LABOR’S PLAN FOR HOUSING AFFORDABILITY & JOBS

Labor is announcing the next tranche of housing affordability reforms, to level the playing field for first home buyers.

Labor’s plan is good for housing affordability, good for the budget and good for productivity and jobs.

Australia is in the midst of a housing affordability and homelessness crisis. House prices in many major cities have skyrocketed, home ownership rates have plummeted and many vulnerable Australians have limited or no access to housing.

This housing crisis is only getting worse:

- Since the Government came to office in September 2013, capital city house prices have soared by 30 per cent, with increases of nearly 50 per cent in Sydney and over 30 per cent in Melbourne.
- Home ownership is at a 60-year lows, and home ownership rates for 25-34 year olds has collapsed from around 60 per cent to less than 40 per cent in the past 30 years.
- Rental stress is also on rise, with the proportion of low-income households in rental stress now at more than 40 per cent.

The great Australian dream has turned into a nightmare on Malcolm Turnbull’s watch, and he is too out of touch to do anything about it.

Only a Shorten Labor Government will tackle the housing affordability crisis and put the great Australian dream back within the reach of middle and working class families.

Labor is building on our existing proposals with new policies to improve affordability, increase supply, boost jobs, and reduce the economic risks associated with distorted investment decisions.

Any housing affordability package that doesn’t involve reforms to negative gearing and the capital gains tax discount is a sham.

Labor’s policy will see the construction of over 55,000 new homes in Australia over three years and boost employment by 25,000 new jobs per year.

Labor plan to improve housing affordability, increase financial stability, reduce homelessness and boost jobs:

1. Reform negative gearing and capital gains tax concessions
2. Limit direct borrowing by self-managed superannuation funds
3. Facilitate a COAG process to introduce a uniform vacant property tax across all major cities
4. Increased foreign investor fees and penalties
5. Establish a bond aggregator to increase investment in affordable housing
6. Boost homelessness support for vulnerable Australians
7. Getting better results from the National Affordable Housing Agreement
8. Re-establish the National Housing Supply Council and re-instate a Minister for Housing

Level the playing field for first home owners

1. Reform negative gearing and capital gains tax concessions

Every Saturday in Australia, first home buyers are outbid at auctions by wealthy investors and property speculators who are taking advantage of some of the most generous tax concessions in the world.

The current arrangements provide a bigger tax concession to an investor buying their fifth home, than a young couple buying their first.

Home ownership is at a 60-year low, as prices skyrocket but the wages of ordinary people barely budge.

First home buyers now only make up around 13 per cent of all home purchases – well below the historic average of 20 per cent.

Demand for housing is being turbo-charged by unfair, unsustainable and distortionary tax concessions for investors. More than 90 per cent of lending for investment properties is for existing housing stock.

A Shorten Labor Government will:

- Limit future negative gearing concessions to new housing; and
- Reduce the capital gains tax discount from 50 per cent to 25 per cent.

These changes will moderate the growth of house prices, and redirect generous tax concessions to where we most need investment – in new housing.

Most importantly, redirecting investment to new housing will increase housing supply and in the process create jobs in the construction and building sector. The McKell Institute has estimated a 10 per cent increase in construction as a result of these changes – creating up to 18,500 new homes and as many as 25,000 new jobs per year.

Unlike the Liberals, Labor does not believe in retrospective tax changes. No current investments will be impacted by this change.

