REIWA's six-point plan for economic reform

WHO ARE WE

REIWA is the peak body for the real estate professionals in the WA. We strive to make the selling, leasing and buying of property achievable for all West Australians.

We are a member-owned organisation representing over 1,100 real estate agencies and over 90 per cent of agents in WA.

We represent the real estate industry in WA and advocate to the Australian and Western Australian Governments on issues that impact the property industry.

REIWA exists to help everyone win in WA real estate.

INTRODUCTION

The WA property market is an integral part of the Western Australian economy. It provides a regular source of income for the State through property taxes, but more importantly, it provides a basic human need – housing for all West Australians.

The State's economic climate is looking up with WA receiving a greater share of GST as well as a higher than expected iron ore price. However, WA is shifting from its reliance on the resources construction phase to a production economy. This has an impact on major economic and housing variables such as population and house price growth. It will be important to ensure policy settings continue to encourage both investment and owner-occupation in WA's residential and commercial property markets.

Entering the property market remains a dream of most West Australians. Ensuring there is enough appropriate, affordable and diverse housing stock for those entering the market is crucial. Housing diversity should be a priority for any state government, so that downsizers, lifestyle seekers or any household can make the right housing decision.

Housing affordability impacts both the established residential market and the private rental market. In the current market conditions where prices in both markets have been easing, this represents an opportunity for West Australians to find more affordable housing to meet their needs in the short term.

A softer market can, in some way, help to ease the burden on state-provided social housing as the private rental market becomes more accessible. However, this is not a long term solution given the cyclical nature of the property market. REIWA analysis (as of June 2019) using average weekly earnings and median rent prices shows that West Australians are now paying less of their income on rent, moving them out of rental stress. This is a good thing, but we also know that not all West Australians are earning the average wage.

Rents in Perth remain relatively more affordable than other major capital cities. For example, the median rent in Sydney is 30 per cent higher than Perth and the median rent in Hobart is 16 per cent higher than Perth.

The dramatic decline in sales activity from 89,000 in 2005 to less than 39,000 in 2018 is a clear sign that the property market needs a stimulus to attract buyers and investors back into the property market.

First home buyers play an important role in both the established residential market and the new-build market. REIWA estimates first home buyers account for approximately one-third of all buyers. First home buyers facilitate the turnover of stock as they buy homes that enable others to trade-up. Trade-up buyers represent 63 per cent of the market.

Transfer duty revenue is most affected by the trade-up market. Current policy settings allow first home buyers to receive an exemption from transfer duty up to the purchase price of $430,000. This exemption plays a significant role in ensuring the affordability and accessibility of the established residential market for a first home buyer. However the $430,000 threshold limits choice and encourages people to live in outer suburbs instead of utilising existing infrastructure in established inner-metro suburbs. REIWA would like to see the cap increased to open a greater proportion of the property market to first time buyers.

Further to this REIWA is engaging with Keystart with a view to increasing the loan threshold so that first home buyers can access a more diverse/suitable range of properties closer to existing infrastructure.

Planning and development policy reform is another area that impacts the residential property market. As the demographic profile of the West Australian population changes to an older population, more housing options need to be available for retirees looking to right-size and people trying to enter the market. Now, more than ever, planning policies that encourage a diversity of lot sizes and housing typology options through infill and land developments is more important.

Property investors are now faced with the difficult decision as to whether they continue to hold their property, or sell given the return on investment is in many cases negligible. REIWA encourages both sides of government to start a state tax reform discussion with the community. This will ensure that the state can rely on efficient and sustainable tax revenue streams, the community can be taxed more efficiently and equitably and investors are encouraged to keep investing in the WA property market.

During this difficult fiscal time, we must balance these policy areas. Keeping state property taxes at current levels and not increasing or meddling with taxes will provide some assurance to investors and owner-occupiers, particularly in a market that continues to remain soft.

Ensuring there is suitable affordable housing and keeping the policy goals of the Affordable Housing Strategy and Perth and Peel at 3.5 million will be critical. Of course, all of this needs to be considered within the national policy context where there is a federal tax debate and specifically the changes to the GST redistribution.

REIWA would like to see the current and future WA Governments invest the additional funding, from the GST reform and mining royalties, into initiatives that will kick start the WA property market into recovery.

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Recommendation one

Increase the stamp-duty exempt threshold for first home buyers to $550,000

First home buyers account for one-third of all residential property transactions in WA. With many attracted to buying properties at the lower end of the market due to the stamp duty exemption for properties with a purchase price under $430,000. However, this has seen first home buyers experience limited choice, often buying in the outer suburbs, which greatly adds to the cost of living and other community problems due to increased travel to places of work.

