21 May 2024

Director
Help to Buy Unit
Treasury
Langton Cres
Parkes ACT 2600
via email: housing@treasury.gov.au

Dear Director

Submission on Help to Buy Program Directions 2024 (Help to Buy Scheme)

Thank you for the opportunity to comment on the Help to Buy Scheme.

UDIA National actively supports Government's efforts to find practical and effective pathways to house all Australians whether they rent or own.

It is critical that the Government supports a broad range of initiatives to ensure we balance measures that:

1) boost supply of housing to balance demand for housing; and
2) provide equality of access to housing for all Australians seeking a home.

This approach removes barriers to housing supply while ensuring low to moderate income earners, including key workers, have the same opportunity as other Australians, to own a home.

The economic, social, psychological and family advantages from owning your home over renting are well documented and should be available to all Australians.

Help to Buy

UDIA National supports the Government's Help to Buy Scheme. There are a number of very positive features worth highlighting and several necessary changes to ensure it works appropriately.

Under the Help to Buy initiative, eligible homebuyers with a minimum 2% deposit, will get up to a 40% equity contribution towards a new home or a 30% contribution for an existing home and be able to take advantage of lower ongoing repayments.

The Scheme is designed to create equity of ownership for a cohort of Australians, rather than supplying houses to everyone.

In the current environment (and historically), Australia has been unable to build enough houses for the need in the community, however our policy response to this problem must not preclude Government helping working families from owning a home simply because they need help to meet the initial financial hurdles. Both aims are necessary responses to limit community hardship.

While the measure is not specifically aimed at stimulating supply, it also does not significantly impact demand. The Scheme is aimed at getting renters into home ownership and for each renter buying a house, a space opens up in the rental market relieving stress elsewhere in the system. Any concerns over potentially stimulating more demand can be moderated by ensuring the Scheme is:

1) **well targeted for eligible persons rather than the broader market.** This is a matter of balance – too narrow and it is unusable, too broad and it increases demand. It is positive that the scheme is not limited only to first home buyers as there are persons in need across key worker and crisis housing. However as explained below, the current income thresholds narrow eligibility too far.

2) **prioritises current renters, (including at-market, affordable, and crisis housing renters) in the market** – where they can afford to maintain a mortgage, their participation in the Scheme frees up a dwelling rental space for another Australian.

More specifically, there are also a number of issues that need to be addressed to ensure it operates appropriately. For simplicity they are listed below:

1) **Eligible persons should only have to qualify on establishment and not be disqualified simply for becoming more financially successful -** Currently eligible participants can lose their arrangement if they become more financially stable or get promoted – it has the potential to discourage people from getting ahead, to avoid "non-compliance" just to keep a roof over their heads.

   We note Housing Australia has some discretion in determining repayment or termination, but if the issue is early repayment then the language should be changed to create a mechanism for repayment rather than for "non-compliance" (which is pejorative).

2) **Limiting upside if Government wants maintain limited downside risk** - the way the scheme is worded (Clause 25 (Div 6)), the Government is protected from losing any money but Government can participate in any upside gain.

   The Government should either not receive a gain if it wants to guarantee no loss, or it has to participate in the upside and downside as traditional equity.

3) **Income thresholds are too low to help genuine people in need and should be increased** – The current thresholds are so low they block even teachers from using it - a proficient teacher, just above graduate (key worker) cannot apply as they earn $95,317 pa (band 2 in NSW), Graduate teachers earn $85,000 (band 1 in NSW).

   Equally, single mothers with dependents, newly divorced over 50 or people facing domestic violence may also be excluded – these are people under hardship, typically with no assets but may have a salary higher than $90,000 (the rate for a single eligible participant).

   There is also a significant concern whether persons with incomes lower than the thresholds can conceivably service a loan. It will significantly and unnecessarily limit participation.

4) **Threshold house prices are too low and unnecessary: remove –** They should be removed to avoid increasing prices for houses below the cap. The income cap is a sufficient to moderate the housing value under the Scheme due to serviceability criteria.

   The thresholds in any event, are too low given the increase in market prices and the fact that well located homes are generally more expensive. It will essentially discourage housing in the areas we want to deliver dwellings.

   Importantly as noted above, when property price caps have been used in other government assistance schemes, they have the effect of lifting prices at the bottom of the market to match the cap. This disproportionately impacts those with smaller budgets who have the least ability to pay more.

Finally, the residential property market is highly dynamic and in recent years it has delivered some of the fastest increases in property prices for many decades. As a result, price caps quickly become out of step with the market and will render the Scheme unusable. If caps are kept, there must be highly agile mechanisms to re-calibrate caps as property prices shift.

5) Indexing of income thresholds should make exceptions for groups like younger workers – Ideally the thresholds should only apply on initial application to allow people to financially progress. However if indexation is to be kept, some groups such as young workers may reasonably expect their income levels to rise faster than inflation due to career progression. If the income profile of a participant improves while in the program, a refinancing out of government equity should be considered so it can be reinvested in the program and allow others to take advantage.

6) Need to confirm in the definition that shared equity can be affordable housing – Many of the houses in other programs have also qualified as affordable housing and these houses should be able to use the affordable housing GST exemption (for Community Housing Providers that wish to participate).

7) Need to change the prohibition of not using the property for a business or commercial purpose - As written currently, you cannot technically even work from home and it should (at least) be changed to "not using the property as a principle or material place of business".

8) Need to support eligible persons to increase ownership of more of their home faster – allow purchase of Government equity stake by the home buyer in increments of 1% rather than 5% - why limit it at all? Smaller increments may make it easier to achieve and speed up the process.

9) prioritise participation to build new homes rather than existing homes. While the Scheme is primarily focussed on access to housing for Australians, where it is appropriate across states, the Scheme should be seeking to add more housing to ensure it does not compete for existing housing otherwise being used for rental.

We are keen to discuss these amendments to the Scheme at your earliest opportunity.

Please do not hesitate to contact the UDIA National Head of Policy and Government Relations - Andrew Mihno on 0406 454 549 to discuss this further.

Col Dutton
UDIA National President