

18 March 2022

Commissioner Malcolm Roberts
Productivity Commission
Locked Bag 2
Collins St East
Melbourne, Victoria 8003

Via email: housing.agreement@pc.gov.au

Dear Commissioner Roberts,

Thank you for the opportunity to contribute to the review into the Housing and Homelessness Agreement between the States and the Federal Government.

REA has been a long-term advocate for the role that housing and in particular social housing plays in providing stability and economic growth for Australia.

REA believes that shelter is a human right. Aligned with our purpose of changing the way the world experiences property, REA believes that everyone deserves to have a safe place to sleep every night. We work alongside our not-for-profit community partners Launch Housing, The Big Issue and Orange Sky Australia to address the issue of homelessness.

About REA Group

REA Group is a digital media business with more than 2600 people working across three continents. Our goal is to change the way the world experiences property through the use of new technology and our collective global knowledge.

REA provides our customers and consumers the most up to date property news, renovation advice, lifestyle content and property value estimates. In Australia, our residential property platform, [realestate.com.au](https://www.realestate.com.au), is the country's leading place for property, news and inspiration and [realcommercial.com.au](https://www.realcommercial.com.au) is Australia's leading commercial property site.

As well, REA operates Proptrack, a leading provider of property data services which delivers deeper insights on the Australian property market to consumer. The final part of our business is mortgage broking through both Smartline and Mortgage Choice mortgage brokers to help customers finance their property purchases.

Through our component businesses, REA has significant exposure to a number of facets of the Australian economy. As such, REA is uniquely positioned to discuss the economic impacts of a range of policies.

Key Issues

There are a number of issues that REA feels it would be beneficial for the Federal Government to consider in the 2022/23 Federal Budget. Given the breadth of REA's business, these range from reforms to taxation frameworks to access to workforce that constrains the growth of the digital economy.

In terms of the issues outlined in the Issues Paper, REA has a number of suggestions to address social and affordable housing stress that results in 116,000 people homeless in Australia each night.

Home Ownership

REA believes that the Government's First Home Loan Deposit Scheme should be expanded even further. This scheme allows first home buyers access to a home loan with as little as a 5% deposit and has been a significant factor in a boost in first home buyer activity over the last year. While the recently announced expansion of places from 10,000 to 30,000 is sensible, expanding the scheme to more first home buyers would have a significant impact on home ownership rates.

The increase in house prices has also led to deposit requirements becoming significantly more onerous for buyers. While some lenders are starting to be innovative in this space, with UBank now requiring a 15% deposit to avoid LMI, more lenders should be encouraged by the government to reduce these requirements for first home buyers.

Another option is to look at the capital treatment of loans by APRA (Australian Prudential Regulatory Authority), which is what makes high LVR (Loan to Value Ratio) loans more expensive and is a significant barrier to entry for first home buyers. If capital requirements were recalibrated based on borrower risk, it is unlikely that the 80% level that is currently held would continue.

These deposit requirements are also why REA supports the Family Home Guarantee as a sensible option to expand the number of participants in the housing market. This is an innovative policy that gives a pathway for people who may otherwise be unable to take part in the market and consideration should be given to its expansion.

Social housing

REA believes that shelter is a human right and that everyone deserves a home. Long term trends in building approval data shows an ongoing decline in public sector dwelling construction. While there are some private sector providers, they are a small part of the market.

Social housing is something that governments at all levels should be creating policies on to address, including increased investment. In the current economic environment, with low interest rates, there is an opportunity for governments to invest heavily and change the lives of the most vulnerable members of our community. Not only are there significant social benefits, but there is a significant economic benefit to the Federal Government supporting the construction of more social housing

Private rental market

REA data shows very strong demand for rental properties in 2021. Low interest rates and ongoing rental growth due to the reduction in rental supply has made residential property investment more attractive and expanded the private rental market. Rental affordability is becoming more challenging with the Median weekly advertised rental rates increasing by 4.7% over the three months to December 2021 to be 4.7% higher year-on-year. Additionally, there is a divergence between house and unit rental prices with house rents 7% higher year-on-year.

With international borders now re-opening rental demand is expected to increase even further at a time in which supply is already historically tight. While demand for rental stock is strong and likely to strengthen further, supply has reduced with many former investment properties having been sold since the onset of the pandemic. While investor purchasing is increasing, it is not yet close to offsetting the volume of sales over recent years and in-turn this is likely to create further pressure on rental rates.

Activating affordable Build-to-Rent housing as proposed by the [National Affordable Housing Alliance](#) is an opportunity to deliver additional social and affordable housing. Build to rent is an innovative solution to rental market affordability and has the added benefit for policy development in ensuring there is housing stock solely earmarked for the rental market.

Boosting Commonwealth Rent assistance would also help reduce financial stress, poverty, and the risk of homelessness among low-income renters. For much of the past two decades rents have grown faster than the Consumer Price Index to which Rent Assistance is indexed. Changing Rent Assistance to be indexed to the growth in rents paid by people receiving income support would ensure Rent Assistance better reflects the changes in cost of living actually experienced by low-income households.

Affordable housing

Increasing housing supply is another key factor in managing house prices increases. Given the considerable time lag in building new supply however, supply increases cannot be implemented quickly, rather it is a medium to long term solution.

In its submission to a similar inquiry in 2015, the Reserve Bank of Australia (RBA) talked about the importance of housing supply to managing affordability. The RBA said that “additional housing supply ought to dampen housing prices, and more probably will reduce the growth rate of housing prices that occurs in response to increases in demand for housing”¹.

This leads to the question as to what Governments can do to help drive an increase in supply.

There is significant scope for Governments at all levels, but particularly local governments, to reduce the planning impediments to the increase in housing supply. In many cases local Governments have the power to redevelop for increased density, which will increase supply and ensure that price growth is at a slower level.

The Reserve Bank of Australia (RBA) was clear in its 2018 Research paper **The Effects of Zoning on Housing Prices** that “the time and complexity of obtaining planning approvals as the most significant supply-side factors for new apartment construction in Australia”².

The RBA concluded that restrictions on development made a material contribution to the rise in housing prices since the 1990’s.

At the State Government level, increasing land available for development can make a substantial difference.

It must be noted that all these options involve long term planning and are unlikely to deliver short term solutions.

Conclusion

As a stakeholder in the Australian property industry, REA believes further action needs to be taken to address social and affordable housing so that everyone has a place to live. All levels of government, the private sector and not-for-profits should work together to ensure housing is accessible for everyone in Australia.

Yours sincerely

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