The main barrier to buying in the inner-metro region is price. The proximity to the CBD leads to higher land values, pricing out many first time buyers. However, if WA were to increase the threshold for a transfer duty exemption, it would enable more buyers into the central sub-region (within 15km of the CBD) market for both established properties and infill projects.

Another factor affecting buyers in outer suburbs is the increased risk of falling into negative equity. While WA has seen a fall in house prices across the board, those who have bought in suburbs still under development have been impacted the most. Those who have bought homes, who then wish to move, are competing against the new builds going on around them, which of course come with a greater incentive of the new-build first homeowners grant, further pushing down the price of those established properties. Encouraging people to buy in established areas will reduce the risk and could lead to better outcomes for the consumer.

The table overleaf outlines the percentage of properties available at the various price points. For example, increasing the limit from $430,000 to $550,000 will increase the number of properties in the central sub-region from 31-49 per cent of sales.

TABLE 1 - DWELLING SALES BY PRICE RANGE YTD AUGUST 2019

	Count of dwelling sales		Per cent of dwelling sales	
	Central sub-region	Greater Perth	Central sub-region	Greater Perth
Under $300,000	688	2,302	11 per cent	17 per cent
Under $340,000	1,090	3,666	18 per cent	26 per cent
Under $400,000	1,565	5,177	25 per cent	37 per cent
Under $430,000	1,901	6,225	31 per cent	45 per cent
Under $450,000	2,099	6,789	34 per cent	49 per cent
Under $500,000	2,565	7,998	41 per cent	58 per cent
Under $550,000	3,041	9,081	49 per cent	65 per cent
Under $600,000	2,382	9,890	54 per cent	71 per cent
Under $650,000	3,725	10,552	60 per cent	76 per cent
Total	**12,420**	**27,762**		

Recommendation two

REIWA recommends re-introducing the $7,000 FHOG grant for the purchase of existing dwellings

The number of first home owners has been on a downward trend since 2013. In 2018, the number of first home buyers reached its lowest levels since 2011, at just 14,757.

Of those, 8,511 were for established properties and 6,246 were new homes.

There is a clear preference for established properties, likely due to the proximity to established infrastructure and amenity. The WA Government should welcome this buying decision as it reduces the financial burden on the Government to provide essential services to new dwellings on the outer fringes.

It is unfair that these first home owners are penalised for making a decision that is financially better for the State. Those buying new-build properties in the outer suburbs contribute to WA's congestion costs which are continuing to rise as urban sprawl worsens.

The Government has a duty to ensure all West Australians get a helping hand into their first home regardless of what they choose to buy.

Therefore, REIWA is calling on the WA Government to reinstate the $7,000 first home owner's grant for buyers of an established property.

Doing so would provide benefits not just to first home buyers but to those wanting to sell established properties. Overall transaction levels are down to a record low of 39,387 in 2018, resulting in less revenue for the state. Allowing first home owners access to the grant when buying established properties would encourage more buyers, resulting in more transfer duty from the trade-up market. Further, a $7,000 grant to first home buyers could increase their purchasing power by approximately $20,000 (assuming a 20 per cent deposit), which could in turn provide support for dwelling prices to stabilise.

Encouraging people to buy established properties also has major economic flow-on effects with buyers then spending a significant amount on renovations. According to the HIA, investment in renovations of kitchens and bathrooms in established properties is increasing.

The HIA 2019 Kitchen and Bathroom report states:

"In WA, notional demand for kitchen renovations jobs is estimated to have risen by 3.5 per cent to 19,497 in the 2017/18 financial year. Moderate growth is forecast for notional demand with increases of 1.8 per cent and 1.5 per cent anticipated in 2018/19 and 2019/20. Further increases are projected in 2020/21 to take notional demand to 20,391.

For bathroom renovations jobs, notional demand in WA is estimated to have increased by 2.5 per cent to 30,626 during 2017/18. Additional expansions of 1.6 per cent and 0.4 per cent are anticipated to occur during 2018/19 and 2019/20, respectively. In 2020/21, an increase of 1.7 per cent is projected to take the notional demand for bathroom renovations jobs up to 31,781.

Renovations investment during 2018/19 is forecast to be around 5.8 per cent stronger than the previous year. Renovations investment is forecast to remain at this level during 2019/20 ahead of a return to growth in 2020/21."

