The Senate

Select Committee on Housing Affordability in Australia

A good house is hard to find: Housing affordability in Australia

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Senate Select Committee on Housing Affordability in Australia

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PO Box 6100
Parliament House
Canberra ACT 2600
Ph: 02 6277 3540
Fax: 02 6277 5719
E-mail: economics.sen@aph.gov.au
Internet: http://www.aph.gov.au/senate/committee/economics_ctte/index.htm

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Executive Summary

The housing affordability problem

The majority of Australians aspire to home ownership. It should be an aspiration that through prudent management of household finances they are able to realise. Currently, there is a significant problem with housing affordability in Australia. In certain regions of the country the problem is particularly acute (see chapter 8).

On some measures, housing affordability is at a record low (see chapter 3).

- the average house price in the capital cities is now equivalent to over seven years of average earnings; up from three in the 1950s to the early 1980s.
- only a third of transacted dwellings would have been accessible to the median young household in 2006–07, compared to a long-run average of almost a half
- around two-thirds of households in the lowest 40 per cent of the income distribution with a mortgage or renting were spending over 30 per cent of their income on housing, the established benchmark for 'housing stress'.

Other calculations would suggest the problem may be less widespread:

- a low income household that in 1996 was devoting 30 per cent of its disposable income to mortgage repayments would today be able to devote 47 per cent of its disposable income to servicing debt while maintaining the same standard of living. Only around five per cent of households have low incomes and spend more than half of it on housing.

As house prices have increased, so too have rents and there are many more renting households in stress than home buying households. Of greatest concern, as many as 100 000 Australians are currently homeless (chapter 2).

Demand

The problem of affordability in Australia has been a function of *both* strong demand and limited supply. Several factors have contributed to the strong demand for housing (chapter 4). They include:

- higher average real incomes and an increase in the number of double income households;
- a decrease in the size of the average household due to later marriage, fewer children and increased incidence of separation and divorce;
- relatively strong population growth underpinned by higher immigration rates;
- the decline in standard home loan interest rates from the mid 1990s to early 2002 reflecting a low inflation environment;
- greater availability of credit, including from non-bank lenders;

- the taxation system's incentives which have encouraged investment in second and third properties (through negative gearing provisions and the 50 per cent capital gains tax discount) and have benefitted owner-occupiers over renters (through the capital gains and land tax exemptions on owner-occupied housing).

Supply

It is estimated that there is currently an annual shortfall in housing supply—relative to underlying (population-based) demand—of 30 000 dwellings. Several factors have been blamed for the shortfall in housing supply: three are of particular concern (see chapter 5).

First, state and local governments' planning processes are too complex and often involve long delays and high costs. These impediments to releasing and zoning land add to developers' costs, some of which are then passed on to the homebuyer. The state governments should reform and simplify their planning processes so that local governments can process planning applications more quickly. The committee urges state governments to act swiftly on the various planning reviews and reform processes they currently have in train. It welcomes the Commonwealth government's proposal for local governments to compete for federal grants to cover part of their new infrastructure costs on the basis of their proposals to cut red tape and reform their planning processes.

Secondly, some witnesses argued that developer infrastructure charges are excessive and have restricted supply. Previously, infrastructure was paid for by local and state governments out of rates and taxation revenue, and was often only installed after residents had moved in. Now, the infrastructure is installed as the land is developed and is increasingly being funded by specific charges on developers. These charges are significantly higher in New South Wales (perhaps because of rate-pegging by the state government) and may be significantly reducing the supply of land for housing in that state.

Thirdly, there is a shortage of skilled labour in the construction industry. There is widespread concern that skills shortages will prevent the industry from meeting future housing demands, particularly as the planned investment in national infrastructure projects commences. The committee welcomes collaboration between the federal government and the construction industry to make section 457 skilled worker visas more flexible and streamlined. It sees an important role for the National Housing Supply Council to track the construction industry's current and future skilled labour needs based on both the underlying and effective demand for housing.

The right kind of supply

The committee stresses that an adequate supply of housing is not simply a matter of constructing a certain number of dwellings in greenfield sites.

Housing supply must be well located and well serviced with supporting jobs, public transport and social and community infrastructure (see chapter 5). The way to improve housing affordability is not to build cheap houses on the outskirts of cities away from employment, services and public transport links. This simply shifts costs from housing to the cost—in dollars and time—of transport. Rather, the aim must be to build affordable housing in areas where infrastructure can provide for and attract new residents. In considering longer-term changes in the housing stock, thought must also be given to it being environmentally sustainable for it to be truly 'affordable' in a broader sense (chapter 11).

These are major planning challenges. The Victorian and South Australian governments have both devised 'urban growth boundaries' to contain urban development. Future housing development is planned around targeted 'activity centres' near existing transport and shopping precincts. The committee argues that while these boundaries are sound in principle, they need to consider carefully projected population estimates which are vulnerable to government policy decisions on issues such as immigration. It is also essential that state and local governments ensure the support of developers, home buyers and local communities in moving toward a more compact city design.

The second challenge is that the housing supply must reflect what home buyers need (see chapters 5, 6 and 8). The committee has taken evidence from several witnesses that there is often inadequate housing for those looking to downsize and for those with limited means seeking less expensive private rental housing or social housing. Greater diversity in the design, price, location and tenure of housing will help to address the problem of housing affordability and help strengthen local communities.

The committee argues that state governments' planning frameworks must establish a specific target for 'affordable' housing (see chapter 6). In addition, all three tiers of government should invest significantly under the new National Affordable Housing Agreement to meet specific targets for social housing.

State and territory governments' charges

An important part of the committee's remit has been to examine the taxes and levies imposed by state governments (chapter 7). Stamp duty is the most visible and substantial state government impost on home buyers. State governments have failed to adjust stamp duty thresholds to keep pace with house prices. This led to a substantial increase in the average rate of stamp duty on a median priced house. The committee's broader concern is that stamp duties are inefficient. They discourage people from moving to more appropriate housing types as their circumstances change. They may encourage first home buyers to buy a larger home than they need at the time to avoid paying further duty should they relocate.

As mentioned, state governments' infrastructure charges on developers can potentially restrict the supply of housing: they may also substantially increase the cost of a house. The committee heard a range of views on these charges:

- that they enable more land to be developed quickly than if the cost of infrastructure were to be borne by cash strapped local governments;
- that the current system allows local governments to set excessive, 'gold-plated' standards for the outlay of infrastructure;
- that higher infrastructure charges will not substantially affect housing affordability; and
- that a new infrastructure funding system is needed based on a 'betterment levy' imposed on the owners of rural land when the land is sold for urban use, often at a greatly inflated value.

The committee cautions that it may not always be the case that developer charges are passed on to the home buyer. Instead, they may be partly incurred by the developer or be 'passed back' in the form of a lower price paid by the developer for the land. The extent to which the charges are passed on to the home buyer may vary with the state of the housing market.

Assisting first home buyers

There are several current and prospective federal and state government schemes to assist first home buyers (see chapter 9).

The current First Home Owners Grant (FHOG) was introduced in 2000 as a $14 000 payment to first home purchasers of new dwellings and $7 000 for the purchase of existing dwellings. The scheme is now a $7 000 payment for all first home purchasers. The committee has received evidence that the FHOG has had an inflationary effect which has benefited existing home owners rather than those seeking to enter the market. Several witnesses called for the payment to be restricted to houses below a certain value, or to buyers below a certain income.

The committee believes there are grounds to consider the operation of the FHOG, and notes the added assistance of First Home Saver Accounts (see below). Such consideration could include the reinstatement of the scheme's original structure, which gave a larger payment to purchasers of new dwellings than purchasers of existing dwellings.

The federal government announced further details of its First Home Saver Accounts Scheme in the 2008 budget. Under the Scheme, both the government and home saver will pay a contribution to a deposit account. The government's contribution will be a flat 17 per cent (a maximum of $850). The investment earnings of the accounts will be taxed at 15 per cent and withdrawals, for the purpose of purchasing a home, will be tax free. The committee acknowledges the introduction of these accounts and believes the instilling of a saving habit is important.

The committee notes the limited but growing use of 'shared equity' home ownership schemes, offered by some banks and some state and territory governments. In principle, these schemes are an attractive avenue for lower income people to purchase a part share of a house they could not otherwise afford. However, there are legitimate concerns that shared equity schemes must abide by this central purpose and should not become a vehicle for home buyers to demand bigger and more extravagant homes.

Rental schemes

This inquiry emphasises that the current supply of rental housing is severely inadequate (chapter 10). Vacancy rates are at record lows. The committee acknowledges the federal government's National Rental Affordability Scheme and its notional target of an extra 100 000 affordable rental dwellings with 50 000 by 2012. The Scheme will provide annual tax incentives over 10 years for investors in affordable rental housing. In the absence of specific details as to how these incentives will be structured and targeted, the committee will watch growth of the scheme with interest.

The committee identifies other aspects of rental housing that require attention:

- various organisations argued that the Commonwealth Rent Assistance Scheme is inadequately funded and poorly targeted. There were suggestions to target rental assistance in line with regional rental prices and to broaden the payment to include home purchasers in temporary financial stress; and
- public housing has been financially strained for more than a decade as its client base has shifted from couples with children (with many paying market rents) to people with mental health or other social problems. There is a need to increase the stock of public housing, facilitate the entry of a more diversified mix of income earners and restore pre-1996 funding levels.

Regional development

Most of the current problem in housing affordability is structural rather than cyclical, so longer-term solutions must be considered. In the longer term, decentralisation policies offer scope to allow more people access to housing that is affordable both in regard to its purchase price and in regard to the cost of commuting from home to work (chapter 11).

List of recommendations

The committee recommends that, given the very high levels of housing stress, overcrowding and homelessness experienced by Indigenous Australians, all levels of government should give priority to addressing their high level of unmet need for public and community housing under all exiting programmes and the National Rental Affordability Scheme.

In the interests of more informed discussion of arrangements to encourage affordable housing, the Treasury be asked to publish current estimates of various taxation and related measures affecting the housing market.

The committee recommends that Australia's Future Tax System Review Panel consider the implications for housing affordability, as well as the overall fairness of the tax system, of the:

- tax discount for capital gains on investor housing;
- exemption from land taxation of owner-occupied housing; and
- current negative gearing provisions.

The committee recommends that the proposed National Housing Supply Council develop a database of skilled labour in the construction industry across all skill sets and in all states and territories. It should be tasked with assessing the construction industry's future skilled labour needs based on projections of other industries' workforce needs and forecasts of both underlying and effective demand for housing. The Council should also record the contribution of immigration programmes to the construction workforce as well as the industry's retention rates.

The committee recommends the establishment of a working group, chaired by the Development Assessment Forum, to review the need for classes of development to require planning approval. The focus of this working group should be to demarcate those activities that should be performed by fully qualified planners and those can be undertaken—at least initially—by less qualified 'paraplanners'.

The committee recommends that the state and territory governments introduce enabling legislation for inclusionary zoning to require affordable housing in all new developments, including a proportion of social housing.

Recommendation 6.2 (p. 104)

The committee recommends that the state and territory governments encourage and promote the design and construction of adaptable housing which facilitates access improvements for the elderly and disabled and allow a larger house to be converted into smaller, separate units.

Recommendation 7.1 (p. 108)

The committee recommends that all state and territory governments consider stamp duty exemptions for first home buyers and for retirees who are downsizing their primary residence.

Recommendation 8.1 (p. 127)

The committee recommends that the Western Australian Auditor General assess LandCorp's performance in releasing residential land in the Pilbara region over the past five years.

Recommendation 8.2 (p. 127)

The committee recommends that the Western Australian government review the *Western Australian Land Authority Act 1992* and the governance and goals of LandCorp, in particular the requirement under section 19 that it must 'endeavour to surpass financial targets'.

Recommendation 8.3 (p. 130)

The committee recommends that the Western Australian government increase the investment in public and community housing in the Pilbara region as a matter of priority. The merits of the Stamfords / Pilbara Association of Non Government Organisations proposal and/or the development of apartment buildings should be considered as a means of rapidly addressing unmet need for social housing in Karratha.

Recommendation 8.4 (p. 133)

The committee recommends that the Australian and Western Australian Governments establish a high-level emergency taskforce to consult with Pilbara communities and industry to develop a coordinated response to the housing affordability crisis in the Pilbara with a view to creating long-term sustainable communities in the region.

Recommendation 8.5 (p. 133)

The committee recommends that, in conjunction with the emergency taskforce, all tiers of government hold a number of all-party community meetings in the Pilbara region to give Pilbara residents the opportunity to speak directly to elected representatives regarding the response required to address the housing affordability crisis in the region.

Recommendation 9.1 (p. 144)

The committee recommends that the Australian Government should increase the First Home Owners Grant Scheme for those buying new dwellings and lower it for buyers of existing dwellings. Any funds saved should be directed towards measures to increase the supply of affordable housing.

Recommendation 9.2 (p. 150)

The committee recommends that Treasury examine the international experience with a securitised mortgage scheme and its application to Australia with a view to determining whether an 'Aussie Mac' style product would be beneficial in the Australian market.

Recommendation 9.3 (p. 152)

The committee recommends that the Australian Government increase support for home owners to undertake counselling to improve their financial literacy before they are allowed to access their superannuation to make mortgage repayments.

Recommendation 10.1 (p. 157)

The committee recommends that the Australian Government commission an independent evaluation of the Commonwealth Rent Assistance programme, to ascertain its effectiveness and cost effectiveness in improving housing affordability for low to medium income households and to make recommendations regarding future directions for the programme, including eligibility criteria.

The review should be undertaken in the context of a more comprehensive review of all government initiatives, both supply side and demand side, aimed at improving housing affordability.

Recommendation 10.2 (p. 157)

The committee recommends that the Australian, state and territory governments increase the quantum of support available under Commonwealth Rental Assistance for older Australians living in private rental accommodation.

Recommendation 10.3 (p. 167)

In order to meet the immediate need for social housing of highly disadvantaged households, the committee recommends that significant new funding be invested, by both the Australian Government and state and territory Governments, under the new National Affordable Housing Agreement, with the aim of increasing the pool of social housing to at least 6 per cent of housing stock.

Recommendation 10.4 (p. 167)

The committee recognises the strengths that the Community Housing Sector brings to the delivery of social housing in Australia. In order to ensure that these strengths are fully employed, the committee recommends that the Australian, state and territory governments work more closely with Community Housing Associations to support them in meeting their social housing commitments and to explore options for attracting more investment, including private sector investment, into not-for-profit models of housing provision.

Recommendation 10.5 (p. 167)

With a view to building more sustainable social housing in the longer term the committee recommends that the pool of social housing stock be increased to at least 10 per cent of housing stock by 2020, facilitating the entry into social housing of a more diversified mix of low to medium income earners.

Recommendation 10.6 (p. 167)

As an additional measure to improve the sustainability of social housing, the committee recommends that the formula used to calculate the level of rent paid in social housing be reviewed, with a view to enhancing the sustainability of social housing stock (and, if possible, providing for growth), while maintaining affordability.

The review should include an examination of the interaction between social housing and Commonwealth Rent Assistance payments, and how these two programmes might be best utilised to maximise socially and economically sustainable outcomes in terms of access to affordable housing.

Recommendation 10.7 (p. 169)

The committee recommends that the Australian Government consider whether the level of increased support to the Supported Accommodation Assistance Program being offered under the 'A Place to Call Home' initiative is sufficient to address the level of unmet need, and increase support to emergency assistance programmes provided by charitable organisations to assist the growing numbers experiencing financial crisis.

Recommendation 10.8 (p. 172)

The committee recommends that the HOME Advice scheme be expanded nationally to provide early intervention services for families at risk of homelessness. The scheme should be evaluated after five years, including a comprehensive economic evaluation, to ensure that the expanded programme continues to provide economic and social benefits to the community.

Recommendation 10.9 (p. 172)

The committee recommends that consideration is given to expanding referral pathways to the HOME Advice scheme to include financial institutions, so as to better capture low income mortgagees who may be at risk of becoming homeless.

Recommendation 10.10 (p. 173)

The committee recommends that the Australian Government encourage applications under the National Rental Affordability Scheme that would target the development of new affordable rental properties in areas of greatest need and/or for communities needing affordable housing for essential services workers.

Recommendation 10.11 (p. 178)

The committee recommends that the Australian Government considers how community housing providers and housing cooperatives might be assisted to access funding under the National Rental Affordability Scheme.

Recommendation 10.12 (p. 178)

The committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs conduct a mid-implementation review of the National Rental Affordability Scheme in 2010 to assess the extent to which it is meeting its objectives.

Recommendation 10.13 (p. 181)

The committee recommends that the Australian Government examine the capacity of the community housing sector to operate as a provider of choice of affordable adaptable housing for people living with a disability, and investigate how it can support this sector to provide more units of appropriate housing.

Recommendation 10.14 (p. 181)

The committee recommends that the Australian, state and territory governments investigate options to encourage community housing associations to develop more housing to meet the future needs of an increasing number of older Australians for affordable and adaptable housing that supports 'ageing in place.'

Recommendation 10.15 (p. 182)

The committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs conduct an independent evaluation of alternative tenancy and ownership models, such as housing cooperatives, currently operating in or proposed for Australia or overseas, to assess their efficacy in providing secure and affordable housing in the Australian context. The evaluation should include a review of any legislative or administrative barriers to the introduction or expansion of such schemes in Australia.

If the results of the evaluation indicate that there may be a role for alternative tenancy and ownership models in the Australian context, options should be developed for supporting and promoting uptake of such models.

Recommendation 11.1 (p. 190)

The committee recommends that the forward plans of the Australian, state and territory governments incorporate policies for mid-size regional cities to ensure they are better able to form sustainable communities, to cope with the transport impacts of peak oil and climate change, and to invest in infrastructure.

Chapter 1

Introduction

1.1 In a wealthy country like Australia, no citizens should be forced into homelessness. A reasonable standard of housing should be achievable for all. A small number will need to be assisted with accommodation by governments or community organisations. Many will prefer rental accommodation for its flexibility or as a stepping stone to ownership. But it is likely that for the majority of Australians home ownership will remain their aspiration, and it should be an aspiration that through prudent management of their household finances they are able to realise.

1.2 Currently, this is not the case. There is a significant problem with housing affordability, albeit not as severe or widespread as some media reports suggest. For some families the lack of affordable housing represents a crisis. This is why the Senate appointed a select committee to investigate the issue of housing affordability.

1.3 This report sets out the facts, analyses the causes and discusses some remedies. In advocating a holistic approach to matching supply and demand, it is necessary to balance the interests of aspiring and existing homeowners in the gradual process of shifting the emphasis of government programmes (at all tiers) from measures that add to *demand* for housing to those which boost the *supply* of affordable housing. Some reforms will only take effect over decades.

Terms of reference

1.4 The terms of reference of the inquiry are as follows:

> That a select committee, to be known as the Select Committee on Housing Affordability in Australia be established to inquire into and report upon:
>
> The barriers to home ownership in Australia, including:
>
> a. the taxes and levies imposed by state and territory governments;
>
> b. the rate of release of new land by state and territory governments;
>
> c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
>
> d. the role of all levels of government in facilitating affordable home ownership;
>
> e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
>
> f. the role of financial institutions in home lending; and
>
> g. the contribution of home ownership to retirement incomes.
>
> That the committee present its final report on or before 16 June 2008.

Conduct of the inquiry

1.5 The select committee was appointed by the Senate on 14 February 2008 and the inquiry was advertised nationally shortly thereafter. Submissions were requested by 31 March. Ultimately over 100 submissions were received. They are listed in Appendix 1 and are available on the committee's website: http://www.aph.gov.au/Senate/committee/hsaf_ctte/index.htm.

1.6 The committee thanks those who participated in the inquiry. It is especially grateful to those witnesses who appeared at hearings at short notice and travelled long distances. In particular, it thanks the Western Australian and ACT governments for appearing at public hearings to explain their activities, and regrets that other state governments chose not to appear and in some cases withdrew at the last minute. It also regrets that the federal Department of Families, Housing, Community Services and Indigenous Affairs did not put in a submission until two months after the closing date (and over three weeks after the public hearings had concluded).

1.7 The committee held public hearings in all mainland capitals, not just in the central business districts but also in outer suburbs such as Campbelltown and Narre Warren. It also went to the mining town of Karratha, where it saw first hand some of the most extreme cases of unaffordable housing. Hearings were also held in regional centres such as Ballina, Geelong and Launceston, and in the rapidly-growing area of the Queensland Gold Coast. (It regrets its aspiration to hold a hearing in Alice Springs was not realised.) The committee topped and tailed this programme with public hearings in Canberra. Appendix 2 lists the public hearings and witnesses.

Structure of the report

1.8 The importance of affordable housing, and home ownership in particular, is discussed in Chapter 2. The scale of the current problem is calibrated in Chapter 3. The major demand and supply factors underlying the current situation are described in Chapters 4 and 5. An important issue that arose in the committee's discussions about the supply of housing is concerns about insufficient diversity in new developments and this is the topic of Chapter 6. State and local government charges' influence on housing affordability is analysed in Chapter 7. Issues specific to particular regions, such as mining towns, are the province of Chapter 8. The report then turns to possible remedies, discussing current and planned measures to lift home ownership in Chapter 9, measures to provide more rental accommodation in Chapter 10 and longer-term approaches towards more affordable housing in Chapter 11. A glossary and list of abbreviations is provided to assist readers in Appendix 3.

Chapter 2

Social aspects of home ownership

2.1 Access to adequate housing has long been viewed as a basic human right[1] and is considered to be an integral factor in the enjoyment of other economic, social and cultural rights.[2] The UN Committee on Economic, Social and Cultural Rights has defined adequate housing as encompassing: legal security of tenure; availability of services, materials, facilities and infrastructure; habitability; accessibility; location (allowing access to employment, health services, schools etc); cultural adequacy; and affordability. Affordable housing is commonly viewed as 'essential to the maintenance of a cohesive and just society' and 'an issue that transcends political ideologies and goes to the heart of people's dreams and ambitions'.[3]

2.2 The vast majority of Australian households either own their home (34 per cent) or are paying it off (35 per cent). Renters comprise around 29 per cent of Australian households, with 22 per cent renting privately, 5 per cent in public housing and the remainder in other rental accommodation, such as caravan parks or employer-owned housing.[4] It is estimated that around 100 000 Australians are homeless.[5]

The preference for home ownership

2.3 Despite recent declines in the proportion of Australians who own or are buying their home, home ownership continues to hold a special place in the Australian psyche. Home ownership rates have long been higher in Australia than in other affluent countries (Table 2.1). In surveys conducted in 1997 and 2000, 54 per cent of respondents indicated that buying their own home was an important goal for them to achieve within the next three years. Those with dual incomes or high incomes 'do not express any stronger preference for home ownership than low income households', suggesting that home ownership is a universal dream in Australia, regardless of economic circumstances.[6]

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1 See article 25 of the Universal Declaration on Human Rights, and article 11 of the International Covenant on Economic, Social and Cultural Rights.

2 High Commissioner for Human Rights (1991).

3 Mr M Zaltron, Urban Development Institute of Australia, *Committee Hansard,* 14 April 2008, p. 2.

4 Australian Institute of Health and Welfare (2008a, p. 5).

5 Chamberlain and MacKenzie (2003), cited in Australian Institute of Health and Welfare (2007a). The rate of homelessness ranges from 1 in 253 people in the Australian Capital Territory to 1 in 35 people in the Northern Territory.

6 Winter and Stone (1998), cited in Dockery and Milsom (2005, p. 5).

2.4 The purchase of a home is the largest investment that most people will make. Australians frequently view a mortgage as 'good debt', as purchasing a home allows people to avoid paying 'dead rent', provides for a form of enforced saving and is seen as a prudent investment, which will appreciate over time.[7]

2.5 Given these strong public aspirations, it is unsurprising that home ownership has long enjoyed bipartisan political support. This is illustrated by the following extracts from two classic political speeches.

> The material home represents the concrete expression of the habits of frugality and saving … one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among friends, into which no stranger may come against our will.
>
> Sir Robert Menzies, 'Forgotten People' speech, 1942

> The land is the basic property of the Australian people. It is the people's land, and we will fight for the right of all Australian people to have access to it at fair prices.
>
> Gough Whitlam, 'It's Time' speech, 1972

Benefits of home ownership

2.6 The appeal of home ownership is about more than just financial security. Home ownership provides people with a sense of physical and emotional security and safety. It is a personal space in which they can be themselves.[8] The social commentator Hugh Mackay describes home ownership in Australia as 'the most culturally obvious and accessible symbol of personal power, achievement and control over the environment'. He adds that as 'people feel that they are losing control over so many aspects of their lives, so the need grows for the sense of control and authority which home-ownership brings'.[9]

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7 Ipsos Mackay Report (2007).

8 Ipsos Mackay Report (2004).

9 H Mackay, cited in Banks (1989, p. 2).

Table 2.1: Housing tenure: international comparison

	Tenure type (% of total; recent)				Average dwelling size m^2	
	Owner-occupiers (1980)	Private renters	Social rental	Other	existing	new
Australia	69 (71)	22	5	2	132	186
Austria	57 (na)	17	23	3		
Belgium	74 (59)	16	7	3		
Canada	66 (62)	6	28	0	114	
Denmark	53 (na)	18	19	10		
France	56 (47)	21	17	6	88	103
Germany	43 (41)	51	6	0	87	102
Ireland	77 (na)	11	7	5		
Japan	60 (60)				90	94
Netherlands	53 (42)	12	35	0		
New Zealand	67 (73)	26	7	0	132	
Sweden	61 (58)				90	86
Switzerland	35 (33)	59	6	0		
United Kingdom	70 (58)	10	20	0	84	76
United States	69 (65)	29	3	0	157	200

Sources: BIS (2006, p. 40); Ellis and Andrews (2001, p. 9); Ellis (2006, p. 18); Lawson and Milligan (2007, p. 20).

2.7 Home ownership also provides a sense of social belonging and acceptance. As one witness from the Urban Development Institute of Australia stated:

> Home ownership offers many distinct advantages for individuals and the wider community by enhancing our sense of place, our sense of self and our connections with the broader community. We believe homeownership provides tangible benefits, as well as many intangible benefits, beyond the simple provision of shelter. It can provide social stability, economic reliability and community assurance and can impact dramatically on an individual's aspirations for independence and security.[10]

2.8 The Productivity Commission concluded that:

> Access to affordable and quality housing is central to community wellbeing. Apart from meeting the basic need for shelter, it provides a foundation for family and social stability, and contributes to improved health and educational

10 Mr P Jackson, UDIA (South Australian Division), *Proof Committee Hansard*, 28 April 2008, p. 9.

> outcomes and a productive workforce. Thus it enhances both economic performance and 'social capital'.[11]

2.9 While recognising that many of these social benefits are also provided by affordable, high quality rental housing, the Commission cited research that indicated that they tend to be larger for home owners. In particular, the report found that:

- owner occupiers are likely to have stronger incentives than renters for civic involvement;
- less frequent relocation, due to the security of tenure provided by ownership, minimises disruption of social networks and children's education; and
- home ownership enhances self esteem, in turn reducing the incidence of socially disruptive behaviour and promoting physical wellbeing.[12]

2.10 It should be noted that many of the social benefits of home ownership appear to be related to security of tenure as opposed to the actual act of owning a home. It might therefore be argued that rental leases with longer and more secure tenure, as are common in Europe (Table 2.1), may be an alternative way of generating some of the social benefits attributed to home ownership for those for whom this may not be an achievable or realistic option. Rental may be a more suitable option for very mobile workers, and labour market flexibility requires some mobile workers who can move to parts of the country where demand is strongest.[13] The increase in casual and part-time work together with the move in a number of sectors to shorter term contracts also means that there is a growing section of the working community who lack the long-term financial security required for a mortgage. It could be argued that home ownership is sometimes *overstressed* in Australia, to the extent that renters may feel like they have 'failed' to achieve ownership.[14]

2.11 To the extent to which we seek to bestow the social benefits of security, well-being and connection to community that are associated with home ownership, we need to be mindful in developing and pursuing policies that aim to increase housing affordability that we do not forget the equity issues for those who cannot aspire to own their own home. We therefore need to ensure that housing affordability does not come at the expense of rental affordability, and that we take an integrated policy approach to meeting our communities' housing needs. This issue is addressed in more detail in Chapter 10.

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11 Productivity Commission (2004, p. 3).

12 Productivity Commission (2004).

13 Home ownership would be more consistent with labour mobility if transaction costs on buying and selling homes, notably stamp duties, were lower. Stamp duties are discussed in Chapter 7.

14 As the Australian Association of Social Workers notes, 'home ownership is not inherently virtuous and does not make economic sense for everyone'; *Submission 54*, p. 6.

2.12 We also need to be mindful that to be truly affordable the cost of housing needs to take into account not only the cost of purchase, rental or mortgage repayments but also the cost of living in that particular housing—including the cost of transport to work and to access social services and community life, as well as the cost of utilities such as heating and cooling. These factors are discussed in more detail in chapters 5 and 11.

Changing aspirations

2.13 While the social benefits of home ownership were almost universally acknowledged by those providing evidence to the inquiry, a number lamented the fact that housing had in recent years become a 'speculative industry':

> …our generation…see housing differently from our parents, not as something that you consume, pay off and is the right size for your household—the right number of bedrooms—but increasingly as an investment good. There is a whole industry out there selling books, magazines and television shows all about this wonderful thing called your investment.[15]

2.14 Some witnesses considered this to have contributed to rising house prices in Australia and the resultant housing stress. For example, Professor Troy argued that:

> Those processes which are now embedded in the situation helped feed and create the philosophy that if you could only get into housing it would be a sure way to make a quid. That was fed on by the coincidental changes in the financing industry. It was fed on by the real estate industry. It was fed on by the newspapers that flogged houses—the money-making supplements to the *Sydney Morning Herald* are a classic illustration…So we ended up with a hoopla situation… you were led to the view that you bought this house, you stayed in it for a couple of years, you got a big capital gain and you moved on. And you could spiral that up. You were also led to the view that you could take funds out of the investment in your house and speculate in housing. This is a large part of the psychology of why the market went the way it did in the past five to six years and more.[16]

2.15 A number of witnesses and submissions also noted that housing standards and expectations in Australia have changed significantly over the past 10–15 years. This was considered by many to have contributed to the increasing price of 'starter homes' and affected the overall cost of housing.

> The leading end of the housing market has created very high standards and expectations. This inevitably also affects the expectations and ultimately the price down to the lower or less affluent end of the market. Houses overall have got much bigger (floor area per person) than 20 years ago. We have rumpus and family rooms, multiple bathrooms (the most expensive room in the house on a cost per area basis), elaborate kitchens, studies, numerous

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15 Mr M Myers, Queensland Community Housing Coalition, *Committee Hansard,* 14 April 2008, p. 51. Similar remarks were made, for example, by Mr J McInerney, Common Equity Housing Ltd, *Committee Hansard,* 23 April 2008, p. 11.

16 Professor P Troy, *Committee Hansard,* 1 April 2008, p. 111.

> bedrooms, various quite expensive finishes. Many of these aspirations have filtered down into the more modest end of the market.[17]

2.16 The size of houses has been growing while the size of households has been declining. From 1994–95 to 2005–06 the average household size declined from 2.69 to 2.51 persons, while the average dwelling size increased from 2.88 to 3.06 bedrooms. More than three-quarters of Australian households occupied dwellings that had more bedrooms than needed to accommodate the occupants.[18]

2.17 How much this situation was a consequence of home buyers demanding bigger and better products, and how much it is was due to suppliers only providing a 'McMansion' style product, was unclear to the committee. The issue of supply of housing is discussed in Chapter 5 and the specific question of an inadequate diversity of housing types in new developments is the subject of Chapter 6.

Housing costs and poverty

2.18 A study by the National Centre for Social and Economic Modelling and The Smith Family looked at the impact of housing costs on poverty in Australia. Measures of poverty are frequently based on income alone, with the poverty line set at half the average family income of all Australians. On this basis the study found that in 2000 approximately 13 per cent of Australians lived in income poverty.[19]

2.19 Once housing costs were taken into account however, the picture of poverty changed. This is largely because home owners on low incomes (such as elderly people on a pension) or low income earners in public housing, had relatively low housing costs and, as such, were often better off than home purchasers or private renters who may have been earning a higher income but experienced much higher housing costs.

