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From: Vallence, Christian
Sent: Wednesday, 20 August 2025 5:59 PM
To: s 22
Cc: s 22 Dowie, Nicholas
Subject: RE: Analysis: effect of HGS changes on dwelling prices[SEC=PROTECTED, CAVEAT=SH:CABINET]

Hi s 22

With a big thanks to s 22 the below 5 points step through the reasoning behind elements of the table below.

Happy to chat through as needed.

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1. Denominator of demand shock: annual housing transactions vs dwelling stock

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- Treasury uses the stock of dwellings (around 11.2m) as the denominator.

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2. Numerator of demand shock: number of new FHB households

- The numerator of the percentage demand shock is the number of new FHB households assumed to form as a result of the HGS changes.

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- Treasury assumes that the HGS changes will result in 16,000 additional FHB households in the first year, and 3,100 from the second year onwards.

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3. Source of demand elasticity estimates

- The price elasticity of housing demand relates the percentage change in housing demand to a percentage change in dwelling prices.

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- Treasury's analysis uses an elasticity estimate from Treasury's own housing system model, which is an updated version of Saunders and Tulip (2019). Treasury's elasticity estimate indicates that dwelling prices are a little more sensitive to housing demand compared with both Saunders and Tulip (2019) and Abelson (2016).

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4. Factoring in the supply response

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- However, the Saunders and Tulip (2019) demand elasticity *already* accounts for the housing supply response.
- Consistent with this, Treasury's estimates do not make a final adjustment to the price impact estimate to account for the supply response, because this supply response has already been factored into the estimate.

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5. Modelling the income effect

- The HGS changes will result in more FHB households effectively receiving free LMI. Households' savings on LMI will translate into a higher willingness to pay for housing.

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6. Analysis timeframes

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- Treasury's headline dwelling price impact (0.6%) reflects the impact of additional housing demand in all years going forward.
    - Treasury's estimate of 0.6% relates to the dwelling price impact over the medium term.

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From: Vallence, Christian
Sent: Monday, 11 August 2025 6:17 PM
To: s 22 @TREASURY.GOV.AU>; Cook, Brendan <Brendan.Cook@TREASURY.GOV.AU>
Cc: Hunter, Nerida <Nerida.Hunter@TREASURY.GOV.AU>; Dowie, Nicholas <Nicholas.Dowie@TREASURY.GOV.AU>; s 22 @TREASURY.GOV.AU>
Subject: Analysis: effect of HGS changes on dwelling prices

Key points

- The Green column shows our final estimate s 22
- We estimate the effect on dwelling prices to be +0.6 on national dwelling prices over the medium term, primarily due to the bringing forward of demand to purchase dwellings

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- We do not advise disputing Lateral's or Grattan's estimate. Instead, we recommend acknowledging that different modelling approaches can yield different estimates, and that Treasury is comfortable with its approach.

Estimates of dwelling price impacts of HGS changes

Organisation/approach	New household formation effect: New FHB households	Demand denominator	Increase in demand (%)	Elasticity coefficient	Dwelling price effect (%)	Income effect: All additional HGS users after policy change[1]	Dwelling price effect (%)	Combined dwelling price effect (%)
Treasury	16,000 in first year; 3,100 in each year after	11.2m dwellings	0.19	3.10	0.59	26,000	0.01	0.60
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Details

Treasury estimates

- Treasury estimates that the proposed changes to the Home Guarantee Scheme (HGS) will result in dwelling prices being 0.6% higher over the medium term.
    - This is Treasury's preferred estimate of the dwelling price impact. s 47C, s 47E(d)
- Treasury has estimated this dwelling price impact with the same macroeconometric model used by the NHSAC for projecting housing supply.
    - The price impact is calculated by comparing the model's forecasts of dwelling prices under a scenario with the HGS policy changes versus forecasts under a scenario without the policy changes.
    - The model includes a supply response arising from higher dwelling prices.
    - Treasury's estimates incorporate additional housing demand as calculated by Home Ownership Policy Unit.
- The table above provides a simplified breakdown of Treasury's estimation method so that it can be easily compared against other estimation methods.

