REIA PRE-BUDGET SUBMISSION
OCTOBER 2020-2021 BUDGET

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REIA PRESENTS THE GOVERNMENT WITH RECOMMENDATIONS FOR THE OCTOBER 2020-2021 FEDERAL BUDGET

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

REIA's members are the State and Territory Real Estate Institutes, through which around 75% of real estate agencies are collectively represented. 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.

The Census records the Rental, Hiring and Real Estate Services Industry employment as sitting at around 120,000 this includes business brokers, property managers, principals, real estate agents and representatives. Property contributes $300 billion annually in economic activity.

Introduction

REIA welcomes the opportunity to present the Commonwealth Government with proposals for the October 2020-2021 Federal Budget and seeks Government consideration of five specific recommendations. These are:

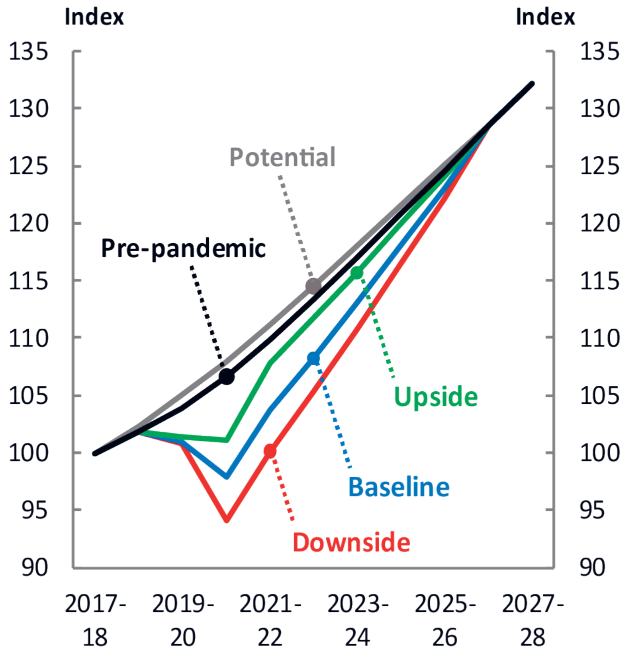
1. Expansion of the First Home Loan Deposit Scheme to cover all first home buyers.
2. Extension the current First Home Super Saver (FHSS) Scheme to allow first home buyers to have access to their pre- 1 July 2017 voluntary superannuation contributions, including earnings, for the purpose of raising a deposit for a home.
3. Lowering the limit for renovations under the HomeBuilder package.
4. The extension of the JobKeeper and JobSeeker scheme beyond the current announced cessation for those sectors that are slower to recover.
5. The extension of rental support beyond the announced cessation for those employed in sectors that are slower to recover.

In developing REIA's recommendations, two primary considerations have been made: one – providing a boost to the economy through property, a major driver of economic growth, and two – housing affordability for first home buyers. The extent of this boost is highlighted by modelling undertaken by the Master Builders Association which shows that funding on HomeBuilder ***generates a multiplier of 3.5 for GDP.***

Economic Background

In a speech to Australian Business Economists on 7 August, the RBA's Assistant Governor (Economic), Luci Ellis, said the economic recovery in Australia from Coronavirus is expected to be slow and uneven, and GDP will probably take several years to return to the trend path expected prior to the virus outbreak.

The graph below shows three scenarios which vary depending on the assumed timing of the relaxation of current domestic containment measures, such as social distancing, and how long uncertainty and diminished confidence weigh on households' and businesses' spending, hiring and investment plans.



Source: RBA

Dwelling investment supported by historically low interest rates had been a significant contributor to growth in the Australian economy since 2013/14. Australia's property industry has been a main driver of economic growth and increased employment in the transition away from a decade-long reliance on mining. New home building has been a crucial support to economic growth over the previous three years. This however is now on the wane and the decrease is at risk of accelerating.

Providing a stimulus to economic activity outside the mining sector, including the housing and building sectors, has been amongst the main reasons for the RBA to keep the official cash rate at record low levels since August 2013. The introduction of the HomeBuilder program similarly recognises the importance of the housing and building sectors in stimulating economic activity.

It is against this background that REIA's Pre- Budget Submission for 2020/21 is framed and seeks Commonwealth Government action to maintain activity in the property sector which is critical to the Australian economy.