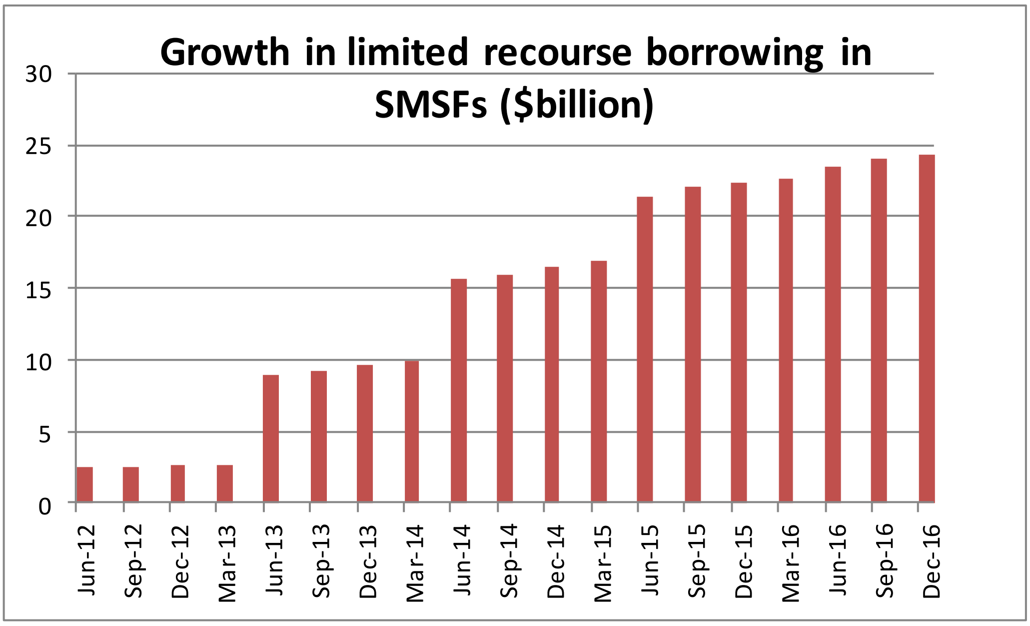
Labor's policy also delivers substantial budget repair.

The independent Parliamentary Budget Office has re-costed the fiscal impact of this policy. This would improve the budget by $37.8 billion over the medium term.

2. <u>Limit direct borrowing by self-managed superannuation funds</u>

Since 2007, superannuation funds have been allowed to borrow money under certain conditions to invest in assets on a limited recourse basis, which is where a creditor has limited claims (or recourse) on the loan in the event of a default. This has been a growing feature of many self-managed superannuation funds (SMSFs), particularly for the purchase of property.

Limited recourse borrowing in SMSFs has exploded in recent years – from about $2.5 billion in 2012 to more than $24 billion today. This represents an 860 per cent increase in limited recourse borrowing in SMSFs in just 4½ years. Allowing this to continue would increase risk in the superannuation system and crowd out more first home owners.



The Government's own Financial System Inquiry observed back in 2014 that "*Further growth in superannuation funds' direct borrowing would, over time, increase risk in the financial system*" and on this basis recommended the Government restore the general prohibition on direct borrowing of superannuation funds. Yet the Government continues to sit on its hands having not implemented this important recommendation while risks in the economy continue to grow.

Financial System Inquiry

> *"Borrowing, even with limited recourse borrowing arrangements, magnifies the gains and losses from fluctuations in the prices of assets held in funds and increases the probability of large losses within a fund"*
>
> *"The GFC highlighted the benefits of Australia's largely unleveraged superannuation system".*

Reserve Bank of Australia submission to FSI inquiry

> *"The Bank endorses the observation that leverage by superannuation funds may increase vulnerabilities in the financial system and supports the consideration of limiting leverage"*
>
> *"The Bank has previously commented on the risks that may arise from geared property investment through SMSFs, which may act as an additional source of demand that exacerbates property price cycles"*

The Government has simply ignored this recommendation while housing risks have been building in the economy on their watch. Just like how they ignored advice from David Murray to address the "major tax distortions" created by negative gearing and capital gains tax settings, the Government has been asleep at the wheel.

Ignoring this recommendation would also leave the budget more exposed over time. As the FSI points out borrowing by superannuation funds implicitly transfers some of the downside risk to taxpayers, who underwrite adverse outcomes in the superannuation system through the provision of the Age Pension.

A Shorten Labor Government will take the responsible decision and adopt the recommendation of the *Financial System Inquiry* to restore the prohibition on direct borrowing by superannuation funds on a prospective basis.

This measure will prevent the unnecessary buildup of risk in Australia's superannuation system, reduce future calls on the aged pension as a result of a less diversified superannuation system and make the financial system more resilient in the face of potential economic shocks.

