

3 April 2009

The Hon. Tanya Plibersek, MP
Minister for Housing
M1 45 Parliament House
Canberra ACT 2600

Dear Minister

Re: \$21,000 first home buyers grant for newly-built homes

As you know, the Urban Taskforce is a non-profit organisation representing Australia's most prominent property developers and equity financiers.

We have been strong supporters of the \$21,000 first home owner's grant for newly built homes that your government announced in October last year as part of the first economic security package. We note that the higher grant is due to end on June 30.

We're asking you to move as quickly as possible to **extend and increase** the \$21,000 grant for newly-built homes. The proportion of owner occupied home loans going to first home buyers shot up from 20 per cent (in September) to over 25 per cent. There is now a strong level of demand from first home buyers, motivated by both the government grant, and strong property fundamentals (a shortfall in housing supply by 85,000, low interest rates and rising residential rents).

We are concerned that any decision by the government to allow the increased grant, for newly built homes, to end before there is a full-scale recovery in home development will be premature. Despite strong property fundamentals, **a premature end to the grant will damage the confidence of first home buyers and put at risk any recovery in the housing market.**

The most recent figures from the Australian Bureau of Statistics tell the story. Home approvals in Victoria, the state with the most generous bonus for first home buyers, appear to be turning around, while approvals in NSW and Queensland are still trending downward.

The trend estimate for total new homes approved across Australia fell 2 per cent in February 2009. In NSW, the trend estimate fell by 4.3 per cent. The trend estimate has fallen for 15 straight months, with a total fall of 40 per cent over this period. In Queensland, the trend estimate fell by 7.7 per cent – the latest in 16 straight months of decline, with a total fall of 56 per cent. In Victoria, the trend estimate has turned positive – up 1.1 per cent. Victoria's positive result follows a 12 per cent decline over six months.

Unlike NSW and Queensland, Victoria is experiencing a relatively shallow dip in new home development. Victoria has the most generous assistance scheme for first home buyers. Thanks to a top-up payment by the state government, \$29,000 is available for new homes in regional areas and \$26,000 for new homes in the metropolitan area. As a proportion of home prices, Victoria has given a bigger boost to first home buyers than NSW - where the grant is just \$24,000 for new homes. In Queensland the grant is \$21,000 for new homes.

While Victoria does not look too bad, in NSW the February 2009 house approvals were 34 per cent below last year's equivalent figure, while approvals for apartments and town houses are 44 per cent lower. In Queensland, new house approvals are down 47 per cent on last year's figure, while apartments and town houses are 66 per cent lower.

There will be no recovery in the broader Australian economy unless and until there is a recovery in residential construction activity. Federal, state and local government needs to be focused on this goal.

The good news is that the seeds of a strong recovery have already been sown. Low interest rates and a shortfall in housing supply mean that some developers are keen to get going on new housing development, as long as demand holds up and credit can be made available.

We have separately asked the Federal Government to support residential development by expanding the Australian Business Investment Partnership to include lending for new major residential development projects. However, **we also need the Federal Government to urgently commit to an extension of the \$21,000 federal grant for new homes beyond June this year.**

We are aware of comments by Ric Battellino, from the Reserve Bank, who claims that if the first-home buyers grant was extended past its June deadline then developers may start pricing the bonus into the cost of properties at the low end of the market, leaving first-timers shut out of the market once more.

This claim wrongly overlooks the fact that the major impediment to ensuring an adequate supply of housing in recent years has been the high costs faced by developers (a very large part of which is local, state and federal government charges and taxes). It has not been possible to profitably produce enough housing for this segment of the market. In many areas the new house price would have exceeded the capacity of first home buyers to pay.

This means, even if developers do factor in the first home buyers grant, the public interest is still served, because the grant will offset some of the very high taxes and charges, and allow more homes to be built.

We are keen to meet with you to discuss this important issue. Ms Rebecca Deal from our office will contact your staff in the near future to see if we can find a mutually convenient time.

Yours sincerely

Urban Taskforce Australia

A handwritten signature in black ink, reading 'Aaron Gadiel', with a long horizontal stroke extending from the bottom of the name.

Aaron Gadiel
Chief Executive Officer