Committee Secretary
Senate Standing Committee on Economics
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee,

Thank you for the opportunity to provide a submission to the Inquiry into the provisions of National Housing Finance and Investment Corporation Amendment Bill 2019.

The Urban Development Institute of Australia (UDIA) is the development industry's most broadly representative industry association with more than 2,500 member companies – spanning top tier global enterprises and consultants to local governments and small-scale developers.

UDIA's position on the First Home Loan Deposit Scheme ("Scheme") is that the scheme is a positive concept – and sits well alongside other initiatives including retention of negative gearing, funding for housing supply and demand analysis and the relaxed loan interest rate serviceability requirements recently announced by APRA.

It sensibly recognises that the barriers to entry to housing markets are real, substantial and immediate – and supply-based measures (such as planning reform to boost supply) will take time to give effect to improved affordability.

Often, the biggest barrier to home ownership is the scale of savings required to meet the standard requirement for a 20 percent deposit. This serves as both a pre-requisite for the majority of home lending, as well as avoidance of mortgage insurance.

According to CoreLogic's June 2018 and 2019 reports on Housing Affordability:

- to save a 20 percent deposit, based on households saving 15% of their gross income, capital cities have continued to increase the number of years to achieve the required level of savings; households in Melbourne can take 10.1 years and Sydney 11.2 years;
- the savings required for a detached house take 10.4 years to accumulate, and 8.5 years for a unit;
- the time needed to save a deposit has continued to increase over the past five years.

Some state governments have sought to also assist in closing the deposit gap, with Western Australia's Keystart the most notable (although the Northern Territory and South Australia also have their own versions of the Keystart program).

Keystart's precise design and operation is different from the proposed Commonwealth scheme, but its intent is the same and has had sustained success for more than 20 years in increasing home ownership among first homebuyers.

Therefore, the merits of the concept being pursued by the Commonwealth should be uncontested.

Design features

New housing vs existing housing

UDIA believes the Scheme should be orientated towards the purchase of new housing, as this has the combined benefits of:

- reducing the risk of inflationary effects from increased market participation by a new pool of buyers;
- helping stimulate the supply of additional housing stock needed to rebalance housing markets to improve affordability by better balancing supply and demand; and
- driving economic activity through new dwelling construction activity at a time when approvals, commencement and construction are well off their peak from three years ago and the RBA is seeking additional economic growth.

Owner-occupiers vs investors

UDIA supports structuring the Scheme to include a provision that it exclusively be available to owner-occupiers (and not investors). This reinforces the central policy objective of the Scheme and avoids the unintended consequences of investors entering the market at the exclusion of owner/occupiers.

This is also a condition of Keystart – Western Australia's successful deposit gap scheme, which provides exclusive access to owner-occupiers with strict prohibition on investors, either at the time of loan acquisition or through the life of the loan.

UDIA would also recommend that as part of the assessment process for applicants, their capacity to service an existing rental commitment be taken into account (noting this is a core part of the assessments undertaken in the Keystart scheme in WA.) This component of the market has the greatest pressure on them to simultaneously raise a deposit whilst also paying rent. This would help provide evidence of their ability to sustain regular financial payments and inform loan serviceability assessments.

Income thresholds

There are however, issues relating to the proposed income thresholds announced in May 2019, when the Scheme was first unveiled. UDIA acknowledges that the concept of variable thresholds for different regions and capital cities is being contemplated, and we encourage the Government to further this work.

[Again, it is notable that the Keystart scheme in WA has variable thresholds for both incomes, and house prices depending on the location.]

To illustrate the case, UDIA has modelled the applicability of the proposed income thresholds across the five major capital cities in Australia using a combination of core logic and UBS data and performed an analysis of the proportion of suburbs where a median priced house or unit could be reasonably purchased.

