CPA CONGRESS 2017
CHANGEMAKERS

SOLVING THE HOUSING AFFORDABILITY CHALLENGE

CoreLogic

CPA AUSTRALIA

Residential real estate holds significant value for Australians. Financially, it is the country's largest asset class, with a valuation of over $7 trillion. Emotionally, it defines the Great Australian Dream.

However, housing affordability has worsened over the past 15 years by every measure. The cost of buying a house is 7.2 times the annual income of a typical household, up from 4.2 times annual household income 15 years ago.

How can the problem be addressed?

In September 2017, 12 young CPAs in Melbourne and Sydney, known as the CPA Changemakers, got together to develop a series of recommendations. Their discussions were informed by data and insights from Peter Munckton, chief economist at Bank of Queensland, Greg Dickason, chief technology officer at CoreLogic, and Andy Gooden, chief operating officer of Little Real Estate.

This ebook is designed to take readers through the CPA Changemakers' journey of discovery about the Australian property market and the solutions they developed.

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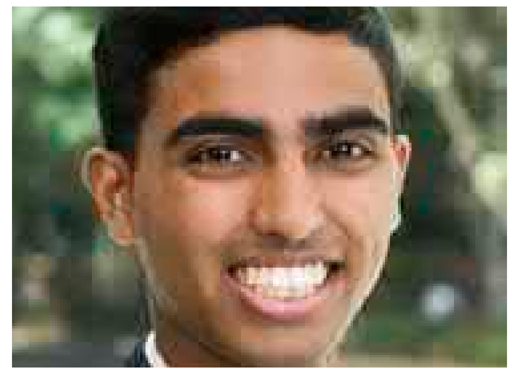
JERMYN ST. LONDON

Sharp and stylish: CPA Changemakers dressed by T.M. Lewin

WHO ARE THE CPA CHANGEMAKERS?