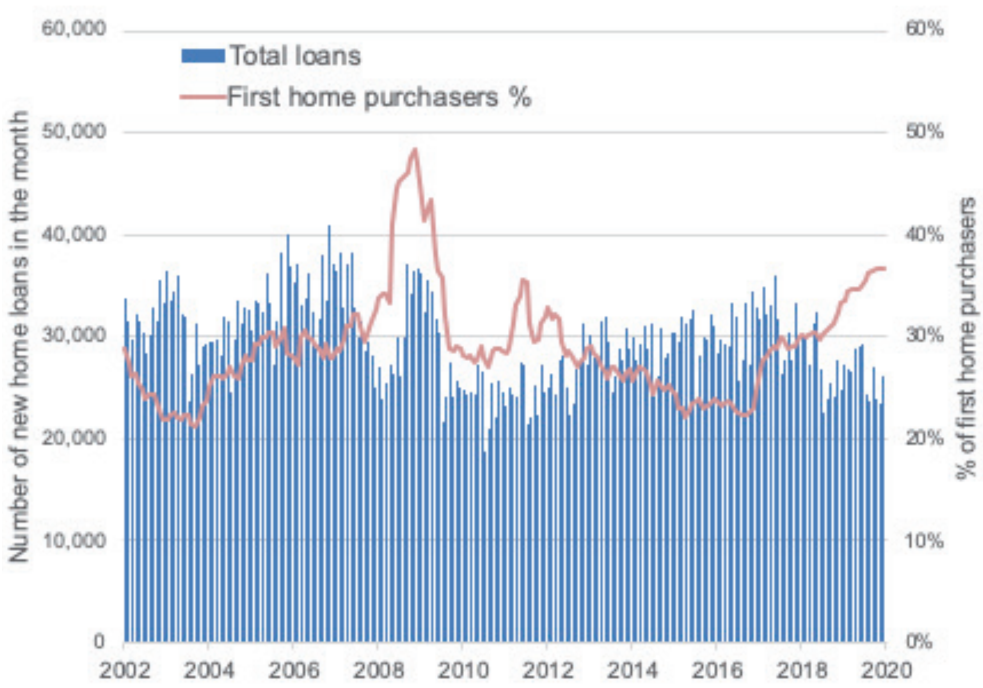
Recommendations

Recommendation 1: REIA recommends that the First Home Loan Deposit Scheme be expanded to cover all first home buyers (subject to the income and house price limits).

Whilst investor activity in housing has in large part been responsible for the supply response from the building sector contributing to economic growth, this, up until recently, had been at the cost of first home buyers and their ability to enter the housing market.

The graph below shows the number of loans to home buyers (excluding refinancing) and the proportion of first home buyers in the housing finance commitments from November 2000. Since April 2012, when official interest rates were 4.25% compared to the current 0.25%, the participation of first home buyers declined by 17% until a pick-up in 2017. This decline was despite ten cuts in the official interest rate over that period. The participation of first home buyers has improved over the last year. The current level is however well down on the levels a decade ago when the Government increased the First Home Owner Grant (FHOG) as part of its GFC measures.

Finance Approvals and the Proportion of First Home Buyers (excluding refinancing)



Source: 5609 Housing Finance Australia 2000 – 2020 (ABS), 5601 Lending indicators 2002 – 2020 (ABS)

Whilst historically low interest rates may make mortgage payments achievable for first home buyers it is the deposit gap together with stamp duties that are a major hurdle.

With first home buyers finding it difficult to enter the housing market, ***home ownership in Australia is declining after four decades of stable levels. This drop is being evidenced across all states and territories and is most pronounced in the 35 to 44 age group.***

With three quarters of Australian first home buyers having less than a 20% deposit and thus incurring mortgage insurance, the 2019 Election commitment to introduce the First Home Loan Deposit Scheme on 1 January 2020 which provides a guarantee to allow 10,000 eligible borrowers to purchase a home with a deposit of 5%, is most welcome.

However, the 10,000-loan cap seems rather arbitrary and represents less than 10% of first home buyers. As such it is a lottery and the bulk of first home buyers will not benefit.

Further, since the Global Financial Crisis the number of home loans issued with a 10% deposit has fallen from 21% of all loans to just 7%.

REIA recommends the scheme is expanded to cover all first home buyers (subject to the income and house price limits). This will be equitable, administratively easier, avoid any surges in demand and provide a stimulus to economic activity.

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% of Australian first home buyers buy new homes with over 80% 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.

Recommendation 2: REIA proposes the Commonwealth Government extend the current First Home Super Saver (FHSS) Scheme to allow first home buyers to have access to their pre- 1 July 2017 voluntary superannuation contributions, including earnings, for the purpose of raising a deposit for a home.

