# THE 2017-18 BUDGET AND THE HOUSING SECTOR

## PRESENTATION TO THE 'FUTURE OF AUSTRALIAN HOUSING' CONFERENCE

SPONSORED BY Q SHELTER, BRISBANE DEVELOPMENT ASSSOCIATION & FUTURE HOUSING TASK FORCE

BRISBANE CONVENTION & EXHIBITION CENTRE – 1ST JUNE 2017

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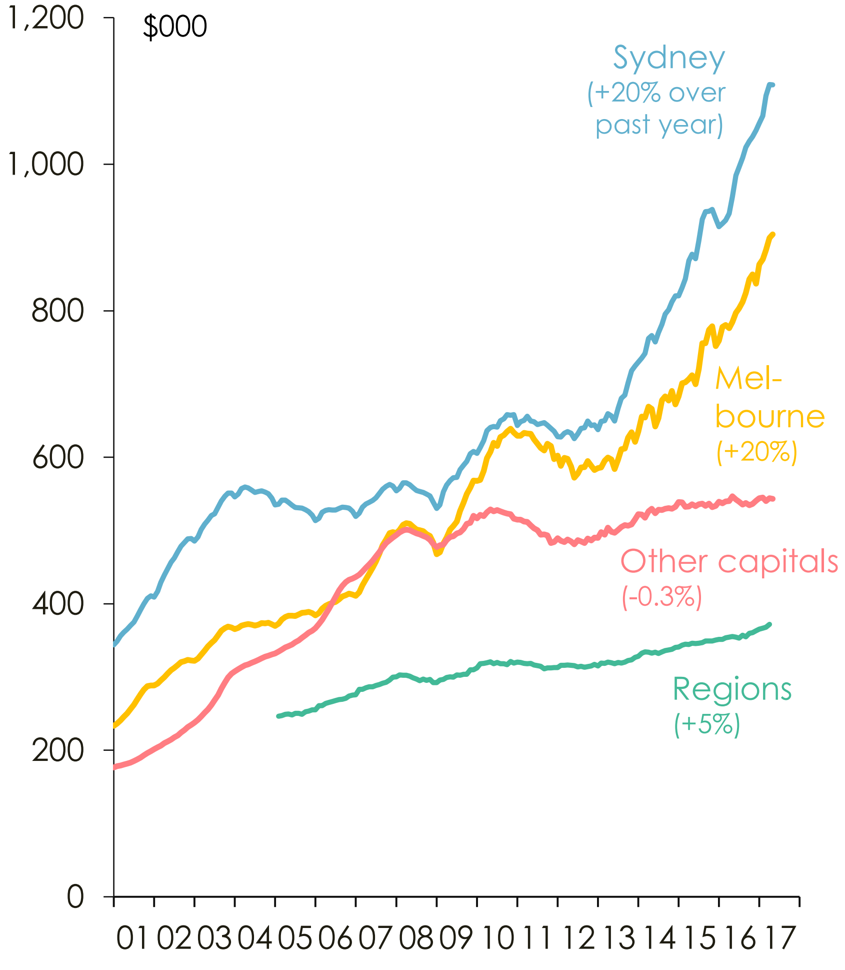
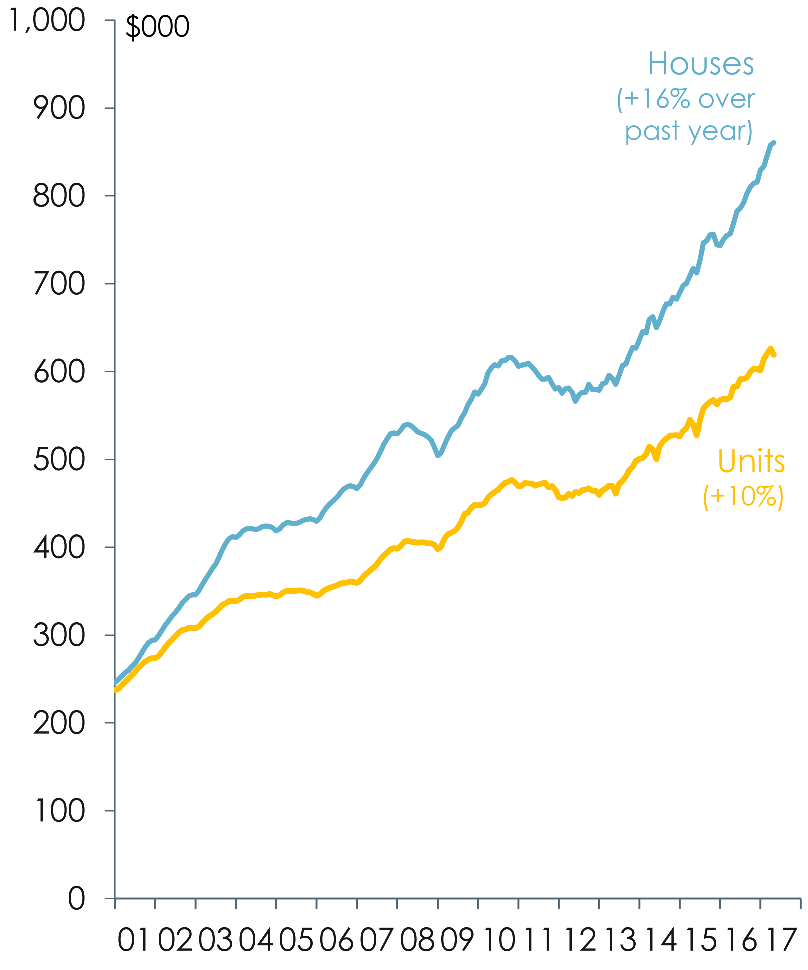
# Recent developments in housing markets

# Housing prices continuing to rise in Sydney & Melbourne, but flattening out elsewhere - with differences emerging between houses and units

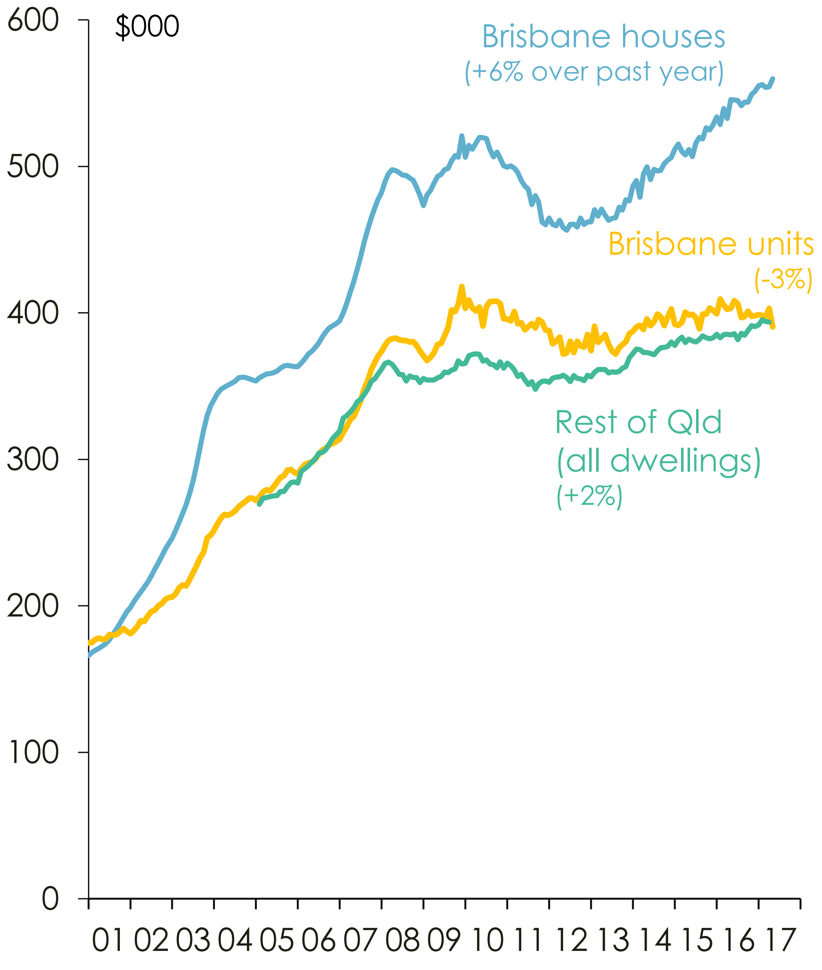
## Housing prices – Sydney & Melbourne vs the rest




## Housing prices – houses vs units, capital cities




## Housing prices – Brisbane vs regional Queensland




*Source:* CoreLogic – RP Data.



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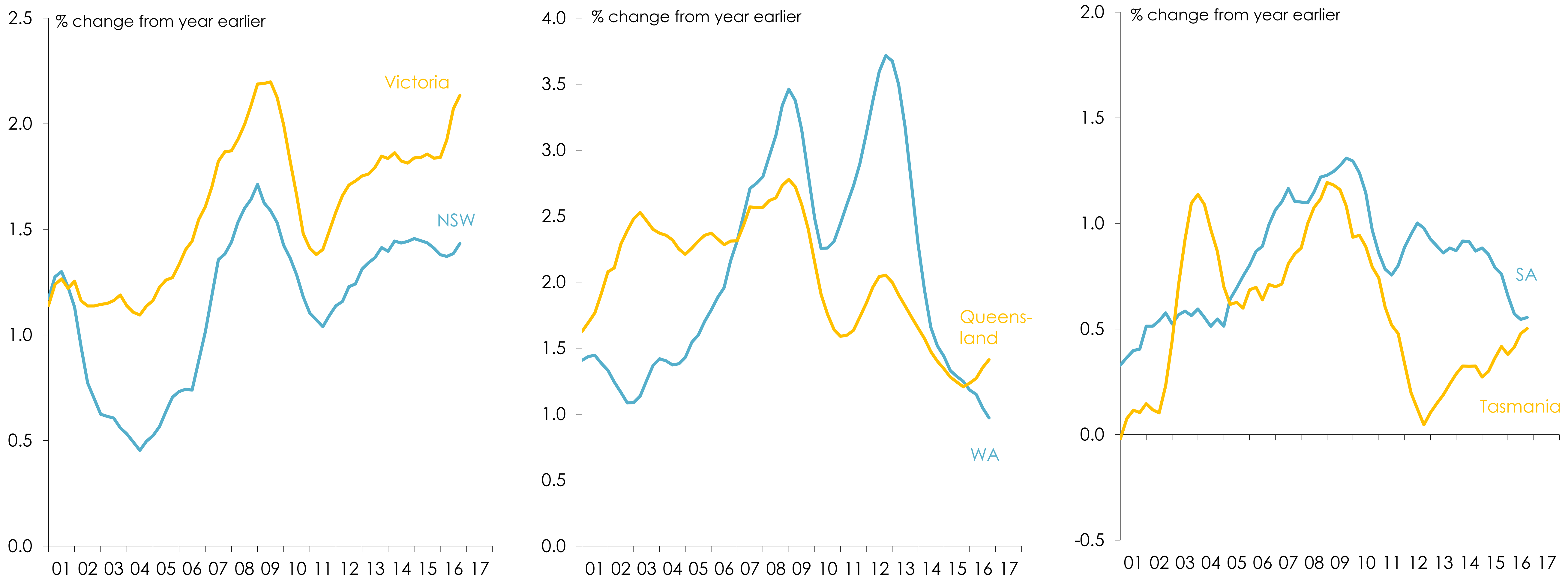
# Population growth (and hence housing demand) is accelerating in the southern States, but slowing in Queensland and WA

## Population growth, by State




*Source:* Australian Bureau of Statistics.

