

# Submission to the National Housing and Homelessness Plan Issues Paper

October 23





REA Group welcomes the opportunity to respond to the National Housing and Homelessness Plan Issues Paper.

REA is uniquely positioned, with a comprehensive view of Australia's property market, to comment on current market conditions and the economic impacts of a range of policies.

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 and 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 who address the issue of homelessness.

## About REA Group

REA Group is an ASX listed digital business specialising in property and one of Australia's start up success stories. Our team of more than 3,000 people are guided by our purpose to change the way the world experiences property.

REA operates Australia's leading residential and commercial property websites –realestate.com.au and realcommercial.com.au – as well as the leading website dedicated to share property, flatmates.com.au, and property research website, property.com.au. Over 10 million Australians visit realestate.com.au each month. REA also owns Mortgage Choice, an Australian mortgage broking franchise group, and PropTrack, a leading provider of property data.

With a global footprint covering three continents including Australia, Asia and North America, REA helps people with all aspects of their property experience – not just buying, selling, and renting – through the richest content, data and insights, property valuation estimates and home financing solutions.

## About this submission

This submission responds to the following question:

***What should governments, private industries, the not-for-profit and community sectors focus on to help improve access to housing and housing affordability in the private market?***

It focuses on the following four questions for consideration outlined in the Issues Paper:

- What should the most important (long-term) and/or immediate (short-term) housing market policy focus be, across all levels of government, over the next 10 years?
- What key short, medium and long-term planning and zoning reforms could be explored in the Plan?
- How can the utilisation of existing properties be improved? How can governments incentivise improved utilisation of existing properties?
- How can the use and release of land encourage residential growth in well located areas (i.e. close to infrastructure, jobs and services, and resilient to natural hazards) in the short, medium and long-term?



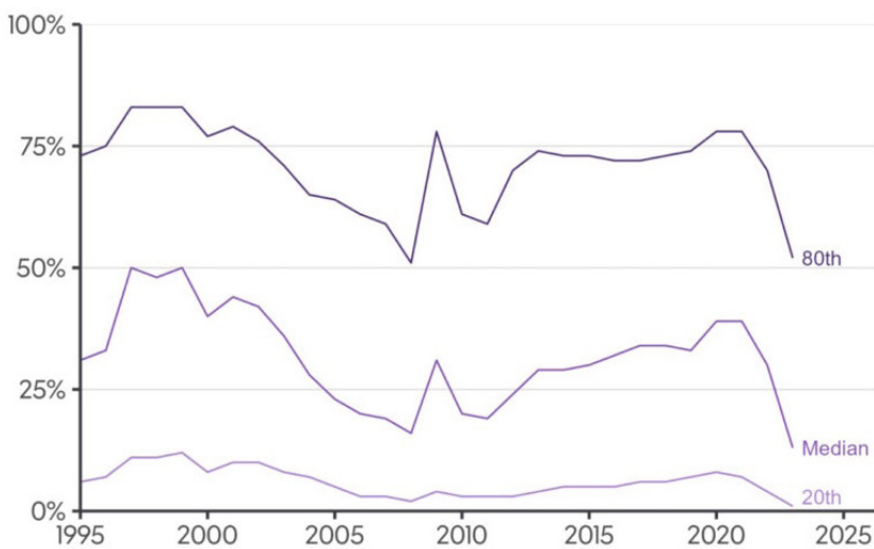
## Introduction

Over recent decades, there have been significant increases in property prices across the country, with national home prices reaching a record high in September 2023. These price increases have been driven by strong demand fuelled by falling interest rates, relaxation of credit availability, and increased workplace participation, which have boosted household incomes and borrowing capacities. The rapid rate of population growth, largely due to heightened immigration, has also been a contributing factor.

Housing affordability in Australia is now at the lowest level on record. A household earning \$105,000 – the median income – could afford to buy around 40% of homes sold in 2020 and 2021; today, at current interest rates and prices, they could afford just 13% of homes<sup>1</sup>.

### Affordability for households over time

Affordable share of home sales, by household income



Sources: PropTrack, ABS, RBA

Note: Spending 25% of gross household income on repayments



At the same time, higher rental costs have meant that someone earning a minimum wage and spending less than 30% of their income on rent, can only afford to rent 1.4% of all rental properties nationally.

Solving Australia’s housing affordability and accessibility crisis will require a concerted and sustained effort by all levels of government, private industries and not-for-profits. While ongoing focus and reform will be necessary, we believe addressing the following areas in the short-term will provide a significant increase to housing supply and help to improve access and affordability in the private market. Alleviating current market pressures will also have positive flow on effects for low-income households and those at risk of homelessness.

