PROPERTY COUNCIL of Australia

Australia's property industry
Creating for Generations

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Mr Andrew Gaczol
Acting Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
Canberra ACT 2600

24 September 2019

Dear Mr Gaczol

National Housing Finance and Investment Corporation Amendment Bill 2019 [Provisions]

The Property Council of Australia welcomes the creation of the Low Deposit Home Loan Scheme (the Scheme). This occurs against the positive backdrop of the Government protecting current negative gearing and capital gains tax settings.

We also welcome the opportunity to comment on the National Housing Finance and Investment Corporation Investment Bill 2019 [Provisions] (the Bill) that establishes the framework for the Scheme. Our proposals would boost support for construction sector jobs and economic growth as well as simplify the administration of the Scheme.

The Property Council of Australia is the nation's leading advocate for property, an industry that employs 1.4 million Australians. Of particular note, our members include Australia's largest residential developers who partner with tens of thousands of small businesses to meet Australia's housing needs.

Our members strongly support the expansion of the National Housing Finance and Investment Corporation's (NHFIC's) functions as identified by the Amendment Bill to address major hurdles for both home buyers and policy makers: bridging the deposit gap for first home buyers and providing nationally consistent data to better inform housing policy across states and territories.

We note in the Explanatory Memorandum that the Government will provide further direction to NHFIC about the operation of the Scheme. With some fine tuning, the Scheme could help the Government to boost construction sector jobs, consumer confidence and economic growth at this crucial time in the residential cycle, with national home construction having dropped in excess of 25% year on year.

The Property Council seeks to avoid a situation where **the operation of the Scheme may limit any beneficial impact by referencing *an annual cap of 10,000 guarantees issued per annum*** during an uncertain time when the Government might need to quickly stimulate the economy in the event of any external economic shocks.

Our attached submission sets out how the Government can provide further direction to NHFIC to improve the design of the Scheme, in the event of unforeseen outcomes, to address the deposit hurdle for first home buyers, further boost support for construction sector jobs and economic growth and simplify the administration of the Scheme by:

1. Should the Scheme appear likely to be oversubscribed before 30 June 2020, **targeting an additional 10,000 buyers per year – for newly built homes only and for the first two years only,** to stimulate the economy and limit any wider market impacts;

2. **Developing a loan product that is suitable for new dwellings**, recognising that the loan process, timeline and product for purchasing off-the-plan apartments or house & land packages differs to the loan process or product for established dwellings; and

3. **Aligning dwelling price caps with pre-existing state or territory price caps** or first home buyers grant programs in the respective state or territory to maximise the impact of the Scheme and reduce the administrative complexity of setting dwelling price limits at a Federal level.

Given the potential opportunity to address the deposit hurdle for first home buyers and to further boost support for construction sector jobs and economic growth, we welcome the opportunity to appear before the Senate Standing Committee on Economics to discuss these issues further.

Please do not hesitate to contact Rebecca Douthwaite on 02 9033 1936 or rdouthwaite@propertycouncil.com.au should you wish to discuss this submission further.

Yours faithfully,

Mike Zorbas
Group Executive, Policy

Submission:

National Housing Finance and Investment Corporation Amendment Bill 2019 [Provisions]

September 2019

The Announcement

The Property Council welcomed the Coalition Government's announcement for a First Home Loan Deposit Scheme (the Scheme) to help eligible first home buyers purchase a house with a deposit as low as 5% with a potential saving of around $10,000 in Lenders Mortgage Insurance if they qualify based on income caps of $125k for singles or $200k for couples. An annual cap of 10,000 recipients was noted in the announcement.

This announcement anecdotally improved consumer sentiment in the residential market. However, the inclusion of the 10,000-cap created challenges:

1. **Current purchaser uncertainty and delay.** Some first home buyers, keen to access the Scheme, are delaying purchasing until 1 January 2020 when they can apply.
2. **An oversubscribed Scheme.** The Scheme may be oversubscribed in anticipation of its launch on 1 January 2020 and could establish more 'losers' than 'winners' in the first few years of operation.
3. **Further purchasing delay for subsequent years of Scheme entry.** Failure to access the Scheme in the FY20 round may remove potential buyers from the market, who otherwise would have purchased mortgage insurance and commenced their dwelling, until they have success in accessing future rounds of the Scheme.