CHART 1 - FIRST HOME BUYER ACTIVITY

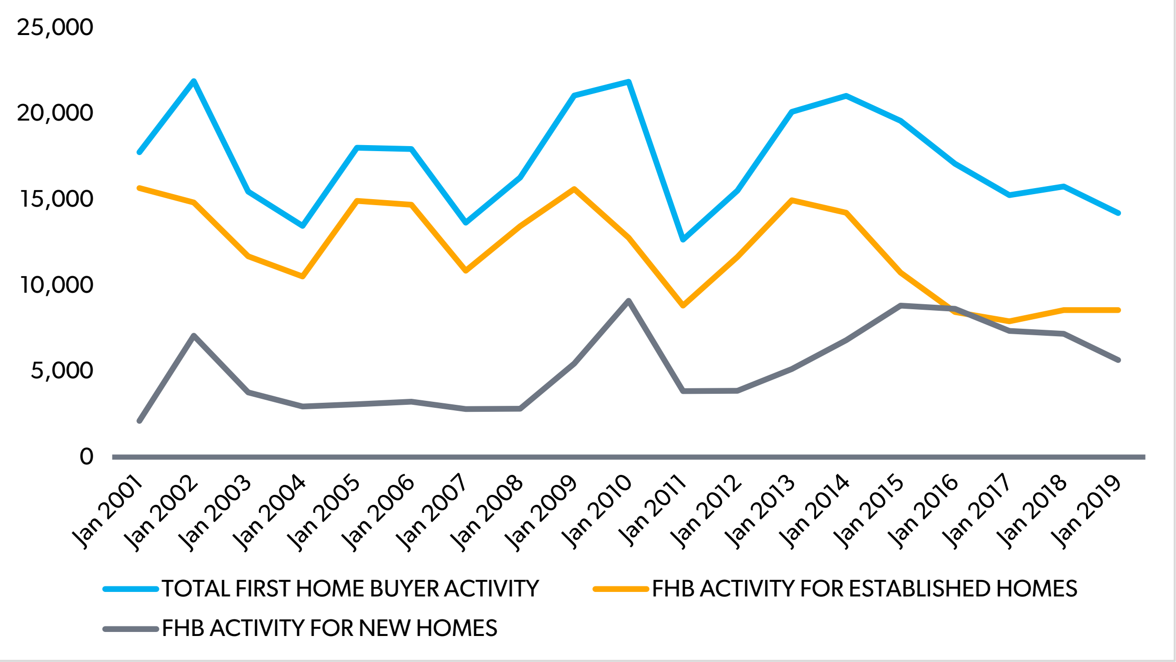

Chart 1 shows the trade-off that has occurred between the established and new dwelling markets in terms of first home buyer activity. The chart clearly shows dwelling sales turnover continued to decline in the period after the FHOG established dwelling grant was reduced to $3,000 and subsequently removed completely and again when the transfer duty exemption threshold was dropped to $430,000. This is coupled with a general decline in established dwelling activity until 2016 whereafter we have seen established properties grow in popularity.

Keeping first home buyers active in the WA property market is crucial. Evidence presented in our previous state budget submissions indicated that first home buyer policy settings will have a real impact on the broader property market in the near future.

Recommendation three

REIWA recommends that the State Government introduce a $10,000 concession on transfer duty for seniors over the age of 65 to encourage appropriate ‘right-sizing’

Not only is transfer duty a hindrance on affordability, it also impacts the ability for households to make appropriate housing decisions in accordance with their lifestyle choices, changing needs or economic reasons like employment.

A key policy issue that REIWA consistently advocates for is the need for diversity in our housing stock. We know the current stock of housing does not meet the needs of society now, let alone in the future. Over 70 per cent of listings for sale are for dwellings with three or more bedrooms – this is not ideal.

It is well understood that transfer duty prohibits people from making better housing choices. For example, often older households struggle to raise the upfront cost of the transfer duty in order to allow them to right-size into a house that is more appropriate for their needs.

REIWA has in the past recommended to the State Government that those households should be given the opportunity to right-size and free-up their existing house by obtaining a rebate or concession on their transfer duty cost. In order to ensure that WA has the right mix of housing options and diversity needed to meet the changing needs of the community, the State Government is encouraged to look at ways in which to reduce the impact of transfer duty on the mobility of housing stock.

Modelling: If a downsizer sells a property at $500,000 to a trade-up buyer. The duty payable by the buyer is $17,765. If a senior then purchases a property valued at $350,000, the payable duty will be $10,735. If the grant is in place, the senior will have to pay just $735.

The net position for the government as a result of the transaction is $18,500.

Recommendation four

Remove the stamp duty penalty for off-the-plan purchases

Currently, if a person buys a typical house and land package it consists of two contracts, one for the land and a separate contract for the build of the dwelling. As a result, when the stamp duty payable is calculated only the value of the land is taken into account.

Whereas, when a person buys an apartment off-the-plan, both aspects are combined into the one contract and therefore the duty payable is calculated on a higher value.