2.20 More Australian households (18 per cent) were considered to be in poverty after housing costs were taken into account than if income alone was considered (13 per cent). The types of families experiencing poverty also varied when housing costs were taken into consideration. After-housing poverty rates dropped for owner-occupiers, from 12 per cent to 8 per cent, while the poverty rate faced by home purchasers increased from 8 per cent to 18 per cent once housing costs were taken into account. Taking housing costs into consideration also had an impact on the risk of poverty across the life cycle, increasing the risk of being in poverty for those aged 25–44 years (who are generally starting a family and buying a home) from about 12 per cent to 18 per cent.[20]

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17 Australian Institute of Urban Studies Queensland Division, *Submission 9*, p. 1.

18 ABS study based on an internationally recognised measure of housing utilisation, the Canadian National Occupancy Standard. Australian Bureau of Statistics (2007a).

19 Harding, Lloyd and Greenwell (2001).

20 Harding, Lloyd and Greenwell (2001).

Impact of housing costs

2.21 Low income families devoting a large share of their income to housing often make sacrifices to meet their housing costs, such as going without food, or children missing out on school activities.[21] Around a third of low income renters and about six per cent of low income home owners also reported having to approach a welfare, community or counselling agency for assistance. Similar proportions reported having to sell or pawn personal possessions. (This is discussed further in Chapter 3.)

2.22 These survey results are consistent with evidence provided by charitable organisations about the impact of housing costs on families. For example, commenting on the results of a survey of 1250 people presenting to the Salvation Army for emergency relief, Major Eldridge reported that:

> …on top of the increasing utility costs across the country, people do not have enough money left for school expenses—that was one that is continually mentioned—food, clothing and other staples of life. [22]

2.23 Social welfare agencies consistently reported an increase in the number of people accessing their services and a change in the type of people needing assistance. For example the Northern Rivers Social Development Council reported that:

> The organisations such as neighbourhood centres across the region have reported that there has been a change in clientele or in the character of person that comes in to receive material assistance—that is, support to buy food and other items essential for living. They are reporting to us that they are finding firstly that they are getting pensioners starting to come in and ask for support…Also there are increasing numbers of families, particularly sole parents having to look after children, and people who are working. In the past, it tended to be people who were not in the workforce, people who were, I guess, your more traditional client of the welfare sector.[23]

2.24 Similarly, the Manager of the Casey North Community Information and Support Service in Victoria, reported that:

> …our agencies this year have assisted more than 220 families with school expenses, 75 per cent of which had never accessed our agencies before. Most of these families were experiencing housing stress.[24]

2.25 She also noted the impact of financial stress on other aspects of peoples' lives, including family relationships and health:

> A high number of clients have or are experiencing family relationship breakdown as a result of their financial stress. Further to this, at both agencies

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21 Burke (2007).

22 Major D Eldridge, Salvation Army, *Committee Hansard,* 23 April 2008, p. 38.

23 Mr T Davies, *Committee Hansard,* 15 April 2008, p. 18.

24 Ms S Naden-Magee, *Proof Committee Hansard,* 24 April 2008, p. 12.

> it is evident that an increasing number of clients dealing with issues of financial stress are also suffering mental health problems. In the last six months, statistics show that almost 20 per cent of clients presenting to that program had relationship issues, and more than 25 per cent had mental health issues, in particular depression and anxiety. It is also noted by both of our organisations that people experiencing financial pressure are often not able to address health issues due to lack of affordability. Poor diet due to lack of funds also leads to poor health...[25]

2.26 In addition to these personal costs, the impact is also felt by the broader community in social and economic terms. There are a myriad of studies demonstrating links between socio-economic disadvantage and health outcomes. In addition, children living in poor families have been found to have higher injury rates, are likely to be hospitalised more frequently, are more likely to become obese and have worse dental health than other children.[26]

Housing and specific populations

Older Australians

2.27 In 2005–06, 85 per cent of older Australians living in private dwellings either owned (just over 79 per cent) or were purchasing (just over 5 per cent) their home (Table 2.2). This pattern of home ownership is an important component of the Australian welfare system, as it allows many older Australians to live on relatively low incomes. In 1999, approximately 81 per cent of older Australian households had an income that fell within the bottom two quintiles of the income distribution (compared to 30 per cent of households with a reference person aged under 65 years). However, the high rates of home ownership mean that, on average, older households spend less of their income on housing costs. For example, in 2005–06, older households spent around 7 per cent of their gross income on housing costs compared to 14 per cent of gross income for all households. [27]

25 Ms S Naden-Magee, *Proof Committee Hansard,* 24 April 2008, p. 13.

26 Al-Yaman, Bryant and Sargeant (2003).

27 Australian Institute of Health and Welfare (2008a, pp 47–49).

Table 2.2 Tenure type by household (%) 2005–06

	Owner without a mortgage	Owner with a mortgage	Private rental	Public rental	Other tenure type
All Australian Households	34	35	22	5	4
Households with reference person aged 65-74 years	75	8	7	6	4
Households with reference person aged 75 years & over	85	3	5	4	4

Source: Australian Institute of Health and Welfare (2008a).

2.28 The importance of home ownership in retirement is further demonstrated by examining housing expenditure for older households who are renting. In 2005–06, older households renting privately spent 36 per cent of their gross income on housing, which represented the highest proportion of income spent on housing costs for any age group or tenure type.[28] According to the Treasury:

> It is also the case that renters appear to have lower incomes and lower retirement savings, which makes sense, and the consequence is that renters have a lot less to spend on other things.[29]

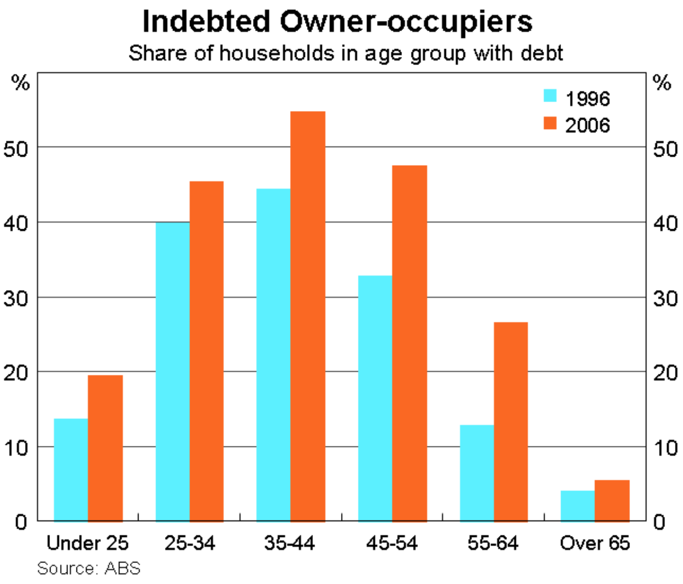
2.29 Given the extent to which private rental costs impact disproportionately on retirees who do not own their own home, there are grounds for the Commonwealth to consider revising the support it provides to this group to reflect better their circumstances (see recommendation 10.2).

2.30 Changes in the Australian housing system indicate that there may be very different housing profiles among future generations of older Australians, with larger proportions likely to enter retirement with a mortgage or renting privately. This is shown by the data from the Australian Bureau of Statistics (ABS) income and housing surveys conducted in 1995–96 and 2005–06 summarised in Chart 2.1.

28 Australian Institute of Health and Welfare (2008a, p. 49).

29 Mr P Gallagher, Treasury, *Committee Hansard*, 1 April 2008, p. 37.

Chart 2.1



Source: Battellino (2007).

2.31 Analysing these data further, Treasury reported that not only were more older Australians still owing debt, but this debt was larger:

> the proportion amongst older Australians with a mortgage which was over \$50 000 in real terms went from 30 per cent to 61 per cent and the proportion with a mortgage over \$100 000 went from 12 per cent to 38 per cent. That is amongst the group with a mortgage. So that is a sizeable increase in the level of housing debt of older Australians and that is of interest to us in terms of retirement income policy…[30]

2.32 Despite more Australians entering retirement with a mortgage, Treasury officials emphasised that in 2005–06, 75 per cent of 65–74 year olds still owned their own home.[31] Mr Tanton from the National Centre for Social and Economic Modelling proffered one possible explanation for this, in that:

> …once you get to the age of 65 and you hit retirement, if you still have a mortgage then you can use a lot of the superannuation that you get to pay off your mortgage. That does mean that you have a lot less in your superannuation egg to be able to live off into the future.[32]

2.33 While to date there has only been a relatively small reduction in the number of retired Australians who own their own home, research by the Australian Housing and Urban Research Institute (AHURI) has projected that the number of people aged 65

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30 Mr P Gallagher, Treasury, *Committee Hansard*, 1 April 2008, pp 36–37.

31 Mr P Gallagher, Treasury, *Committee Hansard*, 1 April 2008, p. 45.

32 Mr R Tanton, National Centre for Social and Economic Modelling, *Committee Hansard*, 1 April 2004, p. 86.

years and over living in low-income rental households will more than double from 195 000 in 2001 to 419 000 in 2026.[33] This has significant implications for both individuals and the broader community. As noted by Treasury officials:

> …there are…significant public policy issues around those who have not done that [achieved home ownership] because of the importance of homeownership as something which underlies the adequacy of retirement income…[34]

Housing and wellbeing

2.34 In addition to home ownership in retirement helping to maintain living standards, suitable housing is also an important contributor to the health and well-being of older Australians. As David Deans of the National Seniors Association puts it:

> The home has special significance for older people. Home is a familiar place, in a familiar location where they know others and feel in control of their lives. Studies examining older peoples' preferences for housing have found that the majority wish to stay in their current home, or if they had to move, at least remain within their current suburb, in a familiar social environment. The health and well being of seniors is intrinsically linked to housing.[35]

2.35 Home ownership enhances the ability of older Australians to remain living in the community with assistance, which has been shown 'to be important to people's capacity to maintain health and wellbeing'.[36] Community care is the centrepiece of aged care policy, with the Australian Government having invested significantly in community care approaches in recent years. The Australian Association of Social Workers has emphasised that approaches to ageing in the community are predicated, to some extent, upon home ownership:

> The nexus between health and housing provision is well demonstrated in the area of aged care. Policies designed to reduce the costs of premature admission to residential aged care by providing services and case management for the frail aged or disabled person in their own home, are predicated upon the individual's having stable accommodation - preferably privately owned and capable of being modified as necessary.[37]

2.36 Thus, as well as having implications for retirement and welfare policy, the growth in the number of older Australians who are reliant on the private rental market for housing also has implications for aged care policy. The Director of the AHURI Southern Research Centre, Dr Faulkner, emphasised that 'for many older people, the private rental market is not the appropriate place because the housing is not suitable to

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33 Jones et al. (2007), cited in Australian Institute of Health and Welfare (2007b).

34 Mr P Gallagher, Treasury, *Committee Hansard*, 1 April 2008, p. 45.

35 Deans (2004).

36 Waters (2001) cited in Australian Institute of Health and Welfare (2008a, p. 47).

37 Australian Association of Social Workers, *Submission 54*, p. 9.

their changing needs as they age'.[38] Supporting people to remain in their own home and community often requires modifications to the home environment, which in turn requires security of tenure.[39] This security is not generally available to those in the private rental market.

2.37 Community housing associations provided evidence about their capacity to support 'ageing in place' by adapting existing housing, or by developing units of appropriate housing nearby to give older tenants the option of maintaining their neighbourhood connections as their mobility and support needs change. For older Australians who own their own houses there are a number of barriers to their ability to downsize or to access capital to modify existing housing to meet their mobility needs. These issues are discussed in chapters 6 and 10 (recommendation 10.14).

Aboriginal and Torres Strait Islander peoples

2.38 Home ownership among Indigenous households is around 36 per cent,[40] almost half that of non-Indigenous households.[41] Around 19 per cent of Indigenous households rent privately; 20 per cent rent from a state or territory housing authority; and 9 per cent rent from an Indigenous or mainstream community housing organisation.[42] Significant regional variations exist, however. For example the Committee heard evidence that only 0.4 per cent of Indigenous households are in the private rental market in the Northern Territory and:

> Indigenous people are significantly locked out of the private rental market on income levels and the rent history criteria as well as because of discrimination. Landlords and agents are able to auction rentals and they will take the people who can pay the most and who physically look like the best tenants. Indigenous people obviously must have education, life skills and jobs to access that part of the housing rental market.[43]

2.39 According to AHURI, there is a high level of housing stress amongst Indigenous Australians.[44] The Australian Council of Social Service also emphasised the level of housing disadvantage faced by Indigenous Australians:

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38 Dr D Faulkner, Australian Housing and Urban Research Institute, *Proof Committee Hansard,* 28 April 2008, p. 46.

39 Deans (2004, p. 4).

40 Australian Bureau of Statistics, (2007b).

41 Australia's Indigenous population has a low level of home ownership by international standards. It is well below the 45 per cent in Canada, 48 per cent in New Zealand and 55 per cent in the US, despite overall home ownership rates comparable with these countries. Lawson and Milligan (2007, p. 21); Table 2.1.

42 Australian Institute of Health and Welfare (2008a, p. 44).

43 Ms T Vine Bromley, NT Shelter, *Proof Committee Hansard*, 28 April 2008, p. 18.

44 Australian Housing and Urban Research Institute, Southern Research Centre (2006).

…while low-income and disadvantaged Australians are at the most severe part of the housing affordability crisis, you then need to go to another level again in terms of severity to understand what is happening in Indigenous communities around the country.[45]

2.40 Indigenous Australians also suffer from above-average levels of substandard housing, overcrowding and homelessness.[46] In 2001 nearly one-third of Indigenous dwellings were in need of major repairs.[47] On census night 2001, 8.5 per cent of homeless persons were Indigenous[48], despite Indigenous people constituting less than 1 per cent of the total population. The average size of Indigenous households (3.6 persons) is also greater than non-Indigenous households (2.7 persons)[49] and up to 15 per cent of rural Indigenous homes are considered to be overcrowded.[50]

2.41 Overcrowding was raised as a particular problem by NT Shelter who noted that:

There are really high overcrowding rates in Indigenous communities, in particular, and mobility between urban and remote communities and vice versa is an issue.[51]

2.42 International studies have found that overcrowding increases the risk of infectious diseases, such as meningococcal disease and respiratory infections, and may impact on mental health.[52]

Recommendation 2.1

2.43 **The committee recommends that, given the very high levels of housing stress, overcrowding and homelessness experienced by Indigenous Australians, all levels of government should give priority to addressing their high level of unmet need for public and community housing under all exiting programmes and the National Rental Affordability Scheme.**

People with disabilities

2.44 Around four million Australians had some form of disability in 2003[53] and, according to the 2006 census, just over four per cent of the Australian population, or

45 Mr A Johnson, Australian Council of Social Service, *Committee Hansard,* 2 April 2008, p. 76.

46 Australian Institute of Health and Welfare (2008a, p. 44).

47 ABS data cited in Edmund Rice Centre (2007).

48 Australian Institute of Health and Welfare, (2008a, p. 46).

49 Altman (2000).

50 Wilkinson (2005).

51 Ms T Vine Bromley, NT Shelter, *Proof Committee Hansard,* 28 April 2008, p. 17.

52 Waters (2001).

53 ABS data cited in Australian Institute of Health and Welfare (2008a, p. 49).

around 822 000 people, needed daily assistance with basic activities such as self-care, mobility or communication.[54] Seventeen per cent of people with disabilities (under age 65) reside in public housing; 13 per cent own their own home or have a mortgage; 16 per cent are private renters; 16 per cent are boarders; and 13 per cent live rent free.[55]

2.45 According to research by the Australian Housing and Urban Research Institute Southern Research Centre:

> …people living in households where one or more persons has a disability are poorer, have much lower incomes, are much more likely to be in the rental market and are much less likely to be homeowners. They have significantly greater levels of housing stress than the population overall…
>
> We are talking about people on the disability support pension and the carers pension—very, very low incomes—who are struggling with high housing costs, often in excess of 60 per cent of their gross household income. That has a significant impact on their quality of life and their ability to gain access to a whole raft of services that should be supporting them with their disability.[56]

2.46 As with older Australians, many people with disabilities will require housing adaptations to assist them to continue to live in the community. This is difficult without secure housing tenure. There was evidence presented to the committee by the community housing sector of the preparedness and capacity to both adapt housing and provide greater security of tenure (see recommendation 10.13).

People with mental health problems

2.47 It is estimated that one in five Australians will experience a significant disruption to their mental health and wellbeing at some time during their lives, with 3-5 per cent of the population experiencing serious, ongoing illness requiring treatment.[57]

2.48 People with a psychiatric disability are at particularly high risk of experiencing housing problems and form a significant proportion of the homeless population.[58] Research conducted in Perth in 2000 found that around 49 per cent of the residents in Supported Accommodation Assistance Program services on the day of the survey were diagnosed with a mental illness. The same survey found that 46 per cent of inpatients in public mental health acute units could have been discharged if there had been suitable community alternatives.[59]

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54 Australian Bureau of Statistics (2007c).

55 Australian Institute of Health and Welfare (2008a, p. 50).

56 Professor A Beer, Australian Housing and Urban Research Institute, *Proof Committee Hansard*, 28 April 2008, p. 44.

57 Kadmos and Pendergast (2001, p. 5).

58 Research estimates of the proportion of homeless people who have a mental health problem range from 25 to 75 per cent. Kadmos and Pendergast (2001, p. 6).

59 Kadmos and Pendergast (2001, p. 7).

A study conducted by the AHURI into stable housing for people living with a mental illness found that 'stable housing improved health and well being, increased independence, enhanced social relationships and led to better mental health'.[60] Shelter WA argue that, in order to achieve and maintain housing tenure, people with a mental illness need to: feel secure and safe in their physical and social environment; have access and proximity to a range of services, including family, social and cultural networks; treatment and support services; and transport; and have secure tenure that is sufficiently flexible to allow them to move between independent housing and support options without loss of continuity of care or tenancy.[61] The issue of the best way to provide stable and secure housing for people suffering from some form of mental illness requires further investigation.

2.49 The policy of de-institutionalisation has led to people with mental health issues taking up an increasing proportion of the public housing stock. This is discussed in chapter 10.

Conclusion

2.50 Access to appropriate, affordable, housing is a fundamental human right, which 'is essential for individual, family and community wellbeing'.[62] While many Australians have done well out of the housing market there is a growing pool of people who cannot access affordable housing, appropriate or otherwise. Those most at risk are often also the most vulnerable in our society, such as Indigenous Australians and people living with a disability.

2.51 In developing policy options to promote access to affordable housing it is crucial that we give due consideration to those groups for whom owning a house may not be a viable option, and ensure that we take an integrated approach to delivering both affordable home ownership and affordable rental.

2.52 Given its importance in promoting and maintaining a functional, stable and just society, housing should not be considered just another commodity. Many of the social benefits we see flowing from home ownership – such as security, connection to community and control over one's lived environment – can also be conferred through more secure tenancy models. This issue is discussed in more detail in Chapter 10.

2.53 Governments at all levels have an important role to play in ensuring that all members of the community, regardless of means, can access appropriate and affordable housing. Community housing providers, who have made this aspect of social housing their central product, have also demonstrated that they can play a key role in providing a secure home to those otherwise socially excluded.

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60 AHURI (2003).

61 Kadmos and Pendergast (2001, p. 7).

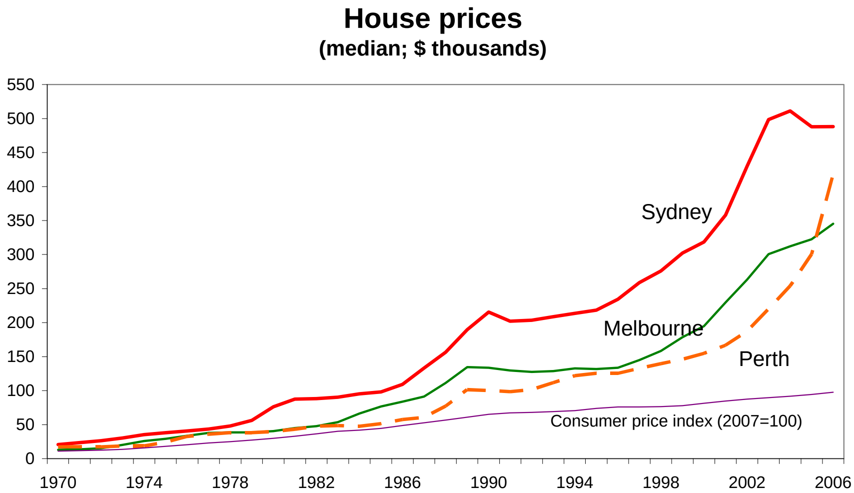
62 Australian Council of Social Service, *Submission 40*, p. 1.

Chapter 3

Measures of affordability

3.1 House prices have increased markedly in recent years, by much more than consumer prices or incomes.

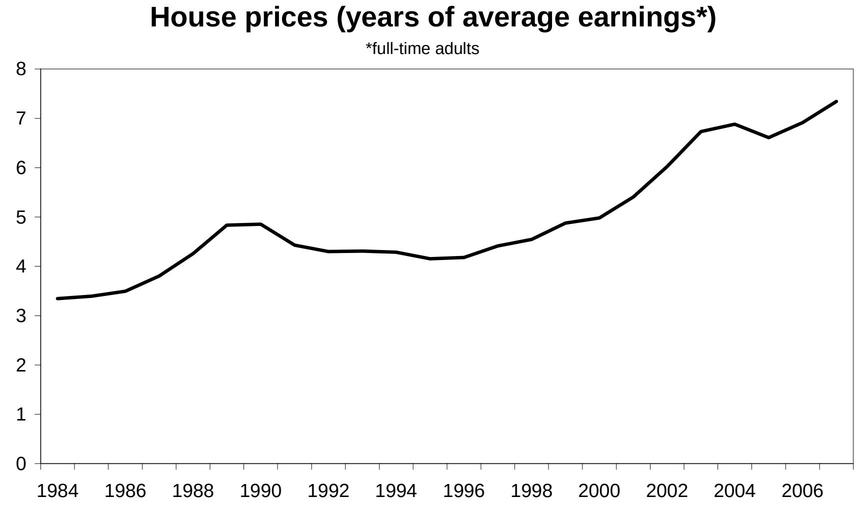
Chart 3.1



Source: Secretariat, based on splicing ABS house price data from ABS Cat no. 6416.0 to earlier estimates from Abelson and Chung (2004); the CPI series was constructed by splicing data from ABS Cat no. 6401.0 to that in the ABS *2008 Australia Yearbook*.

3.2 By 2007 the average house price in the capital cities had risen to over seven times average earnings.

Chart 3.2

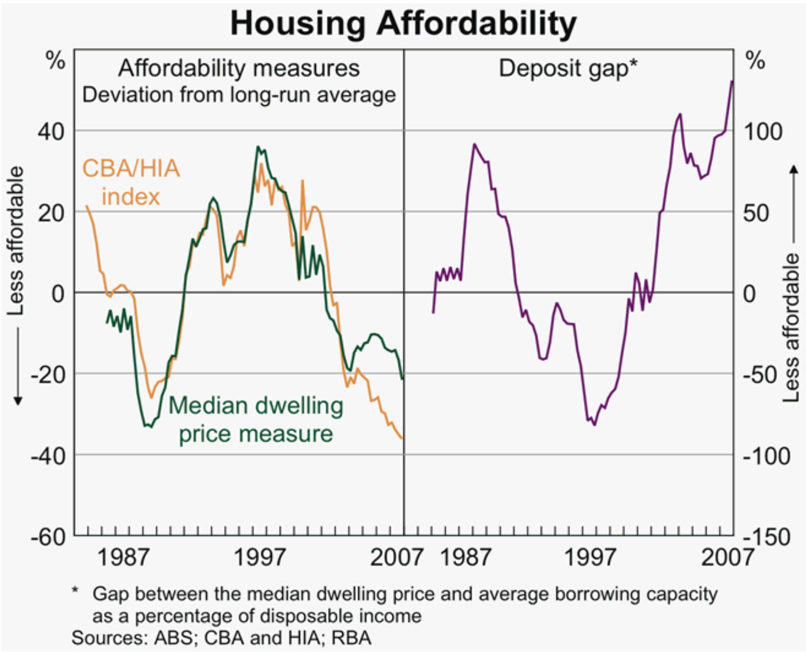


Source: as for chart 3.1, and ABS Cat no. 6302.0.

3.3 By this commonly-cited measure, housing affordability has deteriorated quite sharply over the past decade.[1]

3.4 Another commonly-cited measure is the 'affordability index' compiled by the Commonwealth Bank and the Housing Industry Association, which also takes into account the level of interest rates. This index, shown on the left-hand side of the following chart, is now at its lowest in the 23 years for which it has been compiled.

Chart 3.3



Source: Richards (2008).

3.5 The CBA/HIA index is calculated as the monthly loan repayment on a typical 25-year mortgage loan large enough to pay 80 per cent of the cost of a house with the median price paid by first home-buyers, relative to household income.

3.6 Professor Yates (2007) stresses the 'deposit gap', which is shown in the right-hand panel in the chart above. This is the amount by which the average house price exceeds the amount which a household on the average income can borrow. This gap is

1 A similar pattern is observed if the price measure is restricted to houses bought by first home buyers. Yates (2007, pp 5 and 9) suggests the house price/average wage ratio had been only 3 to 4 in the late 1950s. This may have been a low point. While data are scarce, there are many accounts of housing shortages in the immediate post-WWII period (although rent and price controls limited the extent to which they are reflected in market data). Merrett (2000, pp 244, 251) says that from the 1860s to the 1930s the average cost of building a house was five times the average wage. The Committee of Inquiry into Housing Costs (1978, p. 30) concluded that house prices were 3–4 times average earnings in Melbourne and Adelaide in the first half of the 1970s, but somewhat higher in Sydney. A new narrative by Stapeldon (2008) suggests average house prices were fairly steady from 1880 to the 1940s, jumped after price controls were removed in the late 1940s and trended up thereafter.

now at record highs, which she suggests means that many Generation X families will only be able to buy a home if they are assisted by their parents. The longer this generation defers the purchase of a home, the fewer working years they have to repay their mortgage. There will also be pressures on those who do not buy and continue to rely on the private rental market:

> What is going to happen as a result of these people not getting into homeownership in their under-40s as they go through to being over-60s? And because the public or social housing system is stable, it is not growing, as the population grows, what are the implications of that as the population ages?' What you find is you get more people in housing affordability stress and these are the people who are in the low-income households because they have gone past their earning age. They will be back on the pension levels of income, they will still be in the private rental market and there will be higher levels of problems amongst them. So that is something, looking forward 40 years, that is going to be a bigger problem unless we do something about it now.[2]

These longer-term inter-generational issues are discussed in chapter 11.

3.7 A related approach is the UDIA/Matsuik measure, whereby a housing market is classified as 'unaffordable' when a household spending 30 per cent of the average income in that region on repayments (and with a 10 per cent deposit) could purchase less than 15 per cent of the houses in the region. On this measure there were no 'unaffordable' regions in Australia in 2001 but over a quarter of regions were 'unaffordable' in 2006.[3]

3.8 The Reserve Bank recently developed a similar measure, concluding:

> on a nationwide average basis around 33 per cent of transacted dwellings would have been accessible to the median young household in 2006/07, compared with a longer-run average of around 45 per cent.[4]

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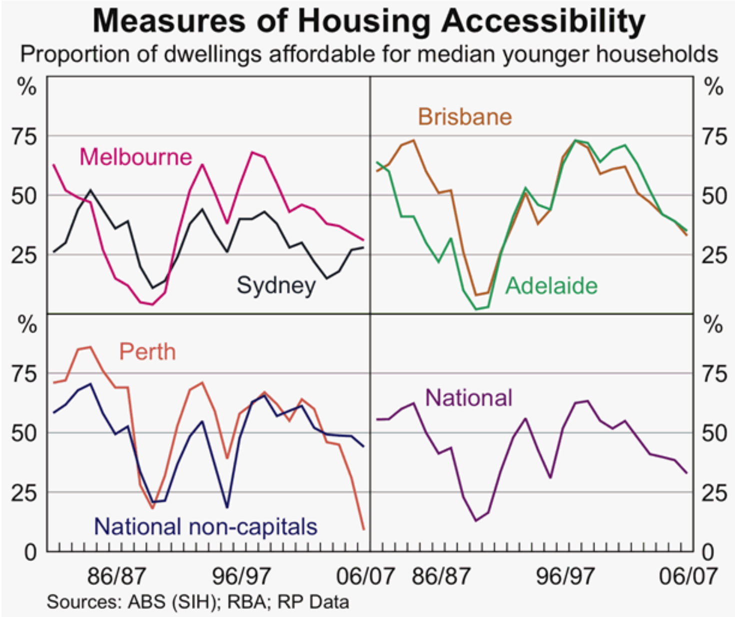
2 Professor J Yates, *Committee Hansard*, 2 April 2008, p. 39.

3 See Urban Development Institute of Australia (2007). This approach does not work well for regions with very heterogenous income groups. For example, the UDIA report rates Karratha as one of the more affordable parts of Australia, presumably because mining workers pull up the average income. But as described in Chapter 8, for non-miners housing is extremely unaffordable in Karratha.

4 Richards (2008). The RBA measure represents an estimate of the proportion of all dwellings (both houses and apartments) transacted in any year that would have been accessible to a households headed by persons aged between 25–39 years, based on certain assumptions about bank lending behaviour.

Chart 3.4



Source: Richards (2008).

Mortgage stress incidence

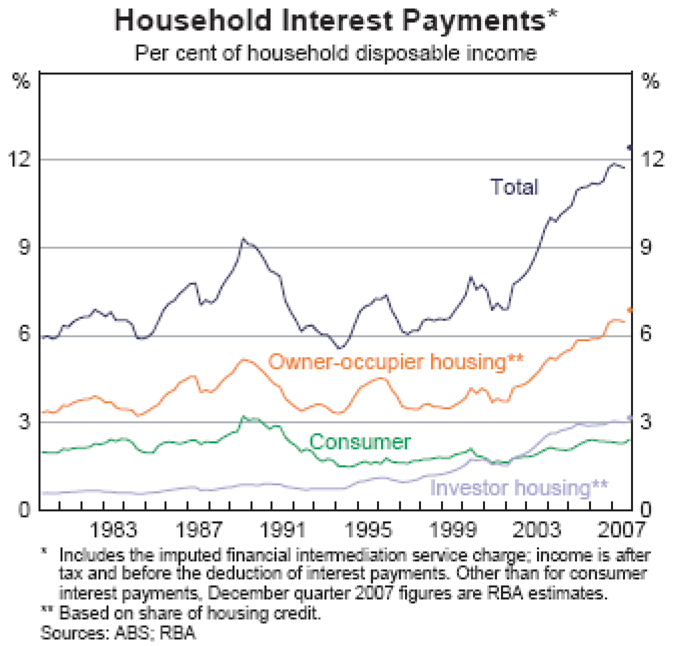
3.9 Closely related to 'affordability' is the concept of 'mortgage stress'. Indeed, one definition of 'affordable housing' is that it is housing which would not put the buyer into mortgage stress.

3.10 The concept of 'mortgage stress' refers to *current* rather than *aspiring* homebuyers. As home prices have increased, the size of the average mortgage has risen, taking household debt to a record proportion of income.

3.11 As a result, even when mortgage interest rates reached their recent low point of around 6 per cent in 2002, the proportion of household income going on home loan repayments was still relatively high. Reflecting the larger mortgages, home loan interest payments are now a higher proportion of income than when housing interest rates peaked at 17 per cent in 1989. In addition to this, an increasing number of households are paying interest on an investment property. Some 'consumer' debt, such as credit cards, may also be being used to fund housing.[5]

5 Conversely, 'we have also seen a great preponderance for Australians to borrow against the equity in their housing for non-housing consumption and investment' and some of this is probably misclassified as borrowing for housing; Professor R Stimson, *Committee Hansard*, 14 April 2008, p. 43.

Chart 3.5



Source: *RBA Financial Stability Review*, March 2008.

