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Ms Kate Portus
Committee Secretary
House of Representatives
Standing Committee on Tax and Revenue
PO Box 6021
Parliament House
CANBERRA ACT 2600
By email: TaxRev.reps@aph.gov.au

Dear Ms Portus

CONTRIBUTION OF TAX AND REGUALTION ON HOUSING AFFORDABILITY AND SUPPLY

The Australian Finance Industry Association (AFIA) welcomes the opportunity to provide a submission to the House of Representatives Standing Committee on Tax and Revenue inquiry into the contribution of tax and regulation on housing affordability and supply.

AFIA[1] is a leading advocate for the Australian financial services industry. We support our members to finance Australia's future. We believe that our industry can best support Australia's economy by promoting choice in and access to consumer and business finance, driving competition and innovation in financial services, and supporting greater financial, and therefore social, participation across our community.

AFIA represents over 100 providers of consumer, commercial and wholesale finance across Australia. These banks, finance companies, and fleet and car rental providers, and fintechs provide traditional and more specialised finance to help businesses mobilise working capital, cashflow and investment. They are also at the forefront of financial innovation in consumer finance.

INTRODUCTORY COMMENTS

Homeownership in Australia has long been promoted as part of the Australian dream – the home, white picket fence, and the commodore in the driveway. Many aspects of this dream are no longer available or feasible in current housing markets or relevant for the future needs and preferences of many Australians.

Appropriate housing is fundamental – the housing market should be accessible, reflect efficient allocation of capital and resources, support labour mobility and economic prosperity, and provide suitable housing through lifecycle stages and across communities. Housing markets are influenced by supply and demand, which are impacted not just by market dynamics and urban/regional characteristics, but also government policies, including tax, regulatory settings, infrastructure, and immigration.

[1] Australian Finance Industry Association (afia.asn.au)

Specifically, new housing supply depends significantly on land use and planning regulations. In Australia, housing affordability is impacted by the way in which housing markets absorb construction or reflect prices. The reality is there are different housing affordability challenges in different locations and for different parts of our communities in Australia. In supply-constrained markets, like major cities, such as Sydney and Melbourne, adjustments usually occur in higher prices, rather than expanding housing supply. In regional and rural areas, the issues associated with housing affordability are different in nature and scale.

Affordable housing is essential for the wellbeing of Australians. Not only does homeownership provide security of housing tenure, but it affords immediate and longer-term economic and social benefits. Housing stress has direct and indirect implications for economic and social participation, including educational, employment and health outcomes.

However, with a growing and ageing population, many Australians are finding it difficult to be able to access and afford to purchase a home that suits their personal and financial circumstances, including close to where they work. Saving a deposit is frequently cited as a significant impediment for younger people and people on lower incomes. The issue of housing affordability is of major concern to many households, as part of the broader concern about cost of living pressures.

Many Australians are looking for different housing options and dwelling types. Changing demographics, lifestyle options and lifecycle stages, and infrastructure service requirements are cited as important factors in decisions for all age cohorts.

According to the 2016 Census of Population and Housing (Census), there were almost 8.3 million households in Australia, with 67 per cent homeowners (35 per cent with a mortgage and 32 percent without a mortgage), 32 per cent renters (26 per cent private landlords, 3.7 per cent state or territory housing authorities, and 1.3 per cent from other landlords) and 1.0 per cent other tenure.

Housing statistics have been stubborn, with this split of housing tenure in Australia broadly consistent over the past several decades. Two observations:

1. There continues to be a significant portion of Australians that do not own their home despite numerous housing strategies, government initiatives, and home purchase assistance, including the First Home Owner Grant, First Home Super Saver Scheme, First Home Loan Deposit Scheme, Family Home Guarantee, Indigenous Home Ownership Program, and stamp duty concessions.
2. There has been a noticeable trend over the past several decades, with homeownership decreasing significantly for younger people, with homeownership rates for 30–34 year olds being 64 per cent in 1971, decreasing 14 per cent to 50 per cent in 2016, according to the 2016 Census.

However, in comparative terms, there are a significant number of Australian households served by a market-based housing system. Homeownership and private rental housing equate to 93 per cent in Australia, which is considerably higher than comparable advanced economies.

The immediate impacts of the COVID-19 crisis on homeownership and housing tenure will not been known until at least data from the 2021 Census is published. These impacts will also likely take some time before changes are seen in trends analysis and to confirm whether these changes are temporary distortions or become the new normal.

