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REAL ESTATE INSTITUTE OF AUSTRALIA
COMMONWEALTH GOVERNMENT
PRE BUDGET SUBMISSION 2014/15

PURPOSE

The Real Estate Institute of Australia (REIA) welcomes the opportunity to present the Government with proposals for the 2014/15 Federal Budget.

The REIA seeks Government consideration of ten specific matters as part of the preparation of the Federal Budget 2014/15.

The two focuses of REIA's proposals are housing affordability and the rapid decline in the number of first home buyers. The REIA also proposes that the decline in the standards of delivery of vocational education are addressed and that adequate data on the supply/demand imbalance of housing is available for informed decision making by policy makers and stakeholders.

By addressing these key areas REIA's proposals are aimed at contributing to Australia's continuing economic development and productivity.

In the context of the preparation of the 2014/15 Budget, the REIA seeks the Commonwealth Government's consideration of the following:

- Ensure the availability of reliable data on housing demand and supply to formulate appropriate policies and to monitor their effectiveness
- All states and territories uphold the initial intent of the Intergovernmental Agreement in Federal Financial Relations Schedule A, that assistance to first home buyers will be "uniform" and that "an eligible home will be new or established"
- Review the amount of the First Home Owner Grant annually to maintain relativity with house price movements
- Allow first home buyers access to their superannuation for the purchase of a home
- Retention of current arrangements for negative gearing of property investments
- No increase in Capital Gains Tax on property investments
- Abolish stamp duty on property transactions in favour of an efficient source of revenue for states and territories
- Improve the supply of housing for social housing tenants transitioning to private rental by utilising private investment
- Monitor Housing Affordability Fund (HAF) and National Rental Affordability Scheme (NRAS) to observe its effects on housing supply and to conduct a review which considers additional measures to bridge the demand-supply imbalance

- Ensure the Australian Skills Quality Authority (ASQA) funding is adequate to ensure nationally approved quality standards are met for vocational education and training. It is also imperative that outcomes be assessed by Government around how well the Authority has ensured the integrity of the VET sector.

BACKGROUND

The REIA is the peak national association for the real estate profession in Australia.

Through its members, the State and Territory Real Estate Institutes (REIs), the REIA represents around 75% of real estate agencies and is an important element of the broader property and construction sector, which makes a significant contribution to Australia's social climate and economic development. The 2011 Census records the Rental, Hiring and Real Estate Services Industry employment sitting at a total of 117,880 persons with 64,700 being real estate sales agents. The total value of housing construction was $68.3 billion or 4.6% of the Australian GDP in 2012/13.

Importantly, the REIA represents an integral element of the small business sector. According to the Australian Bureau of Statistics (ABS), 95.8% real estate agency businesses employ fewer than 20 employees. Only 0.1% of businesses employ 200 or more people. Of all small businesses in Australia, 11% are involved in real estate.

The REIA is committed to providing and assisting research and well-informed advice to the Federal Government, Opposition, professional members of the real estate sector, media and the public on a range of issues affecting the property market.

CONTEXT OF SUBMISSION

Whilst during 2013 the global economy avoided many downside risks, advanced economies remained below-trend growth and a number of emerging markets slowed down from their high levels of the previous years.

For 2014, economic growth is the driving force of the Australian economy, China, is expected to decelerate compared to the previous years. Nevertheless growth in China is projected to outpace those of advanced economies despite the latter showing gradual improvements. The United States continues to show a moderate recovery of its economy however uncertainty about fiscal adjustments persists. Japan's economy is expected to lose momentum as fiscal policy tightens while the Eurozone is in a tentative recovery.

According to the International Monetary Fund (IMF), Australia is expected to outperform all major advanced economies over the next five years. In the IMF's latest World Economic Outlook, the forecast for the global economy for 2014 is 3.6% whilst for Australia real GDP is projected to grow 2.8%.

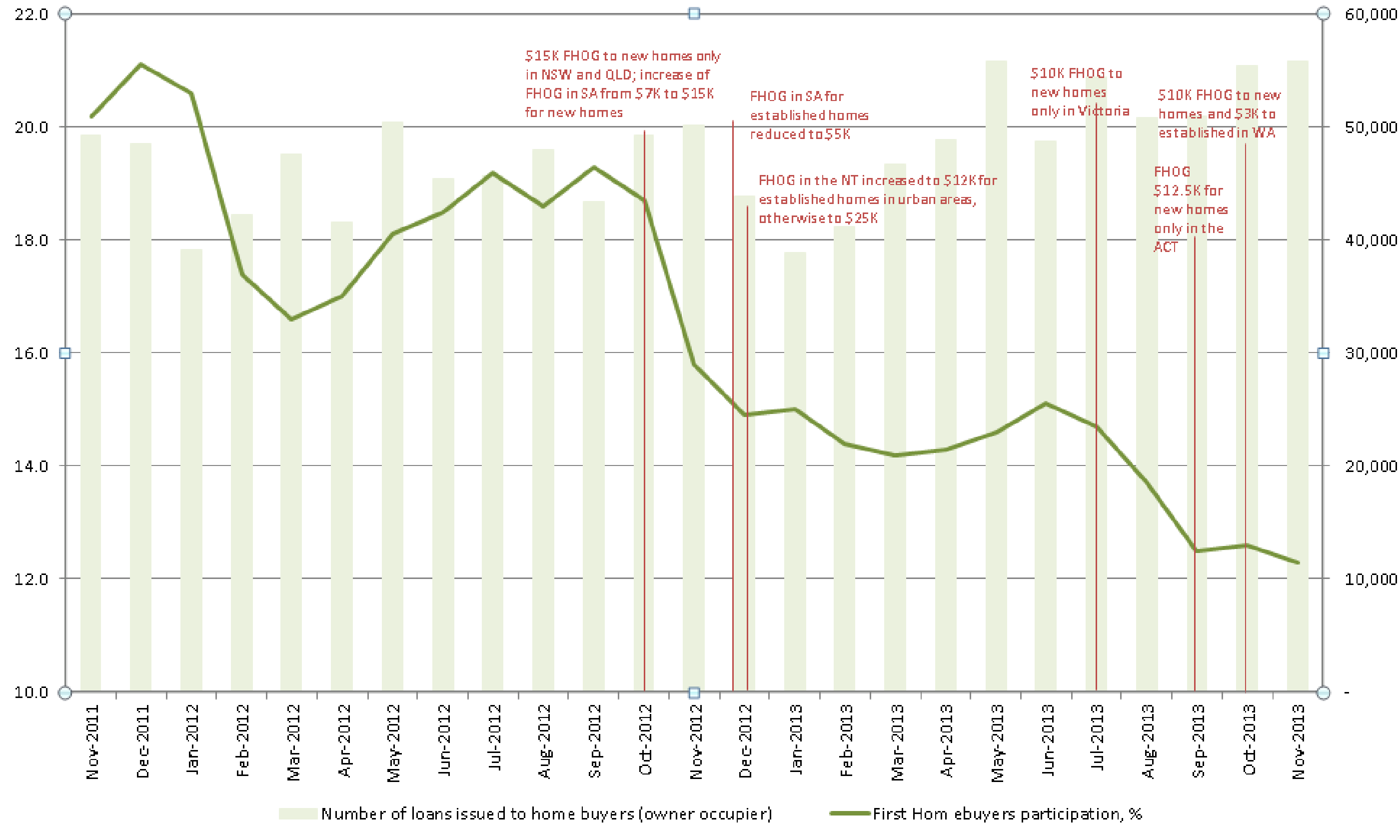
For a number of years, significant differences between industries and regions have been a distinctive feature of the Australian economy. Growth in mining investment reached its peak in 2013 and is expected to fall considerably over the next few years. The much needed recovery in non-mining investment however remains delayed largely due to the strength of the Australian dollar. Many economic commentators and policy makers are attributing the high dollar for the delay in rebalancing the Australian economy and the recovery of the non-mining sector. In late 2013, the RBA described the Australian dollar as “uncomfortably high” and indicated the need for a lower exchange rate to balance growth.

In his Opening Statement to the House of Representatives Standing Committee on Economics in late 2013, the Reserve Bank of Australia (RBA) Governor Glenn Stevens said that with the decline in resource sector investment there is a scope for other forms of private demand to grow more quickly. This includes housing where there is a significant undersupply, estimated at 300,000, and increasing, by the Housing Supply Council.