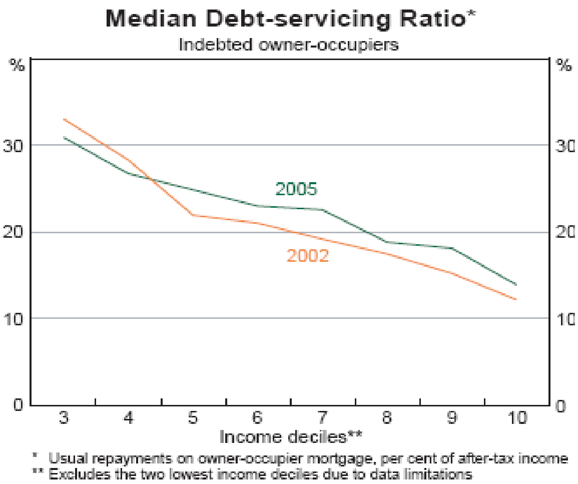
3.12 Financial institutions have traditionally applied a rule of thumb of not allowing households to take out home loans requiring more than 30 per cent of gross income to service.[6] A government inquiry which looked into housing in the early 1990s concluded that people on low incomes could not afford to pay more than 30 per cent of their income on housing.[7] This proportion has since become a benchmark.

3.13 In 2005 median debt-servicing ratios were below this benchmark for almost all income groups. Lower income households have higher debt-servicing ratios (Chart 3.6). These did not increase between 2002 and 2005, but subsequent interest rate rises will have since pushed them up somewhat.

6 Australian Prudential Regulation Authority, *Submission 51*, p. 3. This rule dates back at least to the latter 1940s; Merrett (2000, p. 239). For a discussion of how lenders are moving away from this rule of thumb, see House of Representatives Standing Committee on Economics, *Home Loan Lending*, September 2007.

7 National Housing Strategy (1991, p. 7).

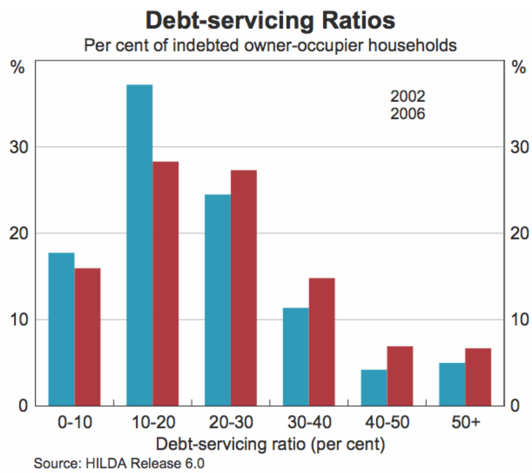
Chart 3.6



Source: Reserve Bank of Australia, *Financial Stability Review*, March 2007, p. 26.

3.14 The averages in Chart 3.6 hide the number of households who are above the average. The distributions in both 2002 (left hand column) and 2006 are shown in Chart 3.7.

Chart 3.7



Source: Reserve Bank of Australia, *Financial Stability Review*, March 2008, p. 54.

3.15 In 2005–06, around 23 per cent of households were spending over 30 per cent of their income on housing (either mortgage repayments or rent), up from 19 per cent in 1995–96. Table 3.1 shows some of the groups in the community with above-average proportions devoting more than 30 per cent of household income to housing. (Around a third of households own their homes outright, having paid off any mortgage, and this brings down the overall average housing cost.)

Table 3.1: Proportion of households spending over 30 per cent of disposable income on housing, 2005–06

All households	*23*
Households headed by person under 30	35
Households headed by person aged between 30 and 45	32
Households who bought first home in past three years	62
Households renting	32
Households headed by unemployed person	55
Households whose income is below half the median income	31
Sole parent households	34

Source: various tables in Tanton, Nepal and Harding (2008).

3.16 However, a weakness of regarding all households spending over 30 per cent of income on housing as suffering stress is that households with high incomes can spend over that proportion on housing and still have plenty of money to spend on other things. For this reason a '30/40' rule is now the preferred measure of 'housing stress'; restricting it to households in the lowest 40 per cent of the income distribution paying over 30 per cent of income on housing.[8] This benchmark is also used overseas, sometimes called the 'Ontario measure', as a guide to eligibility for government assistance.[9]

3.17 On this definition, it is estimated that there are now over one million low and middle income families and singles in *housing* stress.[10] This represents about 10 per cent of the population.[11]

8 This '30/40' measure is advocated by federal government agencies such as the Department of Families, Housing, Community Services and Indigenous Affairs (*Committee Hansard*, 1 April 2008, p. 2) and the Reserve Bank (Governor Stevens, Appearance before House of Representatives Economics Committee, 4 April 2008, p.16); prominent academics such as Professor J Disney (*Committee Hansard*, 2 April 2008, p. 27), Professor J Yates (*Committee Hansard*, 2 April 2008, p. 38); the AHURI network (*Submission 19*) and the NATSEM modellers (Mr R Tanton, *Committee Hansard*, 1 April 2008, p. 83); the Tasmanian government (*Submission 81*, p. 7); local governments such as Brisbane City Council (*Committee Hansard*, 14 April 2008, p. 19), Casey City Council (*Committee Hansard,* 24 April 2008, p. 3) and the Local Government Association of Tasmania (*Submission* 15, p. 4) and many others, such as the Australian Council of Social Service (*Committee Hansard*, 2 April 2008, p. 71) and Infrastructure Partnerships Australia (*Submission 100*, p. 2). The ACT's Affordable Housing Steering Group has a modification, using 30 per cent for renters but 40 per cent for some purchasers to allow for the investment aspect of home purchase; their report is contained in the ACT government, *Submission 75*.

9 Professor R Stimson, *Committee Hansard*, 14 April 2008, p. 43.

10 NATSEM estimates cited in *Making housing affordable again* and by Mr R Tanton, *Committee Hansard*, 1 April 2008, p. 83.

11 Using just the 30 per cent benchmark – that is, including higher income households – the proportion is over 20 per cent; Mr R Tanton, *Committee Hansard*, 1 April 2008, pp 83–84.

3.18 It is, of course, easy to generate larger numbers of households in 'housing stress' by setting the bar lower, and often these larger numbers will generate a newspaper headline. For example, Fujitsu Consulting (2008) define any household with a mortgage who has reduced spending on luxuries and reprioritised spending in response to interest rate increases as being in 'mortgage stress'. Unsurprisingly, this gives a large number of households in mortgage stress: around 750 000 now, with an additional 150 000 with any additional 25 basis point increase in housing loan interest rates. Adding in renters would imply about 1½ million households in housing stress.

3.19 A more reassuring perspective comes from some work tracking households over time. The HILDA survey data show that households do not necessarily become mired in stress:

> Most households move out of stress: less than half of those initially in housing stress remained stressed a year later and less than a third were in that state two years later.[12]

3.20 In the same way that distinctions are drawn between 'absolute' and 'relative' measures of poverty[13], it was observed by the Reserve Bank deputy governor Ric Battellino that devoting 30 per cent of income to housing may not be as onerous now as it used to be:

> real incomes of Australian households have risen quite strongly. This has allowed households to devote a larger proportion of their income to housing repayments while still maintaining their living standards more generally. For example, the household that in 1996 was devoting 30 per cent of its disposable income to housing loan repayments would today be able to devote 47 per cent of its disposable income to servicing debt while still maintaining the same standard of living in terms of being able to buy other goods and services. This, broadly speaking, is the outcome that has occurred over the last decade or so. So it is not surprising to us that commentators who use a fixed benchmark for housing stress, such as housing loan repayments exceeding 30 per cent of income, are finding that more and more households are exceeding the benchmark.[14]

3.21 Mr Battellino's analysis refers to *average* incomes and it may be that incomes and wealth at the lower end have not kept up with the average.[15] But statistical evidence is mixed on this point.

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12 Sedgwick (2008).

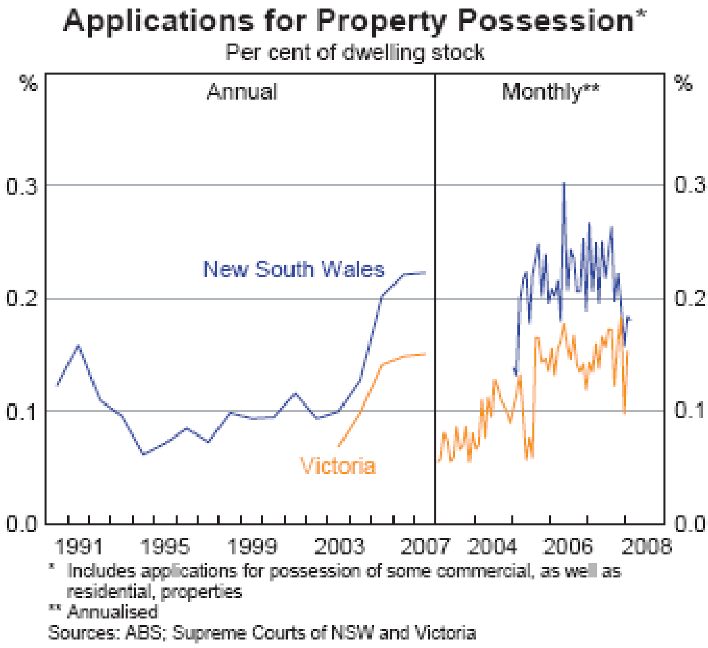
13 An absolute poverty level may be based, for example, on the cost of acquiring sufficient calories to live. A relative poverty level may reflect societal norms and be defined as, for example, half the median income and so rise over time; Mr A Johnson, *Committee Hansard*, 2 April 2008, p. 71.

14 Mr R Battellino, Reserve Bank of Australia, *Proof Committee Hansard*, 24 April 2008, p. 9.

15 For example, Mr Battellino remarked that 'income growth in this part of Sydney [the poorer western suburbs of Sydney which show high housing stress] is substantially slower than in other parts of Sydney and Australia', *Proof Committee Hansard*, 24 April 2008, p. 9.

3.22 This analysis could help explain the apparent paradox that while there are large numbers of households facing stress under the 30/40 definition, very few end up defaulting or having their homes repossessed (Chart 3.8).

Chart 3.8



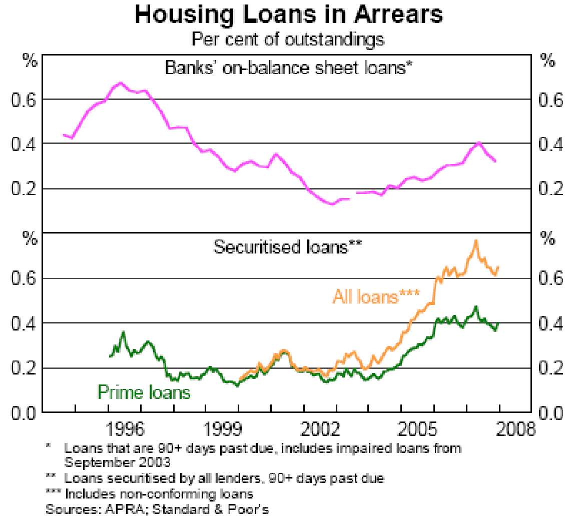
Source: Reserve Bank of Australia, *Financial Stability Review*, March 2008, p. 51.

3.23 There are also relatively few households in arrears:

> Housing loan arrears are probably the most tangible indicator of the extent to which households are getting into difficulty on their housing loans…the chart shows that, while arrears rates rose somewhat between 2002 and 2006, they remain relatively low by historical standards and, in fact, they fell through much of 2007. Currently, we estimate that there are about 15 000 households in Australia whose housing loans are 90 days or more in arrears. This is quite a low number for a country the size of Australia.[16]

16 Mr R Battellino, Reserve Bank of Australia, *Proof Committee Hansard*, 24 April 2008, p. 8.

Chart 3.9

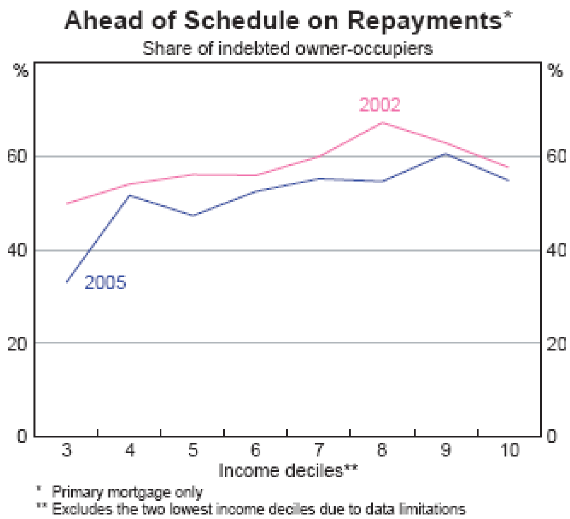


Source: Chart accompanying presentation by Mr R Battellino, 24 April 2008.

3.24 Mr Battellino has also drawn attention to the distribution of the increase in household debt, noting 'the rise to date has been overwhelmingly driven by those households that had the greatest capacity to service it – the middle-aged, high-income group'.[17]

3.25 Another factor that has helped indebted households stave off falling into arrears is that in 2005 about half of them, including low income households, had been ahead on their repayments (Chart 3.10). Around a quarter of them are over a year ahead. As interest rates have risen, some of this buffer may have been eroded.

Chart 3.10



Source: Reserve Bank of Australia, *Financial Stability Review*, March 2007, p. 27.

17 Battellino (2007).

3.26 On the other hand, the low level of defaults and arrears may just be an indication of how hard Australians try to hang onto their homes even at the expense of scrimping in other 'essential' areas. A recent study of families that were in 'housing stress' in terms of the 30/40 measure found that many were taking tough decisions to keep meeting housing costs (Table 3.2).

Table 3.2: Measures taken by stressed households: per cent of respondents

	Renters in lowest two income quartiles paying 30-40% of income in rent	Renters in lowest two income quartiles paying over 40% of income in rent	Home purchasers in lowest income quartile
Sometimes going without meals	21	30	10
Sometimes unable to heat or cool home	44	57	24
Children have missed school excursions or sports	40	42	23
Children go without adequate health or dental care	35	39	18
Sold or pawned personal possessions	32	34	8

Source: abridged version of table in Burke (2007, p. 3).

3.27 As one senator summarised the evidence:

> a lot of the submissions and oral evidence we have received are from community support agencies who are saying that what they are finding is an exponential increase in the number of people who are accessing their services. For many of them, paying their mortgage is the first thing they do, so then they cannot put food on the table…Financial counselling services are reporting a significant increase in the number of people accessing their services.[18]

3.28 As the Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA) pointed out:

> there would also be a number of households where the householder would actually know that they are in arrears and would choose to sell the house before there is a formal foreclosure process, so they would not necessarily appear in those statistics.[19]

3.29 As Professor Disney observed, there are also people suffering an indirect form of housing stress:

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18 Senator R Siewert, *Proof Committee Hansard*, Melbourne, 24 April 2008, p. 10.

19 Ms C Wall, FaHCSIA, *Proof Committee Hansard*, 7 May, p. 2.

> They are the people who have only escaped paying above 30 per cent of their income on mortgage or rents by living in very unsatisfactory housing or a very long way away from the job they already have or the work opportunities that they might need.[20]

Effects on home ownership rates

3.30 Another approach to assessing the 'affordability' of home ownership is to examine home ownership rates. The overall rate dropped only marginally, from 66 to 65 per cent, between the 2001 and 2006 censuses.[21] However, within this the proportion of households who own their home outright (ie do not have a mortgage) dropped from 40 per cent to 33 per cent.[22]

3.31 The age of first home buyers is also increasing. Home ownership rates for those aged under 35, and to a lesser extent other cohorts, have dropped. This probably reflects a mix of changing preferences and affordability issues:

> There might be various social factors as to why that is happening—people are studying longer, they are getting married later and doing all sorts of things later. So part of it is a social thing, but I suspect part of it is also due to the fact that they are having trouble getting the deposit to get into the housing market.[23]

3.32 Drops in home ownership rates within various age cohorts is consistent with overall stability in the home ownership ratio as the aging of the population moves more people into the older cohorts with high ownership ratios.[24]

3.33 There are concerns expressed that around a tenth of people reaching retirement age have not paid off their mortgages, something very unusual for previous generations.[25] (This was discussed further in Chapter 2; see especially Chart 2.1.)

Regional aspects

3.34 Average house prices (and incomes) vary across the country, and therefore so does affordability. Sydney has the most expensive housing in Australia while Tasmania, South Australia and most rural areas have significantly cheaper housing. The pattern of 'affordability' and 'mortgage stress' can be somewhat different, though, as some areas with cheaper houses also have lower average incomes. For example, the

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20 Professor J Disney, *Committee Hansard*, 2 April 2008, pp 27–28.

21 The home ownership ratio rose from around 50 per cent to 70 per cent during the 1950s and stayed around this level for the next few decades; Professor P Troy, *Committee Hansard*, 1 April 2008, p. 109; and Yates (2007, p. 5).

22 UDIA (2007, p. 11).

23 Mr R Battellino, Reserve Bank of Australia, *Proof Committee Hansard*, 24 April 2008, p. 11.

24 Reserve Bank of Australia (2003, pp 23–24).

25 Tanton, Nepal and Harding (2008, p. 3).

average house price in Hobart is 44 per cent below that in Sydney, but the average household income is 26 per cent lower in Hobart than in Sydney.

3.35 As an example of the dispersion, some house price/income measures from Demographia are given below (see also Chart 8.1).

Table 3.3: Selected median house price / median household income ratios

More affordable		Less affordable	
Ballarat-Bendigo	5.0	Sydney	8.6
Canberra	5.5	Gold Coast	8.6
Wagga Wagga	5.5	Perth	7.6
Launceston	5.7	Melbourne	7.3

Source: Demographia (2008).

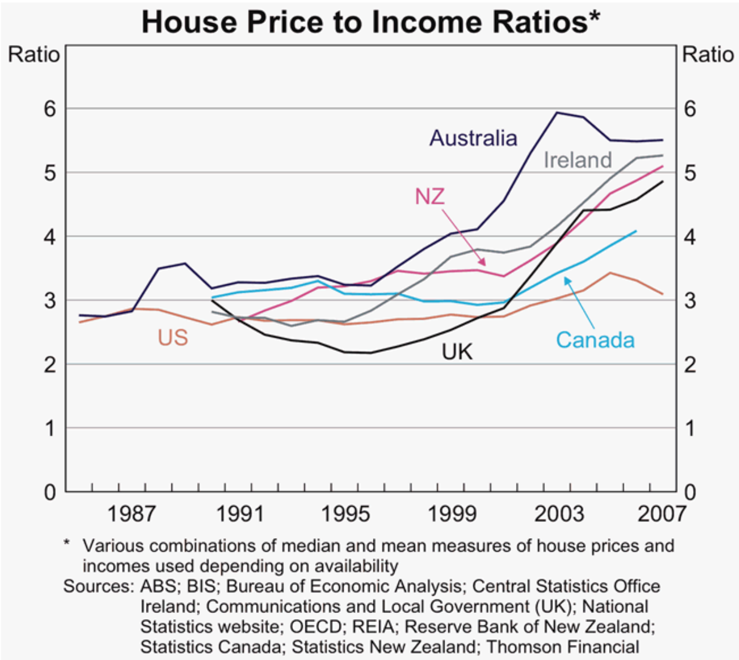
3.36 There have also been significant differences in the growth in house prices in different areas *within* cities. Using data at postcode level, Richards (2008) shows:

> In four of the five major capitals, average annual growth in house prices within five kilometres of city centres has been about 2 percentage points higher than for houses close to the edge of the cities.

International comparison

3.37 Over the past decade house prices have risen faster than incomes in a number of comparable economies. However the increase has been more marked in Australia than elsewhere and houses are now less affordable than in most comparable economies.

Chart 3.11



Source: Richards (2008).

Table 3.4: Selected cities: median house price / median household income ratios

More affordable		Less affordable	
Dallas	2.5	Los Angeles	11.5
Ottawa	3.0	**Sydney**	**8.6**
Manchester	5.2	London	7.7
Canberra	**5.5**	New York	7.0

Source: Demographia (2008).

3.38 Whether as a cause or a consequence of this, Australian households have gone from having relatively low debt-to-income ratios to being relatively highly geared. Debelle (2004) discusses the general global trend towards greater household debt.

Chart 3.12

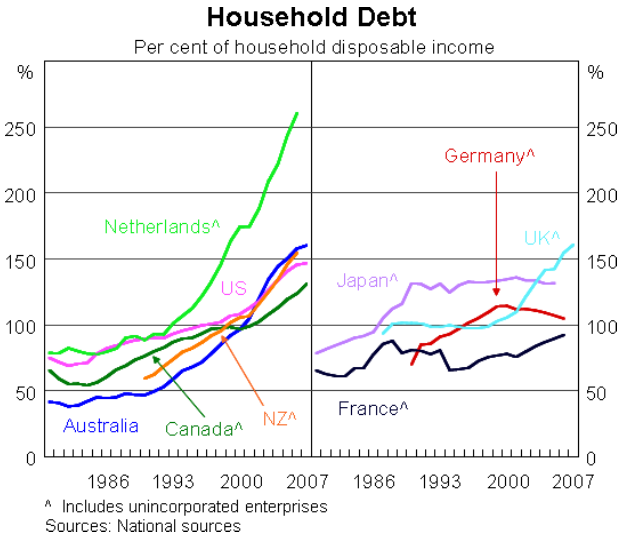
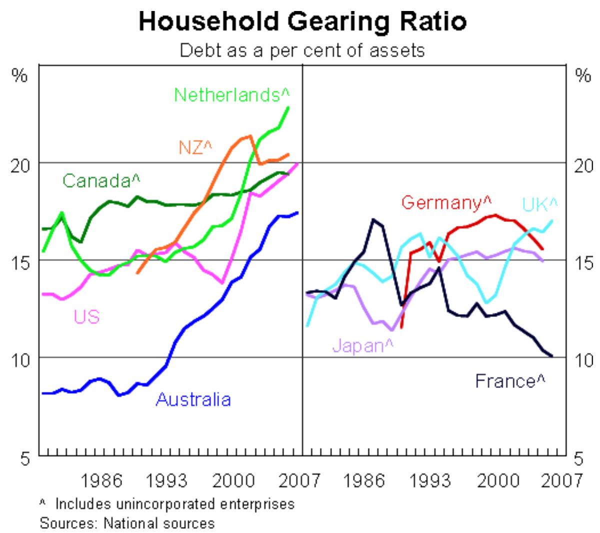


Chart 3.13



Source for Charts 3.12 and 3.13: Debelle (2008).

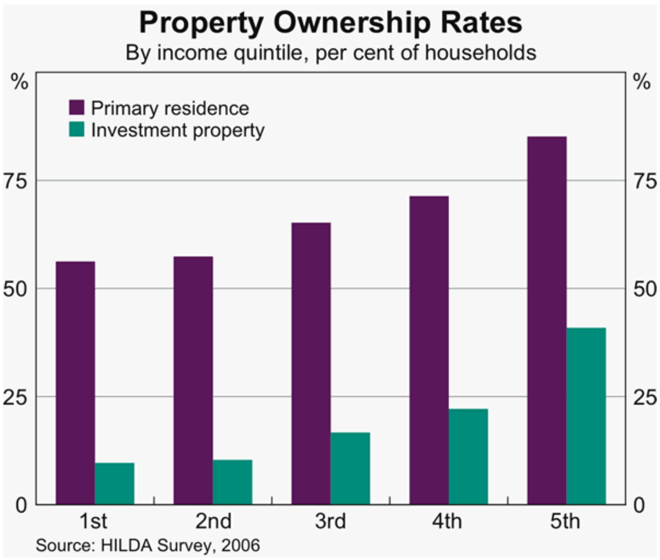
3.39 Housing may be less affordable in Australia than in otherwise comparable countries due to Australia's population being unusually concentrated in the two largest cities, with no 'middle-sized' cities (with populations between 500,000 and 1 million). This is discussed in more detail in chapter 11. Another factor affecting international comparisons is that the Australian housing stock primarily consists of detached dwellings.[26]

Distributional implications

3.40 It can be argued that higher house prices do not benefit the population as a whole. But they clearly have distributional consequences. Richards (2008) comments:

> Renters will be worse off when housing prices rise whereas those who own rental property will be better off. Owner-occupiers may be largely unaffected, since they can be thought of as being 'hedged' against increases in the cost of housing. There are also generational differences. Younger people who have not yet bought homes will be hurt by higher housing prices. Older owner-occupiers may benefit from an increase in prices if they are intending to extract part of the increased value of their homes... Both home ownership and ownership of rental property tend to rise with incomes, so it is lower income households that tend to suffer from rising housing prices and higher income households that tend to gain.

Chart 3.14



Source: Richards (2008).

Interpretation

3.41 While there is general agreement on the above picture of the average Australian home now costing a larger proportion of income, there are widely diverging interpretations of the causes, and hence the implications for policy.

26 Reserve Bank of Australia (2003, p. 29); Ellis and Andrews (2001) and Table 11.1.

3.42 One interpretation is that *average* house prices are higher just because households, having become wealthier, now demand better houses. On this view, the change in the affordability of a house *of a constant quality* is overstated by the house price/income measures. There is something in this argument. The average house sold today has more bedrooms, ensuite bathrooms have become standard and fittings are of better quality. One estimate is that quality improvements from alterations and additions could have boosted house prices by around one per cent per annum over 1970–2003.[27] On the other hand, there are some aspects in which land quality has deteriorated. Gardens and yards have become smaller. And new homes in the cities tend to be progressively further away from work, beaches and cultural and recreational facilities.

3.43 It seems clear that the large rise in home prices mostly reflects an increase in land prices, or the price of a good location. One indication is that the cost of building houses has not risen much faster than the CPI[28], whereas the cost of buying houses has risen a lot faster. Sale prices of vacant land show sharp rises.

Table 3.5: Housing cost increases, 1986–2006, annual average percentage change

Established house prices	7.5
Project homes	4.7
Materials used in house building	3.3
Consumer price index	*3.6*

Source: Parliamentary Library (2006).

3.44 Interpretations of the cause of high land prices differ. Asking whether the current price reflects supply or demand is like asking which blade of a pair of scissors is doing the cutting. But in looking at the *increase* in prices over time, it is notable that most independent commentators view increased *demand* as the prime influence. The reasons for increased demand are discussed in Chapter 4. Others place more emphasis on restraints on *supply*, and these are discussed in Chapter 5. Some commentators regard the impact of *taxes and charges* as specifically important and they are discussed in Chapter 7.

3.45 The Productivity Commission's view was that:

> the *dominant* source of the widespread escalation in prices has been a general surge in demand' … 'increased demand for better quality and better located dwellings, rather than for more dwellings, has been the primary

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27 This estimate by Abelson and Chung (2005) is cited by Richards (2008).

28 The ABS data shown in Table 3.5 concord with the industry view. The Housing Industry Association comment 'construction costs have not really got out of kilter with the general increase in cost as measured by the CPI'; Mr P Jones, *Committee Hansard*, 1 April 2008, p. 27. An exception to this is in certain mining areas, discussed in Chapter 8.

> driver of prices in the recent upswing… because recent price increases have been due mainly to the surge in demand in established areas, improvements to land release policies or planning approval processes could not have greatly alleviated them.[29]

3.46 The Reserve Bank 'do not believe supply deficiencies at a macro level are the main reason for the reduction in affordability for first home buyers'.[30] It regards the common pattern of house price increases in countries which have liberalised their financial systems, shown in Chart 3.11 above, as buttressing this argument:

> the widespread nature of the increases in house prices makes it hard to attribute them to factors that have localised effects, such as land usage policies and taxes. These sorts of factors are more likely to have affected prices at the edges of urban development. I think the big increase in the price of established houses, which has happened right across Australia and through most of the developed world, is mainly reflecting factors that relate to demand and capacity to pay. The big factor here is increased household access to finance. These forces, as I say, have been global in nature. They have not been specific to Australia.[31]

3.47 In contrast, Demographia (2008) make it clear they regard supply as the most important consideration. Writing in the introduction to their report, Don Brash says:

> Affordability of housing is overwhelmingly a function of just one thing, the extent to which governments place artificial restrictions on the supply of residential land.

3.48 Demographia support this argument by pointing out that in the US houses are more affordable in cities such as Pittsburgh and Houston than in cities such as New York and Los Angeles. Demographia argues that the former cities do not place artificial restraints on the availability of land.

3.49 This argument has not gone unchallenged. Macquarie Bank's Rory Robertson provides an alternative interpretation of Demographia's data:

> homes in coastal locations with good job opportunities and pleasant winters tend to be more expensive than homes in inland centres where job prospects

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29 Productivity Commission (2004, pp. xvii, 68 and 123).

30 Reserve Bank of Australia (2003, p. 7).

31 Mr R Battellino, *Proof Committee Hansard*, 24 April 2008, p. 8. Similar comments were recently made by the Governor; 'People have become more affluent, their borrowing power has increased and they have sought to enjoy a better standard of housing. In the process, because the supply is finite—indeed, the supply of the really well-located stuff is fixed—the price has risen'; *House Economics Committee Hansard*, 17 August 2007, p. 22. The former governor made a similar argument when he appeared before that committee on 18 August 2006, pp 26–27.

> and winters are less ideal … Much of the affordable housing in the Western world is found in America's infamous 'Rust Belt'.[32]

3.50 As noted above, in Australia's capital cities inner city house prices have risen faster than those on the periphery, suggesting demand factors have been more important than land supply policies. Price increases seem to have rippled outwards from the city centres rather than inward from the urban fringes.

3.51 This implies that measures to increase land supply on the urban fringe or reduce prices of such land by reducing state and local government charges (discussed in chapters 5 and 7 respectively) will have only a small impact on measures of average affordability. Only a small proportion of homes are located near the urban fringe. Most experts argue with the Reserve Bank that

> In most circumstances, an increase in supply in outer areas is likely to have only a relatively small effect on prices for houses in preferred locations, including those close to the city.[33]

Estimates of the demand-supply imbalance

3.52 There seems to be a consensus that the 'underlying' demand for dwellings is growing by around 180 000 dwellings a year, around 30 000 more than is the stock of dwellings. Chart 3.15 shows this gap opened up a few years ago and is forecast to continue.[34]

3.53 It is important to be clear about what this comparison measures. Underlying demand for new housing is an estimate of the number of new dwellings that would be needed based on past growth in population, migration (both long term arrivals and short term visitors), living standards and the demolition of existing housing.

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32 R Robertson, 'RBA still seems unlikely to hike; Coastal cities still relatively expensive!', 22 January 2008. This view seems consistent with data shown in tables 3.3 and 3.4.

33 Reserve Bank of Australia (2003, p. 31). Similarly, Sedgwick (2008) says 'more efficient supply at the fringes will not of itself stop the rise in prices of well-located housing close to the city centre'. Ellis (2006, p. 28) concludes 'the facts suggest that allowing for more spread out cities or, more generally, untrammelled supply of extra dwellings, would not have prevented a large increase in Australian housing prices over the past decade'. An econometric study by Otto (2007) explaining increases in house prices included dwelling approvals per capita in the model as a proxy for the possible effects of supply restrictions. He found 'for most capital cities there seems to be no systematic effect on the growth rate of house prices from dwelling approvals' (p. 231).

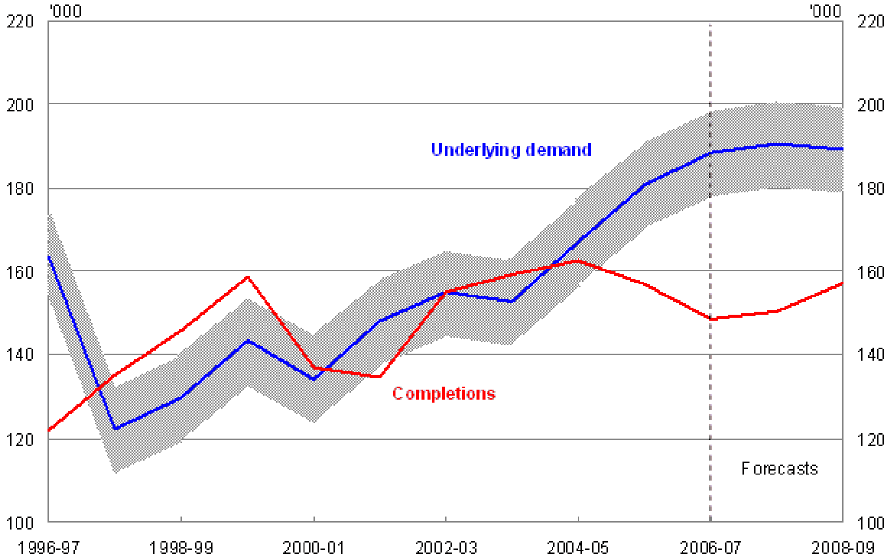
34 The 'supply' line is completions data from the ABS. There is less clarity about the source of the underlying demand data. The footnote to this chart in FaHCSIA's publication sources it to 'Treasury and ABS' but gives no more information. At the hearing (Ms C Wall, *Proof Committee Hansard*, 1 April 2008, p. 9) FaHCSIA sourced the numbers to the Reserve Bank's November 2007 *Statement on Monetary Policy* (p. 35) which does not itself give a source. The Housing Industry Association has similar, but not identical, estimates (see Table 5.1), as does the ANZ Bank (cited in CFMEU, *Submission 36*, p. 2). The grey band around the demand line is presumably meant to indicate a degree of uncertainty.