This submission calls for:

- Increasing higher density development
- Transition from stamp duty to broad-based land tax
- Greater investment in Commonwealth Rent Assistance and Affordable Housing Bond Aggregator
- Tax incentives for build-to-rent
- Expedited sale or redevelopment of government-owned land

<sup>1</sup> <https://www.proptrack.com.au/insights-hub/proptrack-housing-affordability-report-2023/>



# Homes need to be built where people want to live and policy should encourage better use of the homes we already have

One of the main contributors to housing and rentals becoming increasingly unaffordable is lack of supply. While targeted planning restrictions play a role in our communities, significantly more new housing needs to be approved than is currently being approved. Building approvals have declined compared to recent peaks and now sit at levels not seen in a decade. New detached house approvals are down as a result of rising interest rates and construction material costs and the HomeBuilder scheme concluding. Similarly, approvals for semi-detached dwellings and apartments have been sitting at modest levels since 2019, well down from the surge in apartment construction in the mid-teens<sup>2</sup>. The latest dwelling commencements data from the Australian Bureau of Statistics shows that dwelling commencements in the June 2023 quarter were the lowest they've been in a decade.

To build 1.2 million new homes over the next five years will require a volume of construction not achieved in Australia previously. To contribute to the likelihood of this target being met, planning restrictions, including heritage laws, should be reviewed in conjunction with the removal of 'rightsizing' barriers.

## Increase higher density development

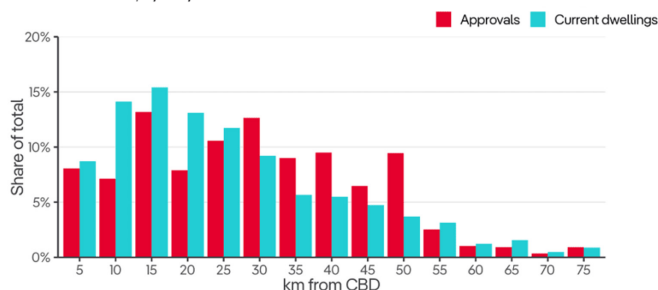
Planning restrictions, including heritage overlay rules, should be reassessed with consideration given to allowing higher density development, particularly in areas close to major public transport infrastructure and within middle and inner ring suburbs.

In 2016, Auckland City Council in New Zealand abolished single-family zoning, allowing greater density by right, in around three quarters of its residential area. Analysis by Greenaway-McGrevy and Phillips<sup>3</sup> found that upzoning led to an additional 20,000 new dwellings over a five-year period.

In Australia, particularly in our largest capital cities, a significant share of homes approved to be built are 30 to 50 kilometres from the CBD. This sprawl pushes people away from jobs, services and transport infrastructure<sup>4</sup>. Many inner-city areas well suited to more housing, particularly at higher densities, see relatively few supply additions. Importantly, it's these inner-city areas where people want to live. If we look at 2021 Census data, homes in Melbourne and Sydney that don't have enough space – or bedrooms – to house current residents are situated within 30 kilometres of the CBD.

### Dwelling approval locations

Jul 2022 to Feb 23, Sydney and Melbourne

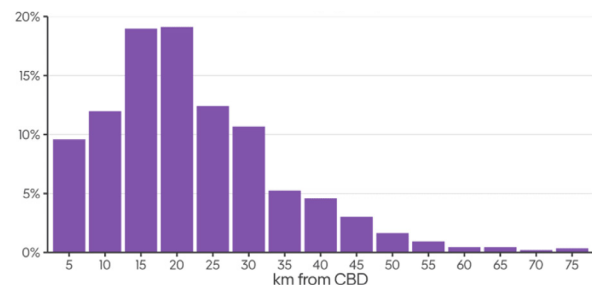


Calculated by SA2 region, dwelling location from 2021 Census  
Sources: ABS, PropTrack



### Where homes do not have enough space

Share of needed bedrooms by distance, Sydney and Melbourne



2021 Census, calculated by SA1 region  
Sources: ABS, PropTrack



2 <https://www.realestate.com.au/insights/building-more-homes-is-the-solution-to-the-rental-crisis/>  
 3 <https://cdn.auckland.ac.nz/assets/business/about/our-research/research-institutes-and-centres/Economic-Policy-Centre--EPC-/006WP%20-%20204.pdf>  
 4 <https://www.realestate.com.au/insights/homes-are-not-being-built-where-people-want-to-live/>



Supply is restricted in these areas because current residents believe additional housing will negatively affect their lifestyle. Only current residents are given a voice in development decisions, at the exclusion of those who would benefit from more homes.