The following assumptions were used:

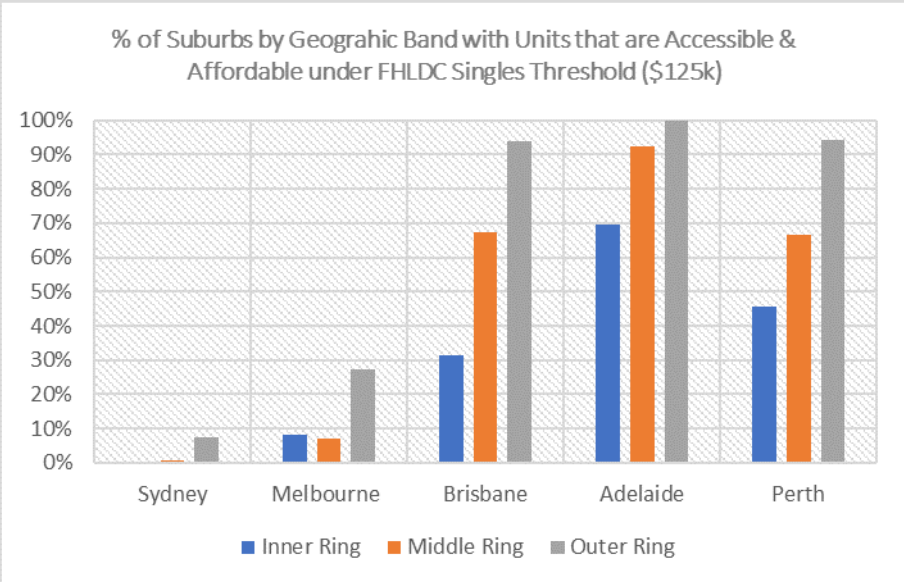
- the upper limits of the singles income threshold being $125,000 and for couples, $200,000
- application of a Household Expenditure Measure (HEM) discount of $25,000 for the singles' threshold, and $40,000 for the couples' threshold
- a definition of mortgage stress as 30% of household income required to service mortgage payments – and ensuring no household is pressed above it
- an interest rate of 5%, and an LVR of 95%

The result was that singles could take a maximum loan of $410,526 and couples could take a maximum loan of $789,474.

The availability of houses and units was then tested against the median house price, on a suburb-by-suburb basis, across three bands of each capital city – an inner ring (0-5km from the CBD), middle ring (5-20km) and outer ring (20km+).

It shows that under the proposed thresholds, there are substantial limitations arising from the scheme in terms of the availability of houses and units for eligible participants, particularly in Sydney and Melbourne. It is also worth noting – the data presented represents a best-case scenario on access to the scheme and that greater limitations would apply to people with incomes below the maximum thresholds, and when interest rates again increase.

