

New Directions for Affordable Housing

Addressing the decline in housing affordability for Australian families



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Executive Summary

Most Australians either own their own home or aspire to one day owning a home.

However today, housing is less affordable than at any time in our history:

- Reserve Bank of Australia data shows that today, 9.5% of household income is consumed by mortgage interest repayments - the highest level it reached under the previous Federal Government was 6.1% in September 1989;
- The average housing mortgage repayment to income ratio for typical first home mortgages has increased from 17.9% in 1996 to 30.7% today; and
- Housing affordability as measured by the HIA-Commonwealth Bank Affordability Index is down 40% from 167.5 in 1996 to 97.8 today.

In the last two and half years, home purchasers have experienced four interest rate rises and a total of eight since 2002.

The 2006 Census data confirms that home ownership is becoming more difficult to achieve, with many low and middle income households facing a life time of renting rather than buying.

Declining affordability is having a particular impact on the housing aspirations of younger Australians:

- The proportion of 18-34 year olds buying houses has declined from 48% to 44% between 1994 and 2004;
- The proportion of first home owners as a proportion of the market has declined from 21.8% in June 1996 to 17.5% in February 2007; and;
- A decline in the proportion of Australians with mortgages who have paid them off from 41% in 1996 to 33% in 2006.

A range of factors have played a part in reducing housing affordability in Australia including interest rates and demand and supply problems.

The current Government's response to this growing crisis has been to point to the interest rate peaks under the previous Federal Labor Government more than a decade ago.

A debate about 17% interest rates seventeen years ago is no more productive than one about the 22% rates when the current Prime Minister was the Treasurer of our nation.

First home buyers, their parents and home owners more generally are not interested in a political 'blame game' that fails to provide them with solutions to the problem of housing affordability into the future.

Federal Labor is committed to providing much needed national leadership on housing affordability. Federal Labor has already committed to:

- Implement economic policies that put downward pressure on interest rates;
- Develop a National Housing Affordability Strategy led by a Federal Housing Minister; and
- Work cooperatively with state and local governments, and the private and community sectors.

The purpose of this paper is to initiate a national debate we now need to have to address the issues which have an impact on the affordability of a home.

New Directions for Affordable Housing

A range of options are canvassed in this paper:

- The need for housing policy coordination so that enough houses are built;
- Reform of government planning frameworks to reduce costs;
- Strategies to reduce the cost of development and supply of housing;
- Policies to assist first home buyers to save for and attain a foothold in the housing market;
- Strategies to increase the supply of affordable private rental properties;
- Reform of the Commonwealth Rent Assistance scheme; and
- Proposals to boost the supply of social, emergency and Indigenous housing.

The new ideas and proposals discussed in this paper do not represent Federal Labor election commitments. They are designed to inform a national debate on housing affordability and will be tested at the housing affordability summit to be held in the coming weeks.

1. Introduction

Every Australian has the right to secure affordable housing.

Most Australians either own their own home or aspire to one day owning a home. Home ownership is not just a stable base from which to participate in society, it is the primary asset for most families and provides financial security in retirement.

Today, housing is less affordable than ever before.

Home purchasers have experienced eight interest rate rises since 2002, with four of these rate rises in the last two and a half years. With record high house prices and record levels of debt, Australian families are more vulnerable and sensitive to interest rate rises than ever before.

Australian families have larger average home loans than ever before and mortgage repayments are consuming a record amount of household income. Increases in repayments involve difficult trade-offs for families.

This places many hard working families under unprecedented pressure – far too many families are now only one interest rate rise from mortgage difficulties or even default.

Parents now worry that their children will not be able to realise the dream of home ownership and this is borne out by the statistics which show a declining proportion of younger Australians able to save for a deposit.

Moreover, families who are saving to buy a home are having increasing difficulty finding affordable rental housing, and are paying a greater proportion of their incomes on rent as a result. These expenses reduce a household's ability to save for a home of their own.

Low income and disadvantaged Australians who rely on social housing or even emergency accommodation have seen available places diminish because of a lack of government investment.

In short there is a disconnection between our nation's current economic prosperity and the housing reality for many Australians.

If Australians are to realise their housing aspirations, affordability must improve.

This means keeping downward pressure on interest rates; helping people into home ownership; implementing policies that induce growth in new construction; encouraging investment in affordable rental properties (not just high end rental properties); and monitoring the rate of new household formation. It also means adequately funding safe and secure housing for the most vulnerable Australians.

Improving housing affordability *does not* mean reducing the value of existing homes, which are usually the primary asset of any individual or family.

Although there is no one answer to improving housing affordability, housing experts and economists say we urgently need all three levels of government working together with the community and private sectors to improve the current situation. At a minimum, strong national leadership and innovation are required to help a greater number of Australians reach the goal of owning their own home, or finding an affordable rental home.

Different solutions will be required for different housing types and different parts of the country. Without action, housing costs will eat up more and more of the average

household income, and social housing will continue to diminish. This discussion paper analyses the problem of affordability and availability of housing, and canvasses emerging solutions to this worsening problem.

2. Home ownership: buying a home has never been harder

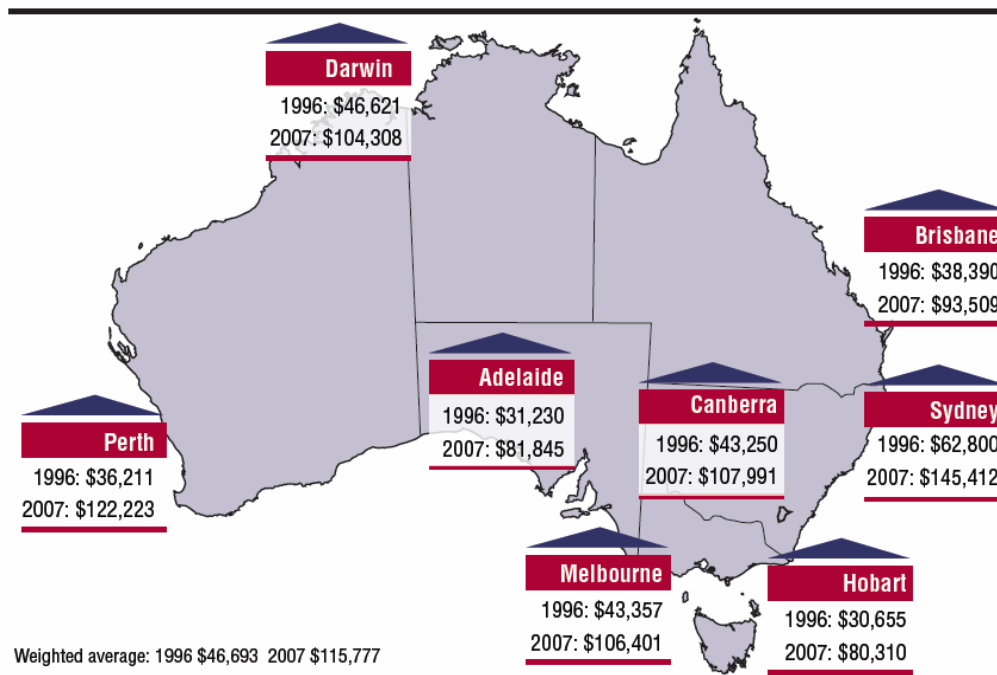
Home ownership is increasingly out of reach for many Australian families.

The cost of the average home has increased at a much faster rate than the value of the average wage. In 1996, the average home cost about four times the average annual wage. The average home now costs about seven years' average annual wages.¹

Although many existing home owners have seen a significant increase in the value of their homes over recent years, their home purchasing power has often not increased, as they are selling and buying in the same market. In other words, while a family's house has gone up in value, the price of the next house they move to will have increased by a similar amount. Unless households trade into a lower price market, higher home values for home owners do not necessarily increase living standards.

It is clear that families now need an income well above the average in order to keep up with mortgage repayments on an average loan for a median priced home. As the map below shows, families in Australia's capital cities needed an income of \$115,777, to service a mortgage on a median priced home. This is more *than double* that required in 1996, when the income requirement to afford a median priced home was \$46,693.²

Annual income needed to buy a median priced home



Source: Calculations made using source material from *Real Estate Institute of Australia, Market Facts, March Quarter 2007* and *Reserve Bank of Australia Bulletin*.

¹ Parliamentary Library, Research Note, No. 7, October 2006.

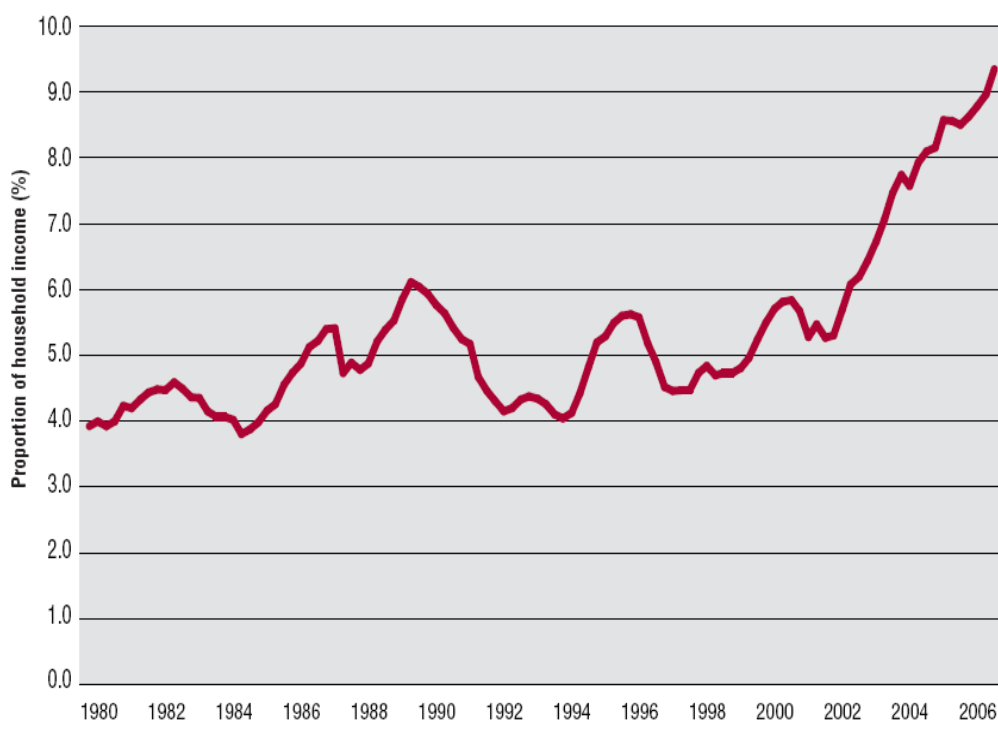
² Figures are based on the annual household income required to ensure mortgage repayments do not exceed 30 per cent of household income. Households are assumed to borrow 90 per cent of the median house price, over a period of 25 years, at prevailing interest rates. Data sourced from Real Estate Institute of Australia, *Market Facts, March Quarter 2007* and the Reserve Bank of Australia.