Additionally, housing is not being provided where it is demanded because restrictive planning and heritage rules make new development difficult and costly. The number and magnitude of heritage laws in Australia, especially in inner-city areas, severely restricts supply of new and higher density housing.

State and federal governments should expand on current incentive payments for local governments to provide more housing and perhaps consider reduced funding for those that don't.

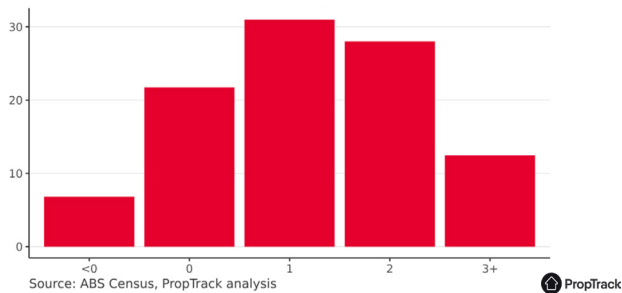
The need for a greater supply of new housing must also consider additional factors such as financing of the development and construction, and whether we have enough people with the skills and capacity to develop and construct the new housing that we need. Financing is more expensive right along the development process now that official interest rates are the highest they've been in a decade. As a result, making new development and construction feasible is challenging, and finding sufficient presales to commence construction is also more difficult.

### Stamp duty is an inefficient tax that impedes better utilisation of existing housing

Increasing supply isn't just about more housing, it is also about better utilisation of existing housing. According to the 2021 Census, more than 70% of Australian households have at least one spare bedroom, with more than one in 10 households having three or more spare bedrooms. Properties in Melbourne and Sydney with spare bedrooms are often well-located<sup>5</sup>.

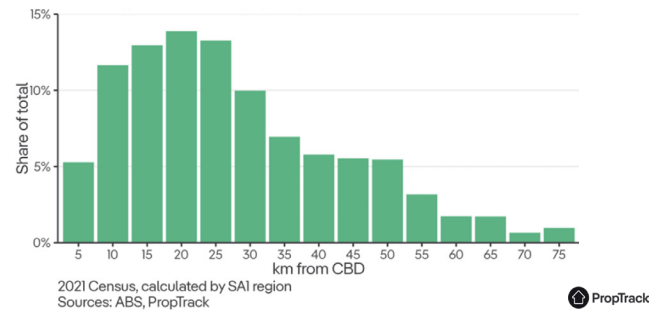
#### Most households have at least one spare bedroom

% share of households by estimated spare bedrooms



#### Spare bedrooms are well-located

Share of total spare bedrooms, Sydney and Melbourne



Policy changes can unlock the housing we already have. Reimagining how housing is taxed in this country could assist in making more housing available. The most obvious area for change is removing stamp duty, which is a transactional tax on the small number of properties that sell each year. Transitioning to land tax levied on all properties would help to remove friction from transacting in the market and allow people to more easily upsize and downsize as required. The increased cost of holding a larger property (via an annual tax) is likely to encourage some to downsize into more appropriate accommodation as the additional bedrooms are no longer needed.

Taxing all residential properties in the state, rather than the small number that are transacted over a given year, would be a far more equitable and reliable form of taxation. It would also potentially incentivise state and local governments to approve more housing in order to sustainably grow and diversify that revenue.

Current exemptions for the family home in pension asset tests also discourage many from moving.

<sup>5</sup> <https://www.realestate.com.au/insights/australia-has-millions-of-spare-bedrooms-and-theres-a-lot-we-could-do-with-them/>

## Additional investment in social, affordable and community housing and how the private sector can contribute

Over recent decades, governments have stepped away from providing social housing. Between the 1996 and 2021 Censuses the number of households renting from a state or territory housing authority fell from 329,830 households to 277,534 households.

At the same time, the number of households renting from a housing co-operative/community/church group increased from 33,272 households to 507,718 households. However, the number of these households only increased from 475,615 households in 2011 to 507,718 households in 2021, highlighting that growth has stalled over the past decade.

Over the period from 1996 to 2021, the total number of households in Australia increased by 3,312,356 but only 422,150 (or 12.7%) of the additional stock is social or co-operative/community/church group housing.

Many lower income households are not able to purchase a home, but it is now also becoming more difficult for these households to find rentals due to a low volume of affordable rental stock available and an insufficient supply of social and community housing. At a national level, someone earning the minimum wage spending 30% of their wage on rent could only afford 1.4% of all properties available for rent. If they spend 50% of their income on rent, they can still only afford less than one in five properties.