It is critical that first home buyers have an additional way of supplementing their deposit savings.

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. Such assistance should be uniform and should not discriminate between buyers of new or established housing.

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).

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. Too much attention has been focused on the accumulation of a nest egg through superannuation at the expense of other more practical considerations which not only improve the quality of life at an earlier age but result in a greater retirement "nest egg".

Access to superannuation for the purchase of a first home could help reverse the trend of falling home ownership – down 3-4 percentage points in the last two decades – and address the looming policy problem of long-term renters aged 45 years and over remaining in the rental sector and possibly requiring rental support in later years.

A study by the Centre of Excellence in Population Ageing Research (CEPAR), Housing in an Ageing Australia: Nest and Nest Egg, November 2019 states that homeownership serves multiple purposes over the lifecycle: It acts as a home as well as a store of wealth to guarantee financial security in retirement. Its lack in old age compromises security of both tenure and finances.

CEPAR found that the current trend toward delaying home purchase has demographic and housing policy implications. The link between housing and ageing and with the Australian retirement system built on the premise of homeownership means that indefinite deferral of home purchase will have disadvantageous consequences in retirement.

The 2017 Budget measure of allowing first home buyers to apply to withdraw voluntary contributions made to super after 1 July 2017 for a home deposit recognises this and is a welcome initiative.

Allowing access to pre- 1 July 2017 voluntary contributions to superannuation funds would help prospective buyers to save for a deposit faster. The mechanism for accessing these funds has already been established by the 2017 Budget initiative of the First Home Super Saver (FHSS) Scheme.

The use of retirement savings for a first home purchase has already proven to be successful in Canada, New Zealand and Singapore.

Whilst allowing access to superannuation as part of the Government's response to the COVID pandemic has seen many people, particularly younger age groups, diminish their superannuation balances this does not negate the need to boost their retirement "nest egg" by home ownership. Indeed, it reinforces the need.

Recommendation 3: REIA recommends reducing the lower limit for renovations under the HomeBuilder package.

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 when the viability of builders and their jobs as well as related sectors will be most under threat.

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

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 $75k renovation is proportional to a $150k renovation. There is nothing inherent about higher priced renovations that have a higher labour content than a medium-priced renovation. A $150k renovation does not employ more than twice the amount of tradespeople than two $75k 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.

Recommendation 4: REIA recommends the consideration of an extension of the JobKeeper and JobSeeker scheme beyond the current announced cessation for key sectors that are slower to recover.

The introduction of the JobKeeper and JobSeeker schemes and subsequent extension needs to be applauded for keeping many employed. In the real estate sector, it has allowed for continuing employment for those 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 expected 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 achieve a sale of 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 after restrictions are eased to fully reflect the slow down in activity from the “hibernation” of the Australian economy.

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 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 a survey undertaken by REIA member Real Estate Institutes shows more than 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 Coronavirus 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 many months. This loss will be compounded by the anticipated lower income from lower listing numbers and sales.

Other sectors of the economy will have a set of circumstances that mean there will also be considerable lags before they start to recover.

Recommendation 5: REIA recommends the consideration of an extension of rental support beyond the announced cessation for those employed in sectors that are slower to recover.

As already noted 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.

In the paper by the RBA’s Ms Ellis it is estimated that unemployment across the country will continue to increase over the rest of this year reaching at least 9% in all three scenarios and over 10% in the worst-case scenario with a reduction thereafter. Many industries will however be 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%. Jobs in the rental, hiring and real estate sector are down more than 13% and mining has lost 11% 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.

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 rental properties managed by real estate agents, rent reductions have been negotiated for between 1 and 5% of tenants, depending on the jurisdiction – lowest in WA and NT and highest in VIC and NSW.

For those tenants on JobSeeker, the Coronavirus Stimulus Package provides rent assistance in addition to their Centrelink payment.

REIA Recommendations

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

1. **The First Home Loan Deposit Scheme be expanded to cover all first home buyers (subject to the income and house price limits).**
2. **Extend the current First Home Super Saver (FHSS) Scheme to allow first home buyers to have access to their pre- 1 July 2017 voluntary superannuation contributions, including earnings, for the purpose of raising a deposit for a home.**
3. **Review the lower limit for renovations under the HomeBuilder package with the view of reducing it.**
4. **REIA recommends the consideration of an extension of the JobKeeper and JobSeeker scheme beyond the current announced cessation for key sectors that are slower to recover.**
5. **REIA recommends the consideration of an extension of rental support beyond the announced cessation for those employed in sectors that are slower to recover.**