Notwithstanding, there are some impacts that are obvious, including housing prices in urban and regional locations, changes to dwelling types and designs, construction and other market disruptions, and government interventions.

Furthermore, it will also be interesting to see if these impacts and changes reflect general trends in housing globally or whether there are unique characteristics for the housing market in Australia. In mid-2020, the OECD conducted a study on the impacts of COVID-19 on housing, which it indicates will be updated[2].

What is clear, based on forecasts, housing supply in many areas is not keeping up with projected demand. For example, in Sydney projected demand will exceed forecast new housing, even with the severe impact on immigration, temporary workers, and foreign students caused by the COVID-19 crisis[3].

Like all markets, the housing market is impacted by supply and demand. Homeownership is certainly impacted by factors such as population growth and household and family composition. However, there are other factors that are influencing housing affordability and supply, which AFIA believes is contributing to low homeownership, high housing prices and costs, and adversely impacting on the quality of housing, lifecycle stage choices, and financial wellbeing of Australians.

OUR SUBMISSION

Housing finance

Lenders assess a borrowers' capacity to repay a loan (known as a credit or serviceability assessment). These assessments are based on a number of factors, including the borrower's financial position (income and expenses), collateral (i.e. non-financial asset, property location and other characteristics), capital (i.e. financial assets, including deposit), and conditions (i.e. market, economic, employment, etc). Interest rates are often pointed to as the dominant influence on housing costs.

Interest rates

The RBA announces the cash rate target, which is the interest rate on unsecured overnight loans between banks. This is currently 0.10 per cent[4] and has been this level for almost a year due to the change in monetary policy settings caused by the COVID-19 crisis.

However, the market rates set by lenders reference the cash rate, but also reflect their overall cost of funds and other factors. All lenders access funding through capital and financial markets. The composition and cost of their funding depends on the individual lender. Banks and other Authorised Deposit-taking Institutions (ADIs) get deposits from customers. Banks and non-bank lenders use securitisation markets. Lenders also raise funds through commercial paper and bond markets. Funding is sourced from short-term and long-term markets.

Therefore, market rates reflect funding costs, but also costs associated with credit (including the credit rating of the lender, demand for credit, credit score of the customer, size of the loan, size of the

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[2] OECD. Housing amid COVID-19: Policy responses and challenges. 22 July 2020.
[3] Sydney housing supply forecast | NSW Department of Planning, Industry and Environment
[4] http://www.rba.gov.au/statistics/cash-rate/

deposit, collateral, etc), market conditions (including inflation expectations, interest rate volatility), and operating expenses as well as profit.

While it might seem obvious that low interest rates mean repayments are lower and higher interest rates means repayments are also higher for borrowers, the fact that lenders include an interest rate buffer in their credit or serviceability assessment means that changes in interest rates impact more a borrower's budget and discretionary spending capacity.

That said, the decline in interest rates over the past decade, particularly the last few years, has at aggregate lowered housing costs for homeowners with a mortgage, with the cost of servicing a new home loan as a percentage of income significantly lower. Some of this has been offset by increases in other elements of housing costs, including rates for houses and apartments and strata levies for apartments. However, housing affordability for some cohorts and in certain geographical areas has not improved.

<u>Home loan market</u>
Competition in the mortgage market has led to innovations in lending products, services, and technologies available through a range of lenders, including banks, mutual banks and credit unions, and non-bank lenders. There is a wide variety of home loans in the Australian market, ranging from a basic standard variable interest rate product with lower associated costs, through to products with additional features, variable or fixed interest rates, and other benefits suited to borrowers with different needs.

The following outline a number of these product innovations:

Standard variable rate or fixed rate home loans
Home loans can be a standard variable interest rate product, where the interest rate changes according to market rates, or a fixed interest rate product, where the interest rate is locked in for a period of time (usually between one to five years, sometimes 10 years).

Principal and interest-only products
Repayments on a home loan are calculated based on the repayment of the loan amount (principal) and interest over a period of time (usually 25 or 30 years). However, interest-only products can assist a borrower by making lower repayments for a period of time. In this instance, the repayment does not cover the principal, which means the amount borrowed does not decrease over this period.

Redraw facilities
Where the borrower has made additional repayments, they are able to access these funds if their circumstances change. This encourages borrowers to make additional repayments when their financial capacity permits, and then to use those funds if required, i.e. renovation on the property.

Offset accounts
A separate transaction account in which funds can be deposited and accessed can be linked to a standard variable home loan to reduce the amount and therefore the interest rate is calculated off a lower loan amount, meaning the repayments are lower.