'Underlying' (or 'notional' or 'potential') demand differs from 'effective' demand, which is based not only on the desire for new housing but also the ability and willingness of potential buyers to pay for it.[35] As Dr Ronald Silverberg, Managing Director of the Housing Industry Association, told the committee:

> There is a gap in the order of 30,000 dwelling units between the new housing supply and notional demand. The notional demand is built up on the basis of demographic estimates. It is a useful reference point.[36]

Chart 3.15

Dwellings: Completions v Demand



Source: *Making Housing Affordable Again*, Department of Families, Housing, Community Services and Indigenous Affairs, March 2008.

3.54 One would expect that housing supply and effective demand for housing would equilibrate through an adjustment in the market price. For reasons discussed in Chapter 5, the supply of dwellings has not increased enough to keep up with the recent increase in underlying demand. Prices have risen to bring the increase in effective demand down below that in underlying demand. This analysis would suggest that as soon as interest rates start to fall (unless there is a recession), effective demand will increase and if supply does not respond, house prices will rise further and the prospect of home purchase recede further for some potential buyers. This will only be avoided if policy changes act to remove impediments to increasing supply or reduce artificial stimulants to demand. Such responses are the subject of latter chapters in this report.

3.55 This inability of the supply of housing to keep pace with demand is also evident from rental housing vacancy rates. FaHCSIA's March 2008 report 'Making

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35 The underlying demand figure seems best suited for medium-to-long term planning as the demographic factors are much easier to predict in the long term than are interest rates, incomes and employment.

36 Dr Ronald Silverberg, *Committee Hansard*, 1 April 2008, p. 95.

Housing Affordable Again' shows that in all capital cities, there has been a pronounced fall in the available supply of rental housing since 2002.[37] The Reserve Bank's May 2008 *Statement on Monetary Policy* noted that vacancy rates are at historical lows at just over one per cent: a rate of around three per cent 'is generally considered to indicate a reasonable balanced rental market'.[38]

3.56 In the longer term, the underlying demand for housing may decelerate. One projection has the demand for new houses dropping to under 110 000 in the 2020s, reflecting falling fertility, increasing baby boomer deaths and social factors.[39]

Conclusion

3.57 There is consistent evidence that housing in Australia has become less affordable in recent years and the number of households experiencing mortgage stress has increased. There is also evidence that the number of households defaulting on mortgages and homes being repossessed is not as high as these figures might predict. Many families make tough decisions and go without to meet mortgage payments; most families in housing stress take steps to move out of housing stress within one to two years. Taken together, these factors stress that it is important for policy makers to consider the support services offered to families in housing stress and the range of options on offer to either help them through a rough period, or help them move to more affordable housing options. These issues are considered in more detail in chapters 9 and 10.

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37 FaHCSIA's charts are based on REIA and Treasury data.

38 Reserve Bank of Australia, 'Statement on Monetary Policy', May 2008, p. 31.

39 Salt (2005, p. 14) argues that household formation has been running well ahead of population growth as 'nuclear families' splinter, but this process will slow as the number of nuclear families drops.

Chapter 4

Factors influencing the demand for housing

4.1 There are a number of factors which have driven up the demand for housing, and in particular for home ownership, in recent years.

Higher incomes

4.2 As Australia has lifted its productivity, and benefited from the higher prices for its commodity exports due to the 'resources boom', average incomes and household wealth have increased.[1] It is unsurprising that households have wanted to spend some of this increased income and wealth on improving the quality of their housing. At the upper end there has also been increased demand for second 'holiday' homes, particularly in coastal regions.[2] To the extent that supply responses are limited (see next chapter), this increased demand leads to higher prices.[3]

4.3 For many couples, household incomes are higher because both partners now work (as indicated by rising labour force participation rates). However, as Professor Julian Disney notes:

> By fuelling competitive bidding-up of house prices it has led many couples into taking on excessive workloads to pay their mortgage.[4]

4.4 Incomes have increased at a similar pace across most income quintiles in the past decade.[5] But there are likely to be some groups whose capacity to save and bid

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1 Goldbloom and Craston (2008) show that since 2000 household net worth has risen more than 10 per cent a year, while inflation has been averaging only 2½ per cent.

2 Some press reports have suggested as many as 8 per cent of Australian households own a holiday home; *Australian Financial Review*, 30 May 2008, p. 9.

3 Productivity Commission (2004, p. 60) cite studies suggesting that real house prices in Australia might increase by around 1½ per cent for every 1 per cent increase in real income, but note these estimates seem well above those from other countries. Tu (1999) suggests that house prices rise more than proportionately with income in both Australia and the United Kingdom. Sutton's (2002, p. 49) study concluded 'a 1% increase in the growth rate of GNP is associated with a rise in real house prices in the range of 1–4% after three years' in advanced economies, with Australia at the lower end of the range. For Australia, he suggests income increases and interest rate declines explain most of the rise in house prices from 1995 to 2002.

4 Disney (2008, p. 253).

5 ABS data show that between 1995–96 and 2005–06, mean disposable household income grew by 33 per cent for the lowest income quintile, 34 per cent for the second lowest and middle quintiles, 31 per cent for the second-highest quintile and 40 per cent for the highest quintile.

for homes has improved less than others. For example, around 300 000 people have accumulated HECS/HELP debt, which may be an impediment to buying a home.[6]

Demographics

4.5 The average household size has decreased for a number of reasons, such as later marriage, fewer children and increased incidence of separation and divorce.[7] This increases the demand for housing for a given population. Demographic projections are for this to continue, with lone person households expected to increase at a much faster rate than family and group households.[8]

4.6 Australia has relatively strong population growth for an advanced economy. A large component of this reflects relatively high immigration compared to comparable countries. Higher immigration rates have added to demand for housing, especially as immigrants tend to be disproportionately young adults.[9] Immigrants have also tended to head for areas where housing is already short, such as Sydney, rather than to country regions. This partly reflects a perception of where the best job opportunities are located. It has a self-reinforcing aspect as new arrivals prefer to locate in areas where friends or relatives have already gone or where there are shops and cultural facilities catering to people from their ethnic background.

4.7 An eminent demographer points out that:

> About half the growth in households in Melbourne is attributable to overseas migration. When you push out the 30-year projection, as you get near the end of it, about 80 per cent of the growth is attributable to migration…in Sydney, all the growth in households is attributable to overseas migration.[10]

4.8 This has led some witnesses to suggest restricting immigration, even of skilled workers, as a means of curbing rises in house prices:

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6 Australian Institute of Health and Welfare (2008a, p. 8); Professor T Burke and K Hulse, *Submission 33*, p. 3. Total HECS/HELP debt was around $800 million in 2006.

7 Divorce in particular raises the demand for housing where both parents need to have sufficient accommodation for children; Queensland Community Housing Coalition, *Submission 18*, p.3.

8 Australian Institute of Health and Welfare (2008, p. 7).

9 Dr R Silverberg from the Housing Industry Association describes immigration as 'a very significant influence on the demand for housing'; *Committee Hansard*, 1 April 2008, p. 94. Its importance was also highlighted by a number of academics: Professor P Troy, *Committee Hansard*, 1 April 2008, pp 107–8; Professor T Burke, *Committee Hansard*, 24 April 2008, p. 26; and Professor T Sorensen, *Submission 50*, p. 7. Others to emphasise the impact of immigration included Sustainable Population Australia's Tasmanian branch, *Submission 12*; Mr P Pollard, *Proof Committee Hansard*, 7 May 2008, pp 59–60; and Mr G Holman, *Submission 10*.

10 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 31.

> One of the key drivers of the housing crisis, we believe, is the continued rapid population growth in Australia, which is a continent of very low carrying capacity, and most of the development is around the edges of the continent...[we recommend] that we train our own skilled workers and that we cease poaching skilled workers from other countries.[11]

4.9 In this context, the committee also notes concerns that in the current environment of skill shortages in the construction industry, the net impact of immigration is inflationary:

> We do not have the trades to build the housing stock that we need. Immigration into the country is fuelling demand at a much faster rate than immigration is helping our industry build that extra demand.[12]

4.10 There are also alternative arguments:

> I am all for increasing immigration....I think that, to support infrastructure in this country with the landmass we have, we need a lot more people to use those facilities.[13]

4.11 The Government has made it clear it sees substantial net economic benefits from continued high rates of immigration:

> The Australian labour market is the tightest it has been in a generation, with skill and labour shortages pushing up labour costs and contributing to inflationary pressures. Immigration will continue to be an important contributor to labour supply, with skilled migration in particular helping to address Australia's skill needs in the short-term while also delivering fiscal benefits.[14]

4.12 The committee regards population growth policy as an important issue, but one outside the terms of reference of this inquiry.

4.13 The relationship between the overall number of skilled migrant workers and the number with particular skills in the construction industry is discussed in more detail in chapter 5 (paragraphs 5.60–5.64).

High rents

4.14 The increase in rents in recent years has increased the *desire* of many renters to buy a home instead of renting. However, having to pay higher rents has reduced the *ability* of these households to save a deposit. The net impact on the effective demand for house purchases is therefore ambiguous.

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11 Ms S Davis, Gecko-Gold Coast and Hinterland Environment Council Association Inc, *Committee Hansard*, 14 April 2008, p. 24.

12 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 99.

13 Mr J Symond, Aussie Home Loans, *Proof Committee Hansard*, 7 May 2008, p. 67.

14 *2008–09 Budget Statement No. 1*, p. 1-29. See also box 7 on p. 2-27 of the same document.

Lower interest rates

4.15 The decline in the standard home loan interest rates from the mid–1990s to early 2002 increased the amount that households could borrow and so gave them the ability to bid up house prices. For example, the repayments on a 30–year mortgage of $100 000 at an interest rate of 14 per cent are $1185 per month. When interest rates are instead 7 per cent, the same repayments can service a loan of $178 000.

4.16 The main reason for the drop in housing loan interest rates had been the lowering of the Reserve Bank's policy interest rate as a low inflation environment has become established. But increased competition has also seen a reduction in the margin between the policy interest rate and the housing loan rate.

4.17 If this mechanism were the only driver of prices, then prices would have fallen back again as interest rates have since risen. However, there may be inertia in the system, or prices may be 'sticky', as vendors are reluctant to accept low bids. This would imply that affordability will only be restored by the gradual rise in incomes rather than a fall in nominal house prices.

4.18 Given that underlying inflation has recently risen above the Reserve Bank's 2-3 per cent medium-term target band, it could be argued that aggregate demand in the economy has been allowed to grow faster than aggregate supply. A loose fiscal and/or monetary policy is likely to result in rises in asset prices, including house prices, as well as generalised inflationary pressures.

4.19 When the Reserve Bank Governor was asked what the central bank could do about housing affordability he replied:

> the best thing that we can do is keep inflation rates controlled, because if we do not do that then interest rates will end up much higher than otherwise. I think the biggest problem for housing affordability is that basically, particularly if you are a first home buyer, the level of house prices is too high. The policies to address that are mainly not in our preserve, except that, if we run monetary policy too loose, house prices tend to inflate more than they need to and that would not be good.[15]

4.20 The committee received comment from one submitter who criticised the Reserve Bank's approach to monetary policy. Mr Phil Williams highlighted in his submission that the RBA's inflation target is set solely in terms of *consumer* prices, not *asset* prices. The cost of land is not included in the CPI. As a result, Mr Williams argued that the RBA's monetary policy failed to respond to the sharp spike in house prices in 2002–2003.[16] He claimed that the underlying cause of house price inflation is

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15 Mr G Stevens, Transcript of appearance before House of Representatives Economics Committee, 17 August 2007, p. 19.

16 There are also arguments that central banks should be concerned about increases in asset prices because of the potential damage that can be wrought when overpriced assets suddenly fall in value. These matters are, however, outside the scope of this inquiry.

the conduct of monetary policy which should aim for house price stability, not just the 2–3 per cent CPI band.[17]

4.21 The committee does note that the RBA has been vigilant in seeking to restrain the CPI to within its target band. There have been several increases in the official cash rate over the past three years which 'is helping to produce a moderation in demand'.[18]

Table 4.1: Housing finance markets

	Typical term of mortgage (years)	Typical loan-to-value ratio for new mortgages (%)	Variable rate mortgages (% of total)	Owner-occupiers with mortgage (% of total)	Home equity with-drawals	Mortgage market index#	Use of mortgage-backed securities
Australia	25	80	85	45	yes	0.69	extensive
Austria	25	60			no	0.31	
Belgium	20	83	25	56	no	0.34	limited
Canada	25	75	30	54	yes	0.57	extensive
Denmark	30	80	32		yes	0.82	no
France	15	75	20	38	no	0.23	limited
Germany	25	70	30		no	0.28	yes
Hong Kong	20	70*	most				yes
Ireland	20	70	most		limited	0.39	limited
Japan	25	80	21		no	0.39	limited
Netherlands	30	90	26	85	yes	0.71	extensive
NZ	25-30	95	16				limited
Norway	17	70	most		yes	0.59	no
Singapore	30-35*	80*	most				yes
S. Korea	20*	56	most		yes		limited
Sweden	25	80	98		yes	0.66	limited
Switzerland	15-20	80*	35		no		limited
UK	25	75	97	60	yes	0.58	yes
USA	30	80	22	65	yes	0.98	extensive

*maximum # IMF (2008) measure: higher values indicates easier household access to mortgage credit. Sources: BIS (2006, pp 12–4); Ellis (2006, p. 14); IMF (2008); Lawson and Milligan (2007, p.46); Tsatsoranis and Zhu (2004, p. 69); Zhu (2006, p. 60).

17 Mr P Williams, *Submission 61*, pp 10–11.

18 Mr G Stevens, 'Statement on Monetary Policy', Reserve Bank of Australia, *Media Release*, 3 June 2008.

Greater credit availability

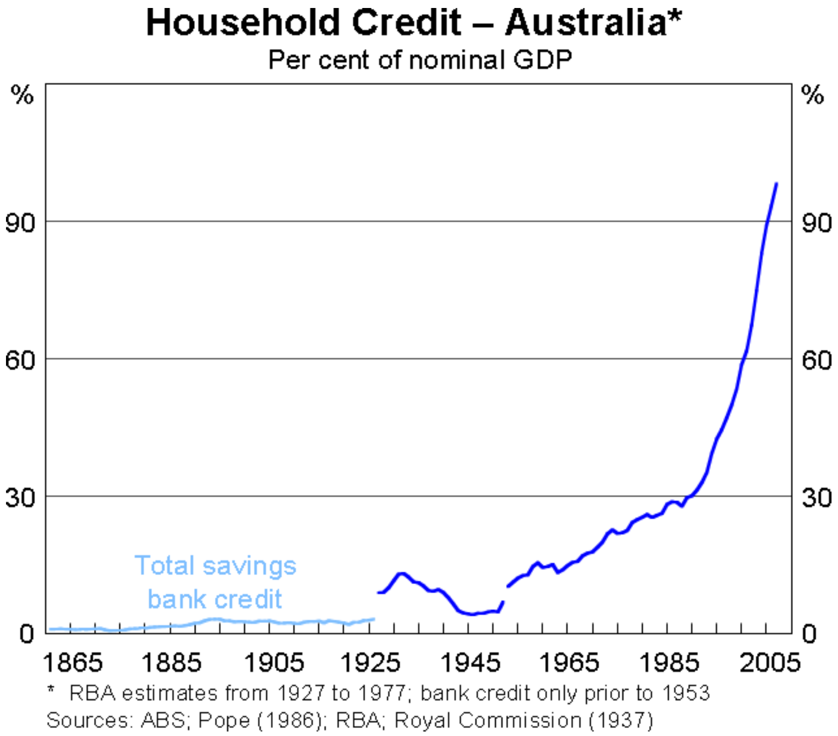
4.22 In addition to interest rates being lower, loans have become easier to obtain. In the longer term this has been a welcome result of financial deregulation. Non-bank lenders have increased the availability of credit for housing, tapping into securitisation markets. Since deregulation, the Australian housing finance market has developed a wide range of products and credit is available to all potential borrowers who can afford the repayments (Table 4.1).

4.23 In this brave new financial world, banks no longer 'ration' credit only to customers with a long record of placing money in low-interest deposit accounts with them. As the Reserve Bank's deputy governor noted:

> …if you go back just 30 years it was very hard for households to get access to finance. Basically, to get a housing loan you had to save for years at the bank and then you had to plead with the bank to give you some money and then they only gave you some of the money. You had to go to a finance company, a building society or someone else and borrow at much higher rates to get the rest of the money to buy a house…and if you were a woman you had no chance.[19]

4.24 Looking back further, the increase in the availability of credit is even starker.

Chart 4.1



Source: Battellino (2007).

19 Mr R Battellino, *Proof Committee Hansard*, 24 April 2008, pp 13–14.

4.25 However, there is evidence that recently credit standards have been loosened excessively. This was been most noticeable in the United States where the prevalence of 'sub-prime' loans is now causing serious problems in financial markets. While Australian lenders have not gone as far as their counterparts in the US, the Reserve Bank has referred to 'the general lowering of credit standards that has occurred since the mid 1990s' and the Australian Prudential Regulation Authority has referred to lenders having 'been willing to move out the risk spectrum by loosening their credit standards'.[20]

4.26 Housing lenders are now much more likely to allow customers to borrow amounts that require more than 30 per cent of income to service and will lend a higher proportion of the value of a property.[21] There is considerable variation among lenders in how much they will lend, as noted by the Australian Prudential Regulation Authority: 'The most aggressive ADI will typically be willing to lend more than twice as much as the most conservative'.[22]

4.27 There are disadvantages in moving away from the old model where banks required people to save a deposit with them before granting a loan. As Dr Judith Yates commented: 'having a savings history is not a bad idea in that it indicates that people do have the capacity to save'.[23] Households unable to save regularly may struggle to meet loan repayments.

4.28 The greater availability of credit has fuelled the aspirations of first home buyers. A Queensland developer gave this example:

> When we first started developing land out there [Ipswich], in 1992, we noticed that people would buy a block of land and spend probably the next 12 months building their house. They would spend every weekend out in the front yard landscaping, doing all those things that they could not afford to do when they first built the house. It probably took them almost two years to come up with a house in the form that they actually wanted. Now we do not see any of that. Now we see people shifting into a house with everything done up-front—swimming pool, landscaping, everything. My point is: I think people want everything straightaway these days.[24]

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20 Reserve Bank of Australia, *Financial Stability Review*, March 2007, p. 17 and Mr J Laker, APRA chair, 'Credit standards in housing lending—some further insights', address to Institute of Chartered Accountants in Australia, 20 June 2007, p. 1.

21 For more information, see House of Representatives Standing Committee on Economics, Finance and Public Administration (2007, pp 4–10).

22 Laker (2007, p. 5).

23 Dr J Yates, *Committee Hansard*, 2 April 2008, p. 45. This is one of the arguments for the new First Home Saver Accounts scheme, discussed in Chapter 9.

24 Mr R Sharpless, Urban Development Institute of Australia (Ipswich), *Committee Hansard*, 14 April 2008, p. 3.

4.29 As lenders moved from rationing credit to marketing it, some households were offered larger amounts of credit than they could readily repay:

> Deregulation of the financial institutions in the eighties had a significant impact on low-income people. Not only do those people sign up for things they cannot afford but also they often do not understand the paperwork they are signing.[25]

4.30 A similar view was put by John Symond of Aussie Home Loans:

> money has been too free. Instead of looking at getting their ultimate home step-by-step, young people expect and want a new home with all the mod cons. They go off to a department store and borrow $20,000 for a plasma TV, new lounges and everything else in the belief that it is interest-free and the latest and the greatest. They then find out that they have been stung with a 28 per cent interest rate. So clearly credit tightening would be a good thing.[26]

4.31 Regretting some of the excesses associated with financial deregulation might be regarded as wishing the stable door had been shut before the horse had bolted. But the committee did hear some suggestions for some mild forms of regulation to address these concerns:

> Options for consideration may include mandatory minimum credit checks, minimum loan-to-value ratios for property purchases, restrictions on advertising targeting persons with a poor credit history, or public disclosure of the level of credit risk held or on-sold by lending institutions.[27]

Speculative demand

4.32 In addition to the demand from people wanting a house in which to live, there is a speculative element to the demand for housing. As one witness put it, 'houses are being valued as speculative assets, not as homes for Australians anymore'.[28] (See the discussion in Chapter 2 on 'changing aspirations').

4.33 As well as encouraging home ownership, this attitude has led many households to borrow to purchase a second investment property.[29] Investors now account for about a third of new home loans. The Reserve Bank (2003, p. 48) has referred to the role of unregulated property investment seminars in promoting the purchase of investment properties.

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25 Ms McIvor, Macarthur Community Forum, *Committee Hansard*, 3 April 2008, p. 11.

26 Mr J Symond, Aussie Home Loans, *Proof Committee Hansard*, 7 May 2008, p. 66.

27 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 37.

28 Dr B Edgerton, *Committee Hansard*, 14 April 2008, p. 14. Yates (2007, p. 6) refers to 'an obsession with the role of home ownership in contributing to wealth accumulation'.

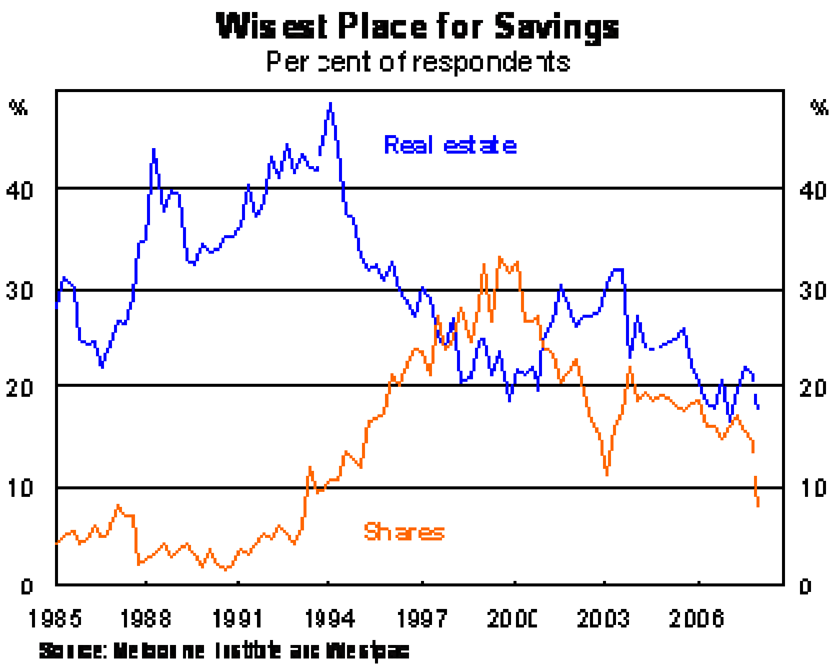
29 Productivity Commission (2004, p. 22) comments that a much higher proportion of Australian households own investment properties than do households in Canada, the UK and the US.

4.34 Except for the brief period of 'irrational exuberance' about hi-tech stocks around 2000, Australians have generally regarded property as a better investment destination than equities, although they are less attracted to it now than in the 1980s.

4.35 There is a self-reinforcing aspect to speculative booms:

> Related to this boom period is the self-generating nature of house price rises. Most finance for housing arises from the high price already of existing housing, because people upgrading build on the increased value of their housing, and investors are then drawn in by rising prices. So you have a self-generating effect until they hit something like much higher interest rates or a recession or something.[30]

Chart 4.2



Source: Reserve Bank (2003, p. 41)

Taxation influences

4.36 This speculative demand for housing may be encouraged by some aspects of the taxation system, which makes investing in housing (and sometimes other assets yielding capital gains) more attractive than alternative investments. A blunt assessment is provided by Professor Julian Disney:

> …a major cause of our problems is that we have excessive exemptions for owner-occupiers from capital gains tax, land tax and the pension assets test. They are so generous that they have driven up housing prices. They have

30 Mr P Pollard, economist and town planner, *Proof Committee Hansard*, 7 May 2008, p. 58.

> ended up being not in favour of homeownership; they are in favour of current homeowners but they are not in favour of homeownership.[31]

4.37 In similar vein, the economics journalist Ross Gittins has commented:

> Do you see what the special tax-free status of housing does? By pushing up the price of homes it makes it that much harder to attain the state of being a home owner, but makes the benefits of home ownership even greater if you manage to make it. The jackpot's bigger, but harder to win. And a system that is biased in favour of owner-occupiers is a system that is biased against renters. That's unfair to people who spend all their lives as renters, as well as making it harder for would-be home owners to make the leap.[32]

4.38 Significant tax concessions are currently provided for housing. It is not easy to find hard data on the costs of most of these concessions[33], but the secretariat has put together in Table 4.2 some approximate numbers from the sources indicated, based on the assumptions listed. In addition to the tax expenditures listed, the exemption of owner-occupied housing from the asset test for the age pension costs around $10 billion.[34]

4.39 The combined total of capital gains tax arrangements, land tax exemption and negative gearing arrangements is estimated to be in the order of $50 billion per year. That reflects against the $1½ billion in the Commonwealth–State Housing Agreement and the $1 billion spread over four to five years proposed for the new National Rental Affordability Scheme and the Housing Affordability Fund. These tax concessions also mean that the overall support to wealthy homeowners is greater than that to low income renters.[35]

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31 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 29.

32 R Gittins, 'Renters can't home in on jackpot', *Sydney Morning Herald*, 19 September 2007, p. 13 reprinted in Australia Institute, *Submission 56*.

33 The Industry Commission (1993, p. xv) noted 'the full costs of housing assistance are not recorded and governments do not know whether assistance is well targeted or delivered efficiently'.

34 The Productivity Commission (2004, p. 109) estimated the cost at about $8 billion in 2003.

35 The Industry Commission (1993, p. 21) cite estimates that in 1990-91 subsidies to homeowners in the top quintile of income earners averaged $3 180 while those to private renters in the bottom quintile were less than half as much, at $1 440.

Table 4.2: Taxation expenditures pertaining to housing ($ billion in 2007-08)

Capital gains tax exemption for owner-occupied housing[36]	20
Discount on capital gains on investor housing[37]	6
Land tax exemption for owner-occupied housing[38]	10
Negative gearing for rental housing[39]	2
Non-taxation of imputed rent for owner-occupied housing[40]	15

Sources: Secretariat estimates, see footnotes.

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36 This is reported as costing 'over $1 billion' in *Tax Expenditures Statement 2007*, Treasury, p. 161. Australian National Audit Office (2008, pgs 19 and 115) says 'approximately $13 billion' but this appears to just repeat the estimate of $13 billion in 2001, given in Yates (2003) and cited by Productivity Commission (2004, p. 109). Scaling this $13 billion up for the doubling in the value of the housing stock since 2001 would give an estimate of $26 billion. Alternatively, taking the $3,300 billion value of the housing stock, allowing for two-thirds being owner-occupied, assuming conservatively that over the long term houses prices grow four per cent a year (sum of inflation and productivity growth), and an average marginal tax rate of 30 per cent, also gives an estimate of $26 billion. Alternatively, as the Australian Tax Office's *Taxation Statistics 2005–06* reports total capital gains tax discount claimed by individuals for real estate was $14.3 billion in 2005–06, in the absence of the discount they would have paid $28.6 billion. As there are twice as many owner-occupied homes as investor properties, capital gains on them may have been around $57 billion, which if taxed at a marginal tax of 30 per cent would have raised $17 billion in 2005–06, which would likely have increased in subsequent years.

37 The capital gains tax discount claimed by individuals was $14.3 billion in 2005–06 (ATO *Taxation Statistics 2005–06*, p.80). As real estate accounts for about ⅓ of capital gains of individuals (p. 77), the discount for investor property was $5 billion in 2005–06 and it is likely to have grown since. Alternatively, taking the $3,300 billion value of the housing stock, of which two-thirds is owner-occupied, conservatively assuming that over the longer term houses prices grow at an annual rate of 4 per cent (sum of inflation and productivity growth), and assuming an average marginal tax rate of 30 per cent, gives an estimate of $6.6 billion.

38 The Productivity Commission (2004, p. 109) estimated the cost at about $7 billion in 2003. Scaling up on the conservative assumption that land prices grew at the same rate as house prices would give an estimate of over $10 billion. Alternatively, land taxes raised $4.4 billion in 2006–07 (ABS cat. No, 5506.0). As two-thirds of homes are owner-occupied, adding them into the net would at least triple the revenue, implying revenue foregone is well over $8.8 billion.

39 The ATO's *Taxation Statistics 2005–06* reports 1.6 million taxpayers had rental income in 2005–06 with an aggregate net loss of $5.1 billion. A conservative assumption of a 30 per cent marginal tax rate would cost negative gearing at $1.5 billion. Since 2005–06, both rents and interest rates have increased. This estimate is below those provided by witnesses; $2½ billion (Mr M Myers, Queensland Community Housing Coalition, *Committee Hansard*, 14 April 2008, p. 51); $3½ billion (Mr A Pisarski, National Shelter, *Proof Committee Hansard*, 7 May 2008, p. 74) and $5 billion (Mr M Munro, Real Estate Institute of Australia, *Committee Hansard*, 7 May 2008, p. 41).

40 Imputed rent for owner-occupied housing was $74 billion in 2006–07 (ABS 5204.0). As a significant proportion is owned by retirees, a conservative assumption of an average marginal tax rate of 20 per cent is applied to generate an estimate of revenue foregone of $15 billion.

Table 4.3: International comparison of taxation regimes

	Interest tax deductibility		Capital gains tax		Land tax		Investor		Tax on imputed	Indirect tax rate
	Owner	Investor	Owner	Investor	Owner	Investor	Negative gearing	Depreciation	rent	on new houses (%)
Australia	no	yes	no	half rate	no	yes	yes	yes*	no	10
Canada	no	yes	no	half rate	yes	yes	yes*	yes		
France	no	yes	no	no*	limited	limited	limited	yes	no	20
Germany	no	no	no*	no*	limited	limited	yes	yes	no	16
Neth'nds	yes	na	na	na	yes	yes	na	no	yes*	19
NZ	no	yes	no	no	limited	limited	yes	yes	no	0
Sweden	yes	yes	limited	limited	yes	yes	yes	no		
Switz.	yes	yes	yes	yes	yes	yes	no	yes*	yes	
UK	no	no	limited	yes	limited	yes	yes	no	no	0
USA	yes	yes	no	yes	yes	yes	limited	yes	no	

Sources: Ellis (2006, p. 11); Lawson and Milligan (2007, p.46). *under some conditions

4.40 The tax treatment of housing in Australia is compared with that in comparable countries in the above table.

Recommendation 4.1

4.41 In the interests of more informed discussion of arrangements to encourage affordable housing, the Treasury be asked to publish current estimates of various taxation and related measures affecting the housing market.

Discount on capital gains on investor housing

4.42 Capital gains on investor housing held for over a year are taxed at half the marginal tax rate applied to other income.[41] A common argument for this discount is that it also applies to holdings of shares.[42] Some would contend that the logic of not discriminating between different types of income would mean that all capital gains should be taxed at the same rate as other income. (In some tax regimes, capital gains are regarded as 'unearned income' and taxed at a *higher* rate than other income.) The current arrangements do not apply to alternative investments, such as bank deposits (and education and training), which generate income that is not in the form of capital gains.

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41 According to the Productivity Commission (2004, p. 78), this discount was introduced in 1999 with the goal of 'promoting investment in innovative and high growth companies'.

