



# Levelling the playing field

**Submission to the Senate committee inquiry into the Help to Buy Bill 2023**

Brendan Coates

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### Introduction

Grattan Institute welcomes the opportunity to make a submission to the Senate Standing Committee on Economics inquiry into the Help to Buy Bill 2023.

Home ownership is slipping out of the reach of many younger, poorer Australians. Many older Australians who rent are also being left behind, with many condemned to a life living in poverty in retirement.

We support the proposal to establish a federal Help to Buy scheme, which would help more low-income Australians to secure home ownership, including many older Australians approaching retirement. But the income thresholds for eligibility for the Help to Buy scheme should be tightened to make sure that the limited number of places are made available solely to those who most need the scheme.

The scheme as proposed, with a limit of 10,000 places each year, is unlikely to materially push up house prices. But a substantially expanded scheme would materially boost demand for housing, and therefore also house prices, and so could prove counterproductive.

### Home ownership is increasingly out of the reach of poorer Australians

Within living memory, all Australians had a reasonable chance to own a home. But now, for many Australians the Great Australian Dream of home ownership is becoming a nightmare.

Home ownership rates are falling fast among younger, poorer Australians.<sup>1</sup> As a result, more Australians are renting well into their 30s and 40s. From 2001 to 2020, the share of 25–34 year-old households in the private rental market increased from 40 per cent to 51 per cent,

and the share of those aged 35-44 rose from 23 per cent to 37 per cent.<sup>2</sup>

At the forefront are single mothers, who are now more likely to be in a private rental than not, a big change from 20 years ago.<sup>3</sup> But now renting is not an uncommon experience for working-age households of all income levels. In 2019-20, well over 40 per cent of middle-income households aged 35-44 were renters. Nearly a quarter of couples who started their family more than five years ago are still in a private rental.<sup>4</sup>

Many older Australians were never able to break into the market as prices far outstripped incomes. Grattan Institute has previously projected that the share of over-65s who own their home is tracking to fall from 76 per cent today to 70 per cent by 2036, 64 per cent by 2046, and 57 per cent by 2056.<sup>5</sup> Today's older renters risk joining tomorrow's renting retirees, nearly half of whom already live in poverty.

The Federal Government's 2020 *Retirement Income Review* showed that most homeowners are on track for a comfortable retirement.<sup>6</sup> But Australians who rent are facing an increasingly bleak future. Senior Australians who rent in the private market are much more likely to suffer financial stress than homeowners, or renters in public housing. Nearly half of all retired renters are in poverty – with incomes below half the median.<sup>7</sup> Their numbers will only grow as fewer retirees in future own their homes.

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1. Coates (2022a).

2. Grattan analysis of ABS (2003) and ABS (2022). Age is the age of the household reference person.

3. Grattan analysis of ABS (2022).

4. Grattan analysis of ABS (ibid).

5. Coates and Chen (2019).

6. Callaghan et al (2020).

7. Coates and Nolan (2020).

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### A federal shared equity scheme could especially help older Australians into home ownership before they retire

The proposed Help to Buy scheme would help level the playing field for first-home buyers and help arrest the decline in home ownership among poorer Australians of all ages.

Under the scheme, the government would provide an equity contribution of up to 40 per cent of the purchase price of a new home, and up to 30 per cent for an existing dwelling, with buyers needing a minimum deposit of 2 per cent. It's a limited scheme: just 10,000 places would be offered each year.

Although attention inevitably focuses on first-home buyers, shared equity could help many older Australians into home ownership. Just 55 per cent of the poorest 40 per cent of 45-54 year-olds own their own home, down from 71 per cent four decades ago.<sup>8</sup>

Many middle-aged Australians were never able to break into the market as prices far outstripped incomes. Others have found it too hard to get back in after losing their home after a separation.<sup>9</sup> A shared equity scheme could help many of this group into home ownership, allowing them to pay off any remaining loan with their super at retirement.

Shared equity could help couples to remain in home ownership if they separate. The home is typically a family's largest asset, and splitting the equity in the home upon separation often requires it to be sold. Separating couples then often lack the assets to each purchase a new home, especially since to do so they would have to pay stamp duty again.