Providing a stimulus to economic activity outside the mining sector was amongst the main reasons for the RBA to cut the official cash rate during 2011-13. The rate was cut from 4.25% at the end of 2011 to 2.5% in December 2013. Declines in returns to term deposits prompted substitution towards other assets, including housing however the full effect of the rate cut is yet to be felt. Housing approvals have risen substantially following the return of investors and changeover buyers.

The graph below shows the number of loans to home buyers and the proportion of first home buyers in the housing finance commitments from November 2011 to November 2013. During this period, the number of home loans issued to home buyers increased by 20.5 % while the participation of first home buyers declined from 20.2% to 12.3% - the lowest level ever recorded by the ABS. This decline is despite eight cuts in the official interest rate since November 2011.

Number of Loans Issued to Home Buyers and the Proportion of First Home Buyers in the Total Number of Housing Finance Commitments



Source: ABS, Revenue Offices of each State and Territory

With first home buyers finding it increasingly difficult to enter the housing market, home ownership in Australia is declining after four decades of stable levels.

Over the five years to 2011, home ownership declined by 1.1 percentage points to 67.0% of occupied private dwellings. The drop was evidenced across all states and territories and was most pronounced in the 35 to 44 age group. In the decade to 2011, home ownership dropped by 4.5 percentage points for the 35 to 44 age group and by 5.5 percentage points for the 45 to 54 age group. The National Housing Supply Council, in its 2012-13 report, showed that it seemed certain that the rate of home ownership would drop further.

Population growth in Australia as well as changes in the demographic composition necessitates that the supply of affordable housing is addressed as a priority policy issue. Australia’s population reached 23.13 million in mid-2013, having added over 407,000 people in the year to June 2013 - this is equivalent to a growth rate of 1.8 per cent over the year which is well above the long term average. The ABS population projections show net overseas migration is expected to make a stronger contribution to population growth in future years than it has in the past.

Availability of affordable housing is a goal that is shared by governments and all sectors of the community. Availability of affordable housing impacts on the functioning of the economy as well as the wellbeing of individuals and the cohesiveness of communities and society.

The current Government acknowledged the importance of addressing housing affordability during its pre-election campaigns of 2013.

The Liberal Party of Australia in its *Our Plan: Real Solutions for all Australians* called for improving housing affordability and supporting housing development and promised to improve housing affordability and encourage high levels of home ownership saying “*We will work closely with States and Territories who have primary responsibility for housing to reduce red tape holding up the supply of housing and construction and to increase land release for new homes.”*

One of the factors that contribute to increases in house prices and declining affordability is the undersupply of housing. Supply has been unable to keep pace with demand due to constraints on land availability, lengthy planning delays and associated costs of approvals, zoning policies, skill shortages and lower yields stemming from the increased cost of entering the property investment market.

Giving his very first major speech at the National Housing Conference in Adelaide in November last year, the Minister for Social Services the Hon Kevin Andrews acknowledged the national housing problem in Australia saying “*as a nation we do not build enough private dwellings for our growing population*.” The Minister acknowledged the need for leadership by government in driving a solution to the looming housing supply crisis.

REIA'S TEN PROPOSALS

THE AVAILABILITY OF RELIABLE DATA ON HOUSING DEMAND AND SUPPLY

The National Housing Supply Council which was established in 2008 to monitor housing demand, supply and affordability in Australia and to identify gaps between housing supply and demand has been abolished.

With housing affordability recognised as a policy priority, it is imperative that the information contained in the Council's State of Supply Report continues to be available. The document provided valuable information, not only to Government policy makers but also to industry.

Housing is a complex issue, with a number of economic, social and infrastructure factors determining affordability. The substantive causes of the housing affordability problem have been identified to include: prices; the deposit gap for first home buyers; demographic change; insufficient supply of dwellings for both purchase and rental which in itself is attributable to a myriad of factors including taxation; lack of innovation in the building industry; council requirements which generally show a lack of acceptance of low cost housing and lack of diversity of house type as well as protracted and expensive development application processes, and, importantly; lack of urban infrastructure.

According to the third National Housing Supply Council State of Supply report, the gap between the supply and demand for housing will increase over the next years putting further pressure on housing prices.

Year ended 30 June	Cumulative Demand-Supply Gap
2013	272,800
2014	301,100
2015	328,800
2025	556,900
2030	640,200

Source: National Housing Supply Council, 3rd State of Supply report.

What is needed is for the Federal Government to take a leadership role in developing a coordinated and strategic approach to the provision of housing and ensuring that complementary policies, covering amongst other things first home buyers and taxation, are in in place to achieve this.

The availability of reliable data to formulate appropriate policies and then to monitor their effectiveness is crucial to this and the REIA would like to contribute to the dialogue and offer assistance if the Government decides to establish a forum for this such as a Ministerial Advisory Committee.

The REIA proposes that the Government establishes a mechanism to ensure the availability of reliable data on housing demand and supply to formulate appropriate policies and to monitor their effectiveness.

FIRST HOME BUYERS

Housing affordability is an acute issue for first home buyers. The easing in monetary policy started in November 2011 resulted in 225 basis points reduction in the official interest rate which has, albeit with a longer lag than expected, resulted in an increase in housing finance approvals. This improvement however is due to a return of investors and changeover buyers. In November 2013, the proportion of first home buyers in the total number of owner-occupied housing finance commitments collapsed to its historically lowest point of 12.3% indicating the urgent need for policy makers to address the issue.

One of the most important housing policy instruments in assisting first home buyers is the First Home Owner Grant (FHOG), which was introduced in July 2000. As part of the Intergovernmental Agreement (IGA) on the Reform of Commonwealth-States Financial Relations signed in June 1999, the states and territories agreed to provide financial assistance to Australians who are buying their first home through the establishment of the FHOG. The IGA stated that assistance to first home buyers would be "uniform" and that "an eligible home would be new or established". All states and territories in signing off on the IGA had the clear intention of providing assistance to all first home buyers.

By the end of 2013, New South Wales, Victoria, Queensland, South Australia, Western Australia, Tasmania and the Australian Capital Territory announced changes to the assistance in their jurisdictions with the majority stating that they would only provide assistance to those first home buyers purchasing new homes. Attachment 1 details the changes by jurisdiction to the eligibility of the FHOG and illustrates the impact these have had on the proportion of first home buyers.

South Australia, Western Australia and Tasmania are the only states which currently have assistance for first home buyers purchasing established housing. It is in these three states that we see that as housing affordability has improved largely by interest rate cuts that the proportion of first home buyers of the total of finance commitments increases. In other states despite the cut in interest rates the lack of assistance to those first home buyers wishing to purchase established housing has seen their presence fall.

The ABS in its Housing Occupancy and Costs publication reports that in 2011-12, only 18.6% of Australian first home buyers with a mortgage were buying new homes with 81.4% purchasing established dwellings. As shown in the table below 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.

First Home Buyers with a Mortgage, by Dwellings Type by State and Territory (%), 2009-10

Dwellings Type	NSW	Vic	Qld	SA	WA	Tas	ACT and NT	Australia
New	12.5%	25.9%	16.5%	9.3%	29.2%	5.3%	8.7%	18.0%
Established	87.5%	74.1%	83.5%	90.7%	70.8%	94.7%	91.3%	82.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: ABS, REIA special data request.

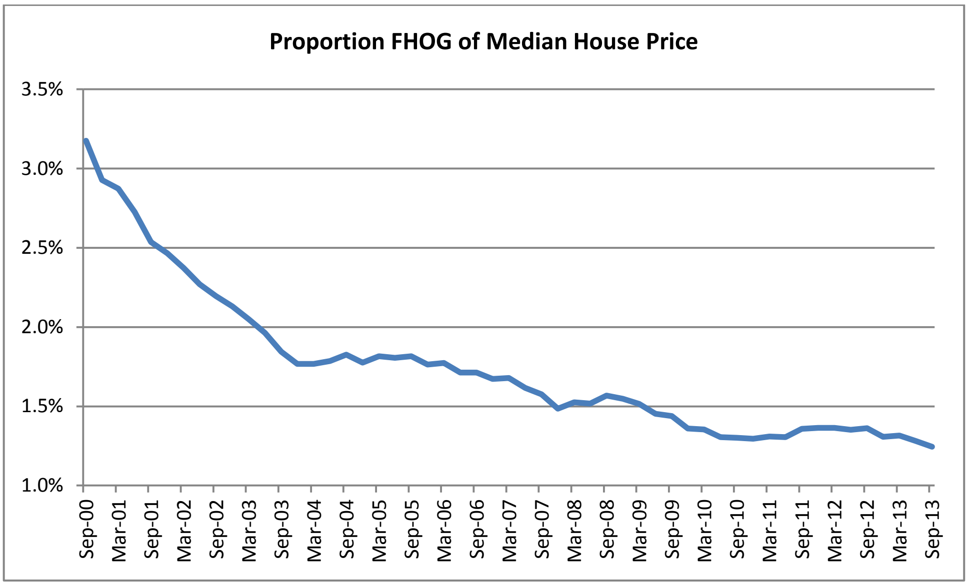
Another dynamic of the housing market is that sales of established homes to first home buyers in many cases lead to purchases of new housing by the sellers. In these cases the multiplier and employment affects are probably greater than where a first home buyer purchases a new house. Furthermore first home buyers of established homes usually embark on a program of home improvement and renovation providing a stimulus to the building sector.

