Parliamentary
Budget Office

Help to Buy	
Party:	Australian Labor Party

Summary of proposal:

The proposal would establish a national shared-equity scheme called Help to Buy, which aims to assist people on low-to-moderate incomes purchase a home.

Through the National Housing Finance and Investment Corporation (NHFIC), the Australian Government (the Government) would provide equity of up to:

- 40% of the purchase price for new homes
- 30% of the purchase price for existing homes.

The applicant would be required to have a minimum 2% deposit and finance the remainder of the purchase through a standard home loan with a commercial lender. Applicants would not be required to purchase lenders mortgage insurance or pay rent on the share of the home owned by the Government.

During the loan period, the applicant would be able to purchase equity back from the Government at market value in increments of at least 5%. The Government would recover its equity plus a share of capital gains at the time of sale (or re-financing). In the case of capital losses, the Government would share any losses with the applicant based on their relative equity ownerships. The Government would not claim any share of the value added through home improvements.

Eligible applicants would be required to meet the same property price thresholds required under the New Home Guarantee and have an annual income of no more than $90,000 for individuals or $120,000 for couples. Applicants who exceed these thresholds for 2 consecutive years after acceptance into the scheme would be required to purchase equity back from the Government in part or whole as their circumstances permit.

The scheme would commence 1 January 2023, offering 10,000 places each year.

Costing overview

The proposal would be expected to decrease the fiscal balance by around $346 million, the underlying cash balance by around $329 million, and the headline cash balance by around $7.61 billion over the 2022-23 Budget forward estimates period. The fiscal and underlying cash balance impacts largely reflect the public debt interest and departmental expenses required to administer the scheme, and the headline cash balance impact largely reflects the expected equity contributions of the Government.

The proposal would have an impact beyond the 2022-23 Budget forward estimates period. A breakdown of the financial implications (including separate public debt interest (PDI) tables) over the period to 2032-33 is provided at Attachment A.

The fiscal, underlying cash, and headline cash balances differ in the treatment of investment gains, public debt interest, and equity investments. The yearly impact on net debt would be broadly consistent with the cumulative movements in the headline cash balance.

Because movements in property prices (and associated interest rates) can be volatile and reflecting the fact that the details around how the proposal would be implemented have not been fully outlined, the financial implications in this response are highly uncertain. Recent increases in interest rates could reduce the borrowing capacities of applicants, affecting the size of the Government's contributions. Furthermore, rising interest rates could place downwards pressure on property prices and/or increase default rates, which would be likely to increase the rate at which capital losses occur and result in lower net capital gains to the Government. In addition, the rate at which participants purchase equity back from the Government – especially those who exceed the income thresholds and are mandated to do so – is difficult to determine. Finally, if applicants are to avoid paying lenders mortgage insurance, this would imply that either the Government would guarantee the mortgage or that commercial lenders would be able to recover any capital losses from default against the entirety of the property value. In either case, there may be downside risk to the Government, where the costs of a property-market downturn are borne disproportionately by the Government. The Parliamentary Budget Office (PBO) has adopted a set of high-level assumptions to model these factors, but the associated uncertainties could result in the financial implications of the proposal being significantly different than estimated.

Table 1: Financial implications ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	**Total to 2025-26**
Fiscal balance	-22.9	-58.9	-106.9	-157.0	**-345.7**
Underlying cash balance	-20.9	-54.9	-101.9	-151.0	**-328.7**
Headline cash balance	-1,060.9	-2,134.9	-2,181.9	-2,231.0	**-7,608.7**

(a) A positive number represents an increase in the relevant budget balance; a negative number represents a decrease.

Key assumptions

The PBO has made the following assumptions in costing the proposal.

- The entirety of the 10,000 places available in each financial year would be allocated.
- The distribution of places between states and territories, and within each state and territory (capital cities, regional centres, and rest of state), would be based on population.
  - Different property price thresholds exist between different cities and regions.
- 25% of participants in the scheme would purchase new homes and 75% would purchase existing homes.
  - This is a higher ratio of new home purchases than in the Australian Bureau of Statistics' *Lending Indicators* and reflects a judgement that participants would have a preference towards new homes (relative to other buyers) because of larger equity contributions from the Government.
- 30% of participants would be single and 70% would be couples.
- The Government would contribute an average of 37% equity towards new homes and 28% towards existing homes.