Alvi Ahmed
CommBank



Catherine Leyden,
AusNet Services

Edmund Chu
CO Partners

Nilusha Moses,
Paxton Partners

Leanne Ching,
Coco-Cola

Nabeel Siddiqui,
Westpac

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2 Stay Accommodation Group

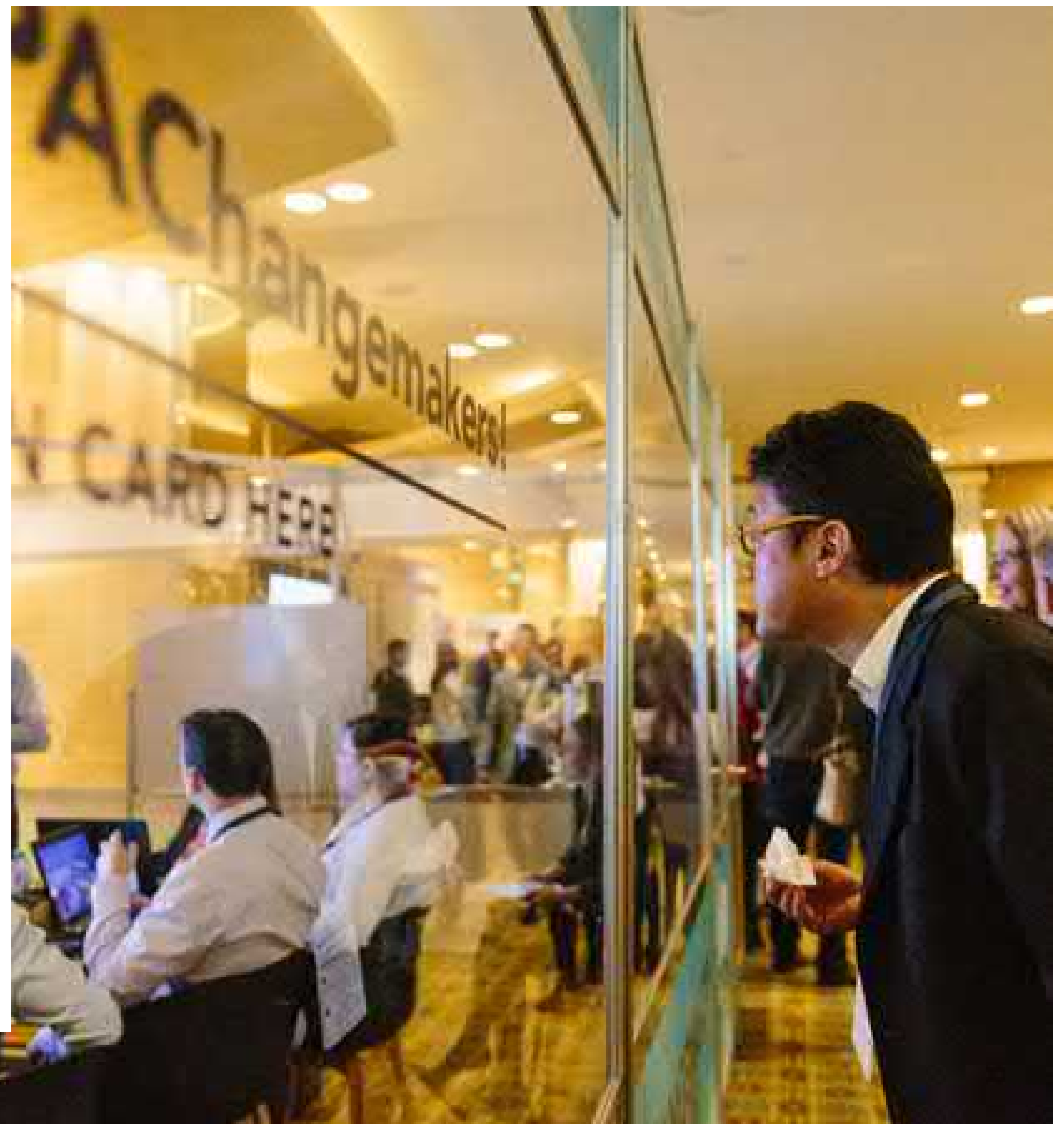
Beau Turner,
Callaway Golf

Derek Grima,
BeFinancial

Simon Vines,
GPC Asia Pacific

Dr Giulia Leoni,
RMIT

Shan Wu,
StewartBrown



MACRO DRIVERS OF THE PROPERTY MARKET

Four macro factors impact house prices. Bank of Queensland chief economist **Peter Munckton** shares his insights and predictions.

1. Interest rates

“With domestic and global economic growth momentum improving, financial markets are projecting a modest rise in interest rates over the next 12-18 months. However, whether any increase takes place will depend upon a variety of factors such as the unemployment and inflation outlook.”

We currently have the lowest interest rates of the past 5000 years. Interest-rate declines over the last 30 years have been major drivers of property price growth.

2. Income growth

“While income growth has been modest in recent years, strong job growth over the past year is a positive sign for the economy. Some regional economies, such as NSW and VIC, have done better than others, but the benefits of economic growth are starting to broaden out throughout the wider economy. Most forecasters predict further moderate economic growth in 2018, which bodes well for household incomes.”

3. Housing demand

“A key factor driving housing demand is population growth, which grew 3.75 million between 2006 and 2016, representing an average annual growth rate of 1.7%. How strong population growth will be in future will depend on factors such as Australia’s relative economic performance and immigration policy.”

4. Housing supply

“Until recently, housing demand outweighed supply. Now, the stock of housing is catching up with demand, driven by significant residential building (notably multi-storey units) in recent years. This might be playing a role in the recent slowing of growth in housing prices.”

HOUSING AFFORDABILITY: THEN AND NOW

To understand how the medium house prices have changed over the past decade, the CPA Changemakers considered the following case studies.

CASE STUDY #1: Melbourne house

In 2006, a couple purchased a 3-bedroom, 1-bathroom house in Melbourne's inner-western suburb of Spotswood, 7km west of the CBD, for $375,000.

Median house price in Melbourne

2006: $352,000

2017: $710,420

	2006	2017
Combined net earnings, both on median wage	$79,745.80	$117,662.43
Number of years on the poverty line to save deposit and stamp duty	1.64	3.33
Income-to-house-price ratio	3.6	6.9

Today, that same Spotswood house is valued at $1,062,000, far exceeding the median house price of $710,420.

CASE STUDY #2: Sydney apartment

In 2006, a couple purchased a 2-bedroom, 1-bathroom, 1-garage apartment in Marrickville, 7km south-west of the Sydney CBD, for $365,000.

Median apartment price in Sydney

2006: $355,000

2017: $650,000

	2006	2017
Combined net earnings, both on median wage	$85,793.40	$120,449
Number of years on the poverty line to save deposit and stamp duty	1.35	2.58
Income-to-house-price ratio	3.4	5.8

Today, this property is worth $911,000 – compared with the median apartment price of $650,000.

