

AUSTRALIAN SENATE
COMMUNITY AFFAIRS
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CANBERRA ACT 2600

22 October 2008

To Whom It May Concern

**National Rental Affordability Scheme Bill 2008 and
National Rental Affordability Scheme (Consequential Amendments) Bill 2008**

Thank you for inviting me to present a submission to this Senate Committee.

I founded a website called homes4aussies (www.geocities.com/homes4aussies) which has as its goal “standing up for affordable housing for ALL Australians.

A basic premise of my website, and the campaign that I am running through a public awareness program, is that our long term housing policy of relying on small scale investors for the provision of rental accommodation to Australians is an abject failure. This reliance on small scale investors is supported principally by taxation policy – especially what George Megalogenis writing in The Weekend Australian on the 17th of March 2008 described as the “Property Tax Rorts” including negative gearing and capital gains tax concessions – and this is probably the major factor in Australia consistently having the most expensive house prices relative to wages in the Anglophone world (Figure 1) and exacerbating our current house price bubble.

The taxation measures give small scale investors greater purchasing power and as a consequence they bid prices up and out of the reach of Australians wanting to purchase their first home. The higher prices also flow through to renting Australians in the form of higher rents, especially since the measures do not necessarily encourage the construction of dwellings.

As a consequence, the rental industry has become much more about investing for outsized capital gains rather than providing homes at a reasonable rental yield for Australians who can not afford to buy a home and/or do not wish to purchase a home.

Overall, Australian homes have become speculative investment assets – casino chips if you will – rather than homes to Aussies.

The Senate Select Committee on Housing Affordability found that there is a great deal of concern in our society about this development. I made a submission to that review.

Just this week the Governor of the Reserve Bank of Australia, Glenn Stevens, stepped into the debate offering this view: “Perhaps we [Australians] will need also to get better at turning borrowing for housing into more dwellings rather than just higher house prices.”

The import of this statement, I am sure, will not be lost to this Committee.

This is not the first time that the RBA has shown concern for the current state of housing markets. Anthony Richards, Head of Economic Analysis Department, said the following in a speech in

March 2008: “Both home ownership and ownership of rental property tend to rise with incomes (Graph 2), so it is lower income households that tend to **suffer** [my emphasis] from rising housing prices and higher income households that tend to gain”.

It is my firm view – based on current and past circumstances in our housing markets, and my personal experiences here and abroad (see Appendix 1) - that Australia would be well served by a restructuring of the housing industry so that large scale investors become the dominant provider of rental accommodation to Australians. And this formed the basis for my submission to the “Australia’s Future Tax System” review.

This will decrease the volatility in house prices and rents created by speculation in housing by small scale investors which come at great cost to the majority of Australians. That also includes a good many small scale investors and speculators, themselves, who may think they have gained from the situation, and now are learning that the other side of the volatility coin is sharp price falls.

Importantly, this will result in an expansion in the accessibility of the residential housing asset class as all Australians with superannuation accounts – not just the middle and higher income Australians with sufficient income and/or tax liabilities to make investment in the current regime worthwhile - will be able to participate, and with considerably less volatility risk. Moreover, it will encourage greater diversification as smaller sums of money can be more easily allocated.

In my view these Bills are an efficient and effective way to deliver increased affordable housing to Australians.

It is for these reasons that I strongly support the National Rental Affordability Scheme, and I would hope that it is the start of this necessary restructuring. My only concern is that it is not sufficiently ambitious.

Reports of Australians being massively squeezed (see Figure 2) and many becoming homeless because of the lack of affordable rental accommodation are all too common.

I note that the first call for applications for the scheme was “over subscribed” by 200%. **Because the RBA is increasingly comfortable with our inflation trajectory, and with the Government looking for infrastructure spending initiatives to boost our domestic economy, I would suggest that fast-tracking this scheme should be made a high priority.**

It is a crying shame that Australians are becoming homeless because they can not afford rental accommodation while many more businesses are willing to provide that accommodation with support from this scheme!

Thank you for your time.