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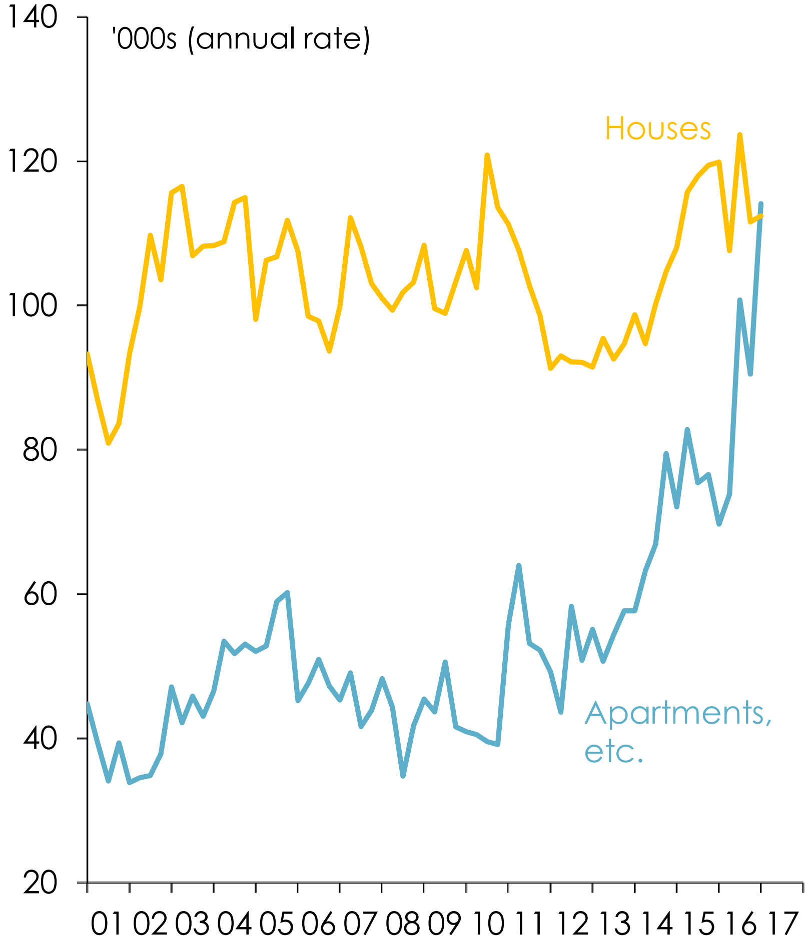
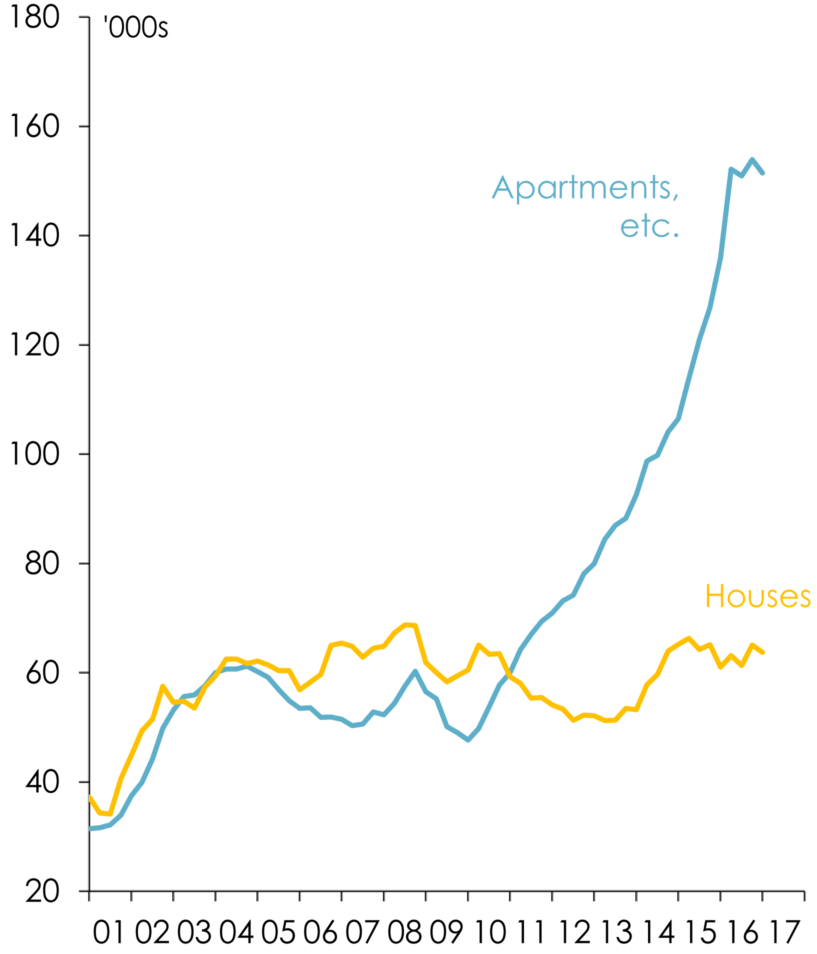
# There's an enormous number of apartments now starting to come onto the market

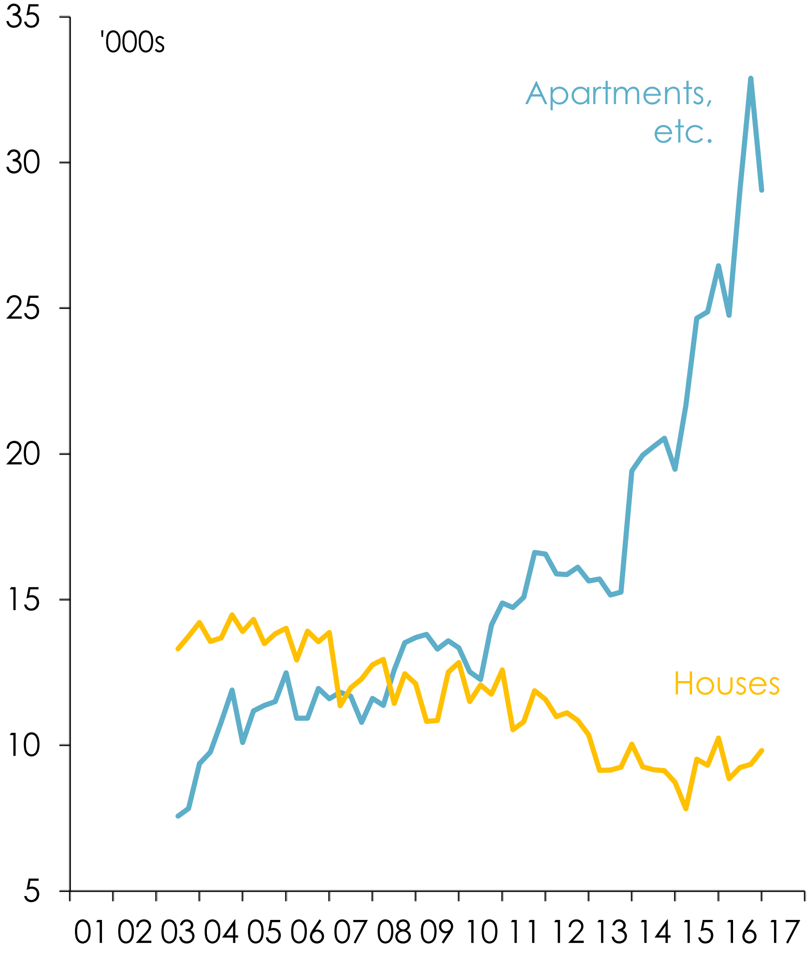
## Dwelling completions




## Dwellings under construction




## Dwellings approved but not yet commenced




*Source:* Australian Bureau of Statistics.



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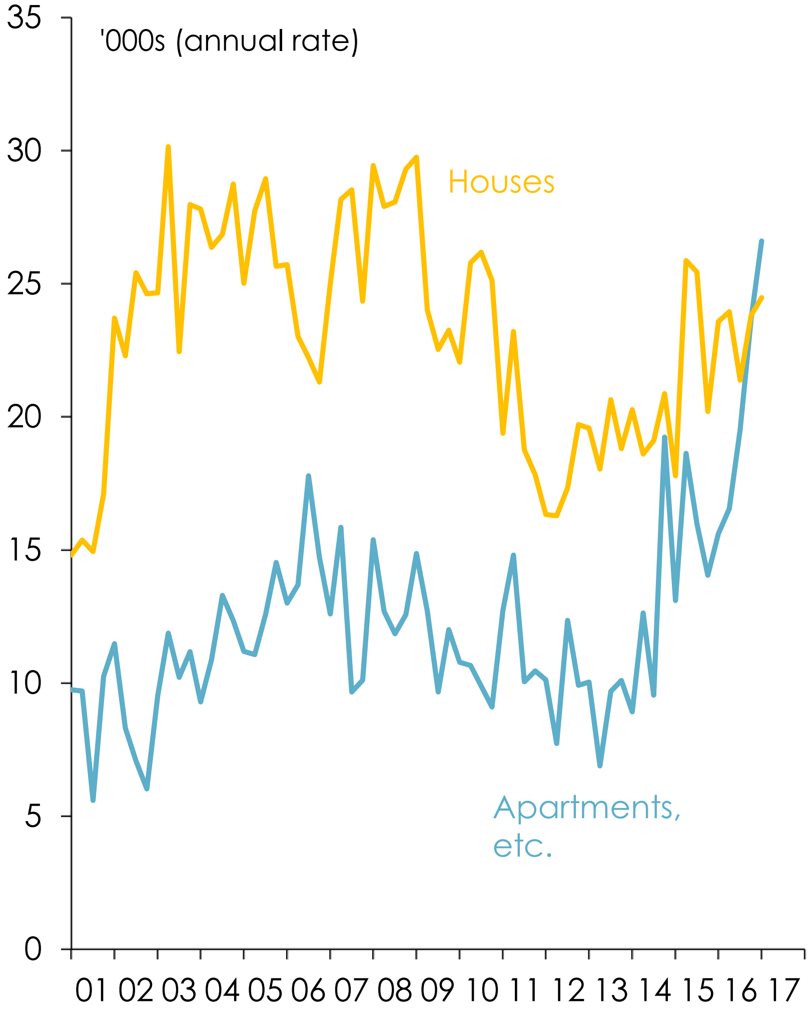
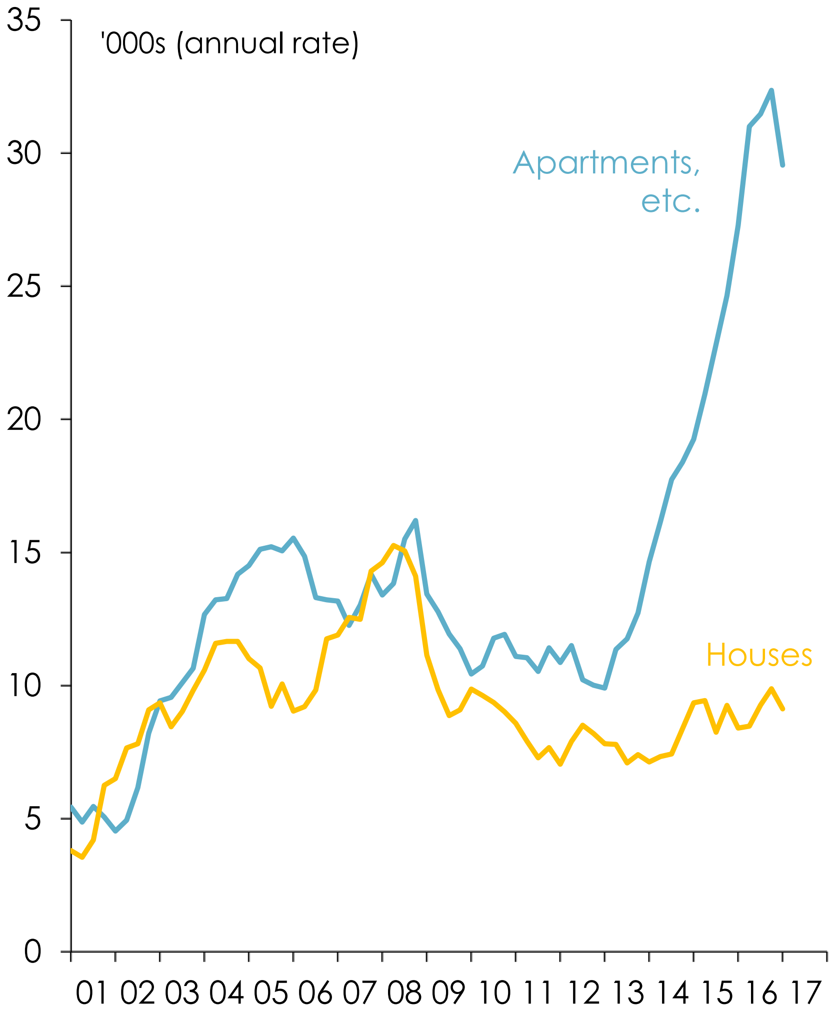
# And that's certainly the case in Queensland, too

## Dwelling completions




## Dwellings under construction

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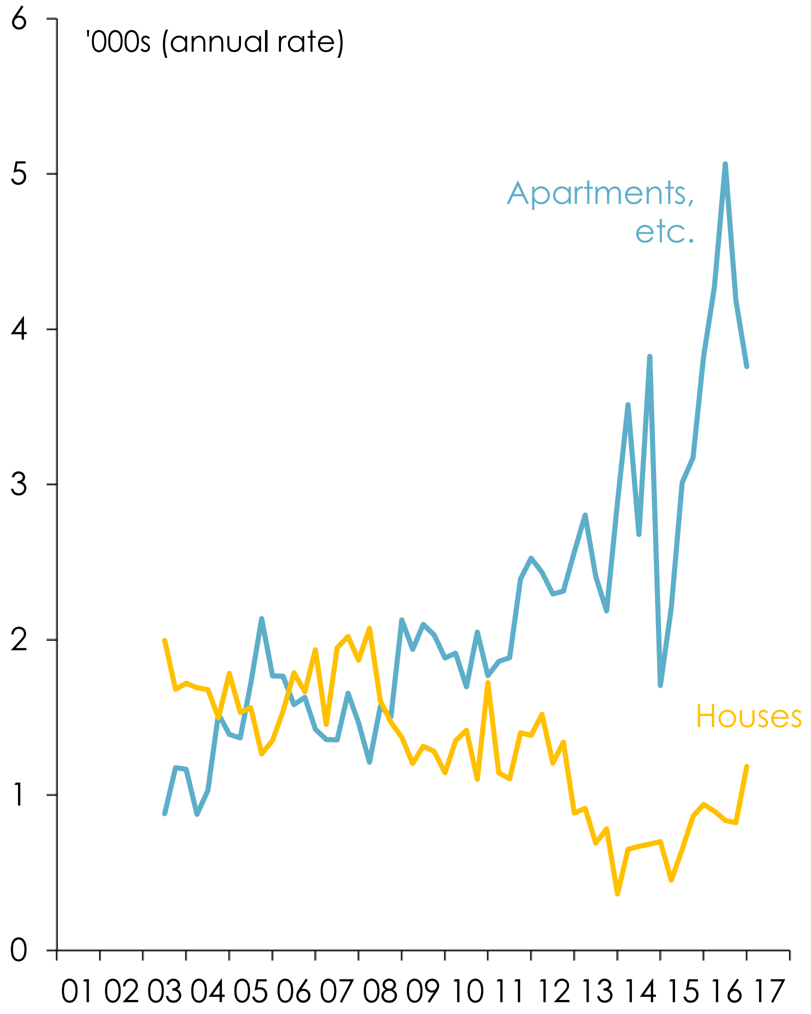


*Source:* Australian Bureau of Statistics.



