

2 October 2024

Dr Sean Turner
Committee Secretary
Senate Standing Committee on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600
Via email: economics.sen@aph.gov.au

Dear Dr Turner,

INQUIRY INTO AUSTRALIA'S FINANCIAL REGULATORY FRAMEWORK AND HOME OWNERSHIP

The Australian Finance Industry Association (AFIA) welcomes the opportunity to provide a submission to the Senate Standing Committee on Economics inquiry into Australia's financial regulatory framework and home ownership.

AFIA is the only peak body representing the entire finance industry in Australia¹. We represent over 150 members, including banks, finance companies, vehicle and equipment financiers, car rental and fleet providers, and fintechs. We are the voice for advancing a world-class finance industry and our members are at the forefront of innovation in consumer and business finance in Australia. Our members finance Australia's future.

INTRODUCTORY COMMENTS

Home ownership in Australia has long been promoted as part of the Australian dream. Many aspects of this dream are no longer available or feasible in current housing markets or relevant for the future needs and preferences of many Australians.

Appropriate housing is fundamental – housing markets should be accessible, reflect efficient allocation of capital and resources, support labour mobility and economic prosperity, and provide suitable housing through lifecycle stages and across communities.

Housing markets are influenced by supply and demand, which are impacted not just by market dynamics and urban/regional characteristics, but also government policies, including tax, regulatory settings, infrastructure, and immigration.

Specifically, new housing supply depends significantly on land use and planning regulations. In Australia, housing affordability is impacted by the way in which housing markets absorb construction or reflect prices. The reality is there are different housing affordability challenges in different locations and for different parts of our communities in Australia. In supply-

¹ afia.asn.au

constrained markets, like capital cities, such as Sydney and Melbourne, adjustments usually occur in higher prices, rather than expanding housing supply. In regional and rural areas, the issues associated with housing affordability are different in nature and scale.

Affordable housing is essential for the wellbeing of Australians. Not only does home ownership provide security of housing tenure, but it affords immediate and longer-term economic and social benefits. Housing stress has direct and indirect implications for economic and social participation, including educational, employment and health outcomes.

However, with a growing and ageing population, many Australians are finding it difficult to be able to access and afford to purchase a home that suits their personal and financial circumstances, including close to where they work. Saving a deposit is frequently cited as a significant impediment for younger people and people on lower incomes. The issue of housing affordability and home insurance is of major concern to many households, along with more general cost of living pressures. Many Australians are looking for different housing options and dwelling types. Changing demographics, lifestyle options and lifecycle stages, and infrastructure service requirements are cited as important factors in decisions for all age cohorts.

According to the 2021 Census², there were almost 10.9 million private dwellings in Australia, with 70 per cent separate houses, 13 per cent townhouses, and 16 per cent apartments. 31 per cent own their home outright, 35 per cent own with a mortgage, and 30.6 per cent rent, with 3.4 per cent other tenure or not identified. Almost 80 per cent of Australian residents live in eastern Australia in NSW, Victoria, Queensland and the ACT. 66.9 per cent of Australians live in greater capital cities and 33.1 per cent in the rest of Australia. With Australia's population, currently 26 million, projected to reach between 34.3 and 45.9 million people by 2071 (depending on immigration policies), housing affordability will continue to be a significant economic and social issue for Australia.

Despite collective and individual efforts by governments, businesses and community sector organisations, housing statistics have been stubborn, with this split of housing tenure in Australia broadly consistent over the past several decades. AFIA makes two observations:

1. There continues to be a significant portion of Australians that do not own their home despite numerous housing strategies, government initiatives, and home purchase assistance schemes, including the Housing Accord³, First Home Owner Grant⁴, First Home Super Saver Scheme⁵, Regional First Home Buyer Guarantee⁶, First Home Loan Deposit Scheme⁷, Family Home Guarantee⁸, Indigenous Home Ownership Program⁹, and stamp duty and other concessions, and various infrastructure funding programs.

² [Housing: Census, 2021 | Australian Bureau of Statistics](#)

³ [National Housing Accord: working together to help tackle housing challenges](#)

⁴ [First Home Owner Grant](#)

⁵ [First home super saver scheme | ATO](#)

⁶ [Regional First Home Buyer Guarantee | Housing Australia](#)