CASE STUDY #3: Regional house prices

To determine regional house price growth, the CPA Changemakers looked at a case study in Ballarat, VIC.

In 2006, a family purchased a 4-bedroom, 1-bathroom, 1- garage house in Ballarat, located just over 100km north-west of Melbourne, for $205,000. Today, the property is worth $295,000 – compared with a median house price of $364,912.

Ballarat median house price

2006: $211,000

2017: $364,912

	2006	2017
Combined net earnings, both on median wage	$79,745.80	$117,662.43
Number of years on the poverty line to save deposit and stamp duty	0.77	0.86
Income-to-house-price ratio	2.0	1.9

Clearly, property affordability has affected different parts of Australia differently. It's a bigger problem in certain urban areas and capital cities, while housing is still in reach in regional areas.

BARRIERS TO AFFORDABILITY – GETTING INTO THE MARKET

Key barriers to housing affordability vary from location to location.

In markets such as Sydney and Melbourne, the CPA Changemakers identified the **high cost of getting in** as the primary hurdle. This cost includes saving for a deposit, as well as stamp duty, which is a progressive tax – the more a property costs, the greater the percentage of stamp duty to be paid.

In regions such as Townsville, however, the CPA Changemakers saw **employment** as the primary obstacle. If people can find work, then the cost of getting into the property market and owning a home in a regional centre is relatively affordable.

Lenders mortgage insurance

Lenders mortgage insurance (LMI) can be another barrier to affordability.

LMI is insurance cover for the lender (e.g. the bank), not the purchaser of the property, and it protects the financial institution against losses if you aren't able to make your repayments. It is generally applied to loan amounts that are more than 80 per cent of a property's value – further increasing the cost of buying a home.

The costs vary slightly from lender to lender depending on factors such as the nature of the property or the loan package, but average 1-5% of the loan amount, depending on the loan-to-value ratio of the property.

BARRIERS TO AFFORDABILITY – STAYING IN THE MARKET

High entry and exit costs influence how long people stay in a property before selling and moving again. CoreLogic data shows the average duration of ownership for residential properties has been increasing over the past decade.

In 2006, the hold period across the combined capital cities was 6.8 years for houses and 6.2 years for units. Today, that's 10.9 years and 9 years respectively.

The costs associated with selling a home can deter people from trading up. According to realestate.com.au, the three main costs are conveyancing, marketing, and agent fees, and commissions. Depending on your location, conveyancing can cost up to $1,300 and marketing can add up to around $8,000. Agent fees also vary but tend to be around 2-3%.

BUSTING THE MYTHS

There are many myths attached to housing affordability. The CPA Changemakers examined three common misconceptions.

Myth #1: Foreign investors are buying up property

Property purchases by foreign investors are regulated by the Foreign Investment Review Board (FIRB). Non-residents can only buy new or off-the-plan properties. People who live here for less than 12 months can buy one existing property, but they must live in it and they have to sell it when their visa expires.

According to the FIRB annual report, foreign investment in residential property totalled $13.5 billion for the 2015-2016 year – just 4.4% of the $303.8 billion in transactions.

Myth #2: Investors own multiple properties

Multiple property ownership is less common than some media stories may suggest. "Less than 8% of Australians own an investment property," says Andy Gooden, chief operating officer at Little Real Estate. "Around 18% of those own two investment properties and only 2% own four."

Myth #3: Negative gearing is driving up prices

Negative gearing allows property investors to claim a tax deduction for the amount of loss their property incurs. However, it plays a minimal role in housing affordability – it is a tax benefit, not an investment strategy.

Less than 13% of Australian taxpayers were negatively gearing investments in 2014-15.

WHAT ARE REGULATORS DOING?

Federal government

The 2017 Federal Budget included many policies aimed at addressing housing supply and demand. These included incentives for downsizers – Australians aged 65 and older can now move up to $300,000 of their house-sale proceeds into superannuation.

The new First Home Super Savers Scheme was also introduced for first homebuyers, to boost their deposit by salary-sacrificing up to $15,000 per annum into their superannuation fund.

State governments

State governments also play a role in shaping the affordability of housing. For example, the NSW and VIC governments abolished stamp duty from 1 July 2017 for first homebuyers purchasing a home with a dutiable value up to $650,000 and $600,000 respectively.