Market Context

The amendments to NHFIC's functions come at a very important time in the residential property cycle, with dwelling construction is down more than 25% year-on-year.

The residential property market is worth more than $6 trillion, more than three times the size of the share market, and directly sustains more than 995,000 jobs while contributing over $100 billion to Australia's economy. This economic contribution takes place in the following context:

- The ANZ/Property Council sentiment survey for the September 2019 Quarter delivered a continued decline in expectations across residential property, underscoring Treasury's budget warnings about the risks to the economic outlook from a further deterioration in the housing sector;
- The large residential construction completion pipeline is coming to an end and approvals are declining. This raises significant concerns that the supply of new housing will not be able to meet demand with an anticipated shortfall of new housing in both Sydney and Melbourne in FY20 and FY21;

- The most recent figures from the Australian Bureau of Statistics (ABS) have noted that dwelling unit approvals continued to decline over the month of July by 9.7%, (seasonally adjusted), and by 28.5% from July 2018 – July 2019 creating a drag on new developments of housing; and

- The latest ABS data indicates that the total number of dwelling units commenced decreased by 25.1% from the March 2018 quarter to the March 2019 quarter, indicative of a looming construction downturn.

Positively, the ANZ/Property Council Survey for the September quarter found sentiment across the property industry picked up following the federal election – attributable in part to the protection of negative gearing and capital gains tax settings, an interest rate cut, APRA's lending standards review and news of the proposed first home buyers loan deposit scheme.

Across all levels of government, policies to support first home buyers enter the market have been deployed to stimulate economic activity and retain jobs in the construction sector. State and territory governments have recognised that the construction of new dwellings plays a significant role in the economy and, as such, all first homebuyer grant programs are targeted to new dwellings. These are highly visible programs and make a welcome contribution to market confidence.

Designing the Scheme

The design of the Scheme provides a significant opportunity for the Government to bridge the deposit gap for first home buyers and support the jobs and economic growth driven by the residential construction sector.

However, the **Property Council and our members remain keen to avoid limiting the beneficial impact of the Scheme**, by *removing the reference to an annual cap of 10,000 guarantees issued per annum* at a critical time when the Government needs to be able to respond quickly to stimulate the economy.

We also propose NHFIC review the operational parameters of the Scheme that could potentially limit its successful uptake:

- **A loan product that may lack the requisite versatility**, failing to take into account the differing loan needs and timelines for consumers purchasing new housing compared to those purchasing established housing; and

- **Unnecessary administrative complexity**, arising from multiple regional price caps across jurisdictions that will complicate dwelling price limits and confuse consumers.

The design of the Scheme can address the above concerns by:

1. Should the Scheme appear likely to be oversubscribed before 30 June 2020, **targeting an additional 10,000 buyers per year – for newly built homes only and for the first two years only,** to stimulate the economy and limit any wider market impacts;

2. **Developing a loan product that is suitable for new dwellings**, recognising that the loan process, timeline and product for purchasing off-the-plan apartments or house & land packages differs to the loan process or product for established dwellings; and
3. **Aligning dwelling price caps with pre-existing state or territory price caps** or first home buyers grant programs in the respective state or territory to maximise the impact of the Scheme and reduce the administrative complexity of setting dwelling price limits at a Federal level.

Introducing an additional 10,000 recipients if purchasing new

Introducing an additional 10,000 recipients to the Scheme per year for new builds, and over a two-year period only, would stimulate the residential sector, address the concerns and downsides of an oversubscribed Scheme and minimise the likelihood of purchaser deferral.

Targeting an additional 10,000 new build purchasers per year for the first two years will permit entry into contracts for off-the-plan or house and land packages that will only settle, and therefore the Lender's Mortgage Insurance (LMI) payment fall due, after the construction period (typically more than 12 months).

Targeting new buildings will also limit any upward price impacts of the Scheme due to the relative increase of supply in the market.

The Property Council recommends that the Government direct NHFIC to prepare for the release of an additional 10,000 recipients per annum targeted to new builds for the first two years of the Scheme's operation.