- Property values grow in line with nominal GDP after 2025-26.
- Each cohort of 10,000 participants would begin purchasing equity back from the Government after four years at an initial rate of 5%, increasing each year to 2032-33 as more homes are sold and more participants are expected to exceed the income thresholds of the proposal.
  - While some participants may purchase equity back from the Government before 2025-26, this is expected to be small and has not been incorporated into the costing.
- Purchase prices would be based on the maximum borrowing capacity of participants but capped at the thresholds set by NHFIC.
  - The average borrowing capacity of participants would be $455,000 for singles and $526,000 for couples. As the income and property price thresholds do not change over the period to 2032-33, there is little expected change in the average borrowing capacity of participants.

Methodology

The Government's total equity contributions were calculated by multiplying the number of participants in each financial year by the expected contribution per participant. The expected equity contributions were based on the average participant's borrowing capacity, the NFHIC house price caps by jurisdiction, and the assumptions detailed above about the proportion of equity that the Government would contribute.

Assumed property prices were determined using a 'bottoms up' approach whereby the average participant's borrowing capacity implies the expected purchase price and the Government's equity contribution. Property prices under this approach were calculated as the sum of:

- the participant's minimum 2% deposit
- the amount borrowed by the participant
- the Government's equity contribution.

Departmental expenses in each year were calculated as the sum of:

- the costs to process new applicants to the scheme
- the costs to process requests from existing participants executing equity buybacks.

Financial implications were rounded consistent with the PBO's rounding rules as outlined on the PBO Costings and budget information webpage.[1]

Data sources

Australian Bureau of Statistics (ABS) (2022) *Lending Indicators*, ABS, accessed 10 March 2022.

Australian Bureau of Statistics (ABS) (2021) *Residential Property Price Indexes: Eight Capital Cities*, ABS, accessed 10 March 2022.

Commonwealth Bank (2021) *Borrowing Power Calculator*, Commonwealth Bank, accessed 6 April 2022.

[1] https://www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office/Costings_and_budget_information

National Housing Finance and Investment Corporation (NHFIC) (2021) *New Home Guarantee Fact Sheet – 2021/22*, NHFIC, accessed 10 March 2022.

Stephanie McLean (2021) *Why Aussie homeowners are holding property longer than a decade ago*, Realestate.com.au, accessed 10 March 2022.

Australian Bureau of Statistics (ABS) (2019) *Housing Occupancy and Costs*, ABS, accessed 10 March 2022.

Attachment A – Help to Buy – financial implications

Table A1: Help to Buy – Fiscal balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Revenue													
Capital Gains from Equity Buybacks	-	-	-	-	*3.0*	*13.0*	*36.0*	*73.0*	*124.0*	*191.0*	*274.0*	-	***714.0***
Total – revenue	**-**	**-**	**-**	**-**	**3.0**	**13.0**	**36.0**	**73.0**	**124.0**	**191.0**	**274.0**	**-**	**714.0**
Expenses													
Departmental													
Departmental Expenses	*-10.9*	*-10.9*	*-10.9*	*-11.0*	*-11.0*	*-11.1*	*-11.2*	*-11.3*	*-11.4*	*-11.4*	*-11.5*	***-43.7***	***-122.6***
Total – expenses	**-10.9**	**-10.9**	**-10.9**	**-11.0**	**-11.0**	**-11.1**	**-11.2**	**-11.3**	**-11.4**	**-11.4**	**-11.5**	**-43.7**	**-122.6**
Total (excluding PDI)	**-10.9**	**-10.9**	**-10.9**	**-11.0**	**-8.0**	**1.9**	**24.8**	**61.7**	**112.6**	**179.6**	**262.5**	**-43.7**	**591.4**
PDI impacts	***-12.0***	***-48.0***	***-96.0***	***-146.0***	***-198.0***	***-254.0***	***-313.0***	***-373.0***	***-435.0***	***-498.0***	***-567.0***	***-302.0***	***-2,940.0***
Total (including PDI)	**-22.9**	**-58.9**	**-106.9**	**-157.0**	**-206.0**	**-252.1**	**-288.2**	**-311.3**	**-322.4**	**-318.4**	**-304.5**	**-345.7**	**-2,348.6**

(a) A positive number for the fiscal balance indicates an increase in revenue or a decrease in expenses or net capital investment in accrual terms. A negative number for the fiscal balance indicates a decrease in revenue or an increase in expenses or net capital investment in accrual terms.

\- Indicates nil.

