



## REIWA SUBMISSION TO THE SENATE SELECT COMMITTEE ON HOUSING AFFORDABILITY IN AUSTRALIA

### BACKGROUND

1. The Real Estate Institute of Western Australia welcomes the opportunity to make a submission to the Senate Select Committee on Housing Affordability.
2. REIWA is the peak professional association for the real estate sector in Western Australia. It represents 1,300 licensed real estate agents across the State who employ around six thousand sales representatives, property managers and support staff. REIWA members and their staff operate as the intermediary in some 70,000 real estate transactions per annum as well as manage in excess of 78,000 rental properties for investors in WA.
3. REIWA represents the interest of its members in lobbying Government on matters pertaining to real estate. It also represents the hundreds of thousands of property owners and investors for whom it is often the only advocate on matters of property taxation reform and property rights. REIWA has an overriding interest in ensuring the best possible environment for investment in property and in particular its commitment to affordable housing for Western Australians, no matter their tenure arrangements.

### AFFORDABILITY CONTEXT OF REIWA'S SUBMISSION

4. REIWA believes it is important to take a systems approach to housing and any discussion around housing affordability must acknowledge the inter-relationship between the new housing, established housing and private rental markets and also the role that the social housing sector plays in addressing market failures.
5. In addition, the proportion of first home buyers purchasing established property now exceeds 80% and highlights the need to take a broader view of affordability and the role that trade-up buyers play in selling to those entering the market.
6. Supply and affordability of housing are primary concerns in relation to the economics of the housing system in Western Australia and its capacity to support current and future generations. For the housing system to be efficient and effective, it must deliver housing product that is:
  - **Accessible** to both home buyers and renters in terms of being able to bridge the deposit gap or meet upfront tenancy costs to enter the market;
  - **Affordable** for both home buyers and renters to meet the ongoing financial costs of servicing a mortgage or paying rent;
  - **Appropriate** to meet a households shelter needs within their capacity to pay and without having to purchase excess capacity that may introduce affordability constraints.

## **TERM OF REFERENCE #1 - TAXES AND LEVIES IMPOSED BY STATE GOVERNMENTS**

### ***FIRST HOME BUYER STAMP DUTY***

7. First home buyer stamp duty relief, introduced initially in July 2004 and increased to a \$500,000 tax free threshold in May 2007 has virtually eliminated the impact of State Government taxes on first home buyers in Western Australia.

### ***TRADE-UP BUYER AND INVESTOR STAMP DUTY***

8. However the same cannot be said for the stamp duty imposition on trade up buyers and investors who have been contributing to a growing revenue stream that has helped underwrite the State Government's burgeoning annual surpluses.

As outlined in the Final Report of the State Tax Review in May 2007 revenues from stamp duty on property conveyancing have increased from \$550m in 2000/01 to \$1.9b in 2005/06 and \$2.0b in 2006/07. This increase is a product of a rapidly rising property market in WA and taxation bracket creep due to a lack of adjustment to stamp duty thresholds for 26 years.

9. Stamp duty thresholds have not been adjusted since 1982 during which time the median house price in Perth has risen 836% and shifted from the first threshold to the second highest, resulting in an estimated 95% of established dwelling purchases now in the top two tax brackets as at September 2007.

Over the same 25 year period, stamp duty on the median priced property in Perth has increased by a massive 2,431% as the tax take on the median priced house has risen due to bracket creep from 1.5% in 1982 to 4.1% in 2007.

The effects of bracket creep are not confined to the Perth market with state wide analysis for the September quarter indicating that 91% of the established dwelling sales were in the top two brackets with sales above the top stamp duty threshold of \$500,000 representing 33% of dwelling sales.

### ***STAMP DUTY AND AFFORDABILITY***

10. With the stamp duty impost now representing 4.1% of the median house price, many purchasers buying the median priced house or more expensive dwellings are unlikely to have ready access to funds to cover stamp duty (\$19,200 for the current Perth median house price) and would therefore borrow this money as part of their mortgage arrangements. Whilst amortising stamp duty across the life of the loan removes the immediate burden, the real cost of the stamp duty after interest payments is significantly higher.

REIWA believes the impost of stamp duty and the need for households to amortize this across their mortgage is also contributing affordability pressures and feeding into higher housing costs. For example, the cost of a \$19,200 stamp duty impost repaid over 25 years at a mortgage rate of 9.0% is \$161 per month, not a small amount by any reckoning.

### ***STAMP DUTY AND HOUSING MOBILITY***

11. REIWA supports the recent call by the Federal Treasury (*The Weekend Australian 19-20 January 2008*) for housing stamp duty to be lowered to reduce the high cost of moving interstate for employment given WA's ongoing demand for labour.

