

AUSTRALIAN PROPERTY INSTITUTE INC.

NATIONAL SECRETARIAT

INQUIRY ON FIRST HOME OWNERSHIP

SUBMISSION TO THE PRODUCTIVITY COMMISSION

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INTRODUCTION

This submission responds to the Terms of Reference released by the Productivity Commission in respect of the *Inquiry on First Home Ownership*.

This submission by the Australian Property Institute (API) is in response to an invitation contained within the Productivity Commission's website for interested parties to make comments and submissions in response to the inquiry by the Productivity Commission.

The Institute fully supports the inquiry by the Productivity Commission to evaluate the affordability and availability of housing for first home buyers, and notes with approval the intention of the Productivity Commission to identify and examine mechanisms available to improve the ability of households, particularly low income households, to benefit from owner-occupied housing.

The Institute's comments have been framed to respond to two headings of the Productivity Commission's document entitled *Terms of Reference*. These are;

1. ***Identify and analyse all components of the cost and price of housing, including new and existing housing for those endeavouring to become first home owners.***
2. *Identify any impediments to first home ownership, and assess the feasibility and implications of reducing or removing such impediments.*

In particular the Institute wishes to comment upon matters 'c' and 'e' of the Terms of Reference, namely;

- c. the efficiency and transparency of taxes, levies and charges imposed at all stages of the housing supply chain.
- e. the effect of standards, specifications, approval and title requirements on costs and choice in new dwelling construction.

COMMENTS AND RECOMMENDATIONS

1. Goods and Services Tax

As this inquiry is focusing on the affordability of home ownership for first home buyers, the Institute is mindful of the impact that the introduction of the Goods and Services Tax (GST) has had in this regard. Whilst it is noted that there have been taxes in one form or other for many years on building products, the application of the Goods and Services Tax to housing being constructed for first homebuyers (in particular) is an obvious example of an additional cost impost on the first homebuyer.

The removal of all GST on the cost of construction of first home buyer housing is one option to increasing the affordability of housing for first home buyers.

Achieving this would require proof of first home ownership and this could be achieved through a similar approach to the first home buyer grant that was so successful during 2001 and 2002.

2. Stamp Duty

A second matter affecting affordability is the impost of Stamp Duty by State and Territory Governments. While it is recognized that State and Territory Governments rely on revenue raised from Stamp Duty on the purchase of property, it is another form of tax that could be removed for first home buyers. Indeed there was general agreement from virtually all State and Territory Governments that they remove, or substantially lower the level of Stamp Duty for all home purchasers following the establishment of the GST.

Certainly, to have Stamp Duty calculated on the GST inclusive price of property will have a substantial impact on the affordability for first home buyers who are required to build on the urban fringe.

It may be argued by some that the removal of the GST and/or the Stamp Duty as a cost factor in the purchase of a house, will result in any potential savings being absorbed by a subsequent increase in purchase price of housing. That is potential purchasers will forego any savings through a reduction in taxes to be able to add the equivalent amount toward the purchase of a house.

The Institute argues that this is unlikely to be the case as the cost of any GST and/or Stamp duty is not a component of value of a property, particularly for mortgage security purposes.

3. Commonwealth Privacy Act

The Institute recommends that amendments be made to the Commonwealth Privacy Act (1988) to ensure that valuations for mortgage security purposes are capable of being made in accordance with the definition of Fair Value.

The introduction of amendments to the Commonwealth Privacy Act (1988) has meant that valuers are now no longer able to access recent comparable sales information from Real Estate Agents.

Valuers have traditionally relied upon Real Estate Agents providing the name, address and sale price of recently purchased properties in order to undertake valuations for financial institutions for mortgage security purposes.

With the unavailability of this information from Real Estate Agents due to amendments to the Commonwealth Privacy Act (1988), valuers are likely to be forced to provide conservative valuations to financial institutions for lending purposes if there is insufficient evidence (sales data that is more than three months old) to substantiate market value.

This situation would occur primarily in a rising market and may well result in the purchaser having to cover the difference between the purchase price of the property and the bank valuation for lending. While prospective purchasers currently require a level of deposit to acquire a house, the valuation – purchase price differential derived from a conservative valuation may very well put the property out of reach of the prospective purchaser. The Institute notes that this type of situation would affect both first home and second/third home buyers equally.

4. Commonwealth Government First Home Owner Mortgage

The Institute acknowledges that the opportunity exists for the Commonwealth and/or State and Territory Governments to offer a degree of assistance to first home buyers through the establishment of a limited loan facility at reduced interest rates for first home buyers who cannot purchase a house through mortgage schemes available through financial institutions or mortgage lenders.

5. Infrastructure Charges.

The Institute is of the view that infrastructure charges are not a critical factor impacting on the affordability of house prices on first home buyers. The cost of a parcel of land or a house land package is a reflection of market value, not the simplistic addition of development costs plus a margin. Certainly a developer would have costed the purchase and development of a green field site to ensure it is economically viable. At the end of the day the sales price of lots in a newly completed subdivision will be based upon the market value of that property and could be more or less than the developers calculated price. The Institute notes however, that the market value of newly developed subdivision lots are invariably higher than the cost of purchasing and redeveloping a green field site.

APPENDIX 1 AUSTRALIAN PROPERTY INSTITUTE INC.

The Australian Property Institute, (formerly known as the Australian Institute of Valuers and Land Economists), has enjoyed a proud and long history.

Originally formed over seventy years ago in 1926, the Institute today represents the interests of more than 7000 property experts throughout Australia. As the peak professional property organisation the API has been pivotal in providing factual and dispassionate advice on a broad range of property issues addressed by the Commonwealth and State/Territory governments since the Institute was formed.

In addition, the Institute's advice has increasingly been sought by overseas bodies such as the United Nations and the World Bank, evidencing a level of expertise within the API and its membership which is recognised globally.

However, as a professional organisation the primary role of the Australian Property Institute is to set and maintain the highest standards of professional practice, education, ethics and discipline for its members.

Institute members are engaged in all facets of the property industry including valuation, property development and management, property financing and trusts, professional property consultancy, plant and machinery valuation, town planning consultancy, property law, and architecture. Membership of the Australian Property Institute has become synonymous with traits and qualities such as professional integrity and client service, industry experience, specialist expertise, together with tertiary level education and life long continuing professional development.

Members are the Institute's greatest asset, and the Australian Property Institute is committed to maintaining a strong base for the future of the property profession through the broadening of the expertise, and knowledge of the membership.

Integrity

The Membership of the Australian Property Institute is bound by:

- A Code of Ethics and
- Rules of Conduct