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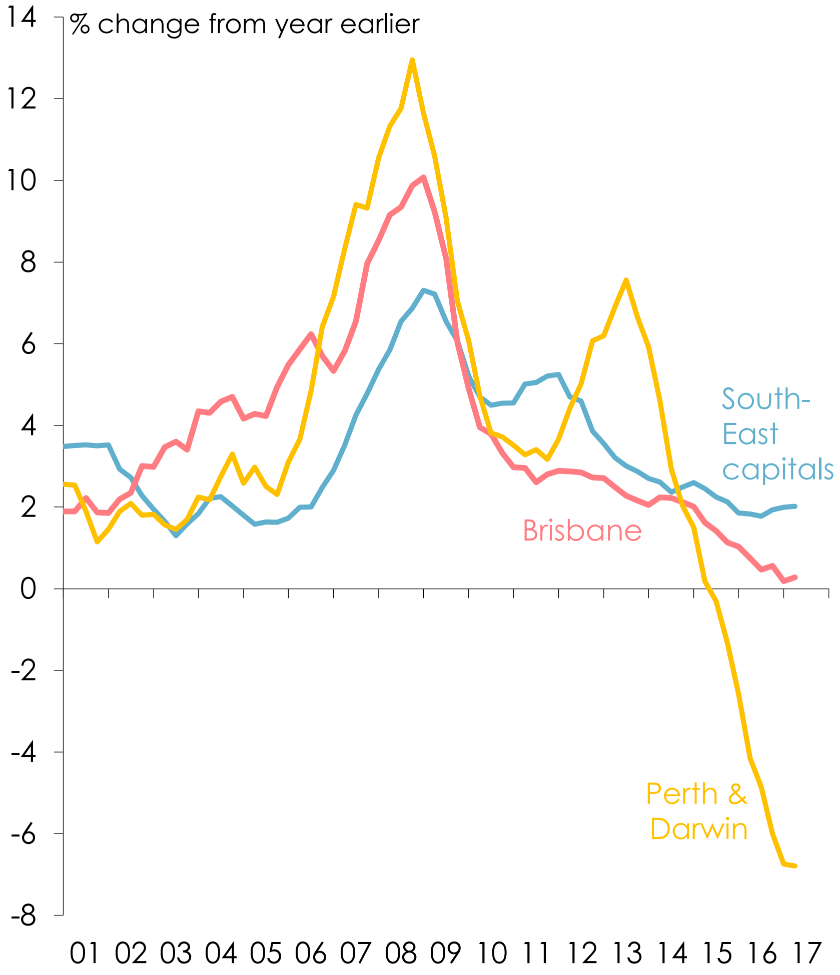
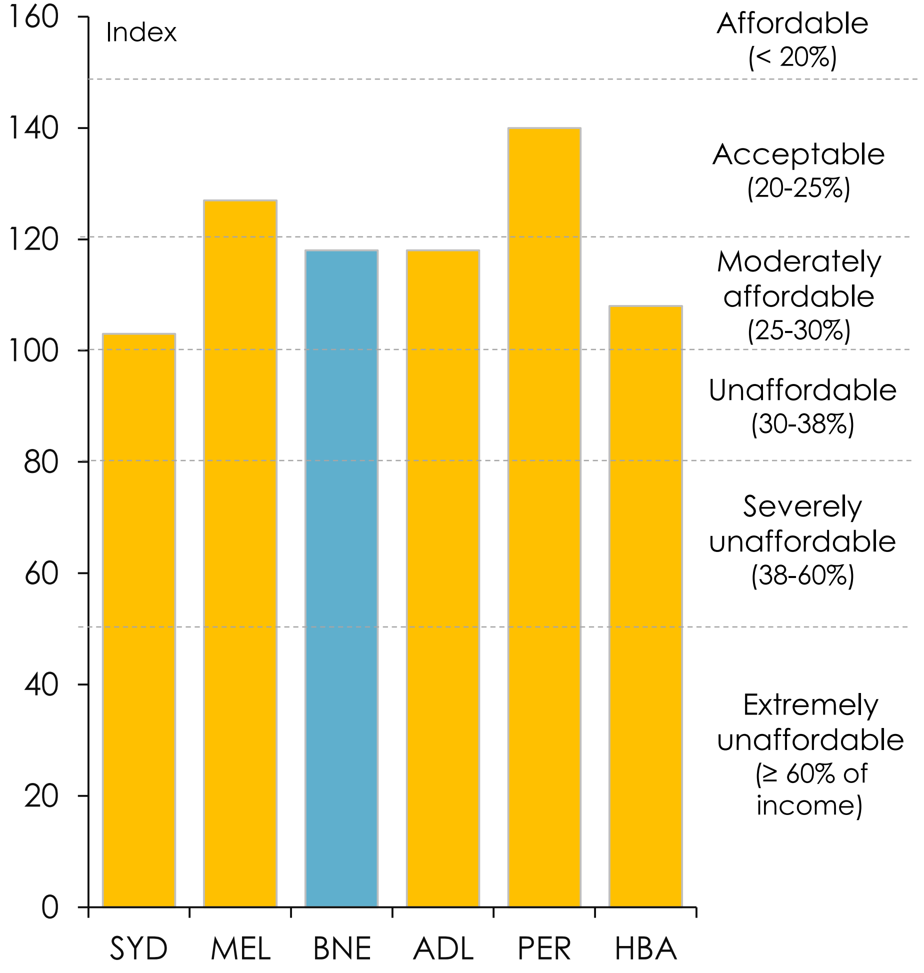
# Reflecting slowing demand and increasing supply, rents are becoming a bit more affordable (for ‘average’ households) in Brisbane

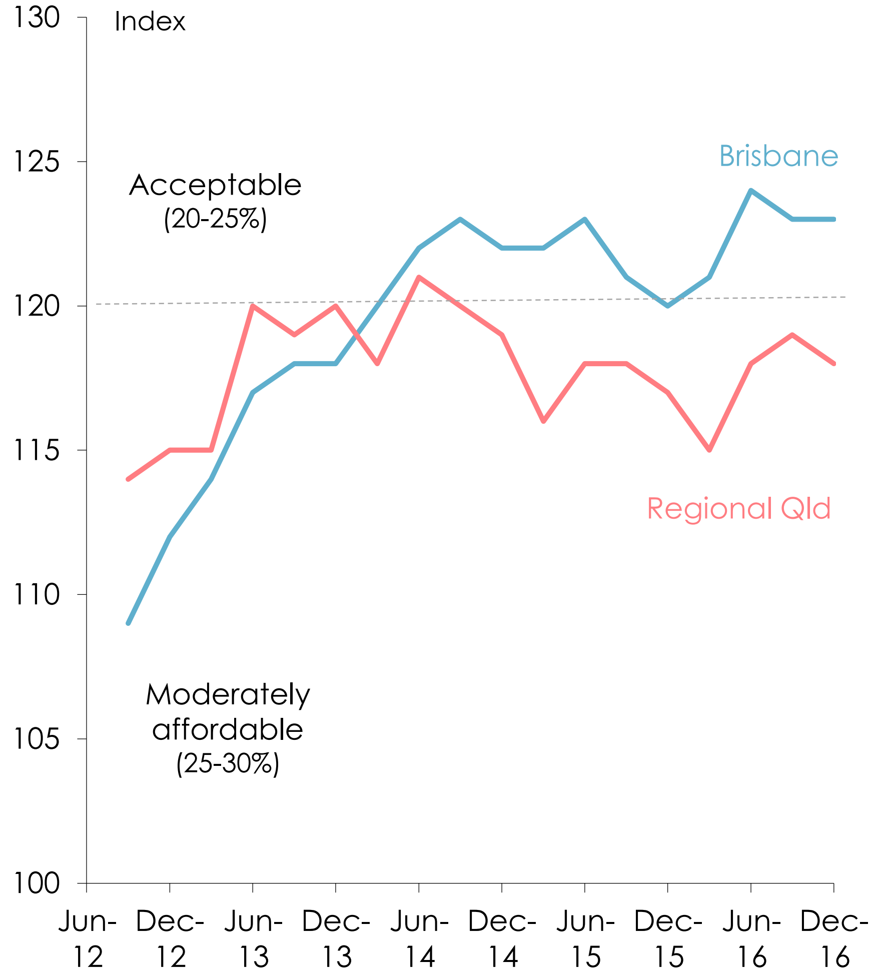
## CPI Rents




## Rental affordability index, Dec qtr 2016



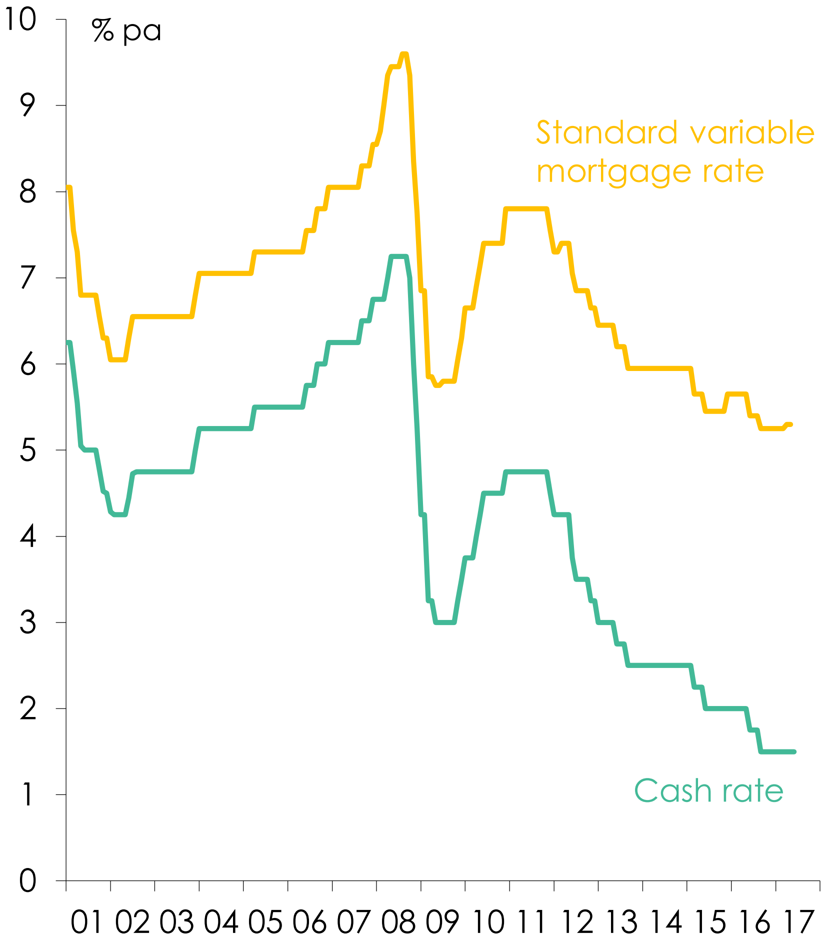

## Rental affordability index, Queensland



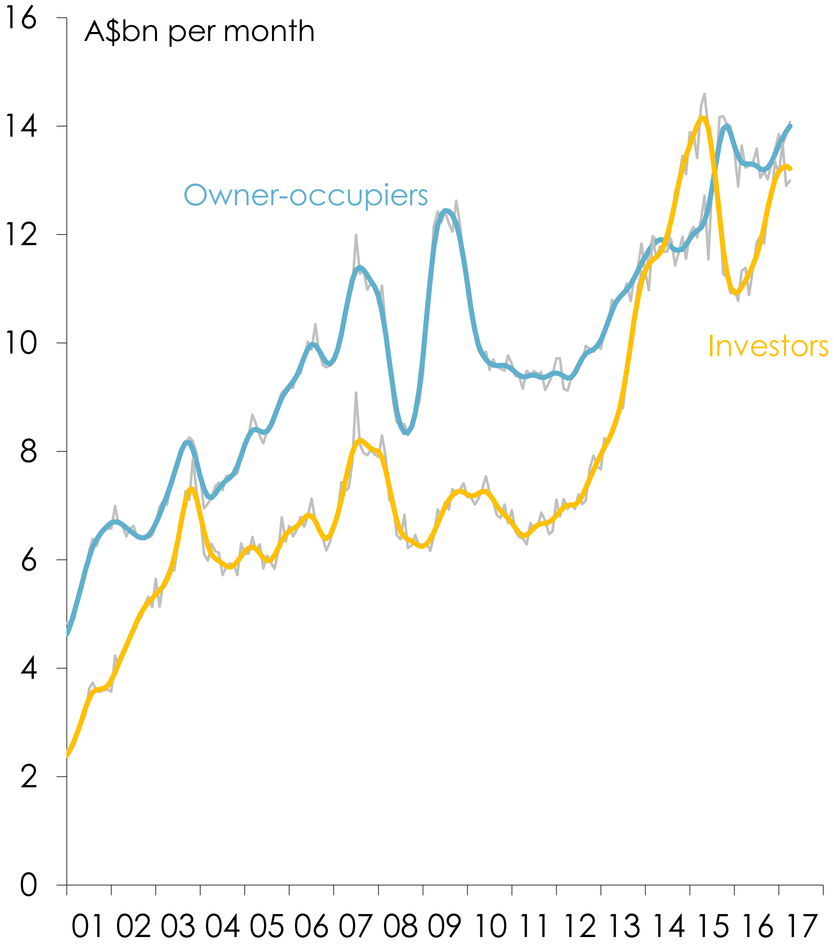

*Note:* Rental affordability index is based on rents (derived from bond lodgement data) as a pc of average weekly income of renting households.
*Sources:* Australian Bureau of Statistics; SGS Economics and Planning.