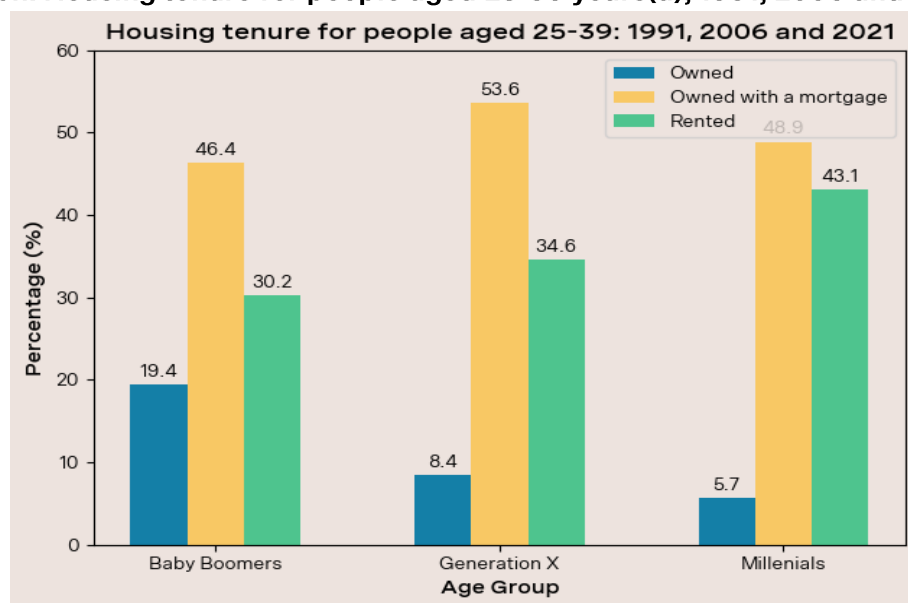
⁷ [First Home Guarantee | Housing Australia](#)

⁸ [Family Home Guarantee Scheme For Single Parents | Housing Australia](#)

⁹ [Indigenous Home Ownership Program \(IHOP\) | NIAA](#)

2. There has been a noticeable trend over the past several decades, with home ownership decreasing significantly for younger people. Fifty years ago, in 1971, home ownership rates for 25-29 year olds were 50 per cent, decreasing 14 per cent to 36 per cent in 2021. For 30-34 year olds during the same period, the home ownership rate was 64 per cent, decreasing 14 per cent to 50 per cent in 2021¹⁰. The 25-39 year old 'Baby Boomers' in 1991 were three times more likely than the 25-39 year old 'Millennials' in 2021 to own their home outright. The rate of home ownership in Australia has been decreasing since 1951, with the exception of very minor increases between 1977–1986.

Graph: Housing tenure for people aged 25-39 years(a), 1991, 2006 and 2021¹¹



However, in comparative terms, there are a significant number of Australian households served by a market-based housing system. Home ownership and private rental housing equate to 96 per cent in Australia, which is considerably higher than comparable advanced economies.

The impacts of the COVID-19 pandemic and changes in workplaces, such as the increase in working from home arrangements, on home ownership and housing tenure continue to play out in housing markets. These impacts will also likely take some time before changes are seen in trends analysis and to confirm whether these changes are temporary distortions or become the new normal. Notwithstanding, there are some impacts that are obvious, including housing prices in urban and regional locations, changes to dwelling types and designs, construction and other market disruptions, and government interventions.

Furthermore, it will also be interesting to see if these impacts and changes reflect general trends in housing globally or whether there are unique characteristics for the housing market in Australia. In mid-2020, the OECD conducted a study on the impacts of the COVID-19

¹⁰ [Owning a home has decreased over successive generations | Australian Bureau of Statistics](#)

¹¹ ["Back in my day" – comparing Millennials with earlier generations | Australian Bureau of Statistics](#)

pandemic on housing, which it indicates will be updated¹². What is clear, based on forecasts, housing supply in many areas is not keeping up with projected demand. For example, in Sydney projected demand will exceed forecasted new housing, even with the severe impact on immigration, temporary workers, and foreign students caused by the COVID-19 pandemic¹³.

Like all markets, the housing market is impacted by supply and demand. The ability for housing markets to supply enough housing where there is demand without undue urban sprawl or other trade-offs, such as quality and sustainability objectives, means inefficiencies do not erode housing affordability, hinder labour mobility and other economic indicators, exacerbate pressures on ecosystems, or result in social and financial exclusion. Home ownership is certainly impacted by factors, such as population growth and household and family composition. However, there are other factors that are influencing housing affordability in Australia, which AFIA believes is contributing to low home ownership, higher housing prices and costs, and adversely impacting on the quality and sustainability of housing, lifecycle stage choices, and financial wellbeing of Australians.

HOUSING FINANCE

Lenders assess a borrowers' capacity to repay a loan (known as a credit or serviceability assessment). These assessments are based on a number of factors, including the borrower's financial position (income and expenses), collateral (i.e. non-financial asset, property location and other characteristics), capital (i.e. financial assets, including deposit), and conditions (i.e. market, economic, employment, etc). Interest rates are often pointed to as the dominant influence on housing costs.