42 This argument is put by Mr Harnisch, MBA, *Committee Hansard*, 1 April 2008, p. 29.

4.43 A number of witnesses argued that capital gains should be taxed like other income. Apart from fairness concerns, it was argued that the concession encourages investors to focus on investment in that type of housing where capital gains are expected to be largest and this may be more expensive rather than affordable housing:

> …we should not have the discount on capital gains tax, because it is crucial that we do not encourage investment to go where the capital gain is the greatest. We need it to go to the bottom end.[43]

4.44 Another suggestion was that the concession be more focused:

> Australians would be better served if the incentives were based entirely on newly constructed houses rather than established houses so it led to an increase in supply.[44]

4.45 In contrast, the construction industry argues that the tax rate on capital gains should be lowered further:

> …governments need to introduce a stepped-rate capital gains tax where after, say, 10 years there is no capital gains tax applicable. This will mean you will get investment into the rental market.[45]

Capital gains tax exemption for owner-occupied housing

4.46 Capital gains on owner-occupied housing (the 'family home') are exempt from income tax. This is another aspect of the taxation system which favours housing as an asset class and increases demand for it.

4.47 Master Builders Australia argue that the exemption should be retained, on the grounds that:

> There is no empirical evidence to support the proposition that the tax exempt status of home ownership undermines the equity or efficiency of the tax system.[46]

4.48 Others witnesses expressed reservations. Professor Sorensen commented:

> …the tax breaks afforded to housing—for example, the absence of capital gains tax for owner-occupied housing…just simply tend to feed in to higher prices for housing.[47]

4.49 The exemption may also lead to households demanding larger homes than they require at the time for accommodation, to increase their prospective capital gains:

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43 Mr A Farrar, NSW Federation of Housing Associations, *Committee Hansard*, 2 April 2008, p. 8. See also, for example, Professors Burke and Hulse, *Submission 33*, p. 5.

44 Dr B Edgerton, *Committee Hansard*, 14 April 2008, p. 14.

45 Mr W Harnisch, Master Builders Australia, *Committee Hansard*, 1 April 2008, p. 29.

46 Master Builders Australia, *Submission 30*, p. 10.

47 Professor A Sorensen, *Proof Committee Hansard*, 7 May 2008, p. 54.

> Owner-occupiers were encouraged to over-invest in housing producing the so-called 'McMansions' in the outer suburbs. This was, in part, a logical response to the fact that capital gains are not paid on the family home. The family home was thus seen by middle income households as an opportunity to maximise their savings.[48]

4.50 Another fault with this tax concession is its regressive nature:

> …the capital gains tax exemption for owner-occupied housing is vastly regressive in a social sense, with nearly all the gain from that exemption going to high-income households.[49]

Land tax exemption for owner-occupied housing

4.51 All states, and the ACT, impose land taxes but exempt almost all owner-occupied housing (Table 7.6). This impacts on what in principle would be an efficient and equitable tax and can encourage some people to hold wealth in the form of housing in excess of their requirements for accommodation.[50]

4.52 Shelter WA recommends capping this exemption to a level 10 per cent above the median house price for the region.[51]

4.53 A problem in taxing the land value of owner-occupied housing is that asset-rich but income-poor households, such as retirees, may need to incur debt to pay it. This is easier to do now that 'reverse mortgages' are more readily available, but older households are likely to be wary of increasing their debt. Professor Disney suggests addressing this problem by making the land tax at least partially deferrable until sale.[52]

Negative gearing

4.54 'Negative gearing' refers to allowing investors to deduct losses on rental property from their other income (not just other property income) and so lower their tax liabilities. In aggregate, landlords received gross rental income of $19 billion in 2005–06, from which they were allowed to deduct $14 billion in interest, $1 billion in capital works deductions and $9 billion of other deductions (including letting agents'

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48 Professor P Troy, *Submission 11*, p. 4.

49 Professor A Sorensen, *Proof Committee Hansard*, 7 May 2008, p. 55. A similar view is put by National Shelter, *Submission 57*, p. 3.

50 Land tax was most famously advocated by Henry George (1879). It has a number of advantages over stamp duty, such as not discouraging labour mobility; Stilwell and English (2004). The head of Tasmania's Treasury praises it as one of the best state taxes; Tasmanian Legislative Council Select Committee on Housing Affordability in Tasmania (2008, p. 88).

51 Shelter WA, *Submission 42*, p.2. Similar views are expressed by their national body; National Shelter, *Submission 57*, p. 3.

52 Disney (2008, p. 261).

fees, body corporate levies and council rates), giving an overall 'loss' of $5 billion which they could offset against other income.[53]

4.55 Included among the deductions is a depreciation allowance of 2½ per cent on new buildings. This had been introduced at 4 per cent in 1985 when the scope of negative gearing was reduced by quarantining the interest cost offset to rental income.[54] The rate was lowered to 2½ per cent in 1987 when the quarantining was removed and full negative gearing restored. It could be argued that houses are an appreciating rather than depreciating asset, or that 2½ per cent overstates any physical depreciation (ie that the average house will last more than forty years).

4.56 Negative gearing is criticised on equity grounds:

> We have argued that it is iniquitous. It is not spread fairly and it really represents one of the starkest contrasts in the Australian taxation system.[55]

4.57 This leads to suggestions to cap it.

> …there should be caps. There should not be unlimited access. Millionaires and billionaires should not be able to access it, and you should not be able to access it on your 20th investment property. There should be limits to it.[56]

4.58 Master Builders Australia defend negative gearing as 'part of a modern tax system'.[57] Table 4.3 shows that tax systems in a number of modern economies do not allow, or restrict, negative gearing.

4.59 The Real Estate Institute of Tasmania claimed that 60 per cent of those using negative gearing 'are your mum and dad investors—normal Australians—not the rich and wealthy'.[58] While investors owning rental properties may be 'normal', they may also be more affluent than the average taxpayer.

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53 ATO Taxation Statistics 2005–06.

54 Reserve Bank of Australia (2002, p. 3).

55 Mr A Pisarski, National Shelter, *Proof Committee Hansard*, 7 May 2008, p. 74.

56 Mr J Sutton, *Proof Committee Hansard*, 24 April 2008, p. 4. Shelter WA recommend it be limited to those in the lower three quintiles of the income distribution; *Submission 42*, p. 2.

57 Mr W Harnisch, Master Builders Australia, *Committee Hansard*, 1 April 2008, p. 29.

58 Mr P Bushby, Real Estate Institute of Tasmania, *Proof Committee Hansard*, 5 May 2008, p. 17. The Australian Tax Office's data show that, in 2005–06, three-quarters of individuals claiming net rental losses had taxable incomes below $63,000 (after claiming the deduction!). About two-thirds of investors with a rental property have only one. On the other hand, those using negative gearing planned to recoup their losses from capital gains, and over 80 per cent of the tax on capital gains comes from individuals earning over $95 000; *Taxation Statistics 2005–06*, pgs 12, 13 and 75.

4.60 A number of witnesses point out, correctly, that negative gearing also applies to other investments such as purchases of shares.[59] However negative gearing seems to be used a lot more for housing than for investment in other assets, with some recent estimates suggesting that a third of investors in housing claim they are making losses. In many cases, when the rental property is initially bought, the investor expects to make such a loss but hopes that (concessionally taxed) capital gains will mean the undertaking becomes profitable. As noted above, in Australia housing investors routinely make an aggregate loss, while in other countries they generally make an aggregate profit.[60]

4.61 The most common argument by supporters of negative gearing (and capital gains tax concessions) is that it increases the supply of rental accommodation and keeps rents lower than they otherwise might be.[61] FaHCSIA stated that 'the taxation provision for negative gearing has demonstrably increased the amount of rental housing that is available in the broader market', but under later questioning, acknowledged that 'we do not have any information from our own sources' to support this and made references to work by the Australian Housing and Urban Research Institute.[62]

4.62 It does seem to be the case that rental yields (ie rent as a proportion of the property price) on their own could be unattractive without the tax advantages. A common rule of thumb in the Australian real estate market is that a property that costs X thousand dollars will rent for about X dollars per week. This implies a gross yield of about 5 per cent. After deducting expenses such as maintenance, letting agents' fees and so on, net yields are lower, currently around 3 per cent. This is well below interest rates being paid by banks.

4.63 But a further reason advanced as to why these yields are low is that the tax advantages given to housing have led to house prices being bid up. On this argument, without these tax breaks, house prices would be lower, making rental yields attractive to investors without the tax breaks being required.

4.64 As noted above, negative gearing was restricted in July 1985 and restored in October 1987. Rents rose around the time it was restricted and its restoration was followed by an increase in the supply of rental housing. However, some argue this may have had more to do with the global stockmarket boom and crash occurring at the

59 Mr W Harnisch, Master Builders Australia, *Committee Hansard*, 1 April 2008, p. 29; Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 41.

60 Reserve Bank of Australia (2003, p. 45).

61 Mr P Bushby, Real Estate Institute of Tasmania, *Proof Committee Hansard*, 5 May 2008, p. 17.

62 Ms P Winzar, Department of Families, Housing, Community Services and Indigenous Affairs, *Committee Hansard*, 1 April 2008, pp 18–19 and Ms C Wall, *Proof Committee Hansard*, 7 May, p. 4.

same times, initially attracting and then scaring investors away from shares – the main alternative investment asset to rental housing.[63]

4.65 Negative gearing is also seen as advantaging investors over owner-occupiers. One witness claimed it 'amounts in essence to much cheaper finance for investors versus home buyers'.[64]

4.66 Even if negative gearing encourages investment in rental property, many witnesses agreed 'the funds that go into negative gearing housing for rental do not go to modest or low-income rental'.[65] Two examples of this argument are:

> …there is a major need…for some changes in our taxation system that are going to support investment in long-term, low-cost rental accommodation. …We have seen negative gearing have a positive impact on the willingness of people to invest in rental property as part of their investment profile and strategy. But that is very selective and it is not long term. If we are to deal with the rental accommodation side of housing affordability, we are going to need to see superannuation funds, infrastructure funds and the like being prepared to take a long-term view of developing and holding that accommodation, to provide low-cost rental alternatives for our society.[66]
>
> At the moment the only good that comes out of the use of negative gearing is the creation of rental property but, unfortunately, very little of it is at an affordable level.[67]

4.67 To the extent that negative gearing changes the tenure arrangements of some housing, it is not regarded as particularly beneficial by some:

> …with a given block of housing, if an investor simply turns a house over from owner-occupation to investment, that on the face of it means there is more housing for renting, but they are obviously displacing one household net from owner-occupation to renting. On the face of it, investment in housing simply does not assist the renting situation.[68]

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63 Reserve Bank of Australia (2002, p. 5) note that after the 1987 share market decline there was a surge in lending to property investors. Mr P Pollard claims 'the only real studies on the effect of the partial removal of negative gearing in 1985 show that the claims that it forced up rents and dropped building and so on are completely unfounded.'; *Proof Committee Hansard*, 7 May 2008, p. 62.

64 Mr P Pollard, *Proof Committee Hansard*, 7 May 2008, p. 58.

65 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 114.

66 Mr Jackson, UDIA (South Australia), *Proof Committee Hansard*, 28 April 2008, p. 13.

67 Mr A Pisarski, National Shelter, *Proof Committee Hansard*, 7 May 2008, p. 74. Similarly, the Queensland Community Housing Coalition (*Submission 18*) argue that even if negative gearing results in some additional rental property, it is not the most cost-effective means of doing so.

68 Mr P Pollard, *Proof Committee Hansard*, 7 May 2008, p. 60.

4.68 There are differing views about whether negative gearing leads to construction of new housing or a bidding up of the prices of existing homes. The Real Estate Institute of Australia argues:

> Negative gearing as it is certainly encourages the building of new property. Given that a major component in the tax offset—or write-down, if you like—of negative gearing comes from the depreciation component, that component is obviously a lot higher and a lot more attractive for new properties. So a lot of money from investors using negative gearing as it stands actually goes into new property.[69]

4.69 Professor Sorensen by contrast believes:

> …the tax breaks afforded to housing—for example…negative gearing for rental property…just simply tend to feed in to higher prices for housing...We would have lower rentals combined with better returns for owners of rental accommodation, were negative gearing to be abolished.[70]

4.70 This has led to some suggestions to modify it in ways that would encourage construction of new and affordable housing. Mr Pollard suggests:

> negative gearing be applied only in the case where investors buy new houses and that it not apply to the buying of established houses. The effects of this would be that investor interest in established houses would fall significantly and so we could expect that prices in future would rise much less than prices of housing generally otherwise, because the vast majority of investor finance is used on established houses.[71]

4.71 National Shelter suggests:

> to taper it to ensure that you can only maximise the level of investment on it if you are building affordable housing.[72]

4.72 Along similar lines, Professor Burke suggests restructuring it:

> …in a way which encourages greater investment in new supply and lesser investment in existing stock, which only puts investors in competition with first home buyers. …Instead of having 100 per cent allowable for all expenses, you have a higher deductibility—we recommend up to 125 per cent—for investment in new construction and the purchase of the new rental property. It reduces to only 75 per cent deductibility for investment in an established property. That 125 per cent deduction only applies for a benchmark affordability property—in other words one that is probably

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69 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 40.

70 Professor A Sorensen, *Proof Committee Hansard*, 7 May 2008, pgs 54 and 56.

71 Mr P Pollard, *Proof Committee Hansard*, 7 May 2008, p. 60. A similar position is put by Mr D van der Klauw, *Submission 80*.

72 Mr A Pisarski, National Shelter, *Proof Committee Hansard*, 7 May 2008, p. 75. This was also advocated in a supplementary personal submission from Robin Spragg, the social planner from Tweed Shire Council, *Submission 76*.

> around $300,000, which could be indexed annually. But then the 125 per cent reduces as prices go up. So over some cut-off point like $500,000 or $600,000 you are back to the 75 per cent.[73]

4.73 Only a few submissions wanted to abolish negative gearing totally.[74] But there were other suggestions to restrict or quarantine it:

> The loss would be available in future years as the rent income exceeded the expenses, but in the early years it can't be used to reduce overall taxable income. This would have an effect without being a massive change.[75]

4.74 The attractiveness of negative gearing would be greatly diminished if the tax discount on capital gains on investor rental housing was removed.

Recommendation 4.2

The committee recommends that Australia's Future Tax System Review Panel consider the implications for housing affordability, as well as the overall fairness of the tax system, of the:

(a) tax discount for capital gains on investor housing;

(b) exemption from land taxation of owner-occupied housing; and

(c) current negative gearing provisions.

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73 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 22.

74 Professor P Troy, *Submission 11*, p. 6 and Mr C Geyde, *Submission 78*, are among those favouring its elimination.

75 Mr C Simpson, *Submission 1*, p. 2.

Chapter 5

The challenge of housing supply

5.1 Put simply, the sharp increase in house prices in Australia reflects the fact that the supply of housing has been unable to keep pace with strong demand. Housing affordability cannot be adequately addressed without increasing the supply of housing.

5.2 This chapter examines the current shortfall in housing supply in Australia, and the problems and challenges facing developers and local and state governments in addressing this shortfall. In so doing, it emphasises the need for the future housing supply to be integrated into high-quality urban environments and to reflect home buyers' and communities' needs.

Projected supply of new housing in Australia

5.3 The table below is based on data from the Housing Industry Association. It shows that new housing starts are expected to increase from 151 640 in 2006–07 to a little over 154 000 in both 2007–08 and 2008–09.[1] Thereafter, the HIA forecasts strong growth in housing starts based on an anticipated reduction in interest rates in 2009–10, the influence of national housing policies to address low affordability and continued pent-up demand for housing. As the last column shows, however, the HIA estimates that Australia needs to be building around 170 000 new dwellings each year just to keep up with increases in demand. HIA notes that its forecasts for underlying demand are minimum estimates, a point that seems to be supported by the FaHCSIA forecasts shown in Chart 3.15.

Table 5.1: HIA estimates of supply and demand

	Housing new starts ('000)	Underlying demand ('000)
2006–07	151.6	167.4
2007–08	154.3	169.9
2008–09	154.1	172.5
2009–10	163.2	175.2
2010–11	172.3	n/a

Source: Housing Industry Association, *National Outlook March Quarter 2008*, March 2008, p. A-14. The underlying demand figures are minimum estimates based on available population information.

1 'Housing starts' refers to the number of new dwellings.

Improving data on the supply problem

5.4 One of the new federal government's first policy commitments on housing was to establish the National Housing Supply Council to address the collection of reliable data and forecasting. This body is responsible for gathering information on both demand and supply side factors to guide governments and developers on how many houses are needed, of what type and in which locations. It will also be tasked with providing advice to government on a 20 year horizon on factors affecting the supply of housing. This will include the effects of an ageing population, internal and overseas migration, family separation, skill shortages and planning delays.[2] The Council will publish an annual State of Supply report to assess the adequacy of construction and land supply. The first of these reports will be released in January 2009.

5.5 As with the issue of housing data in general, there is currently inadequate data on land supply, land release and land that has been released but is not being developed. Mr Neil Savery, National President of the Planning Institute of Australia (PIA), told the committee:

> PIA agrees that planning delays result in holding costs, which are then likely to be passed on by developers and will then impact on housing affordability. However, the extent of development assessment delays and their impact cannot be measured with any confidence, particularly at the national level, due to the lack of publicly available, consistent, timely data. Publishing and benchmarking would improve understanding of the underlying issues and causes in order that they can be addressed, and that could be undertaken by the National Housing Supply Council.[3]

5.6 The committee acknowledges the federal government's recent $30 million initiative to establish an electronic development assessment system to track planning processes. This system will inform the three tiers of government, as well as developers and the community, where and why undue planning delays are occurring. It remains to be seen as to whether providing this information actually leads to faster planning decisions, given the shortage of planners discussed later.

Audit of excess government lands

5.7 The federal government is currently in the final stages of an audit of surplus government land available for housing. It has requested that the states and territories undertake a similar process. The land audit is being coordinated by the Department of Finance and Deregulation through a Council of Australian Governments working group, chaired by the Minister for Housing. FaHCSIA told the committee that the

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2 Ms P Winzar, FaHCSIA, *Committee Hansard*, 1 April 2008, p. 3.

3 Mr N Savery, *Committee Hansard*, 1 April 2008, p. 59.

Commonwealth should have 'a fairly comprehensive assessment' of the states and territories' surplus land 'by about mid year' (2008).[4]

Supply-side problems and challenges

5.8 This section looks at the supply-side problems and challenges that developers, local councils and state governments face in delivering affordable housing options that suit the lifestyle needs of Australian households. It identifies three particular challenges: the need for developers and councils to establish a high quality urban environment with supporting infrastructure; clear and efficient state government planning processes; and an adequate and skilled construction workforce. The issue of housing diversity will be addressed in Chapter 6 while the funding of infrastructure is the subject of Chapter 7.

The need for adequate infrastructure

5.9 There is broad consensus that more new dwellings need to be built to improve housing affordability in Australia. There is some conjecture, however, as to whether limited or artificially constrained land supply has been the main driver of higher house prices, and whether the main solution is to release more land. Australia's capitals—with the exception of Canberra—all have the geographic constraint of coastline; many are also restricted by mountains, river systems and National Parks.[5] There are significant 'greenfield' options on the fringes of the capitals which state and local governments could access. Is the solution to housing affordability simply to build more houses in these areas?

5.10 In a 2006 book titled *The Tragedy of Planning*, Dr Alan Moran, a Director at the Institute of Public Affairs, took aim at what he saw as the self-interest of state governments, planners and homeowners:

> Planning systems…in place across all major Australian urban areas…invariably…reduce the quantity of land that is available to conversion into housing…the existence of the housing land shortage creates an unfortunate vested interest among existing house owners to maintain it. Disconcertingly, State governments may have an interest in ensuring high land prices since this inflates their property-specific taxes.[6]

5.11 Dr Moran told the committee that the recent surge in house prices in Australia is 'overwhelmingly' the result of land restrictions. He argued that:

> The basic driver of affordability is this increase that we have created in terms of the scarcity value of the land itself, which adds $100,000 to $300,000 to the price of a house…The key thing is to actually release more

4 Ms P Winzar, FaHCSIA, *Committee Hansard*, 1 April 2008, p. 5.

5 See Birrell and Healy (2003, pp 43–56).

6 Moran (2006, p. 4).

> land, and that will drive down the price…There is really no shortage of land supply. There is a massive oversupply…of rural land, which sells for peanuts…Governments generally have been constricting the amount of land that is available for housing…[7]

5.12 Other witnesses, however, argued that the housing affordability challenge is more complex and nuanced than simply releasing more land. They argued new land releases need to be supported by adequate investment in infrastructure, services and employment opportunities. It must also reflect households' demand for different types of housing. A supply-side response cannot ignore demand.

5.13 This point was well made by Mr Scott Chamberlain of the Housing Industry Association. Asked whether the housing affordability problem stemmed from high house prices or simply an inability to get the land and resources to build, he argued that while land supply is constrained:

> You have to be careful. It is not just land; you are talking about affordable communities. So you cannot just sell a block of land; it has to be tied into a community to be attractive.[8]

5.14 The point was put starkly by the Victorian Division of the Planning Institute of Australia:

> There will probably be people who will come and say, 'It's all about land supply. We just need to unbridle the supply of land and that will solve this problem.' I think that will just create a bigger problem and the next Senate inquiry we will have will be about poor health in outer communities and children living for a shorter time than their parents.[9]

5.15 Chapter 3 noted that there is an estimated 30 000 annual shortfall between the number of new dwellings built nationally and the potential (population-based) demand for new housing. The committee asked Professor Burke his view on the importance of new housing supply being affordable, as opposed to simply providing the stock and 'letting the market sort it out'. He responded:

> The latter is called the filtering theory and I think that has now been discredited. It does not actually filter right down to provide adequate supply at the bottom end of the market. So you do have to explicitly recognise, in various forms of policy instruments, that you have to get properties on the ground at an affordable level.[10]

5.16 Professor Burke told the committee that his supply-side strategy is to increase the stock of affordable housing in high-cost areas while also improving the amenity in

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7 Dr A Moran, *Committee Hansard*, 23 April 2008, pp 63, 66 and 68.

8 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 99.

9 Mr S Worn, *Committee Hansard*, 23 April 2008, p. 57.

10 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 27.

low-cost areas so that more people want to move into these areas. He argued that greenfield developments would be more attractive to prospective buyers as a result.[11] He offered pointed criticism of the 'release more land' argument':

> That is not the solution. You cannot resolve complex problems with simple, one-dimensional solutions. We just have to look at where we are at the moment. Releasing land in these outer urban areas is not the problem. The problem now is the attraction of land in the inner and middle suburbs of our cities because of the high amenity that they offer vis-a-vis the outer urban areas and, I think, a growing perception of the long-term problems of petrol prices and the lack of public transport in these areas. Releasing land in these areas is going to do nothing to alleviate the intensity of demand in those areas where the house prices are the greatest. You can release another 10,000 allotments out here and I would guarantee that it would not make a bit of difference to the bulk of house prices anywhere in the middle and inner ring of Melbourne. And it would not solve problems about the lack of amenity, public transport and the impending issues around petrol prices—in other words, the liveability of these areas. That is why in our paper we suggested that another way of tackling the affordability problem is to improve the quality of amenity in affordable areas.[12]

5.17 The issue of how the costs of providing essential infrastructure are met, including local government rates, developer levies, and investments by state and federal governments is discussed in more detail in paragraphs 5.47–5.59.

5.18 Mr Adam Farrar, Executive Director of the New South Wales Federation of Housing Associations, also argued that increasing land supply was not in itself the solution to housing affordability. He told the committee:

> It is probably not true to simplistically say that the amount of land release by state governments or indeed the planning system is going to make the difference in that regard. After all, we do have land release which is not being taken up. The state government in New South Wales has quite robust targets for land release and intends to pursue those. Those alone are not sufficient. One of the major reasons for that is location. Housing affordability is not just about the price of the house, it is about the cost of using that house. As you will be well aware, locate housing—even if it is affordable—on the outskirts away from employment, away from any other services, then in effect you have simply shifted the cost from the price of the house to the price of transport and usually to the price of time taken in travel.[13]

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11 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 23.

12 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 23.

13 Mr A Farrar, *Committee Hansard*, 2 April 2008, pp 4–5.

Transport

5.19 Professor Julian Disney, Director of the Social Justice Research Centre at the University of New South Wales, insisted that housing costs cannot be looked at in isolation from transport costs and transport time. The long distances and times that many people face going to and from work have implications not only for them but for the economy:

> If you take someone who is living now on, say, the Central Coast north of Sydney and they are working in the central part of Sydney, they will be spending two to three working days a week travelling. That is an enormous cost to them and their families, but it is also bad for the economy.[14]

5.20 Transport has been argued to be an important determinant of the size of cities. Some urban historians refer to the 'Marchetti constant'; that people in cities on average spend no more than half an hour each way in commuting to work.[15] So for most of history, there were only 'walking cities', about 5 kilometres across. From 1850–1950 'transit cities' emerged, spreading 20–30 kilometres and clustered along tram and train lines. Since the 1950s 'automobile cities' have emerged, spreading 50 kilometres in all directions. An implication drawn from this analysis is that the larger Australian cities are reaching limits to their expansion and if oil price rises start to reduce the feasibility of commuting by car, unless public transport is improved, development on the fringes will stall.[16]

5.21 This point was also made by Mr Michael Papageorgiou, Acting Manager of City Planning and Sustainability at Brisbane City Council. He told the committee Brisbane faced a 'real challenge' in terms of ensuring that workers had access to efficient transport links:

> If Brisbane gets priced out of the key worker market, then all our new key workers for these new jobs will have to come in from surrounding suburbs. If the transport system is very efficient that might not be a problem, but we are already having transport problems, especially public transport problems, at the moment. The studies suggest that there is a 45-minute work travel threshold and that after that people start to make different decisions in large numbers. It also suggests that it is not just a planning exercise of rezoning land in other cities and sending the jobs there. If we do not leverage off the concentrations that they are talking about, we will end up with fewer jobs for the region; that is the forecast. So council's objective from its current planning strategies is to make sure we have enough affordable housing

14 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 28.

15 The idea was proposed by Marchetti (1994). The WA Government refer to 30 minutes travelling as 'the established critical threshold'; *Submission 87*. Interesting accounts of the importance placed on restricting commuting times in planning the expansion of housing are given in Stretton (2005, chapter 5) on Adelaide and Reader (2004, chapter 18) on Stockholm.

16 Professor P Newman, *Submission 2*, p. 3.

> within our boundaries so that some of those key workers can live in Brisbane and not have to commute.[17]

5.1 The problem of long commuting times—and the need to prioritise transport infrastructure—has been accentuated by changes in working patterns. Professor Disney told the committee that among those on high incomes, the demand for good housing locations (that are close to work) has greatly increased given the trend toward more part-time and insecure work and the entry of women into the paid workforce. As a result, many of those on lower incomes have been forced to live further away from their work. Professor Disney has identified public transport as the top infrastructure priority to assist with housing affordability.[18] The issue of the importance of the costs of travel and access to social services and community infrastructure is also addressed in the context of decentralisation and regional development policies in chapter 11.

Land and housing supply challenges in western Sydney and south-east Melbourne

5.22 The following section looks at the dimensions of the land supply and housing challenge in western Sydney and south-west Melbourne. The committee received evidence from local councils and community groups (among others) in both these regions. Both areas have large reserves of land and have the common challenge of linking new residential housing to adequate infrastructure and services and a quality urban environment.

Western Sydney

5.23 The committee heard from several witnesses that in western Sydney, the key issue is not the supply or the release of land but the inadequacy of infrastructure. In its submission to this inquiry, the Western Sydney Regional Organisation of Councils (WSROC) argued that poor public transport, limited employment opportunities and scarce community services have eroded the 'real' affordability of housing in Greater Western Sydney.[19] WSROC argued that the planning of housing developments in metropolitan Sydney has not been properly coordinated with the planning of supporting infrastructure. Mrs Sharon Fingland, Assistant Director of WSROC, noted that:

> One of the problems has been that, to a certain extent, there has been development happening all over Sydney, on numerous development fronts, all requiring infrastructure to support it but with no sensible development program in terms of wheeling out the infrastructure to support that. In the absence of that, it is a very expensive way of undertaking development.[20]

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17 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p. 20.

18 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 28.

19 Western Sydney Regional Organisation of Councils, *Submission 31*, p. 2.

20 Mrs S Fingland, *Committee Hansard*, 3 April 2008, p. 20.

5.24 The committee received evidence from the Campbelltown City Council that there are significant opportunities to expand housing supply in both greenfield and infill areas. Again, the housing affordability problem in Campbelltown relates not to the supply of land but the type of housing. The Council told the committee:

> The issue that we have identified is that we have a significant supply of existing zone housing opportunities in greenfield release areas, brownfield sites throughout our holistic residential areas and, in particular, the high-density zoned areas around the major town centre of Campbelltown-Macarthur and Ingleburn. The zoning is in place, the land is in place, but the market is not taking up that opportunity—even though there is really good access to lots of facilities and services that exist and that are planned to exist in the future…I would take the view that the paradigm that usually is spoken about by the development industry—that housing affordability is significantly influenced by the release of land, or limits on the supply of zoned land—is not a strong point to be made in the Campbelltown submarket. We think it is the case that those opportunities exist but they are not being taken up.[21]

5.25 Mr Paul Tosi, the General Manager of Campbelltown City Council, mentioned two significant zoned opportunities in Campbelltown. To the north, there is the Glenfield estate of roughly one thousand lots where prices range from $350 000 to $420 000. Mr Tosi noted that these developments had sold well. On the other hand, at Macarthur Gardens near Macarthur Railway Station, a development of a similar number of lots selling for between $490 000 and $600 000 is 'really struggling' to sell.[22]

5.26 The committee received a submission along similar lines from Ms Julie Burke, a Campbelltown City Councillor. Ms Burke recalled instances of seniors being unable to find a one-bedroom unit and unable to purchase a two bedroom unit. She noted that housing supply in Campbelltown is also unsuited to first home buyers, who are priced out of the large market for 'quite grand residences'.[23]

5.27 The same point was made by Professor Bill Randolph, Director of the City Future Research Centre at the University of New South Wales. He told the committee that what the developers want to develop in south-west Sydney is more expensive than what the market will bear. The real issue in western Sydney, he argued, relates to the lack of housing demand: 'there is potential supply but nobody is building that supply because the demand is not there'.[24] Accordingly, Professor Randolph feared that:

> Calls for releasing land on the fringe in Western Sydney will, to my mind, only exacerbate that problem, because we have a failure of demand in

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21 Mr J Lawrence, *Committee Hansard*, 3 April 2008, p. 27.

22 Mr P Tosi, *Committee Hansard*, 3 April 2008, p. 29.

23 Ms J Burke, *Submission 63*, p. 1.

24 Professor B Randolph, *Committee Hansard*, 2 April 2008, p. 43.

> Western Sydney, not a failure of supply. If you look at the figures, that is quite clearly what is happening. If you were to release more land, it would only drive house prices lower, which would be even more of a deterrent to the development industry to develop.[25]

South-east Melbourne

5.28 These problems of unsuitable land supply, planning and development are not unique to western Sydney. In Narre Warren, 35 kilometres south-east of Melbourne's central business district, the challenge of aligning development with infrastructure is much the same as in Campbelltown.[26] Mr Liam Hodgetts, the City of Casey Council's Manager of Strategic Development, told the committee that while land supply is a crucial ingredient to help address the housing affordability issue:

> …just as crucial is that the land must be well located and well serviced with supporting jobs, public transport and social and community infrastructure. In most cases on the urban fringe this infrastructure is provided by developer contributions. In this context, well-located, high-density infill development in the inner suburbs of our city is just as crucial an ingredient to housing affordability.[27]

5.29 Mr Hodgetts noted that the Council has developed several growth area plans and development contribution charges 'which seek to synergise the development fronts with the required infrastructure'.[28] Still, he acknowledged that in a fast-paced growth area like Casey, the planning system has occasionally been unable to keep up with infrastructure needs, which has resulted in some funding shortfalls for infrastructure. The Council has recently established a comprehensive greenfield master planning model. Developers are bringing forward their contributions to release land more quickly and assist them to save on holding costs associated with the acquisition of the land.