# Last year's two reductions in interest rates overwhelmed APRA's earlier efforts to restrain growth in lending to property investors

## Interest rates




## Finance commitments for residential property purchases




## Investor share of major lenders' loans


*Sources:* Reserve Bank of Australia; Australian Bureau of Statistics; Australian Prudential Regulation Authority.

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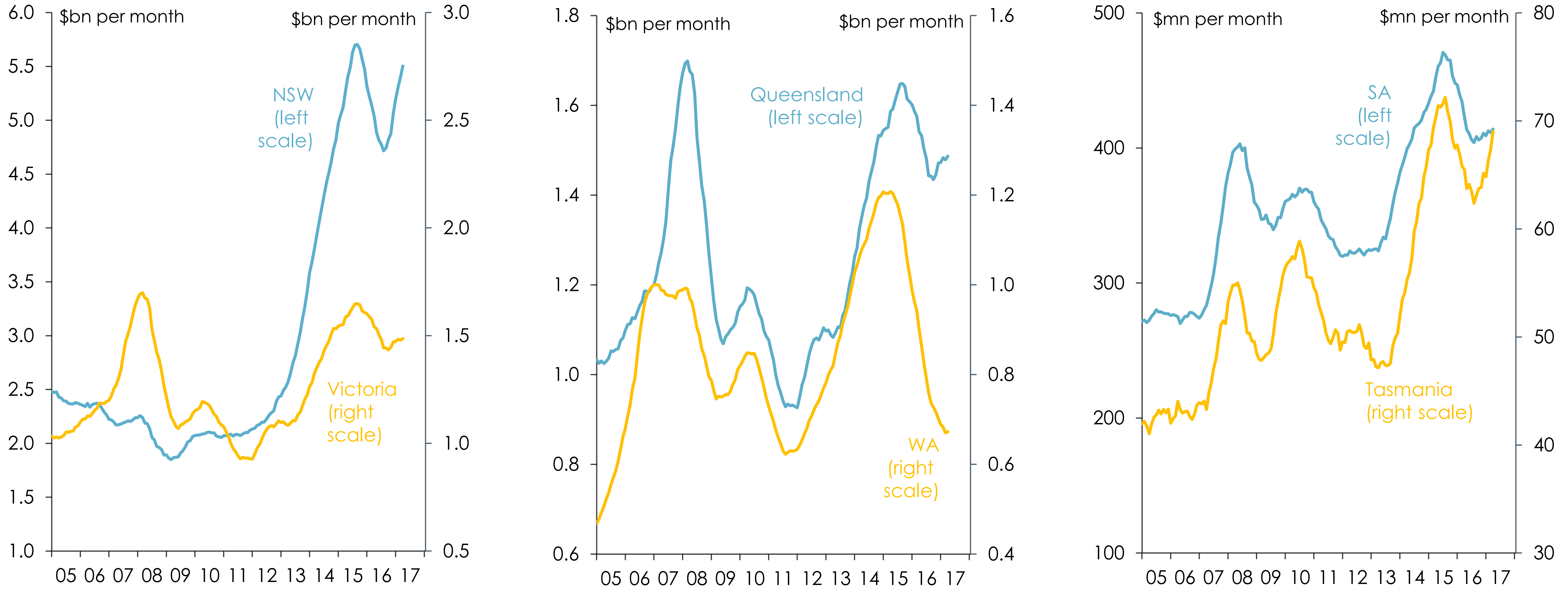
# The renewed upswing in lending to investors has been concentrated in New South Wales

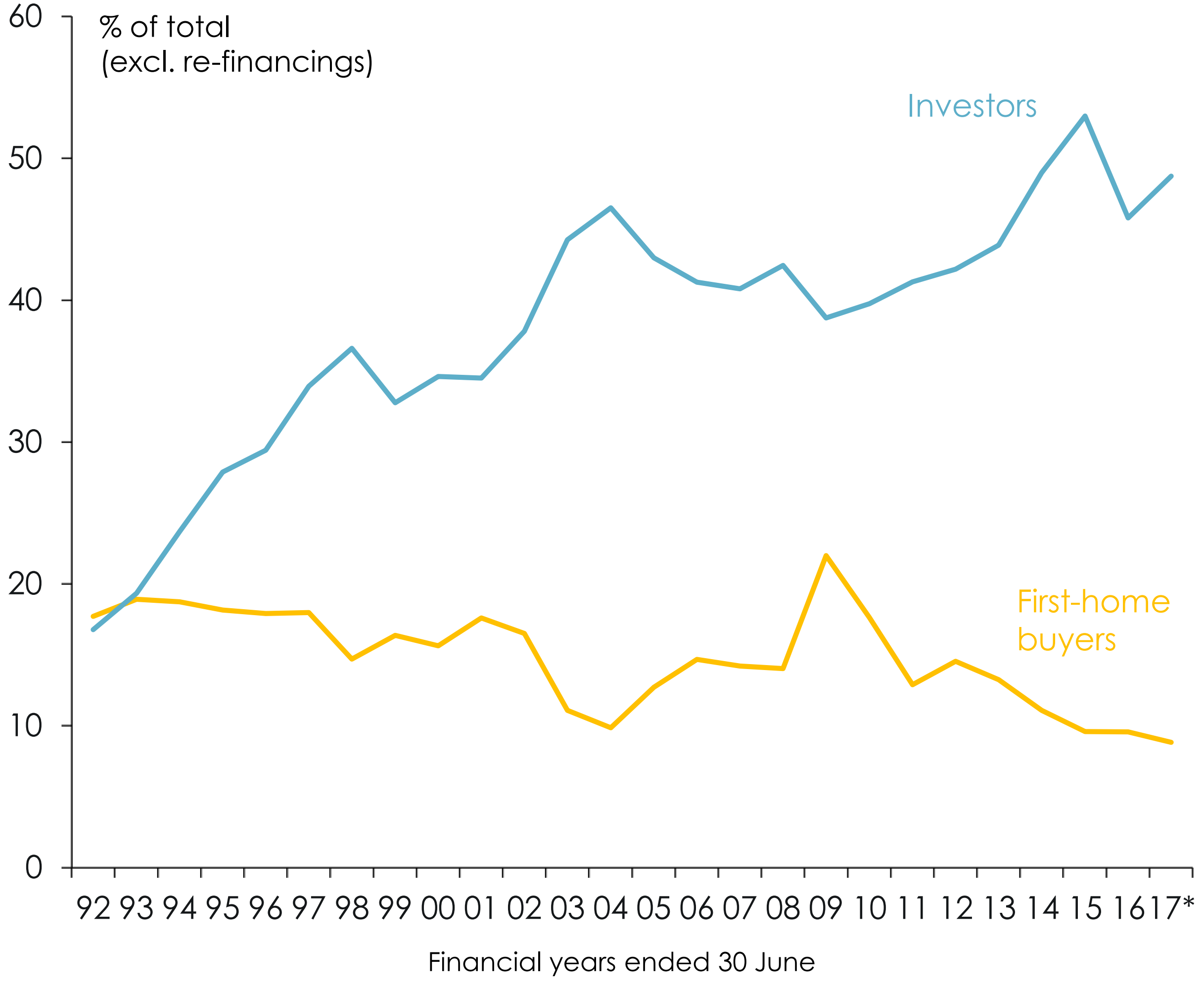
## Housing finance commitments to investors – by State



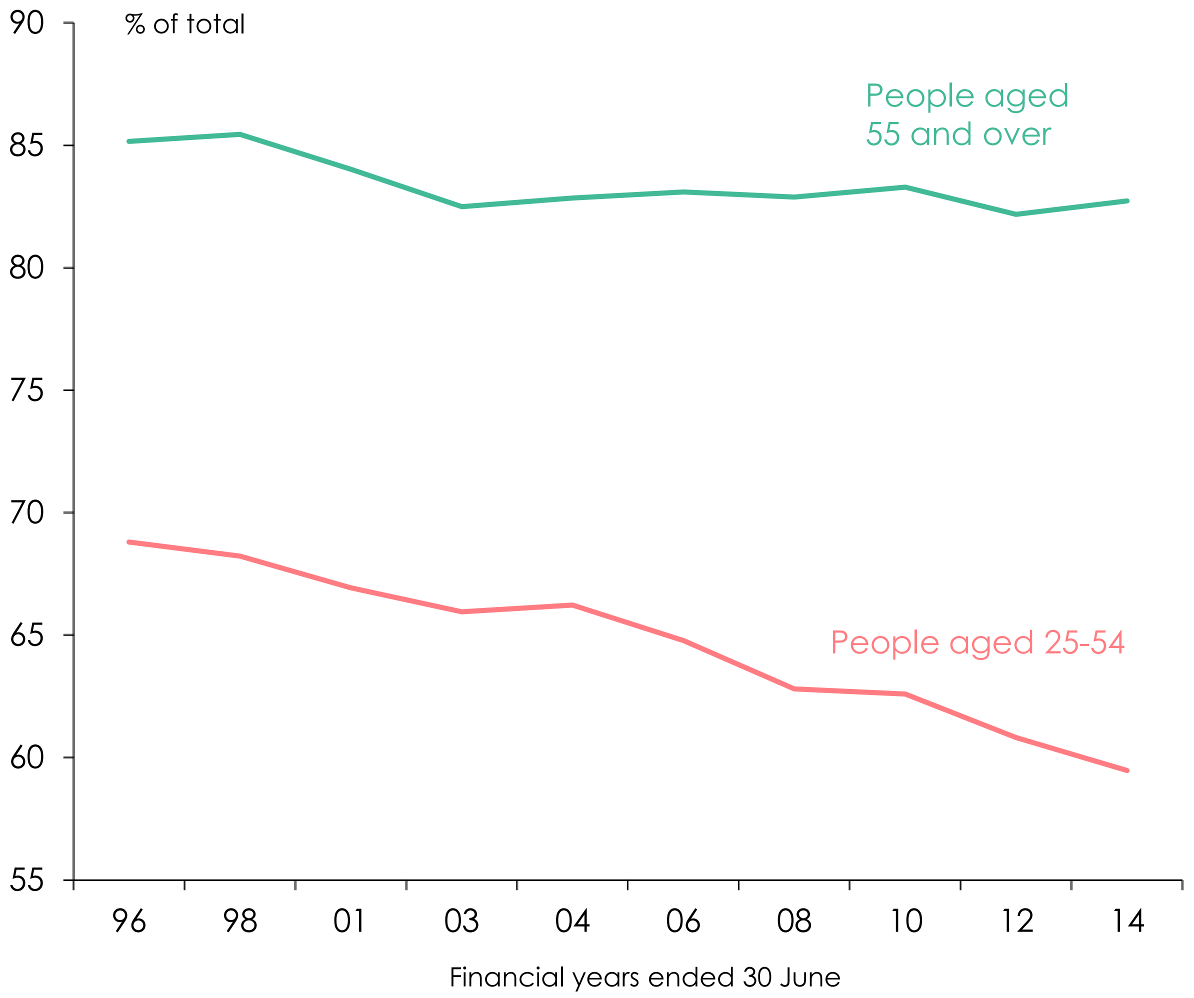

*Note:* data are shown as 12-month moving averages. *Source:* Australian Bureau of Statistics.

# The increasing presence of tax-advantaged investors in the housing market has been a major factor in declining home ownership rates

## Shares of housing finance – investors and first home buyers




## Home ownership rates, by age group




*Note:* Housing finance commitments data for 2016-17 is for the period July 2016 through March 2017.
*Source:* Australian Bureau of Statistics.