Other flexible mortgage products
Lenders have provided further innovations and options for home loan customers, with features that enable better cost management and minimisation, including:

- split loans – a portion of the home loan is fixed and the remainder standard variable
- repayment matches – a non-standard repayment period is introduced, usually to match the frequency of a salary payment to assist direct debits
- repayment adjustments on fixed loans – a threshold amount is permitted to be deposited into the loan to reduce the principal, even though the home loan is a fixed home loan
- rate locks – a fee is charged to lock in a certain interest rate while a property transaction or loan application is being finalised, which can protect against increases in interest rates)
- higher LVR products – a typical home loan requires a 20 per cent deposit, a higher LVR loan permits a lower deposit amount, but will likely also require Lenders Mortgage Insurance (LMI).

Additionally, technology advances mean customers are getting additional services, many available directly through their lender app. For example, data analytics and tools provide customers with budgeting tools, spending assessments, and other tools to build financial literacy. Others are also providing access to property and industry reports and integrating these services with third-party market platforms for real-time insights and updates.

With lenders offering discounts and additional benefits, shopping around for a home loan that best suits a borrower is advisable. There are a number of comparison websites, but many Australians are accessing their home loan product through a mortgage broker. According to the Mortgage and Finance Association of Australia (MFAA), brokers settled 59 per cent of all new residential home loans during the June 2021 quarter[5].

Recommendations
Australia's mortgage market is competitive and innovative, especially compared to other countries. However, there are additional initiatives for government and industry to promote greater accessibility and efficiency in the housing market.

AFIA recommends the following:

1. Family Home Guarantee
The Federal Government introduced a new scheme to support eligible first home buyers, with 10,000 places available in the scheme from 1 July 2021 to 30 June 2022[6].

Under this scheme, eligible first home buyers can purchase or build a new home with as little as a 2 per cent deposit and the National Housing Finance and Investment Corporation (NHFIC) guarantees to a participating lender up to 18 percent of the value of the property purchased.

AFIA supports this scheme being extended and dovetailing with other government initiatives, including the First Home Owner Grant, First Home Loan Deposit Scheme, First Home Super Saver Scheme, and other initiatives offered by state and territory governments.

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[5] Mortgage brokers achieve the highest record quarter to date despite challenges | MFAA
[6] http://www.nhfic.gov.au/

To promote greater accessibility and to target specific housing outcomes, such as construction in growth and transport corridors or supply of affordable housing for key workers, we recommend Treasury conduct a review to identify appropriate changes to the eligibility criteria and other improvements for the scheme. Learnings from the First Home Loan Deposit Scheme and the SME Guarantee Scheme/SME Recovery Loan Scheme should form part of the review.

2. Restricted banking licence

APRA has recently announced changes to their Restricted ADI licence requirements[7]. AFIA supports these changes, particularly clarification on milestones through the application process. To promote further competition and innovation, we recommend APRA conduct a further review in 12 months.

3. Open Banking and the Consumer Data Right

Progress with implementation of the open banking regime has been slow. AFIA encourages greater participation by removing barriers to entry and supports expanding the system to all financial services as soon as practicable. We recommend providing more clarification about how the regime applies to a Restricted ADI, making it easier and less expensive for smaller participants to become accredited (i.e. simplifying and streamlining the onboarding process and reducing some of the upfront and ongoing costs), and increasing consumer awareness of Open Banking and the CDR.

4. Comprehensive credit reporting

AFIA supports expanding the comprehensive credit reporting (CCR) regime and extending the benefits of the regime for consumers and participants through the enhancement of categories of lenders that can contribute to CCR.

To allow smaller, specialised and fintech lenders to participate in the CCR regime facilitates a more competitive environment, which in turn facilitates more customer choice. To access CCR, a lender must hold an Australian Credit License (ACL) (applicable to consumer lending) and provide reciprocal consumer lending data to the credit bureaus and other credit providers, which small business lenders are unable to do since they hold commercial, not consumer, data. The nature of the products that our fintech members offer, as well as the need not to hold an ACL, means many of our members are currently excluded from the CCR regime.

Access to data is important to manage credit risk, effectively compete with mainstream institutions, and improve customer choice – customers that use these online lending products and look for finance from other market participants (e.g. home lenders) could benefit from a credit reporting system that facilitates exchange. We recommend new categories should be created within the CCR regime to allow for the participation of the BNPL and OSBL sectors.

