

Issues Paper on Developing the National Housing and Homelessness Plan

Westpac Banking Corporation
Submission

October 2023

—

WE ARE

 GROUP

Executive Summary

Westpac appreciates the opportunity to contribute to the discussion around housing and homelessness in Australia. Housing is a basic human need and society is better off if everyone can access the shelter they need. More specifically, home ownership has long been a cornerstone of the great Australian dream and a key indicator of financial inclusion, which is why we are keen to contribute to this vital national discussion.

The creation of a new National Housing and Homelessness Plan is a timely and important measure. While housing affordability has been an intractable challenge in Australia for decades, the recent escalation in cost-of-living pressures undoubtedly compounds the issue for many. It's therefore an appropriate juncture to reconsider it from a broader, more holistic perspective.

As a major Australian bank, Westpac plays a key role in the housing supply chain. We also participate in relevant government programs and partner with a key non-profit to help unlock home ownership opportunities for cohorts that require targeted assistance.

Apart from providing home loan finance to customers, Westpac aims to contribute broadly to the issue of affordable housing. This includes through:

- Partnering with the Australian Government via the Home Guarantee Scheme, which allows eligible home buyers to apply for a Westpac home loan with a deposit of between two and five per cent of the property's value without paying Lenders Mortgage Insurance, under the Housing Australia scheme¹;
- Working with not-for-profit Head Start Homes to promote practical pathways towards home ownership²;
- Supporting the supply side through the financing of dwelling construction across the spectrum of residential, including medium to high density apartment blocks and house and land construction;
- Adjusting policy settings to better support residential development; and
- Offering appropriate Lenders Mortgage Insurance waivers to key customer groups to support their home ownership ambitions.

Recommendation

Westpac considers that the next National Plan must bring together the various initiatives and policies in place across local, state and federal government as part of a unified policy framework. Having a clear, nationally agreed policy framework with measurable goals and targets will in turn give the private sector confidence and an investment model, around which a pipeline of opportunities can be built over the medium to longer term³.

In our opinion, a key opportunity for the Federal Government to consider includes improved harmonisation between state and territory government policies and programs, through a new mechanism, to build upon the work being undertaken as part of the recently announced *National Planning Reform Blueprint*.

¹ <https://www.westpac.com.au/news/making-news/2023/07/westpac-partners-with-australian-government-on-first-home-buyer-support/>

² <https://www.westpac.com.au/about-westpac/media/media-releases/2023/16-August/#:~:text=Media%20releases-.Westpac%20helping%20access%20to%20home%20ownership%2C%20with%20support%20for%20Head%20Start%20Homes&text=Westpac%20has%20announced%20an%20additional,secure%2C%20safe%20and%20stable%20housing.>

³ <https://www.westpac.com.au/news/in-depth/2017/09/unified-affordable-housing-policy-will-woo-more-capital/>

While it is broadly recognised that policy coherence at a state and local level is desirable, there is scope for the new National Housing and Homelessness Plan to foster greater alignment and collaboration between state jurisdictions.

While there are key differences that will always need to be accommodated between jurisdictions, Westpac believes a more unified approach – which should include an examination of planning settings – better positions Australia to address the ‘big rock’ challenge of housing affordability. This point is expanded on in this submission.

THE CHALLENGE

The challenge of achieving a sustainable and affordable housing market is one that many Australian cities and towns have grappled with for decades. The effects of a lack of affordable housing are felt by many sections of the community but can often be more acute for younger generations striving to break into the property market.

Research conducted by Westpac in 2017 showed that aspiring first home buyers feared being locked out of the housing market for good and an uncertain future⁴. Since this point the median dwelling price has increased considerably in most Australian capitals.

Capital city	Dec-17 median dwelling price	Sep-23 median dwelling price
Sydney	\$879,878	\$1,110,660
Melbourne	\$689,280	\$776,716
Brisbane	\$493,341	\$761,739
Adelaide	\$428,146	\$691,591
Canberra	\$583,589	\$836,327
Perth	\$457,793	\$618,363
Hobart	\$399,545	\$658,994
Darwin	\$425,071	\$493,362 ⁵

Housing prices in Australia continued to increase in 2023, surpassing previous expectations. Westpac economists currently expect prices nationally to rise 7 per cent this year, up from previous forecasts that they would hold flat, while the Sydney market is now forecast to increase by 10 per cent⁶. Nationally, price growth is forecast to be 4 per cent in both 2024 and 2025. As noted by Westpac Senior Economist Matthew Hassan, drivers of current price increases include strong migration inflows, an associated tightening in rental markets and low on-market supply⁷.

We participate in key programs and initiatives that are designed to help overcome the financial barriers to home ownership.

⁴https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/media/A_place_to_call_home_Australians_views_on_housing_affordability_Part%201.pdf

⁵ Source: Core Logic

⁶ <https://www.westpac.com.au/news/money-matters/2023/08/home-open-price-gains-to-continue-but-pace-will-cool/>

⁷ Ibid

Box 1: Partnering with Housing Australia's Home Guarantee Scheme

From July 1 2023, Westpac began offering mortgages backed by Housing Australia's Home Guarantee scheme to eligible buyers.

