Level 1. 118 Vulture Street. West End Qld 4101

National Affordable Housing Consortium

Celebrating 6 Years:

3,300 new affordable homes built

15,000 FTE Jobs created

$1.4billion in private investment made

Saving tenants $15m a year in rent

STANDING COMMITTEE ON ECONOMICS

Inquiry into home ownership

A submission from

The National Affordable Housing Consortium



ABOUT NAHC:

The National Affordable Housing Consortium is a Not For Profit Company and endorsed Charity. It was incorporated in November 2008.

In the last 6 years NAHC has facilitated the completion of 3,300 affordable rental homes, with 300 more under construction, created a network of not for profit and for profit entities delivering and managing affordable housing, attracted over $1.4B in private investment and achieved balanced outcomes for Government, private and community stakeholders.

60% of NAHC residents are lower income workers, 30% of NAHC affordable housing residents have come from the social housing wait list and 20% of residents have a disability.

As well as facilitating new housing on the ground, NAHC invests in research and development and has developed new models to assist housing reform, stock renewal and to create and strengthen pathways between the social and market systems, including affordable rental and home ownership products.

NAHC has committed to a program of Shared Equity Home Ownership, which we believe can overcome some of the key access and affordability barriers for households seeking to enter home ownership. We have attached a PDF presentation on SEHO which we hope you will consider. We request that this PDF document is not published as it has commercial IP, but we will leave that issue in your hands to determine.

NAHC SUBMISSION

Home ownership rates in Australia are high by international standards for developed countries.

Many developed countries have created housing policy settings that focus more on security of tenure, effective control over the home and affordability rather than the pursuit of home ownership per se.

Getting home ownership policy right requires getting our overall national housing policy and housing industry settings right. How do we maximise access, security of tenure, quality, choice and affordability for all Australians?

This is not to negate efforts to improve access to home ownership, but to recognise, in a very pragmatic way, that many of the drivers of the declining rates of home ownership are hard to measure and may be impossible to fix, or even undesirable to fix.

Certainly a realistic goal is to seek to improve access and affordability for those people who can be called ‘willing buyers’ but who arelocked out of home ownership because they can’t meet a deposit and where the level of mortgage payments would put them in housing stress. Such policies could reduce the rate of decline but are unlikely to stop the decline in light of the economic, employment and household formation factors that also impact on housing choices-alongside affordability.

Home ownership rates have been declining across all age cohorts except the oldest cohort for over a decade.

A wide range of economic, tax and social policy arrangements seek to underpin, or are based upon the assumption of continued high levels of home ownership. The falling rate of home ownership has implications across economic and social policy.

Whilst the data exists to demonstrate the level and pace of the decline in home ownership rates, it is more difficult to understand the relative importance of the drivers of this decline. Household formation/breakup, lifestyle choices, employment patterns – including increased casualisation and unpredictability in employment stability; and HECs debt all play a role alongside the well-known affordability barriers, but identifying the level of willing buyers excluded on affordability grounds alone is difficult due to the complex inter-play of these factors.

EXAMPLES OF BARRIERS

1. Young people are increasingly not forming settled relationships until later in life- sometimes into their 30's- and typical mortgages require two incomes to service and a long term commitment to service.
2. A family relationship breaks up after 7 years. In this case two incomes were paying for one house, now the family needs two houses, but each house can now only be serviced by one income and the equity from the family home may not even be sufficient to pay a deposit.
3. Economic and employment changes means less certainty over the stability of long term employment and much more likelihood of periods of casual employment or part time employment or contracting. This can create barriers to people feeling they can choose home ownership and also banks willingness to finance loans
4. The inter-play of HECs and the Tax System means the ability of those who have invested in higher education- once a strong indicator of probable home ownership status amongst young people, means that you would need a very good job indeed to be able to meet those financial commitments and a mortgage

In each of these cases, the cost of entering [or re-entering] the market also imposes significant barriers. Not just financial, but also in **'Risk'**. Even if the entry cost barrier is overcome, the person remains vulnerable to changes in circumstances that might result in the loss of the home and ongoing indebtedness. For many people it is many years before they have secured 'equity' at a level that would recoup entry costs. It is clear that many people, including in the examples above, would assess the 'Risk' associated with home ownership negatively.