Interest rates

The current cash rate target is 4.35 per cent. In May 2023, the Reserve Bank commenced a cycle of interest rate increases to address high inflation in the post COVID-19 pandemic economy. In historical terms, the cash rate is not high with it entering a period of reducing interest rates around 15 years ago, which followed a period of much higher interest rates following the recession in the early 1990s. However, due to housing prices, borrowers are more significantly impacted by interest rate increases due to their higher costs of servicing a home loan.

The market rates set by lenders reference the cash rate, but these rates also reflect their overall cost of funds and other factors. All lenders access funding through capital and financial markets. The composition and cost of their funding depends on the individual lender. Banks and other Authorised Deposit-taking Institutions (ADIs) get deposits from customers. Banks and non-ADI lenders use securitisation markets. Lenders also raise funds through commercial paper, bond markets and private credit. Funding is sourced from short-term and long-term markets.

¹² OECD (2020), "Housing amid Covid-19: Policy responses and challenges", *OECD Policy Responses to Coronavirus (COVID-19)*.

¹³ [Sydney housing supply forecast](#)

Therefore, market rates reflect funding costs, but also costs associated with credit (including the credit rating of the lender, demand for credit, credit score of the customer, size of the loan, size of the deposit, collateral, etc), market conditions (including inflation expectations, interest rate volatility), and operating expenses as well as profit.

While it might seem obvious that low interest rates mean repayments are lower, and higher interest rates means repayments are also higher for borrowers, the fact that lenders include an interest rate buffer in their credit or serviceability assessment means that changes in interest rates impacts more on a borrower's budget and discretionary spending capacity.

Mortgage market

Competition in the mortgage market has led to innovations in lending products, services, and technologies available through a range of lenders, including ADIs and non-ADI lenders, such as finance companies, specialised lenders and fintechs.

ADIs and non-ADI lenders all play an important role in lending markets. Competition and innovation have increased access to finance for households and businesses in Australia. Different business models focused on offering products, services, and technologies in different ways means Australians have choice in not just the type of finance available, but in how they access finance, ensuring it is suitable to their personal and financial needs and circumstances. ADIs are prudentially regulated by APRA because they hold deposits. Non-ADIs do not hold deposits, but are regulated by ASIC for the activities they perform and the products, services, and technologies they offer customers.

There is a wide variety of home loans in the Australian mortgage market, ranging from a basic standard variable interest rate product with lower associated costs, through to products with additional features, variable or fixed interest rates, and other benefits suited to borrowers with different needs.

The following outline a number of these product innovations:

Standard variable rate or fixed rate home loans

Home loans can be a standard variable interest rate product, where the interest rate changes according to market rates, or a fixed interest rate product, where the interest rate is locked in for a period of time (usually between one to five years, sometimes 10 years).

Principal and interest-only products

Repayments on a home loan are calculated based on the repayment of the loan amount (principal) and interest over a period of time (usually 25 or 30 years). However, interest-only products can assist a borrower by making lower repayments for a period of time. In this instance, the repayment does not cover the principal, which means the amount borrowed does not decrease over this period.

Redraw facilities

Where the borrower has made additional repayments, they are able to access these funds if their circumstances change. This encourages borrowers to make additional repayments when

their financial capacity permits, and then to use those funds if required (i.e. renovation on the property).

Offset accounts

A separate transaction account in which funds can be deposited and accessed can be linked to a standard variable home loan to reduce the amount and therefore the interest rate is calculated off a lower loan amount, meaning the repayments are lower.

Other flexible mortgage products

Lenders have provided further innovations and options for home loan customers, with features that enable better cost management and minimisation, including:

- split loans – a portion of the home loan is fixed and the remainder standard variable
- repayment matches – a non-standard repayment period is introduced, usually to match the frequency of a salary payment to assist direct debits
- repayment adjustments on fixed loans – a threshold amount is permitted to be deposited into the loan to reduce the principal, even though the home loan is a fixed home loan
- rate locks – a fee is charged to lock in a certain interest rate while a property transaction or loan application is being finalised, which can protect against increases in interest rates, and
- higher LVR products – a typical home loan requires a 20 per cent deposit, a higher LVR loan permits a lower deposit amount, but will likely also require Lenders Mortgage Insurance (LMI).

Additionally, technology advances mean customers are getting additional services, many available directly through their lenders' website, app or digital platform. For example, data analytics and tools provide customers with budgeting tools, spending assessments, and other tools to build financial literacy and capability. Others are also providing access to property and industry reports and integrating these services with third-party market platforms for real-time insights and updates.