State governments also set and police building standards, regulations and codes that can affect the cost of building new homes or renovating existing properties.

The Australian Prudential Regulation Authority (APRA)

APRA is an independent statutory authority established in 1998 to regulate the practices of financial institutions such as banks, credit unions, building societies and insurers. In March 2017, APRA announced interest-only loans must be restricted to 30% of new residential mortgage loans, after investment lending grew to more than 50% of the nation's loan book.

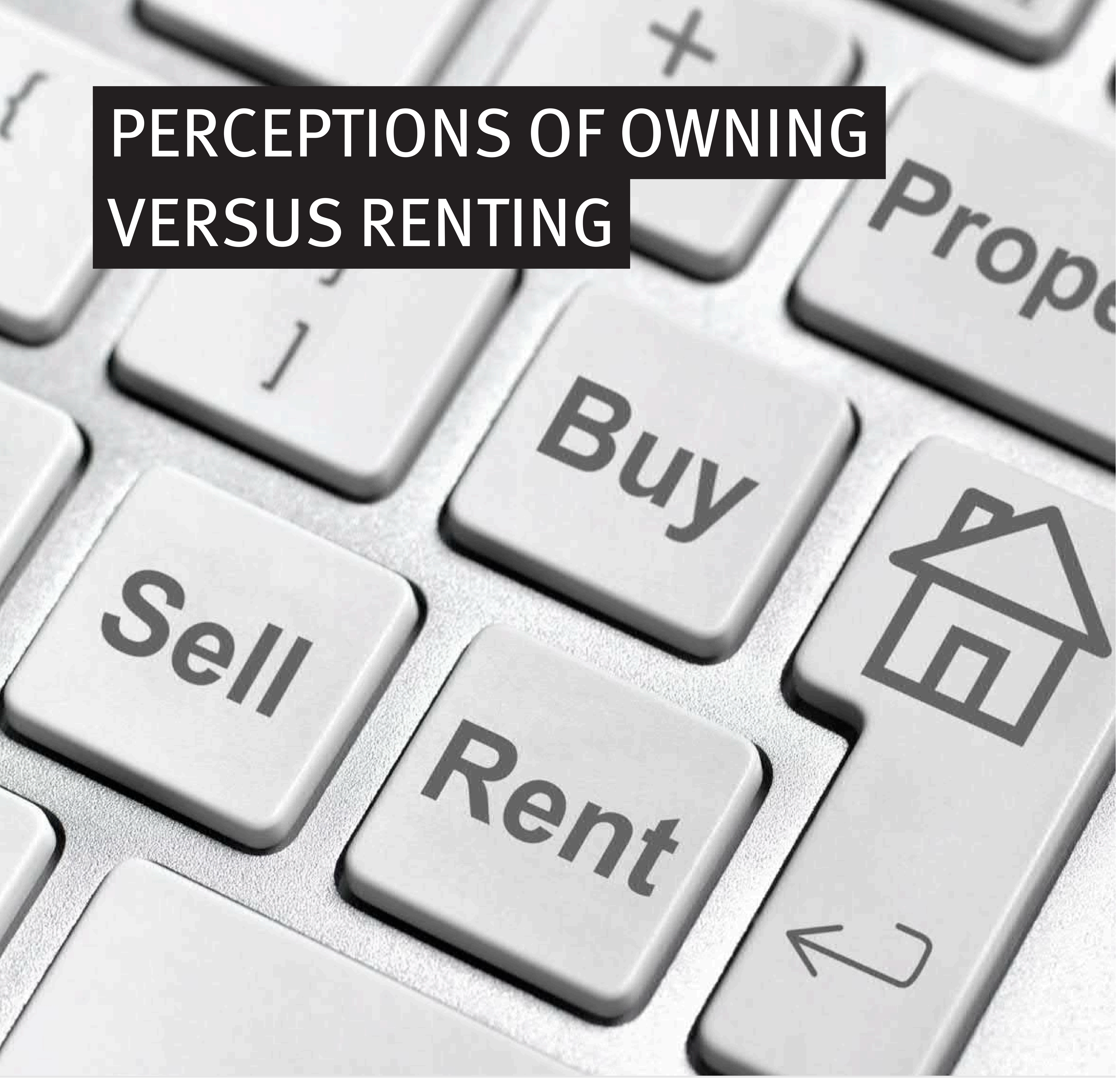
HOMEOWNERSHIP: IS REALLY WORTH IT?