5.30 Unlike in western Sydney, the City of Casey faces 'very steady demand' for housing and the prospect of a shortage of available land. Mr Hodgetts noted that the Council is currently developing about 2300 lots annually, which it has done for the past six years. He argued that at the current rate of development and demand, 'we are running out of land'.[29] He also noted that the supply pressures are greater in Casey than in the west and north-west of Melbourne where the other four growth corridors are located. Asked whether there is currently a local housing supply problem in Casey, Mr Hodgetts responded:

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25 Professor B Randolph, *Committee Hansard*, 2 April 2008, p. 40.

26 Narre Warren is a suburb within the City of Casey. The City has 30 suburbs which also include Cranbourne and Fountain Gate.

27 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, p. 4.

28 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, p. 4.

29 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, p. 7.

> …there is a concern that the forward supply of zoned residential land—because there is clearly a lot of lead-up to get the houses on the ground—is in short supply. That is why we are working with the Growth Areas Authority recently established by the state government, who are co-partnering us in one of those development areas, which is the land east of the existing area…for approximately 8,000 to 10,000 people. That has been effectively fast-tracked, along with land on the western side of Cranbourne, for residential zoning.[30]

5.31 It is also notable that the type of housing supply in Casey seems better matched to demand than in the Campbelltown area, where supply does not seem to have met the growing demand for different housing types. In Casey, demand and supply of housing both remain focussed on large three or four bedroom houses on a fairly large block. However, Mr Hodgetts did note that high prices of these houses may have been a factor in strong sales over the past two or three years of smaller blocks: 10 by 30 metres with one storey, three bedroom homes with a single garage.

5.32 Dr Bob Birrell, Director of the Centre for Population and Urban Research at Monash University, strongly doubted that people on urban fringes would want a 300 square metre block. He did suggest, however, that smaller blocks would be more acceptable if developers incorporated more open space into their design:

> …if you move out to Casey, you are looking for a sense of open space. You do not want to be cheek by jowl with neighbours—that is what people are trying to avoid, and they will avoid it wherever possible. What I was suggesting was that it is possible to have a reasonably good design of estates with small blocks if you use the open space available creatively so that people are not caught in a situation that we see in some of the earlier estates here, where all they can see in their immediate environs are more small houses with cars everywhere and no canopy trees. It requires a more centralised control over the development process to get developers to get big estates so they can integrate open space with the smaller lots. In those terms I think it can be done in a more acceptable way. But at the present time there is no requirement that this be put in place.[31]

5.33 Mr Hodgetts noted opportunities for higher density housing around principal 'activity centres', consistent with the intent of the *Melbourne 2030* plan (see below). He drew the committee's attention to the Cranbourne East growth area where the Council plans to house 3,000 people. He did concede that high density planning can suffer from 'substantial community resistance' but expressed strong support for a model where people can live, work and play within a tightly defined area.[32] This, he argued, was not only consistent with the goal of more affordable housing (the land

30 Mr L Hodgetts, *Proof Committee Hansard*, 24 April 2008, p. 7.

31 Dr B Birrell, *Proof Committee Hansard*, 24 April 2008, p. 32.

32 Mr L Hodgetts, *Proof Committee Hansard*, 24 April 2008, p. 4.

sizes are smaller), but also with the challenge of developing infrastructure that binds communities over the longer term.[33]

Melbourne 2030, Adelaide and Urban Growth Boundaries

5.34 One of the key planning decisions in a major city's development is to strike a balance between greenfield development and urban infill. Some state governments have opted to limit the outward residential expansion of their capital cities by imposing an urban growth boundary. New residential developments are concentrated around targeted urban infill areas.

5.35 This was the Victorian government's intent in 2002 when it released its *Melbourne 2030* urban blueprint. The plan stated:

> The main thrust is to continue to protect the liveability of the established areas and to increasingly concentrate major change in strategic redevelopment sites such as activity centres and underdeveloped land. While a good supply of land for development will be maintained in growth areas, over time there will be a shift away from growth on the fringe of the city. This will help prevent urban expansion into surrounding rural land.[34]

5.36 Some witnesses remain enthusiastic about the idea behind *Melbourne 2030*. The Victorian Division of the Planning Institute of Australia told the committee that an urban growth boundary limits urban sprawl and improves housing affordability by creating quality urban environments. The Division urged faster action on all areas of the *Melbourne 2030* plan to 'create sustainable places because that is what the community now wants'.[35]

5.37 Others are not convinced that higher density planning and an urban growth boundary will work. In 2004, the Productivity Commission noted:

> …to the extent that an urban growth boundary is intended to constrain development, it is *inevitable* that it will have some effect on land prices. For this not to be so, people would need to be indifferent to housing type and location, and the supply of dwellings would need to be just as readily expanded from established urban areas.[36]

5.38 In his submission to the inquiry, Professor Patrick Troy noted that this 'densification strategy':

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33 Mr L Hodgetts referred to the term 'magnet infrastructure': 'infrastructure that will really make the community last and survive in sustainable terms and for generational change'. *Proof Committee Hansard*, 24 April 2008, p. 5.

34 Department of Sustainability and Environment, 'Melbourne 2030: Planning for sustainable growth', Victorian government, http://www.dse.vic.gov.au/melbourne2030online/ (accessed 12 May 2008).

35 Mr S Worn, *Committee Hansard*, 23 April 2008, p. 61.

36 Productivity Commission (2004, p. 134).

> …was adopted often because state governments found that their reduced circumstances meant that, in spite of the development charges for infrastructure on fringe lands, they were short of capital for infrastructure services. They were encouraged to the view that densifying suburbs would reduce the demand for infrastructure investment. The view turned into a mirage.[37]

5.39 Indeed, six years after its introduction, *Melbourne 2030* was the focus of a state government review. It found that while *Melbourne 2030* has not failed, nor has it been fully implemented.[38] The auditors urged the state government to ensure that sufficient resources are allocated to the plan and to engage communities in decisions on the application of the new residential zones. On the Urban Growth Boundary, the review recommended no alteration for 'at least the next five years' and a 'clear and transparent process' for future reviews of the boundary.[39]

5.40 One reason for the review of *Melbourne 2030* has been market trends over the past five or six years. Developers have not identified significant demand for urban infill; house prices in most inner Melbourne suburbs are prohibitive for first home buyers; and roughly 60 per cent of the growth in households has been locating in outer suburbia. As Mr Tony Powell AO noted in his submission:

> …'Melbourne 2030'…envisages 60-70% of new housing being located in existing suburban areas with the remainder occurring in designated outer-metropolitan 'greenfields' locations…In fact 61% of new housing completions are in the metropolitan fringe…and there is scant new infrastructure, either state or local government…[40]

5.41 The other major reason is that Melbourne's population is increasing at a rate significantly faster than was projected in *Melbourne 2030*. The plan anticipated the city's population to increase from 3.5 million residents in 2001 to 4.5 million in 2030. However, Dr Bob Birrell and Dr Ernest Healy from the Centre for Population and Urban Research at Monash University project that Melbourne's population will increase to 5.1 million by 2031. The increase is based on higher fertility rates and immigration levels (than those projected by the state government in 2001). Dr Birrell and Dr Healy urge the state government in its review of *Melbourne 2030* to 'take account of changes to Melbourne's demographic setting'.[41]

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37 Professor P Troy, *Submission 11*, p. 4.

38 Professor Rob Moodie, Mr David Whitney, Mr Michael Wright QC and Dr Ann McAfee, *Melbourne 2030, Audit Expert Group Report*, March 2008, p. 7.

39 Professor Rob Moodie, Mr David Whitney, Mr Michael Wright QC and Dr Ann McAfee, *Melbourne 2030, Audit Expert Group Report*, March 2008, p. 67.

40 Mr T Powell AO, *Submission 79 (Attachment)*, p. 3. Mr Powell is a former Director of the National Capital Planning Authority (1974–1985).

41 Birrell and Healy (2008, p. 1).

5.42 Dr Birrell told the committee that the Victorian government has 'decided essentially to ditch the core idea of Melbourne 2030'.[42] Instead of a compact city design based on development around designated activity centres, the government has opted to make the urban growth boundary flexible. Melbourne has a distinct advantage (over Sydney) in having 'literally boundless plains to spare' with no geographical constraints to the west, the north or the south-east corridor.

5.43 Dr Birrell noted that in recent years the Victorian government has been extending greenfield land to accommodate Melbourne's urban development. In 2005, the state government rezoned an additional 4500 hectares of land for urban development within the urban growth boundary. It imposes very low developer levies—compared to Sydney—which keeps the cost of developed land 'in the $100,000 to $150,000 range'. Dr Birrell also told the committee that the Victorian government has been assisting local councils to increase the rate at which zoned land within the urban growth boundary is released.[43]

5.44 The committee is aware of a similar situation in Adelaide. In 2002, the South Australian government established an urban growth boundary to prioritise residential development in established suburbs with significant infrastructure outlays, and to protect premium rural land from development. In December 2007, the state government announced it planned to rezone more than 2000 hectares for residential development outside the 2002 growth boundary. The state minister for urban development explained the 2007 decision in terms of planning for the 'medium to longer-term'.[44]

5.45 Nonetheless, the South Australian Division of the Urban Development Iinstitute of Australia (UDIA) foresaw ongoing challenges for developers and councils in Adelaide to balance greenfield development with urban infill, while improving housing affordability:

> …putting an urban growth boundary in place without creating the infill opportunities to compensate has created increased demand and forced prices up. The Adelaide City Council has produced some good examples of affordable housing in the city, but they are on quite a small scale; whereas most of our inner urban and CBD housing has been at the upper end of the market with prices starting at $500,000 to $600,000 for a dwelling, not in the affordable range at all. Our concern would be that, if you are putting in place an urban growth boundary, you need a process to review and update it from time to time, but your policies that would allow and support infill need changing at the same time.[45]

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42 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 29.

43 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 29.

44 The Hon. Paul Holloway, 'A New Urban Boundary for Adelaide', *Press Release*, 20 December 2007.

45 Mr P Jackson, *Proof Committee Hansard*, 28 April 2008, p. 13.

5.46 In the current circumstances related to housing affordability and development pressures, the committee believes there is merit in the curtailment of residential development to within specified areas. New growth would ideally be concentrated in areas where infrastructure can provide for and attract new residents. If large amounts of fringe urban land are released without adequate attention to environmental impact, infrastructure needs and social impacts there is significant potential for greater social problems, as evidence to the committee has indicated.[46] However, in setting this boundary, state governments must work more closely with local councils and community groups to ensure that the broad objective and specific proposals for higher density urban infill are supported. They must be aware of the potential for changes in population forecasts to place pressure on these limits. As discussed further in Chapter 11, they must recognise opportunities to expand regional areas to relieve pressure from the capital cities particularly given the enormous potential for regional growth in Australia.

Planning problems

5.47 The committee recognises the importance of efficient and effective planning processes and the influence they can have on improving housing affordability. It is aware that most Australian state and territorial governments have undertaken reviews and reforms of their planning systems and land release programmes in recent years. While it is too early to gauge the impact of these initiatives, the committee notes that high costs, long delays and complexity continue to be a problem in many jurisdictions.

5.48 The committee heard from several witnesses that problems of delay in land release are most acute in New South Wales. Mr Harnisch from Master Builders Australia observed that while similar land release problems are being reported around Australia, 'what we are hearing from the industry is that New South Wales seems to be the most difficult state'.[47] Professor Robert Stimson, Convenor of the ARC Research Network in Spatially Integrated Social Science, opined that the New South Wales government has 'probably' done more than any other in Australia to restrict the opportunities for urban growth on the urban fringe. This he attributed to state government planning views and legislation, which, 'quite frankly, are ideologically based and do not have any sound economic or social basis'.[48]

5.49 Not surprisingly, developers in New South Wales also reserve strong criticism for the state's planning system. Mr Ross Blancato, the President of the New South Wales Division of the UDIA and a developer for Australand, told the committee that given the current cost structure and planning regulations, 'the risk of investment in New South Wales has gone beyond what is really tenable'.[49]

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46 See Dr N Gurran, *Submission 47*, p. 2.

47 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 26.

48 Professor R Stimson, *Committee Hansard*, 14 April 2008, p. 46.

49 Mr R Blancato, *Committee Hansard*, 2 April 2008, p. 61.

5.50 This view was supported by Mr Tony Powell AO. His submission noted that developer levies in New South Wales were as much as $165 000 per median price house lot:

> …which has turned out to be the 'straw that broke the camel's back' as developers have simply stopped buying land and have withdrawn from the outer-metropolitan housing market…because the overall cost of land acquisition and servicing is more than the consumer can bear.[50]

5.51 In its submission, the New South Wales Division of UDIA recommended that the Commonwealth government expedite the release, rezoning and servicing of Commonwealth land with critical lead infrastructure to support the supply of new dwellings to the market.[51] Mr Blancato told the committee:

> We are proposing that there should be an amount of land—a forward train of land of maybe 20 years—that is released and serviced. The word ‘released’ is something that is very difficult to get a handle on. You will have successive governments release the same patch of land five times but not a dollar will be spent on infrastructure. When I go to my board and say, ‘I want to buy this piece of land,’ I have to tell them when I am going to deliver the revenue, how much it is going to cost and when I can start. If I have to say that I have to build $10 million worth of infrastructure before I can turn my first sod on my parcel then that is going to make the acquisition of that parcel less viable. The government used to invest in it—20 years ago you would go out to a release like Blacktown and the main sewer carriers were in and the sewage treatment plant was built. You would go out there and you could develop this five-acre parcel or that five-acre parcel. You might do a little bit of a lead-in, connecting infrastructure, but it was affordable.[52]

5.52 The Queensland Local Government Association drew the committee's attention to the complex and time consuming requirements imposed on local councils by that state's Integrated Planning Act:

> The process requires applicants to submit to councils their application, with all of the related documentation. In many instances, apart from the council’s consideration of the matters immediately under its control, it is required to refer to the state government and to appropriate state agencies for their consideration matters that are under their jurisdiction. The management of this process of receipt, consideration, referral and then further consideration of the assessment at a council level and assessment at a government level obviously adds time to the process. If in that process there are some deficiencies in the information received with the application, then further inquiries are made of the applicant to receive that information and then, where necessary, proceed to review what has been done to date.

50 Mr T Powell AO, *Submission 79 (Attachment)*, p. 4.

51 Urban Development Institute of Australia, New South Wales Division, *Submission 49*, p. 4.

52 Mr R Blancato, *Committee Hansard*, 2 April 2008, p. 65.

All of this, as you would appreciate, can add quite a deal of time to the process.[53]

5.53 The South Australian Division of the Planning Institute of Australia identified the same type of process-based delays in the state's planning system:

> …in some locations, in some councils or in some areas of councils and for certain types of development the process can be unnecessarily complicated, difficult and lengthy. This is often where public notification is required and where government agency referrals are required. There is also a large amount of minor type of development in the system here that is currently processed but that could be dealt with in another way, such as a track based assessment coming out of the Development Assessment Forum leading practice model. That would reduce the impact on the development system.[54]

5.54 The Institute did note that the South Australian government is currently conducting a planning review aimed at relieving the pressures in the development system.[55]

5.55 The Western Australian Division of the UDIA also highlighted the potential for delays in the state's planning process:

> …when you come to the actual process of getting subdivision clearance you have multiple agencies involved. Each of those can end up with some delays. There is what we call 'stop the clock', where there is an issue or clarification required, the statutory timeline stops and then sometimes it is difficult to get it going again. So the delays become incredibly expensive for the industry because of the holding cost and that adds to affordability problems.[56]

5.56 Similarly the Real Estate Institute of Western Australia identified:

> …one of the problems with the system in Perth is the very poor interaction of the various processes that deliver land. There is a planning process, which is reasonably pure and probably not that complicated, but when it is meshed with the environmental assessment process it can cause long delays. The other issue is the complexity of the planning approval process, which can sometimes mean that a preliminary subdivision approval can attract up to 47 separate conditions that have to be met before the land is deemed able to be finally approved for subdivision.[57]

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53 Mr G Hoffman, *Committee Hansard*, 14 April 2008, p. 33.

54 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 33.

55 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 33.

56 Ms D Goostrey, *Committee Hansard*, 8 April 2008, p. 70.

57 Mrs A Arnold, *Committee Hansard*, 8 April 2008, p. 38.

5.57 Dr Steven Rowley, Senior Lecturer in the School of Economics and Finance at Curtin University of Technology, emphasised the need for Western Australia's planning system to be more responsive to the needs of the market. He told the committee that:

> Anything that reduces the up-front cost for a developer will, or certainly should, reduce the price of the final product, because of the holding costs and the interest that they have to pay. So it should have an impact on affordability. Anything that speeds up the planning system as well will have an impact on the final price of land, and making the planning system more responsive to market signals will no doubt have an impact on affordability. How you do that is another question, but certainly in the UK we have gone through the Barker review of housing supply, and it is all about making the planning system more responsive to the market and to changes in market signals. I think that is certainly the way that Western Australia needs to go. It needs to look at streamlining the planning system, making it more responsive.[58]

5.58 In Queensland, unlike in other states, local councils cannot seek developer contributions outside of the immediate area of development. According to the Queensland Division of the UDIA:

> We have seen planning schemes that have almost constrained land supply, if you like, because of the inability to fund the infrastructure at a local government level. Because of that constraint, the cost of raw land has gone up, but also putting the burden of providing infrastructure onto the development community, which essentially is the new homebuyer, means that there has been a double whammy. So it has gone up at an accelerating pace.[59]

5.59 The committee emphasises the need for local councils to improve the efficiency of their planning processes. In this context, it acknowledges the federal government's proposal—through the Housing Affordability Fund—whereby councils will compete for grants to cover part of their new housing infrastructure costs on the basis of their proposals to cut red tape and reform their planning process.[60] That said, the amount of money allocated to the Fund is relatively small—an average of $100 million a year—and the breadth of its application is limited. The committee welcomes the state governments' reviews of their planning processes. It urges action to speed up the planning system and make it more responsive to the market.

Industrial relations issues

5.60 The committee received no evidence that industrial disputation was an issue of concern in addressing the housing supply shortage. The Housing Industry

58 Dr S Rowley, *Committee Hansard*, 8 April 2008, p. 48.

59 Mr B Hailey, *Committee Hansard*, 14 April 2008, p. 3.

60 FaHCSIA, 'Making Housing Affordable Again', March 2008, p. 6.

Association noted reports from the Australian Building and Construction Commissioner (among others) that 'there has been a significant increase in terms of industrial harmony, a significant increase in productivity and a significant drop in construction costs'.[61]

5.61 The committee did receive some comment on the difficulty of the construction sector using migrant labour under the Long Stay Temporary Business Visa (subclass 457).[62] The Housing Industry Association told the committee that:

> The 457 visa program requires employers to give, I think, at least a 12-month employment guarantee. A small business that engages or hires—as distinct from employs directly—cannot avail themselves of the 457 visa program, and it is expected that we will change the structure of our industry to accommodate the institutional arrangements in the department of immigration.[63]

5.62 Master Builders Australia noted that the construction industry is working 'very closely' with government and the immigration department to make 457 visas more flexible and more streamlined.[64]

5.63 The Construction, Forestry, Mining and Energy Union argued the need for better regulation of employment agreements in the construction industry:

> In the building industry we have a horrendous problem with bogus self-employed, where workers are told, 'You will only work in this workplace or for this company if you have an ABN number, and we're calling you a subcontractor, whether you are or you're not.' It is a major problem in this industry…We do not reject temporary migrant visas. They have been with us for decades. The thing is that they were quite regulated until about five or six years ago when they suddenly became heavily deregulated, which has led to a lot of abuses.[65]

5.64 The broader role that migrants play in the Australian construction industry is a matter of some contention. Dr Birrell argued that:

> …we are getting a very limited benefit out of the overseas migration program from the point of view of scarce construction workers. If we focussed on the 457 visa program, which requires that a job be here and that the employer designates that job and it is in construction type field, then it is a plus. But 55 per cent of the settler program in Australia is going into

61 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 31.

62 *Migration Act 1958*

63 Dr R Silverberg, *Committee Hansard*, 1 April 2008, p. 97.

64 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 23.

65 Mr J Sutton, *Proof Committee Hansard*, 24 April 2008, pp 3–4. See also Productivity Commission (2004, pp 184–5).

> Sydney and Melbourne and very few of those people have construction skills.[66]

The shortage of skilled tradespeople

5.65 As with many other industries in Australia's full employment economy, the construction industry is struggling to attract and retain skilled tradespeople. The committee heard from several witnesses that a lack of skilled tradespeople is of concern in the context of addressing housing affordability.

5.66 The Housing Industry Association told the committee that in 10 of its 14 trades, there is a 'critical undersupply' of labour nationwide. It added that immigration into Australia is fuelling demand at a much faster rate than it is helping the housing industry build to meet that extra demand.[67]

5.67 Professor Andrew Beer told the committee that the shortage of skilled labour is a key supply constraint and that there needs to be action on a number of fronts:

> …there is significant shortage of labour. We have not invested enough as a nation in supply of skilled labour for the building industry. Is it possible, for example, to reduce the apprenticeship times? Is it possible to increase retention of apprentices? Many people enter apprenticeships but they do not complete their apprenticeships and therefore they are not skilled labour in the longer term available for the housing market. Is it possible to keep people within the building industry for longer? At the moment many subcontractors fall out of the building industry after a relatively short period of time, for a whole raft of reasons. Those sorts of measures could be taken.[68]

5.68 Interestingly, Master Builders Australia told the committee that in their view the skills shortage is not the principal reason why more houses are not currently being built. As Mr Harnisch observed:

> I think the reason that there is underbuilding is really the fact that housing is in many cases out of reach. There is also uncertainty about where things are at. That is why the market is not reaching the underlying requirements. The issue of underbuilding is not related to the shortage of labour.[69]

5.69 That said, Mr Harnisch did identify an apprehension within the construction sector about how it may cope in the future given the skills requirements of other sectors:

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66 Dr B Birrell, *Committee Hansard*, 24 April 2008, p. 31.

67 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 99.

68 Professor A Beer, *Proof Committee Hansard*, 28 April 2008, p. 49.

69 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 27. The MBA submission made no mention of skills shortages as a supply constraint.

> There are already concerns being expressed by builders about their capacity to secure labour to meet future housing demands. You may well say, 'Given that we are in a downturn, there should be plenty of labour around.' The reality is that state governments and this federal government have a very ambitious infrastructure investment program. And of course the resource boom is still going, which is where a lot of the trades and the skilled labour is going—so the construction industry is competing with other sectors.[70]

5.70 Where this competition is on the industry's doorstep—as in Karratha—the skills shortage in housing is all the more acute. Ms Gloria Jacob, Deputy Chair of the Pilbara Area Consultative Committee, noted that there is not sufficient skilled labour for housing in Australia, 'let alone trying to bring it over here to the Pilbara, where we have no accommodation for them if they want to do building'.[71] The committee also heard that the Perth construction industry had suffered some capacity constraints from the flow of workers to mining.[72]

5.71 Mr Brett Gillan, Vice President of the Queensland Division of UDIA, noted that this year and next, the housing sector in Brisbane is likely to be in competition with building activity for civil and social infrastructure. He told the committee that 60 to 70 per cent of the overall cost of an urban infill development is the cost of construction, which makes it very difficult to deliver affordable infill projects. Mr Gillan anticipated double digit increases in construction costs next year as a result.[73]

5.72 Mr Michael Scott, a past President of UDIA, told the committee that the Association's members are 'expressing concern' at the difficulty of finding workers. He noted that while UDIA did not have any numbers on skilled labour in the industry, there are anecdotal indications of shortages and broader concern at the industry's capacity to increase its future supply.[74]

5.73 These concerns about the construction sector's future capacity were also evident in comments made by Dr Silverberg from the Housing Industry Association. Asked whether the construction industry had the skilled labour to satisfy underlying demand of 180 000 new dwellings each year, every year, his response was frank:

> No, it does not. There are issues around the supply of skilled tradespeople. Of the 250,000 net permanent and long-term migration flow, about 800 people are residential construction tradespeople…The federal government has made some significant announcements in respect of housing supply

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70 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 23.

71 Ms G Jacob, *Committee Hansard*, 7 April 2008, p. 54.

72 Ms D Ekelund, *Committee Hansard*, 8 April 2008, p. 5.

73 Mr B Gillan, *Committee Hansard*, 14 April 2008, p. 12.

74 Mr S Chamberlain, *Committee Hansard*, 1 April 2008, p. 78.

> initiatives; we are going to have to have more skilled labour available if we are going to translate those policy announcements into bricks and mortar.[75]

5.74 Mr Harnisch told the committee that the construction industry has been working closely with the government and the immigration department to make Section 457 visas more flexible and streamlined. He added that in the longer-term, there is a need to focus on issues of reforming training programs, and attracting and retaining skilled workers. Presently, the industry has a high dropout rate which, if not addressed, will produce a shortfall of semiskilled and skilled labour of about 40 000 people over the next five or so years.[76]

5.75 In his evidence to the inquiry, Mr Savery noted PIA's proposal for the National Housing Supply Council to track skills in the construction industry over time and assess the impact of actions taken to address skills shortages in housing supply.[77] The committee agrees. The new National Housing Supply Council should establish a database which, on a state by state basis, monitors the available supply of skilled labour in the construction industry. This database should also project the construction industry's future skilled labour needs on a state by state basis.

Recommendation 5.1

5.76 **The committee recommends that the proposed National Housing Supply Council develop a database of skilled labour in the construction industry across all skill sets and in all states and territories. It should be tasked with assessing the construction industry's future skilled labour needs based on projections of other industries' workforce needs and forecasts of both underlying and effective demand for housing. The Council should also record the contribution of immigration programmes to the construction workforce as well as the industry's retention rates.**

The shortage of skilled planners

5.77 The committee received evidence from several witnesses that there is currently a shortage of qualified planners in many parts of Australia. Mr Savery gave the following overview of the current situation:

> …the current planning profession skills shortage and the shortage of qualified planning assistants that exist in many local, state and territory governments are impeding the turnaround time frames within the development assessment process. In PIA’s 2004 national inquiry into planning education and employment, a vacancy rate in planning positions of around 16 to 20 per cent was established through a survey of employers. The national inquiry made recommendations to address the full range of

75 Dr R Silverberg, *Committee Hansard*, 1 April 2008, p. 96.

76 Mr W Harnisch, *Committee Hansard*, 1 April 2008, p. 23.

77 Mr N Savery, *Committee Hansard*, 1 April 2008, p. 58.

> employment, workplace and professional development issues facing the planning profession, including the following recommendations to improve the supply of planners: increased overseas migration opportunities; PIA to become an assessing agency after getting planning onto the Commonwealth's list of professions in demand; increase the number of undergraduate and postgraduate planning places in universities; support rural students and other special target groups, including through cadetships and studentships; recognise the role of planning assistants and work with the vocational education sector to ensure that certificate IV courses are producing development-assessment-ready trainees; encourage the pooling of professional planners in rural and regional Australia; and promote rural and regional planning experience at universities.[78]

5.78 Mr Russell from the Local Government Association of South Australia told the committee that the shortage of professional planners 'is probably the biggest issue at the moment impacting on approval times in South Australia'.[79]

5.79 Mr Papageorgiou from the Brisbane City Council was asked to comment on how the planner shortage has affected the Council's work. He responded:

> It has been a real problem for the last three years particularly. It looks like being a continuing problem. We are getting into more complex areas of Brisbane to develop. The assessment planner requires lots of project management skills. We have been losing our more experienced planners over time to the very buoyant development industry. That then compounds the problem of historical high levels of files to deal with. The relatively inexperienced people who are placed on it perhaps lack confidence in some of these key areas. That can lead to extended time frames.[80]

5.80 Mr Hoffman from the Queensland Local Government Association told the committee that local councils have been losing a lot of their skilled staff to the development sector. In response, the Association has focused on increasing the attractiveness and the promotion of planning as a profession for school graduates and university undergraduates. It has also developed a paraprofessional planning course at a diploma level which is currently being attended by 90 local government employees.[81]

5.81 The Brisbane City Council's submission referred to its 'RiskSmart' program which outsources low risk planning applications to selected development consultants.

78 Mr N Savery, *Committee Hansard*, 1 April 2008, p. 59.

79 Mr Russell, *Committee Hansard*, 28 April 2008, p. 2.

80 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p. 23.

81 Mr G Hoffman, *Committee Hansard*, 14 April 2008, p. 34.

These appointed consultants can make the planning decision, although the Council retains responsibility for the paperwork and for checking the decision.[82]

5.82 Ms Winzar from FaHCSIA noted that the shortage of skilled planners was an issue that had been raised with the department. She noted that the use of paraplanners to approve basic developments would free up qualified planners to work on larger and more complex developments:

> …if you could get relatively simple things like pergolas and so on approved by paraplanners, perhaps the more skilled planners could be devoted to the larger and more complex developments. That should also speed up things.[83]

Recommendation 5.2

5.83 The committee recommends the establishment of a working group, chaired by the Development Assessment Forum, to review the need for classes of development to require planning approval. The focus of this working group should be to demarcate those activities that should be performed by fully qualified planners and those can be undertaken—at least initially—by less qualified 'paraplanners'.

Conclusion

5.84 This chapter has highlighted the need for greater responsiveness of land release and housing supply to market demand. Efforts to this end should occur in a variety of contexts.

5.85 The Commonwealth government must deliver timely information on current and projected industry needs for skilled tradespeople, as well as funding (and perhaps operating) a tracking system of development assessment delays. State and local governments must simplify their planning frameworks to reduce the potential for delay in the land release and rezoning process. The Commonwealth and state governments must continually audit their available land and ensure that their planning frameworks provide timely and adequate provision of critical infrastructure in greenfield sites. In planning for urban infill, state and local governments must communicate with local communities to ensure that broad objectives and specific proposals are supported.

82 Brisbane City Council, *Submission 37*, pp 2–3. A similar idea was proposed by Master Builders Australia, *Submission 30*, pp 21–22.

83 Ms P Winzar, *Committee Hansard*, 1 April 2008, p. 5.

Chapter 6

Housing diversity

6.1 The argument in Chapter 5 centres on acknowledging that the challenge of increasing the supply of residential housing in Australia is not simply a matter of releasing more land and building more houses. Crucially, housing stock must also be suited to the needs and the means of purchasers. For most regions it would be appropriate for there to be different housing options which offer a choice of dwelling size, tenure type and price. This chapter looks at the evidence of the adequacy of the housing mix in Australia and notes some solutions for increasing the stock of affordable housing.

The lack of diversity

6.2 Many residential developments in Australia have ignored the need for a diverse mix of housing. On several occasions, the committee heard from witnesses about new housing developments comprising exclusively large four bedroom, two bathroom houses with three car garages, often colloquially described as 'McMansions'.

6.3 Professor Terry Burke from the Australian Housing and Urban Research Institute told the committee: 'Historically, I do not think we have really built suburbs as lacking in diversity as those we are building at the moment'.[1]

6.4 Anecdotally, the committee notes that housing diversity is a particular problem in western Sydney. Community advocates were often critical that the lack of housing diversity was ignoring the needs of low income earners. As the Director of the Macarthur Community Forum told the committee:

> All land release that I am aware of in this region is being targeted for large houses and high-income people. So we are still not addressing the needs of those people that are in mortgage crisis, have a low income or are unemployed.[2]

6.5 She noted that the south-western outer urban areas of Sydney, with ample land, predominantly have houses with three bedrooms or more. However the area has many single parents, single people and a growing aged population. The need, therefore, is also for smaller dwellings.[3]

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1 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 22.