With lenders offering discounts and additional benefits, shopping around for a home loan that best suits a borrower is advisable. There are a number of comparison websites, but many Australians are accessing their home loan product through a mortgage broker. According to the Mortgage and Finance Association of Australia (MFAA), brokers settled 73.7 per cent of all new home loans during the June 2024 quarter, representing a 6.5 per cent increase over the preceding 12 months¹⁴. This increase in use of mortgage brokers is likely to reflect market conditions as well as the preference for Australians to get 'the best deal'.

Recommendations

Australia's mortgage market is competitive and innovative, especially compared to other countries. However, there are additional initiatives for government and industry to promote greater efficiency and accessibility in housing markets.

¹⁴ [Mortgage broker market share remains strong in June quarter | MFAA](#)

AFIA recommends the following:

1. Macroprudential Policy

APRA announced no changes to their macroprudential policy settings in December 2023. Specifically, APRA has decided to maintain the mortgage serviceability buffer at 3 per cent for ADIs. The reasons provided by APRA are uncertainty regarding the economic outlook, ongoing geopolitical tensions, and cost of living pressures, noting the “serviceability buffer remains prudent and provides an important contingency over the life of the loan for unforeseen changes in a borrower’s financial circumstances”¹⁵.

The objective of macroprudential policy is to mitigate risks to financial stability at a system-wide level. APRA’s assessment is that existing macroprudential policy settings for ADIs remain appropriate in the current risk environment. In 2023, the ten largest mortgage lenders in Australia comprised over 92 per cent of the mortgage market, with all these lenders being banks. Conversely, non-bank lenders accounted for less than 5 per cent of the mortgage market in Australia.

APRA also has powers that can be used to extend macroprudential policy to non-APRA regulated lenders, in certain circumstances. The *Banking Act 1959* allows APRA to extend macroprudential policy to non-bank lenders where their provision of finance is materially contributing to risks of instability in the Australian financial system. APRA’s assessment is that there is no need to apply macroprudential policy measures to non-ADI lenders.

AFIA believes any legislative or regulatory responses, including macroprudential policy, should be proportionate, targeted and scalable, fit for the future, and evidence-based. Australia is experiencing a multi-speed economy and varied economic recovery from the COVID-19 pandemic and subsequent economic disruptions, which makes the implementation of macroprudential policy measures more difficult to implement without causing immediate and longer-term adverse and unintended consequences for access and choice, competition and innovation, and participation in finance.

Access and choice, competition and innovation, and participation must be considered along with financial stability to ensure the Australian financial system not only facilitates the smooth transfer of capital and promotes economic growth, but also supports financial inclusion.

AFIA is concerned that the mortgage serviceability buffer at this point of the interest rate cycle and the potential of extending macroprudential interventions into lending practices of non-APRA regulated entities may result in adverse and unintended consequences for customers, such as financial exclusion for certain customers including first home buyers, self-employed, and migrants. Regulatory interventions may also have adverse and unintended consequences for lending markets, such as smaller ADIs and non-ADI lender’s ability to manage their portfolios and/or adhere to specific controls not easily absorbed into lenders reliant on securitisation markets for their funding. A lack of funding optionality for non-ADI lenders would have a material impact on competition and innovation and limit access to

¹⁵ [Update on Macroprudential Settings – December 2023 | APRA](#)

finance for customers who choose not to use the products, services, and technologies of an ADI or customers that sit outside the risk appetite of an ADI or outside the offerings provided by an ADI.

Therefore, AFIA recommends that when looking at potential changes to the implementation of macroprudential policy measures, the following should be considered:

1. For ADIs, it is important to ensure macroprudential settings do not disproportionately or inadvertently impact on access to finance and refinancing activities. We should be considering broadly the interventions and whether this is having adverse impacts on access to credit, particularly first home buyers.
2. For smaller ADIs and non-ADI lenders, it is important to ensure any changes or the imposition of macroprudential settings do not impact on access to finance for households and businesses as well as competition and innovation in the financial services industry. We should be encouraging greater market share for smaller ADIs and non-ADI lenders, noting that by comparison, these lenders comprise around 10 per cent of the mortgage market and around 30 per cent of the SME finance market in the United Kingdom.

AFIA notes the Treasurer has asked the Council of Financial Regulators (CFR) in consultation with the ACCC, to conduct a review of the small and medium-sized banking sectors¹⁶. This review should include consideration of competition and innovation in lending markets, including ADI and non-ADI lenders.

2. Restricted ADI Licence

APRA announced changes to their Restricted ADI licence requirements in August 2021, noting the launch of the Restricted ADI licensing pathway in 2018¹⁷. AFIA supported these changes, particularly clarification on milestones through the application process. However, the Restricted ADI licence requirements have not resulted in encouraging and ensuring new ADIs are equipped to succeed. The requirements and processes are onerous. To promote further competition and innovation, AFIA recommends APRA conduct a further review.