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Kind regards,
Christian

Christian Vallence
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Supplementary Budget Estimates 2025 - 2026

TOPIC: **MODELLING OF THE 5% DEPOSIT SCHEME**

WITNESS: Nicholas Dowie, First Assistant Secretary (a/g), Housing Supply and Cities Division

Strategic Narrative

- Treasury modelling indicates that the expansion of the 5% Deposit Scheme (previously the 'Home Guarantee Scheme') will benefit first home buyers who use the scheme.
- Modelling suggests the expansion will place modest upward pressure on dwelling prices over the medium-term.
- Other forecasters have produced different results. No modelling approach is perfect and different approaches will yield different results.

KEY FACTS AND FIGURES ***Detail may inform the Key Facts and Figures Brief**

- Treasury has provided advice that the expansion of the 5% Deposit Scheme will increase dwelling prices by +0.6% nationally over 6 years.

Talking Points

Treasury Modelling

- Treasury has provided advice to government that the expansion of the 5% Deposit Scheme will increase dwelling prices by +0.6% nationally after 6 years.
- Treasury estimated the impacts of the effect of the 5% Deposit Scheme expansion on dwelling prices using a model that was developed with Treasury in 2023.
- It is based on the model developed by Trent Saunders and Peter Tulip at the RBA that uses around 40 years of observed data on the impact of changes to supply, demand and the costs of owning a home (particularly mortgage rates), on house prices, rents, and housing supply.
    - In other words, the model estimates what will happen to house prices if there is a shock (ie a reduction or increase) to supply, demand or the cost of home ownership, on average dwelling prices.

    - The model does not contain deposit limits directly, but it can determine the impact of the expected increase in demand on prices.

- Treasury has estimated that the policy change will result in an additional 3,100 first home buyer households (ie people who would not have purchased otherwise – as opposed to those who would have purchase anyway but brought forward their purchase, and who would have purchased using LMI) will purchase home each year from 2025-26 to 2034-35.

    - In addition, we estimate that 12,900 will bring forward their purchase from future years due to the increased availability of financing.

- Treasury has used the model to estimate the impact of these homebuyers on prices.

- We have estimated that the impact will increase dwelling prices nationally by 0.6 per cent over 6 years.

    - We have modelled it over 6 years because we think this is the point at which the effect on dwelling prices is fully realised.

    - We have settled on 6 years because that is our assessment, informed by around 40 years of data on the Australian housing market, of what an appropriate time period is for the full effect of this measure to wash through the housing system.

- Treasury has not modelled the short-term effects of the 5% deposit scheme and has not provided advice on the effect on dwelling prices in the first year.

- The short-term impact would depend on a number of unpredictable factors, including media coverage, the number of existing homes entering the market, and short-term consumer house price expectations.

Commentary that is supportive of Treasury's findings

- Brad Jones, Assistant Governor (Financial System), RBA, speaking at the Standing Committee on Economics, 22 Sep 2025:
    - "Our sense is that [the 5% deposit scheme] could add to overall housing credit in the order of one to two per cent. At the very margin, you may see a little more upward pressure on house prices in the short term, recognising that first home buyers account for about 20 per cent of the flow of new housing credit."

- Brendan Coates (Grattan), quoted in AFR on 1 October 2025:
  - “Treasury’s 0.5 per cent house price impact over the long term feels about right, but the price impact might be higher in the short term”
- Peter Tulip (Centre for Independent Studies), Posting on X, 3 October 2025
  - “Many economists think there is high substitutability between renting and owning. This scheme may cause a large shift from renting to owning with no net effect on housing demand.”
- Matt Comyn (Commonwealth Bank), speaking at the House Standing Committee on Economics, 18 November 2025
  - “[The 5 per cent home deposit scheme] is a very, very small element of the pick-up causally to demand.”