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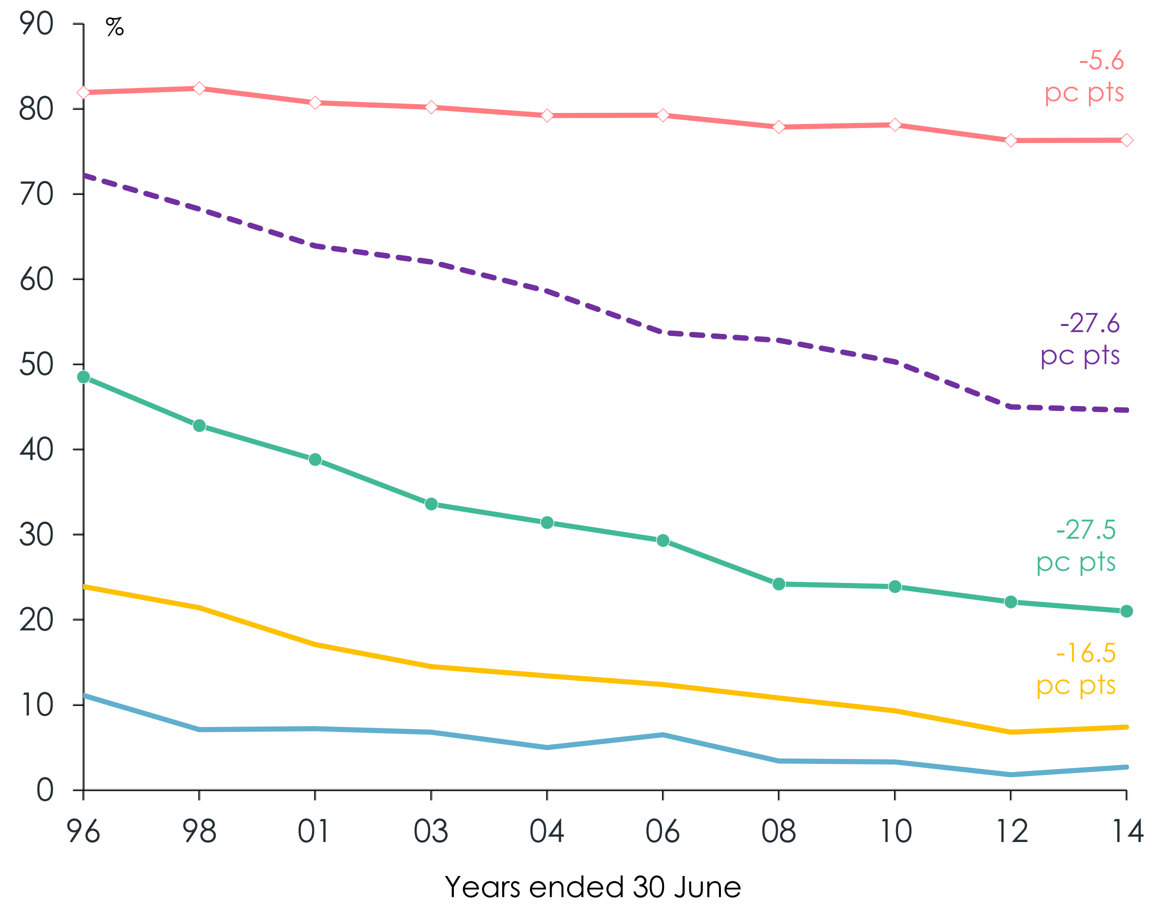
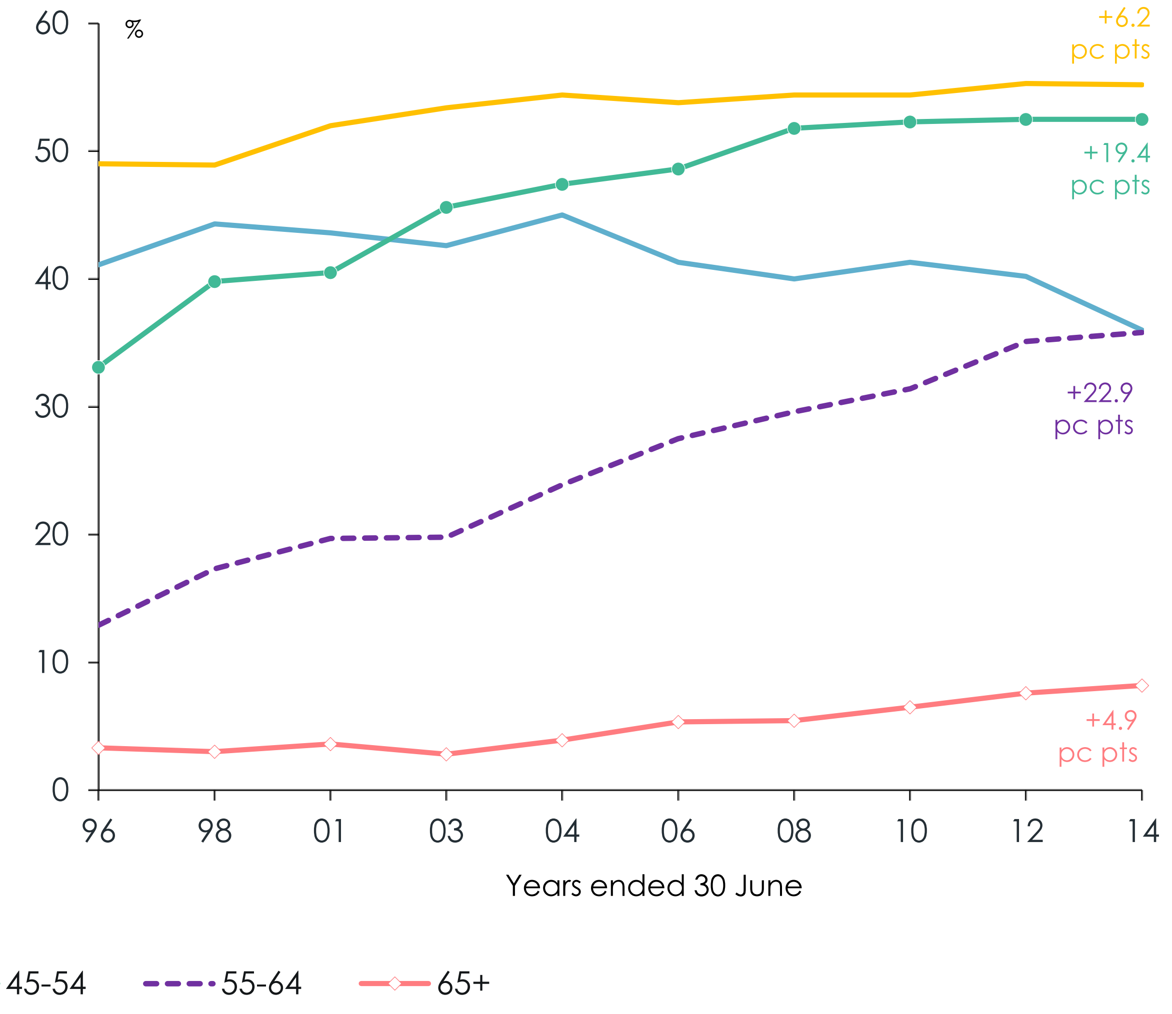
# Among those who do own their own homes, outright ownership rates (that is, mortgages paid off) have declined sharply

## Outright home ownership rates by age group




## Mortgaged home ownership rates by age group




*Source:* Australian Bureau of Statistics *Survey of Housing Occupancy and Costs.*

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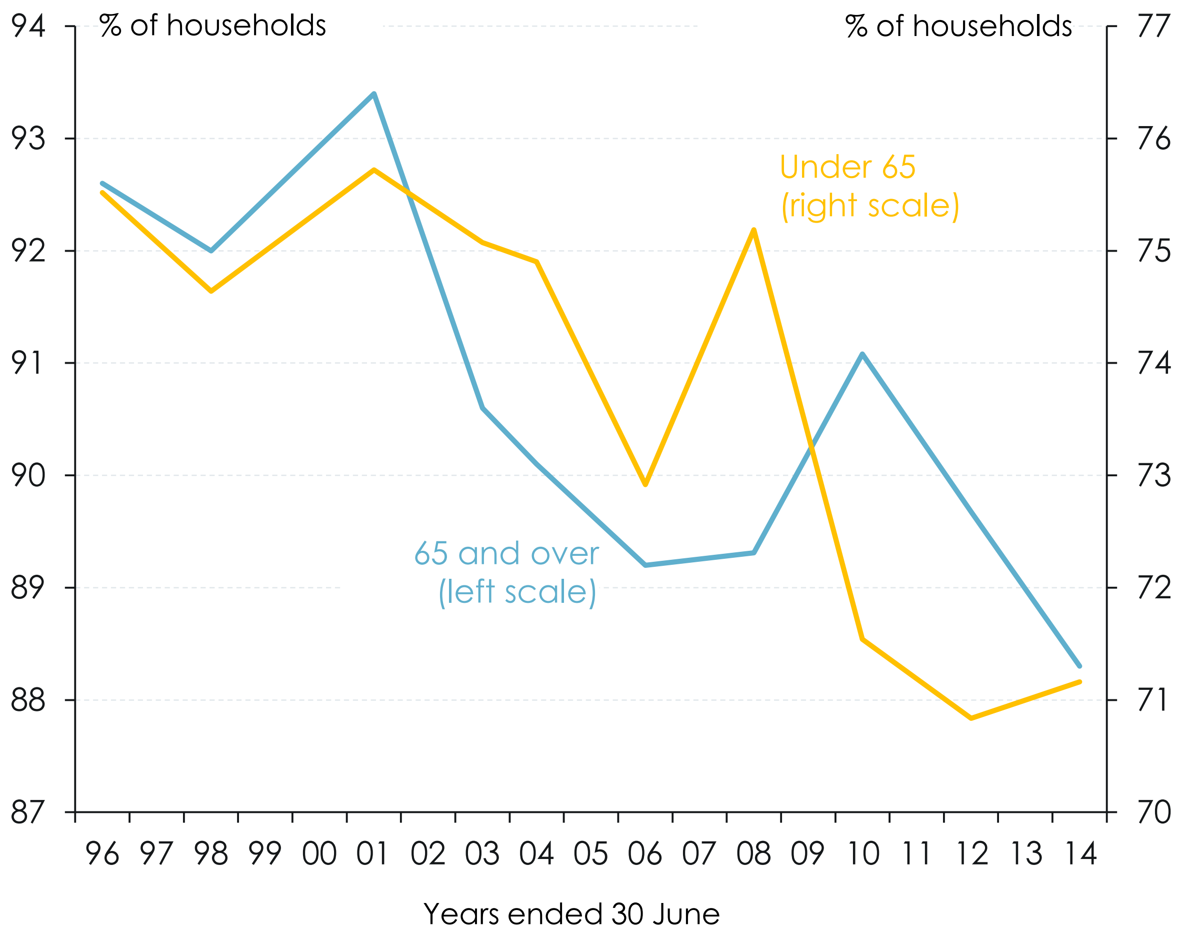
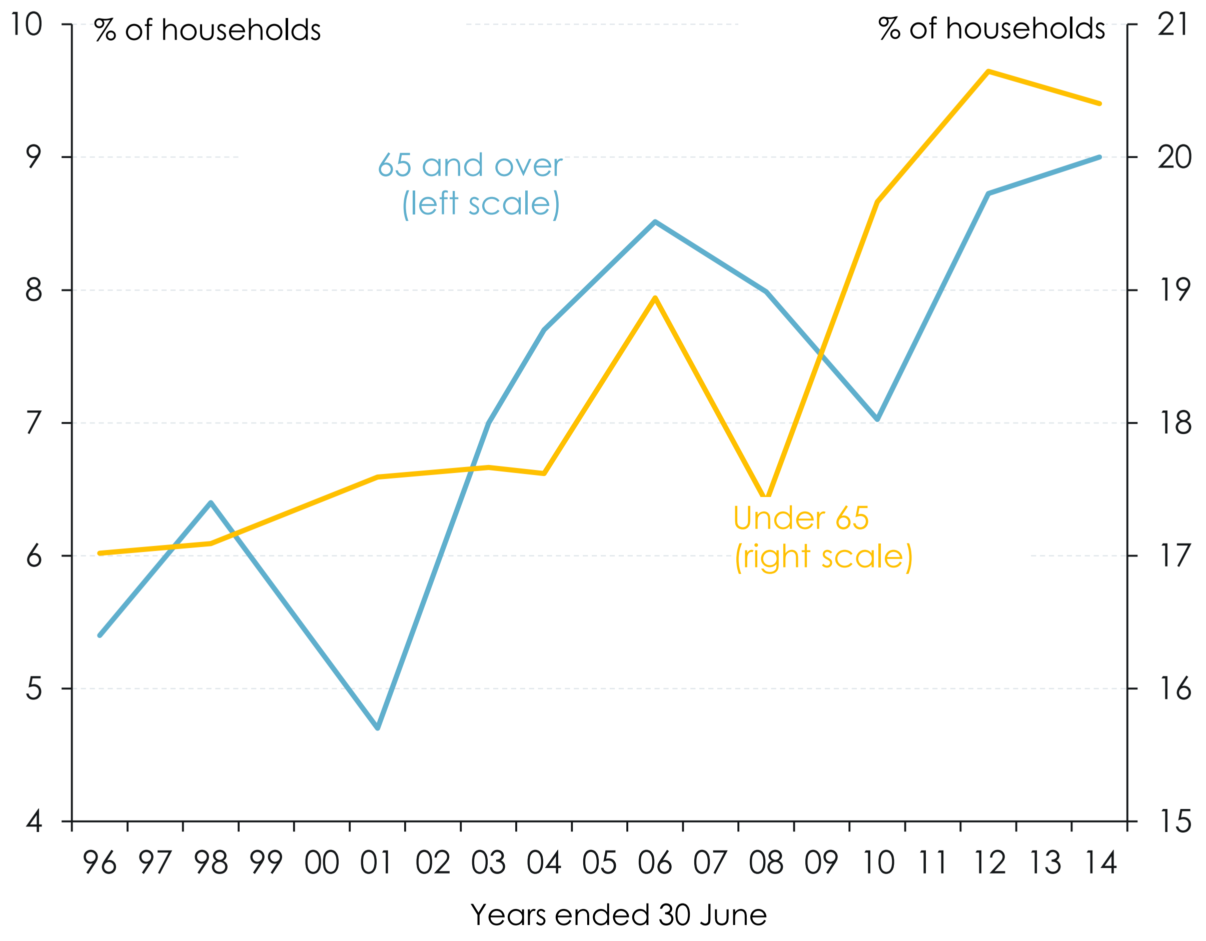
# The assumption that most retiree households will have close to zero housing costs is already starting to become less valid