2 Ms J McIvor, *Committee Hansard*, 3 April 2008, p. 4.

3 Ms J McIvor, *Committee Hansard*, 3 April 2008, p. 8.

6.6 The Western Sydney Regional Organisation of Councils (WSROC) noted that the bulk of the housing stock in western Sydney is increasingly unsuited to the changing demographic composition of the region. The Assistant Director of WSROC told the committee that in her time working for the Baulkham Hills Council:

> …developers…claimed they did market research, in fact all they did was an analysis of what sold well last year…which were very much targeted to families with young children particularly…But in more recent years, particularly because of the cost of housing…areas are now accommodating people with older families, people trading up, second- and third-time buyers, and quite often elderly people who want to move to the fringe if their families have moved there. So the nature of the housing stock that was being produced did not actually fit the current demographics of the area…[4]

6.7 The Real Estate Institute of Western Australia also identified the lack of housing diversity as a key problem:

> WA has a love affair with single detached housing, and we have seen the proportion of multiresidential affordable housing actually go backwards in real terms over the last 10 years. For us, having housing diversity is a major issue because we think it is important for affordability, particularly in the rental sector.[5]

6.8 It is not only developers that may be inhibiting diversity:

> In a number of developments you do have covenants which are intended to influence the type of housing development that occurs. You have local council planning requirements which influence design, types of building products that can be utilised, house sizes.[6]

Problems caused by lack of diversity

6.9 FaHCSIA opined that 'the best sorts of developments are those that have fairly mixed tenant profiles or homeowner profiles'.[7] The Planning Institute of Australia also:

> …considers that a broad socioeconomic mix is a vital attribute of sustainable development…affordable housing spread broadly across metropolitan areas is critical to ensure that low- to middle-income-earning essential workers—for instance, childcare workers, educators, nursing assistants and the like—are able to live affordably and in close proximity to where they are needed.[8]

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4 Ms S Fingland, *Committee Hansard*, 3 April 2008, p. 15.

5 Mr S Darby, *Committee Hansard*, 8 April 2008, p. 30.

6 Dr R Silberberg, *Committee Hansard*, 1 April 2008, p. 102.

7 Ms P Winzar, Department of Families, Housing, Community Services and Indigenous Affairs, *Committee Hansard*, 1 April 2008, p. 19.

8 Mr N Savery, *Committee Hansard*, 1 April 2008, pp 58–59.

6.10 The committee emphasises the importance of a diverse housing mix to ensure that Australia's cities are not segregated according to housing types and, therefore, demographics and income. Public housing developments in capital cities are often examples of the problems that arise if specific areas are set aside to meet the housing needs of a particularly narrow socio-demographic cohort. Australia should not go down the path of some American and third-world cities with a residential 'apartheid' between 'ghettoes' of low-income people and gated communities of the rich, with very little social interaction between the two groups, and very different qualities of local facilities such as schools and cultural venues.

6.11 As well as these concerns, a lack of diversity means that young adults seeking to live independently and older 'empty nesters' wanting to move to smaller accommodation are often forced to move away from their communities simply due to a lack of suitable accommodation. As a planner from Ballina put it:

> …the reason a lot of people want a larger dwelling is the resale value and the sense that at the appropriate time you can then sell that large dwelling and buy a smaller dwelling which is more appropriate to your needs as you age. However, there may be a mismatch there because of the fact that we do not actually have those smaller dwellings to move into.[9]

6.12 The Victorian Division of the Planning Institute of Australia suggested that what is being marketed by developers is not what makes for a connected community:

> One of the things we are trying to explore is whether or not a lot of the product that is being delivered is what the communities are seeking or whether they are just buying it because it is cheaper to buy a product than it is to buy a house. The idea of having a range and diversity of housing is something that needs to be instilled in our planning policies. To take that a bit further, we have the notion of what makes a good community. A community is one where people feel connected, where people feel they have access to services and facilities and where people feel that they have some form of housing that meets their basic needs. I think that as we go through the debate on housing affordability, we can get caught up in what is being marketed to us on a broader scale and we do not necessarily come back to these notions of good communities.[10]

Policy responses and their critics

6.13 One response to increase the diversity of housing is to encourage, or require, developers to provide a range of housing types in new developments, a process sometimes called 'inclusionary zoning'. A common example is to require that a specific proportion—typically between 10 and 15 per cent—of housing be smaller, affordable, housing.

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9 Mr S Scott, Ballina Shire Council, *Committee Hansard*, 16 April 2008, p. 6.

10 Mr J Black, *Committee Hansard*, 23 April 2008, p. 55.

6.14 This is common in Europe and also practised in the United States:

> Amongst the countries that we would compare ourselves with, Australia is a laggard in dealing with that sort of issue. The United States has inclusionary zoning, the United Kingdom has inclusionary zoning, and much of Europe has other programs explicitly to make certain that a percentage of the housing that is constructed each year is of an affordable nature.[11]

6.15 The governments that appear to be taking initiatives to ensure new developments have a diversity of housing types, and specifically include some housing accessible to lower income Australians, are those of South Australia and the ACT. The former was commended by National Shelter:

> …the real benefit of the South Australian approach is that it has set up a system around its planning system to try and ensure that 15 per cent of all new developments have affordable housing on them and one third of that be social housing.[12]

6.16 The South Australian Government's *2005 State Housing Plan* has set a 15 per cent target for affordable housing. The state government is also aiming to increase affordable home purchases and rental opportunities by five percentage points by 2014 to 38.8 per cent of all state dwelling sales. To assist in these goals, the state's Development Act was amended in 2007 to streamline development assessment processes and link affordable housing targets (among others) to local government strategies and development plans. The Development Act now makes explicit reference to affordable housing.[13]

6.17 The South Australian Division of the Planning Institute of Australia explained that the affordable housing target:

> …is currently being embedded into planning policy, with the introduction of policy modules to provide for 15 per cent affordable housing in major developments. Planning policy that encourages the development of affordable housing is also to be embedded within development plans…The way that we see housing affordability is that it is around not just the price of the dwelling or how much rental it attracts but also other issues that need to be taken into consideration concerning the longer term affordability of that accommodation. That relates to housing being in reasonable proximity to people's employment or employment opportunities, access to public transport and other sorts of services, such as schools, hospitals, shops et cetera…Appropriate types of housing and diversity of housing to meet the different needs of people and targeting products that also meet different sectors of the market, particularly some of the higher needs groups,

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11 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 27. See also Gurran (2008).

12 Mr A Pisarski, *Proof Committee Hansard*, 7 May 2008, p. 75.

13 South Australian Government, *Submission 88*, p. 3.

> including first home buyers, migrants, retirees, people with disabilities and other sorts of people, are all key considerations in affordable housing.[14]

6.18 Asked to comment on perceived concerns among residents in outer urban developments that the affordable housing requirement would attract so-called 'poorer and probably more undesirable' residents, the Institute responded:

> Effectively trying to mix up affordable housing, which is not necessarily high needs but rather people who do not earn as much income and who are struggling to buy a house, makes more sense than concentrating them all together…
>
> …the rules the local council uses to assess whether or not an affordable housing proposal should be approved should envisage whether or not, in principle, it is appropriate—close to shops, train stations and that sort of thing. Whilst there may be angst from some of the locals about affordable housing bringing down the neighbourhood, the actual rules should envisage that the social mix where affordable housing is proposed is appropriate. People should have a house.[15]

6.19 The ACT government requires that 15 per cent of all new greenfield developments must be affordable housing stock, based on new planning regulations which specify smaller compact blocks.[16] As they elaborated:

> …we are looking at housing in the $200,000 to $300,000 bracket and we are also targeting land in the $60,000 to $120,000 bracket, whereas previously it would have been very difficult to find a block under $150,000 in Canberra.[17]

6.20 The ACT government owns all greenfield land and sells it to developers with an explicit requirement for a housing mix. The committee heard that smaller, more affordable homes on smaller blocks have been embraced by the market:

> I am aware of one of the early estates which is currently running at, I think, 38 per cent in that range. If the developers choose to go there, it is a minimum requirement and many developers are in fact finding that it is a market that they want to target more aggressively. It is fair to say that the development industry was fairly wary of this when it was introduced, but in fact we are now being told that the compact blocks and affordable end is the fastest seller in Canberra at the moment.[18]

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14 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 32.

15 Mr D Bailey, *Proof Committee Hansard*, 28 April 2008, p. 34.

16 ACT Government, *Submission 75*, p. 8.

17 Mr G Tomlins, *Proof Committee Hansard*, 7 May 2008, p. 16.

18 Mr G Tomlins, *Proof Committee Hansard*, 7 May 2008, p. 18. The submission by the Village Building Co. referred to their success in selling affordable houses within new developments; *Submission 82*.

6.21 In New South Wales, an attempt at inclusionary zoning at Green Square was set back by a court ruling that affordable housing was not a valid objective under planning legislation. Subsequent amendments now allow for it.[19]

6.22 In addition to state and territory governments, some councils are also actively working to ensure there is a diversity in new housing developments. The Brisbane City Council noted that:

> A master plan was developed for Rochedale and that emphasised it as being an urban community, not a suburban residential estate…some of the key features are that it has a town centre and zonings for denser residential development and mixed use development adjacent to the town centre; it has provisions for denser development along some of the main access routes, which will be the main public transport access routes; and it has some quite high environmental standards for the more normal subdivision of residential lots outside that. That had some resistance at the start because people were saying that that location—some 20 minutes from central Brisbane—should not be looked at to provide units. But now it is seen as quite sensible.[20]

6.23 The manner in which the careful design and provision of infrastructure to support community life in regional centres can play a key role in reducing the pressures on our sprawling cities through targeted regional development policies is discussed in more detail in Chapter 11.

6.24 There are specific provisions to encourage affordable housing within developments:

> …we give some small additional floor space and some relief from council charges if the developer includes, within their development, units for affordable housing, and they covenant them for 10 years. Our experience has been that we have that 10-year limit and after that it will revert to market housing. So our impact is quite limited, but that is what we are trying to achieve in these areas.[21]

6.25 Brisbane City Council has also eased restrictions on high-rise developments in parts of the city to provide another form of housing.[22]

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19 Gurran et al (2007, pp 33–34).

20 Mr M Papageorgiou, Brisbane City Council, *Committee Hansard*, 14 April 2008, p. 18. Similarly, the Geelong City Council adopted a 'housing diversity strategy' in July 2007; Mr C Brenton, *Committee Hansard*, 23 April 2008, p. 24.

21 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p.18.

22 The Council voted unanimously in May 2008 for greater heights and densities in West End, Fortitude Valley, Woolloongabba, South Brisbane and the Kurilpa precinct. The Lord Mayor indicated he envisaged towers of around thirty stories along the river; *Courier-Mail*, 23 May 2008.

6.26 Campbelltown City Council requires developers to include a proportion of single bedroom dwellings in developments as one way of encouraging provision of some affordable housing.[23]

6.27 Developers often object to such mandatory policies on the grounds that they are building uniform housing because that is what the markets demand. In some cases there was evidence from other sources supporting the developers' views. For example, in Campbelltown in western Sydney the committee heard evidence that, despite development approval being given for higher density housing (apartments) close to the railway line, there had been little uptake by developers, investors or buyers:

> You can buy a house for less than you would pay for a two-bedroom apartment. I do not think the railway station and the access to the city figure in our purchases. In Ashfield or Burwood or those sorts of middle ring or inner ring suburbs, it is good to get a two-bedroom apartment…That market has not struck us yet, and it is going to be a while before it does, I think… You will see when you come into the area that there is one major high-rise that still has a big crane over the top of it. It has about 170 apartments in it. They are really struggling to sell them. It is not working at all.[24]

6.28 Other witnesses suggested that there was a market for smaller, more modest, homes but that developers were not providing such products because of an (often unfounded) belief that they would not sell:

> We face the problem that, if you ask the development industry about building a greater diversity of housing, they say there is no demand for it… Part of the reason for no demand is that the demand in most areas has not actually been tested. If you keep building the same product and do not offer the consumer a diversity of products so that you can find out whether there is demand, you actually do not know.[25]

6.29 There is some evidence, however, that some developers are providing smaller, more compact housing on the periphery of capital cities. The City of Casey Council in south-east Melbourne told the committee that in a recent new release area in Cranbourne North:

> …demand for lots at the rate of $150,000 per lot and in the order of $250,000 for houses is dropping, and people are opting for a more affordable product. In growth areas that means a smaller lot typology—smart blocks, with less of a building footprint…We are very interested in housing diversity, and that is the key to any sustainable community—allowing for all types of housing and all types of people in those houses to downscale or upscale housing locally so that you have some integrity and continuity of the community.[26]

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23 Cr Julie Bourke, *Submission 63*, p. 1

24 Mr P Tosi, Campbelltown City Council, *Committee Hansard*, 3 April 2008, p. 30.

25 Professor T Burke, *Committee Hansard*, 24 April 2008, p. 22.

26 Mr L Hodgetts, *Committee Hansard*, 24 April 2008, pp 7–8.

6.30 The UDIA also supported the idea that people are willing to live in a modest size dwelling, if it is more affordable:

> …I think people are already adjusting the size of the dwelling they want to live in. As we are seeing the demographic bubble of baby boomers, who are very much the 'move up house' generation of the last decade or so, move through the demographics, I think we are seeing smaller households, people with one or two children, actually quite happy to have a more modest sized dwelling. I think the short answer to your question is that expectations will manage themselves, depending on what people can afford.[27]

6.31 The committee did hear some interesting suggestions from developers to improve affordable housing. The Western Australian Division of the UDIA offered the following two suggestions:

> The first is to encourage small dwellings in medium-density development by changing the planning controls to be based on plot ratio and height rather than dwellings by hectare. This would encourage more small dwellings on each development site. The second point…is to provide a land tax rebate for investors which would involve dwellings under, say, 120 square metres. This would encourage developers to build smaller houses to sell to investors, who would then rent them out…This scheme could also be complemented by a stamp duty rebate to investors who purchase dwellings under 120 square metres for rental purposes.[28]

6.32 Ballina Shire Council are encouraging 'adaptable' housing. They explained:

> …adaptable housing, that is housing for which the initial design of the building allows the structure of the building to change over time, with minor internal renovations. This may involve allowing the structure of the dwelling to change, relatively easily, from a four-bedroom family home, to two two-bedroom units (and possibly back again) as the needs of the community, and the occupants of the dwelling, change over time. This requires forethought in the design of the building, with regard to access, plumbing, wiring, bedrooms, storage areas, private open space and convertible spaces (for additional kitchens and bathrooms). The potential benefits associated with adaptable housing include cost savings (thereby increasing the opportunities for low income earners to enter the market) and flexibility for private rentals, reduced environmental impact from construction (and the use of resources) and flexibility in meeting the community's future housing needs. Adaptable housing can also avoid the over-occupancy of dwellings, allowing existing residents to stay/age in

27 Mr M Scott, Urban Development Institute of Australia, *Committee Hansard,* 1 April 2008, p. 73.

28 Mr V Marcelino, *Committee Hansard*, 8 April 2008, p. 60.

> place, whilst downscaling the amount of space needed and providing an additional source of income through rental of the additional unit.[29]

6.33 There are also substantial planning challenges if a more diverse housing mix is to be sustained. The committee notes criticisms that Australia's housing and planning policies are poorly integrated and that state and local governments' planning systems have offered very little by way of concrete action on affordable housing. Both points have been emphasised in evidence from academics:

> …the need to think about how we integrate our planning policies and our housing policies in a way which we have not done so far. Housing policy is seen as a box over here, planning is seen as a box over there—run by other people—and I think we have to move towards a system which really integrates the two…In the postwar period, housing policy was seen as a way of delivering urban growth. It was a deliberate planning policy. In a way, we have lost that linkage because we believe that the market will deliver. I think we need to understand that the market needs to be assisted to deliver in some places. It certainly has not delivered affordable housing outcomes that have been appropriate.[30]

> For some reason the planning sector itself in Australia—and I will be the first to admit this, as a planning academic—has been quite reluctant to accept that broader policy objective of housing affordability as well as the specific policy objective of maintaining and creating opportunities for new housing that is specifically affordable to lower and moderate income earners. Australia is actually quite out of step with international practice in that regard. Most cities of the United States, most regions of the United States, many parts of England and across the United Kingdom accept this very symbiotic relationship between spatial planning policy and affordable housing.[31]

Conclusion

6.34 The committee contends that there is a need for Australia's planning frameworks to set a target for affordable housing. It acknowledges the initiatives of the South Australian and ACT governments in this regard. Any target should be properly integrated within state and local governments' planning and housing strategies. New stock of affordable housing must be carefully planned and integrated into wider residential developments. Finally, the committee highlights the commercial success of several smaller, more compact and cheaper housing designs. It encourages developers to continue testing these market opportunities and urges state governments to consider incentives for developers to do so.

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29 Ballina Shire Council, *Submission 72*, pp 4–5. A similar approach is being adopted in the new Melbourne suburb of Williams Landing which will encourage 'modular housing' where couples could add rooms to the house as their families grow; *The Age*, 1 May 2008, p. 8.

30 Professor B Randolph, *Committee Hansard*, 2 April 2008, pp 40 and 46.

31 Dr N Gurran, *Committee Hansard*, 2 April 2008, p. 40.

Recommendation 6.1

6.35 The committee recommends that state and territory governments introduce enabling legislation for inclusionary zoning to require affordable housing in all new developments, including a proportion of social housing.

Recommendation 6.2

6.36 The committee recommends that the state and territory governments encourage and promote the design and construction of adaptable housing which facilitates access improvements for the elderly and disabled and allow a larger house to be converted into smaller, separate units.

Chapter 7

Impact of state and local government charges

7.1 The three tiers of government levy taxes and charges on the construction and sale of homes (and some of these taxes interact with each other). Concerns have been expressed that some of these, particularly those levied by some state and local governments, are adding unduly to the cost of buying a home, especially for first home buyers. This chapter considers the role of stamp duties, developer infrastructure charges, levies on rezoned land, land tax and the interaction with the GST.

Stamp duties

7.2 The state and territory governments levy stamp duties (also known as 'transfer duty' or 'contracts and conveyancing duty') on the purchase of homes, at varying rates and with varying concessions. It is generally equivalent to around 3–4 per cent of the average house price in the capital cities. Some examples of the stamp duty levied in each state, as at June 2008, are shown in Table 7.1. In 2006–07 stamp duties raised $13 billion.[1]

Table 7.1: Stamp duty for residential property sales at selected prices

	$250 000	$250 000 (first homebuyers)	$500 000	$500 000 (first homebuyers)	$750 000	$750 000 (first homebuyers)
NSW	$7 240	-	$17 990	-	$29 240	$29 240
Victoria	$9 310	$8 870	$25 660	$21 790	$40 070	$40 070
Queensland	$7 225	-	$15 975	-	$18 105	$18 105
WA	$8 200	-	$20 700	-	$34 200	$34 200
SA	$8 955	$15	$21 330	$21 330	$35 080	$35 080
Tasmania	$7 550	$3 550	$17 550	$17 550	$27 550	$27 550
ACT	$7 500	$20	$20 500	$20 500	$34 875	$34 875
NT	$5 357	-	$21 428	$8 413	$34 625	$21 609

Source: Derived from various state and territory government's revenue office websites. The data reflect changes in the states' 2008–09 budgets.

7.3 These duties may affect first home buyers more than other buyers, as the major factor constraining many from entering the market is gathering sufficient funds to meet the upfront costs. Other than the deposit, the largest of these costs is stamp

1 ABS, *Taxation Revenue 2006–07*, cat. no. 5506.0.

duty. The ACT government has responded to this concern by allowing first home buyers to defer the duty for up to five years.

Box 7.1: Stamp duty concessions for first home buyers in Australian states and territories

Western Australia: first home buyers are exempt from paying stamp duty on homes priced up to $500 000 and vacant land priced up to $300,000.

New South Wales: eligible first home buyers exempt from paying stamp duty on homes priced up to $500,000 and for vacant land priced up to $300,000.

Queensland: as of 1 September 2008, eligible first home buyers are exempt from stamp duty for purchases up to $500,000 for established homes.

South Australia: scaled stamp duty concessions for properties valued at $250 000 and under.

Tasmania: those eligible for the First Home Owners Grant are also eligible to receive a maximum stamp duty concession of $4000 for the purchase of owner occupied property up to $350 000.

Victoria: stamp duty concession is available for the purchase of principal places of residence priced between $115 000 and $500 000. First home buyers are now able to claim the *First Home Bonus* and the stamp duty concession.

Northern Territory: first home buyers purchasing a property priced up to $385,000 are exempt from stamp duty. The 2008–09 budget introduced a change in stamp duty tax rates, which now range from 1.5 per cent to 4.95 per cent with an increase in the top rate from properties valued at $500,000 to those valued at $525,000. For contracts executed (signed) on or after 20 June 2005, a rebate of up to $2500 off the stamp duty payable is available.

ACT: scaled stamp duty concession scheme for properties valued below $390 000 (applies to all home buyers).

Source: 2008–2009 State Budget Papers; State Revenue Office websites
http://www.mortgageworldaustralia.com.au/first_home_buyers/stamp_duty_concessions.htm

7.4 Stamp duty adds to transaction costs, which has many adverse impacts. It impedes labour mobility. It also discourages people from moving to more appropriate housing types as their circumstances change.[2] It may also mean that first home buyers will seek to avoid incurring these transaction costs again when upgrading to a larger home as their income grows or they have children. This may lead them to buy a larger home than they need at the time as their first home.[3] For these reasons, it is generally regarded as an inefficient tax. It is also a relatively volatile revenue source, fluctuating with the cycles in the housing market. The Productivity Commission argues that governments need to consider how best to reduce reliance on stamp duties 'in favour of more efficient alternative sources of revenue'.[4]

2 Professor A Beer, *Proof Committee Hansard*, 28 April 2008, p. 48.

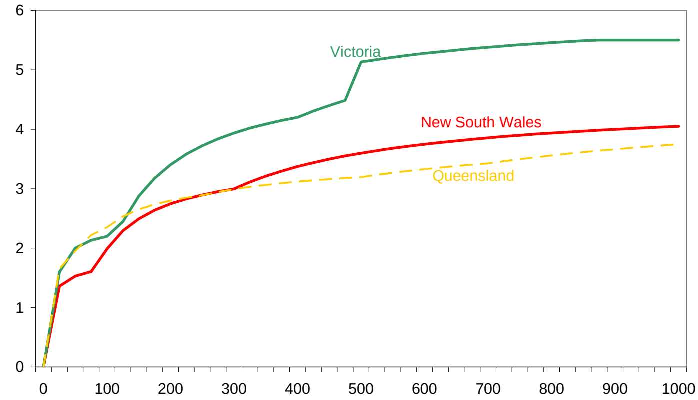
3 This theory was put by Senator C Bernardi, *Proof Committee Hansard*, 28 April 2008, p. 11. Mr Jackson from the UDIA's South Australian branch replied that it is a small factor relative to the increase in the wholesale price of broad hectare land for development.

4 Productivity Commission (2004, p. 75).

7.5 The extent to which stamp duty increases more than proportionately with increases in house prices is illustrated in the chart below.

Chart 7.1

Stamp duty as % of house price

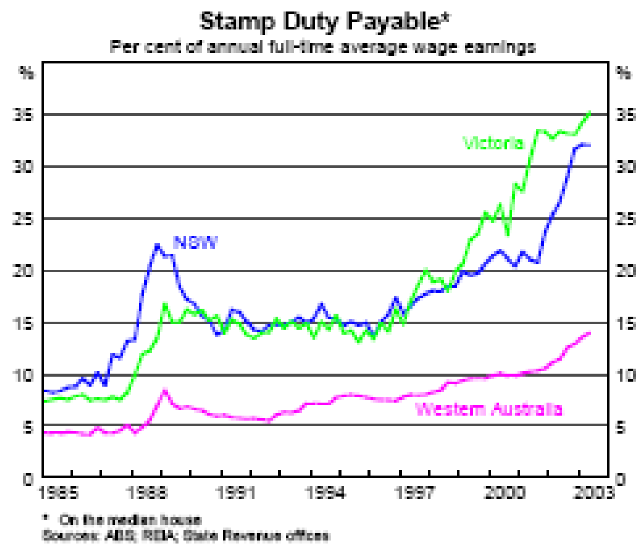


Source: derived from schedules in NSW Treasury Office of Financial Management (2007, pp 15-16).

7.6 This has led to stamp duty payable rising relative to incomes. The cost of stamp duties has been increasing. As the Reserve Bank has commented:

> State governments have not materially adjusted stamp duty thresholds as house prices have risen. As a result, the average rate of stamp duty payable on the median-priced house has increased substantially, both relative to house prices and average incomes…. [and] stamp duty concessions given to first-home buyers have not kept pace with the increase in prices.[5]

Chart 7.2



Source: Reserve Bank of Australia (2003, p. 34).

5 Reserve Bank of Australia (2003, pp. 33–4).

7.7 This 'bracket creep' has been criticised within the real estate industry. A common refrain is that 'stamp duty should be immediately indexed to median house prices to avoid taxation creep as house prices inflate over time'.[6]

7.8 The Real Estate Institute of Australia expressed its clear opposition to stamp duties:

> A new intergovernmental agreement is required to consider means by which inefficient property taxes, such as land tax and stamp duties on residential property conveyancing, can be abolished or at least much reduced.[7]

7.9 Its priority in removing stamp duties is:

> first home buyers purchasing a medium priced home should be exempt from all stamp duties. State and territory governments should also consider granting a one-off stamp duty exemption for retirees who are downsizing their primary residence.[8]

7.10 This issue of the need for better incentives for retirees to downsize their residence was discussed by the St Vincent de Paul Society. It was critical of current tax arrangements which discourage 'empty nesters' from downsizing because the cash generated from the asset sale disqualifies many on middle incomes from the pension.[9] In private correspondence to the committee, the Society noted:

> For empty nesters one possible suggestion is that the social security systems' income and asset test not include the income that is realised in the sale of a property when empty nesters are downsizing. If this were not considered in theory it would facilitate the opening up of housing stock for younger families.[10]

Recommendation 7.1

7.11 The committee recommends that all state and territory governments consider stamp duty exemptions for first home buyers and for retirees who are downsizing their primary residence.

7.12 Professor Julian Disney told the committee that there needs to be a reduction of stamp duty 'at the front end'.[11] While he did not elaborate to the committee,

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6 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38. Similar views were put by Mr P Donald, *Submission* 5, p. 1 (who added that stamp duty thresholds should vary with postcode).

7 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

8 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

9 Dr G Dufty, *Committee Hansard*, 23 April 2008, p. 49.

10 Dr G Dufty, *Private Correspondence*, 13 June 2008.

11 Professor Julian Disney, *Proof Committee Hansard*, 2 April 2008, p. 29.

Professor Disney made the following observation in March 2008 on the SBS television program *Insight*:

> …I would drop or substantially reduce stamp duty at the front. Let people get into housing more easily than they can now, but then when they've got in and they're starting to enjoy the benefits of housing, ask them to contribute on the way through.[12]

7.13 Other proposals came from Professor Burke and Associate Professor Hulse. In their submission to the inquiry, they recommended three possible options for reforming stamp duty. First, the impost could be switched from purchasers to sellers, thereby excluding first home buyers. Second, stamp duty could still be applied to purchasers but the scales could be reformed to provide (further) relief at the more affordable end of the market. Their third proposal is to hypothecate a percentage of stamp duty explicitly for an affordable housing fund or an infrastructure fund.[13]

7.14 Forming a view about these possible reforms to stamp duties requires information about who ultimately bears the duty. There were some submissions that suggested removing stamp duties may just allow vendors to raise prices.[14]

Infrastructure charges

7.15 A few decades ago it was common for new housing developments only to have the most rudimentary infrastructure. Sealed roads, sewerage and facilities such as parks and libraries—sometimes even water and electricity—were only provided some years after new building blocks were sold and homes built on them. They were gradually provided and paid for out of general rates and taxation revenue.

7.16 Now it is more common for such infrastructure to be installed as the land is developed.[15] Rather than funded by the whole community through taxes and rates, it is increasingly being funded, especially in New South Wales, by specific 'infrastructure charges' on developers, who *may* in turn pass the charges on in the form of higher prices for serviced lots and homes.

7.17 To the extent they are ultimately borne by new home buyers, infrastructure charges raise equity questions about who should pay for infrastructure—the general community or those most directly benefiting. There is also a question of timing of the charges—how much of the payment for infrastructure should home buyers make at the time of purchase and how much over the years.

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12 Professor Julian Disney, Insight, SBS television, 25 March 2008, http://news.sbs.com.au/insight/out_of_reach_543170 (accessed 10 May 2008).

13 Professor Terry Burke and Associate Professor Kath Hulse, *Submission 33*, p. 6. See also Professor Terry Burke, *Committee Hansard*, 24 April 2008, p. 24.

14 Mr C Simpson, *Submission 1*, p. 2; Mr V Mangioni, *Submission 55*.

15 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 119.

7.18 The Real Estate Institute of Australia argues that:

> There should be a specific review with a view to reducing this component cost of new housing developments and spreading those development costs across the broader community, as they were back in the 1950s and 1960s.[16]

7.19 Some laud the infrastructure charges as improving efficiency by introducing 'user pays' principles. A counterargument is that it is only current users that are paying, not future users (as is the case when infrastructure is funded through borrowings repaid over time by taxes and rates).

7.20 Another argument for infrastructure charges is that they enable more land to be developed quickly than if the cost of infrastructure had to be borne by financially constrained local governments. While the Planning Institute of Australia 'recommends that a consistent national approach be taken to developer contributions'[17], they see them as more transparent than alternative funding measures:

> They are intended to be transparent forms of appropriately apportioning the cost of infrastructure provision, whereas in the past, prior to developer contribution schemes or infrastructure charging schemes, there were a lot of underhanded ways in which money was collected from developers to provide infrastructure. It was not open and accountable. In fact, in many cases the money that was taken from a developer, presumably for infrastructure in one location, was actually spent in another location and not for the same type of infrastructure.[18]

7.21 Others argue the charges are excessive and contribute significantly to making housing less affordable, especially for first-home buyers. Some argue they lead to 'gold plating', excessively expensive infrastructure being mandated by councils no longer needing to fund it from their own resources. As Professor Troy told the committee:

> I would…argue that we are very generous about what we do with road supplies. We put them in to high standards, and one of the reasons why we do is that now that we have the developer paying for it the local authority can say, 'We want an eight-inch paving because we don't want to carry the maintenance costs, and we're going to make sure it is gold plated.'[19]

7.22 Another criticism is that infrastructure charges are levied as a flat rate, rather than being related to the value of housing:

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16 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38. A similar view is put by Professor A Sorensen, *Proof Committee Hansard*, 7 May 2008, pp 55-6.

17 Mr N Savery, Planning Institute of Australia, *Committee Hansard*, 1 April 2008, p. 57. This was also advocated by the Urban Research Centre of University of Western Sydney, *Submission 32*.

18 Mr N Savery, Planning Institute of Australia, *Committee Hansard,* 1 April 2009, p. 63.

19 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 119.

> If we were trying to put an affordable housing development on Pine Rivers with small-lot workers cottages at $300 000, a $60 000 infrastructure charge would be out of the question. The people up the hill were providing $600 000 houses. A charge of $60 000 is much more able to be accommodated by a large house with five bedrooms and three bathrooms than by a workers cottage. If we are going to steer the industry better, we have to have progressive fees and charges.[20]

7.23 The case for a developer charge is weaker when it is for facilities that will benefit the broader community rather than just those moving into a new estate. An extreme example provided to the committee is:

> Hornsby Shire Council levied an extra $1100 a block for the construction and maintenance of a library. I have nothing against community libraries, but the argument there in terms of policy is: should only a few homeowners pay for that or should that be a broader community responsibility.[21]

7.24 The Productivity Commission argue this is unusual:

> As a general rule in local government, developer contributions can only be used to fund specific infrastructure investments, and cannot therefore be used to subsidise other services to the community.[22]

7.25 As a guide to the magnitudes, the following four tables show estimates from various studies. Table 7.2 compares the cost components for a new house in 2003 in Penrith (an outer western suburb of Sydney) and Wyndham (a suburb of Melbourne).

Table 7.2: Components of cost of a new home

$'000 (%)	Penrith	Wyndham
Land	93 (22%)	42 (14%)
Infrastructure charges	65 (15%)	32 (11%)
Planning and building fees	5 (1%)	1 (0%)
Dwellings	156 (36%)	139 (48%)
Margins	61 (14%)	46 (16%)
Tax	53 (12%)	31 (11%)
Total	431 (100%)	291 (100%)

Source: Productivity Commission (2004, p. 160).

7.26 More recent data from the UDIA refer to the edge of Sydney today.

20 Mr M Myers, Queensland Community Housing Coalition, *Committee Hansard*, 14 April 2008, p. 47. Similarly, Gurran et al (2007, p. 22) argue that 'developers may opt to produce “upmarket” housing with a greater margin for profit as a way of recouping costs'.

