms to the supply of housing and to housing assistance. Importantly the report acknowledged that the current tax benefit available for negatively geared properties placed downward pressure on rents.

Changes to negative gearing would impact on the supply of housing and the level of rents in already tight rental market. In 1985, the Hawke Government abolished negative gearing for property only to have it reinstated in 1987. During that period rents increased by 57.5% in Sydney, by 38.2% in Perth and by 32.0% in Brisbane. In the current tight market, as shown in the table below, expectations are the implementation of the Henry Review recommendations will have a dramatic negative impact on renters not dissimilar to the results of mid 1980s.



Source: REIA.

From taxation statistics REIA calculates that implementing the Henry Review recommendation would lead to a rent increase of 2.0% of the median house rent for three bedroom houses. The effect on some properties will be greater than this as will the impact across states. The actual impact will be influenced by vacancy rates, amongst other factors.

Further to amend the current negative gearing provisions for housing would be treating real estate differently to other asset classes and create a distortion on the investment landscape and result in a resource misallocation.

The REIA proposes that negative gearing be retained in its current form for the purpose of property investment.

Stamp Duty

Whilst stamp duties are a state tax and are thus not determined by the Federal Government, states will not act unilaterally on the matter unless leadership is shown by the Federal Government. At the October 2011 Tax Forum, according to the then Treasurer, the state tax reform discussion was the most passionate at the forum with even the states acknowledging that their own taxes harm labour mobility and housing affordability.

Stamp duties represent additional costs to property transactions, thereby discouraging turnover of housing and distorting choices between renting and buying, and between moving house and renovating. Individuals who move more frequently would pay more taxes than those who move less. Others, who would have to buy or sell if they changed jobs, could be deterred by these costs thus reducing labour mobility. These distortions lead to a sub optimal outcomes, reduce investment in the property market and impede labour mobility.

An OECD report, “Going for Growth in 2011”, notes that lower transaction costs such as stamp duties encourages mobility. The Productivity Commission in its draft report on Labour Mobility in 2003 reiterated the impact that stamp duties have on restricting labour mobility.

From the perspective of fiscal revenue, whilst stamp duties are a major source of revenue for states they are highly volatile, unreliable and unpredictable.

According to the Henry Review “stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of state tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue”.

The Henry Review recommended that a land tax was an efficient means of replacing the revenue forgone from abolishing state stamp duties. In reality this is not the case. In practice it is likely that a significant proportion of the economic incidence of the tax is passed forward to consumers or backwards to investors adding distortions and reducing the efficiency of the tax and detracting from the claimed simplicity, equity and sustainability of the tax.

The REIA proposes conveyance stamp duties be abolished and replaced by an efficient source of revenue for states and territories.

Improving the Supply of Housing for Social Housing Tenants Transitioning to Private Rental

The aim of the REIA proposal is to increase the supply of social housing for those tenants transitioning to the private rental market utilising a currently untapped resource of individual private investors. It is an adjunct, not a substitute, to current initiatives such as NRAS and community housing programs. The scheme recognises that social housing is not meeting demand and is unsustainable without changes in approach. The scheme also addresses the identified shortcomings of current arrangements. The proposal builds on the Western Australian Rental Pathways Scheme.

The provision of social housing is currently financially unsustainable and is characterised by: demand exceeding supply; a large proportion of stock is in disrepair yet on valuable land; the system does not offer the type of housing that many tenants need; the public sector is generally less efficient in managing rental property than the private sector; except in Western Australia, there is no assistance to social housing tenants with a good tenancy record and stable incomes to make the transition to the private rental market; whilst not always the case, social housing is in larger developments and does not achieve a broad mix of households; whilst NRAS utilises private sector funding, by its nature it excludes small scale investors.