## **LAND TAX ON INVESTMENT PROPERTIES**

12. REIWA has concerns at the impact of land tax on the investor market, particularly those holding multiple properties and affordable rental dwellings. With the yields on rental property at historical lows (3 - 4%), some investors perceive that the land tax exceeds the rental income from their property. They may face difficulties in meeting the unbudgeted expense of a sharply increased land tax assessment.

In the enduring tight rental market investors need to be encouraged to hold properties, particularly in the lower price ranges. With the flight of funds to other property and equity markets, the State Government should be looking at ways to use the taxation system to provide incentives to investors who provide 80% of the rental stock that support 20% of the households.

13. REIWA's other major concern is the continuing practice of the Western Australian Government to aggregate the value of multiple rental property within a portfolio and impose higher marginal tax rates rather than a flat rate on the value of each property assessed individually.

## **TERM OF REFERENCE #2 - RATE OF RELEASE OF NEW LAND BY STATE GOVERNMENTS**

The role of the WA State Government in land release is twofold: it is both the regulator as the approving authority for subdivision and a developer delivering approximately 20% of new land supply through various agencies.

## **LAND SUPPLY AND AFFORDABILITY EFFECTS**

14. Land supply was a major issue in the Perth Metropolitan Region during 2005 and into 2006 as the demand for land and housing reached a peak due to a range of contributing factors including:
  - capacity constraints in the land development and new housing pipeline
  - increased speculative activity in both land and housing markets
  - delays in clearing approval conditions on finished subdivisions and the subsequent release of titles
  - lack of understanding of the effects of pre-selling lots up to 12 months ahead of titles which in effect artificially brought forward demand
  - media hype around a perceived shortage of land

Since 2006, the demand for land has fallen dramatically as the housing system moved into over supply during 2007 after a prolonged period of development starting in 2001. This is evidenced by REIWA's latest measure of listings for Perth which indicates there are 17,500 properties on the market at the end of March 2008. This figure includes some 2,000 blocks of land, many of which are being sold back into the market place by speculators. By comparison at the height of the recent property boom, listings were just 4,800 in June 2006.

15. The flow-on effects on housing affordability in a number of Western Australian housing markets due to a tight land supply in 2006 cannot be understated. For example, Perth experienced a 67% increase in the median land price for the year to September 2006 which fed into established house prices which increased by 42% over the same period.

16. However, REIWA wishes to re-iterate that the rapid decline in housing affordability is far more complex than a simplistic land supply argument being run by various commentators and industry groups. The WA property market experienced generational price growth between 2004 and 2006 due to an array of factors:
- housing supply-demand imbalance due to rapid population growth associated with massive resource sector investment
  - increased first home buyer activity from the policy stimulus of stamp duty relief in mid 2004
  - undervaluing of Western Australian property assets relative to the eastern seaboard which attracted significant interstate investment from 2004

According to ABS data, population growth in WA has doubled over the five years to September 2007 from 23,250 in 2002 to 48,650 in 2007. Increases of this magnitude are difficult to predict and both the land development and new housing industries are competing with the resources sector for a similar pool of workers which has placed unprecedented pressure on housing supply.

#### ***THE STATE AS A LAND DEVELOPER***

17. The role of the State Government as a developer, often in joint venture arrangements is called into question from time to time. REIWA believes the State Government has an important role to play in land development by providing continuity of supply and also developing the Crown Estate in remote areas where there are community service obligations and insufficient returns to attract private developers.

REIWA does however take issue with State Government land development agencies and their capacity to reconcile the conflicting objectives of delivering affordability whilst at the same time seeking to maximize the commercial returns from their operations. There is evidence of government-developed estates pricing above the market and achieving growth rates above the market in Perth and Regional WA.

#### ***TAXATION TREATMENT OF SERVICED LOTS***

18. Finally, the current State Government's decision to remove land tax concessions for developers holding developed lots at June 30 each year is likely to have had negative consequences on a steady supply of land into the market place. The concession was originally introduced in the mid 1990's to smooth the supply of lots availability and remove the artificial tightening in supply due to taxation measures.

#### **TERM OF REFERENCE #3 - PROPOSED ASSISTANCE FOR FIRST HOME BUYERS BY STATE AND COMMONWEALTH GOVERNMENTS AND THEIR EFFECTIVENESS IN THE ABSENCE OF INCREASED SUPPLY**

##### ***COMMONWEALTH ASSISTANCE***

19. The effectiveness of the existing First Home Owners Grant has declined significantly since its introduction in July 2000 due to the rapid increase in property prices.