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Background

General background

- In late July 2025, the Housing Minister's Office asked Treasury to estimate the effect of the 5% Deposit Scheme expansion on dwelling prices.
- The expansion was enacted by the Government on 1 October 2025. It increases access to the Scheme by uncapping the number of places available, removing income caps, and increasing property price caps.
  - For further information on 5% Deposit Scheme, see SB25-000841.
- Treasury's modelling has attracted media commentary, including comparison with alternative estimates provided by the Insurance Council of Australia, AMP, and SQM research.
- Some commentators consider that the expansion undermines the broader aim of increasing housing affordability. While the changes benefit home first buyers, they are also expected to put upward pressure on dwelling prices.

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[redacted]

Treasury Modelling – further detail

- Treasury has provided advice to government that the expansion of the 5% Deposit Scheme will increase dwelling prices by +0.6% nationally after 6 years.
  - 6 years is the point at which Treasury expects the effect on dwelling prices to be fully realised
  - Treasury has only provided advice on the impact of the scheme expansion after 6 years and has not provided advice on the effect on dwelling prices in the first year
- Treasury's estimate of the dwelling price effect accounts for additional supply induced by the demand increase, along with the macroeconomic outlook at the time the results were generated.
- Treasury's modelling framework is not suitable for forecasting short-term price effects
  - The model is designed to capture all responses in the housing system to changes in parameters, such as the additional supply that materialises when prices rise (which in turn dampens prices). These responses take time to eventuate.
  - Short term price effects can be influenced by temporary imbalances in supply and demand which are difficult to forecast.
- Treasury's model is an econometric model that quantifies interrelationships between macroeconomic and demographic variables, and construction, completions, vacancies, rents and dwelling prices.

  - It is based on a 2019 RBA Working Paper by Trent Saunders and Peter Tulip, available on the RBA website.
  - In common with most Australian research on housing markets, and most macroeconomic forecasting, it uses single-equation least squares estimates using aggregate quarterly data. Identification is typically through lags and a priori reasoning.

- The expansion of the scheme is expected to have only a modest impact on housing demand.
  - In the first year of the expanded scheme (2025-26), Treasury estimates an additional 16,000 first home buyer households will purchase a home. This consists of:
    - 3,100 first home buyer households that would not have purchased otherwise; and
    - 12,900 first home buyer households that will bring forward their decision to purchase from future years due to increased availability of financing.
  - In subsequent years (2026-27 to 2034-35), an additional 3,100 first home buyer households will purchase a home each year.
  - In each year (2025-26 to 2034-35), a further 10,000 first home buyer households (who would have purchased a home without the expansion) will now purchase with increased borrowing capacity, as they are able to avoid lenders mortgage insurance.
- This represents a small share of expected property transactions.
  - There are around 700,000 residential property transactions in Australia each year.
  - There were 120,000 first home buyers in 2024. The annual number of first home buyers has ranged from 80,000 to 180,000 over the past 5 years.
- The LMI savings for first home buyers is expected to exceed the modest price impact of the scheme.
  - For instance, the average first home buyer seeking to purchase a $700,000 property with a 5% deposit could expect to save around $28,000 in LMI.
  - By contrast, a 0.6 per cent increase in dwelling prices would add only $4,200 to the purchase price.

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	Name and Role	Group/Branch/Organisation	Phone (w)	Phone (mob)
Cleared By	Name: Nicholas Dowie Role: First Assistant Secretary (a/g), Housing Supply and Cities Division	Housing Group; Housing Supply and Cities Division	x3769	s 22
Contact Officer	Name: s 22 Role: Director (a/g), Housing Modelling and Analysis Unit	Housing Group; Housing Supply and Citied Division; Cities, Planning, Infrastructure and Analysis Branch	xs 22	s 22
Consultation	n/a			

Possible SE questions on Treasury's modelling of the 5% Deposit Scheme

Can you table your advice?

- On notice

It has been suggested that there are problems with your modelling - will you release it?

- On notice
- Treasury is comfortable with its modelling approach.

Everyone thinks the price effect will be much more than 0.6 per cent. Surely, you've under-estimated the effect on dwelling prices?