Distortion of assistance away from buyers of existing housing is contrary to the IGA and needs to be addressed.

The REIA proposes that all states and territories either recommit to the IGA in Federal Financial Relations Schedule A, which states that assistance to first home buyers will be "uniform" and that "an eligible home will be new or established", or sign a new IGA.

The REIA urges Government to not only retain but to review the amount currently provided to first home buyers as the relative size of the grant has declined markedly in relation to house prices. Since the introduction of the FHOG in July 2000 the Australian quarterly weighted average median house price increased 2.6 times from $220,443 in the September quarter of 2000 to $562,503 in the September quarter of 2013.

Not only is the availability of the grant limited to less than one in five first home buyers, the contribution of the grant towards the purchase price has more than halved from 3.2% to 1.2% over the period. The proportion of the FHOG in the median house price has exhibited a downward trend since the introduction of the grant.



Source: REIA

The REIA proposes that the FHOG be set at $15,000 for all housing, new and established and that it be indexed to median house price movements annually.

Notwithstanding the response by first home buyers to the Boost in 2008, the REIA is concerned that the overall level of homeownership in Australia has not shown significant improvements since 1995 and that first home buyers find it increasingly difficult to enter the housing market. Although the Boost helped the participation of first home buyers in the market, it was a short term measure and did not provide first home buyers long term support.

The 2012 Mortgage Choice Future First Homebuyer Survey found that for 11.4% of first home buyers an adequate deposit was the biggest barrier to purchasing a property.

According to the survey, only 16.1% of first home buyers said that they would have a 20% deposit.

The REIA notes that changes have been made to the First Home Saver Accounts aimed at encouraging new participants to open such accounts. Whilst the REIA welcomes and supports the changes it believes that more should be done to assist first home buyers save for a deposit.

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). According to the Association of Superannuation Funds of Australia Superannuation Statistics in 2009-10, the average accumulation for men was $71,645, for women it was $40,475 (aged 15-59).

For those in the first home buyer age groups and with superannuation in the accumulation phase the median balance in July 2007, the latest available ABS data was $15,000 for 25 to 34 year olds and $32,000 for 35 to 44 year olds.

Allowing access to a proportion of superannuation funds would help prospective buyers to save for a deposit faster. That proportion could be either a fixed percentage of the total or their voluntary payments over and above the super guarantee contribution.

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.

Furthermore, access to superannuation for the purchase of a first home by helping reverse the trend of falling home ownership, addresses the looming large policy problem of large numbers of long-term renters aged 45 years and over remaining in the rental sector and possibly requiring rental support in later years.

Using retirement savings towards buying a home has already proven to be successful in Canada, New Zealand and Singapore.

In Canada, the Government has established the Canadian Home Buyer's Plan, which allows Canadian first home buyers to withdraw up to $25,000 from their retirement savings plan, to purchase or build a home. Funds withdrawn from the retirement savings plan need to be repaid over a 15 year period so that withdrawing the funds will not have a major impact on the ability to secure a comfortable retirement. The scheme has been operating since 1992 with around one-eighth of first home buyers aged 25 to 44 participating.

In Singapore, the Central Provident Fund (CPF) – a social security fund where a portion of an employee's salary is set aside for retirement, healthcare and housing – is integrated with home ownership through CPF housing schemes. A Housing Development Board (HDB) flat may be bought under the Public Housing Scheme for occupation, or a private property may be purchased under the Residential Properties Scheme for occupation or rental.

Monthly contributions to CPF go into three accounts: ordinary, special and Medisave accounts. CPF ordinary account savings up to the valuation limit can be used for full or partial payment of the property, as well as to service the monthly housing payments.

Ordinary account savings are available only after at least 5% of the purchase price has been paid in cash. Stamp duty, legal fees and other costs related to the purchase or mortgage may also be paid using savings in the ordinary accounts. Since its introduction in the 1960s, housing schemes have been successfully assisting Singaporeans to purchase their home. In 2012, the home ownership rate in Singapore was 90.1% with over 70% of home owners servicing their housing loans solely with CPF savings. Whilst there are elements of the Singapore scheme that would not be applicable to Australia and first home buyers, there are important core elements that could be adopted for Australia.

In New Zealand, KiwiSaver is a voluntary, work-based saving initiative to help New Zealanders with their long-term saving for retirement. KiwiSaver members choose to contribute 3%, 4% or 8% of your before-tax pay and the employer is required to pay 3%. The initiative has two features to help many New Zealanders to get their foot in the property market: KiwiSaver home purchase withdrawal scheme and KiwiSaver home deposit subsidy scheme. Both of these features of KiwiSaver can also be used to help with the overall deposit when buying land to build a first home house on. Furthermore, if a person has previously owned a home but is currently in a similar financial position to a first home buyer, they still may be eligible for both features.

Below are outlines of the two schemes.

First Home Withdrawal	First Home Subsidy
• If you have been a member of KiwiSaver for at least three years (regardless of whether or not you have been contributing), you may be able to withdraw all, or part, of your savings to put towards buying your first home. • Your individual contributions, your employer contributions and any investment returns make the amount you are entitled to withdraw. • Government contributions are not paid out in the first home withdrawal. • Your home will be your primary residence. Withdrawal cannot be used to buy an investment property. • Additional requirements for those who have previously owned a home.	• After three years of contributing to KiwiSaver you may be entitled to the deposit subsidy. You have to contribute at least the minimum percentage of your income, currently 3%). • The subsidy is $1,000 for each year of contribution to the scheme ($3,000 for 3 years of contributing, $4,000 for 4 years of contributing and $5,000 for five years of contributing). • The minimum you can get is $3,000; the maximum you can get is $5,000. • You can use the deposit subsidy if you are buying a house, or a land to buy your first home. House price caps apply. • The subsidy will be paid to your solicitor on settlement day. • Your home will be your primary residence. If you move out before 6 months, you will be required to pay the subsidy back. • You can only receive the subsidy once. • Additional requirements for those who have previously owned a home.

The REIA proposes the Commonwealth Government establishes a scheme to encourage young Australians to have access to their superannuation for the purpose of raising a deposit for a first home.

TAXATION AND HOUSING SUPPLY

Taxes are one of the important factors determining housing supply and influencing housing affordability.

NEGATIVE GEARING

Negative gearing in its current form for the purpose of property investment is complementary to the goals of the Government in addressing the supply of rental accommodation.

Over 1.6 million of Australians invest in the residential property market with the majority of investors being ordinary mums and dads saving who have only one investment property. Taxation Statistics for 2010-11 shows that taxpayers who earn an annual income of $80,000 own 72.3% of all loss-making properties with almost three quarters (73%) of investors having only one investment property and less than 10% of investors having three or more investment properties.