3. Consumer Data Right (CDR)

AFIA supports the Federal Government's announcement to reset the CDR to deliver better outcomes for consumers and lenders¹⁸. AFIA supports focusing on commercial use cases, being consumer lending, energy and accounting services for SMEs. We also support making adjustments to existing rules, making it easier for banks and voluntary participants as well as consumers. Streamlining the data rules and clarifying how the regime applies to a Restricted ADI (i.e. simplifying the onboarding process and reducing some of the upfront and ongoing costs), will make it easier and less expensive for smaller participants to become accredited. To

¹⁶ [Small and medium-sized banks review | Treasury](#)

¹⁷ [APRA finalises new approach to licensing and supervising new banks | APRA](#)

¹⁸ [Albanese Government to reset Consumer Data Right | Treasury Ministers](#)

promote the CDR and ensure its success, AFIA recommends the Federal Government continue to increase consumer awareness of the CDR.

4. Responsible Lending Obligations (RLOs)

The RLOs contained in the *Corporations Act 2001* and administered by ASIC through Regulatory Guide: Credit licensing: Responsible lending conduct [RG 209] require lenders to undertake specific and considerable steps to ensure that a credit contract is ‘not unsuitable’ for a consumer if the contract is entered into or the credit limit is increased. Under existing law, a lender needs to make reasonable inquiries about a consumer’s financial situation, and their requirements and objectives and take reasonable steps to verify a consumer’s financial situation.

Consumers and lenders alike want credit assessments as efficient and loan decisions as fast as possible, which is resulting in increasingly tech-enabled and data-driven solutions. AFIA recommends ASIC review RG 209 to ensure it reflects the scalability inherent in the existing law, which permits a lender flexibility in their assessment processes so long as they do not make unsuitable loans. RG 209 should be changed and improved to ensure it remains current with customer expectations, industry practices and technology, such as how data-driven decision making and technology could be better incorporated and how benchmarks could be used as part of assessment processes. The review should ensure RG 209 better supports proportionate regulation, scalability and technology neutrality, which would benefit consumers and lenders.

5. Comprehensive Credit Reporting (CCR)

The CCR regime is mandatory for the major banks. However, many other ADI and non-ADI lenders voluntarily participate. AFIA supports expanding the CCR regime and extending the benefits of the regime for customers and participants through the enhancement of categories of lenders that can contribute to CCR, especially as the scope and transition to the CDR for non-ADI lenders continues to be resolved.

To allow smaller, specialised and fintech lenders to participate in the CCR regime facilitates a more competitive environment, which in turn facilitates more customer choice. To access CCR, a lender must hold an Australian Credit License (ACL) (applicable to consumer lending) and provide reciprocal consumer lending data to the credit bureaus and other credit providers, which small business and specialised lenders are unable to do since they hold commercial, not consumer, data. The nature of the products that some of our fintech members offer, as well as the need not to hold an ACL, means many of our members are currently excluded from the CCR regime.

Access to data is important to manage credit risk, effectively compete in lending markets, and improve customer choice – customers that use these online lending products and look for finance from other market participants could benefit from a credit reporting system that facilitates exchange. AFIA recommends new categories should be created within the CCR regime to allow for the voluntary participation of smaller, specialised and fintech lenders.

6. Corporate Bond Market

Australia has a smaller and less mature corporate debt market than peer jurisdictions, which makes it more susceptible to larger economic shocks and less supportive of growth. During the COVID-19 pandemic, the Federal Government introduced specific stimulus and emergency measures to support the flow of credit and mitigate the initial economic shocks. These measures included:

- the Reserve Bank's Term Funding Facility (TFF), which provided liquidity support to the market through banks.
- the Structured Finance Support Fund via the Australian Office of Financial Management (AOFM), providing liquidity to securitised lenders, especially to facilitate lending to small and medium businesses.
- the AOFM's Forbearance SPV to assist smaller lenders impacted by forbearance arrangements in their securitisation vehicles and funding warehouses.

These emergency measures were very beneficial in that they stabilised the Australian financial system and allowed the economy to absorb the initial shocks of the crisis. However, these emergency measures are interventions, and inevitably interventions impact on markets. Lessons learned from the global financial crisis informed these measures, and going forward, lessons learned from the COVID-19 crisis should influence future emergency measures and settings. AFIA recommends the AOFM continues to perform its usual financial management and portfolio operations for the Government, but also is ready to undertake emergency measures at times of significant distress in debt capital markets.