20. The proposed Commonwealth First Home Saver Accounts provides an important new initiative but may have limitations to the effectiveness of the savings regime should interest rates retreat from their current levels and annual real property price growth outstrips real interest rates.

#### **STATE GOVERNMENT ASSISTANCE**

21. The WA State Government has supported first home buyers since 1994 with a steady supply of older affordable entry level housing as part of its New Living public housing renewal program.

However REIWA questions the continued selling of public housing under the First Start Share Equity Scheme introduced in 2007 at a time of increased housing cost pressures in the private rental market which is placing increasing demand on public housing waiting lists.

22. Keystart, the State Government's home loan originator has been providing an invaluable financing service since 1989, providing low deposit loans and more recently helping borrowers as banks have tightened lending criteria in the wake of the sub-prime fallout.
23. Certainly, the State Government's First Start Shared Equity scheme which is supporting 3,000 households into home ownership over three years is an important initiative but income limits remain an issue.
24. REIWA awaits the 2008 State Budget to see what, if any new initiatives the State Government will offer first home buyers beyond its current armory of stamp duty relief, selling off public housing, delivery of some 'affordable' lots and financing options.

#### **TERM OF REFERENCE #4 - ROLE OF ALL LEVELS OF GOVERNMENT IN FACILITATING AFFORDABLE HOME OWNERSHIP**

Limiting the Terms of Reference to focusing solely on the facilitation of affordable home ownership fails to acknowledge the reality that a section of the community may never be able to afford home ownership and is therefore reliant on the rental market as the tenure of necessity rather than the tenure of choice.

#### **COMMONWEALTH GOVERNMENT**

25. REIWA and its national body, the Real Estate Institute of Australia supports the suite of new initiatives such as the National Rental Affordability Scheme, First Home Saver Accounts and the National Housing Affordability Fund which will assist in increasing supply, reducing development costs, and providing support to both renters and first home buyers over the medium and long term.
26. The initiatives also acknowledge the need to engage institutional investors in the development of affordable rental property but REIWA suggests this could be taken a step further with the Federal Government requiring superannuation funds to hold a portion of their investment portfolio in this type of asset class.

Whilst it is acknowledged that residential yields are traditionally below most other asset classes, the long term demand for affordable rental accommodation

cannot be ignored in light of recent research from the Australian Housing and Urban Research Institute (*Is the Australian Housing System Sustainable? - March 2008*). The research models the cost of current housing assistance programs and also indicates that the proportion of households in housing stress will increase over the next 40 years except under the two most optimistic scenarios of higher wages or higher home ownership.

### **STATE AND LOCAL GOVERNMENT OPPORTUNITIES IN WESTERN AUSTRALIA**

REIWA offers the following comments in relation to affordable housing issues and opportunities in WA with regard to the role of state and local government. The State Government has a suite of policy levers around planning and funding that it could use to facilitate affordable housing in association with local government and the community.

27. REIWA supports the thrust of the State Government's most recent strategic planning initiative Network City and its push to achieve greater housing diversity. Further discussion on housing diversity which REIWA believes is a pivotal issue to housing affordability is included in a subsequent term of reference.

However REIWA questions the capacity and political will of the State to ensure that local government delivers the 60/40 new housing split policy set out in Network City. Overcoming community resistance from the "Save Our Suburb" lobby requires facilitation and education by local government to embrace the need for greater housing diversity to meet changing long term housing needs.

28. Achieving increased density and housing diversity will deliver lower unit land cost which in turn supports improved affordability. Increased diversity not only increases housing choice but also allows for improved efficiency in the overall utilisation of the housing stock by freeing up excess housing capacity of which WA has the highest in the nation.

REIWA is not suggesting that increased housing density in the inner and middle ring suburbs will solve the affordability problem but more supply in these areas of high demand certainly has to be part of the package of reforms.

29. The work of the State Government Redevelopment Authorities (RDAs) has delivered a number of quality developments that have included a diverse range of housing stock. However in several cases, namely East Perth and Subiaco these areas remain unaffordable to a large section of the community with the only commitment to affordable housing quarantined to the social housing sector.
30. Whether the proposed national Housing Affordability Fund will provide some local governments with sufficient financial capacity to undertake urban renewal projects in a similar way to the RDAs or the Building Better Cities program remains to be seen.

Equally, the State Government could also offer local government some additional fiscal stimulus which delivers broader scale urban renewal that could facilitate affordable housing opportunities. Whilst there are already several examples of community renewal across Western Australia funded under tripartite agreements with the State, local government and industry, it remains to be seen whether the economic imperative is strong enough yet to encourage broad scale renewal over new frontal development.