Home ownership in Australia has declined over the past decade from 68.1% of all households in 2006, to 65.4% in 2016. However, it remains central to the Great Australian Dream and is widely viewed as an expression of success and a source of financial security.

By comparison, Switzerland has one of the lowest home ownership rates in the developed world, of around 43.4%. This largely due government housing policies, such as rent control and taxing imputed rents.

Greg Dickason, head of global technology at CoreLogic, says soaring housing prices are changing the cultural perceptions around home ownership in Australia. “In 1986, almost 60% of 25 to 34-year-olds owned their home,” he says. “Now, that number is around 45%. As property ownership becomes more out of reach, renting will become a long-term reality and we’ll see the Great Australian Dream take on a whole new meaning.”

PERCEPTIONS OF OWNING VERSUS RENTING



Renters have long been at the bottom rung of the property ladder, with tenancy legislation heavily weighted in favour of landlords.

However, changes are already underway in some states. Last year's review of the Victorian Residential Tenancies Act, for example, has resulted in proposed reforms that will extend tenants' rights to include longer leases, pet ownership and fewer rental increases.

"The overhaul in tenants' rights will crack down on rental bidding, which forces tenants to outbid each other in order to secure a home," says Gooden. "More people are renting than ever before – in VIC, the number is one in four. Many people also expect to be renting for the long term. I think this will lead to more rental law reform across the country."

WHO DO YOU RENT FROM – A LANDLORD OR A BANK?

There's a long-held perception in Australia that rent money is dead money, but Gooden suggests it's time to take a broader view of property ownership.

"Rather than paying rental payments to a landlord, homeowners are paying their bank interest. It can feel like they're still renting, but with a much longer lease period and probably a much higher cost – and this doesn't include additional expenses, such as maintenance, local council charges, water bills and strata levies.

"Yes, equity is being created with the mortgage repayments but the arbitrage between the rent payment and the loan payment can be used to build equity across other investment options.

"On the other hand, many people are renting because they can't afford to buy and others simply choose to rent from a landlord rather than a bank."

CAN WE SOLVE THE HOUSING AFFORDABILITY PROBLEM?

There’s no quick fix to the complex problem of housing affordability, however measures can be taken to address it.

While exploring the homeownership challenge, the CPA Changemakers identified a number of strategies, which they grouped into three key areas:

1. Personal

Part of the solution lies in greater individual education about the property market. What compromises can be made and what are the various entry strategies?

2. Policy

What further role can government and regulators play in improving accessibility to homeownership?

3. Innovation

The CPA Changemakers explored new approaches to property investment that may open the market to more buyers.

INDIVIDUAL SOLUTIONS:

GET EDUCATED!

What compromises are you willing to make?

What are your property must-haves and where can you afford to be flexible?

"Knowing your basic requirements and your nice-to-haves could give you more options, and reduce your costs," says Gooden. "Consider neighbouring suburbs, the size of the property and even the type of dwelling. For example, if a property has three bedrooms, does it have to be a freestanding house, or would a great apartment work just as well?"

What is your personal risk profile?

Many people are uncomfortable with the level of debt they would need to take on to get into the property market.

"It's okay to decide that buying a property is too risky for you," says Munckton. "There are many other ways to manage and grow your wealth; property is not a prerequisite for everyone."

What can you really afford?

"The significant rise in household debt means that it will take a smaller increase of interest rates than in the past to impact many consumers," says Munckton.

Creating a **budget** will give you a realistic sense of what repayments you can afford, and where you can trim expenses to either save for a deposit, or to accommodate a rate increase if you purchase a property with a mortgage.

INDIVIDUAL SOLUTIONS:

RENT, AND INVEST IN OTHER ASSETS

Property is not the only asset to invest in. While it has performed well for homeowners in recent years, there’s no guarantee that property will continue to provide good returns in the future.

If you’re able to rent and save, then that money could be invested in stocks or other assets. These could provide good returns too, and they are usually easier to liquidate, if your wealth management strategy changes.

INDIVIDUAL SOLUTIONS:

HOW ABOUT RENTVESTING?

If you're unable to afford the property you want, you could continue to rent and save up a deposit, or you could consider rentvesting. Rentvesting is when you purchase an investment property and rent it out, while continuing to rent in the area you want to live in.

"Rentvesting is becoming a popular way to get into the property market," says Gooden. "The rent you receive can pay part or all of the mortgage on the property."

