

The Real Estate Institute of Australia

Commonwealth Government Budget Submission 2009/10

Purpose

- The Real Estate Institute of Australia (REIA) seeks the Commonwealth Government's consideration to:
 - revise the Commonwealth Government's Guarantee Scheme for Large Deposits and Wholesale Funding (Scheme) to exempt real estate trust funds,
 - retain negative gearing in current arrangements,
 - reform Capital Gains Tax (CGT) to a sliding scale,
 - undertake a comprehensive review of the boost to the First Home Owners Grant to assess its effectiveness prior to its cessation,
 - allow first home buyers access to their superannuation for the purchase of a home,
 - commit to an early implementation of the Intergovernmental Agreement on tax reform and the elimination of inefficient state taxes under the Henry Review reforms,
 - provide adequate resourcing to the COAG process to facilitate the endorsement and implementation for a uniform Torrens Title Act, and
 - provide adequate resourcing for the Australian Housing and Urban Research Institute (AHURI)

Background

- The REIA is a non-political national professional association for the real estate industry in Australia which is committed to working with the Commonwealth Government for the economic development of Australia and well-being of individual Australians.
- The REIA has eight members, comprised of the State and Territory Real Estate Institutes, through which around 80% of real estate agencies are collectively represented. The real estate industry employs approximately 80,000 persons. The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social and economic development.

Context of submission

- The world economies and that of Australia are in extraordinary circumstances emanating from the global financial crisis. The International Monetary Fund in April 2008 described the financial crisis as the "largest financial shock since the Great Depression". Many economic commentators have described the situation as worse than that. The common response by the world's governments and regulators has been to ensure that there is adequate liquidity in the banking and financial system, providing fiscal stimuli and cuts in official interest rates.
- Australia too has responded to the situation by guaranteeing bank and other financial institution deposits, the purchase of residential mortgage backed securities to assist funding in the home lending market by smaller market participants and a \$10.4 billion stimulus package including increased payments under a First Home Owners Boost to bolster demand at the lower end of the housing sector particularly new dwellings, and a cut in official rates by the Reserve Bank of Australia of 3 per cent in 3 months.

- The 2009/10 Budget is being framed at a time when GDP growth forecasts are down and with a risk of turning negative, unemployment is expected to increase considerably, export demand is very low with the slowing of the global economy and asset values have depreciated greatly. The REIA believes that this provides an opportunity for introducing measures and reforms that not only provide a short to term medium fiscal stimulus but that also provide the basis for long term economic growth.
- The REIA has been supportive of the Rudd Government's initiatives for the housing and real estate sector: the Boost to The First Home Owners Grant and the purchase of residential mortgage backed securities as part of its fiscal package in response to the financial crisis, and; other initiatives such as the National Rental Affordability Scheme, the Housing Affordability Fund (HAF), the First Home Saver Account (FHSA), the changes to the Foreign Investment Review Board's screening arrangements and the National Housing Supply Research Council.
- Whilst these initiatives should improve the supply of housing, including rentals, and housing affordability, they will take some time to take effect – in some cases years. For example, reports from REIA members and the building industry indicate that whilst the level of interest in ownership amongst first home owners has increased in response to the Boost, the lag in the supply response by builders and developers means much of this increased demand will not be satisfied for a considerable time. Similarly, the HAF will require some lead time before housing supply is improved noticeably. Further, countering the aims of the Boost, funds from the FHSA can only be accessed after four years.
- Housing affordability deteriorated throughout much of 2008. The Deposit Power/REIA Housing Affordability Report showed that the average Australian household needed 38.8% of its income to meet home-loan repayments in the September quarter 2008, this compares to 36.6% of household income required in the September quarter 2007. The measures taken by the Government and the Reserve Bank in the latter stages of 2008 will go some way in improving housing affordability in Australia, but uncertainty over unemployment and the slowing global economy in 2009 will deter many Australians from entering the housing market. Furthermore, increasing unemployment will increase mortgage stress on many households already struggling to meet loan repayments and push many families into arrears.
- The REIA seeks Government consideration of eight specific areas as part of the Federal Budget 2009/10. These are aimed at providing a fiscal stimulus and to contribute to Australia's continuing strong economic development, addressing the supply of rental housing, improving affordability, and ensuring adequate research in the housing market thus contributing to public policy and ensuring sound policy outcomes.