AFIA believes there is an opportunity to consider developing deeper and more liquid debt capital markets to support all lenders and to target supply of affordable housing. Smaller, specialised and fintech lenders provide solutions for their customers, especially where others do not have the business infrastructure, technology, risk appetite or have chosen not to serve certain parts of the economy. Deepening the debt capital markets in Australia will provide additional funding opportunities for lenders, provide new capital raising strategies to support and expand housing programs, and may also be attractive to offshore investors who see the value and opportunity to diversify investment into the Australian market.

AFIA recommends that changes to legal and tax settings applicable to the corporate bond market should be made to promote debt capital raisings, including bonds for affordable housing and infrastructure projects. Furthermore, we recommend Treasury conduct a review of overseas initiatives by governments in comparable advanced economies to support housing affordability and whether similar programs could benefit Australia.

Additionally, longer-term government bonds and securities will create an environment to support longer-term corporate bond issuances as well as other finance products, such as longer fixed rate mortgage products (i.e. 10-30 year fixed loans). Other mortgage markets have created these products that assist a borrower's budget, have certainty with their housing costs, and lower regular repayments (albeit the overall cost of the home loan over a longer period of time is higher). Pre-payment fees are typically paid to discharge such a mortgage early in overseas markets, although often if the home loan is held longer than five years, these

fees can be adjusted or waived. If the borrower stays with the same lender, they may also be able to keep the same mortgage terms they had on the old property for the new loan on the new property.

7. Housing options for key workers

The National Rental Affordability Scheme (NRAS) is a Federal Government initiative that aims to increase the supply of affordable rental dwellings. NRAS, which commenced in 2008, provides an annual financial incentive for up to 10 years to approved participants who rent dwellings to eligible people on low to moderate incomes at a rate at least 20 per cent below market rent. NRAS dwellings are not social housing, they are affordable private rental homes.

There are mixed views as to whether the NRAS is a success. This program certainly delivered affordable housing for some of Australia's key workers, with data as of September 2024 showing there have been 65 approved participants assessed and paid, in total or in part, resulting in 18,511 incentives issued, which means on average 1,157 per year since inception of the program.

AFIA supports initiatives to promote greater supply of affordable housing for key workers. However, we believe a new approach is needed to incentivise longer-term investment by institutional investors, community housing organisations, and property developers. AFIA recommends Treasury conduct a review of overseas examples of affordable housing initiatives in comparable advanced economies and consult with NRAS participating organisations (approved participants) and lenders to identify improved program ideas and identify approaches to better promote and scale affordable housing, both home ownership and rental properties. Perhaps 'rent-to-buy' or equity share programs could be added to maximise benefits and minimise discrete program costs for governments as well as confusion about different program options for Australians.

LAND USE AND PLANNING CONTROLS

Housing affordability is mixed across Australia, with housing prices decreasing in some urban areas, but increasing for certain housing stock and in some regional areas. Housing location, design and infrastructure needs are changing. However, planning and development is not delivering the best mix of housing supply. While some constraints on housing supply relate to geography and urban characteristics, construction activity is significantly impacted by regulations and restrictions.

Other research and commentators have highlighted the geographical divides in our major cities, with younger people and people on lower incomes concentrated in the outer areas and often a significant distance from their place of work. Inflexible planning rules, limited supply of land, and insufficient housing construction to meet housing demand have driven this trend.

Recommendations

To construct additional and more affordable housing, local, state and territory governments should adjust planning rules to allow more homes to be built in the inner and middle suburbs of our major cities. However, governments should also reform land use and planning controls to

minimise housing risks and negative impacts for our communities, including adverse development consents, consequences of natural disasters, and insufficient infrastructure and energy services.

AFIA recommends the following:

1. Density restrictions

AFIA believes that height and density restrictions should be reviewed with a view to allowing more modern development along key growth and transport corridors (with higher apartment buildings, offset by additional ground level green space provided as part of the housing development and to promote open-space areas within communities).

2. Zoning and use restrictions

AFIA believes rezoning and segregation use restrictions should be reviewed with a view to permitting more integrated communities, subject to a longer-term zoning system to create mixed-use neighbourhoods and easily walkable communities, with parks, education, and other community facilities. Other factors will need to be assessed, including building standards and noise restrictions to enhance peaceful enjoyment of homes (e.g. restaurants, cafes, and bars, childcare facilities, and health and gym facilities may need to be operating indoors only depending on locations to surrounding residences, etc).