## **TERM OF REFERENCE #5 - EFFECT ON THE MARKET OF GOVERNMENT INTERVENTION IN THE HOUSING SECTOR INCLUDING PLANNING AND INDUSTRIAL RELATIONS LAWS**

### ***PLANNING SYSTEM FAILURES***

31. A major shortcoming of the State and Local Government in Western Australia has been the failure of the planning system to adequately address the capacity to deliver a mix of housing types that provides affordability through appropriateness.

The 2006 Census indicates that Western Australian continues to go against the national trend with its share of smaller, more appropriate and, in most cases, more affordable multi-residential dwelling stock continuing to decline. There has been plenty of evidence to track this decline since the early 1980s with multi-residential commencements in WA falling from 38% in 1981/82 to 15% in 2001/02, yet various State planning strategies have been unable to arrest the slide.

The more affordable multi-residential stock supports 35% of the rental tenures across WA with 47% of the State's medium density stock rented and 64% of the high density stock also providing rental accommodation, yet we are building less of this stock overall.

32. The homogenous nature of the current WA housing stock, dominated by detached housing offers little diversity and is working against all three dimensions of affordability and the longer term sustainability of the housing system. Whilst there has been a surge of new multi-storey high density apartment activity over the past five years, predominantly in near-CBD locations, much of this stock is far from affordable, with the average value of approved new units in 2006/07 exceeding the average value of new detached housing in the Perth Region.
33. In addition, a lack of housing diversity restricts the capacity of households to "right-size" their housing needs as they progress through their life cycle and housing career - initially entering housing as a renter or first home buyer, progressing to a larger dwelling during the family and post-family formation periods, before reassessing their housing needs in latter years. The lack of opportunities for ageing households to remain in their neighbourhood in new smaller, low maintenance dwellings is often stymied by community resistance to density. A major downside of this NIMBY syndrome is an inefficient use of the existing housing stock and associated infrastructure.

## **TERM OF REFERENCE #6 - THE ROLE OF FINANCIAL INSTITUTIONS IN HOME LENDING**

34. REIWA has only limited comment on the role of financial institutions in home lending and these relate to the restrictive practice that has emerged in relation to the multi-residential sector, most probably associated with the glut of apartments in the eastern states in recent years.

REIWA is aware that some lending institutions are restricting the proportion of finance available for multi-residential property along with excluding finance for property deemed too small such as 45-50m<sup>2</sup> apartments.

## TERM OF REFERENCE #7 - CONTRIBUTION OF HOME OWNERSHIP TO RETIREMENT INCOMES

35. REIWA acknowledges the importance that home ownership plays in reducing housing costs in retirement although issues of appropriateness along with capacity of older households to maintain their housing assets is also important.

Research by the Australian Housing and Urban Research Institute and others including the Department of Housing and Works in WA has highlighted the impacts of 'after housing cost' poverty of the elderly on fixed incomes who must reside in private rental in the absence of appropriate subsidized housing.

## CONCLUSION

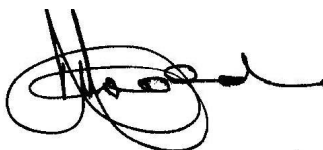
The current housing affordability problem being experienced in Western Australia is all the worse because it has been so sudden.

There is no doubt that the demand side causes are beyond the control of any State Government; i.e. a prolonged period of low interest rates and easy credit, combined with high immigration whilst the supply side has been stymied primarily by competition for scarce human resources.

However the WA State Government dropped the ball in terms of retaining some capacity to at least monitor what was happening in the market when it disband its Housing Industry Forecasting Group in early 2006 at the height of a development boom. Its re-formation and decision to re-engage industry in identifying issues and solutions is promising and fits well with the formation of the National Housing Supply Council and appointment of a Federal Housing Minister which has clearly put housing on the national agenda.

The effects of stamp duty and a lack of housing diversity which delivers affordability through appropriateness of housing product are key concerns of the Real Estate Institute of Western Australia in the housing affordability debate.

The State Government through its Network City planning strategy has acknowledged the need for greater housing diversity although community resistance may limit its effectiveness to deliver new housing outcomes in WA. It is encouraging that the State Government has moved to deliver albeit limited new affordable housing products such as the First Start Shared Equity program. Likewise the early moves by the Federal Government with initiatives such as the National Rental Affordability Scheme will help to unwind the affordability spring.



Anne Arnold

Chief Executive Officer

Real Estate Institute of WA