Westpac has three guarantees available to customers under the scheme: the First Home Guarantee and Regional First Home Buyer Guarantee support eligible first home buyers with a deposit of as little as 5 per cent, while the Family Home Guarantee supports eligible single legal guardians with at least one dependent child to buy a home with a deposit of as little as 2 per cent.

Government recently broadened the eligibility criteria for the scheme so that, from July, friends, siblings, and other family members are eligible for joint applications under the First Home Guarantee and the Regional First Home Buyer Guarantee.

Targeted at low-income earners, the Scheme enables access to home ownership sooner because buyers don't have save for a 20 per cent deposit, and don't need to pay Lenders Mortgage Insurance given the lower deposit amount - a reduction in overall costs.

Since joining, we've helped hundreds of customers to purchase a home under the Scheme, including first home buyers and single parents/ guardians.

Box 2: Unlocking home ownership through Head Start Homes

In a move to help more Australians into their own homes, Westpac has extended its support for Head Start Homes, a non-profit organisation working to provide secure and stable homes for those living in social housing.

Head Start Homes works by acting as a guarantor for people living in community housing who can afford a home loan but might not be able to secure the deposit or fund Lenders Mortgage Insurance.

It also provides practical support to prepare people for home ownership by providing access to free budgeting tools, dedicated experts and a tailored savings plan to ensure they're set up for success.

Westpac became the founding partner of Head Start Homes in 2018 and has helped more than 50 beneficiaries so far, including four families who have now become homeowners. A new agreement extends Westpac's support for two years.

The Head Start Homes client base includes single mums, First Nations Peoples and households with a disability.

SUPPLY CONSTRAINTS

At its core, the cause of housing affordability pressures stems from an undersupply of residential property. There are many causes of this undersupply that need to be addressed simultaneously, by all levels of government.

As a banker to the residential construction sector across Australia, Westpac often receives feedback on the constraints to providing supply into the market. Consistently, the feedback we receive is that key contributing factors to the lack of supply increase are:

- Insufficient supply of land that is zoned appropriately for housing, including high and medium density housing;
- Long approval timeframes for land development;
- Construction costs, of both materials and labour;
- Labour shortages; and
- A lack of infrastructure supporting new and existing housing developments.

Many of the above identified contributing factors are issues that require working through by the three tiers of government. One lever that is available to Westpac are the settings we apply to address challenges in the housing construction sector. To facilitate a greater supply of housing stock we have recently adjusted settings to support residential development. This includes lower or changed presale requirements to facilitate the flow of finance to the construction sector.

CONSIDERATION OF THE LEVEL OF “APPROPRIATE” HOUSING

When considering housing affordability in the context of a long-term national plan it's also important to distinguish the many facets of this issue. From Westpac's perspective, while the primary challenge is around supply of housing stock, it's also important that we consider the level of *appropriate* housing.

This distinction is critical to understanding the problem facing certain Australian communities, and by extension solving it. Unlike many financial purchases, the decision on which home to buy or rent is not governed solely on the individual's ability to afford it. Instead, it's also influenced by a range of factors that are unique and personal to the prospective buyer.

There are many factors that are well known and applicable to large parts of the population – the availability of public transport, employment opportunities, commute times to common employment hubs such as CBDs, quality and availability of schools and proximity to beaches and parks. These amenities all play a part in determining how attractive a certain suburb or town is, and thereby influence demand and price.

However, there are also many additional factors that are influential and unique to each potential tenant. For example, a young family may decide that an apartment near grandparents able to assist with childcare is preferable over a larger property further away. This decision is therefore influenced by the often high out of pocket cost of childcare.

Someone with an elderly relative may decide they cannot be further than a 10-minute drive from that person as they aren't willing or financially able to accommodate a transition to aged care. Likewise, a critical worker such as a nurse employed at a public hospital may face the dilemma of finding affordable housing with a commute that is reasonable, especially after night shifts.

This means that for many people a decision on where to live is the result of a complicated series of trade-offs between financial, social and lifestyle factors – all influenced by public policy considerations tangentially related to housing. Importantly, this has the practical effect of limiting the appropriate housing supply for that person, based on these conditions.

Research by academics at Griffith University found that a failure to understand granular level demands in housing “may lead to demand–supply mismatches resulting in spikes in housing prices”⁸. In other words, it may concentrate demand in areas where increased supply either hasn’t been forthcoming, or is unable to easily be produced.

This is a complicated issue of supply, demand and consumer behaviour that has no immediate solution, but for large cities currently experiencing housing stress (or about to), it’s an important consideration.

As noted by the Griffith research, there are a number of different considerations that go into housing choice, rather than just the desire to own or rent a property within someone’s financial means. Therefore, simply increasing the level of supply in locations that lack sufficient transport infrastructure, or are too far from existing population hubs, may be unlikely to ameliorate the problem given some prospective tenants place a greater value on things such as convenience and proximity.

This therefore requires a much greater level of coordination between all levels of government. Planning, social and transport infrastructure, land development and migration must all work in concert to ensure we are developing the right type of properties, in the right locations.

