



May 9, 2014

Mr Lyndon Rowe
Economic Regulation Authority Chair
PO Box 8469
PERTH WA 6849

Dear Mr Rowe

RE: AN INQUIRY INTO MICROECONOMIC REFORM IN WESTERN AUSTRALIA

Please find the attached submission to the Economic Regulation Authority which outlines the ABN Group's response to the Inquiry into Microeconomic Reform in Western Australia.

The Alcock-Brown-Neaves Group (ABN Group) is Australia's leading residential building, construction and finance groups. In the interests of the residential building industry, first home buyers and the wider impact on the State's economy, the ABN Group welcomes the opportunity to provide a submission.

Areas of particular relevance to the ABN Group relate to Keystart and the review of state taxes and the effect that these can have on housing affordability, on which we respectively provide comment.

Kind regards

DALE ALCOCK
ABN GROUP MANAGING DIRECTOR



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1. Introduction

The Alcock-Brown-Neaves Group (ABN Group) is Australia's leading property, construction and finance group. Since 1978 we've built over 55,000 homes, provided finance for more than 21,000 homeowners and developed many award winning commercial and residential projects.

As well as this, we do conveyancing, plumbing, renovations, concreting, roofing, ceiling and wall fixing, kitchen design and installation and property investment. Employing more than 1,400 people, 3,000 independent construction contractors and more apprentices than any other Australian builder – we've cemented our place in the community.

The ABN Group welcomes the opportunity to provide a submission to the Economic regulation Authority on its Microeconomic Reform paper, particularly on the matters of Keystart and the review of state taxes.



2. Keystart

The ABN Group does not support the abolishment of Keystart.

Some of WA's most recognisable first home buyer housing brands and finance businesses sit within the ABN Group. Our finance business, Resolve Finance has been in operation for over 15 years. Resolve deals primarily with first home buyers looking to build their new home. For this reason, the ABN Group has a solid understanding of where Keystart fits into the market, from both a builder and financier's perspective.

Keystart plays a significant role in the Western Australian housing market, funding 20% of all first home buyers and 4% of all home buyers.

The decision to abolish Keystart would have a devastating impact on the State including:

- A widening gap between those who can and cannot qualify to get into the housing market, potentially placing increased reliance on public housing and rental subsidies
- A reduction in State Growth
- Keystart no longer delivering profits to the State Government (with the potential to direct money into areas such as public housing and rental subsidies)
- An adverse impact on companies that operate within or support the residential building industry.

Keystart allows many West Australians to overcome the 'deposit gap' hurdle. This hurdle acts as a barrier to many first home buyers. Once this barrier is overcome, most customers prove to be well-performing home loan customers. Many of these transition to main stream lenders over a period of time. In this capacity, Keystart is simply acting as an enabler to home ownership.

As a Government backed financier that addresses the issue of house affordability which, we understand, does not require any ongoing financial assistance, the ABN Group provides its full support to Keystart.

2.1 The 'Deposit Gap'

The single greatest hurdle to home ownership for first home buyers is overcoming the 'deposit gap'.

The latest Genworth market update (March 2014) highlights that for those in the lower income bands, it can take more than seven years to save for a deposit while in the rental market. Consequently, many give up.

Keystart's credit policy is largely aimed at overcoming this challenge and making homeownership accessible. 'Deposit Gap' issues are likely to increase in the short term with recent changes to stamp duty concessions and banks' changing credit policies.



2.2 Risk of Keystart lending

Keystart's lower deposit requirement does not necessarily correlate with more "risky" customers.

In fact, a number of Keystart's loan assessment standards are more stringent than other lenders in areas including:

- A customer's ability to repay is assessed on the basis of an interest much higher than the current rate. This interest rate buffer is higher than other lenders
- Maximum level of external (consumer) debt
- Strict adherence to published assessment criteria. There can be no variation to policy
- While the level of genuine savings is less – the examination of the transactions that make up these savings are far more rigorous than any other lender in the market place

While the ABN Group is unable to state specific arrears / loss rates for Keystart, we suspect that this would confirm that strong management and credit policy delivers a reasonable outcome in this area.

The report's reference to the US sub-prime market is incorrect. There are many significant market differences, including but not limited to:

- The sub-prime market being largely made up of low documentation (Lo-Doc) loans where customers were not required to produce evidence of income/employment or savings
- Many of the US borrower's obligations were limited to the sale of the security property. This made it easy for borrowers to simply hand back the keys.
- Many lenders provided loans to customers on artificially low interest rates. These rates were pegged well below market on the basis they would be increased in later years. A customer's ability to repay was calculated on these lower rates. When these adjustable rate mortgages (ARM's) were increased in later years the repayment shock to customers was significant.



2.3 Eligible Keystart Customers

The ERA report suggests that 69% of the Greater Perth region would be eligible for Keystart financing.

As this figure is based on income criteria only and does not take Keystart's other credit policies (maximum consumer debt level, savings criteria etc.) it is ABN Group's experience that the customers eligible for Keystart funding would be much less.

Our Resolve Finance business deals with many lenders. Based upon our experience we consider the number to be closer to 20% of the WA population rather than 69%.

3. Review of State Taxes

The ABN Group welcomes the tax reform discussion occurring at the state level, and supports the Economic Regulation Authority's proposal to increase the reliance on efficient taxes and reduce or abolish inefficient taxes.

3.1 Residential transfer duty

Any move to change stamp duty in a way that would adversely impact homebuyers, particularly first home buyers, will place further pressure on housing affordability. This will in turn put pressure on the State's economy, because the home building industry is such a large contributor to employment, growth and the economy.

The ABN Group would, however, support a strategic and considered approach to replacing stamp duty with a long-term outlook to increase housing affordability in WA and stimulate economic growth.

Based on independent economic modelling commissioned by the HIA, housing affordability could be improved with the implementation of reforms which remove inefficient taxes that specifically increase the cost of housing, such as stamp duty on conveyancing, and replace the government revenue with more efficient taxes.



3.2 Payroll Tax

The ABN Group also strongly believes that payroll tax limits business and employment growth and development in this state. Although the ERA report labels payroll tax an efficient tax, ABN Group believe any review of state taxes must include a review of the impact of payroll tax, with a view to reducing the Government's reliance on this source of income.

3.3 Land tax

Land taxes incurred during the development phase of housing also add significantly to the holding costs of developers. After the recent State Budget announcement land tax has increased over 30 per cent in the last two years.

This additional cost is passed onto the homebuyer and therefore further erodes housing affordability in this state.