The trick is to buy the investment property with the potential tenant's needs in mind – not what you would want in a house. "What kinds of people rent in the area? It may be families who want to be close to schools and parks, or university students," says Gooden. "Look for a property that will tick boxes for them."

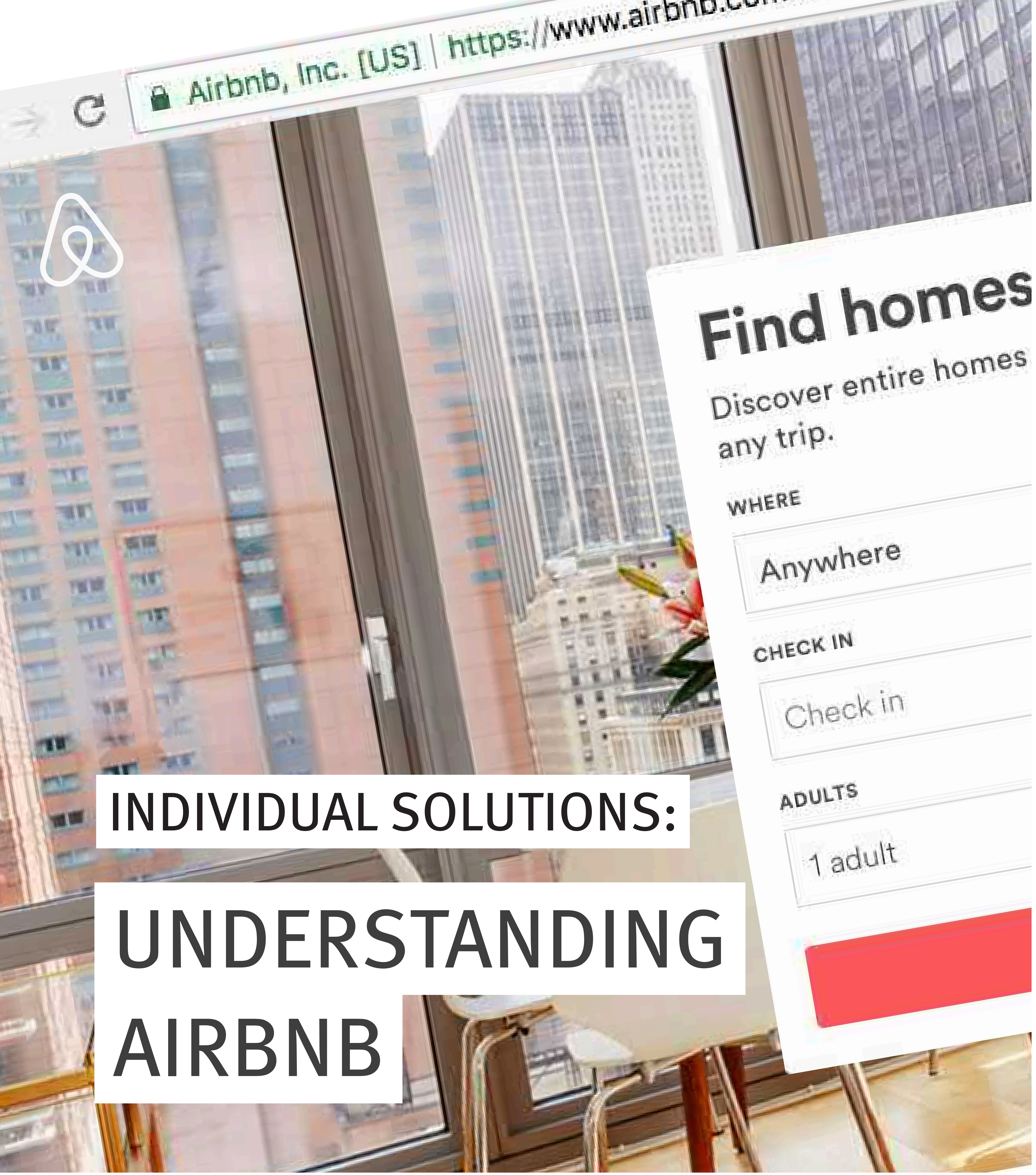
Property vacancy can be costly for investors if it occurs frequently or for extended periods. To keep vacancies to a minimum, Gooden recommends landlords apply the ‘tenant first’ approach.