Families in Sydney need the highest income to buy a median priced house: almost \$150,000 a year. Perth has seen the sharpest increase over the past decade, with the annual income required to service a mortgage on a median priced Perth home surging from \$36,211 to \$122,223.

As Australians face larger mortgages and higher interest rates, they are paying a higher proportion of their income just on their *interest* bills.

Reserve Bank figures show that, in aggregate, Australian households are now spending a record 9.5 per cent of their disposable income simply paying off the interest on their mortgage.³ This is the highest level on record. This measure has risen by nearly 80 per cent since interest rates started rising in May 2002 and is 55 per cent higher than what they ever reached under the previous Labor government.

Proportion of household income spent on mortgage interest repayments



Source: Reserve Bank of Australia Bulletin.

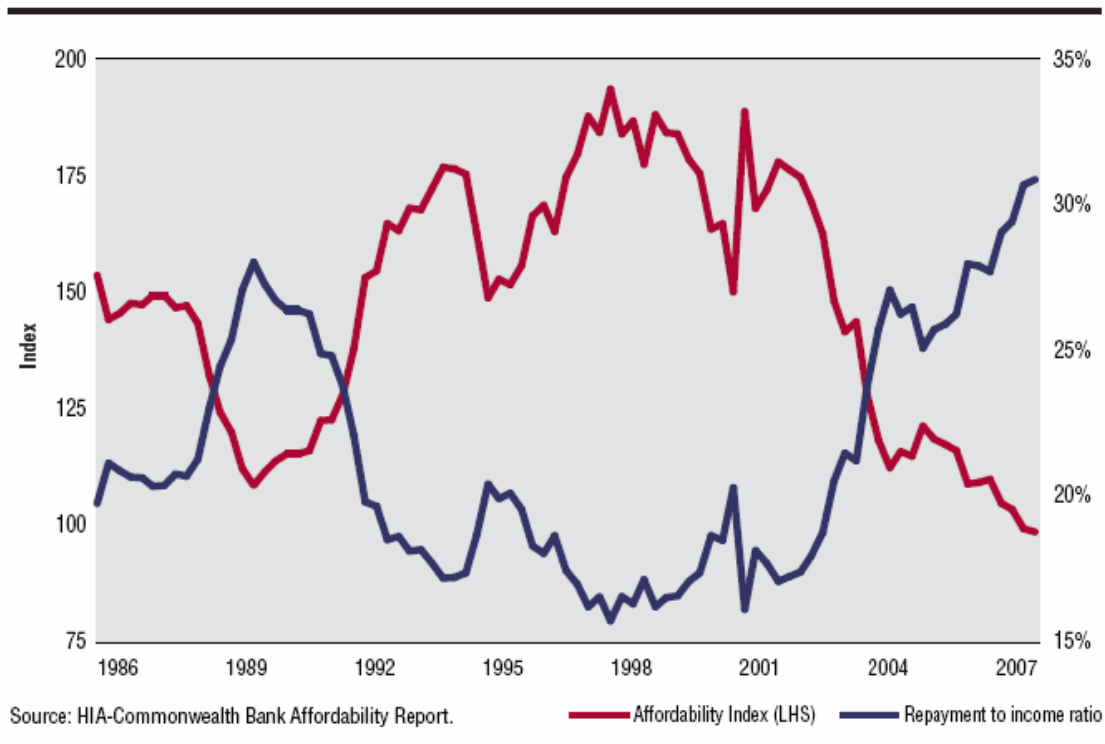
For individual households, principal and interest repayments on the median mortgage have also increased substantially. Data from the 2006 census shows that repayments on the median mortgage have risen twice as fast as average family incomes over the last five years. Rising house prices and larger mortgages mean that fewer Australians now own their homes outright and more are paying off a mortgage. The number of homes mortgaged to banks rose from 26 per cent in 2001 to 32 per cent in 2006.

The Home Loan Affordability Index, created by the Commonwealth Bank of Australia and the Housing Industry Association shows that in 2007, housing affordability is worse than ever before.

³ Reserve Bank of Australia Bulletin statistical database, Table B21, <http://www.rba.gov.au/Statistics/Bulletin/index.html>

As the chart below shows, it is lower even, than during the global interest rate spike of the late 1980s.⁴ Mortgage repayments are now consuming a record level of household income for first home-buyers.

Housing affordability at record lows



Source: HIA-Commonwealth Bank Affordability Report.

And while it must be acknowledged that the source of housing price indices such as the CBA-HIA index do not control for the fact that the quality of the housing stock typically changes over time, the appetite of Australians for bigger houses does not explain the current affordability crisis. Studies which do control for the compositional changes in the housing stock by looking at the repeat sales of houses tell a consistent story: house price growth has far outstripped earnings growth and changes in lending conditions over the last decade, especially since 2003.⁵

No matter which way you look at it, housing affordability now stands at a record low.

2.1 Younger Australians: locked out of home ownership

An equally telling indicator of declines in housing affordability over time, are changes in the rates of housing ownership. In Australia, the share of households owning their own home has slowly begun to fall from 70 per cent in the early 1990s to 65 percent in the most recent census. And with more than 82 per cent of the population over 65 years of age owning their own home, the ageing of Australia’s population masks the true ‘unravelling’ of home ownership being experienced in Australia by younger generations.⁶

⁴ The Affordability Index measures the ratio of average household disposable income to the ‘qualifying’ income required to service mortgage repayments on a 25-year loan. Home buyers are assumed to borrow 80 per cent of the ‘typical’ property purchased by a first home buyer.

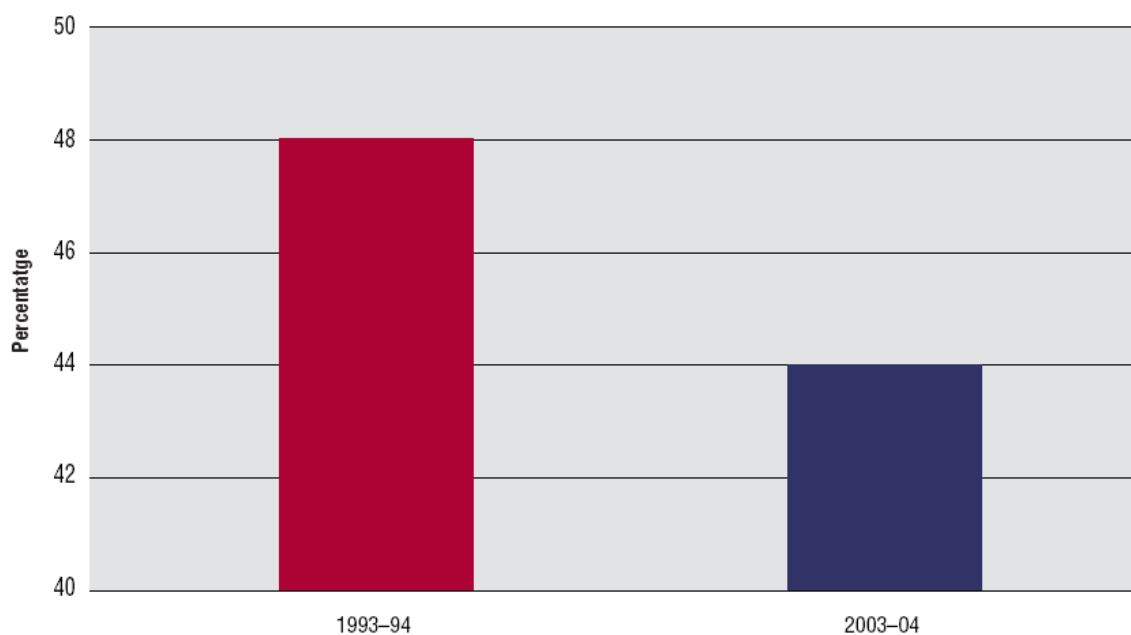
⁵ Abelson P., D. Chung, R. Joyeaux and G Milunovich (2005). ‘Explaining House Prices in Australia: 1970-2003’, *Economic Record*, Vol. 81:S1-8.

⁶ Berry, M. (1999), ‘Unraveling the ‘Australian Housing Solution’: the Post-War Years’, *Housing, Theory and Science*, Vol. 16, No.3 (October): 106-123.

The decline in the home purchase rates amongst younger Australians is particularly pronounced. The proportion of new home loans going to first home buyers has declined significantly.

Over the ten years to 2003-04, the proportion of young Australians aged 18-34 owning or paying off their own home decreased from 48 per cent to 44 per cent as this table below shows.⁷ As a proportion of all house purchases, first home buyers have fallen from 21.8 per cent in June 1996 to 17.5 per cent in February 2007.⁸

Young Australians locked out: proportion of young adults aged 18-34 years that owned their home



Source: Australian Bureau of Statistics, Australian Social Trends 2006

Some commentators have suggested that home ownership among young Australians has not declined, but is just delayed, with younger Australians forming families later in life. The evidence shows otherwise, underscoring the fact that declining affordability is locking young Australians out of the housing market.

Professor Judith Yates, one of Australia’s leading housing economists, has conducted a detailed statistical analysis of changes in home ownership outcomes for households in the 25-44 age group. By isolating what home ownership *would have* been had key factors affecting home ownership all remain unchanged, she finds that less than 25 per cent of the decline in ownership amongst younger Australians can be attributed to changes in household composition. The rest is attributable to changes in housing market constraints.⁹

The stark reality is that it is simply getting more and more difficult for young Australians to enter the housing market.

The rise in house prices in recent years has fuelled anxiety amongst many parents that their children and grandchildren will never afford to buy homes of their own.