Source: June 2019 CoreLogic data



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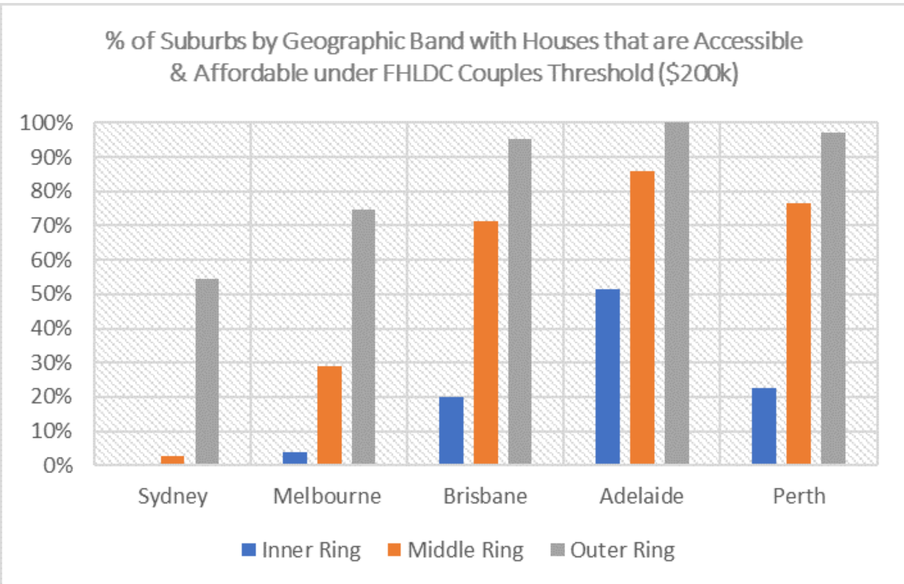
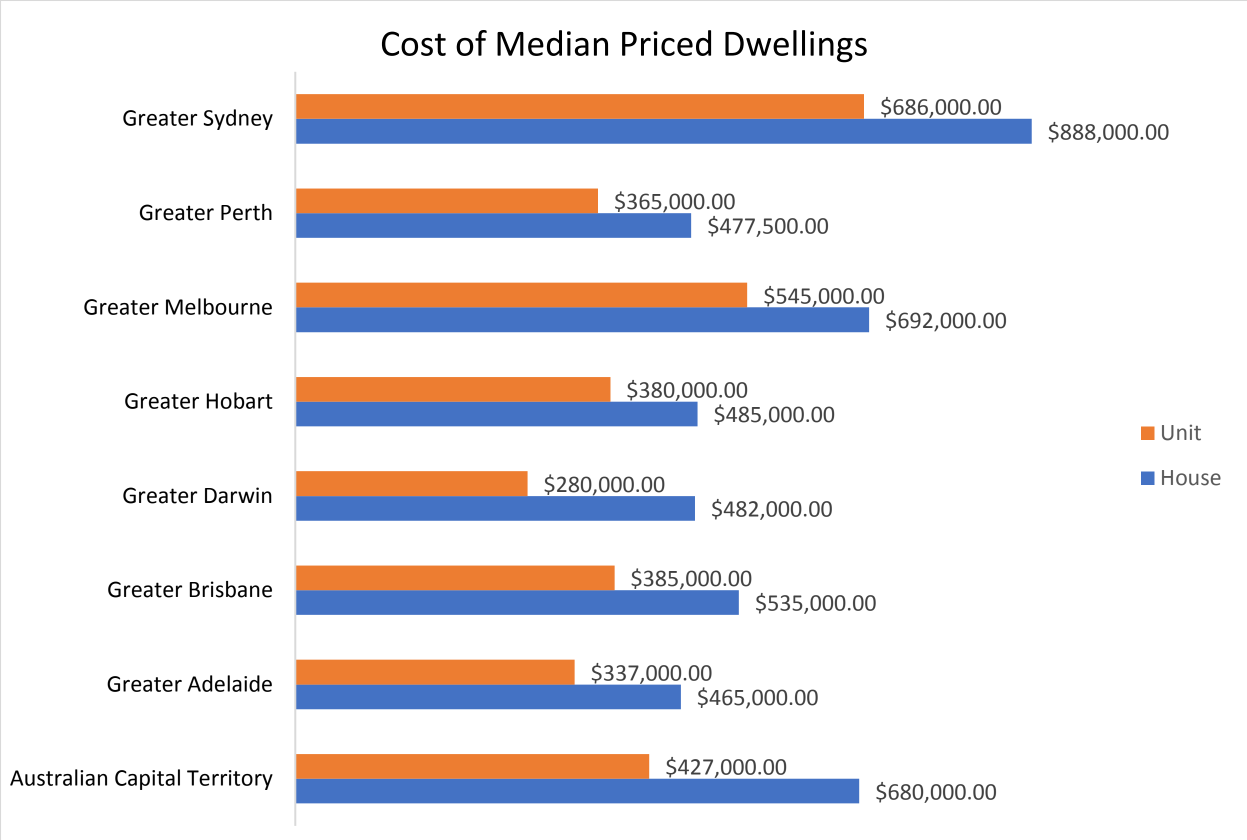




Source: June 2019 CoreLogic data

Using the current UBS HEM calculations, for singles with a $125,000 income at 95% LVR,