“The tenant-first strategy separates a good property investor from a great one,” says Gooden. “Tenants that feel cared for will care for your property and, importantly, occupy your property for longer. This will save you time, money and risk on re-leasing the property to unknown tenants.

INDIVIDUAL SOLUTIONS:

THE ‘TENANT FIRST’ APPROACH

“Many great property investors also find that caring for tenants allows them to have a better investment experience, which encourages many of them to build their portfolio and grow their wealth over time.”



INDIVIDUAL SOLUTIONS:

UNDERSTANDING AIRBNB

The world's leading short-term rental marketplace, Airbnb presents an opportunity for homeowners to supplement their income by renting out all or parts of a home. Figures from Deloitte show Airbnb hosts in Australia earned an average of $4,920 in 2015-16.

Homebuyers should consider the tax implications, as any rental income generated through the site must be declared. Renting a home on Airbnb may also expose owners to Capital Gains Tax when they choose to sell.

Airbnb usage is also restricted in many cities, such as New York, where it is illegal to rent out apartments for fewer than 30 days. Melbourne looks set to follow, with a recent VIC parliamentary committee recommending stricter rules on short-stay accommodation.

A **2017 study** on the community impact of Airbnb by the University of NSW showed there were 1,268 properties available on the site in the city of Sydney, which is equivalent to 144 per cent of the city's vacant rentals. Gooden says the impact of Airbnb on rental markets is increasing. "In places such as Sydney, it may further restrict long-term rental availability, thereby pushing up prices."

Changing circumstances often prompt homeowners to upgrade to a larger home or to seek out properties with more modern amenities, such as a shiny new kitchen.

However, before re-entering the buyers' market, Dickason recommends homeowners consider the potential of their own home. "When you look at the stamp duty and fees involved in buying and selling a property, in many cases they would cover the cost of a new kitchen, bathroom or extension," he says.

	SELLING EXISTING HOUSE	BUYING A DIFFERENT HOUSE
Price	$600,000	$600,000
Stamp duty	-	$22,767.60
Agent's fees (2%)	$12,000	-
Marketing costs	$2000	-
Settlement fee	$200	-
Conveyancing fees	$500	$500
Removal costs	$1000	-
Mortgage establishment fee	-	$300

*Transaction in NSW; buyer is not a first-home buyer; additional exit fees, valuation fees, LMI and other costs may apply.

Total cost of moving / renovation budget: $39,267.60

INDIVIDUAL SOLUTIONS:

RENOVATE OR MOVE?

POLICY SOLUTIONS

The CPA Changemakers also considered how policymakers can be part of the solution to the housing affordability challenge.

Build infrastructure and employment in regional areas
Improving transport connections and job creation may make it more feasible and attractive for people to live outside urban centres.

Extend the first homebuyers' grant (FHOG)
The FHOG is currently available for the purchase of owner-occupied properties. Extending it to rentvestors may address one of the key barrier to affordability.

Review building codes
Dwellings such as granny flats could become a source of affordable housing, however regulations regarding their construction vary from state to state. In VIC, for example, building a granny flat on a property requires proof that the future occupant is a dependent person, such as a teenager or disabled elderly parent. The dwelling must also be removed if the person dies or moves out.

INNOVATIVE SOLUTIONS

Sometimes it's the creative ideas that prove most effective.

Fractional investing

Fractional investing is a method whereby several unrelated parties can share in the ownership of a high-value tangible asset. This method is now being applied to the property market by businesses such as CoVESTA, DomaCom and BrickX. An investor can choose to live in the home and become a tenant to other part-owners, or become a rentvestor with others.

Buying with family and friends

Pooling resources with family and friends can help homeowners get into the market sooner and potentially avoid paying LMI.