## Households spending less than 25% of gross income on housing, by age



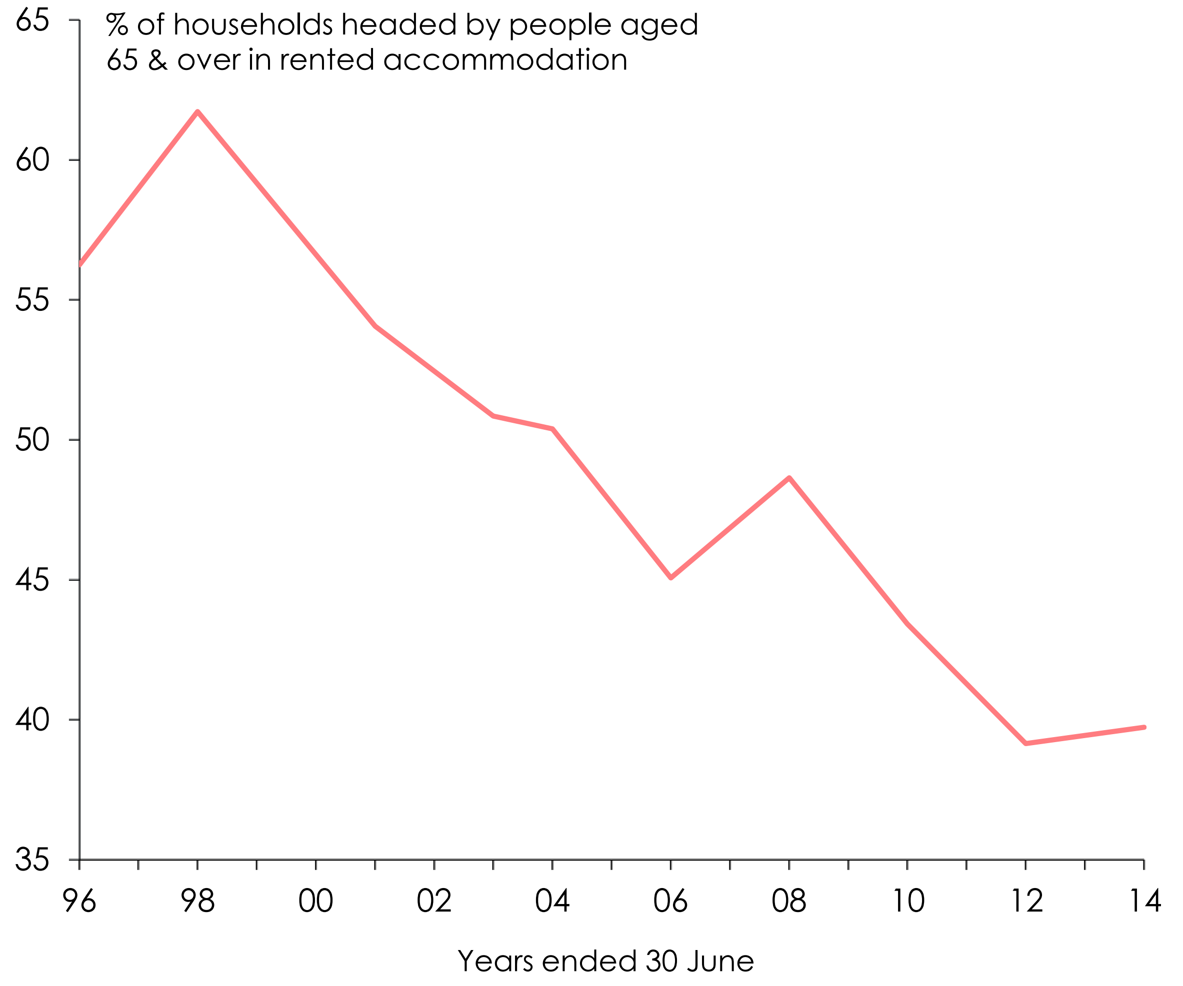

## Households spending more than 30% of gross income on housing, by age



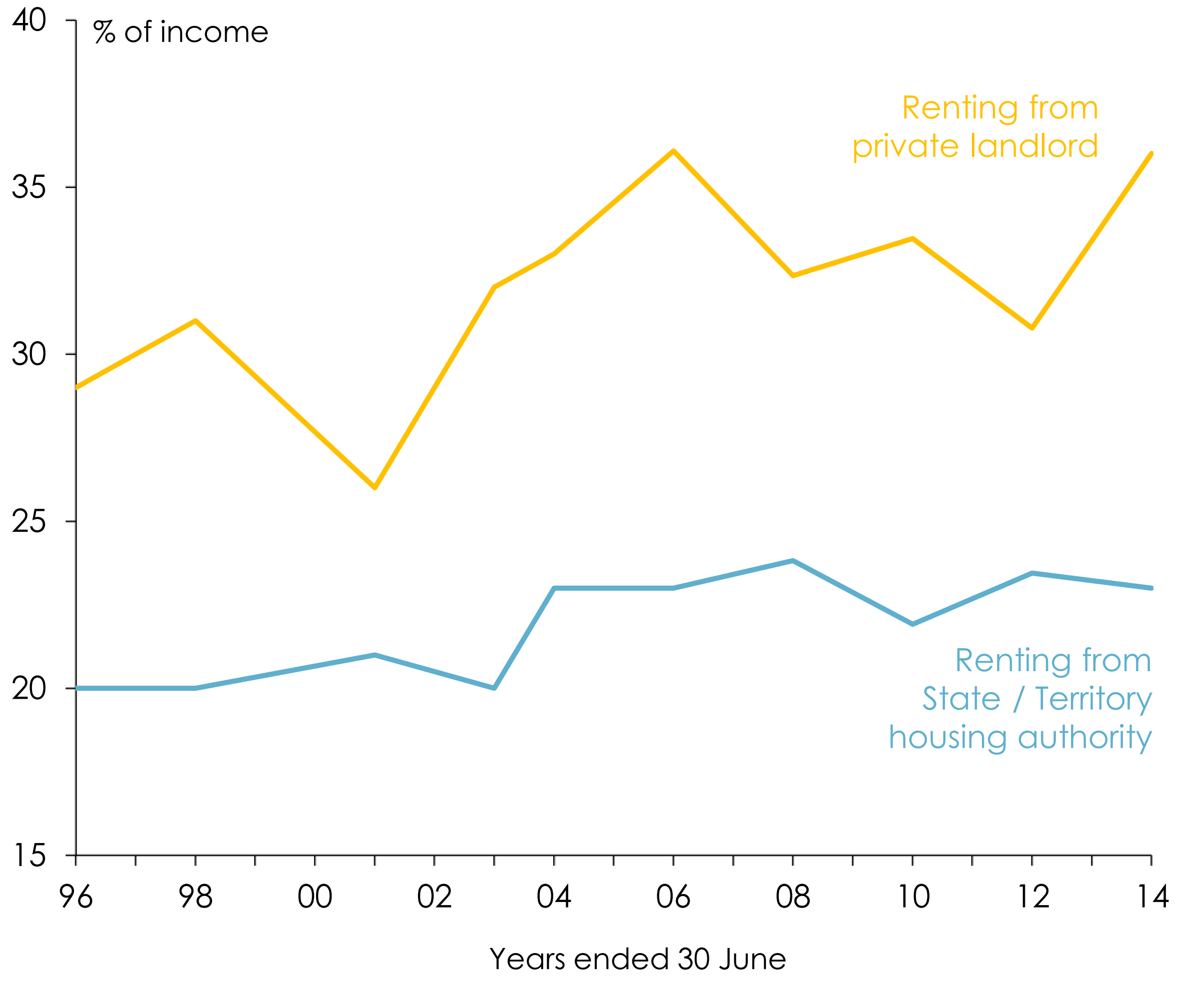

Source: Australian Bureau of Statistics *Survey of Housing Occupancy and Costs.*

# An increasing proportion of renting retirees are renting privately – and facing much higher housing costs

## Renters aged 65+ renting from public housing authorities




## Housing costs as a pc of income for renters aged 65+



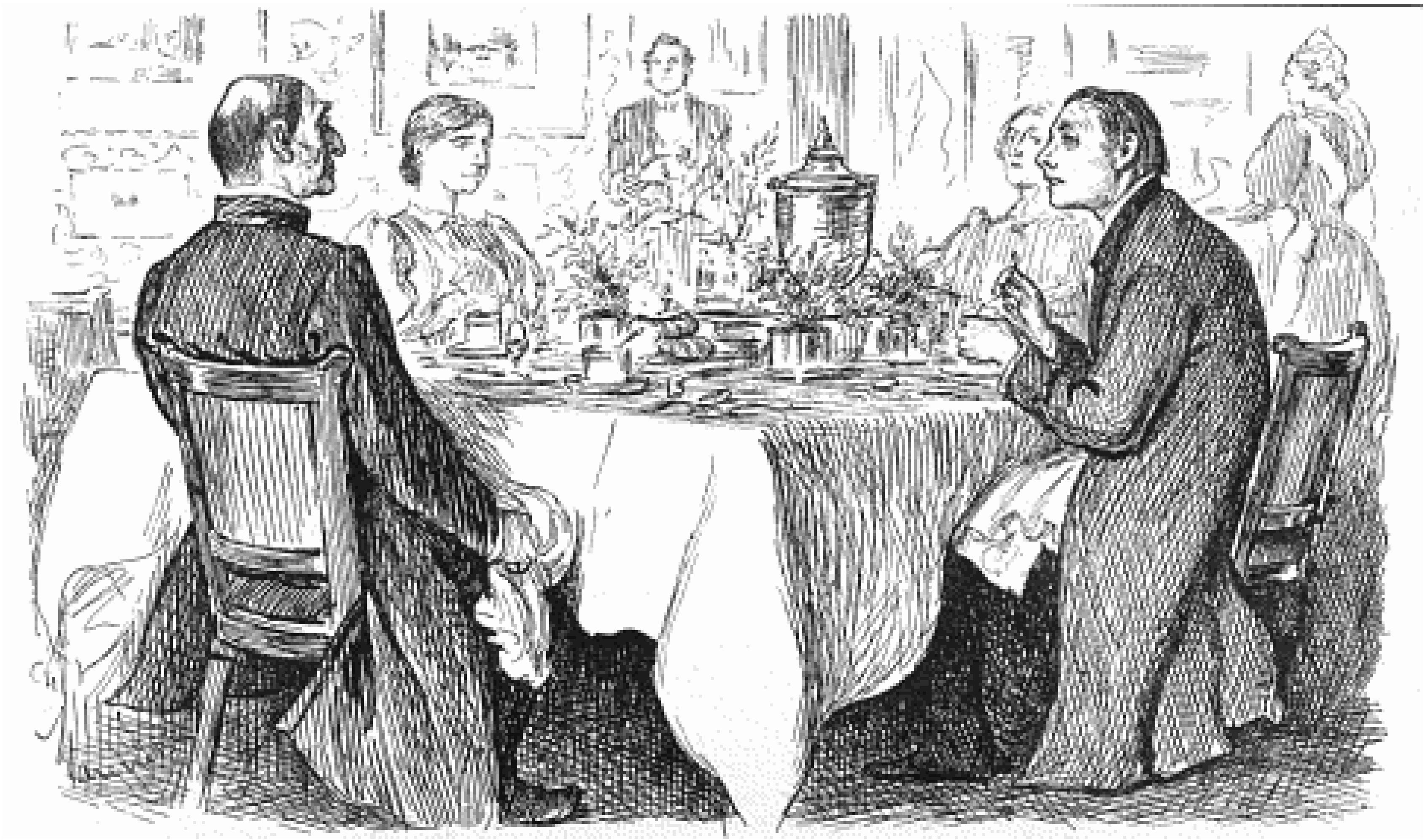

*Source:* Australian Bureau of Statistics *Survey of Housing Occupancy and Costs.*

# Declining home ownership among future retirees means more will have insufficient super and will instead rely on the pension (and CRA)

- Well-established current trends indicate that fewer retirees will own their own homes
- A growing proportion of those who do own their own homes by the time they reach retirement age will still have mortgage debt owing
  - and will rationally use some or all of their superannuation savings to pay that debt off
- Retirees who haven't attained home ownership will need up to $500K of additional savings to cover the cost of renting
- The result is likely to be more people on the age pension, renewed pressure to lift the rate of age pensions, pressure to lift the rate of Commonwealth rental assistance, and greater pressure on government funding of aged care
- All of which is likely to lead to pressure for higher taxes
  - ultimately paid by the declining proportion of the population who will be working

# The 2017-18 Federal Budget and housing

# From a housing perspective, the 2017-18 Budget was like the proverbial curate's egg … good in parts



*Bishop: "I'm afraid you've got a bad egg, Mr Jones";*
*Curate: "Oh, no, my Lord, I assure you that parts of it are excellent!"*

"True Humility" by George du Maurier, originally published in *Punch*, 9 November 1895

# The ‘good bits’

- The National Housing Finance and Investment Corporation (‘the bond aggregator’)
  - based on the UK Housing Finance Corporation
  - should assist community and not-for-profit housing providers to borrow more money for longer terms at lower interest rates, enabling them to build more affordable homes
  - States and Territories to be ‘encouraged to transfer stock to the community housing sector’
- Additional incentives for investment in affordable housing
  - foreign investors through ‘managed investment trusts’ eligible for 15% tax rate if 80% of MIT income is from ‘affordable housing’ and properties held for at least 10 years
  - domestic investors eligible for 60% capital gains tax discount on ‘affordable housing’ managed through a registered CHP and held for at least three years
  - $6mn over four years for national rollout of ‘Homes for Homes’ initiative (encouraging vendors to donate 0.1% of sales proceeds to affordable housing programs)
  - $10mn over 10 years for Social Impact Investment trials focussed on youth homelessness programs
- $1bn National Housing Infrastructure Fund (to be administered by NHFIC)
  - concessional loans, grants etc to local governments for ‘infrastructure that supports new housing, especially affordable housing’ (also based on a UK model)
- New National Housing & Homelessness Agreement from 2018-19 to set supply targets, and requiring measurable progress on planning and zoning reforms
  - Homelessness services funding extended on a permanent basis beyond 2017-18

# The bits that will make some people feel good but otherwise won't make any real difference

- 'Downsizing' incentives for retirees
  - people aged 65 and over will be able to contribute up to $300,000 (each) from the sale of their principal residence to superannuation over and above otherwise applicable limits
  - doesn't address the two major financial disincentives to 'down-sizing' – potential loss of age pension, and stamp duty on subsequent home purchase
- Various measures aimed at discouraging foreign investment in housing
  - foreigners and temporary residents no longer eligible for CGT exemption on principal residences acquired after 9th May, or any principal residence held beyond 30th June 2019
  - foreign residents to be subject to higher CGT withholding rate (up from 10% to 12½%) on a lower threshold ($2mn down to $750,000)
  - charge (equal to FIRB application fee, at least $5,000) for foreign owners of properties left vacant for more than six months per year
  - property developers to be prevented from selling more than 50% of dwellings in any new developments to foreigners
- Surplus defence land to be released in Maribyrnong (Melbourne) for housing
  - land formerly occupied by munitions and explosives factory, closed since 1994
  - first announced in April 2009

