

Federal budget 2017/18

- Budget deficit of \$29.4b expected in 2017/18, returning to a surplus of \$7.4b in 2020/21.

- First-home buyers to salary-sacrifice up to \$30,000 into their superannuation to help save for a home deposit.

- Downsizers will be able to put \$300,000 each into their superannuation, from the proceeds of their principal residence.

- New measure, including a bond aggregator, to help boost the supply of affordable housing.

- \$75 billion commitment for new and existing infrastructure projects, including inland rail and a new Sydney airport.

The first federal Budget delivered since the July 2016 election has seen the government attempt to help first home buyers save for a deposit, incentivise downsizers to move and address the much needed under investment in affordable housing. While no single item contained in this year's budget is expected to have a major impact on property markets, the combination of several smaller demand and supply side measures should help increase housing stock and moderate affordability pressures.

Economics

The final position for the 2017/18 financial year is forecast to be a deficit of \$29.4 billion, representing 1.6% of GDP, down from \$37.6 billion in 2016/17. Forecasts also suggest economic growth (GDP) will pick up from 2.75% this financial year to 3.00% in 2017/18.

First Home Buyers

A new first home buyer initiative, allowing the demographic to salary sacrifice into their superannuation, should help this group save for a deposit. These voluntary contributions and associated earnings will be taxed at 15% rather than marginal rates and be limited to \$15,000 per year and \$30,000 in total.

Downsizers

The budget encourages seniors to downsize from long-held, larger homes. This measure will allow a person, aged 65 or over, to make an additional non-concessional contribution of up to \$300,000 from the proceeds of selling their principal residence, if owned for 10 years or more. In addition, both members of a couple will be able to take advantage of this measure for the same home. This is a positive measure from the government and will hopefully be the catalyst to bring under-utilised family homes to the market.

Affordable housing

The government has made a welcome and significant commitment to the provision of affordable housing. They have tasked Treasury to set up the National Housing Finance and Investment Corporation which will operate an affordable housing bond aggregator. This bond will help provide cheaper and longer term finance for community housing providers.

2017/18 Federal budget economic indicators

	Actual	Forecasts		Projections		
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Budget position (Underlying cash balance)	-\$39.6b	-\$37.6b	-\$29.4b	-\$21.4b	-\$2.5b	\$7.4b
Economic growth (Real GDP)	2.60%	1.75%	2.75%	3.00%	3.00%	3.00%
Inflation (CPI)	1.00%	2.00%	2.00%	2.25%	2.50%	2.50%
Wage growth	2.10%	2.00%	2.50%	3.00%	3.50%	3.75%
Unemployment rate	5.70%	5.75%	5.75%	5.50%	5.50%	5.25%
Employment growth	1.90%	1.00%	1.50%	1.50%	1.50%	1.50%

Source: The Commonwealth of Australia

Other housing related changes

Property investors who negatively gear property will no longer be able to claim travel expenses. In addition, there are some limits being placed on the depreciation of plant and equipment. **Property developers** will be prevented from selling more than 50% of a new development to foreign investors. **Foreign investors** will be levied \$5,000 per year for any property that they fail to occupy or lease for at least six months every year. There are also some capital gains tax changes directed at foreign investors. These include denying them access to CGT main residence exemption, increasing the withholding tax rate and threshold.

Infrastructure

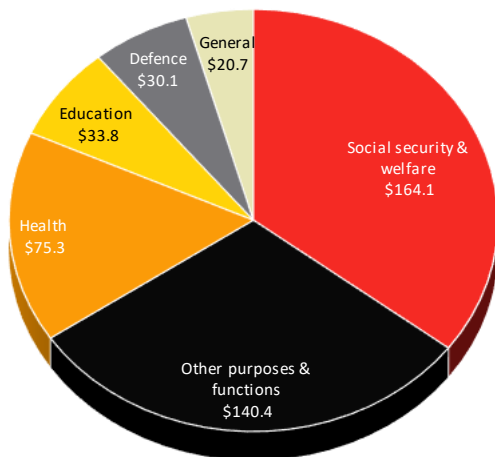
New infrastructure commitments help reduce commute times, increases productivity, makes outer-ring suburbs and new housing areas more accessible and attractive and boosts local employment opportunities. The 2017/18 budget commits around \$75 billion to new and existing infrastructure projects over 10 years. The proposed establishment of a \$1 billion National Housing Infrastructure Facility providing financial assistance to local governments for infrastructure that supports new housing leads the measures.

Big ticket items

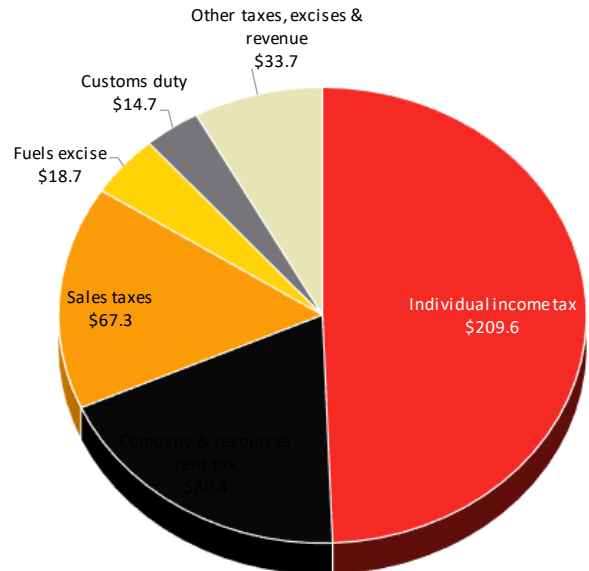
\$5.3 billion has been committed for the Western Sydney Airport Corporation to build and operate the new Badgerys Creek Airport. There's also \$8.4 billion for the Brisbane to Melbourne Inland Rail. This project, if delivered, will be a major boost for regional centres on the route.

Victoria has also been allocated a \$1 billion infrastructure package to help plan, develop and build new projects and upgrade existing infrastructure. Victoria has also been assigned \$550 million to fund regional rail. The Bruce Highway in Queensland will have an additional \$844 million spent to upgrade the road. Western Australia has also seen an additional \$1.6 billion allocated for new projects, this will be spent on roads, hospitals and metro rail.

Federal expenditure 2017/18
(\$ billions)



Federal revenue 2017/18
(\$ billions)



Source: Australian Financial Review / Budget Papers

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