3. Facilitate a COAG process to introduce a uniform vacant property tax across all major cities

The Government's failure in addressing housing affordability is forcing state governments to act. While necessary, these are best achieved through national coordination – removing potential loop holes between states and closing opportunities for investors to lock up supply.

Victoria is demonstrating leadership by moving to introduce a vacant property tax. Labor welcomes these developments and would establish a COAG process to coordinate and facilitate a more efficient and uniform vacant property tax across all of Australia's major cities.

4. Increased foreign investor fees and penalties

Current Foreign Investment Review Board rules apply a range of restrictions on foreign purchases of property in Australia, including a general restriction on purchasing existing dwellings (with some exemptions). While foreign investment purchases account for a relatively low amount of overall purchases each year, FIRB data shows that the amount of foreign investment purchases in has grown by 275 per cent over the three years to 2014-15.

The housing affordability crisis is getting worse under Malcolm Turnbull. These measures, as part of a broader package of reforms, help put first home buyers on a more level playing field with investors.

Labor will direct the Foreign Investment Review Board to:

- Increase application fees for foreign investment in residential real estate

  Labor will double the foreign investment application fees that currently apply to residential real estate. From 1 July 2019, the following fees will apply:

Property value	Current fees	New fees
$1 million or less	$5,000	$10,000
Over $1 million and less than $2 million	$10,100	$20,200
Between $2 million and less than $3 million	$20,300	$40,600

  Application fees for foreign purchases of residential real estate valued at $3 million and above will also be doubled[1].

  Fees will continue to be indexed to the Consumer Price Index (CPI) each financial year.

- Increase penalties for breaching FIRB rules

  Labor will double the maximum financial penalties for breaches of foreign investment rules that apply to residential real estate[2].

  For foreign buyers that acquire new or existing dwellings without approval, Labor will:

  - Increase the criminal penalty to $270,000, and $1.35 million for a company.
  - Increase the civil penalty to be the greater of the following:
    - 20 per cent of purchase price in addition to the relevant application fee; or
    - 20 per cent of market value of the property in addition to the relevant application fee.

  Labor will also double the maximum financial penalties for the following breaches:

  - Non-resident acquires established property or temporary resident acquires more than one established property;
  - Temporary resident fails to sell established property when it ceases to be their principal residence;

[1] Fees that apply to exemption certificates and variations will not be changed. Current fee schedule can be found here: http://firb.gov.au/applications/fees-2016-17/

[2] Will apply to all existing penalties including Tier 1 and Tier 2 infringement notices. Current penalties can be found here: https://firb.gov.au/files/2015/09/FIRB_fact_sheet_residential.pdf

- Temporary resident rents out an established property;
- Failure to complete construction within 4 years without seeking extension;
- Developer fails to market apartments in Australia;
- Property developer fails to comply with reporting conditions associated with approval;
- Foreign person fails to comply with reporting condition which requires them to notify of actual purchase and sale of established properties; and
- Third party assists foreign investor to breach rules

Boost supply of affordable and social housing

5. Establish a bond aggregator to increase investment in affordable housing

Australia desperately needs more affordable rental housing options, and the community housing sector desperately needs a more supportive and sustainable financing model.

A Shorten Labor Government will establish a bond aggregator to help community housing providers access cheaper finance for new affordable rental housing.

The housing bond aggregator will directly source cumulative funds from wholesale markets on behalf of community housing providers, by issuing bonds to private investors. Funds raised by bond issues can then be loaned to providers.

For example, the United Kingdom's Housing Finance Corporation lends to 152 housing associations, with a loan book totaling £4.4 billion. The UK scheme was established to deliver up to 30,000 new affordable rental homes.

Giving community housing providers a new source of low-cost, reliable financing will boost the supply of affordable rental housing options for low-income families and vulnerable Australians.

6. Boost homelessness support for vulnerable Australians

Domestic and family violence is the single biggest cause of homelessness in Australia. One of the most common questions asked about victims of domestic violence is, "why doesn't she leave?" But the questions should not be "why doesn't she leave?" but "where would she go?"