⁷ ABS: *Australian Social Trends*, 2006.

⁸ ABS: *Housing Finance Australia*, February 2007, 5609.0.

⁹ Yates, J. (2002). *Housing Implications of Social, Spatial and Structural Change*, Australian Housing and Urban Research Institute, Sydney Research Institute, Sydney Research Centre.

Their fear is warranted. Without better federal policy, all the indicators show that the decline in housing affordability will continue.

As Graham Joyce from the Real Estate Institute of Australia said recently 'there is maybe a whole generation of first-home buyers that won't buy a property, [because they] simply can't afford to do so.'¹⁰

And being locked out of homeownership is not only about unrealised dreams. It also dampens the economic futures of younger Australian's depriving them of the income and wealth creating avenues which were open to their parents.

2.2. Current owners are under strain

The same pressures which are locking young Australians out of the housing market are also hurting those who have been able to invest in 'bricks and mortar'.

Many Australians who have bought their own home are now struggling to keep up with repayments. The new interest rate reality means that Australians have never before paid so much interest on their home loans.

As Australian families have borrowed more to buy houses, each interest rate increase has made it increasingly difficult to afford repayments. Worryingly, mortgage repossession actions have reached record levels. 'Housing stress', defined by the Australian Bureau of Statistics (ABS) as paying more than 30 per cent of gross family income on housing costs, is affecting many Australian families and is expected to get worse. According to the ABS, in 2003-04, 22.5 percent or 610,000 households with a mortgage paid more than 30% of gross income in repayments.¹¹ This represents an increase of 30 percent from 2000-01 of households in housing stress.

Supreme Court data from NSW and Victoria shows that mortgagee defaults have at least doubled since 2001 and recently the *Daily Telegraph* reported that there were 5,363 foreclosures on Sydney properties year, up 10 per cent on 2005.¹²

Mr Terry Gallagher, Chief Executive of the Insolvency and Trustee Service Australia, told a Senate Committee recently that 'you could go back 10 or 15 years, when bankruptcy numbers were 13,000 a year, and now they are 30,000 a year.'¹³

Defaulting on the mortgage and losing the family home is an extremely traumatic experience for anyone. In many ways, mortgage defaults are the sharp edge of Australia's housing affordability problem, yet, there are other consequences of declining housing affordability, including growing numbers of Australians who can not afford to enter the housing market, greater consequential pressure on the rental market, and a large number of homeless Australians.

2.3 Reasons for declining affordability

Housing affordability depends on a range of key factors, including: conditions in the housing market; government taxation and planning policies; household incomes and the cost of finance.

2.3.1 Rising interest rates

Increased competition and favourable lending conditions from the 1990s helped lower

¹⁰ *The Australian*, 30 May 2007.

¹¹ ABS 4130.0 (2006) Housing Occupancy and Costs Australia.

¹² Kelvin Bissett and Angela Saurine, 'Mortgage Belted,' *The Daily Telegraph*, 30 April 2007.

¹³ Evidence of Terry Gallagher, ITSA to Senate Standing Committee on Legal and Constitutional Affairs, 24 May 2007.

the cost of finance, increasing the purchasing power of both existing and first home buyers. This has fuelled significant housing demand, and with less responsive supply, has ultimately driven up real house prices to historically high levels across the country.

More recently the effect of rising interest rates has combined with increasing real house prices to further lower housing affordability.

Since 2002, mortgage interest rates have increased eight times, including four times since the last federal election. These rate hikes have increased monthly repayments, which, summed up across the life of a loan, substantially increase the total cost of home ownership for Australian families. As the table below shows the last four interest rate rises alone increased mortgage interest rates by one per cent, and added \$73,000 to the mortgage interest repayments of the median priced home, over the life of the loan.¹⁴

Cost of four interest rate rises since 2004 for a loan on the median priced home

Increase in interest repayments over life of loan	
Location	\$
Sydney	\$91,677
Melbourne	\$67,082
Brisbane	\$58,954
Adelaide	\$51,600
Perth	\$77,057
Hobart	\$50,633
Darwin	\$65,763
Canberra	\$68,085
Weighted average	\$72,993

Source: Calculations made using source material from *Real Estate Institute of Australia, Market Facts, March Quarter 2007* and *Reserve Bank of Australia Bulletin*.

Household budgets are highly sensitive to even small increases in interest rates, because households have borrowed so much more than ever before to purchase their first homes.

2.3.2 Demand outstripping supply of new homes

Another factor contributing to declining housing affordability in recent years has been the relationship between household formation and the supply of new homes.

Household formation is growing rapidly. Demographic changes – with more people living alone, living longer and more migrants - are contributing to additional demand.

This highlights the extent to which Federal policy is relevant to much of the demand for new housing. This is because the Federal Government decides the number of new arrivals to Australia. Despite this, the Federal Government has no settlement policy to encourage migrants to move to areas where housing is more available or affordable.

The absence of Federal policy leadership creates problems. As ANZ chief economist Saul Eslake argues:

*there is an underlying shortage of housing. Higher interest rates have negatively impacted on developer sentiment and building, but migration and changes in household size are continuing unabated to push up demand.*¹⁵

¹⁴ Figures based on the weighted average median price home across our capital cities and assumes that the household borrows 90 per cent of the value of the median priced home, over a period of 25 years at prevailing interest rates.

¹⁵ Saul Eslake: *The Australian*, 30 May 2007.

At the same time, supply is not keeping pace with demand; there are simply not enough homes being built. Home ownership will not become more affordable unless the supply of new houses is increased.

2.3.3 Land release and infrastructure charges and planning processes

The cost of building houses also clearly impacts on housing affordability. Land costs, building costs (rising because of the shortage of skilled tradespeople in many areas), the cost of infrastructure, and administrative delays relating to planning bottlenecks and regulations all add to the cost of a new home.

However, the importance of land supply/release in the housing affordability equation remains hotly contested.

The Property Council of Australia argues that there is an underlying shortage of lots available for development, and that limitations on land supply may add around \$30,000 to the price of a block of land in some parts of Australia.

Other industry groups such as the Housing Industry Association have joined the Property Council of Australia in calling for less restrictive land supply policies.

Most industry experts agree however, that simply increasing the amount of land released, as urged by the Federal Government will not, by itself, solve Australia's housing affordability problems:

Various high-profile participants [in the housing debate] have argued that the big uptrend in Australian home prices primarily is the result of state and local governments artificially restricting the release of new housing land...If only it were that simple...the price of land on our urban fringes is only a small subset of the overall housing-affordability issue... Any analysis of home prices and housing affordability that concentrates on supply-side issues like land release alone.....simply is not credible.¹⁶

Economists and housing market analysts remain sceptical of claims that land supply limitations have even led to a decline in housing affordability:

We totally dismiss the argument that releasing more land on our cities' outskirts is going to affect affordability.¹⁷

Every time I see John Howard blaming land supply (for low affordability) I see red because it's just not true – there are literally thousands of lots available.¹⁸

There simply is no getting around the fact that the bulk of the increase in housing demand came from existing homeowners seeking "upgrades" to better houses at better addresses in well located suburbs, not for new homes in new suburbs further from town. So even if State and local governments had released new housing land much more aggressively on the periphery – and "fixed the fringes" - increased demand for well-located homes still would have been

¹⁶ Rory Robertson, *Thinking about the big drop in Australian housing affordability*, Macquarie Research, pages 9-10.

¹⁷ Michael McNamara, Operations Director, Australian Property Monitors, quoted in the Weekend Australian 17 March 2007.

¹⁸ Peter Icklow, Managing Director of major Sydney developer Monarch, quoted in the Weekend Australian 17 March 2007.

*unsatisfied at the old home-price level, and most of Australia's housing-affordability problem still would be staring us in the face.*¹⁹

These economists' and developers' views are supported by data from the State and Territory Governments, which show that in most areas there is a surplus of residential zoned land. In fact, research published by *The Australian* indicates there are currently more than 150 000 housing lots approved for residential development, sitting idle.²⁰ For example, Lend Lease has ten years worth of land supply ready to develop in Sydney's outer suburbs, and surpluses elsewhere.

Additional land release, on its own, clearly will not make a dent in the housing affordability crisis across Australia. Excessive land releases could, however, lead to reductions in the value of properties in neighbouring suburbs, and a reduction in the equity some families have in their homes.

Excessive land release is an unsatisfactory approach to addressing Australia's housing affordability challenge. The challenge can only be met by honest policy analysis which acknowledges the multiplicity of price factors and the responsibilities of all three levels of government.

The intersection of land supply, building and infrastructure costs is obviously complex.

Government taxes, levies and compliance costs impact on the price of new home. In some areas of some States and Territories, infrastructure fees and charges levied on new homes may be a barrier to affordability.

For instance, the Property Council of Australia estimates that levies and charges comprise up to 35 per cent of the cost of homes in Sydney's north-west and 28 per cent of the cost of new units.

Industry experts such as Ron Silberberg, Managing Director, Housing Industry Association, also argue for a reduction in infrastructure charges and levies - but for federal funding to allow such a reduction to happen:

*The Federal Government should be prepared to put financial incentives on the table and allow state and local governments to wind back some of those levies and accelerate the development application process.*²¹

All levels of government place taxes on housing. The Federal Government charges the GST on new homes; all State and Territory Governments charge stamp duty and some charge for infrastructure; and at the local government level there can be further infrastructure charges, development application fees and rates.

For local government, the costs of ageing public infrastructure, combined with constraints in managing its revenue base, are not conducive to reforms that might reduce the cost impost on new housing developments.

Housing, like any area of economic activity, necessarily incurs some taxation: to fund infrastructure, amenities and government services. Further, most state governments offer stamp duty and other concessions for first home buyers. These concessions are generous in most States and undoubtedly make housing more affordable for first home buyers. However, across the housing sector as a whole, it is nevertheless the case that government taxes and charges are part of the reason for declining housing affordability in Australia in recent years.

¹⁹ Rory Robertson Macquarie Bank analyst *Thinking about the big drop in Australian housing affordability*, Macquarie Research, pages 9-10.

²⁰ *The Australian*, 17 March 2007.

²¹ *Australian Financial Review*, 3 May 2007

2.3.4 Rising costs of building a house

Another factor contributing to higher housing costs for potential home buyers is the increased price of actually building houses, for example the cost of the house, excluding land costs and government taxes and charges.