Warm regards,
Dr Brett F Edgerton
homes4aussies

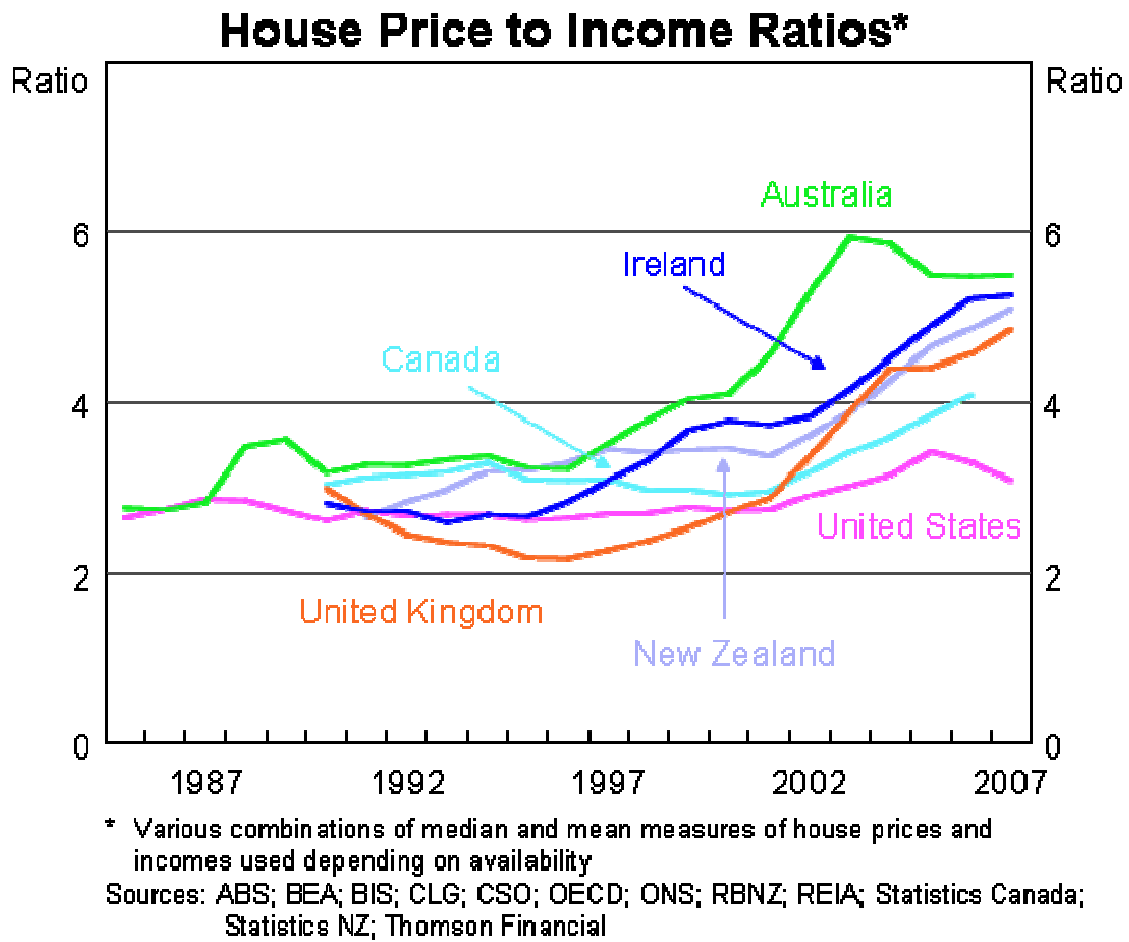


Figure 1 – Graph of the house price to income ratios for the Anglophone countries. (Reproduced from Richards 2008)



Short on money but big on love

IN two years, the rent on Sara Hughes' two-bedroom Yeronga unit has risen from \$195 to \$325 a week.

At best, that leaves the disability pensioner, who has a 10-year-old daughter, just \$125 a week for electricity, groceries, mobile phone and school fees.

Ms Hughes, who is unable to work because of her health and the need to care for a terminally-ill close relative, has disconnected her home phone and can't even consider

running a car. Clothes come from charity stores. "It's impossible technically (to survive on this amount)."

But the 34-year-old still considers herself lucky.

"A lot of people don't have family or friends to turn to when they're desperate, we're pretty lucky in that regard," Ms Hughes said.

"If it weren't for them, for this year, we would have been knocking on the door of Vinnies for some regular assistance."

Ms Hughes said moving house was not an option because of high rents – and even if something was available, she would have to get a loan to afford to move.

"Really the money is entirely accounted for every week, and it's pretty much gone as soon as it's paid.

Ms Hughes, who volunteers at Lifeline and hopes to study psychology, said there was no point focusing on the negative.

"It's at these times you can't afford to be down or dispirited, it's when you're in that situation that you've just got to keep going."

Leanne Edmestone

Figure 2 – An article from The Courier Mail dated 13 October 2008 (page 5)

Appendix 1 – A personal experience of renting in central Europe

Many Australians have never lived for a period outside of the country. As such, Australians find it difficult to imagine what it like to rent in another country with another system, especially where the majority of accommodation is owned by large scale investors. The following is a personal insight from my experience of renting in central Europe – in France and Germany – for several years.

On moving into an apartment it is bare – there aren't even light fittings – just wires sticking out of the ceiling. I believe it is a requirement that residences have a stove. Most people refurbish the apartment or house before relocating in order to make it their home exactly the way they would like. Essentially, the renter can do as they like so long as they do not alter the structure of the building. They might put up a new wall to subdivide a room, or even put in a new kitchen. In Germany around 70% of people rent. And people have no qualms about spending money when they move in because: 1) it genuinely makes the residence their home; 2) they usually take out very long leases of 5, 10 or even 20 years; and 3) they do not have all of the other costs of home ownership. Most Australian home owners would refurbish about as frequently as central Europeans shift rented apartments.

It is also important to note that it is not absolutely necessary to spend money refurbishing when you move in if you do not wish to or if you can not afford it at the time. The accommodation must be in a liveable state, although it is usually rather bare.

This does not preclude small scale investors from being involved in the market. In Germany we actually lived in a flat attached to a large privately owned residence. However, the dominance of large scale investors in the market has the effect of keeping rental increases more stable and in tune with long term trends rather than short term issues.