- No modelling approach is perfect, and different approaches will yield different results
- Treasury has only provided advice on the impact of the scheme expansion after 6 years and has not provided advice on the effect on dwelling prices in the first year.
- Many of the estimates quoted in media focus on the short-term price effect, typically over 1-year. The short-term price effect may be greater than the long-term price effect:
  - In the short-term, there will likely be additional demand from FHBs who bring their purchase decision forward from future years. This type of demand will not be present in later years.
  - The ability of the housing market to respond to increased demand with additional supply is also greater in the long-term.
- Several respected economists have supported Treasury's position, including from the RBA, Grattan Institute, University of Sydney, and Centre for Independent Studies.

Statements supporting Treasury's position:

- Brad Jones, Assistant Governor (Financial System), RBA, speaking at the Standing Committee on Economics, 22 Sep 2025:
  - "Our sense is that [the 5% deposit scheme] could add to overall housing credit in the order of one to two per cent. At the very margin, you may see a little more upward pressure on house prices in the short term, recognizing that first home buyers account for about 20 per cent of the flow of new housing credit." ParlInfo - Standing Committee on Economics : 22/09/2025 : Review of the Reserve Bank of Australia Annual Report 2024
- Brendan Coates (Grattan):

  - "Treasury's 0.5 per cent house price impact over the long term feels about right, but the price impact might be higher in the short term" Albanese government's expanded first home buyer scheme experiences 'unprecedented demand' on day one

- James Graham, University of Sydney:
  - "University of Sydney economist James Graham said the scheme would probably increase average prices by 0.5 per cent to 1 per cent, but the effect could be 'much larger' for homes just below the price caps." Albanese government's expanded first home buyer scheme experiences 'unprecedented demand' on day one
  - Dr Graham has provided reasoning for his position based on a comparison with interest rate effects: How PMI change may affect house prices, a quick calculation | James Graham posted on the topic | LinkedIn
- Peter Tulip (Centre for Independent Studies)
  - "Many economists think there is high substitutability between renting and owning. This scheme may cause a large shift from renting to owning with no net effect on housing demand." - From discussion on X
  - Note that Peter Tulip has also criticised the scheme on other occasions.

Why did you not model the short-term effects?

- Treasury's modelling framework is designed to capture all responses in the housing system to changes in parameters, such as the additional supply that materialises when prices rise (which in turn dampens prices). These responses take time to eventuate.
- Short term price effects can be influenced by temporary imbalances in supply and demand which are difficult to forecast.

Did you provide advice on the effect on properties more likely to be purchased by FHBs under the scheme, eg properties under the cap?

- No. The advice related to the effect on the national housing market.

Does your modelling account for changes to interest rates?

- Yes, noting that the final estimates were provided to the HMO on the 12 August.

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Won't speculators absorb scheme benefits and bid up prices for FHBs?

- While there may be speculation, the LMI savings for first home buyers are expected to exceed the modest price impact of the scheme over the longer-term:
  - For instance, the average first home buyer seeking to purchase a $700,000 property with a 5% deposit could expect to save around $28,000 in LMI.
  - By contrast, a 0.6 per cent increase in dwelling prices would add only $4,200 to the purchase price.

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From: s 22
Sent: Thursday, 6 November 2025 4:08 PM
To: Dowie, Nicholas; s 22
Subject: RE: 5% Modelling [SEC=OFFICIAL]

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Hi Nick,

s 22 and I have put some suggested edits in red. Happy to talk through if anything is unclear. The only major thing is best not to say 'It does not estimate what impact a policy change will have on supply or demand' as we can model some policies – have suggested 'The model does not contain deposit limits directly, but it can determine the impact of the expected increase in demand on prices' instead.

- Treasury has estimated the impacts of the effect of the 5% Deposit Scheme expansion on dwelling prices using a model that was developed with Treasury in 2023.
- It is based on the model developed by Trent Saunders and Peter Tulip at the RBA that uses around 40 years of observed data on the impact of changes to supply, demand and the costs of owning a home (particularly mortgage rates), on house prices, rents, and housing supply.
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- Treasury has not modelled the short-term effects of the 5% deposit scheme. The short-term impact would depend on a number of unpredictable factors, including media coverage, the number of existing homes entering the market, and short-term consumer house price expectations.

s 22 — **A/g Director**
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