Commonwealth Government's Guarantee Scheme for Large Deposit and Wholesale Funding

Proposal

- The introduction of The Commonwealth Government's Guarantee Scheme for Large Deposits and Wholesale Funding (Scheme) that commenced on 28 November 2008 in response to the global financial crisis is having an unfair cost impost on Australia's real estate agents in their management of trust accounts. The REIA believes it was an unforeseen consequence.
- Under the Scheme deposits with eligible financial institutions with balances in excess of \$1 million are subject to a fee. With around \$1 billion held in trust by the industry for buyers and sellers in any one year and with the majority of Australia's real estate agents having trust accounts in excess of \$1 million the cost to the industry and the individual is not insignificant. In the case of the real estate industry this cost cannot be offset against the interest earned as the interest accrued on trust accounts is automatically transferred to the state and territory governments.
- It is inequitable that either the agent, or possibly the parties to a real estate transaction, is obligated to pay the premium when the interest is received by state governments.
- The REIA is asking that the Government address what we believe was an unforeseen consequence by making real estate agents exempt from the guarantee fee.

Retention of Negative Gearing

Proposal

- Negative gearing for the purpose of property investment in its current form by addressing the supply of rental accommodation is complementary to the goals of the HAF. Vacancy rates for residential dwellings have dropped markedly in the last few years from an average quarterly rate of 3.5% in June 2004 to less than 2% in September 2008. The average vacancy rate over the 20 years to September 2008 was 3.4% whereas it was 1.2% in Sydney in September 2008. Negative gearing is an important part of the tax regime in helping to improve dwelling supply. Further to amend the current negative gearing provisions would be treating real estate differently to other asset classes and create a resource misallocation.
- The REIA proposes that negative gearing be retained in its current form for the purpose of property investment.

Reform of Capital Gains Tax

Proposal

- To improve Australia's competitiveness in attracting investment funds and to more closely align Australia's tax system with that of other countries consideration should be given to providing a tapered capital gains tax (CGT) for real estate and business assets held for the medium to long term. The longer the asset has been held, the lower the percentage of the gain that is assessed for CGT purposes.
- The proposed change would assist with providing a more stable and long term supply of rental accommodation by encouraging long-term investment.
- The proposal would also help to provide for superannuation savings and self-funded retirement.
- The REIA proposes that capital gains tax on real estate and business assets be tapered according to the length of ownership.

Review of the First Home Owners Boost prior to its cessation

Proposal

- The Commonwealth Government announced a Boost to the First Home Owners Grant on 14 October 2008. The initiative increased the FHOG from \$7,000 to \$14,000 for the purchase of established homes and to \$21,000 for newly constructed homes. The increased grants will apply to contracts entered into from 14 October till 30 June 2009.
- The REIA supported the initiative but urged the Government to review the impact before reducing the grants in June 2009. At the time the REIA anticipated that the relatively short time frame would hamper any supply response to the initiative and would thus limit the success of the initiative. Further it could lead to inappropriate policy responses.
- The housing market is a dynamic market with many factors (including interest rates, unemployment, economic activity and outlook and the state of the housing market) determining sales activity levels. Further many of these have a lagged effect on the outcome. Thus any thorough analysis of the impact of the change in one determinant – such as the Boost – can only be taken over a considerable time frame as well as including an assessment of the influence of the other determinants – none of which have remained unchanged.
- There has been no comprehensive and consistent data, on either sales, number of loan approvals or commencements of construction, released since the introduction of the Boost to allow any assessment of its impact. Nevertheless reports to the REIA by its members indicate that whilst the level of enquiry in ownership amongst first home owners has increased in response to the Boost, the lag in the supply response by builders and developers means much of this increased demand will not transfer to increased construction for a considerable time. Developers have indicated that the lead time for responding to increased demand is around two years. In addition to the construction phase developers have to: design and get local government approval; market the development; sell a high proportion of the development off the plan before finance can be sought; with construction only commencing once finance is in place – a phase that is taking longer in the present economic circumstances. To further compound

the dilemma for first home buyers the eligibility criteria for off the plan purchases require that a contract be signed before 30 June 2009 and for construction to be completed prior to 30 December 2010. Satisfying these conditions under the inherent lags in the process is unlikely and could be seen to be counterproductive to the intent of the Boost.