While building and construction costs are not the largest component of the price of a house for a first home buyer, they are still an important factor in the overall decline in housing affordability in Australia in recent years.

According to the latest figures from the Australian Bureau of Statistics (ABS), the price of new 'project homes' has risen 12.9 percent in the three years to March 2007.²² The increase in the cost of housing is about 50 per cent larger than the general increase in prices - measured by the consumer price index - over the same period of time.

ABS figures also show that materials used in house building have surged by 10 percent in the past three years. *The Building Research Index Survey* published by Westpac Bank and the Australian Institute of Quantity Surveyors has found that the largest increases have occurred in suspended ceilings, precast concrete and drainage construction.

Labour costs for building and construction in the housing industry have also been a factor contributing to rising house prices and declining levels of housing affordability in recent years. According to the ABS, hourly rates of pay in the construction industry increased by 16 per cent in the past three years. This is an outcome caused by a skills shortage in the housing industry. According to the Housing Industry Association, the housing industry faces a skill deficit of 150,000 tradespeople over the next five years.

It will be critical for Australia to address the skills shortage in the building and construction industry in coming years if it is to make serious headway into the emerging housing affordability crisis.

3. The crisis has spread to the private rental market

Affordable private rental accommodation is an important component of the housing affordability picture. It is both a stepping stone to home ownership and the long term reality for many Australians over the long haul.

The housing affordability crisis has now spread to the rental market. Many young families that would in previous decades be buying their own home have been forced to stay in rental accommodation longer. This has exacerbated the shortage of rental properties, leading to increased rents across the board. In other words, the barriers to home ownership have meant many younger Australians across all income groups are staying longer in the private rental market which has led to excess demand for a finite supply of rental homes for low and middle income families.

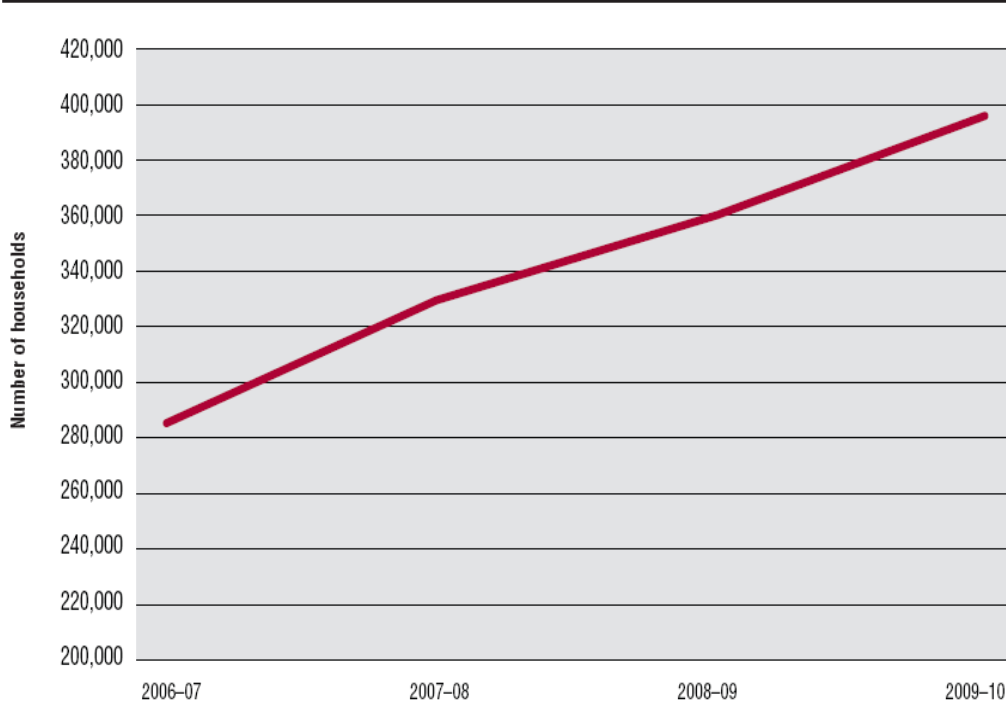
The chart below shows that, even on a conservative estimate, there are more than 250,000 Australian households experiencing housing stress – that is, households in the lowest 40 per cent of the income distribution paying more than 30 per cent of their income on rent.

The National Centre for Social and Economic Modelling (NATSEM) forecasts that the number of households in housing stress – for whom housing costs are impinging on their ability to meet other basic needs, such as food, clothing, transport, medical care

²² ABS: 6416.0 (2007) House Price Indexes: Eight Capital Cities.

and education – will increase to at least 400 000 households by 2010. This is an increase of almost 40 per cent in just four years. This projection is conservative, relying on a rental growth estimate of only 6 per cent per annum, while rent increases have exceeded 6 per cent in many parts of Australia over the last year.²³

Increase in households paying more than 30% of income on rent



Source: NATSEM, University of Canberra; Effect of Rent Increases on Housing Stress in Australia

More Australian renters than ever before are paying unprecedented amounts of income on rent. According to the 2006 census, the number of households with weekly rent bills over \$550 a week has risen from less than 8,000 in 1996 to over 45,000 in 2006.

Vacancy rates for rental accommodation are currently at their lowest level in nearly three decades. The shortage of available rental accommodation is contributing to escalating rents. The Federal Treasurer has argued that as rent increases, more investors will be pulled into the private rental market, and that recent trends are part of the normal market cycle.²⁴

This is by no means certain. What is clear is that while rental price hikes have a significant impact on low income household budgets, they are often not enough to persuade investors to buy property, particularly in low-income areas. This is because investors primarily look to long term capital gains when making their investment decisions, not rental income. Increasing rents will not necessarily be enough to lure investment into the sector.

In any event, many industry experts and some economists say that the private rental crisis is not part of a market cyclical trend that will correct itself. They argue that

²³ Rents for 3 bedroom homes in Australia’s three largest cities increased above CPI rises in the 12 months to March 2007. Rents rose the sharpest in Brisbane (up 12%) while they rose by 6.7% in Sydney and 5.6% in Melbourne (figures from Queensland Rental Tenancies Authority; NSW Office of Housing and Real Estate Institute of Victoria).

²⁴ See answers by the Federal Treasurer to questions by journalists at his address to the National Press Club on 9 May 2007.

structural supply constraints are the cause.²⁵ This means that government policy changes may be required. As Commsec chief equities economist Craig James put it:

*The risk is that the super-tight rental market proves to be an example of market failure, requiring policy changes by the Government to boost the stock of housing.*²⁶

Federal Government policies clearly have an impact on the supply of affordable rental property. For instance, existing tax incentives tend to encourage investment in properties in developed areas of cities, and not to operate as effectively in outer city areas and regional Australia.

The under-provision of affordable housing also reflects the Federal Government's inability to use innovative policy mechanisms to address problems in the housing market. To help supplement the provision of affordable housing, the Government needs to attract and leverage a large volume of private investment (especially from institutional investors). With the existing policy settings, large investors will not invest in rental housing, especially at the low-to-moderate income end of the market.²⁷

The key barrier to private investment in low-to-moderate income housing is that the expected rate of return on rental housing investment in Australia is too low relative to the range of risks that this investment entails. If we are to make real inroads into providing adequate levels of affordable housing, this problem needs to be overcome, with the Federal government fashioning appropriate policies to attract investment capital.

4. The shortage in social housing

Safe and secure housing is vital for disadvantaged Australians. Social housing includes public housing, community housing, housing co-operatives, indigenous housing organisations, emergency accommodation and homelessness services.

The Commonwealth State Housing Agreement (CSHA), initiated by the Chifley Labor Government in 1945, is the main mechanism by which federal and state governments provide social housing.

Insufficient investment by the Commonwealth and lack of reform by the federal government has meant the CSHA has failed to keep pace with community need. The last decade has seen a significant decline in Commonwealth investment in the CSHA.

By the end of the current CSHA agreement the failure to index funding will result in a real decline in funding of \$3.1 billion over the period since 1995-96 (see Graph below). If indexation had been maintained, approximately 2,000 houses each year across Australia could have been added to the total stock of public housing. The shortfall has also meant that the share of applicants on waiting lists who are able to move into social housing each year has also fallen.²⁸

Approximately 200,000 people are on waiting lists for social housing. In 1995, 22 per cent of applicants were accommodated with housing. Ten years later, only 14 per cent were able to move off the waiting list.²⁹

²⁵ See for example comments made by the Housing Industry Association's Managing Director, Ron Silverberg on 29 May 2007.

²⁶ Commsec chief equities economist Craig James in *The Age*, 23 January 2007.

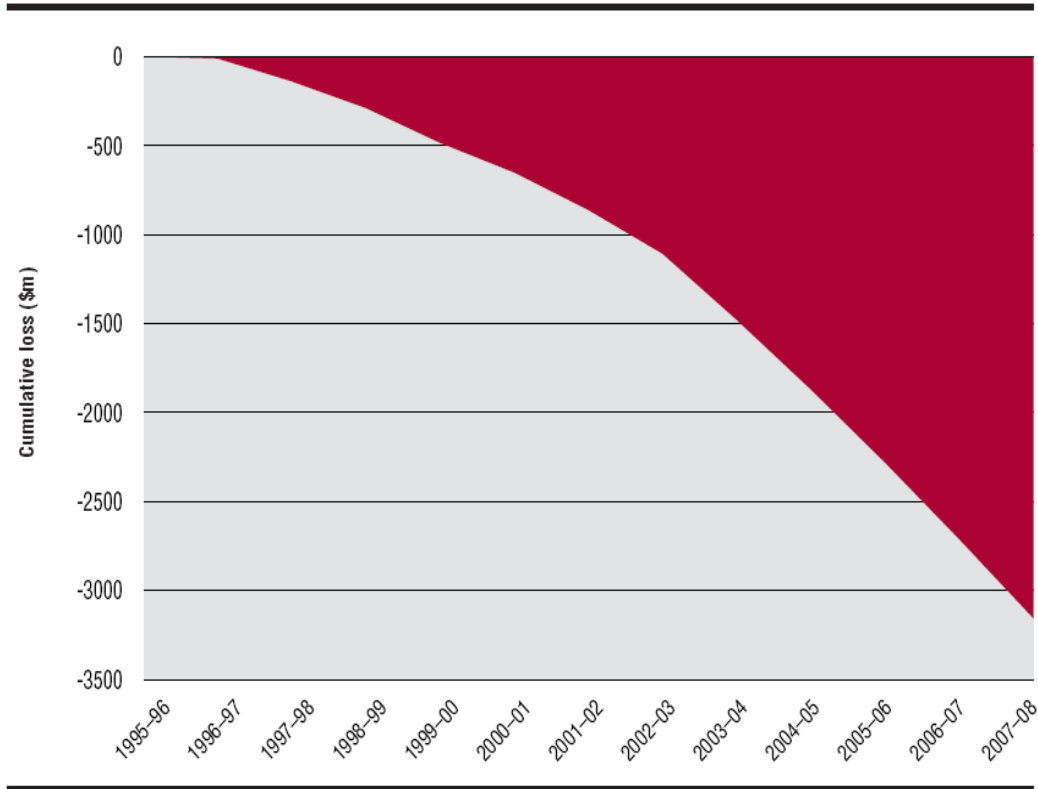
²⁷ Jon Hall, Mike Berry, Peter Phibbs, '[Policy options for stimulating private sector involvement in affordable housing across Australia: operationalising and implementing viable new options](#)', AHURI, April 2003.