3. Balancing heritage protection with other building requirements

AFIA believes certain heritage guidelines, restrictions and other planning rules need to be balanced against ensuring buildings being re-developed can meet modern building requirements and homeowner needs, subject to similar visual and aesthetic requirements being met. To ensure housing developments in inner city locations can be completed without creating unintended costs or risks for homeowners, it is essential that modern living recognises the changing climate and weather-related risks and accommodates for these risks in approvals, such as storm drainage, air conditioning facilities, treated, glazed or soundproofed glass, etc, while maintaining heritage and environmental controls.

4. As-of-right rules

AFIA believes small-scale urban infill projects should be allowed without council planning approval (i.e. 'as-of-right'), subject to appropriate residential development restrictions and sustainable building designs being met.

5. Strata living

AFIA notes that where there has been a change in home ownership and private dwelling types is the increase in apartments. This trend is likely to continue, particularly in major cities. Strata living is becoming increasingly complex and expensive. AFIA believes strata laws and support services should be adjusted to encourage commoditisation of shared facilities and mixed-use buildings for the benefit of the owners corporation, minimise control by commercial property owners and developers, and maximise the ability for strata levies (or similar) costs to be offset through income streams generated from the building.

We believe there should be a review of strata management services across Australia, recognising there are different laws and regimes in state and territory jurisdictions. Furthermore, we believe that governments should continue and expand funding programs to support assessment, upgrade and transition of strata buildings to accommodate better infrastructure and charging facilities for electric vehicles and alternative energy solutions.

6. Duties and taxes

AFIA believes stamp duties and other taxes should be reformed. Consideration should be given to replacing stamp duty with property taxes, imposing a flat rate with no tax-free threshold for land taxes on investment properties, and providing favourable property tax treatment for target housing markets (e.g. growth and transport corridors, key worker housing projects, etc). The Government's Intergenerational Report¹⁹ continues to identify the challenges in the outlook for our economy, with taxation reform needing to be looked at and changed more holistically than consideration of housing and property investment taxation in isolation.

7. Economic modelling and industry data

AFIA believes an information and data exchange would facilitate greater collaboration across government and business to assist with generating additional and more affordable housing, built to meet high building and sustainability standards. AFIA recommends an information hub (or similar) should be established to facilitate land use and planning control reforms that incorporate insights and experiences from the building, finance, and insurance industries to ensure sustainable and resilient housing, particularly in the aftermath of natural disasters.

8. Urban planning and regional infrastructure

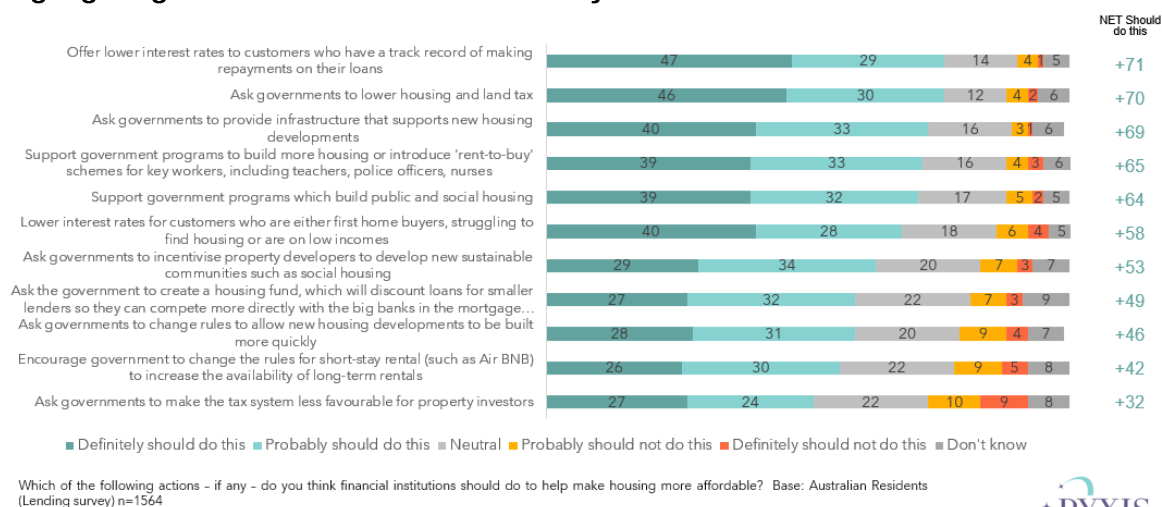
AFIA believes renewed plans for major cities and infrastructure connectivity to regional areas should be developed by local, state and territory governments, in consultation with property, business, finance and community representatives. Consideration should be given to ensuring the supply of new greenfield land for residential and mixed-use developments, particularly in Sydney and Melbourne, improving future-focused transport and infrastructure reflecting the increased interconnectivity of urban and regional economies, and improving building and sustainability standards to reflect changes in needs and preferences following the COVID-19 pandemic and the impact on work, lifestyle, and other factors.