- Early indicators on the effectiveness of the Boost are inconclusive. A survey by the Housing Industry Association shows that new home sales in November 2008 REIA COMMONWEALTH GOVERNMENT BUDGET SUBMISSION 2009/10 dropped by 1.1 % despite the Boost and cuts in official interest rates. Similarly, the ABS reports that the trend estimate for total dwelling units approved fell 4.2% in November 2008 and that the seasonally adjusted estimate for total dwelling units approved fell 12.8%. ABS figures, released 14 January 2009, on housing finances for November show that lending to first home buyers increased by 17.8 % but still at a level below that of twelve months earlier.
- A further dynamic to consider is that until the introduction of the Boost the relative size of the grant has declined in relation to house prices. When the first home owners grant was introduced in the September quarter 2000, the Australian weighted average median house price was \$220,441. The Australian weighted average median house price in the most recent quarter, September 2008 was \$447,659. The contribution of the grant towards the purchase price has almost halved from 3.2% to 1.7% over the period. When state stamp duties are taken into account the decline is even more marked. With the introduction of the Boost, the FHOG has, for an established dwelling, in essence retained parity with the time it was introduced.
- It has been REIA's position that the FHOG should be indexed to median house price movements so that the grant remains relative to increases in the cost of housing.
- The REIA will be monitoring the response to the Boost of the FHOG and making a submission to Government in May 2009 on its impact.
- The REIA accordingly suggests that the Commonwealth defer the cessation of the Boost until a comprehensive review of the First Home Owners Grant to assess its effectiveness has been undertaken.

Allow First Home Buyers access to their superannuation for the purchase of a home

Proposal

- The REIA is concerned that the overall level of homeownership in Australia has fallen and that first home buyers are finding it increasingly difficult to enter the housing market. Median house prices have more than doubled since 2000 and first homebuyers currently account for only 19% of the market, down from the long term historical average of 21%.
- As part of a package of measures to address the affordability problem, the REIA proposes that the Commonwealth Government should establish a scheme which would encourage young Australians to contribute to voluntary superannuation by allowing access to these monies for the purposes of raising a deposit for a first home.
- The scheme would be an adjunct to the First Home Savers Account but would allow flexibility for the saver to decide whether all or part of the voluntary superannuation payments was needed to augment the home purchase.
- By limiting the scheme to the voluntary superannuation contributions of first home buyers the integrity of compulsory superannuation would be maintained.

Commitment to an early implementation of the intergovernmental agreement on tax reform and the elimination of inefficient state taxes under the Henry Review reforms

Proposal

- Under the Intergovernmental Agreement (IGA), with the introduction of the GST in 2000, the states and territories agreed to the abolition of nine state-based taxes in exchange for additional GST revenue. In March 2008 the Commonwealth agreed to extend the period under which it guarantees that states will not be disadvantaged under the IGA to 30 June 2009. Whilst the states have agreed to reduce many of the taxes in the IGA:

- the timetable for complete abolition for some of these taxes now go into 2011
- there is no timetable for the abolition of non-residential conveyancing duty.
- The Henry Review on Taxation's Consultation Paper has similarly addressed the inefficiency of many state taxes such as stamp duty on residential conveyancing, land taxes and local government rates.
- The REIA has advocated reform of inefficient state taxes and is concerned that delays in doing so are impeding economic growth, investment and employment at a time when Australia can least forgo it.
- The REIA proposes that:
 - the Commonwealth pursue the original IGA
 - the Commonwealth seek a commitment from the states and territories to eliminate all efficient state taxes and establish a timetable for doing so
 - Henry Review outcomes are implemented as soon as is practical.