²⁸ Calculation based on the Housing Assistance Annual Reports and the CSHA National Data Reports 2005-06.

²⁹ ABS: *Australian Social Trends*, 2006.

Existing funds contributed by the Commonwealth and the State Governments are not sufficient to maintain the existing housing stock, let alone expand it.

Federal Government funding cuts to social housing (CSHA)



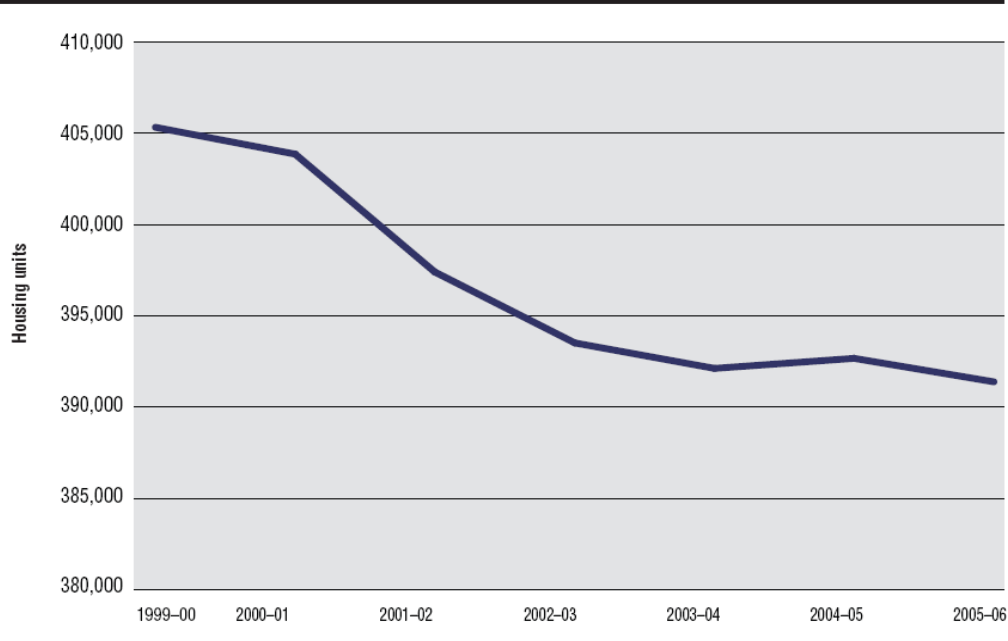
Source: Housing Assistance Act 1996, 1994/95 - 2004/05, CSHA National Data Reports 2005-06

A further problem is that maintenance costs are rising each year because the properties are growing older and in need of more repairs. Maintenance and repair costs in themselves have increased due to the high demand for tradespeople.

Although States and Territory Governments have made substantial efforts to maintain or increase their housing stock, most recently demonstrated by large new funding commitments in both Victoria and Queensland, the trend has been one of gradual decline. This has seen the Commonwealth State Housing Agreement shrink from being a guarantor of affordable housing to a marginal provider of welfare housing.

It is also worth noting that while spending on social housing through the CSHA has reduced, spending on the Commonwealth Rent Assistance (CRA) program has increased (although the increase in CRA spending does not go anywhere near to matching the dollars taken out of the CSHA).

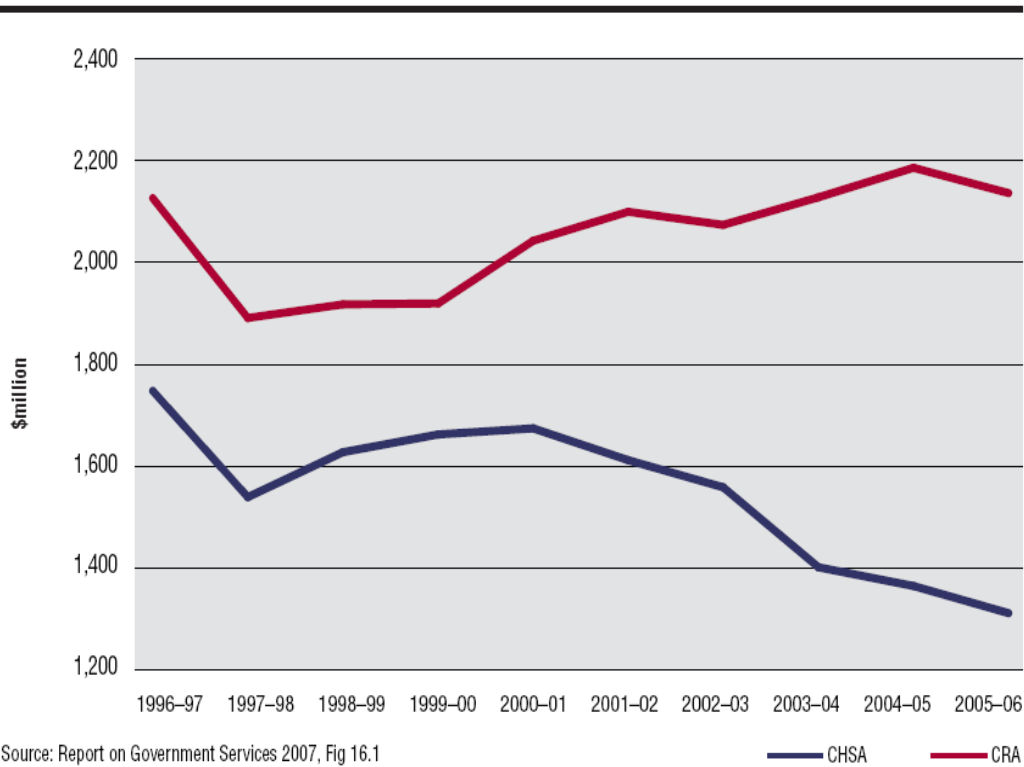
Reduction in social housing due to Federal Government cuts to CSHA



Source: Housing Assistance Act 1996, 1994/95 - 2004/05, CSHA National Data Reports 2005-06

CRA is a demand-driven program: that is, as rents rise, so do Commonwealth payments to eligible recipients. CRA is capped so once renters hit the ceiling it does not take into account further rent rises payable by the tenant. This means that more and more recipients are now paying for rising rents out of their own pocket.

Federal Government shift from social housing to rent assistance



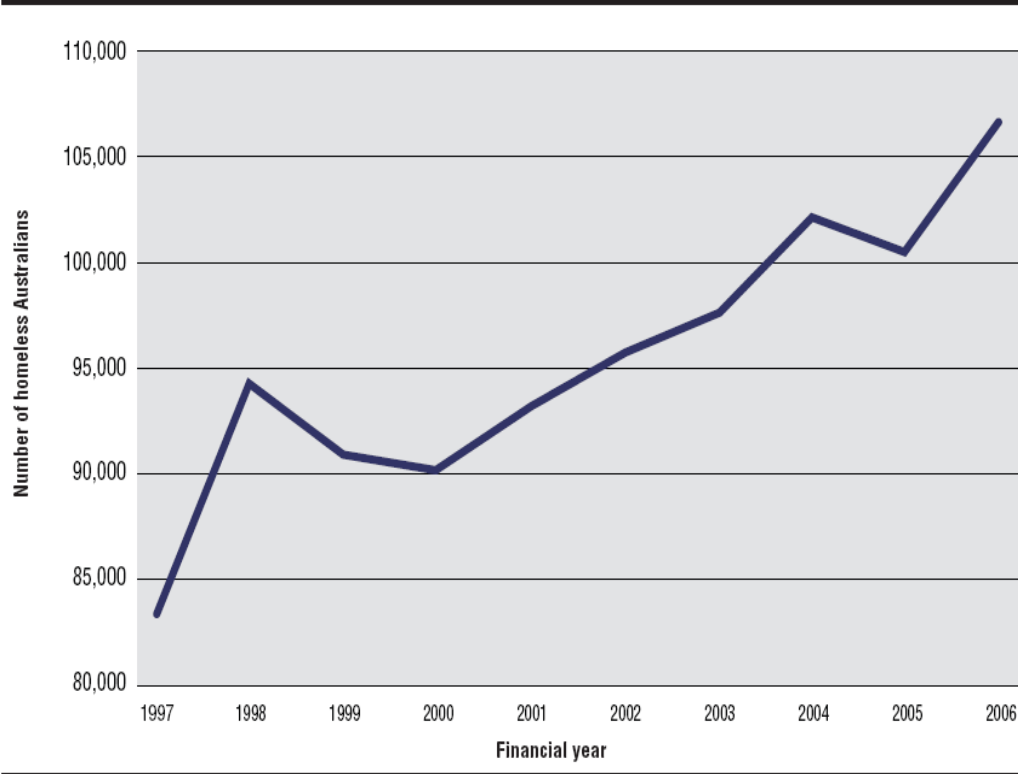
Source: Report on Government Services 2007, Fig 16.1

4.1 Homelessness

Demand for homeless services has increased steadily. Around 100,000 individuals including 10,000 children are homeless in Australia on any given night.³⁰

At a time when the economy is strong and unemployment is low, this is particularly unacceptable.