# The bit that will probably make things worse – but isn't as bad as it might have been

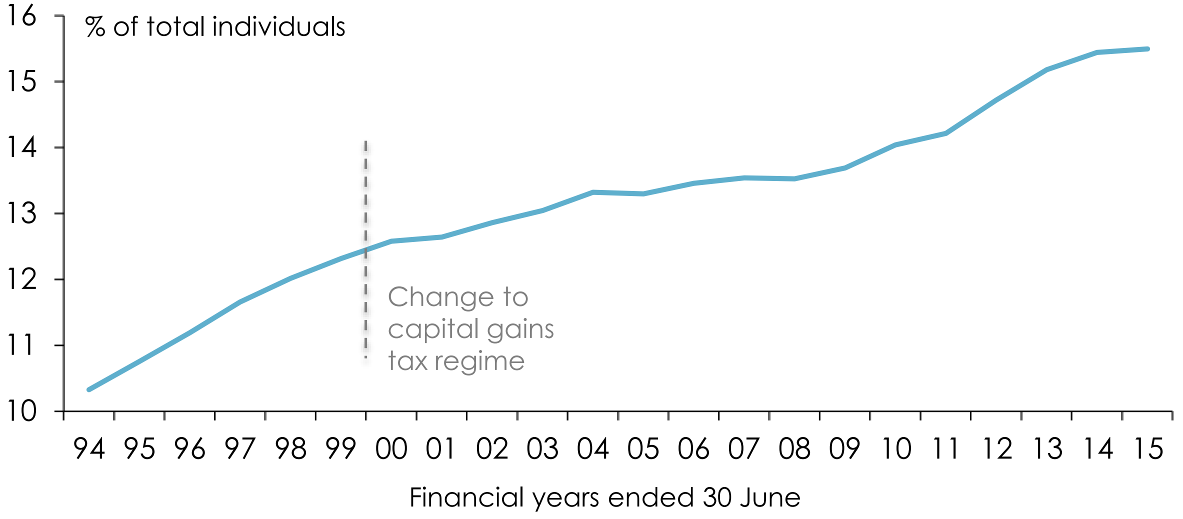
- 'Super for housing lite'
  - would-be first home buyers will be allowed to make contributions from pre-tax income to their superannuation accounts, of up to $15,000 pa and $30,000 in total ($60,000 for couples) …
  - … which together with the earnings on those contributions, deemed to be the 90 day bank bill rate plus 3% pa (and taxed at the concessional rate of 15%)
  - can subsequently be withdrawn for a deposit on a first home, and taxed at the applicable marginal rate minus 30 percentage points
- The Government claims that this will allow "most first home savers [to] accelerate their savings by at least 30%"
  - which implies that they will also be able to increase the amount they can borrow by at least 30% (subject to being able to service the larger mortgage out of their income)
- In other words, what this scheme will do is allow people who avail themselves of it to spend more purchasing their first home than they otherwise would
  - For example, someone who might have saved a deposit of $100K, and thus been able to borrow up to $400K under normal lending criteria, would be able to accumulate a deposit of $130K, and hence to borrow up to $520K, and thus spend up to $650K on purchasing a first home
  - which (as with other schemes that allow people to spend more purchasing a home than they otherwise would) is likely to result in more expensive housing, not higher home ownership rates
- But at least it doesn't permit people to dip into their compulsory super contributions or earnings on them, which would have been even worse

# And the things that could have been done, but weren't …

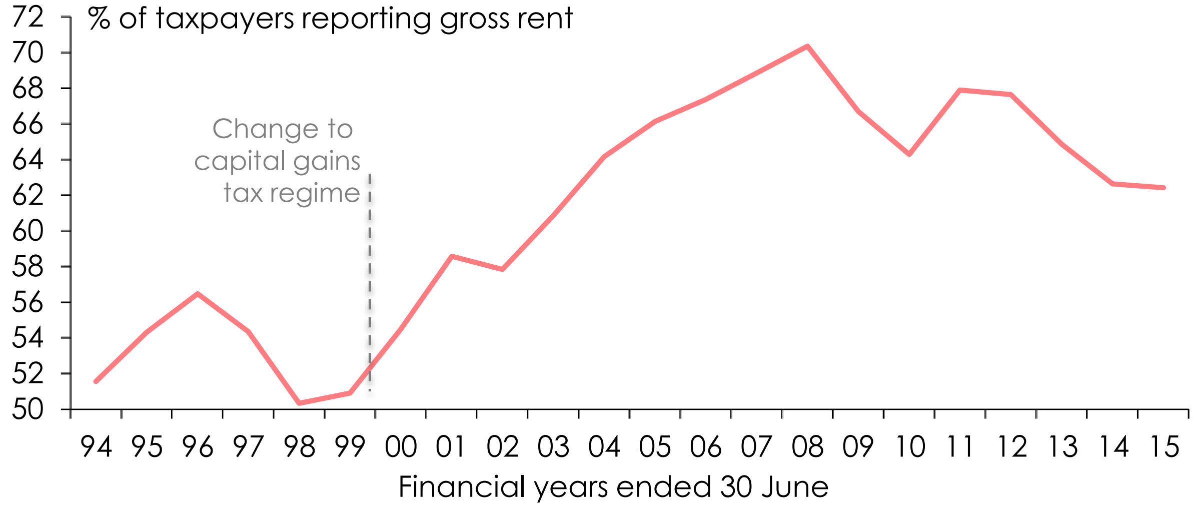
- No change to the capital gains tax discount for domestic investors in 'mainstream' housing
  – the Government obviously believes that the size of the CGT discount affects the incentive to invest in housing – hence the proposed increase in the discount for investment in 'affordable' housing, and the reduction in the discount available to foreigners
  – but the Budget made no changes to the CGT discount for Australian investors – despite calls for it to be reduced from (among others) the Australian Institute of Company Directors, and tacit acceptance by the Property Council
- No significant changes to negative gearing
  – property investors won't be allowed to take tax-deductible trips to 'visit' their properties
  – and they won't be able to claim depreciation on 'plant and equipment' (such as dishwashers and ceiling fans) installed by previous owners
  – Treasurer again asserted that negative gearing allows "Mum and Dad investors" to "support the supply of rental housing and "place downward pressure on rents"
- In other words the Government is willing to provide more tax incentives to encourage investment in <u>affordable</u> housing, but not to reduce incentives to discourage investment in <u>un</u>affordable housing

# Cutting the CGT discount and/or curtailing negative gearing is the most effective thing a federal government could do for housing affordability

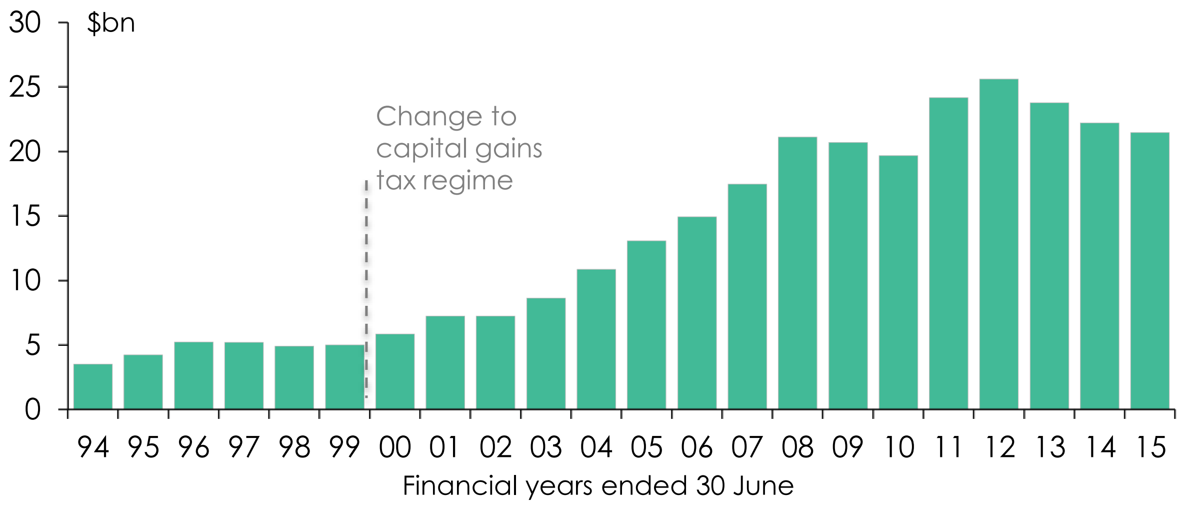
## Individuals reporting gross rental income