The REIA proposal utilises the untapped resource of small investors and would operate as follows:

- Investors buy a new or existing property for rental purposes. This would be subject to broad guidelines provided by state government agency regarding location, size, number of bedrooms etc. and an upper value
- Agent provides a market value for rental purpose. Rental would be subject to annual reviews
- Owner approaches government agency with details of property and market valuation of rental value for endorsement for transitional housing. May need to facilitate a process for approval prior to sale completion to safeguard and encourage the investor
- Tenant selected from Government list of eligible candidates
- Agent manages the property
- Rental would
    - Need to be subsidised. Current social housing schemes such as NRAS suggest that governments (Federal and state) that the subsidy will be of the order of 20%
    - Governments would need to guarantee the rental payment for the term of the arrangement
- Depending on the extent of the rental subsidy, consideration may need to be given to other assistance to the owner to achieve the equivalent net yield if the property was rented in the private market. This could be through a stamp duty concession and land tax concessions at state level and income taxation provisions at Federal level. This is no different in approach to the current arrangements for Community Housing Providers which receive taxation exemptions
- Maintenance of property

- The managing agent and owner will attend to routine maintenance matters as currently occurs in the private rental market alleviating the need for government involvement
- Tenants would be required to meet responsibilities of caring for the property leaving it in good condition at the end of a tenancy
- Private tenants have a bond which is returned provided the property is left in good condition. Bonds are not, however, generally a part of the social housing system. One way of addressing this would be through a bond collection scheme collected as a part of rental payments until an agreed level of bond is reached. The bond would then be returned to public housing tenants if their property is kept in good condition at the end of their tenancy. The returned bond could then be used by tenants to get into the private rental market
- In the event that the bond is insufficient to bring the property back to the condition expected after normal wear and tear is taken into consideration the government agency would be responsible for funding the required repairs. In WA the Government will fund any property damage up to $5,000 in excess of the bond. The repairs would be organised through the managing agent eliminating the need for public sector resources.

As well as increasing the supply of social housing additional benefits of the proposal include: greater operational efficiencies through private sector responsibility for operations and maintenance; utilisation of private sector finance and a corresponding reduction in capital requirement by governments; risk in land value transferred to private sector.

The REIA proposes improving the supply of housing for social housing tenants transitioning to private rental by utilising individual private investors.

The Need for a National Policy and Plan for Affordable Housing

Housing is a complex issue, with a number of economic, social and infrastructure factors determining affordability. The substantive causes of the housing affordability problem have been identified to include: prices; the deposit gap for first home buyers; demographic change; insufficient supply of dwellings for both purchase and rental which in itself is attributable to a myriad of factors including taxation; lack of innovation in the building industry; council requirements which generally show a lack of acceptance of low cost housing and lack of diversity of house type as well as protracted and expensive development application processes, and, importantly; lack of urban infrastructure.

According to the third National Housing Supply Council State of Supply report, the gap between the supply and demand for housing will increase over the next years putting further pressure on housing prices.

Year ended 30 June	Cumulative Demand-Supply Gap
2013	272,800
2014	301,100
2015	328,800
2025	556,900
2030	640,200

Source: National Housing Supply Council, 3rd State of Supply report.

What is needed is for the Federal Government to take a leadership role in developing a coordinated and strategic approach to the provision of housing and ensuring that complementary policies, covering amongst other things first home buyers, taxation and supply, are in in place to achieve this.

The REIA proposes that the Government establishes a mechanism to formulate appropriate policies and to monitor their effectiveness.

Recommendations

REIA makes the following recommendations

- ***That all states and territories either recommit to the IGA in Federal Financial Relations Schedule A, which states that assistance to first home buyers, whether a grant and/or stamp duty concessions, will be "uniform" and that "an eligible home will be new or established", or sign a new IGA***
- ***That the Commonwealth Government assesses the various schemes that assist first home buyers overseas, with the view of establishing a scheme(s) to encourage young Australians to purchase their first home***
- ***That negative gearing be retained in its current form for the purpose of property investment***
- ***That conveyance stamp duties be abolished and replaced by an efficient source of revenue for states and territories***
- ***Improving the supply of housing for social housing tenants transitioning to private rental by utilising individual private investors***
- ***That the Government establishes a mechanism to formulate appropriate policies and to monitor their effectiveness.***