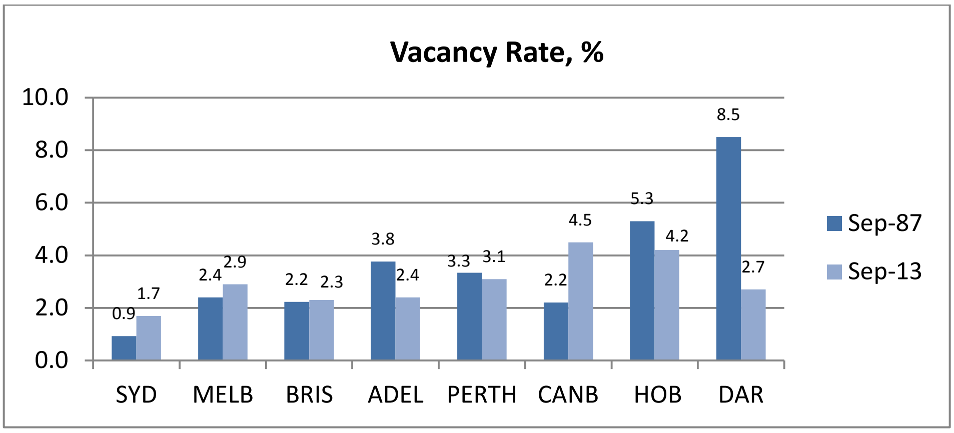
Individuals with an interest in a rental property, 2010–11, ATO

No of properties	Number of Individuals	Percentage of Total Individuals	Number of Properties	Percentage of total properties held
1	1,284,852	73	1,284,852	50
2	318,295	18	636,590	25
3	96,991	5	290,973	11
4	34,967	2	139,868	5
5	14,555	1	72,775	3
6 or more	15,264	1	152,640	6
TOTAL	**1,764,924**	**100**	2,577,198	**100**

Source: ATO

The Henry Review, released in 2010, proposed the replacement of current negative gearing arrangements with the introduction of a 40% discount for income from rental properties. This means that deductions are also discounted by 40%. The argument stated by the review is that the current structure of tax income from savings creates distortions, causing misallocation of savings in particular in the rental property market and leads to investors taking on excessive debt. The Henry Tax Review states the introduction of a broad 40% discount for income from rental properties would mitigate those distortions. The report suggested a smooth transition for highly geared investors in rental properties, phasing in the discount over time, which would allow investors to adjust to the new tax settings and reduce any potential market disruption. Importantly, the review suggests this should only be adopted following reforms to the supply of housing and to housing assistance. Importantly the report acknowledged that the current tax benefit available for negatively geared properties placed downward pressure on rents.

Changes to negative gearing would impact on the supply of housing and the level of rents in already tight rental market. In 1985, the Hawke Government abolished negative gearing for property only to have it reinstated in 1987. During that period rents increased by 57.5% in Sydney, by 38.2% in Perth and by 32.0% in Brisbane. In the current tight market expectations are the implementation of the Henry Review recommendations will have a dramatic negative impact on renters similar to the results of mid 1980s.



Source: REIA

According to the taxation statistics 2010-11 the total number of rental property schedules was 2,562,290; 76.7% of the total number of rental property schedules paid a total amount of $22,322 million interests on loan which represents 59.0% of the total rental property expenses and an average interest expense of $11,355 per rental property schedule. The average loss across all the schedules is $3,103.

Taxation Statistics 2010-2011

Rental property Schedules	No.	2,562,290
Rental Income	No.	2,492,570
	$	29,657,534,705
Other rental Income	No.	401,935
	$	250,467,120
Interest on loan	No.	1,965,835
	$	22,322,306,490
Total rental property expenses	$	37,806,683,258
Net rental income	No.	2,546,100
	$	-7,901,115,001

Quantifying the impact of the Henry Review recommendation for rental properties we see, from below, that for an investor with an annual income of $80,000 (taxpayers who earn this annual income own 80% of all loss-making properties) and using the average loss of $3,103 from the taxation statistics 2010-11 we see that the average property investor would pay an additional $403 in tax annually. This represents a rent increase of 2.0% of the median house rent for three bedroom houses. This will add substantially to the rent rise. The REIA data shows that the weighted average capital cities' median rent for a three bedroom house increased 2.3% during the twelve months to the September quarter 2013. For other dwellings, it was a 2.9% increase.

The effect on many investors and their properties will be greater than this as will the impact across states. The theoretical impact across states will vary from an increase of 1.1% in Sydney and Hobart to 3.5% in Brisbane. The actual impact will be influenced by vacancy rates, amongst other factors.

Further to amend the current negative gearing provisions for housing would be treating real estate differently to other asset classes and create a distortion on the investment landscape and result in a resource misallocation.

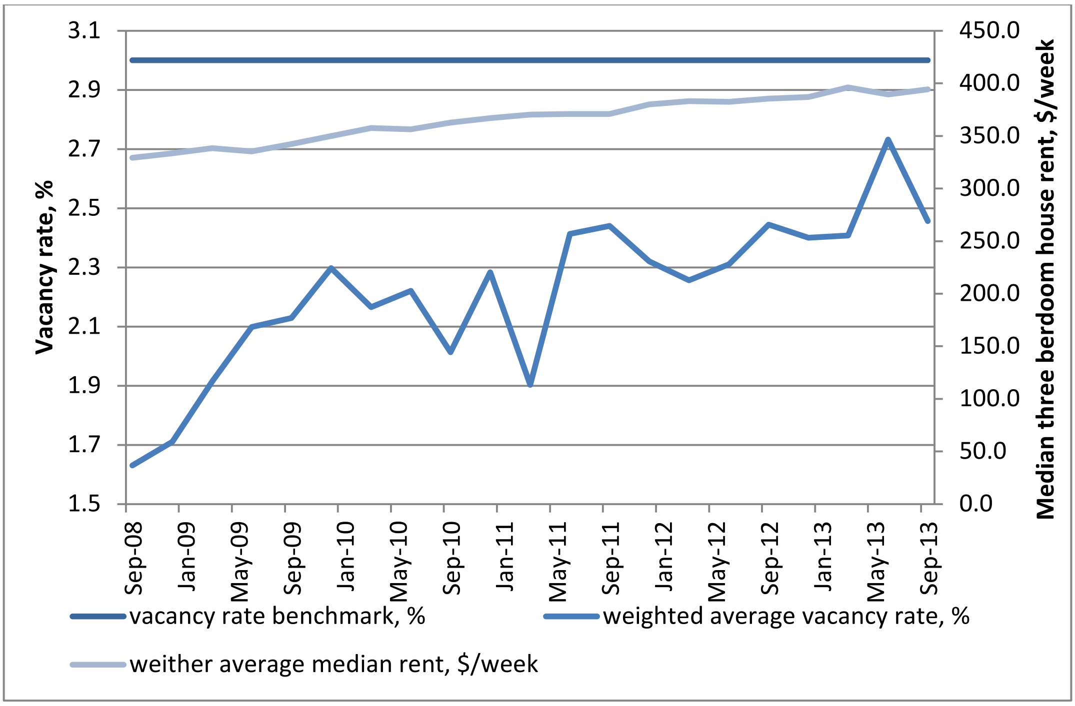
The REIA proposes that negative gearing be retained in its current form for the purpose of property investment.

CAPITAL GAINS TAX

Many submissions to the Henry Review called for the doubling of Capital Gains Tax (CGT) on rental properties.

The Henry Review proposed a 40% discount for income from capital gains of rental properties, eliminating the current CGT discounts on rental properties held by twelve months or more and thereby increasing the amount of tax paid by real estate investors.

The Henry Review proposal would have major consequences on the supply of rental housing in a market that already has tight vacancy ratios. Over the last five years, the vacancy rate in Australia has remained below the 3% benchmark and was 2.5% in the September quarter of 2013. During the same period, the weighted average median rent for the eight capital cities for a three bedroom house increased by 19.7%.



Source: REIA

Any proposal that increases the tax paid on capital gains on property, such as in the Henry Review, if implemented, would discourage investors from allocating financial resources to the property market, exacerbating the already low levels of vacant rental properties and consequently pushing rents up further.

The impacts on rents could be similar to the situation in 1985 when the Hawke Government denied many investors tax deductibility of interest payments. With a market response that lead to an undersupply of rental property and escalating rents before the decision was reversed less than 24 months later. The REIA believes that any increase in capital gains tax arrangements for rental property, would lead to a similar response to that in 1985.

The REIA proposes that capital gains tax on property investments is not increased.

STAMP DUTY

Whilst stamp duties are a state tax and are thus not determined by the Federal Government, states will not act unilaterally on the matter unless leadership is shown by the Federal Government. At the October 2011 Tax Forum, according to the then Treasurer, the state tax reform discussion was the most passionate at the forum with even the states acknowledging that their own taxes harm labour mobility and housing affordability.