CONSUMER EXPECTATIONS

AFIA recently commissioned Pyxis Polling to conduct research into consumer attitudes towards finance and housing affordability. The results show that consumers would like lenders to offer lower interest rates to borrowers with a proven track record of making repayments on their home loan and they want lenders to work with governments on lowering housing and land taxes as well as promoting infrastructure to support new housing developments. The least popular approach to making housing more affordable and home ownership more achievable is making the tax system less favourable for property investors.

¹⁹ [Intergenerational reports | Treasury](#)

Summary: Consumer preferences about options for addressing housing affordability, highlighting actions for the finance industry



GOVERNMENT POLICY

The majority of Australians aspire to home ownership. However, housing affordability is significantly impacted by restrictions on housing supply and well-intentioned government schemes that do not afford adequate flexibility to address the different needs and preferences of homebuyers, homeowners, and renters.

AFIA supports the development of a new strategy and the consultation on the new National Housing and Homelessness Plan. It is important for the Federal Government to work in partnership with state and territory governments, businesses, especially the finance industry, and community stakeholders. We believe a rethink of social housing policies to address homelessness and housing inadequacies for low socio-economic cohorts and retirement policies to address tax concessions, incentives and disincentives associated with housing downsizing by older people should introduce an investment mindset, whereby appropriate and affordable home ownership is supported through different lifecycle stages. Housing supply should better match lifecycle stages based on demographic data, forecasts, and a thorough assessment of homebuyers, homeowners and renters' needs and preferences. The impact of the COVID-19 pandemic is a catalyst for such a rethink and creativity about the future supply of housing in Australia.

Additionally, AFIA supports the various schemes and incentives to encourage home ownership, particularly people on lower incomes and first home buyers, such as the Family Home Guarantee. However, we believe there would be benefits in extending and consolidating this scheme with other government initiatives, including the First Home Owner Grant, First Home Loan Deposit Scheme, First Home Super Saver Scheme, and other initiatives offered by state and territory governments.

To promote greater accessibility and to target specific housing outcomes, such as construction in growth and transport corridors or supply of affordable housing for key workers, AFIA recommends that Treasury conduct a review of these various schemes to identify appropriate changes to the eligibility criteria and other improvements, including potentially simplification, consolidation and expansion of the schemes. Lessons from the First Home Loan Deposit Scheme and the SME Guarantee Scheme/SME Recovery Loan Scheme should form part of the review. The Federal Government should also ensure better promotion of these schemes and incentives, with details about these home ownership opportunities not easily or readily available for target consumers and potential new homeowners. Perhaps a new housing campaign can be established as part of the new national plan.

CLOSING COMMENTS

Home ownership prospects and housing affordability forecasts have a number of interpretations based on different metrics and assumptions. However, concerns with housing affordability across advanced economies at aggregate share a common observation – as housing prices have increased and housing affordability has decreased, wealth inequalities have widened.

It would be incorrect to make simple or direct correlations. Nevertheless, home ownership does contribute to wealth creation and wellbeing. Home ownership does not just generate equity, it helps manage living costs, provide living security, and research proves, deliver other social benefits and health outcomes. Home ownership will not be for everybody. Therefore, housing policies must provide affordable housing options for renters, not just homeowners, and recognise the benefits of the security of housing tenure, more generally.

Home ownership and housing affordability is an issue for all levels of government in Australia. It has proven difficult to secure agreement about the right mix of responsibilities for housing policy among the various levels of government and how best to address the various issues for different parts of our communities with housing affordability factors. Therefore, a new national approach to housing must be based on government, business, and community collaboration to promote choice in and access to housing finance, drive competition and innovation, and support greater financial, and therefore social, participation across our community.

AFIA believes several policy levers can deliver progress across multiple housing objectives, including social housing investment, land-use planning and housing taxation. However, trade-offs between policy objectives need to be considered and managed carefully, notably between the quantity, affordability, quality and sustainability objectives. Aligning housing policies across and within levels of governments and through spatial planning that spans across functional territories is key to fostering inclusive, efficient and sustainable housing markets.

Above all, a new national approach should focus on immediate housing and development requirements and longer-term plans for sustainable housing, with our policies integrated with plans for infrastructure, energy, and modern living.

Should you wish to discuss our feedback further, or require additional information, please contact Roza Lozusic, Executive Director, Policy & Public Affairs at roza.lozusic@afia.asn.au.

Yours sincerely

A handwritten signature in black ink, appearing to read "Diane Tate". The signature is fluid and cursive, with the first name "Diane" written in a larger, more prominent script than the last name "Tate".

Diane Tate
Chief Executive Officer