5. E-conveyancing

PEXA is a system for preparation, verification, and electronic settlement of real property transactions, including payment of settlement monies, taxes and duties, and any other disbursements as well as electronic lodgement of dealings with the appropriate Land Registry. AFIA supports the expansion of e-conveyancing across Australia to assist reduce transaction costs and administrative hassles associated with housing purchases.

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[7] http://www.apra.gov.au/news-and-publications/apra-finalises-new-approach-to-licensing-and-supervising-new-banks

6. Corporate bond market

Australia has a smaller and less mature corporate debt market than peer jurisdictions, which makes it more susceptible to larger economic shocks and less supportive of growth.

During the COVID-19 crisis, the Federal Government introduced specific stimulus measures to support the flow of credit and mitigate the initial economic shocks. These measures included:

- the Reserve Bank's Term Funding Facility (TFF), which provided liquidity support to the market through banks.
- the Structured Finance Support Fund via the Australian Office of Financial Management (AOFM), providing liquidity to securitised lenders to facilitate lending to small and medium businesses.
- the AOFM's Forbearance SPV to assist smaller lenders impacted by forbearance arrangements in their securitisation vehicles.

These measures were very beneficial in that they stabilised our financial system and allowed the economy to absorb the initial shocks of the crisis. As we move through economic recovery, there is an opportunity to consider developing deeper and more liquid debt capital markets to support all lenders and to target supply of affordable housing.

All lenders have a role to play in our economic recovery. The reality is that lenders offer different products, services, and technologies, all of which will be critical to support households and businesses. Smaller, specialised and fintech lenders provide solutions for their customers, especially where others, do not have the business infrastructure, technology, risk appetite or have chosen not to serve certain parts of the economy.

Deepening the debt capital markets will provide additional funding opportunities for lenders, provide new capital raising strategies to support and expand housing programs, and may also be attractive to offshore investors who see the value and opportunity to diversify investment into the Australian market. We recommend that changes to legal and tax settings applicable to the corporate bond market should be made to promote debt capital raisings, including bonds for infrastructure projects and affordable housing projects.

Additionally, longer-term government bonds and securities will create an environment to support longer-term corporate bond issuances as well as other finance products, such as longer fixed rate mortgage products (i.e 10–30 year fixed loans). Other mortgage markets have created these products that assist borrowers budget, have certainty with their housing costs, and lower regular repayments (albeit the overall cost of the home loan over a longer period of time is higher).

Pre-payment fees are typically paid to discharge such a mortgage early in overseas markets, although often if the home loan is held longer than five years, these fees can be adjusted or waived. If the borrow stays with the same lender, they may also be able to keep the same mortgage terms they had on the old property for the new loan on the new property.

7. Housing options for key workers

There are mixed views as to whether the National Rental Assistance Scheme (NRAS) was successful. This program certainly delivered affordable housing for some of Australia's key workers. AFIA supports initiatives to promote greater supply of affordable housing for key workers. However, we believe a new approach is needed to incentivise longer-term investment by institutional investors, community housing organisations, and property developers. We recommend Treasury conduct a review of overseas examples of affordable housing initiatives in comparable advanced economies and consult with NRAS participating organisations and lenders to identify improved program ideas and identify approaches to better promote and scale affordable housing, both homeownership and rental properties.

Land use and planning controls

Housing affordability is mixed across Australia, with housing prices decreasing in some urban areas, but increasing for certain housing stock and in some regional areas. Housing location, design and infrastructure needs are changing. However, planning and development is not delivering the best mix of housing supply. While some constraints on housing supply relate to geography and urban characteristics, construction activity is significantly impacted by regulations and restrictions.

Other research and commentators have highlighted the geographical divides in our major cities, with younger people and people on lower incomes concentrated in the outer areas and often a significant distance from their place of work. Inflexible planning rules, limited supply of land, and insufficient housing construction to meet housing demand have driven this trend.

Recommendations

To construct additional and more affordable housing, state and territory governments should adjust planning rules to allow more homes to be built in the inner and middle suburbs of our major cities. However, governments should also reform land use and planning controls to minimise housing risks and negative impacts for our communities, including adverse development consents, consequences of natural disasters, and insufficient infrastructure and energy services.

AFIA recommends the following:

1. Density restrictions

AFIA believes that height and density restrictions should be reviewed with a view to allowing more modern development along key growth and transport corridors (with higher apartment buildings, offset by additional ground level green space provided as part of the development and to promote open areas within communities).