Box 3: Home ownership support for nurses, midwives and other allied health professionals

Westpac has expanded an initiative which aims to put home ownership within reach for key healthcare workers, after early results showed a strong take-up among women. We have recently extended our Lenders Mortgage Insurance (LMI) waiver to registered nurses and midwives – two professions where women form a large majority of the workforce.

Under the program, eligible customers can access a loan-to-value ratio of up to 90 per cent without the additional cost of LMI. On a \$700,000 property, that can mean a saving of over \$20,000 on the cost of purchase. Our decision making is balanced against our responsible lending commitments and applicants must meet criteria to be eligible.

Through the initiative, Westpac has assisted around 2,900 nurses and midwives to fulfil their ambition of home ownership.

PLANNING AND DEVELOPMENT POLICIES

A critical part of the housing picture is the planning and development frameworks that apply at state and local government levels. There are numerous ways in which the planning system can help to increase the level of supply and affordability, including:

- Encouraging medium to high density in close proximity to major transport routes such as rail stations;
- Actively encouraging social and affordable housing via increased densities;
- Actively encouraging build-to-rent housing developments; and
- Proactively releasing government-owned land for housing projects at an increased pace.

⁸ <https://research-repository.griffith.edu.au/bitstream/handle/10072/417848/Roca2146883-Published.pdf?sequence=2>

Consideration should also be given to greater use of policies such as the NSW Government's State Significant Development (SSD) planning approval pathway for housing developments.

Under this policy, developments with a capital investment value over \$75 million which allocate a minimum of 15 per cent of the total gross floor area to affordable housing will be able to access the SSD rapid assessment framework⁹. This will help to achieve development feasibilities and financial viabilities, as well as increasing the speed at which developments are completed.

Similarly, the changes in NSW to the Housing State Environmental Planning Policy (SEPP) to introduce a new floor space bonus of 30 per cent and a height bonus of 30 per cent for residential developments with at least 15 per cent affordable housing will help to encourage in-fill at higher density.

While it is pleasing to see state governments work to reform their approaches to housing, inconsistent planning and policy approaches between states introduces complexity into the housing landscape, for both lenders and the residential construction sector. One of the more common concerns raised by our relevant institutional customers relates to planning system complexity and the consequential time it takes to build: some state systems are known to be harder/ slower than others.

Similarly, complexity in the government housing incentive program landscape introduces barriers for private sector partner participants.

As an organisation, we are typically better placed to participate in government housing programs when the schemes set consistent parameters, are of a sufficient scale and there is certainty of duration. Differing approaches also introduce special intricacies for homebuyers. For example, although it is our understanding that the Government's upcoming Help to Buy scheme will operate under a consistent set of rules across jurisdictions, it will run in parallel with pre-existing state government shared equity schemes. While this increases the overall volume of placements for participants, it introduces complexity for prospective buyers who need to exercise choice, as partaking in one scheme typically makes a buyer ineligible for another.

Establishing a process to achieve greater harmonisation across jurisdictions makes tackling Australia's housing problem a more straightforward challenge for all key participants. Such a mechanism could also include the sharing of best practice initiatives ("what works") between the states and territories. While we acknowledge the enormous work and progress that has been undertaken by government, at all levels, to improve housing affordability, there is scope to enhance progress through simplification.

THE RENTAL MARKET

While much of the discussion on housing affordability centres on the ability to purchase a home, it's also important to recognise the considerable increases in rental cost in recent years. We also recognise there is a full spectrum of housing-related challenges outside the issue of home ownership (including homelessness, the provision of crisis accommodation and the availability of social housing). As noted by the Australian Bureau of Statistics, rents have increased across inner-city and regional areas throughout every state since 2021¹⁰. It is broadly understood that lower income households in the private rental market are more

⁹ <https://www.planning.nsw.gov.au/policy-and-legislation/housing/housing-sepp#:~:text=residential%20development%20valued%20at%20more,floor%20area%20as%20affordable%20housing>

¹⁰ <https://www.abs.gov.au/statistics/detailed-methodology-information/information-papers/new-insights-rental-market>

vulnerable to rental stress.¹¹ Private rentals make up around 30 per cent of all households in Australia, which means that there can be no solution to the housing affordability challenge that doesn't involve the rental market.

The slowdown in the development of medium to high density apartments across the major cities since 2018 has meant that supply has fallen short of the recent surge in population, particularly that driven by net overseas migration. Vacancy rates across the country averaged 1.1% in September according to SQM Research data, with a range of 0.4% in Perth to 1.8% in Canberra. The larger cities of Sydney had shortages too at 1.3%, with Melbourne even tighter at 1.2%.

However, as with the home ownership side of the housing market, meeting a variety of needs for the rental market is also required. While the Build to Rent sector is growing in Australia it is only one part of the solution, with a need to develop accommodation across all types of dwellings to be made available for rent. We encourage the National Housing and Homelessness Plan to consider the issues of rental supply and rental stress.

¹¹ <https://www.housingaustralia.gov.au/sites/default/files/2022-10/state-of-housing-affordability-chapter.pdf>