Stamp duties represent additional costs to property transactions, thereby discouraging turnover of housing and distorting choices between renting and buying, and between moving house and renovating. Individuals who move more frequently would pay more taxes than those who move less. Others, who would have to buy or sell if they changed jobs, could be deterred by these costs thus reducing labour mobility. These distortions lead to a sub optimal outcomes, reduce investment in the property market and impede labour mobility.

An OECD report, "Going for Growth in 2011", notes that lower transaction costs such as stamp duties encourages mobility. The Productivity Commission in its draft report on Labour Mobility in 2003 reiterated the impact that stamp duties have on restricting labour mobility.

From the perspective of fiscal revenue, whilst stamp duties are a major source of revenue for states they are highly volatile, unreliable and unpredictable.

According to the Henry Review "*stamp duties on conveyances are inconsistent with the needs of a modern tax system. While a significant source of state tax revenue, they are volatile and highly inefficient and should be replaced with a more efficient means of raising revenue".*

The Henry Review recommended that a land tax was an efficient means of replacing the revenue forgone from abolishing state stamp duties. In reality this is not the case. In practice it is likely that a significant proportion of the economic incidence of the tax is passed forward to consumers or backwards to investors adding distortions and reducing the efficiency of the tax and detracting from the claimed simplicity, equity and sustainability of the tax.

The REIA proposes conveyance stamp duties be abolished and replaced by an efficient source of revenue for states and territories.

IMPROVING THE SUPPLY OF HOUSING FOR SOCIAL HOUSING TENANTS TRANSITIONING TO PRIVATE RENTAL

The aim of the REIA proposal is to increase the supply of social housing for those tenants transitioning to the private rental market utilising a currently untapped resource of individual private investors. It is an adjunct, not a substitute, to current initiatives such as NRAS and community housing programs. The scheme recognises that social housing is not meeting demand and is unsustainable without changes in approach. The scheme also addresses the identified shortcomings of current arrangements. The proposal builds on the Western Australian Rental Pathways Scheme.

The provision of social housing is currently financially unsustainable and is characterised by: demand exceeding supply; a large proportion of stock is in disrepair yet on valuable land; the system does not offer the type of housing that many tenants need; the public sector is generally less efficient in managing rental property than the private sector; except in Western Australia, there is no assistance to social housing tenants with a good tenancy record and stable incomes to make the transition to the private rental market; whilst not always the case, social housing is in larger developments and does not achieve a broad mix of households; whilst NRAS utilises private sector funding, by its nature it excludes small scale investors.

The REIA proposal utilises the untapped resource of small investors and would operate as follows:

- Investors buy a new or existing property for rental purposes. This would be subject to broad guidelines provided by state government agency regarding location, size, number of bedrooms etc. and an upper value
- Agent provides a market value for rental purpose. Rental would be subject to annual reviews
- Owner approaches government agency with details of property and market valuation of rental value for endorsement for transitional housing. May need to facilitate a process for approval prior to sale completion to safeguard and encourage the investor
- Tenant selected from Government list of eligible candidates
- Agent manages the property

- Rental would
    - Need to be subsidised. Current social housing schemes such as NRAS suggest that governments (Federal and state) that the subsidy will be of the order of 20%
    - Governments would need to guarantee the rental payment for the term of the arrangement
- Depending on the extent of the rental subsidy, consideration may need to be given to other assistance to the owner to achieve the equivalent net yield if the property was rented in the private market. This could be through a stamp duty concession and land tax concessions at state level and income taxation provisions at Federal level. This is no different in approach to the current arrangements for Community Housing Providers which receive taxation exemptions

- Maintenance of property
    - The managing agent and owner will attend to routine maintenance matters as currently occurs in the private rental market alleviating the need for government involvement
    - Tenants would be required to meet responsibilities of caring for the property leaving it in good condition at the end of a tenancy
    - Private tenants have a bond which is returned provided the property is left in good condition. Bonds are not, however, generally a part of the social housing system. One way of addressing this would be through a bond collection scheme collected as a part of rental payments until an agreed level of bond is reached. The bond would then be returned to public housing tenants if their property is kept in good condition at the end of their tenancy. The returned bond could then be used by tenants to get into the private rental market
    - In the event that the bond is insufficient to bring the property back to the condition expected after normal wear and tear is taken into consideration the government agency would be responsible for funding the required repairs. In WA the Government will fund any property damage up to $5,000 in excess of the bond. The repairs would be organised through the managing agent eliminating the need for public sector resources.

As well as increasing the supply of social housing additional benefits of the proposal include: greater operational efficiencies through private sector responsibility for operations and maintenance; utilisation of private sector finance and a corresponding reduction in capital requirement by governments; risk in land value transferred to private sector.

The REIA proposes improving the supply of housing for social housing tenants transitioning to private rental by utilising private investment.

MONITORING THE GOVERNMENT'S HOUSING AFFORDABILITY FUND (HAF) AND NATIONAL RENTAL AFFORDABILITY SCHEME (NRAS) PROGRAMS

In July 2008, the Federal Government established the HAF to address housing supply problems, particularly the holding costs incurred by developers as a result of long planning and approval waiting times and infrastructure costs. It also targets infill and greenfield developments.

Whilst the NRAS has produced monthly performance reports which includes details of the rollout of dwellings and a major review being undertaken in September 2012 these are now somewhat dated. The last monthly report was for June 2013. Whilst the September 2012 concluded that the program had been a success it noted that “the social housing initiative did not have the material impact on waiting times and waiting lists”.

With housing affordability a major priority the REIA considers it is important to not only periodically monitor the impact of the NRAS and the HAF on housing supply to gauge whether its objectives are being met but to also conduct a review which considers additional measures to bridge the demand-supply imbalance.

The REIA proposes that Federal Government's HAF and NRAS programs be monitored to observe its effects on housing supply and to conduct a review which considers additional measures to bridge the demand - supply imbalance.

IMPROVING THE QUALITY OF DELIVERY OF VOCATIONAL EDUCATION AND TRAINING

During the public debate on national licensing over the last two years the variable quality of training was often raised by industry participants and other stakeholders. It was particularly noted that some self-paced e-learning courses that are offered were of a poor quality and that improving education quality was long overdue.

As well as poor training practices weaknesses in the training system persist in the lack of rigour in the methods of assessing Recognised Prior Learning (RPL) and in the assessment of student competency.

There are some providers whose approach to content delivery is to provide the 'bare bones' of knowledge, rather than a best practice approach designed to provide a student with the ability to perform tasks in the workplace.

Most of the colleges or institutions that the REIA takes issue with across all states are those that offer very short courses for the purposes of licensing based on a questionable system of RPL. Many colleges use a process of "self-assessment" – i.e. "tick the box if you have the following knowledge" - and do not actually test or validate the information in an objective way that could stand any scrutiny. Further the RPL process is not being properly audited by state training authorities.

To date, a problem has been that the approach to training has not been coordinated and uniform across jurisdictions and with a detrimental consequence on the quality of training. Indeed jurisdictional differences have at times been used by some registered training organisations (RTOs) to circumvent scrutiny by registration bodies. For example, in at least one jurisdiction the registration body will only investigate complaints when these are about RTOs based in that jurisdiction.

In a decision applauded by the REIA in December 2013 COAG agreed not to pursue the proposed National Occupational Licensing Scheme reform with states and territories in favour of investigating mutual recognition options through the Council for the Australian Federation (CAF).

It is crucial that the standards of training are dealt with to improve outcomes and provide net economic benefits through a skilled mobile workforce.