2. Zoning and use restrictions

AFIA believes rezoning and segregation use restrictions should be reviewed with a view to permitting more integrated communities, subject to a longer-term zoning system to create mixed-use neighbourhoods and easily walkable communities, with parks, education, and other community facilities. Other factors will need to be assessed, including building standards and noise restrictions to enhance peaceful enjoyment of homes (e.g. restaurants, cafes, and bars, childcare facilities, and health and gym facilities may need to be operating indoors only depending on locations to surrounding residences).

3. As-of-right rules

AFIA believes small-scale urban infill projects should be allowed without council planning approval (i.e ‘as-of-right’), subject to appropriate residential development restrictions and sustainable building designs being met.

4. Strata living

Strata living is becoming increasingly complex and expensive. We believe strata laws and support services should be adjusted to encourage commoditisation of shared facilities and mixed-use buildings for the benefit of the owners corporation, minimise control by commercial property owners and developers, and maximise the ability for strata levies (or similar) costs to be offset through income streams generated from the building.

5. Duties and taxes

AFIA believes stamp duties and other taxes should be reformed. Consideration should be given to replacing stamp duty with property taxes[8], imposing flat rate with no tax-free threshold for land taxes on investment properties, and providing favourable property tax treatment for target housing markets (e.g. growth and transport corridors, key worker housing projects, etc).

6. Economic modelling and industry data

An information and data exchange would facilitate greater collaboration across government and business to assist with generating additional and more affordable housing, built to meet high building and sustainability standards. We recommend an information hub (or similar) should be established to facilitate land use and planning control reforms that incorporate insights and experiences from the building, finance, and insurance industries to ensure sustainable and resilient housing, particularly in the aftermath of natural disasters.

7. Urban planning and regional infrastructure

AFIA believes renewed plans for major cities and infrastructure connectivity to regional areas should be developed by state and local governments, in consultation with property, business, finance and community representatives. Consideration should be given to ensuring the supply of new greenfield land for residential and mixed-use developments, particularly in Sydney and Melbourne, improving future-focused transport and infrastructure reflecting the increased interconnectivity of urban and regional economies, and improving building and sustainability standards to reflect changes in needs and preferences following the COVID-19 crisis and the impact on work, lifestyle, and other factors.

Government policy

The majority of Australians aspire to home ownership. However, housing affordability is significantly impacted by restrictions on housing supply and well-intentioned government schemes that do not afford adequate flexibility to address the different needs and preferences of homebuyers, homeowners, and renters.

AFIA believes a new National Housing Strategy and Action Plan on Housing Affordability should be introduced by the Federal Government in partnership with government, business, and community stakeholders. For example, a rethink of social housing policies to address homelessness and housing inadequacies for low socio-economic cohorts and retirement policies to address tax concessions, incentives and disincentives associated with housing downsizing by older people should introduce an investment mindset, whereby appropriate and affordable homeownership is supported through different lifecycle stages.

[8] http://www.nsw.gov.au/initiative/property-tax-reform

Housing supply should better match lifecycle stages based on demographic data, forecasts, and a thorough assessment of homebuyers, homeowners and renters' needs and preferences. The impact of the COVID-19 crisis is a catalyst for such a rethink and creativity about the future supply of housing in Australia.

CLOSING COMMENTS

Housing affordability has a number of interpretations based on different metrics and assumptions. However, concerns with housing affordability across advanced economies at aggregate share a common observation – as housing prices have increased and housing affordability has decreased, wealth inequalities have widened.

It would be incorrect to make simple or direct correlations. Nevertheless, homeownership does contribute to wealth creation and wellbeing. Homeownership does not just generate equity, it helps manage living costs, provide living security, and research proves, deliver other social benefits and health outcomes. Homeownership will not be for everybody. Therefore, housing policies and supply must provide affordable housing options for renters, not just homeowners, and recognise the benefits of the security of housing tenure, more generally.

Housing affordability is an issue for all levels of government in Australia. It has proven difficult to secure agreement about the right mix of responsibilities for housing policy among the various levels of government and how best to address the various issues for different parts of our communities with housing affordability.

Therefore, a new national approach to affordable housing must be based on government, business, and community collaboration to promote choice in and access to housing finance, drive competition and innovation, and support greater financial, and therefore social, participation across our community. Above all, a new national approach should focus on immediate housing and development requirements and longer-term plans for sustainable housing, with our policies integrated with plans for infrastructure, energy, and modern living.

Should you wish to discuss our feedback further, or require additional information, please contact Karl Turner, Executive Director, Policy & Risk Management at karl@afia.asn.au or 02 9231 5877.

Yours sincerely

Diane Tate
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