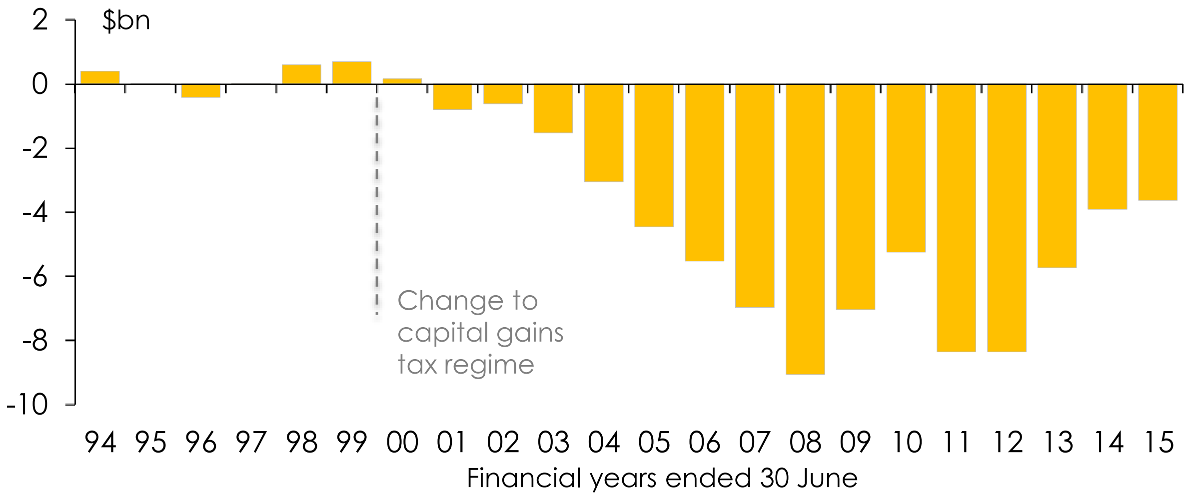

## Loss-making property investors as pc of total




## Interest deductions claimed by property investors



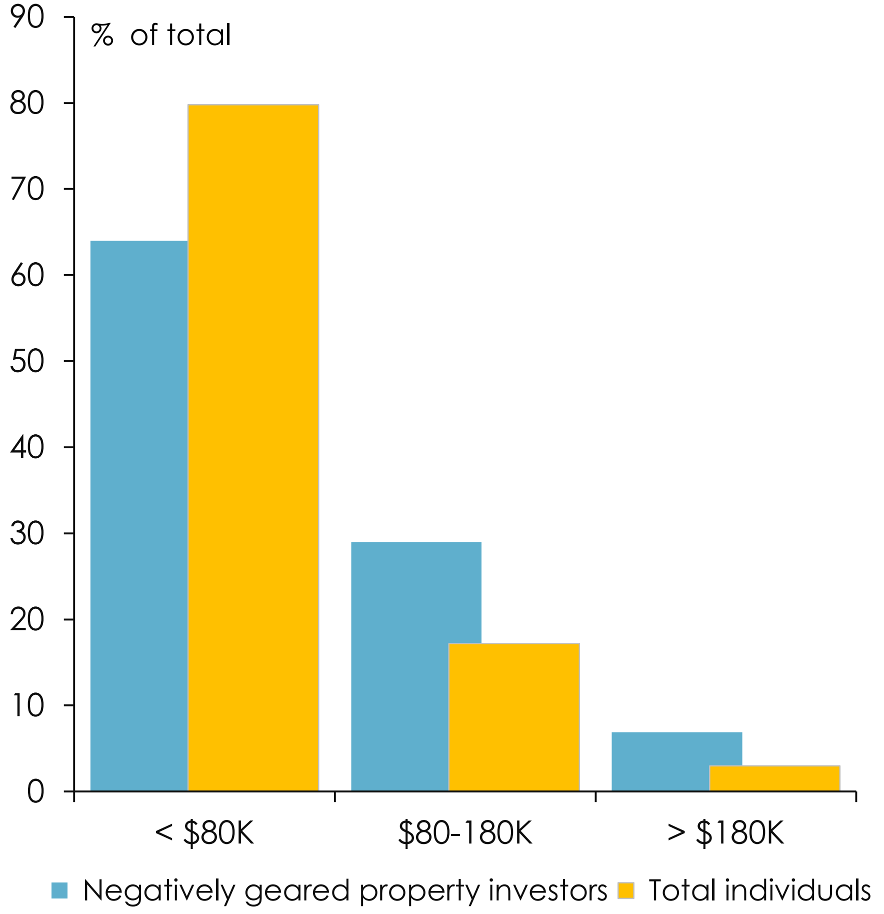

## Net rental income



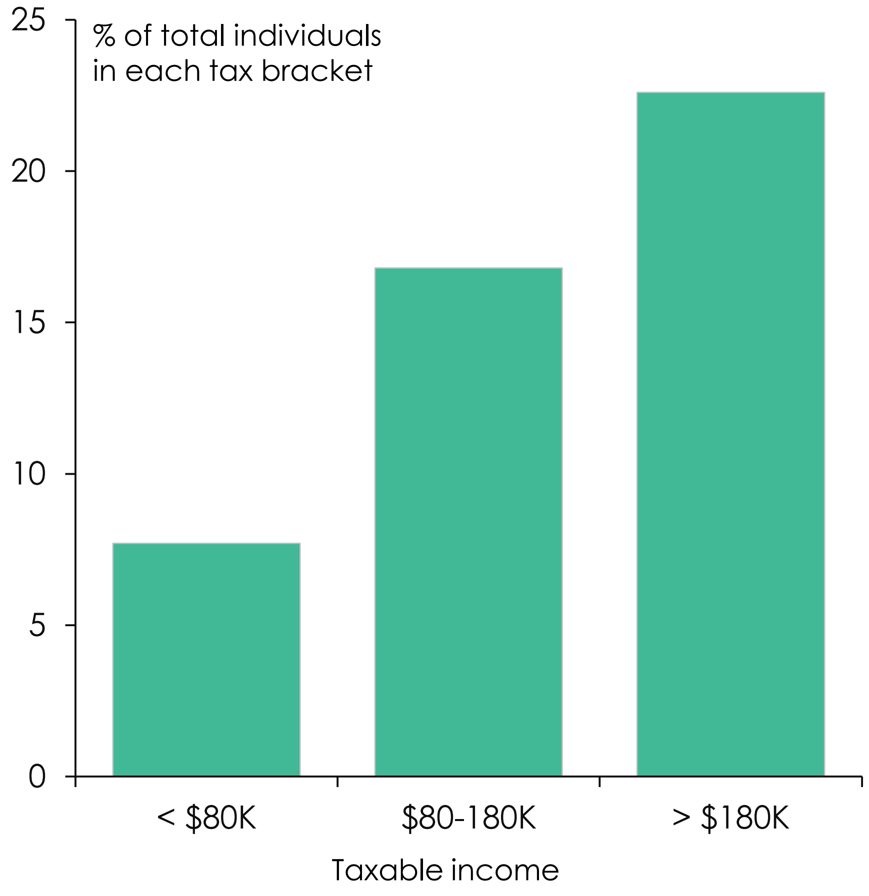

*Source:* Australian Taxation Office, *Taxation Statistics*, 2014-15.

# Negative gearing is much more common among high-income taxpayers than among those of more modest means

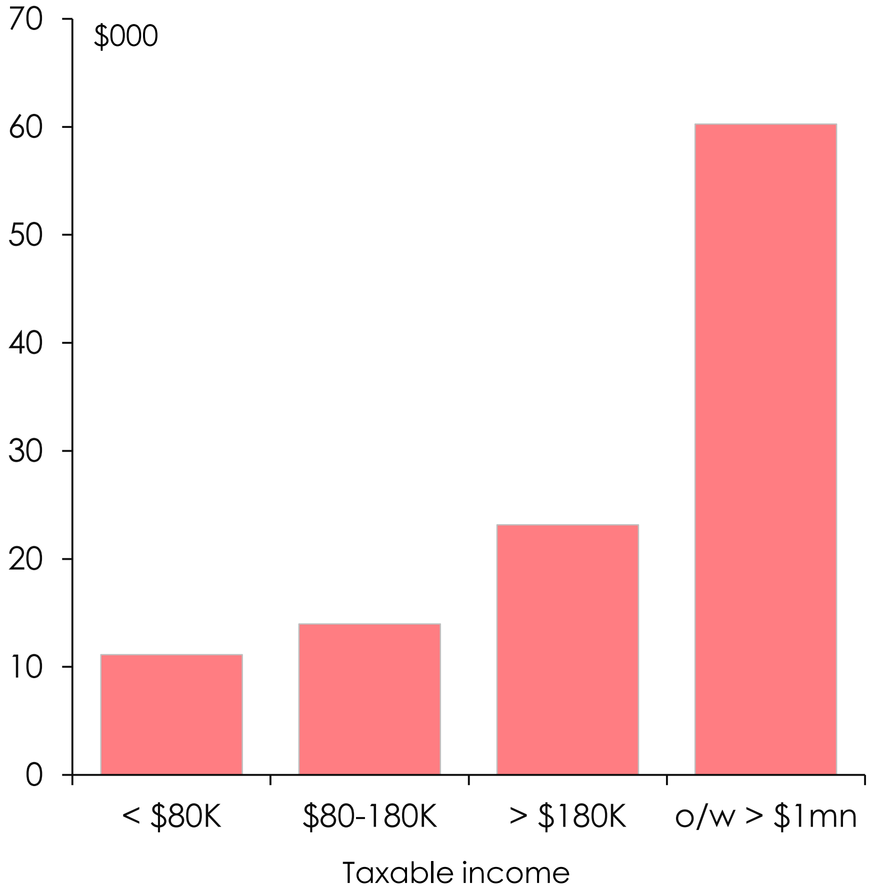
## Individuals with negatively geared property investments, by taxable income range, 2014-15




## Individuals in taxable income ranges with negatively geared property investments, 2014-15



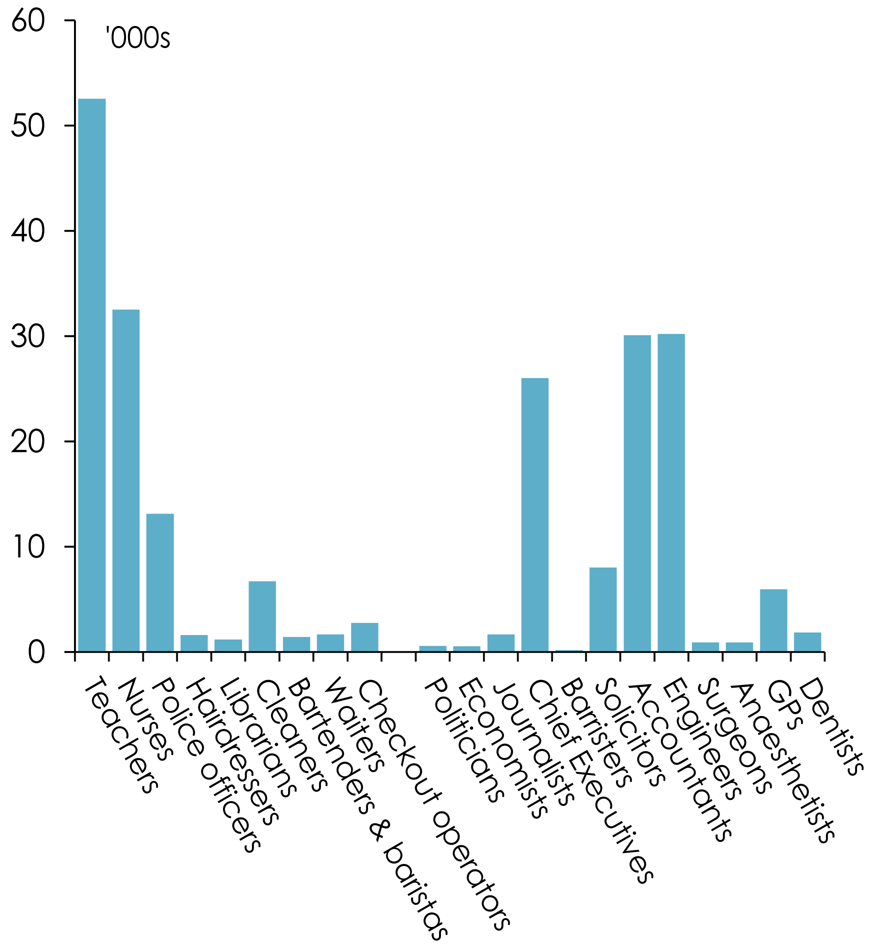

## Average interest deduction claimed by individuals with rental income, 2014-15



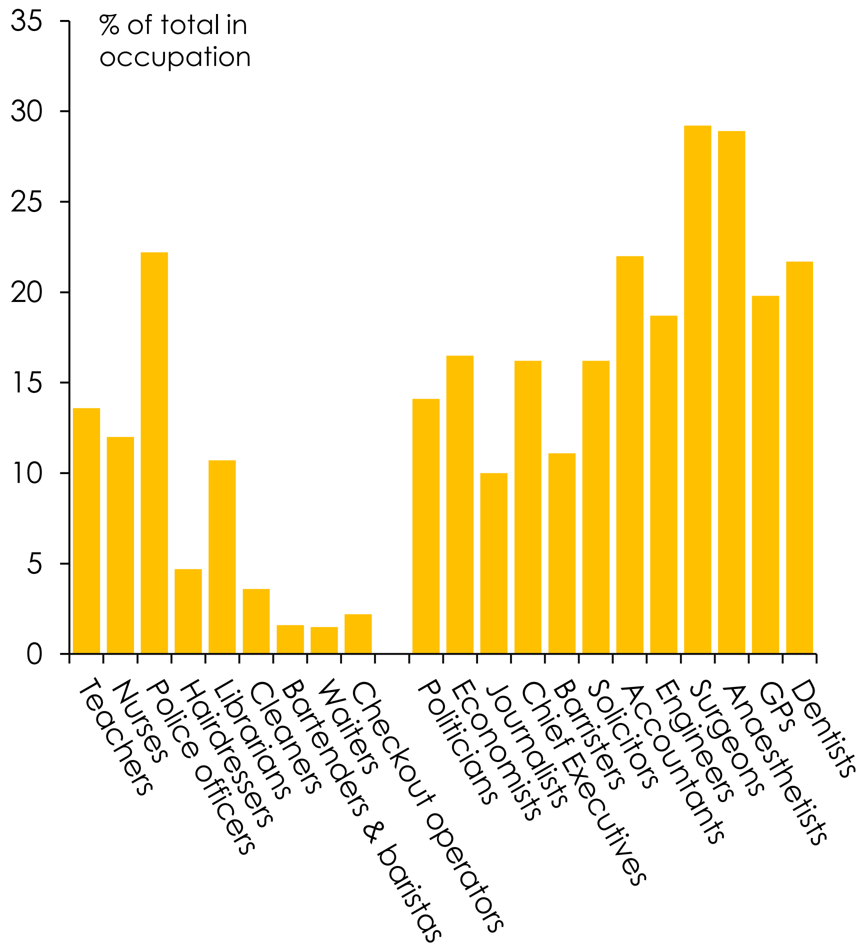

*Source:* Australian Taxation Office, *Taxation Statistics 2014-15*.

# Negative gearing is not, primarily, about 'cops, teachers and nurses' (and other worthy folk) trying to 'get ahead'

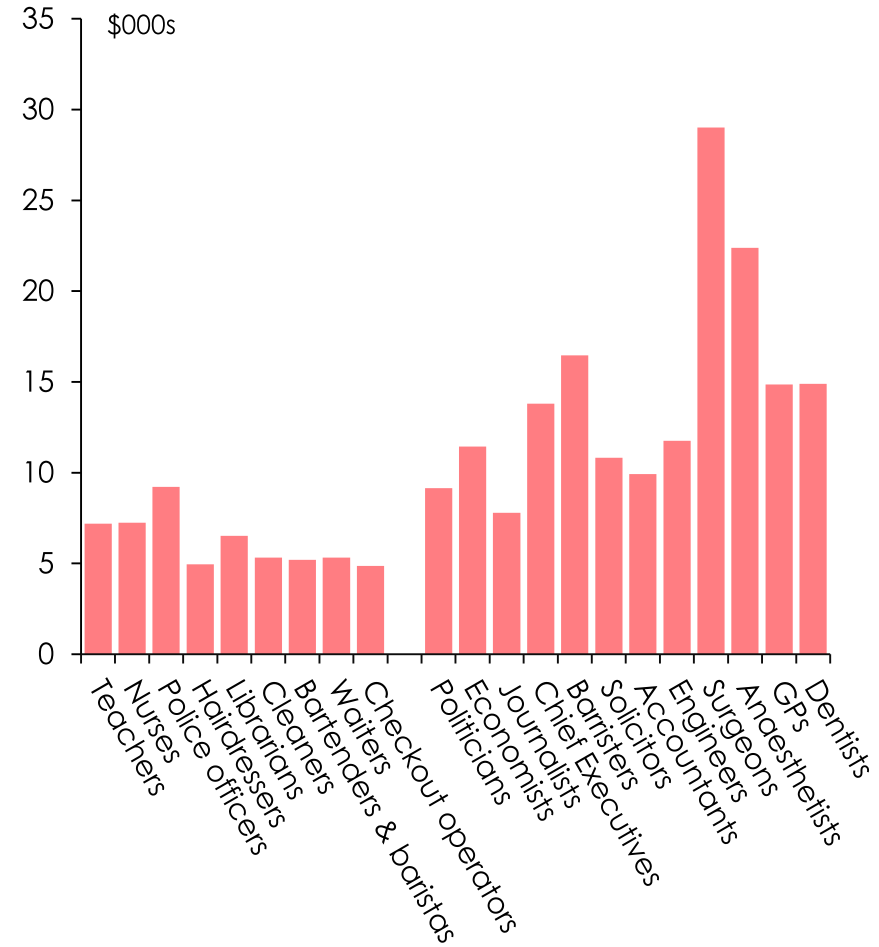
## Selected occupations – number of individuals claiming net rental losses, 2014-15




## Selected occupations – p.c. of individuals claiming net rental losses, 2014-15




## Selected occupations – average net loss claimed on rental properties, 2014-15




*Source:* Australian Taxation Office, *Taxation Statistics 2014-15*.