Increase in clients of homelessness services



Source: *Homeless people in SAAP: SAAP National Data Collection annual report 2005-06*

The social and economic impacts of homelessness are substantial.

A lack of safe accommodation for women fleeing violence compromises safety and makes it more likely that victims of violence will remain in or return to a violent home. For children and young people in particular, the lack of secure accommodation significantly affects their wellbeing and development. It impacts on continuity of schooling and the ability to access education and training.

Living in a secure home is fundamental to participation in society. A home is necessary for health, work, social development as well as education and training. It is the key to family well being and to building resilience in young children. Secure and supportive accommodation is vital for recovery from a violent relationship or from substance abuse or mental illness.

The Supported Accommodation Assistance Program (SAAP) is an intergovernmental agreement which funds homelessness services and emergency accommodation. The bulk of the SAAP program goes to emergency accommodation services for young people and women leaving domestic violence.

³⁰ ABS 2050.0 (2003) *Counting the Homeless*.

While the demands on SAAP services increase, the Federal Government's contribution has reduced in real terms. In the current SAAP agreement (SAAP V) this equates to a cumulative real loss of nearly \$50 million of funding to homelessness services over five years.

For example, it is estimated that on any day, 642 homeless people, including 255 children, unsuccessfully request accommodation from a Supported Accommodation Assistance Program service.

The Federal Government's own evaluation of SAAP IV showed that an increase of 15 percent was required just to 'sustain service viability' and that, in order to meet demand, the Commonwealth needed to increase funding by 40 percent.³¹

4.2 Indigenous Housing

Indigenous Australians remain the singularly most disadvantaged group of Australians when it comes to housing affordability and access to housing.

In the bush, housing need is starker in relative terms because of the lack of private rental housing and a properly functioning property market.

Despite the current focus of public policy on remote communities, there are greater numbers of people in housing need living in urban and regional areas. It is in those areas that three-quarters of the Indigenous population lives. The five regions found to have the highest levels of housing affordability stress; overcrowding and homelessness for Indigenous Australians in 2001 were Sydney, Brisbane, Cairns, Townsville and Perth.³²

The decision in this year's Federal budget to direct the vast majority of Indigenous housing funding to remote areas means that the mainstream housing sector will need to meet the needs of urban Indigenous communities. This loss of funding will significantly affect both Indigenous and non-Indigenous families who rely on social housing in urban and regional areas.

It is estimated that 18,000 Indigenous family households won't have a home by 2009, with 7,600 of these families living in remote areas.³³

A recent report written by PriceWaterhouseCoopers for the Department of Families, Community Services and Indigenous Affairs estimates the backlog of repairs and maintenance in the Indigenous Housing sector to be in excess of \$700 million.³⁴

5. Canvassing options to tackle housing affordability

Over the next few months Federal Labor will consider a range of policy options to tackle the housing affordability crisis. The new ideas and proposals discussed in this paper do not represent Federal Labor election commitments. They are designed to

³¹ Erebus Consulting, *National Evaluation for SAAP IV*, Commissioned by the Federal Department of Family and Community Services, 2004.

³² The National Centre for Social Applications of GIS, *Indigenous Housing Need: Homelessness, Overcrowding and Affordability 2001 Census Analysis*, Draft Final Report to ATSIC, University of Adelaide, December 2003.

³³ MCATSIA, modelling undertaken for the Housing Ministers and first presented to MCATSIA in October 2005.

³⁴ Department of Families, Community Services and Indigenous Affairs 2007, *Living in the Sunburnt Country- Indigenous Housing: Findings of the Review of the CHIP*, report prepared by PricewaterhouseCoopers, FaCSIA, Canberra.

inform a national debate on housing affordability and will be tested at the housing affordability summit to be held in the coming weeks.

However, Labor has already made a number of commitments.

Federal Labor will establish a National Affordable Housing Strategy that embraces the principles of sound economic management. Labor is committed to using macro-economic management principles to keep downward pressure on interest rates.

Federal Labor will also restore the Federal Government's role as a housing policy leader dedicated to promoting the supply of affordable housing for all Australians. Federal Labor will have a Housing Minister, with a seat in Cabinet, to give housing affordability the attention it deserves.

The other options listed in this paper are for discussion with industry, business, private investors, the social and community housing sector and those who work in homeless services. They do not represent Labor Party policy but are ideas aimed at generating a national debate on housing affordability for the future.

Government policies, including economic management, aimed at keeping downward pressure on interest rates can play a significant role in alleviating Australia's housing affordability problems, across the entire housing spectrum - from young families trying to enter the housing market, to middle income families servicing loans, to vulnerable Australians who simply want a roof over their head.

The decline in affordability and shortage of houses is the result of a lack of leadership and innovation over eleven years at the federal level.

The home ownership futures of Australians are tied to the actions or inaction of governments today.

National leadership is critical to improving housing affordability across Australia, as federal government policies (on immigration, tax, social housing, etc) have the most critical effect on housing affordability for low and middle income families across the country.

National leadership on housing policy also, critically, involves coordinating all three levels of government: each has a responsibility for different factors that impinge on the cost of housing, and all three must work together if housing affordability is to be achieved as a national goal.

Industry experts such as Ron Silberberg, Managing Director Housing Industry Association, have said:

This is a national crisis that requires a national response and we are calling on the Federal Government to bring all the players to the table and for state and local governments to make practical contributions to address this issue.³⁵

5.1 Keeping downward pressure on interest rates

It is the responsibility of a federal government to keep downward pressure on interest rates.

This is one of the most important policy levers a federal government can use to keep housing affordable. Interest payments are the single biggest cost in buying a home. This makes interest rate policy central to housing policy in Australia.

³⁵ Ron Silberberg, Managing Director, Housing Industry Association, 14 May 2007.

There is widespread agreement over the macroeconomic policy principles that help deliver economic stability and low interest rates.

Labor is committed to maintaining the absolute independence of the Reserve Bank and its inflation-targeting framework. As Former Reserve Bank Governor, Ian Macfarlane recently noted:

*..both major parties support an independent Reserve Bank making interest rate decisions based on a 2-3 per cent inflation target. The current policy framework of inflation targeting and Central Bank independence has met with considerable success during its period of operation, and now enjoys public approval and bipartisan political support.*³⁶

Labor's commitment to putting downward pressure on interest rates is also borne out in its commitment to fiscal discipline. In 2006, Labor released its Budget Rules:

Fiscal policy under a Labor Government will be guided by Labor's Budget Rules, which state that Labor will keep the budget in surplus, on average, over the course of the economic cycle. Labor will not increase taxation as a share of GDP, delivering budget surpluses through disciplined spending not higher taxation.

These rules are not radically different from the formal statement of the Government's medium term fiscal strategy – although Labor has argued that the Government's fiscal performance in recent years has placed an excessive burden on monetary policy for the overall maintenance of macroeconomic stability and low inflation.

There is, however, significant divergence when it comes to the supply side of the economy and to building the nation's productive potential.

Inadequate attention and underinvestment in the long-run drivers of growth have contributed to the emergence of capacity constraints in our economy. Infrastructure bottlenecks and skills shortages have frustrated supply, placing upward pressure on inflation and interest rates.

Both the Treasury Secretary and the Reserve Bank Governor have warned that we need to do more to expand our nation's productive capacity if we are to sustain growth into the future, without fuelling inflation and risking higher interest rates.

Federal Labor is committed to economic policies that expand the productive capacity of the economy and put downward pressure on interest rates. In 2007, Federal Labor committed to:

- An **Education Revolution** – to boost the quality and quantity of investment in our 'human capital', which will increase productivity and the capacity of the economy;
- National Leadership on Infrastructure – by creating Infrastructure Australia and building a high-speed **National Broadband Network**;
- **Fostering Innovation in Businesses** – by establishing 10 Enterprise Connect Centres that will help businesses improve production processes and use the latest technological innovations; and
- **Modern Regulation** – committing to a tough 'one-in-one-out' approach to stop the growth of red tape and practical measures such as a Superannuation Clearing House and BAS Easy for small businesses.

³⁶ Ian Macfarlane, *The Search for Stability*, Boyer Lectures, ABC Radio National, December 2006.

Together with the macroeconomic framework, these policies will lift productivity and help put downward pressure on interest rates.

5.2 Promoting home ownership

5.2.1 Governments working together to reduce costs

Agreements between all three levels of government could facilitate the building of more affordable housing: that is, more houses at prices that average families can afford to buy.

To improve housing affordability in Australia, more houses must be built to satisfy growing demand. New housing demand arises from new immigrants and people moving between states as well as from changes in household and family structure. Yet while population policies and interstate migration are primarily an area for the Commonwealth Government, land release issues are typically the responsibility of state governments.

The Property Council has proposed³⁷ that the Council of Australian Governments work to improve land supply research and to set standards for national assessments which highlight areas of pending shortfall – before land supply deficits emerge. This would involve setting a consistent methodology for monitoring land supplies and setting benchmarks for land supply into the future.

The Federal Government could also reduce the cost of building on zoned blocks in new housing developments by creating an infrastructure pool that state, territory and local government could apply to, in order to reduce the cost of services to these blocks (currently the purchaser pays for these services).

Access to such an infrastructure pool could be conditional on concessions from all levels of government, including local and state government agreement to speed up the process of releasing land to the market or efficiencies in assessing development applications. Grants would have to be conditional on developers passing on the savings in full to first home buyers.

In its recent 'Call to Action' the National Affordable Housing Summit Group proposed that the Federal government establish a Residential Infrastructure Fund to help States meet the costs of infrastructure in high-growth areas.³⁸ The Property Council of Australia has made similar proposals in the past, with the pool operating along the lines of the federal roads and transport infrastructure scheme, AusLink.

The Housing Industry Association has also suggested that the Federal Government create a funding pool that could be accessed by local councils, to reimburse them for the cost of infrastructure. To be eligible a local council would have to demonstrate a pressing need for infrastructure, and an ability to make significant planning improvements and development efficiencies.

Under such a scheme, successful councils would only receive a portion of the grant up front with the remainder conditional on demonstration of efficiency targets being met. These targets would include a demonstrated reduction of levies and taxes charged, and a price saving to the home buyer.

