4 November 2019

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To Treasury,

Thank you for the opportunity to provide a submission in response to the draft National Housing Finance and Investment Corporation (NHFIC) Investment Mandate Amendment (First Home Loan Deposit Scheme) Direction 2019.

Overview

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 National's position on the First Home Loan Deposit Scheme is that 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 revised loan serviceability requirements 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.

However, it will need to be properly designed to give effect to objectives including assisting more homebuyers into the market, improving affordability and supporting housing supply.

UDIA National is particularly concerned by provisions in the Mandate that will have the effect of steering participants towards established houses and limit the capacity of the Scheme to motivate the supply of new housing stock (especially "off the plan" stock which is needed to stimulate a consistent and required level of supply).

We also believe that the income and pricing caps established in the Scheme will need to be reviewed to better reflect market conditions, the ability to meet lending standards and give the broadest range of first homebuyers the best chance of purchasing appropriate properties.

Finally, UDIA suggests that the Government needs to be flexible in increasing the stated 10,000 buyer cap per annum given the likely bias towards established product, and look to provide additional capacity specifically targeted to new builds for the early years of the Scheme's life to help stimulate much-needed economic activity that new dwelling construction brings.

Context

UDIA National has provided prior submissions in relation to the Scheme during its ongoing development and refinement, including our most recent dated 23 September 2019 which outlined a series of recommendations.

The submission is attached for reference given it addresses some of the issues raised in the investment mandate; but we appreciate that the Government has made a determination for now on some of the policy issues raised.

However, we would urge the Commonwealth to include an ongoing capacity for review of issues relating to both the income and house price thresholds embedded in the mandate. This is particularly the case given median house prices in our largest capital cities, and current loan serviceability assessment practices would exclude people under the income thresholds proposed from accessing those houses (particularly in Sydney and Melbourne).

UDIA National is also particularly keen to comment on *Part 5B – Research into Housing Affordability in Australia.* As much as a well-designed First Home Loan Deposit Scheme has the capacity to assist additional buyers into the market, the systemic barriers to housing supply and home ownership require sustained policy reforms.

Recommendations on *Exposure Draft – NHFIC Direction*

Section 29F(2)

Given our prior submissions, we appreciate that section 29*F*(2) provides that every 12 months, NHFIC must make recommendations to the Minister on what (if any) revisions should be made to the house price caps established under the Mandate.

The current caps are potentially restrictive for major capital cities and should remain under active review to ensure they reflect existing and future trends in house prices.

For each of the nation's five largest capital cities – Sydney, Melbourne, Brisbane, Perth and Adelaide – the proposed house price caps sit under the current median house price. For example, in the CoreLogic Home Value Index results in October, median dwellings values are:

- Sydney $817,886 (vs $700,000 price cap)
- Melbourne $650,197 (vs $600,000 price cap)
- Brisbane $493,426 (vs $475,000 price cap)
- Adelaide $433,140 (vs $400,000 price cap)
- Perth $435,119 (vs $400,000 price cap)

Better aligning the price caps with median house prices will broaden the choice available to homebuyers and ensure they are better positioned to buy housing stock appropriate to their needs (particularly given established house prices are again increasing).

It is also notable that in some cases, the current caps currently sit below the thresholds inherent in first homebuyer stamp duty exemption regimes established by state and territory governments – and these may provide better initial guidance for the Commonwealth and an alignment of these should be assessed.

<u>UDIA National recommends</u> however that this provision be extended to also provide capacity for NHFIC to make recommendations to the Minister on what (if any) revisions should be made to the *income thresholds* established in the Scheme. As noted in prior submissions, this would ensure income thresholds reflect the assessment of loan serviceability undertaken by major lenders.

Section 29C(2)(f)

The current design of this clause will effectively steer participants in the Scheme towards established or (near) completed properties – and miss the opportunity to assist in the task of injecting new supply into the market that assists with affordability.

The clause currently requires participants to access loans for both the purchase of an interest in land and where a house is not affixed, the construction of a dwelling. In fact, the Explanatory Memorandum specifically states that separate loans for the purchase of vacant land and construction of residential premises cannot qualify as eligible loans.

UDIA National assumes this is an effort to guard against perceived 'land banking'. The reality is, land banking at a consumer level is extremely rare in practice – particularly among the cohort of buyers targeted by the Scheme – and the clause ignores the practical reality of how land is sold and developed, as well as financed.

For example, in a normalised market:

- Greenfield land is often sold 'off the plan' 6-12 months prior to the practical completion of a subdivision and hence titles
- Apartments are also often sold off-the plan as far as 18 to 30 months prior to completion depending on the scale of a project.

Under both these scenarios, purchaser lending approval is conditional with ultimate finance approval not finalised until valuations are completed close to completion and/or title is formally established.

Given the above, the current design of the Mandate's Section 29C(2)(*f*) would see the bulk of participants migrate to either existing stock, resale stock or stock close to completion – meaning the opportunity to stimulate new supply into the market is potentially being missed.