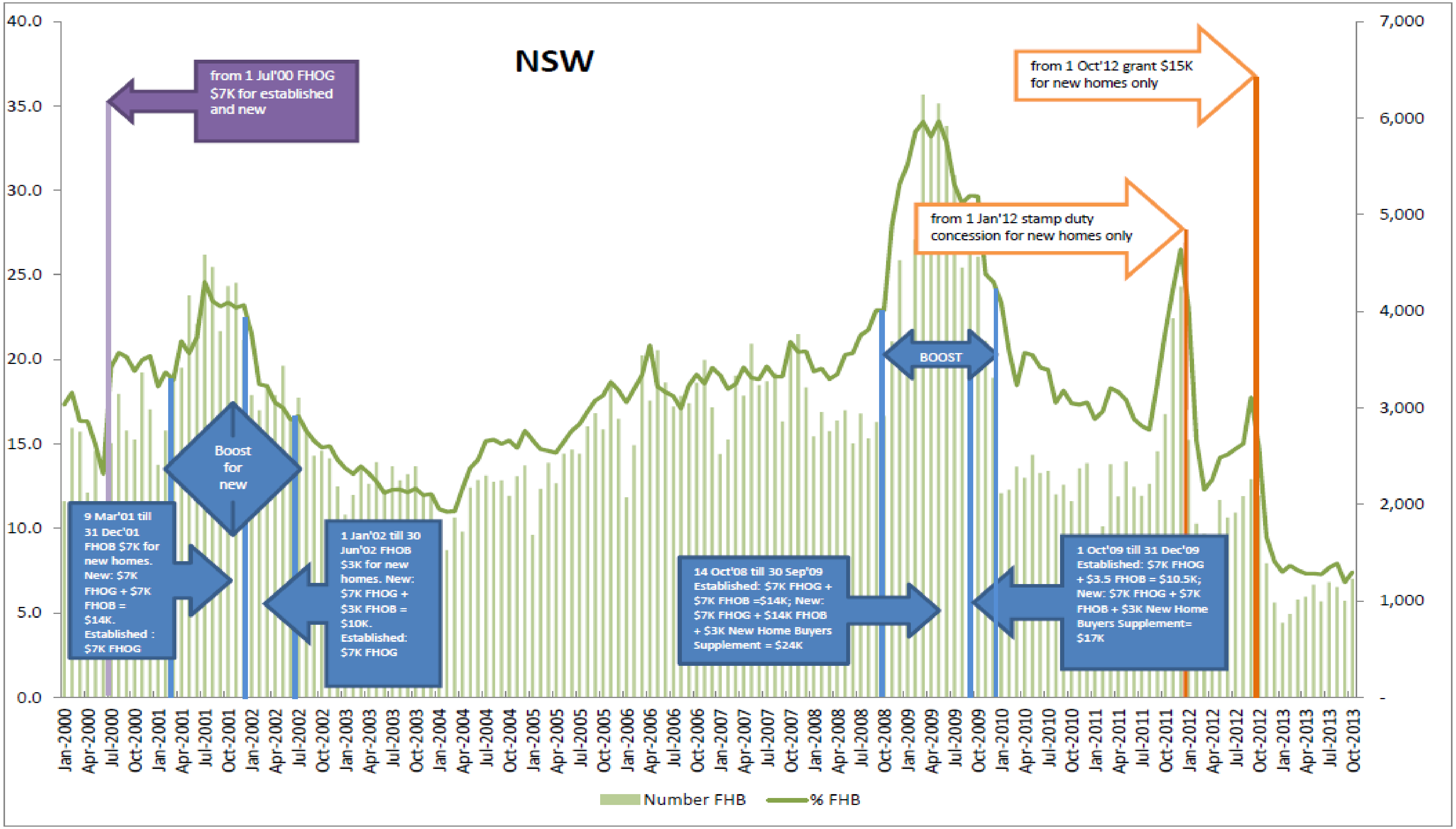
The Australian Skills Quality Authority (ASQA) is the national regulator for Australia's vocational education and training sector and regulates courses and training providers to ensure nationally approved quality standards are met. ASQA should be tasked with ensuring the intended standards are met under the December 2013 decision.

Ensure the Australian Skills Quality Authority (ASQA) funding is adequate to ensure nationally approved quality standards are met for vocational education and training. It is also imperative that outcomes be assessed by Government around how well the Authority has ensured the integrity of the VET sector.

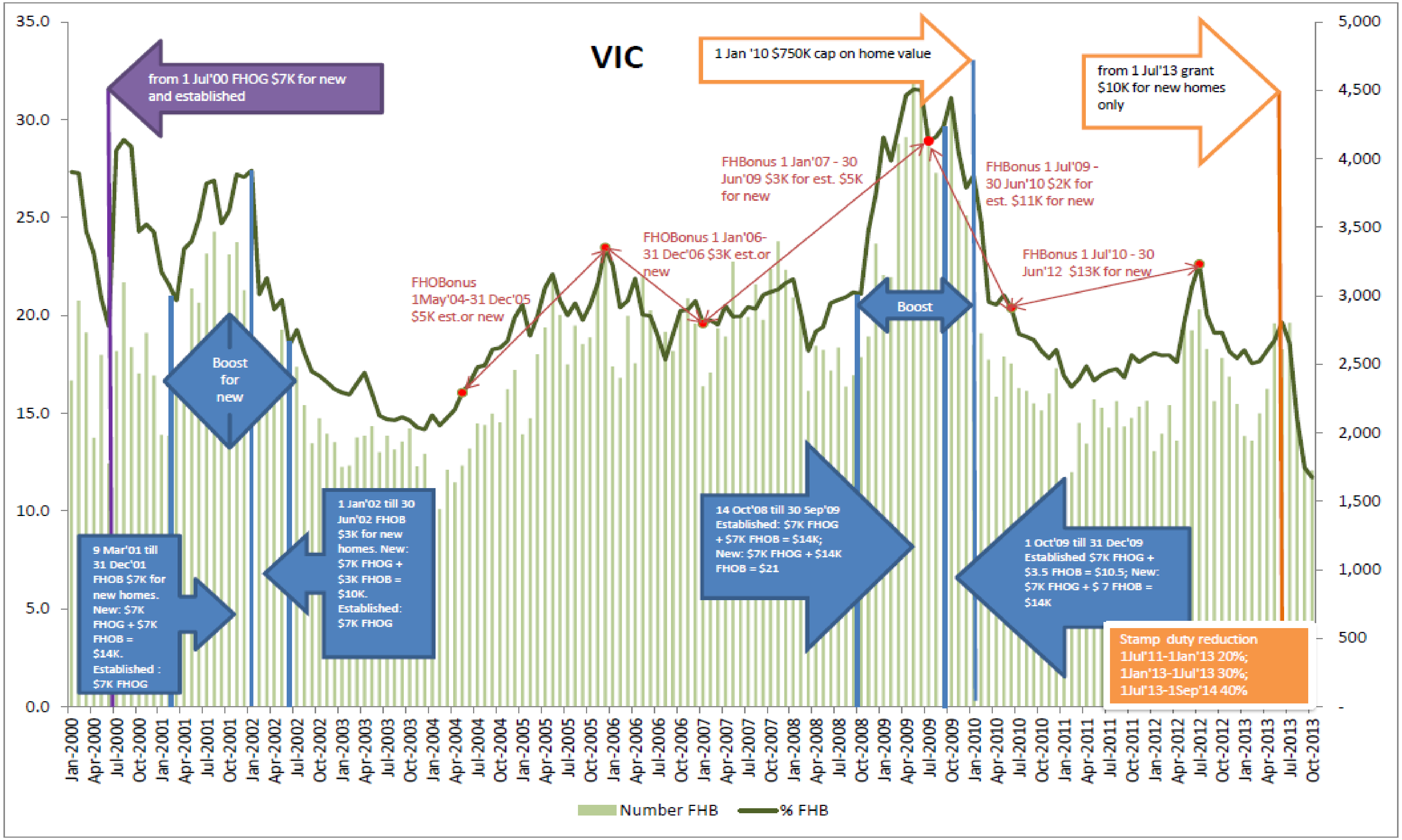
CONCLUDING COMMENT

The REIA welcomes the opportunity to present the Government with ten proposals for the 2014/2015 Federal Budget which are aimed at contributing to Australia’s continuing strong economic development, addressing the supply of rental housing and improving housing affordability. These are aimed at contributing to Australia’s continuing economic development, addressing the supply of rental housing, improving affordability, ensuring adequate access to housing finance and improving the standards of the delivery of education and thus productivity. The series of interest rate cuts whilst helping affordability are not sufficient of their own to address the matter in its entirety.