For far too many women, the answer is living in their car or with relatives in overcrowded conditions.

In 2015-16, 106,000 women and their children accessing specialist homelessness services were experiencing family and domestic violence. Of those, a third were already homeless and two thirds were at risk of homelessness by the time they sought help.

A Shorten Labor Government will provide $88 million over two years for a new Safe Housing Fund to increase transitional housing options for women and children escaping domestic and family violence, young people exiting out-of-home care and older women on low incomes who are at risk of homelessness.

The Safe Housing Fund will increase the availability of homelessness prevention initiatives and transitional accommodation for women and children fleeing domestic violence and will fill a gap between crisis housing and longer term arrangements.

Labor's Safe Housing Fund reverses the funding cuts the Liberals made to the National Partnership Agreement on Homelessness in the 2014 Budget.

Other initiatives

7. Re-negotiate the National Affordable Housing Agreement

A Labor Government will work with the States and Territories to negotiate a new National Affordable Housing Agreement (NAHA) which includes new performance and accountability measures.

The Commonwealth provides around $1.3 billion in funding per year through the NAHA and yet several of the performance benchmarks will not be met. A new approach is needed.

Based on revitalised Housing Supply Council housing information and data, Labor will work with the states to drive better outcomes and performance that will see real reductions in homelessness and housing disadvantage in Australia.

Labor will also seek to strengthen measures in the current agreement across the housing affordability spectrum, including:

- Planning reform
- Inclusionary zoning
- Accelerated release of state and territory government owned land for housing development

All these areas of reform are critical for lowering the cost and supply of new housing stock.

8. Reinstate a Minister for Housing and Homelessness and re-establish the National Housing Supply Council

Labor will strengthen the oversight of the housing sector, including re-instating a Minister for Housing and Homelessness whose remit will be to coordinate all aspects of Commonwealth housing policy and re-establish the National Housing Supply Council to provide an ongoing independent advisory body on boosting housing supply.

One of the first acts of this Government was to abolish the National Housing Supply Council. As a result, there has been no independent source of comprehensive research and data to help inform the government on Australia's housing needs.

A revamped National Housing Supply Council with an expanded remit will:

- Provide advice on how state and national policies are tracking against housing policy objectives;
- Better tracking and accountability of funds spent through the National Affordable Housing Agreement.
- Provide advice on Commonwealth land holdings and opportunities for development release to boost housing supply

Housing affordability remains an ongoing challenge for many Australians. Labor will continue to announce policies and take leadership on this issue.

The Liberal record

Since coming to office the Liberal Government has only made decisions which have worsened housing affordability and left the financial system more vulnerable. They have:

- Refused to address unfair and distorting tax breaks for investors
- Abolished the Housing Help for Seniors Pilot
- Slashed homelessness funding under the National Partnership Agreement on Homelessness
- Abolished the First Home Saver Accounts Scheme

- Closed the National Rental Affordability Scheme
- Refused to act on advice about making the superannuation system and financial system more resilient
- Defunded homelessness and community housing peak bodies
- Failed to appoint a Housing Minister
- Abolished the National Housing Supply Council

In contrast, in Government Labor has a proven record of successful policies for housing affordability:

- Committed to the Housing Help for Seniors Pilot
- Invested $5.6 billion in the Social Housing Initiative which delivered around 20,000 new homes, funded repairs and maintenance to 80,000 more and sustained 9,000 jobs through the GFC.
- Provided $6 billion to the States and Territories for affordable housing.
- Negotiated the National Partnership on Homelessness which saw the Australian and State and Territory Governments provide over $1 billion for reducing homelessness.
- Established the National Rental Affordability Scheme (NRAS) which has provided 38,000 new affordable rental housing units. Labor's NRAS was on track to deliver 50,000 new affordable rental dwellings and the level of demand was such that we would have extended it by a further 35,000.
- Produced 'The Road Home', a White Paper on Homelessness, setting out a national approach with strategies and targets to reducing homelessness.
- Established the National Housing Supply Council.
- Had a dedicated Minister for Housing and Homelessness.