



# REIA

REAL ESTATE INSTITUTE  
OF AUSTRALIA

## **REIA RESPONSE TO THE PRODUCTIVITY COMMISSION'S PRELIMINARY REPORT ON THE INQUIRY INTO INTRODUCING COMPETITION AND INFORMED USER CHOICE INTO HUMAN SERVICES**

**OCTOBER 2016**

### **PREPARED BY**

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## **REIA RESPONSE TO THE PRODUCTIVITY COMMISSION'S PRELIMINARY REPORT ON THE INQUIRY INTO INTRODUCING COMPETITION AND INFORMED USER CHOICE INTO HUMAN SERVICES**

The Real Estate Institute of Australia (REIA) is the peak national association for the real estate profession in Australia.

The REIA's members are the State and Territory Real Estate Institutes, through which around 75 per cent of real estate agencies are collectively represented. The 2011 Census records the Rental, Hiring and Real Estate Services Industry employment sitting at a total of 117,880. By occupation the key data recorded by ABS Census were 64,699 business brokers, property managers, principals, real estate agents and representatives.

The REIA represents an important element of the broader property and construction sector which together makes a significant contribution to Australia's social climate and economic development. Property contributes \$300 billion annually in economic activity.

Importantly, REIA represents an integral element of the small business sector. Some 99 per cent of real estate agencies are small businesses and 11 per cent of all small businesses in Australia are involved in real estate. Only 0.6 per cent of businesses employ 50 or more persons.

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.

The REIA welcomes the opportunity to provide a response to the Productivity Commission's Preliminary Report on the Inquiry into Introducing Competition and Informed User Choice into Human Services.

### **Introduction**

The REIA response will restrict its input to that relating to social housing.

The REIA notes that the Productivity Commission's preliminary finding is that social housing is one of six priority areas where introducing greater competition, contestability and informed user choice could improve outcomes for people who use human services, and the community as a whole and that reform could offer the greatest improvements in outcomes for people who use social housing.

The REIA concurs with the Commission's assessment of the current provision of social and its proposal to increase supply to meet demand and to improve choice amongst social housing tenants.

Currently social housing provision is characterised by: being financially unsustainable for government without major reforms; demand far exceeds 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 characteristics of demand have changed over time with little, if any, change in the supply; demand is highest for one and two bedroom dwellings yet typically these are only around half of the supply; the public sector is generally less efficient in managing rental property than the private sector; whilst not always the case, social housing is in larger developments and does not achieve a broad mix of households, and; whilst private sector funding has been utilised, for example in NRAS, it has excluded small scale investors.

Consistent with the Commission's Preliminary Findings the proposal below outlines a scheme to increase the supply of social housing utilising a currently untapped resource of individual private investors. It is an adjunct, not a substitute, to other initiatives including community housing programs. The scheme recognises that social housing is not meeting demand and is unsustainable without changes in approach.

## **Proposed Scheme**

### Outline of Scheme

- 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 social housing. May need to facilitate a process for approval prior to sale completion to safeguard and encourage the investor
- Tenant selected by government
- Agent manages the property. A commitment by the owner to between 6 and 10 years (based on current turnover of tenants) will be required. This does not prevent the owner selling the property in the interim provided the lease arrangements are honoured by the new owner
- Rental
  - Current social housing schemes suggest that governments (Federal and state) will need to subsidise the rental by at least 20%
  - Governments would need to guarantee the rental payment (tenants contribution plus subsidy) for the term of the arrangement
  - Depending on the extent of the rental subsidy, governments may need to consider 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 other 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
- Bond
  - Social housing tenants, just like private housing 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. The repairs would be organised through the managing agent eliminating the need for public sector resources.

The benefits of the scheme would be: an increase in the supply of social housing; greater operational efficiencies through private sector responsibility for operations and maintenance; utilisation of private sector finance and corresponding reduction in capital requirement by governments; risk in land value transferred to private sector, and a broader social mix.

### **Recommendation**

***REIA recommends that the Productivity Commission consider the scheme proposed by REIA as an element of a package to achieve the objective of introducing greater competition, contestability and informed user choice in the provision of social housing.***