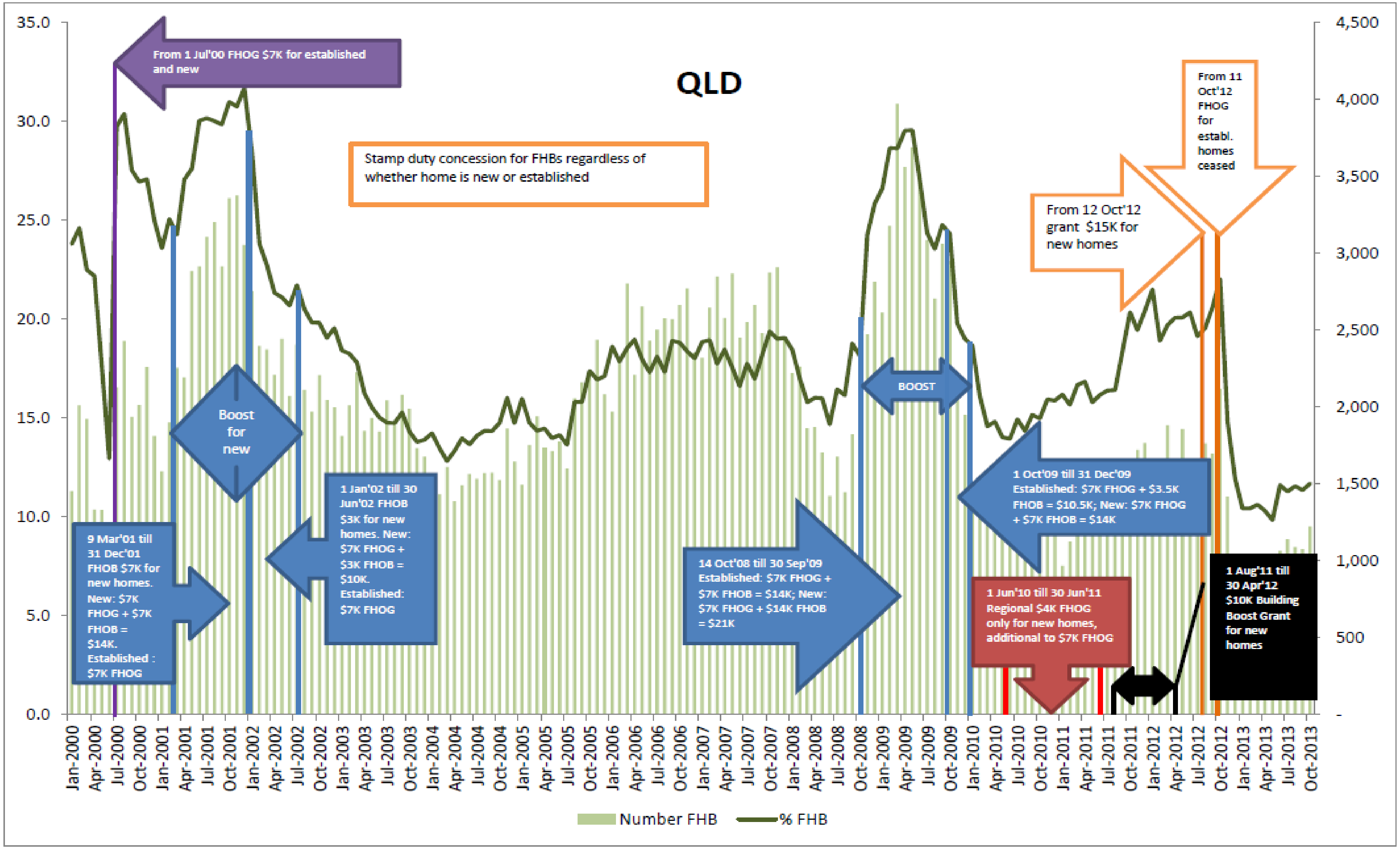
ATTACHMENT 1 – THE IMPACT OF CHANGES TO THE FIRST HOME OWNER GRANT ELIGIBILITY BY JURISDICTION



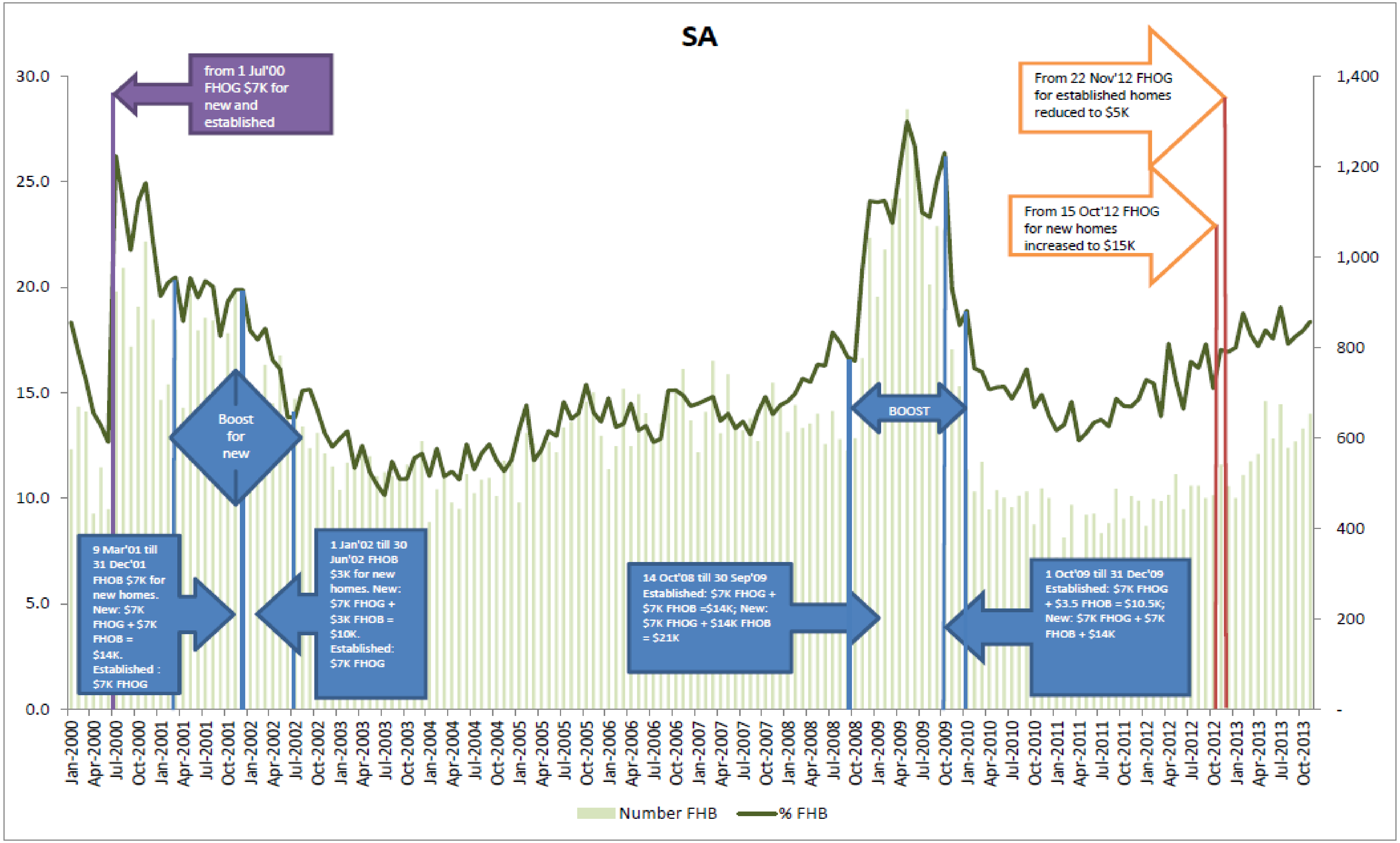
Source: ABS, Office of State Revenue NSW