This discrepancy puts an unfair financial burden on those looking to buy off-the-plan and acts as a deterrent, pushing people to buy in Perth's outer fringe.

This clearly contradicts the WA Government's commitment to reducing urban sprawl and promoting infill developments.

REIWA therefore encourages both sides of government to commit to removing the imbalance and calculate stamp duty on the land component alone for both off-the-plan and house and land purchases.

In Victoria, the off-the-plan duty concession works in the same way with the cost of construction taken off the dutiable value.

In WA, if a party buys a house and land package at $450,000 or off-the-plan at the same value, the difference in cost is approximately $8,000 in additional duty.

Removing this impost would show the WA Government is committed to promoting medium and high density living.

Recommendation five

Revoke the foreign owner duty surcharge to keep WA property competitive

Currently, the WA property market attracts the lowest number of foreign investors of any state and is second only to the Northern Territory (NT) nationally.

The introduction of a seven per cent transfer duty surcharge for foreign owners in January 2019 put further downward pressure on transaction numbers, causing multiple multi-unit developments to be delayed including the Perth Hub development in the CBD, with the owners citing a lack of foreign buyers as the cause.

When our eastern-state counterparts introduced a foreign owner surcharge, affordability was at crisis levels. In WA, the surcharge was introduced at a time when house prices were on the decline and our share of foreign buyers was already dwindling.

As a result, it is REIWA's view that the additional cost of home ownership has deterred that much-needed foreign investment. Since its introduction on 1 January 2019, the WA Government told media outlets the surcharge has raised $8.3 million (as at 30 August 2019).

While we understand the financial climate the WA Government was facing at the time, the introduction of a surcharge ultimately led to a worsening outlook for the WA property market.

It is REIWA's view that foreign investors are not forcing first home buyers out of the market. The Government's analysis of the data relating to the first home owners grant should confirm this view.

REIWA's outlook for 2019 indicates the market will remain soft well into 2019/20 and keeping the surcharge will further dampen activity while failing to raise any significant revenue for the State.

Foreign investors play a key role in the delivery of off-the-plan projects which create construction jobs for thousands of West Australians. Deferring the surcharge until a time that the property market is in recovery will ensure projects can get off the ground and keep West Australians in employment.

Recommendation six

REIWA recommends that the State Government undertakes a state tax review. This review must assess the viability of and financial implications on the community of a shift to a broad-based land tax system that ultimately removes transfer duty

For some time now, REIWA has been advocating for state tax reform. It is acknowledged that reform at a state level may be more difficult to achieve without reform at a federal level and the state's fiscal position is tough, but REIWA still believes that keeping tax reform front and centre is important to ensuring the state remains a competitive environment. In addition, reforming transfer duty and land tax will help to ensure a more sustainable revenue stream for the State Government.

In 2014, the Economic Regulation Authority (ERA) released its Final Paper and recommendations on the inquiry into Microeconomic Reform and state taxes featured strongly in that discussion. REIWA supports the recommendations that were made in that report and urges the State Government to consider them in earnest.

Whilst it is acknowledged that the Federal Government has undertaken a national taxation review and the GST inquiry in recent times, REIWA is of the view that the WA Government should undertake a state tax review. This review would enable the State Government to seriously look at ways of ensuring future revenue streams are more sustainable and that the well-acknowledged inefficient state taxes, like payroll and transfer duty, be reformed.

REIWA supports long term tax reform that aims to abolish transfer duty and move to a broad-based land tax regime. There are a number of flow-on benefits from a land-based tax regime. It would allow for greater housing mobility across the community. Households could locate closer to employment and activity centres, thus reducing congestion, which is presently stymied by the current transfer duty regime.

Removal of transfer duty would also improve housing affordability, as most households currently borrow funds to cover transfer duty which is amortised across the life of the mortgage and increases repayments.

In their final report to the inquiry into Microeconomic Reform in WA, the ERA recommended that the State Government remove all concessions and exemptions on land tax and broaden the base (keeping the progressive scale) and as a result abolish transfer duty on residential property. This is a position that REIWA supports and encourages the State Government to consider reviewing state taxes.

SUMMARY OF RECOMMENDATIONS

1. Increase the transfer duty free threshold for first home buyers to $550,000
2. Re-introduce the $7,000 FHOG for the purchase of existing dwellings.
3. Introduce a $10,000 concession on transfer duty for seniors over the age of 65 to encourage appropriate ‘right sizing’.
4. Remove the stamp duty penalty for off-the-plan purchases
5. Revoke the Foreign Owner Duty Surcharge
6. Undertake a state tax review which must assess the viability of and financial implications on the community of a shift to a broad-based land tax system that ultimately removes transfer duty.