Furthermore home ownerships role in underpinning a secure retirement might also be a declining reality and feeding into declining number entering the market. The Inquiry might benefit from seeking up to date data sets around mortgage debt level projections for those in the next 2 generations heading into retirement, as headline figures indicate a significant number will still have substantial mortgages when they retire, creating a looming affordability issue as people move from work incomes to pensions. This is exacerbated when alternative rental stock is also unaffordable, and this will have real implications for policy and pension settings in Australia.

These and other factors show that achieving better national housing outcomes cannot be considered in isolation of the macro policy settings that shape the national housing market.

HOUSING SYSTEM REFORM IS EVERYONE BUSINESS

The Commonwealth Government controls a number of central policy levers which directly and indirectly influence industry responses and patterns of investment, demand and consumption in the housing market.

These include immigration, tax and tax relief, economic development, national infrastructure, income distribution, welfare and aged care

State and Local Governments also have powers, tax and funding roles that can influence supply side responses, including land supply, planning and taxes, fees and charges.

This demonstrates the need for a collaborative national effort across Government to set out plans and targets and to provide stable long term settings to facilitate investment in new supply. In addition

Governments need to plan together to ensure adequate financing arrangements are matched to efficient service delivery mechanisms. There is certainly room for reform across the system.

In terms of size, quality, amenity and environmental health, Australia is amongst the best housed nations in the world. In terms of housing affordability, Australia has a continuous record, over a decade and more, of having a deep and sustained affordability problem that is amongst the worst in the developed world.

Despite record low interest rates reflecting a weak international and fragile domestic economy, housing affordability and housing stress remain serious problems and trend data suggests worse to come.

It is a sad reflection on market failure, and housing policy failure, that housing outcomes are increasingly polarized into the 'housing haves' and the 'housing have-nots'. This is an analysis that not only undermines our national perspective as an egalitarian, 'fair-go' society, but it also has very real consequences for our economic and social performance.

'Housing Have-Nots' are most profoundly illustrated by the sustained level of homelessness and the high level un-met needs of those on public housing wait lists. However, Housing Have-Nots also include those that do not have access to housing that is affordable or appropriate to their need, those paying more than 30% or even 50% of income, those on short term lets that desperately need long term stability, those living constantly on the edge of repossession and those young people unable to become independent because of housing market failure and finally, those fearful of retirement as they cannot meet ongoing housing costs.

Making the housing system work for all Australians is as important as providing universal access to affordable health and education and is a role that requires active Government leadership, hopefully through the bi-partisan and long term settings required for industry & community to efficiently deliver supply side responses over the longer term.

- Housing activity contributes around **5%** to typical GDP
- 1.3million households receive CRA, 400,000 households are housed in social housing and over 105,000 households are homeless.
- For those in the bottom 40% of incomes, 53% of renters and **40% of home buyers** pay more than 30% of their income in housing costs
- The National Housing Supply Council 2012 identified that the national shortfall in supply will rise to over **663,000** by 2031.
- The estimated **$42Billion** a year in a wide range housing tax reliefs and outlays do not deliver a fair or effective housing system and disproportionately benefits those who need it least

COMMONWEALTH GOVERNMENT

The sheer scale and impact of the housing sector and its relationship to other key economic and social matters is a compelling reason for a strategic level view by the Commonwealth. In particular the availability, location and affordability of housing relates to:-

- Labour force participation
- Productivity
- Investment and consumption trends
- Inter-action with other areas of government responsibility including economic growth, health, aged care, closing the gap and welfare

A lack of effective planning to meet future housing needs probably means we are sleepwalking into significant problems in the areas above, or at least failing to adequately govern this area of national interest.

Whilst the public debate often focusses on programs or funding shortfall, there is a reasonable argument that at an aggregated level, Australia over invests and inefficiently intervenes in the housing market creating long term distortions and creating barriers to real reform.

The key proposition is that Government interventions, estimated at around $42B per year, particularly in its tax relief regimes, are not focused on better housing outcomes and are ineffectively targeted. The proposition is that adequate resources are expended, but not to national [housing] benefit.