Just 34 per cent of women who separate from their partner and lose the house manage to purchase another home within five years, and only 44

per cent do so within 10 years. By contrast, 42 per cent of separating men buy a home within five years, and 55 per cent within 10 years.<sup>10</sup>

Unsurprisingly, older women who have separated or divorced are more than three times as likely to rent at age 65 than married women, whereas separated or divorced men are more than twice as likely. And separated women typically have just two-thirds the assets of separated men in retirement.<sup>11</sup>

Home ownership for everybody should not be the aim of government policy. But older Australians who don't own their home by the time they retire are often punished by the Age Pension assets test, which ignores housing equity but captures other savings. And Rent Assistance – paid to pensioners who rent – remains woefully inadequate, even after the recent 15 per cent increase.<sup>12</sup>

House prices have remained high, relative to incomes, even after interest rates have risen rapidly in the past two years. And even if the federal and state governments adopt much-needed reforms to lift supply and reduce demand, the deposit hurdle is likely to remain a problem for younger, poorer Australians who don't have access to a 'Bank of Mum and Dad'.

### Any impact on house prices would be small, provided the scheme remains modest in size

Shared equity schemes can result in higher house prices, by adding to housing demand. But targeting schemes tightly at lower-income Australians and lower-priced homes, and capping the scheme at

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8. Coates (2022a).

9. Coates (2022b).

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10. Ibid.

11. Ibid.

12. Coates and Moloney (2023).

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10,000 places a year, will moderate any impacts on house prices.<sup>13</sup> But a substantially expanded scheme would have a larger impact on housing demand, and therefore also house prices, and could prove counterproductive.

### The income thresholds for Help to Buy are too high

As well as benefits, there are drawbacks to the government's scheme.

The proposed income thresholds for the scheme – \$90,000 for singles and \$120,000 for couples – are too high. About 75 per cent of working-age singles earn less than \$90,000, and 39 per cent of couples earn less than \$120,000.<sup>14</sup>

The scheme should not be available to people earning above-average incomes who have a good chance of buying a home anyway. Instead, the scheme should only be available to singles earning less than \$60,000 a year (52 per cent of working-age singles) and couples earning less than \$90,000 a year (23 per cent of working-age couples).<sup>15</sup>

Also, requiring borrowers to have just a 2 per cent deposit, rather than a minimum of 5 per cent as Grattan Institute proposed, increases the risk of borrowers falling into negative equity if house prices fall. These provisions are not in the proposed Bill, but are instead left for subsequent regulations.

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13. If each buyer purchased a \$500,000 home on average, the scheme would add at most \$5 billion to housing demand in a \$10 trillion housing market, and probably a lot less given at least some participants will have purchased regardless.

14. Grattan analysis of ABS (2022).

15. Grattan analysis of ABS (ibid).

### Making housing affordable for all Australians requires more drastic reforms

While a step forward, a federal shared equity scheme is no silver bullet for Australia's housing crisis. Further reforms are needed to make housing more affordable for all Australians.

First, Rent Assistance needs to be raised further as an urgent priority. Rent Assistance remains the most effective way to support most low-income earners with their housing costs. But the maximum rate of Commonwealth Rent Assistance is inadequate. The recent 15 per cent raise should be turned into at least a 40 per cent lift from the previous level, costing the budget a further \$1.2 billion and helping nearly a third of all Australian renters. And other income support payments – especially JobSeeker – should be raised further.<sup>16</sup>

Second, the federal government should increase the size of the Housing Australia Future Fund (HAFF) to \$20 billion during this term of parliament, as initially recommended by Grattan Institute. This would support subsidies for social housing of \$1 billion a year, up from \$500 million a year currently. An expanded HAFF could deliver an extra 1,700 social housing units each year in perpetuity via the provision of capital grants.<sup>17</sup>

Third, the federal government should continue to push state governments to relax planning rules that prevent more homes being built in inner and middle-ring suburbs of our largest cities.

National Cabinet recently agreed to build 1.2 million homes over five years. Building those homes over the next five years should result in rents being 4 per cent lower than otherwise, saving renters more than \$8 billion in total.<sup>18</sup> This will benefit all renters, including

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16. See Coates and Moloney (2023).

17. Assuming an average capital grant of \$300,000 per social housing dwelling. See: Coates and Moloney (ibid).

18. Ibid.

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low-income renters, because each additional dwelling, no matter how expensive, adds to total supply, which ultimately improves affordability for everyone.

The onus is now on the states and territories to undertake the steps – especially reforms to land-use planning rules – to turn this welcome plan into reality.

### For further information

Further detail on our proposal for a federal shared equity scheme can be found in our 2022 [paper](#), *Levelling the playing field: It's time for a national shared equity scheme*.

Further detail on our broader suite of proposed housing reforms can be found in our recent [submission](#) to the National Housing and Homelessness Plan.

We would welcome an opportunity to appear before the committee. For further information please contact Brendan Coates, Economic Policy Program Director, Grattan Institute:

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