Currently there is a mix of methods for selling land to homebuyers – ranging from full house-and-land packages that include a building contract, to direct land sales that provide the homebuyer with the flexibility to subsequently choose their own builder over time.

The abovementioned mix is matched by the practice of some lenders issuing a loan solely for the purchase of the land whereby a customer is only looking to initially finance a land purchase, before then issuing a subsequent or separate loan for the construction of the home for its construction.

Under the current design of the Scheme, first home buyers that initially purchase only land with the aim of building later will be disadvantaged by the requirement for the loan to bridge both the acquisition of the land and the construction of the home.

<u>UDIA National makes two recommendations accordingly</u>:

- That 29C(2)(*f)* be amended to remove the requirement for participants to have access to a loan that includes both the acquisition of land *and* the construction of a residential premise
- That the Commonwealth amend 29C(2)(*f*) to include capacity for borrowers to secure a loan for the acquisition of land – and apply a sunset clause on the guarantee of, for example, 6-12 months, to also secure a loan for the construction of a residential premise.

Section 29I – Limit on guarantees in a financial year

UDIA National recognises that any scheme of this nature needs to have a defined scope and scale to ensure an efficient use of public resources.

However, given the current state of housing markets – with dwelling approvals and construction both declining by more than 25 percent since the peak of the cycle and development pipelines thinning – there is an opportunity to use the Scheme to both boost economic activity and rebalance supply and demand.

The Scheme currently proposes to limit the number of guarantees issued to 10,000 per year. Given there is likely to be early and strong appetite among homebuyers, UDIA National recommends providing flexibility on the cap – at least in the Scheme's initial phase.

If matched with our earlier recommendation to amend 29C(2)(*f)* to make it easier for homebuyers to acquire and generate new stock, this has the potential to boost supply and economic growth. With over 100,000 first home buyers purchasing in Australia per annum, the 10,000 limit is at best only helping up to 10% of this cohort.

UDIA National recommends that the Government looks to provide additional capacity specifically targeted to new builds for the early years of the Scheme's life to help stimulate the much-needed economic activity that new dwelling construction brings. We suggest an additional 7,500 - 10,000 loans per annum could be targeted towards new builds.

NHFIC Research Mandate

UDIA National is pleased that the revised mandate for NHFIC giving it the license and capacity to conduct research into housing supply, demand and affordability is being advanced. The breadth of the definition in Part 5B is a positive step.

UDIA National has long supported such a function being available to the Commonwealth Government – and it is important to recognise that the former National Housing Supply Council conducted important work providing much needed analysis of housing markets during its period of existence.

Housing policy will be better informed through the availability of such research. However, we urge the Commonwealth to further refine the mandate to support a host of priorities that will improve access to housing.

This includes:

- Inviting private sector leadership and dialogue to the table, given the prior and well-regarded National Housing Supply Council benefitted from private sector leaders being appointed. We are aware that private sector representatives have been included among appointments to the NHFIC Board, but there are further opportunities to engage with market leaders through the design and implementation of initiatives covered in the mandate.

  While the Explanatory Memorandum references the capacity to liaise with market participants and the housing sector, UDIA National believes the formation of an Advisory Council (or equivalent body) would entrench good practice.

- Ensuring the population data and assumptions that underpin research undertaken or commissioned by NHFIC should align with equivalent baseline information used elsewhere within government. This should include ensuring the data sets align with those used in the refresh of the Intergenerational Report to be undertaken next year, and the equivalent used by the new Centre for Population, and Infrastructure Australia.

- Devising binding quotas on the states (and local government) for new housing and land release, based on the agreed population assumptions referenced above.

- Developing a framework of financial incentives that link to state and local performance on planning reform and achieving housing supply targets. These could potentially be tied to an array of Commonwealth-led programs, such as City Deals or infrastructure investment.

- Identifying and recommending removal of inefficient red and green tape, as well as statutory charges, that act as both a handbrake and a cost impost on the delivery of new housing.

- Mapping the existing mix of taxes and charges that are imposed on new housing, their relative efficiency (or inefficiency) and equity (or inequity) and recommend a pathway of reform that converts them via a more broad-based and equitable revenue model.

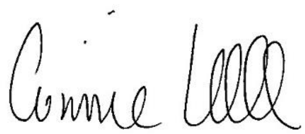
- Facilitating the development of Build-to-Rent, mixed use housing and right-sizing options for a mix of demographics including seniors, as well as understanding changing economic, social and demographic demands and their implications for housing diversity and typology requirements.

- Assess whether there is potential to support other schemes that widen the opportunity for home ownership, such as shared equity.

Conclusion

Thank you for considering the issues outlined. Please do not hesitate to contact my office on 02 8277 4573 or myself at ckirk@udia.com.au if UDIA can assist further with the work of the Committee with respect to the Investment Mandate, or ongoing operation of the Scheme.

Sincerely,



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