The level of commitment and the behavior(s) that have become dependent on it, create a political dis-incentive to act. One can well imagine the media and political frenzy that would result from addressing unfettered capital gains on family homes or the costly and ineffective negative gearing regime. Negative gearing of residential property subsidizes private investment in existing housing over new supply by $12 to $1. In an era of supply shortage, this further fuels housing inflation and create unfair competition to home buyers.

It is for these reasons that a whole of Governments policy direction needs to be developed that create the necessary conditions for long term reform to put our system on a more productive and sustainable footing.

5 POINT PLAN FOR NATIONAL HOUSING REFORM:

Reform must be long term and incremental and seek to stabilize conditions for private and community investment. All reforms identified in this paper are based on the current funding envelop, although a number of proposals generate realisable savings as well as their housing policy objectives.

NAHC articulated the case for national housing policy reform in its submission to the 2014 Senate Inquiry and in direct evidence provided to the Inquiry. The submission provided a clear rationale for the package of reform and identified how such reforms can be achieved within current Government budgets.

Supply & Targeting

Substantial supply side shortage is a major driver of excessive house price inflation and incomes and housing price ratios have departed from their post war norm of 2-3 times and the 'new norm' now appears to be in the range of 5-9 times median income to median house price in our major cities.

1. Plan for a generation of action on supply and the re-targeting of current financial assistance towards addressing market failure and housing need, through a package of land, planning, funding and taxation reform and driven by clear policy directions and funded by private sector investment leveraged on core Government investment

Housing Tax Reform

Professor Judy Yates, Saul Eslake and others have been drawing our attention to the misallocation of housing tax relief and outlays for a decade. Australia does not have a funding problem in Housing, it's that we give the most benefit to those who need it least and we waste funds that could be generating genuine housing outcomes

2. Review housing tax relief, Government expenditure and housing taxation to align these instruments to national housing policy objectives, particularly housing supply and housing affordability and to ensure resources are targeted to those in need of assistance at the point of need.

Creating a long term, secure and affordable rental sector.

Home ownership rates are in long term decline. Australia's rental sector is not equipped to meet future needs. The Intergeneration Report illustrates the nature of the challenge for one significant viewpoint. Internationally, Australia is almost alone in not having a long term rental market through Institutional funding.

3. Facilitate the development of a long term, stable private rental market, incorporating long term institutional holdings and socially responsible management to meet changing housing need for affordable rental housing. Underpin this initiative by refocussing tax concessions and taxation policy. [NRAS Mark 2 /Negative Gearing Concessions]

A Viable Social Housing System

The long term role, size, funding and regulation of social housing needs to sit within a national housing policy and stable funding framework that provides the basis for improved investment to reform and grow the system and make it fit for purpose in the 21st Century

4. Develop a whole of Governments [COAG] long term policy and funding system for capital investment and human services reform in social and affordable housing to meet wider community need in a more effective way.

Create Housing Pathways: Greater Diversity: More Choice:

5. The overall housing system should be dynamic and able to reflect changing needs and respond flexibly to changing need and preferences over time and over all income cohorts. The system should be flexible and responsive to diverse economic and social conditions. It should aim to provide multiple pathways between social and affordable housing and the market system with subsidies / tax reliefs and benefits based on need and capacity to pay.

A SHARED EQUITY HOME OWNERSHIP MODEL:- A PRACTICAL REFORM OPTION

The case for macro housing policy reform is strong. As a community we are not getting value for money from the est $42B in outlays and relief each year and improving access to home ownership is best achieved within such a reform agenda.

However, practical options already exist that could be scaled up an assist 'willing buyers' to enter the home ownership market within normal market settings and without adding to house price inflation in the way first home ownership grants do.

This Shared Equity model is already working in a pilot as a purely market model between Developers and NAHC, but could be substantially kicked along by Government support.

One off investment is leveraged via NFP and Developer contributions, the model operates within 'normal' bank lending policy, it is supported by the Development Industry, it adds to new supply, is not inflationary and creates a housing 'future fund' of equity to be recycled to help future buyers.

We have attached a pdf powerpoint for your consideration and we would be pleased to meet with the panel to further explain the option if requested.

With Regards

Mike Myers: **Managing Director: National Affordable Housing Consortium:**