Table A2: Help to Buy – Underlying cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	**Total to 2025-26**	**Total to 2032-33**
Receipts													
Capital Gains from Equity Buybacks	-	-	-	-	*3.0*	*13.0*	*36.0*	*73.0*	*124.0*	*191.0*	*274.0*	-	***714.0***
Total – receipts	**-**	**-**	**-**	**-**	**3.0**	**13.0**	**36.0**	**73.0**	**124.0**	**191.0**	**274.0**	**-**	**714.0**
Payments													
Departmental													
Departmental Expenses	*-10.9*	*-10.9*	*-10.9*	*-11.0*	*-11.0*	*-11.1*	*-11.2*	*-11.3*	*-11.4*	*-11.4*	*-11.5*	***-43.7***	***-122.6***
Total – payments	**-10.9**	**-10.9**	**-10.9**	**-11.0**	**-11.0**	**-11.1**	**-11.2**	**-11.3**	**-11.4**	**-11.4**	**-11.5**	**-43.7**	**-122.6**
Total (excluding PDI)	**-10.9**	**-10.9**	**-10.9**	**-11.0**	**-8.0**	**1.9**	**24.8**	**61.7**	**112.6**	**179.6**	**262.5**	**-43.7**	**591.4**
PDI impacts	***-10.0***	***-44.0***	***-91.0***	***-140.0***	***-192.0***	***-248.0***	***-306.0***	***-366.0***	***-428.0***	***-490.0***	***-558.0***	***-285.0***	***-2,873.0***
Total (including PDI)	**-20.9**	**-54.9**	**-101.9**	**-151.0**	**-200.0**	**-246.1**	**-281.2**	**-304.3**	**-315.4**	**-310.4**	**-295.5**	**-328.7**	**-2,281.6**

(a) A positive number for the underlying cash balance indicates an increase in receipts or a decrease in payments or net capital investment in cash terms. A negative number for the underlying cash balance indicates a decrease in receipts or an increase in payments or net capital investment in cash terms.

\- Indicates nil.

Table A3: Help to Buy – Headline cash balance ($m)[(a)]

	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	Total to 2025-26	Total to 2032-33
Receipts													
Capital Gains from Equity Buybacks	-	-	-	-	*3.0*	*13.0*	*36.0*	*73.0*	*124.0*	*191.0*	*274.0*	-	***714.0***
Total – receipts	**-**	**-**	**-**	**-**	**3.0**	**13.0**	**36.0**	**73.0**	**124.0**	**191.0**	**274.0**	**-**	**714.0**
Payments													
Administered													
Equity Contributions	*-1,040.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	*-2,080.0*	***-7,280.0***	***-21,840.0***
Equity Buybacks	-	-	-	-	*52.0*	*156.0*	*260.0*	*364.0*	*468.0*	*573.0*	*677.0*	-	***2,550.0***
Departmental													
Departmental Expenses	*-10.9*	*-10.9*	*-10.9*	*-11.0*	*-11.0*	*-11.1*	*-11.2*	*-11.3*	*-11.4*	*-11.4*	*-11.5*	***-43.7***	***-122.6***
Total – payments	**-1,050.9**	**-2,090.9**	**-2,090.9**	**-2,091.0**	**-2,039.0**	**-1,935.1**	**-1,831.2**	**-1,727.3**	**-1,623.4**	**-1,518.4**	**-1,414.5**	**-7,323.7**	**-19,412.6**
Total (excluding PDI)	**-1,050.9**	**-2,090.9**	**-2,090.9**	**-2,091.0**	**-2,036.0**	**-1,922.1**	**-1,795.2**	**-1,654.3**	**-1,499.4**	**-1,327.4**	**-1,140.5**	**-7,323.7**	**-18,698.6**
PDI impacts	***-10.0***	***-44.0***	***-91.0***	***-140.0***	***-192.0***	***-248.0***	***-306.0***	***-366.0***	***-428.0***	***-490.0***	***-558.0***	***-285.0***	***-2,873.0***
Total (including PDI)	**-1,060.9**	**-2,134.9**	**-2,181.9**	**-2,231.0**	**-2,228.0**	**-2,170.1**	**-2,101.2**	**-2,020.3**	**-1,927.4**	**-1,817.4**	**-1,698.5**	**-7,608.7**	**-21,571.6**

(a) A positive number for the headline cash balance indicates an increase in receipts or a decrease in payments or net capital investment in headline cash terms. A negative number for the headline cash balance indicates a decrease in receipts or an increase in payments or net capital investment in headline cash terms.

\- Indicates nil.