The Commonwealth should also work with state and local governments to reform development assessment processes, which add to the cost of new housing through delays, disputes and inconsistencies in the application of local planning laws.

³⁷ Property Council of Australia, *Boulevard of Broken Dreams: The future of housing affordability in Australia*, 2007, p. 26.

³⁸ Press Release 27 June 2007: *National Coalition Calls for Election Focus on Affordable Housing*.

By streamlining development assessment processes and implementing a range of efficiency reforms, up to \$1 billion may be saved in costs and time delays resulting from the myriad of complex and inconsistent development assessment systems.³⁹

The Property Council proposes the use of the Development Assessment Forum's '10 Point Plan' to reform local development assessment systems. The Development Assessment Forum comprises all State and Territory planning departments, local government associations, the Federal government and industry and professional associations. The Commonwealth should commit to leading a new national reform program to improve development assessment around Australia, recognizing that appropriate incentives may be required, particularly for local government to overcome financial barriers to reform.

5.2.2 First Home Owners Grant

The greatest challenge facing first home buyers in Australia now and into the future is saving a deposit – particularly because they are paying increasingly high rents. This 'deposit gap' (and offsetting the GST) was the rationale behind the First Home Owner's Grant (FHOG), introduced in 2000 with the support of Labor.

In 2007, the critical challenge is to make sure that any government measures to help Australian families overcome the 'deposit gap' actually result in the creation of new homes. This is critical to containing inflationary pressures in the housing market. Australian economists agree that new subsidies should focus on creating new homes, as one of the reasons behind the slump in affordability is the shortage of homes. New houses are simply not being built at the rate of new household creation. As Saul Eslake put it:

Anything which puts additional cash in the hands of buyers...results merely in more expensive houses. Instead, policy needs to focus on increasing the supply of housing – particularly low-cost housing – and reducing the time taken to bring land and housing to market.⁴⁰

This analysis suggests that simply increasing the First Home Owners Grant in isolation may not make housing more affordable in the long run if it leads to inflationary pressures on the cost of homes. It is important that policy proposals designed to assist first home buyers, are economically responsible so that their benefits are not eroded through additional pressure on house prices.

Accordingly any increase in the FHOG should be accompanied by measures to stimulate supply of housing to ensure the benefit is not eroded through higher housing prices.

A range of possible reforms to the FHOG have been suggested. These include but are not limited to: raising the level of the FHOG; and raising the level of the FHOG but with improved targeting of the grant to provide additional assistance to those who need it most. For example, a number of individuals and industry organisations⁴¹ have argued that the FHOG be given to buyers who have a mortgage only, rather than providing it to people who are able to buy their properties outright.

³⁹ Development Assessment Forum, *A Leading Practice Model for Development Assessment in Australia*, 2005

⁴⁰ Saul Eslake, 'More bricks and mortar will solve housing crisis', *Australian Financial Review*, 12 March 2007.

⁴¹ See, for instance, Property Council of Australia, *Improving Housing Affordability in New South Wales*, November 2006.

5.2.3 Tax incentives for home deposit savers

Another way to help families make up the deposit gap is by launching a new savings vehicle. A home deposit savings vehicle, with higher returns than an ordinary deposit account could help young families save larger home deposits quicker.

The Federal Government could create the financial framework for such an account, along the same lines as the way superannuation operates: as a low-tax, low-overheads savings vehicle.

Currently saving for a home involves ordinary deposit accounts that pay modest rates of interest with earnings taxed at the account holder's marginal tax rate (for most, this results in 31.5 or 41.5 percent of interest earnings being lost to the Government in tax).

Allowing new home deposit savings vehicles, with the potential of higher returns than an ordinary deposit account and tax advantages could help reduce the reliance on large mortgages to buy a first home.

Government could create the financial framework for such accounts, allowing it to run in the same way superannuation works: as a low-tax, low-overheads savings vehicle. Contributions could be made from pre-tax dollars and earnings could be taxed at a low nominal rate, just like super nest eggs.

Superannuation and housing are the two most significant assets held by Australians, and both are critical to financial security in retirement.

New savings accounts where young Australians can really see the benefits of their sacrifices will help create a new savings culture and reduce the reliance of first homebuyers on large mortgages to buy their first home.

Savings accrued in such accounts could only be withdrawn to purchase a first home.

5.2.4 Shared equity schemes

Another option to reduce the upfront costs to a first home buyer is through the offer of shared equity. There are various models of shared equity arrangements which currently operate, including:

- a private-public model, such as in the United Kingdom where the government combines with private lenders and home buyers to co-fund the home of the first home buyer;
- private commercial products, such as that offered in Australia by equity managers Rismark International, where a home buyer opts for a financier to buy outright a certain portion of their home rather than to borrow the money from the financier; and
- public models such as those operating in Western Australia and the Northern Territory.

To ensure greater market penetration of private shared equity products the federal Government could also assess the means by which it could increase the return on equity for private partners – be it through tax concessions, subsidies or other mechanisms.

With a public model, a householder could choose for government to be a purchaser or silent equity partner, taking a small stake in the home. This type of scheme already operates in Western Australia and the Northern Territory. Effectively an interest-free loan to the household, it has been suggested that government could pay a certain proportion of the up-front cost as sought by the eligible household (eg, up to 25 percent of the purchase price), with the household buying out the government share over time as they can afford.

5.2.5 Cracking down on predatory lending

The deregulation of the financial sector has fostered greater competition between financial institutions and sparked a wave of financial innovations that have been to the overall benefit of the Australian economy. Competitive forces, for example, have reduced the gap between the short term 'cash rate' of interest and interest rates charged by banks on housing loans. Financial innovations, including 'low-doc / no-doc' home loans have made it easier for many families who would otherwise find home ownership difficult because of time pressures, a lack of credit history, or owning a small business. The Reserve Bank estimates that this part of the sector has grown from zero to \$8 billion over the last decade.

There is some alarming evidence of unconscionable conduct leading to some Australians being lent amounts they cannot afford or on unfair terms, ultimately leaving some in a difficult situation.

Labor will ensure that healthy competition in the lending market does not become unhealthy encouragement to borrow more than it is possible to repay. This means protecting consumers from predatory lenders and unscrupulous mortgage brokers.

One option is to give the Australian Securities and Investments Commission responsibility for regulating such financial institutions (the non-bank lending sector). Mortgage brokers would be penalised for:

- engaging in predatory lending practices;
- failing to disclose financial benefits or commissions;
- signing Australian working families up to mortgages with an unreasonable loan to value ratio; or
- providing no-doc, low-doc loans to those who are unable to service them.

5.3 Increasing the supply of affordable rental properties

The Federal Government can increase the available stock of affordable rental properties in two ways: firstly by facilitating the supply of more homes at the affordable end of the market and secondly by offering preferential tax treatment to landlords who commit to leasing existing properties at more affordable prices to families on average incomes.

The key to increasing the availability of affordable rental properties is attracting more private investment into the lower end of the rental market. Australian superannuation funds, for example, already have investments in the affordable housing markets of the United States but, due to structural barriers and poor rates of return, lack opportunities to make the same investments here. The Federal Government could attract private investment and facilitate rates of return through:

- strategies to encourage the construction of new houses for let at affordable rent;
- incentives to encourage private, non-profit or individuals to invest in affordable housing stock for rental; and
- capital funding or low interest loans for the development of social housing.

There are a range of schemes which have been proposed as vehicles for the development of additional affordable housing.

5.3.1 Capital grants or loans to social housing providers

One supply barrier to social housing creation that could be addressed is the ability of community (ie not for profit) housing organisations to borrow funds to purchase housing. Previous Federal Governments have given one-off capital grants to social

housing providers such as City West Housing to buy or build houses in areas of high need, which are then rented at below market rents. Housing organisations often manage tenancies and the maintenance of houses owned by state governments, worth tens of millions of dollars, yet still have hundreds of low income families on waiting lists. Because these organisations, many of which are highly capable, do not own the housing stock, they cannot use the stock they manage as equity to leverage loans.

The Federal Government could increase the stock of affordable housing for targeted groups - low and middle income households - by guaranteeing commercial loans for selected not for profit housing organisations.

Alternatively, the Federal Government could subsidise the interest payable under those loans. In either case, the Commonwealth would require in return higher accounting standards than exist in some housing organisations: robust regulatory and prudential standards would be a pre-requisite for any underwriting or assistance by the federal government. The social housing provider would retain the title for the property and also be responsible for repaying the principal of the loan.

This would be an opportunity for superannuation funds to invest in Australian affordable housing. Currently it is easier for them to invest in affordable housing overseas than domestically.

5.3.2 Low Income Housing Tax Credits

Tax credits against tax liability for investors who agree to charge below market rents is another way of reducing investment hurdle rates for investors. It creates an incentive to invest in constructing affordable rental properties or rental of established houses for below market rent.

The Government could also allocate the tax credits to a non-profit housing organisation, who in turn would call for tenders to supply affordable housing. The organisation would administer and monitor the scheme – deal with inquiries from investors, assess their applications, and ensure that the investor is complying with the conditions of the tax credit.

The Federal Government could allocate a fixed amount in tax credits – for example, \$100 million - to be apportioned in proportion to population across the states and territories, or to areas of high housing need. These credits are exceptionally successful in the United States where they are the biggest source of capital subsidy used to stimulate the supply of low cost housing. Construction companies bid fiercely for limited tax credits: the demand by investors for tax credits under the program exceed the dollars allocated by the US government.⁴²

5.3.3 National Affordable Rental Incentive

Under this scheme, proposed by the National Affordable Housing Summit, all levels of government contribute to annual incentive payments or tax concessions paid to investors prepared to offer homes below market rent. There are many ways the Federal government could deliver its contribution to the incentive including through a higher rate of negative gearing.

The scheme is modelled on an increase in supply of 100,000 new affordable homes over 10 years. It is designed to induce construction of houses to be financed and owned by private investors, for rent to lower and middle income households. The extra stock of homes will reduce upward pressure on rent across the community, which will in turn improve renters' ability to save for home purchase. It would also place downward

⁴² JL Cummings 'The Low-Income Housing Tax Credit: An Analysis of the First Ten Years', *Housing Policy Debate*, Vol. 10, No.2, 1999, pp.251-308.

pressure on public housing waitlists, as some low income or pension payment renters will have the opportunity to move to the affordable private market.