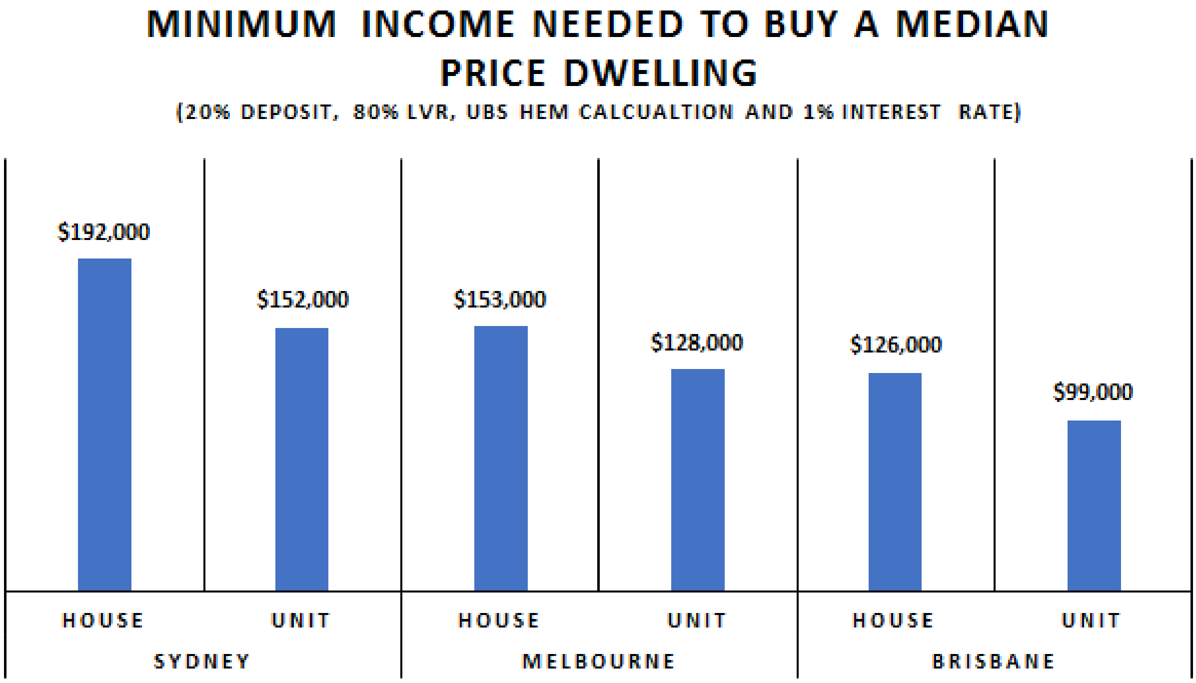
- no house in any Australian capital city can be purchased for $432,576;
- only units can be purchased for $432,576 in ACT, Adelaide, Brisbane, Darwin, Hobart and Perth;
- neither a house or unit can be purchased in Sydney or Melbourne.

For couples on an income of $200,000 at 95% LVR,

- a house can be purchased for $762,698 in every capital city except Sydney;
- as unit can be purchased for $762,698 in every capital city.

Therefore, only dual income households are able to purchase both units and homes, while single income households are only able to purchase units. Concerningly, single income households are the fastest growing demographic currently seeking to access the housing market.

Given the above findings, UDIA has also analysed the income requirements for a homebuyer seeking to purchase a price at the median house price in the three major capital cities – Sydney, Melbourne and Brisbane. This was based on the current median house price for units and houses in each of the capital cities, and the loan to- income requirements of major lenders. The analysis reinforces that the income requirements for single people under the proposed deposit gap thresholds will prove prohibitive.



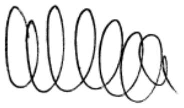
Source: June 2019 CoreLogic data

Recognising the limitations of the scheme as it is currently proposed, UDIA recommends that:

- the Commonwealth invest in analysis to provide a variable set of thresholds across capital cities (and regions) that reflect the income thresholds required to access housing with serviceable mortgages,
- consider lifting thresholds for Sydney and Melbourne to better align with median house price requirements, and
- the Commonwealth expand the mandate to include capacity for shared equity arrangements. This would replicate the Shared Ownership Home Loan provisions of the Western Australian Keystart program – under which co-ownership of the property up to a 30 percent value is available.

Thank you for considering the issues outlined. Please do not hesitate to contact my office on 02 8330 6907 or myself at ckirk@udia.com.au if UDIA can assist further with the work of the Committee with respect to the National Housing Finance and Investment Corporation Amendment Bill 2019.

Sincerely,



Connie Kirk
National Executive Director
UDIA National