### Share of total properties advertised for rent affordable to someone on a minimum wage over time

Region	Less than or equal to 30% of minimum wage					Less than or equal to 50% of minimum wage				
	Aug-19	Aug-20	Aug-21	Aug-22	Aug-23	Aug-19	Aug-20	Aug-21	Aug-22	Aug-23
Greater Sydney	0.6%	0.9%	1.1%	0.7%	0.4%	12.9%	18.0%	19.4%	10.2%	8.0%
Rest of NSW	6.6%	8.5%	5.6%	3.3%	4.0%	42.6%	45.2%	29.8%	23.3%	31.6%
Greater Melbourne	0.5%	1.9%	3.9%	1.0%	0.6%	19.5%	35.8%	42.8%	24.0%	20.1%
Rest of Vic.	8.5%	7.4%	5.0%	3.7%	4.1%	61.5%	61.4%	47.9%	41.1%	54.3%
Greater Brisbane	1.8%	2.9%	2.3%	1.5%	0.9%	32.9%	35.5%	27.1%	15.1%	14.5%
Rest of Qld	6.4%	5.5%	4.0%	2.3%	2.7%	40.9%	39.7%	32.1%	22.8%	24.2%
Greater Adelaide	1.5%	3.0%	1.8%	1.0%	0.8%	46.5%	45.1%	34.8%	21.5%	20.1%
Rest of SA	30.2%	29.7%	24.5%	14.4%	14.4%	90.6%	87.8%	81.5%	70.9%	74.1%
Greater Perth	3.4%	3.6%	1.5%	0.9%	0.7%	50.8%	46.5%	25.7%	15.6%	11.1%
Rest of WA	11.9%	13.1%	6.1%	3.4%	2.8%	61.8%	58.6%	39.3%	29.8%	26.9%
Greater Hobart	0.9%	0.7%	0.6%	0.3%	1.0%	21.2%	24.0%	15.7%	10.0%	25.3%
Rest of Tas.	12.8%	11.6%	7.1%	2.3%	2.7%	72.5%	65.2%	49.4%	39.8%	59.6%
Greater Darwin	1.5%	2.6%	0.5%	0.7%	0.9%	34.5%	33.1%	13.5%	10.6%	15.2%
Rest of NT	1.9%	1.0%	1.4%	1.1%	1.1%	20.4%	29.9%	24.8%	30.5%	34.6%
Australian Capital Territory	0.1%	0.3%	0.3%	0.1%	0.1%	5.1%	6.5%	3.1%	2.4%	6.6%
Combined capital cities	1.1%	1.7%	2.4%	0.9%	0.6%	23.7%	28.8%	29.8%	16.2%	13.6%
Combined regional markets	8.1%	8.1%	5.4%	3.3%	3.7%	48.2%	47.9%	36.0%	28.2%	34.8%
National	2.9%	3.0%	3.0%	1.4%	1.4%	29.9%	32.6%	31.0%	19.0%	19.4%

Source: PropTrack

To deliver better outcomes for no or low-income households, there needs to be a significant boost the supply of social and co-operative/community/church group housing. Additionally, governments need to incentivise private developers to deliver more affordable housing stock within their new developments.

To increase the supply of community housing, the sector should be supercharged with a greater investment by the government in the Affordable Housing Bond Aggregator.

The federal government significantly boosted Commonwealth Rent Assistance (CRA) in this year's budget. However, given the rapid increase in rents and the ongoing fall in social housing, additional investment in CRA should be considered to assist lower income households access the private rental market in the absence of social housing.





## **Build-to-rent can contribute to the delivery of affordable housing**

The private sector can also role to play in delivering affordable housing. Build-to-rent is one of the largest commercial property asset classes in the world, but it is in its infancy here in Australia. Governments are reviewing tax rules to make this asset class more viable, however, to-date, build-to-rent assets in Australia have resulted in rents at above market prices.

Governments should consider affording private developers tax incentives to make this asset class more viable and attractive to potential investors, on the provision that they provide a proportion of the properties within the building at an affordable price point for renters.

## **Unlocking government-owned land in inner-city areas**

State and federal governments should expedite the sell-off or redevelopment of land owned in inner-city areas. Sites should be redeveloped as a priority, particularly those infill sites in major cities. Where decontamination works are required to ensure the sites are appropriate for redevelopment into housing, the government should consider undertaking this work.

The government should consider whether they make these sites available to private developers, community housing groups or they develop these sites themselves into social housing. Importantly, affordable housing options should make-up a significant proportion of these sites to increase housing supply and address housing affordability.