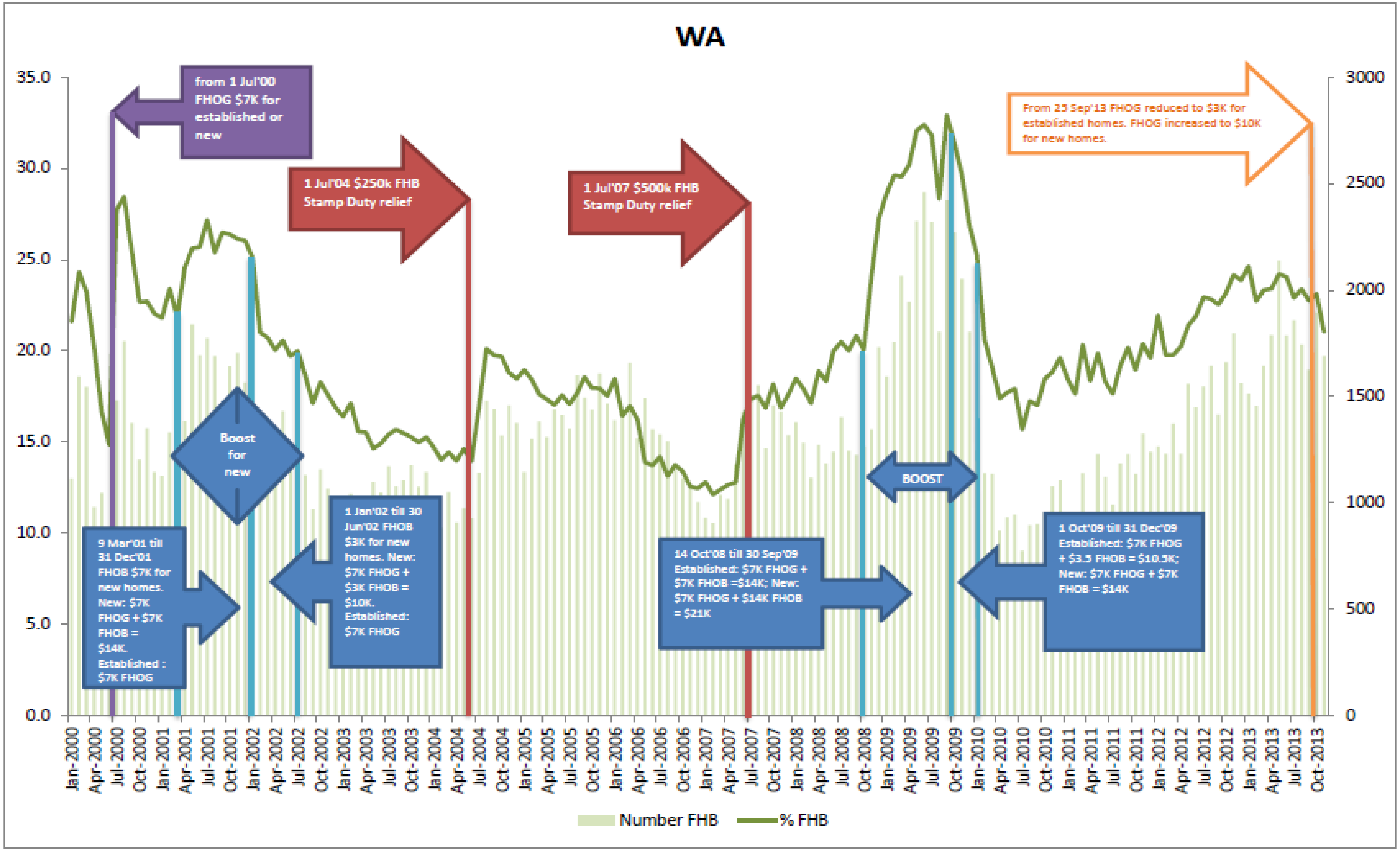
Source: ABS, State Revenue Office Victoria



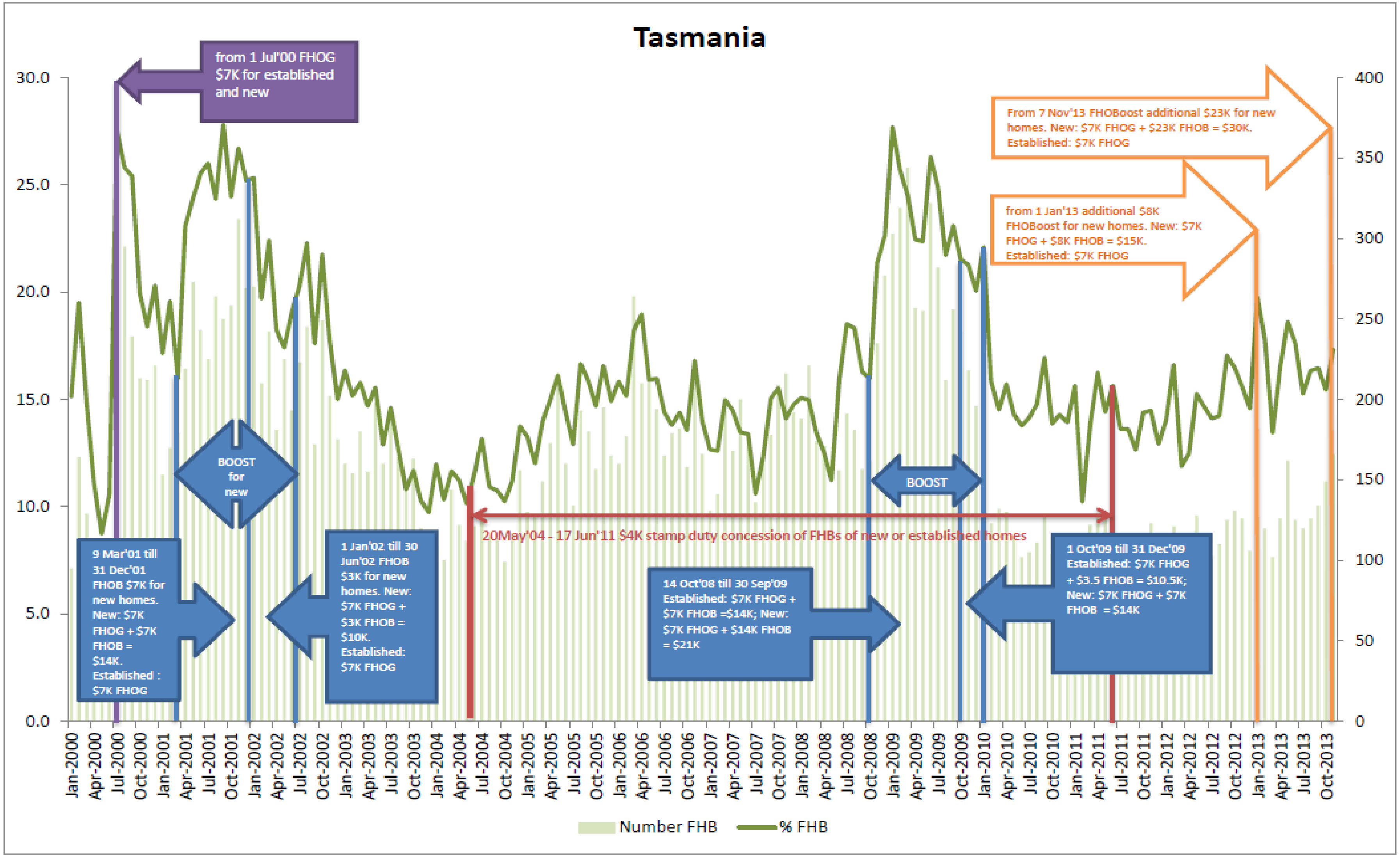
Source: ABS, Office of State Revenue Queensland



Source: ABS, Revenue South Australia



Source: ABS, Office of State Revenue Western Australia



Source: ABS, State Revenue Office Tasmania

State/Territory	Changes to the FHOG
New South Wales	FHOG for established homes ceased on 30 September 2012. From 1 October 2012, under First Home Owner Grant (New Homes) Scheme, the $15,000 grant is available to eligible first home owners who buy or build new home. The grant will reduce to $10,000 on 1 January 2016.
Victoria	FHOG for established homes ceased on 30 June 2013. From 1 July 2013, the $10,000 First Home Owner Grant is available to eligible first home owners who buy or build new home.
Queensland	FHOG for established homes ceased on 10 October 2012. The $15,000 Great Start Grant is available for first home buyers who buy or build new home from 12 September 2012.
South Australia	FHOG currently applies to both new and established homes, but will cease for established homes 30 June 2014. On 15 October 2012, the grant was increased to $15,000 for eligible first home owners who buy or build new home. On 22 November 2012, the grant for established homes was reduced to $5,000.
Western Australia	FHOG currently applies to both new and established homes. From 25 September 2013, the $10,000 grant is available to eligible first home owners who buy or build new home and the $3,000 grant is available to eligible first home buyers of established homes.
Tasmania	FHOG currently applies to both new and established homes, but will cease for established homes 30 June 2014. First Home Builder Boost of $23,000 in addition to the First Home Owners Grant is available to eligible first home owners who buy or build new home from 7 November 2013 to 31 December 2014.
Northern Territory	From 4 December 2012, $12,000 FHOG is available to eligible first home owners of established homes in urban areas; otherwise the grant is $25 000.
Australian Capital Territory	FHOG for established homes ceased on 31 August 2013. From 1 September 2013, the $12,500 grant is available for eligible first home owners who buy or build new home.

Source: Revenue Offices of each State and Territory