5.3.4 Doubling the depreciation allowance

Currently property investors can claim a tax deduction of 2.5 percent of the value of the building on the investment property on their annual taxable income. The depreciation allowance is claimable for 40 years from the date of construction of the home. This is only attractive to investors building new homes or buying homes built from the late 1980's onwards (because the allowance is only claimable for 40 years from date of construction, investors only get a worthwhile benefit if the house is less than 20 years old or so, facilitating another 20 years of deductions).

The flat tax rate results in a tax bias in favour of investors in the high rent end of the market.

The Federal Government could double this allowance for investors in new affordable housing projects (ie, target the increased allowance to those prepared to invest in housing let at rates affordable for low income earners).

The Federal Government could also extend the 40 year cut off for established residences let at affordable rates, to allow investors in affordable rentals to claim the deduction regardless of the date of construction. Australian Housing and Urban Research Institute modelling found the Building Write Off allowance may in some circumstances be recaptured on sale of the investment property by Capital Gains Tax and as such may not be an effective stimulant for investors.⁴³

5.3.5 Reform of Commonwealth Rent Assistance

Commonwealth Rent Assistance is currently administered completely separately from the Commonwealth State Housing Agreement despite the fact that both programs are aimed at assisting low income earners with housing costs. Bringing them under one agreement would allow for greater efficiencies, and ensure that these supply and demand side programs can together be leveraged to induce an increase in the number of affordable houses. Currently, despite costing the Commonwealth more than \$3 billion annually, they are not even achieving the more modest aim of keeping housing costs at affordable levels even for existing recipients – let alone contributing to the only long lasting solution – more homes at lower rents.

One way of better targeting this payment may be to allow people on long term income support payments such as the Age Pension, Disability Support Pension and Carer's Payment to elect, if they wish, to have up to a year's worth of their rent assistance entitlement brought forward and paid as a lump sum to a landlord. In return, the landlord would be required to offer guarantees around the cost, security or length of tenancy.

Since Rent Assistance is a demand side subsidy, the Federal Government is not able to predict spending in this area from year to year. There have been calls for the rate of rent assistance to be increased, but many fear that lifting the rate will not make housing more affordable, as the increase would in all likelihood quickly be swallowed up by rent increases.

Others have proposed mechanisms for the prepayment of Commonwealth Rent Assistance to developers and investors in return for renting the property at below market rent. For example, the Queensland government recently put forward their *Home Link* proposal whereby the state government would offer investors a \$5,000 grant per unit, undertake maintenance and tenancy services and local councils would offer rate

⁴³ Australian Housing and Urban Research Institute, 'Increasing the supply of affordable private rental housing', *AHURI Policy and Research Bulletin*, Issue 29 November 2003

reductions in return for the Federal government pre paying Commonwealth Rent Assistance. Investors would then be required to rent the units at below market rents.

5.3.6 Tenancy Reform

There is no tradition of residential leases that go beyond 12 months in Australia, despite the mutual advantage that longer term leases can provide to lessor and lessee.

Long term leases provide an alternative to ownership that still provides the benefits of long term security of tenure. As such, there is a role for the Federal Government to work with the States and Territories to establish the regulatory environment to allow for longer term residential leases.

Long term leases allow the possibility for tenants and landlords to reallocate repair and maintenance responsibility and permit tenant improvements in return for greater certainty of rental return and reduced churn.

A significant proportion of Australians have increasingly been forced to be long term tenants rather than home owners. About 40 percent of private renters have rented for ten years or more.⁴⁴ There are significant transactional costs associated with the end of tenancies for both landlords and tenants, and often enough it would be in the interests of both to sign leases for periods longer than 12 months.

The relatively large proportion of investors who own a single rental property in Australia contributes to the default position of shorter term leases, because the landlord often 'over manages' their property in search of better returns. This perversely often leads to the opposite outcome, as greater turnover of tenants can easily lead to lower returns (through a period of vacancy between tenants, and advertising costs).

5.4 Social housing

5.4.1 A National Affordable Housing Agreement

Existing housing agreements and funding sources could be brought together to improve the ability of all governments to achieve affordable housing outcomes for low and middle income earners.

There are considerable deficiencies with the current Commonwealth State Housing Agreement (CSHA). These are caused first and foremost by disinvestment by the Federal Government, which has reduced CSHA's capacity to provide affordable housing solution to low income families.

Over time the CSHA has been reduced to an uncertain trickle of funds, which has inevitably meant what used to be subsidised housing accessible by low-income workers has turned into welfare housing almost exclusively for the most disadvantaged. Only Australians without a job, or who have a disability, mental illness or other acute need, generally now get into public housing (though many in these categories miss out nonetheless). Australians earning the minimum wage no longer can hope to become eligible for public housing, as waiting lists continue to grow.

In order to open up social or subsidised housing to the broader group it used to assist (low income Australians as well as Australians unable to work), and to get the most out of Commonwealth spending, there is merit in expanding the Commonwealth State Housing Agreement to include other programs.

The Supported Accommodation Assistance Program (which funds services for homeless Australians), for instance, or Commonwealth Rent Assistance (which

⁴⁴ ABS: Year Book Australia, 1996, 1301.0.

provides subsidies to people on income support) theoretically share the same aim as the CSHA – to make housing more affordable for low income Australians.

Their separation within different agreements provides little incentive to look at how they could be combined to achieve superior long term housing outcomes for low income Australians

5.4.2 Increased funding for building new public housing stock

There is a role for the Federal Government to increase the stock of available housing. Providing funds to build more public housing may be the most cost effective way: in 1993, the Productivity Commission undertook a detailed inquiry into the effectiveness and efficiency of the delivery of public housing and rental assistance. The inquiry found that public housing was a cost effective way of meeting government housing objectives, to be used as part of a mix of assistance measures also likely to include rent assistance, community housing and leasing of a property by a housing authority or community group (for on-leasing to a tenant).⁴⁵

Investment in public housing remains an effective means of delivering long term affordable housing for low income Australians in locations with good amenity to employment training, childcare and health services.

5.4.3 Public-Private Partnerships

There may also be scope for government to leverage private investment through public-private partnerships. Private sector parties could contribute to the design, construction, operation, maintenance and finance of social housing developments while the government could provide concessions and assist with obtaining permits and other regulatory requirements.

State governments have already embarked on such schemes, harnessing the skills of the private sector in raising capital and managing large scale infrastructure projects in order to increase the stock of public housing.

5.4.4 Resourcing homeless accommodation services

National leadership is urgently needed to address the causes of homelessness, boost early intervention programs and improve pathways out of homelessness. Homelessness is not an issue on the radar of this Federal Government.

Moving out of homelessness permanently is difficult: only seven per cent of those who receive support from a homeless service emerge having secured independent income.⁴⁶ A Federal Government could renew the focus on programs to assist the homeless to find and retain work; including offering additional personal support to ensure people embarking on pre-vocational training have a better chance of success. The transition for older homeless men and women from emergency accommodation to long term supported accommodation or aged care services could be streamlined with Federal government assistance.

Homelessness services often see the same clients again and again. Permanent pathways out of homelessness need to be increased, including long term accommodation.

Programs specialising in life skills, treatment of substance abuse as well as intensive support for people living with mental illness are vital. Also important are evidence-based

⁴⁵ Productivity Commission, *First Home Ownership*, Report no. 28, Melbourne, 2004.

⁴⁶ Australian Institute of Health and Welfare: *Homeless people in SAAP: SAAP National Data Collection Annual Report 2005-2006*, Chapter 8, page 67.

programs that work with target groups known to be at risk of homelessness. Two good examples are the Household Organisational Management Expenses (HOME) advice for families struggling with poverty and Reconnect for young people. Reconnect works to successfully keep young people out of homelessness and assists about 6,000 young people each year. But there is about three times this number of young people who face homelessness who could be assisted by the program if funding was increased.

5.4.5 Indigenous housing

Poor economies of scale continue to drive down the productivity of Indigenous housing programs as developments are ad-hoc, short-term and small. This is compounded by a lack of expertise and clarity on quality standards for homes in different environmental conditions.

A failure to combine new housing programs with maintenance of existing stock and maintenance training puts unnecessary pressure on new housing stock. Once a new home is built it is immediately overcrowded by people who cannot live in existing stock and the home deteriorates in 5-10 years rather than 40-50 years. There is also significant untapped potential for accredited training opportunities for local people in the construction of homes provided there is the stability of a rolling program.

There is also potential to think more creatively and strategically about how private equity can be leveraged to expand the reach of public investment in Indigenous housing. Currently private equity is not typically utilised in Indigenous-specific housing programs. There are Indigenous assets in the Aboriginal Benefits Account, Indigenous Business Australia (Home Ownership Fund) and the Indigenous Land Corporation that could be utilised with the agreement of Indigenous people.

One of the reasons for the lack of affordable housing in remote Indigenous lands is the lack of security that public housing providers can gain over the land. Where long-term leases are required, the negotiation of these leases should be a priority for both Government and Indigenous representatives. The new 99 year township leasing model under the Aboriginal Land Rights (NT) Act 1976 was not negotiated with Indigenous land owners and makes them choose between economic development and retaining control over their land. A Federal government can resolve land tenures where negotiations are underpinned by respect, not coercion.

There is also potential to expand shared equity schemes in order to encourage Indigenous home ownership. Known as 'sweat equity', these schemes are another innovative way to deliver home ownership in Aboriginal communities, especially in places of high unemployment. Under the scheme a group of unemployed people are provided with the skills to build themselves a house on land and with materials provided by the government; the participants in the scheme are rewarded for their contribution of labour with equity in their home, and they learn transferable skills with which to gain future employment.

The Indigenous Home Ownership Program has been operating for a number of years and has assisted many Indigenous people in urban and regional areas through discounted interest rates. Since July 2006 alone, over 500 loans have been approved. There is a 12-month waiting list for this program.

The Housing on Indigenous Land Program provides subsidised loans for Indigenous Australians in remote Areas. However, funds for this program are tied to there being a 99-year lease over the land on which these homes would be built. To date no 99 year leases have been negotiated while nearly \$100 million of much-needed money for Indigenous housing remains unspent.

Measures to promote home ownership or increase the supply of social housing in Indigenous communities must form part of a broader, long term and comprehensive plan to address chronic poverty and disadvantage in these communities.