Provide adequate resourcing to the COAG process to facilitate the endorsement and implementation for a uniform Torrens Title Act

Proposal

- Although the Torrens Title system is widely recognised as one of the world's best systems of land titling, having eight markedly different versions of that system is an impediment to transactions and slows down investment and makes Australia less competitive on an international scale.
- The Property Law Reform Alliance (PLRA) is a national coalition of peak legal and industry associations committed to achieving uniformity by pursuing the reform of real property laws and procedures in Australia with the following membership:
 - Australian Property Law Group of the Law Council of Australia;
 - Law Institute of Victoria;
 - Law Society of the Australian Capital Territory;
 - Law Society of New South Wales;
 - Law Society of the Northern Territory; and
 - Law Society of South Australia.
 - Australian College of Community Association Lawyers;
 - Australian Institute of Conveyancers;
 - Australian Institute of Quantity Surveyors;
 - Australian Property Institute;
 - Australian Spatial Information Business Association;
 - Master Builders Australia;
 - Property Council of Australia (including the Shopping Centre Council of Australia);
 - RICS Oceania;
 - Urban Development Institute of Australia, and;
 - Real Estate Institute of Australia.
- The PLRA has drafted a Table of Contents for a Uniform Torrens Title Act. The purpose of the Table of Contents is to identify the main areas that would need to be covered and, in doing so, to demonstrate that, given the political will and a spirit of co-operation, it should not be difficult to develop uniform Torrens title legislation that will meet the requirements of all Australian jurisdictions.
- The document draws on Torrens Title legislation enacted relatively recently in Queensland and the Northern Territory. It also endeavours to clarify doubts on some aspects of the Torrens statutes highlighted in recent case law on certain points.
- In order to bring about reform, the PLRA has had discussions with various Government representatives and Attorneys-General. The PLRA is also in discussions with the office of the Commonwealth Attorney-General regarding the development of a Uniform Torrens Title Act and the need for uniform real property legislation.

- Progressive governments that take determined steps towards greater uniformity of property laws and procedures will facilitate property transactions and improve investment. In particular, a uniform property law system will:
 - enable states and territories to establish the most efficient, rigorous, and fair system for managing property transactions;
 - make it easier for individuals, companies, and professionals to move and operate in different jurisdictions; and
 - place property investment on a level playing field with other asset classes for local and foreign investors.
- The Real Estate Institute of Australia through the Property Law Reform Alliance is keen to work with Federal, State, and Territory Governments to bring about this essential reform.
- The REIA proposes that the Commonwealth Government ensure that the recommendation for a Uniform Torrens Title Act is added to the COAG Agenda for discussion, endorsement and implementation and that it provide adequate resources to facilitate this process.

Provide adequate resourcing for the Australian Housing and Urban Research Institute

Proposal

- The Australian Housing and Urban Research Institute (AHURI), which is part funded by the Commonwealth Government, is a national research organisation specialising in housing and urban research and policy and provides valuable information on housing markets, housing policy and programs. In undertaking quality research and policy development it greatly assists policy makers involved in the housing sectors.
- A recent example of its work is the assessment of the National Rental Affordability Scheme which provides valuable insights for policy makers and administrators for improving the effectiveness of the scheme.
- As the Commonwealth continues to address its policy agenda in the housing sector it is imperative that the work of AHURI continues.
- The terms and conditions governing the provisions of funds by the Commonwealth, State and Territory Governments are embodied in a funding agreement with a AHURI. The funding agreement signed on 1st July 2008 only provides funding through to 30th June 2009.
- The REIA proposes that the Commonwealth maintain their financial commitment to the AHURI.

Concluding comment

- The REIA welcomes the opportunity to present the Government with proposals for the 2009/10 Federal Budget which are aimed at providing a fiscal stimulus and to contribute to Australia's continuing strong economic development, addressing the supply of rental housing, improving affordability, and ensuring adequate research in the area of the housing market.