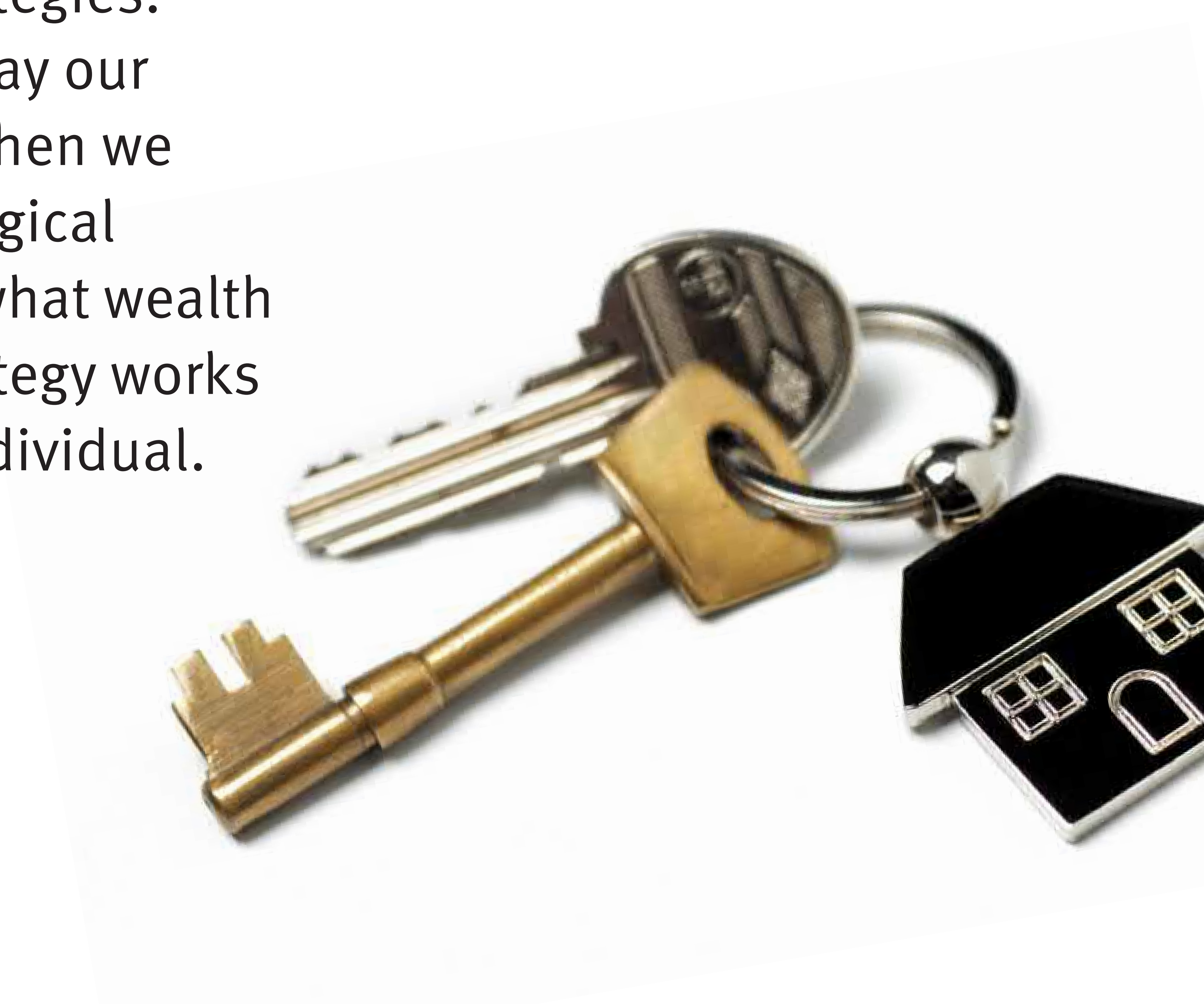

WHERE TO FROM HERE?

Property ownership has become increasingly out of reach for many Australians. While macro-economic factors will play a key role in determining affordability in the future, the CPA Changemakers identified a number of strategies to address the problem now.

They discussed how individuals can take action themselves to understand their own financial situation and the costs associated with buying property, their own risk appetite and their dealbreaker property requirements. The traditional owner-occupier model, as well as other options like rentvesting and fractional investing are options.

Policymakers and regulators can also help address property affordability through regional job creation, better infrastructure, access to grants, and legislation that makes building or changing properties less costly.

In addition, we need to reevaluate our preconceptions of how desirable property ownership is. Buying property as just one of many possible wealth management strategies. When we strip away our preconceptions, then we can make more logical decisions about what wealth management strategy works for a particular individual.



RESOURCES

Budget planning

Budget planner

Savings calculator

Calculators

Borrowing power calculator

Stamp duty calculator

Loan repayments calculator

Property information

Property values (Property Values by CoreLogic)

Property value and attributes (onthehouse.com.au)

Suburb overviews (realestate.com.au)

Suburb overviews (Domain)

BOQ Property App

Federal and state housing-related resources

Federal

ACT

NSW

NT

SA

TAS

VIC

WA