Developing a loan product suitable for new housing

To ensure that the economic benefits of the Scheme are optimised, the loan product developed by the panel of lenders needs to be suitable for first home buyers looking to purchase off-the-plan apartments or house & land packages (new housing).

New housing typically requires different timelines and loan products to those required for the purchase of an established home. For example,

- A house & land package is typically funded with two different products - a loan (mortgage) to purchase the land and a construction loan while the house is under development.
- An off-the-plan purchaser requires pre-approval to have the confidence to sign and pay the deposit for an off-the-plan apartment that will only settle in 12- 18 months with loan approval a few months prior to settlement.

Any loan product developed by the Scheme, and indeed certainty to access the Scheme when entering into development contracts, needs to ensure that first home buyers can purchase new housing.

Aligning price caps with State and Territory government programs

The Explanatory Memorandum states that the price caps will be used to manage demand for the Scheme where regional and city caps will be set for a modest property.

The use of price caps is a counter-productive mechanism to manage demand as it will negatively influence purchasing behaviour, pushing first home buyers into certain product categories that may not meet their needs. The Property Council believes that demand, in the first two years, should be managed by releasing an additional 10,000 targeted to new builds for the first two years of the Scheme.

The Explanatory Memorandum also suggests that a discount to the median house price may be used as a cap with different caps for urban and regional areas. This introduces unnecessary complexity to the Scheme by over-complicating dwelling price caps and confusing consumers.

1. **The varied needs of First Home Buyers are not addressed**. First home buyers are diverse and require different properties to suit their needs. This will not be reflected by the price cap, for example established families will require a bigger property than a single person and a nurse looking to purchase near a hospital will find available prices are typically higher than a centrally dictated median;
2. **Access to Finance**. Regardless of purchasing LMI or accessing the Scheme, a first home buyer's borrowing capacity will be accessed on a 5% deposit regardless of a prices cap. This will naturally limit the price of the property purchased and demand for the Scheme if the purchaser's borrowing capacity will not allow them to buy a property that suits their needs.
3. **There will be a plethora of price caps**. The use of multiple price caps to distinguish between regional and urban suggests that there will be at least 16 different prices caps across the country (a city and regional price cap per state/ territory).
4. **The price caps will be constantly changing.** Median house price data is updated frequently, at least 12 times a year using CoreLogic data or 4 times a year using ABS data, which will confuse consumers if the Scheme is constantly changing the price caps.

To address this unnecessary complexity, and to optimise the Scheme's stimulatory role in the construction sector, the Property Council recommends that the Government directs NHFIC to align the Scheme's price cap to first home buyer caps in each state and territory:

	Does the First Home Buyer grant only target new dwellings?	Is there a price cap?
NSW	Yes	Yes, less than $750k
QLD	Yes	Yes, less than $750k
VIC	Yes (or dwellings up to five years old)	Yes, less than $750k
SA	Yes	Yes, less than $750k
NT	Yes	No cap
ACT	Yes (or substantially renovated)	Yes, less than $750k
TAS	Yes	No cap
WA	Yes	Less than $750k South of the 26th parallel

Meeting the objectives of the Bill

The amendments to NHFIC's functions come at a very important time in the residential property cycle. However, the operation of the Scheme, as described in the Explanatory Memorandum, may limit the opportunity to leverage the Scheme to support constructions jobs and economic growth.

The Property Council recommends that to meet the objective of the Bill, and to preserve the Government's opportunities to further leverage the Scheme to drive growth, the Property Council recommends that the Government provide further direction to NHFIC about the operation and administration of the Low Deposit Home Loan Scheme by:

1. Should the Scheme appear likely to be oversubscribed before 30 June 2020, **targeting an additional 10,000 buyers per year – for newly built homes only and for the first two years only,** to stimulate the economy and limit any wider market impacts;

2. **Developing a loan product that is suitable for new dwellings**, recognising that the loan process, timeline and product for purchasing off-the-plan apartments or house & land packages differs to the loan process or product for established dwellings; and

3. **Aligning dwelling price caps with pre-existing state or territory price caps** or first home buyers grant programs in the respective state or territory to maximise the impact of the Scheme and reduce the administrative complexity of setting dwelling price limits at a Federal level.

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