21 Mr W Harnisch, Master Builders' Australia, *Committee Hansard*, 1 April 2008, p. 25.

22 Productivity Commission (2008a, p. 129).

Table 7.3: Components of cost of a new home in outer Sydney

	$'000 (%)
Electricity	5 (1%)
Sydney water	10-15 (2-3%)
Local council section 94 contribution	45 (9%)
State levy for infrastructure	30 (6%)
GST	40 (8%)
Land/dwelling/margin/other	365-370 (73-74%)
Total	500 (100%)

Source: Mr Woodcock, Urban Development Institute of Australia, *Committee Hansard*, 1 April 2008, pp 76–77.

Further examples were provided by the UDIA's New South Wales Division and the Property Council.

Table 7.4: Components of cost of a new home in Camden, outer Sydney

	$'000 (%)
Land	59 (11%)
Development works	57 (10%)
Finance costs	26 (5%)
Selling costs	8 (1%)
Dwelling	192 (35%)
State levies and taxes	57 (10%)
Council levies and fees	33 (6%)
GST	40 (8%)
Margins	75 (14%)
Total	551 (100%)

Source: Urban Development Institute of Australia (NSW Division), Additional material supplied to committee, 1 April 2008.

Table 7.5: Components of cost of a new home, 2006

$'000	Sydney south-west	Hunter (NSW)	Gold Coast	Melbourne	Adelaide	Perth
Land / margins	376	266	294	275	192	285
GST	48	32	33	32	22	33
State infrastructure	18	5	0	0	0	0
Other state taxes	75	46	49	54	32	55
Section 94 infrastructure	26	11	15	5	2	0
Other local government	1	1	1	1	0	1
Total	544	361	392	367	248	374

Source: Property Council (2007).

7.27 These data need to be interpreted carefully. The tables may give the impression that the final price results from adding a set of independently-determined components. However, it should not be assumed automatically that developer charges are passed on to homebuyers. They may instead be (partly) borne by the developer, or be 'passed back' in the form of a lower price being paid by the developer for the raw land. The committee heard a range of views on this question.

7.28 The building industry generally suggest charges are passed on:

> things are then levied against the development industry, and of course they simply pass that on to the first home buyer in particular.[23]

7.29 Some see the chain as longer, but also ending with the home buyer:

> cost shifting by all levels of government—the feds to the state, to the local level, to the developer—a misnomer—who passes it on to the homebuyer.[24]

7.30 However, some argue that developers who want to have such charges reduced have a vested interest in portraying the charges as an impost on homebuyers. One developer said that prices are set in the market for established dwellings and new developments have to match that; 'the established market is what drives the price point that you are trying to achieve'.[25] That would imply that a higher infrastructure charge

23 Mr W Harnisch, Master Builders' Australia, *Committee Hansard,* 1 April 2008, p. 25. A similar view was expressed by Mr Marker from the UDIA (South Australia), who said a 'developer levy' is 'a cost to the developer which has to be added to the price of the allotment or the house and land that is being sold. So it is a homebuyer levy; it is not a developer levy'; *Proof Committee Hansard*, 28 April 2008, p. 12.

24 Mr R Blancato, Urban Development Institute of Australia (New South Wales), *Committee Hansard*, 2 April 2008, p. 60. However, their submission refers to it sometimes being passed back to the vendor of the raw land (*Submission 49*, pp 9, 13).

25 Mr C Dutton, UDIA (Gold Coast), *Committee Hansard*, 15 April 2008, p. 21.

could not be passed on to buyers in the form of a higher price. Either the developer would have to accept a lower profit, or offer a lower price for the raw land. This does not mean, of course, that developer charges can be increased without limit. If developers' profits are squeezed beyond a certain point, they will leave the business. If the price they are willing to pay for land is driven down too low, then it will not be sold to them and may remain as farmland. This would lead to a reduction in the supply of new housing in the outer urban area and a rise in prices there.

7.31 The Local Government Association of Queensland's submission suggests that infrastructure charges in that state are far from preventing developers making good profits:

> During the housing boom over the past four years…the development industry's key players in Queensland…have recorded significant financial growth, including a doubling in market capitalisation and an average return on investment of 20 per cent.[26]

7.32 One academic's view of the literature is that:

> there is not a direct flow-on relationship between infrastructure levies and house prices. That has been established, based on international research.[27]

7.33 The Productivity Commission took a similar view, leading them to conclude that:

> Greater use of upfront developer charging is unlikely to have any substantial effect on housing affordability.[28]

7.34 A planner's view is that the tax burden is shared out:

> we do not accept that all developer levies are passed forward to the consumers of land and housing, and certainly research undertaken has shown that generally it is the case that it is shared amongst land sellers, developers themselves and the ultimate consumers.[29]

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26 Local Government Association of Queensland, *Submission 71*, p. 18.

27 Dr N Gurran, *Committee Hansard*, 2 April 2008, p. 41. Similarly, a witness in Ballina opined that 'we do not believe that an abolition of developer fees will automatically lead to an immediate reduction in prices'; Mr T Davies, Northern Rivers Social Development Council, *Committee Hansard*, 15 April 2008, p. 16. Mr Hehir from the ACT government implied that developer charges are passed back to the landowner; *Proof Committee Hansard*, 7 May 2008, p. 19. Mr P Pollard also said 'Whenever the industry speak about the need for reduced taxes and charges on housing, to take their proposals seriously, they need to demonstrate that the reductions they are seeking will pass through to the homebuyer. If they cannot pinpoint a mechanism where the likelihood is that that will happen then obviously their proposals carry less credibility.'; *Proof Committee Hansard*, 7 May 2008, p. 60.

28 Productivity Commission (2004, p. 165).

29 Mr C Brenton, Geelong City Council, *Committee Hansard*, 23 April 2008, p. 22.

7.35 The Urban Research Centre suggests 'the exact fraction of the tax that is passed forward or passed back will depend on the state of the housing market'.[30] In the present market, a higher than usual proportion might be expected to be borne by homebuyers.

7.36 There is also debate about whether purchasers of homes in areas where there has been an infrastructure charge benefit significantly, or even at all, from lower rates and other charges in later years. The home buyer may benefit from the home being worth more due to the better facilities funded by the infrastructure charges.

7.37 It seems a widely held view that infrastructure charges are higher in NSW than elsewhere.[31] However, independent data on this does not appear readily available.[32] If it is the case, it raises the question of why this is occurring. One possibility is that NSW local governments have been (more) restricted from raising revenue to pay for infrastructure by caps placed on increases in local government land rates by the state government. This hypothesis gets some support from the data in Table 7.6, which show that local governments in NSW raise less revenue per head than those in other states. The Productivity Commission found 'rate pegging has dampened the revenue raised from rates in New South Wales'.[33]

Table 7.6: State and local government taxes per person: 2006-07

	State government	Local government
New South Wales	$2 598	$406
Victoria	$2 282	$488
Queensland	$2 073	$489
Western Australia	$2 777	$486
South Australia	$2 073	$531
Tasmania	$1 527	$445
Australian Capital Territory	$2 781	n.a.
Northern Territory	$1 744	$299

Source: derived from ABS, *Taxation Revenue 2006-07*, cat. No. 5506.0; *2008 Yearbook*.

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30 Urban Research Centre of University of Western Sydney, *Submission 32*. This view is also expressed in a summary of the literature in Gurran et al (2007, p. 22).

31 Property Council (2007) makes this point; see Table 7.4. The South Australian division of UDIA commented that in NSW 'infrastructure charges have been a major factor while these have had virtually no impact in South Australia'; *Submission 20*.

32 Table 7.5 from the Property Council suggests that charges in NSW are higher. Table 7.2 is supportive but it is four years old and only relates to two specific suburbs. On the other hand, the Productivity Commission (2008, p. 133) report that the average developer contribution revenue per new dwelling commenced in New South Wales is below the national average.

33 Productivity Commission (2008a, p. 117).

7.38 In October 2007 the NSW Government announced changes to state and local infrastructure contributions, aimed at ensuring that they only recover the cost of the infrastructure needed to allow development to proceed. In April 2008 an exposure draft bill was tabled which specifies issues, including housing affordability, that must be considered by councils when developing contribution plans.[34]

7.39 If infrastructure charges are thought to form an excessive burden on home buyers, and they are not due to inefficient or extravagant behaviour by local councils, then a possible solution is for local government to have access to another growth tax.[35] An alternative is for councils to fund infrastructure through borrowings repaid over time by rates, which may require rate caps to be removed to assure lenders that councils can repay those debts.

Rezoning windfalls

7.40 When land outside the urban fringe is rezoned from rural to urban, its value can increase significantly. The owner of the land often reaps a windfall gain from the decision of the planning authority. This could be in the order of $300 000 to $400 000 per hectare.[36]

7.41 The landowner may no longer be a longstanding farming family but a property speculator:

> land speculation on the urban fringe is rife, with many entities engaging in land acquisition solely for the purpose of capturing betterment rather than for engaging in bona fide development.[37]

7.42 It was put to the committee that there is a strong case for capturing this gain for the use of the community. One method would be some form of explicit 'betterment levy' on the landholder. This idea was strongly supported by Geelong City Council:

> the community is entitled to capture a proportion of any uplift in land values which it creates as a result of the need to meet a public policy objective.[38]

7.43 This 'development licence fee' is conceptually distinct from an infrastructure charge, but in practice a higher infrastructure charge may be an indirect way of capturing this windfall gain.[39]

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34 NSW Government, *Submission 90*, p. 2.

35 House of Representatives Standing Committee on Economics, Finance and Public Administration (2003) discuss the challenges faced by councils due to cost-shifting and is critical of rate-capping.

36 Geelong City Council, *Submission 85*.

37 Mr C Brenton, Geelong City Council, *Committee Hansard*, 23 April 2008, p. 20.

38 Mr C Brenton, Geelong City Council, *Committee Hansard*, 23 April 2008, p. 19. A similar stance is taken by Professor B Birrell, *Committee Hansard*, 24 April 2008, pp 30 and 32.

7.44 An alternative way of capturing the windfall is for the government to acquire the land from the farmer, paying a fair margin over its value as rural land, but nowhere near its value as urban land. A government agency can then resell the land to a developer at the higher price, or a government agency can develop the land itself and make a significant profit. An example of agencies operating along these lines was the Australian government's Land Commission Program in the 1970s and four states have such agencies now, although their operations have been wound back.

7.45 It is a decision for government how it uses the profits generated by the agency. They could be used to provide infrastructure and services or reduce the cost of housing by replacing other charges such as stamp duties. At present state governments do not guarantee that profits from land development agencies are necessarily used for improving housing affordability. If guaranteeing this was felt necessary, the profits of the agency could be hypothecated to this end.

7.46 Another option for the government agency is to forego a large profit from the rezoning and rather make the developed land available to homebuilders at a low price, as a way of providing affordable housing.

7.47 The government needs to make clear to a land development agency whether its goal is to maximise profits or to provide cheap land to homeowners. It must realise that an agency charged with maximising profits, like a private company, will often find it worthwhile to sit on land and only release it gradually so as to keep up the price. Confusion about the role of the land development agency seems to have been a problem in Western Australia.[40]

Goods and services tax

7.48 Views differ about whether this should be regarded as an Australian government or state government tax. The GST is applied to the construction of new housing (but not to sales of existing housing). Tables 7.3 and 7.4 suggest it is of a similar magnitude to (other) state and local government taxes. The UDIA's NSW division regards the GST as 'the largest single impediment to the supply of new dwellings'.[41]

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39 Mr P Pollard was one witness who suggested this; *Proof Committee Hansard*, 7 May 2008, p. 64.

40 This is discussed further in chapter 8. There were suggestions in South Australia that their Land Management Corporation was unduly focused on maximising profits; Mr I McKean, UDIA (South Australia), *Proof Committee Hansard*, 28 April 2008, p. 10.

41 UDIA (NSW), *Submission 49*, p. 16.

7.49 The application of GST to stamp duty (and other taxes and charges) is criticised by the UDIA as 'a tax on a tax'.[42] Their NSW division argues that just as raw land value is not taxed, but is deducted from the sale price to calculate the base for the GST, 'using the same logic, all state and local government taxes should be considered part of the land cost and removed from the GST margin'.[43] They are given some support by the Productivity Commission, who argue that if stamp duties are retained, 'tax-on-tax anomalies involving stamp duties would then need to be addressed'.[44]

Land taxes

7.50 State governments impose land taxes, but exempt the principal place of residence. Table 7.7 shows the situation as at November 2007.

Table 7.7: Land tax: payments and marginal rates at selected values of land

$'000	NSW	Victoria	Queensland	Western Australia	South Australia	Tasmania	ACT
50	0	0	0	0	0	$325; 0.55%	$300; 0.6%
100	0	0	0	0	0	$463; 0.55%	$890; 0.89%
500	$2,356; 1.6%	$800; 0.2%	0	$375; 0.15%	$1,770; 0.7%	$4,838; 2%	$3,859; 1.4%
1,000	$10,356; 1.6%	$3,480; 0.8%	$5,875; 1.45%	$1,876; 0.75%	$11,420; 3.7%	$16,088; 2.5%	$11,925; 1.59%
5,000	$74,356; 1.6%	$79,980; 2.5%	$62,500; 1.25%	$48,375; 1.55%	$159,420; 3.7%	$116,088; 2.5%	$75,128; 1.59%
Primary residence	exempt, unless owned by company	exempt	exempt or deductible	exempt, unless owned by company	exempt	exempt	exempt, unless owned by company

Source: Derived from NSW Treasury Office of Financial Management (2007, pp 32-3).

7.51 The Productivity Commission argue that land taxes are more efficient than stamp duties because they are:

> …comprehensive taxation of the unimproved value of land at a relatively low rate, annually or more frequently…[and as] the supply of unimproved

42 Mr S Woodcock, Urban Development Institute of Australia, *Committee Hansard*, 1 April 2008, p. 80. This view is echoed by his NSW colleague, Mr R Blancato, UDIA (NSW), *Committee Hansard*, 2 April 2008, p. 61. The same point is made by Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

43 UDIA (NSW), *Submission 49*, p. 17.

44 Productivity Commission (2004, p. 75 and pp 96–100).

land is inelastic, a broad land tax is unlikely to significantly distort land use or building and housing choices.[45]

7.52 Increasing use of land tax also has the characteristic that it can make use of the land valuations already used for local government rates. Higher land tax may encourage investors to build houses on vacant land. A number of submissions favoured its wider use.[46]

7.53 One witness argued that the higher impost of land tax for each rental property owned is a strong disincentive to increase the supply of rental housing. Commenting on Western Australia's system of land tax, he argued that it:

> …militates strongly against people having rental properties. There is a system in this state, and it is similar in other states, that is a regressive regime: the more properties you have the higher the rate in the dollar. So it is accumulated. In WA the maximum rate is, I think, eight or 10 times higher than the minimum rate. So if you are an investor and you want to own 10 properties, you are going to pay a whole lot more land tax—not just 10 times as much; you might pay 30 times or 40 times as much land tax as someone who has just got one. So it really does work against companies setting out with an ambition of owning a large number of rental properties. When you think about it, it is a very artificial way to impose a tax and it has a very adverse impact.[47]

7.54 Land tax on investment properties was criticised by the Real Estate Institute of Tasmania:

> As a result, there is little or no incentive to buy rental properties, certainly to provide affordable housing, as this again diminishes your return from the investment or investments, particularly the more you have. I know a number of investors who have ditched their investment properties as a result of increases they cop from land tax alone.[48]

7.55 A contrasting view was put by the ACT 's Affordable Housing Steering group, who concluded:

> The introduction of land tax in 1991 had no discernible effect on the level of investor activity in the ACT's residential property market. There is no evidence that land tax is having a measurable effect on market behaviour.[49]

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45 Productivity Commission (2004, p. 100).

46 For example, Mr C Cook, *Submission 4*, p. 1.

47 Mr W Hemsley, *Committee Hansard*, 8 April 2008, p. 62.

48 Mr P Bushby, *Proof Committee Hansard*, 5 May 2008, p. 18. The UDIA's Western Australian division was critical of bracket creep in land tax in that state; *Submission 45*.

49 'Report of the Affordable Housing Steering Group', p. 11, included with the ACT Government, *Submission 75*.

Chapter 8

Specific issues in particular areas

8.1 Most of the discussion in the preceding chapters applies generally across Australia. However, through its hearings, the committee became more aware of the specific housing problems faced in certain regions or types of location. This chapter discusses three areas with particular problems; mining towns, 'sea change' regions and western Sydney.[1]

Mining towns

8.2 In recent years the resources boom has had a major impact on the affordability of housing in mining areas. A recent study found that one-third of the fifty suburbs that increased most in housing value over the year to January 2008 were located in regions dominated by nearby mining towns.[2] The affordability problem is particularly acute and presents special challenges specific to those areas. The committee held a public hearing in Karratha, in Western Australia's Pilbara region, on 7 April 2008, to hear about and see at first hand the housing conditions there.

The Pilbara region of Western Australia—a housing affordability crisis

8.3 The committee received a vast amount of evidence highlighting the dire circumstances faced by Karratha, and the Pilbara region in general, as a result of the housing affordability crisis. The Pilbara Area Consultative Committee believes 'the term "death by boom" is beginning to ring true for communities in the Pilbara region'.[3] Councillor David Hipworth of the Pilbara Regional Council told the committee that:

> …in Karratha the selling price for a modest four-bedroom, two-bathroom house is in excess of a million dollars with a rent return in excess of $2,000 per week…some are still asking in the region of up to $2,800 a week.[4]

8.4 Evidence was consistently provided that unless you work in the mining industry or for one of the few other employers providing subsidised accommodation[5], you simply cannot afford to live in Karratha:

> If you are a public servant here and you do not get your house as part of your package then you are not going to live here for longer than 10 minutes before you realise that you are going to go broke. I do not know how many

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1 This is not to say there are not other pockets within Australia facing similar issues. However, these areas were of particular note in the context of the committee's deliberations.

2 T Lawless, 'Australia's top growth suburbs', *Eureka Report*, 14 April 2008.

3 Pilbara Area Consultative Committee, *Submission 93*, p. 9.

4 Cr David Hipworth, *Committee Hansard*, 7 April 2008, p. 11.

5 Or had bought there before the mining boom (resisting the temptation to sell up and move).

> public servants could pay $1,500 a week for a house—probably none. Small businesses are in the same boat.[6]
>
> If you do not work for one of the big mining companies, you pretty much cannot afford to live here.[7]

8.5 As a result, charitable organisations, such as the women's refuge operated by the Salvation Army, rely largely on partners of people working in the mining industry who are provided with housing:

> When we arrived I discovered I had no staff at the refuge because they could not afford to work at the refuge and pay for housing. My fortnightly pay would not cover one week's rent in Karratha. I had to look for staff whose husbands were working in the mining industry or whatever who had housing provided for them. My staff all have husbands who are working who have a house provided by the employer.[8]

8.6 Non-government organisations and small to medium sized businesses also find it difficult to attract and retain staff:

> There is a childcare centre in Hedland at the moment which is struggling and just about ready to fall over because it cannot attract and retain childcare workers. It is going to create a problem in the workforce area.[9]
>
> You just cannot get staff, so consequently you are not expanding any business in the area because the owners can only work so long and without staff they just have to work the business.[10]

8.7 In April 2007, the Karratha and Districts Chamber of Commerce and Industry carried out a survey of small to medium sized business members on accommodation requirements in the Shire of Roebourne. They found that in excess of 2000 beds were required immediately for permanent workers in those businesses.[11]

8.8 The lack of affordable housing in the Pilbara has created a vicious circle where it is hard to get builders to come to the region to build housing because they cannot afford to live in Pilbara due to high housing costs:

> We had a situation recently where you could not get builders here because the builders could not get accommodation built for the builders. It was silly. It was a cyclic situation.[12]

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6 The Hon F Riebeling MLA, *Committee Hansard*, 7 April 2008, p. 9.

7 Cr B Snell, *Committee Hansard*, 7 April 2008, p. 12.

8 Mrs P Brook, *Committee Hansard*, 7 April 2008, p. 46.

9 Mr B Neville, *Committee Hansard*, 7 April 2008, p. 21.

10 Mrs L Cooper, *Committee Hansard*, 7 April 2008, p. 26.

11 Pilbara Area Consultative Committee, *Submission 93*, p. 7.

12 Mr G Slee, *Committee Hansard*, 7 April 2008, p. 59.

8.9 The committee also received evidence that the lack of affordable housing in Karratha is so acute that people are forced to live in cars, tents or illegal accommodation:

> People are sleeping in cars; they are sleeping in tents. You often go up Radio Hill and find people who have spent the night there; they cannot afford to live in any housing in the town. We need to look after those people ... As I say, I have a lot of young staff. One of their friends actually sleeps in the laundry of a house because that is all they can afford, and they are paying about $350 a week for that.[13]

> So, in 40- to 50-degree temperatures in the middle of summer, you are living in a tent.[14]

> We have—and you have probably heard of this—people living in the bush, people hot bedding and people bed packing in houses, which is four or five couples living in a four-bedroom house. The current rent for a bedroom is $350 a week-plus. We have illegal accommodation in backyards, on industrial blocks and things like that, with the shire turning a blind eye to it. At this stage, they have no choice, unfortunately. It has to happen because they just cannot get the accommodation.[15]

8.10 The Pilbara Community Legal Service suggests that 'the lack of affordability of housing has seen an increase in our client base that includes not only the unemployed but also those in employment who are struggling financially due to their efforts to pay high rentals or mortgages'.[16]

8.11 In short, the housing affordability crisis is making it impossible for Pilbara towns to be 'normal', sustainable communities:

> I can tell you that nothing guts me more than youngsters not being able to afford houses here, because you cannot build your community.[17]

> We should be making sure the young people stay, build a community and bring up their families.[18]

Demand

8.12 The demand for housing in the Pilbara in the context of the mining boom has been unprecedented. The committee received evidence that mining companies' demand for housing is the major cause of the affordability crisis in the region:

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13 Mrs L Cooper, *Committee Hansard*, 7 April 2008, pp 26 & 27.

14 Mr W Brook, *Committee Hansard*, 7 April 2008, p. 47.

15 Ms G Jacob, *Committee Hansard*, 7 April 2008, p. 55.

16 Pilbara Community Legal Service, *Submission 92*, p. 1.

17 Cr D Hipworth, *Committee Hansard*, 7 April 2008, p. 16.

18 Mrs L Cooper, *Committee Hansard*, 7 April 2008, p. 28.

> Personally, I like Karratha, not because it is a mining town but because it has great fishing and great coastal views, if you get out there amongst the mangroves. It is a great place to live. I like the heat. I am one of those strange people! There is a lot more going for Karratha than the mines, and yet the mining companies seem to dictate the terms of living in Karratha. They call the shots about pricing. Private people try and buy a home, and they are outbid by a mining company with unlimited resources so that it can provide accommodation for its staff. So the private sector has no opportunity to compete against the mines, which are here, supposedly, for 50 years at most and then gone, and then the whole structure of the town falls in a heap.[19]

8.13 The committee was told that 80 per cent of the dwellings in Karratha are now owned by large mining companies.[20] Even so there has been an increase in the fly-in fly-out workforce in the region that has caused problems in itself:

> With an increase in FIFO, the family members that used to work in small businesses are not here anymore, so it is a catch 22.[21]
>
> It is fine to have the FIFO and it is fine to have them spend their funds in this town. I support the resource companies because that is what they have to do. The only way they can actually get ahead is to fly people in from elsewhere…It totally killed all those volunteers who would come down and make sandwiches for the local rugby game or who would turn out to help you out at your scouts association. People do not have the time now.[22]

8.14 The committee also heard evidence that property owners are taking advantage of mining companies' demand for housing thereby pushing out residents who are not working in the mining sector:

> What happened there is typical of what happened in Hedland and across here in Karratha as well: the owner of the property, after being contacted by the real estate agent, requested vacant possession of the property, which you are allowed to do. You give the required notice, you take vacant possession of the property, you spend a few thousand dollars on that property to refurbish it and you lease it out to a mining company or to one of the contractors for about two to three times as much. And that is what has occurred in South Hedland over the last two years and was what created the homelessness situation that we have around the Pilbara, particularly in Hedland.[23]

8.15 In short, demand has massively outstripped supply because there is simply not enough housing available in the current boom environment:

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19 Mr W Brook, *Committee Hansard*, 7 April 2008, p. 48.

20 Hon F Riebeling MLA, *Committee Hansard*, 7 April 2008, p. 9.

21 Cr B Snell, *Committee Hansard*, 7 April 2008, p. 13.

22 Cr D Hipworth, *Committee Hansard*, 7 April 2008, p. 16.

23 Mr B Neville, *Committee Hansard*, 7 April 2008, pp 19–20.

> Up here, the problem major resource companies have is the availability of accommodation; it is not affordability. For everybody else, it is both availability and affordability. That is where the difference is. Of course, it has really been driven by the resource companies who have the dollars to drive it. I am not blaming them for it; that is just the reality of a life.[24]

Land supply

8.16 Many submitters to the inquiry saw the slow rate of supply of zoned land as a major contributing factor to the current housing affordability crisis in Karratha and the Pilbara region in general.

8.17 The supply of residential land in Karratha is the responsibility of LandCorp, the state government's land and property developer. For some years, there has been a shortage of land for housing, attributed variously to the mining-related surge in demand, the native title clearance process and the failure of the state government land developer to release land.

8.18 The committee heard from the local state member, the Hon. Fred Riebeling MLA, that following native title clearance:

> [t]he state is in the process of releasing as much land as possible. The problem with releasing more and more land is the capacity of industry to build houses on that land. The availability of land will continue to be flowed out until such time as the demand is no longer. It is really now a question of how quickly houses can be put on top of that particular land.[25]

8.19 Land developers as a group have an incentive to release land gradually (not to 'flood the market') so as to keep prices up, but competitive pressures may render this difficult. This issue is discussed in general in Chapter 5. A specific policy problem occurs, however, when the sole land developer is a government-owned monopoly. This is the situation in Western Australia where LandCorp—the state government's land and property developer—has been accused of withholding land for residential development in the Pilbara region.

8.20 While the committee takes issue with LandCorp's role in the slow release of land in Karratha, it acknowledges the agency's claim that it has developed 600 dwellings in the past two years and has another 800 in the approval planning phase.[26]

8.21 Mr Robert Neville, Chairperson of the Pilbara Association of Non-Government Organisations, was asked whether earlier release of land by the state government could have assisted housing affordability in the Pilbara region. His response was blunt:

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24 Mr G Slee, *Committee Hansard*, 7 April 2008, p. 56.

25 The Hon. F Riebeling, *Committee Hansard*, 7 April 2008, p. 3.

26 Mr M Moloney, LandCorp, *Committee Hansard*, 7 April 2008, p. 65.

> …most definitely. It might stick in somebody's ears to hear it, but in my view LandCorp is a cash cow for the state government and they purposefully did not release land in places like South Hedland any earlier because they were waiting for the prices to push up…It is there to make money for the state government. It is not there to service the community, and servicing our communities is what it should all be about. You have to service the community.[27]

8.22 Dr Steven Rowley from the Curtin University of Technology asked why a state-owned agency with a monopoly on land development in Karratha should sell its land at market rates to make a profit. He asked:

> Wouldn't it be fantastic to get some evidence from LandCorp about just how much it costs to bring a lot onto the market? At the moment we do not really know how much they are taking in terms of profit for individual lots. Obviously the profit taking has a substantial impact on the price that local residents have to pay for that land…I find it a very strange situation where an organisation is responsible for providing land and is tied to government and has to make market levels of profit. They do provide something like 10 per cent of their new land release to the Department of Housing and Works for housing, but they sell that land to that organisation at market levels, which again is something I fail to understand completely.[28]

8.23 The Real Estate Institute of Western Australia offered LandCorp qualified support. It argued that state government land development agencies have an important role to play in developing Crown Estate in remote areas. However, REIWA identified a conflict of interest in these agencies delivering affordability on the one hand while seeking to maximise their commercial returns on the other.[29]

8.24 Speaking in his organisation's defence, LandCorp's Mr Michael Moloney told the committee that the extent of the surge in demand for housing related to the mining boom was unexpected. He also cited native title and environmental planning delays that stalled the land development process:

> I can understand the frustration of people living in Karratha as to the supply of land. However, I think it is clear that, whilst there has been a lot of talk about activity happening in this region, nobody expected the level of current activity to occur…The flow-on from that has been the huge capacity constraints that have occurred. Everyone, whether they be in the private sector or the public sector, has found it extremely hard to get resources into the regions….To actually get town planning scheme amendments and so forth underway you have to undertake flora and fauna surveys on the site. Until the native title agreements are in place you cannot do that. So there is

27 Mr R Neville, *Committee Hansard*, 7 April 2008, p. 24.

28 Dr S Rowley, *Committee Hansard*, 8 April 2008, p. 46.

29 Real Estate Institute of Western Australia, *Submission 53*, p. 4.

a certain amount of process that you need to go through to actually develop the land.[30]

8.25 The committee finds these explanations inadequate and believes that LandCorp should have done more forward planning. As Mr Barry Haase, the federal member for Kalgoorlie, told the committee:

> I do believe that there were many quite genuine limitations to LandCorp making the preparation they ought to have made and, yes, there was a skills shortage for that particular sort of work. But, when those two problems were considered, instead of being an impetus to fix that problem and land bank land, it was accepted that the status quo could be maintained, that the problem would surely go away, that maybe the resource companies were exaggerating the potential for increased markets anyhow and that maybe they would not get caught. They got caught—big time.[31]

8.26 It also seems that more might have been done to prepare for native title issues. Mr Haase told the committee that the prospect of native title claims were 'well understood' in Karratha because of Woodside's activities and that 'it is almost assured that the courts will be involved anywhere there is resource development'. However:

> …no-one knew what the pitfalls were in addressing native title. Every decision made was almost automatically challenged through the courts. The whole process was protracted again and again.[32]

Recommendation 8.1

8.27 The committee recommends that the Western Australian Auditor General assess LandCorp's performance in releasing residential land in the Pilbara region over the past five years.

Recommendation 8.2

8.28 The committee recommends that the Western Australian government review the *Western Australian Land Authority Act 1992* and the governance and goals of LandCorp, in particular the requirement under section 19 that it must 'endeavour to surpass financial targets'.

Possible solutions

8.29 The committee consistently heard evidence that there is no single solution to housing affordability problems in the Pilbara. Any response to this crisis will need to be multifaceted. As Councillor Bradley Snell of the Pilbara Regional Council noted:

> It is pretty obvious that, if the solutions were simple, the problems would have been solved. There are a whole raft of issues that are all interrelated

30 Mr M Moloney, *Committee Hansard*, 7 April 2008, pp 63, 66.

31 Mr B Haase MP, *Committee Hansard*, 7 April 2008, p. 42.

32 Mr B Haase MP, *Committee Hansard*, 7 April 2008, p. 43.

> and that change and affect each other, and the situation is always very fluid.[33]

Improving land release

8.30 As highlighted above, many submitters to the inquiry saw the slow supply of developable land as a major contributing factor to the housing affordability crisis in Karratha and the Pilbara region in general. Improving land release in the future has therefore been raised as important to improving the affordability of housing in the Pilbara:

> What we really need to do is to move to an environment where we can have land banks that are readily accessible and can be released quickly to compensate for any changes in the business economy. That is one of the weaknesses we had here which got us into trouble across the Pilbara. We are now working very closely with industry and with the state government to create a settlement strategy, which has already identified where we need to have future land, and we probably should have had that available right at the very beginning. I would say to the committee that that is probably one of the recommendations—that the state governments get these settlement strategies, work out where they need to have land and have it prepared and readily available to compensate.[34]

8.31 Similarly, Mr Barry Haase MP told the committee that 'it is not too late for LandCorp to really get about the business of making sure that native title land is cleared and made ready for development.'[35]

Increased funding for public housing

8.32 The Pilbara Regional Council highlighted a feeling within Pilbara communities that the region is not getting its fair share of government funding, or even what is required to address the effect of the boom on Pilbara communities:

> … despite the often referred to resource and construction booms in the Pilbara, the Commonwealth's, State's and Industry's investment in housing stocks and community infrastructure has not been commensurate with that needed to support the expansion and sustainment of the mineral and petroleum sectors, or community growth.[36]

> It is fantastic the country can enjoy the benefits that come with the boom but due to a lack of affordable housing in the region locals are unable to enjoy the boom.[37]

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33 Cr B Snell, *Committee Hansard*, 7 April 2008, p. 17.

34 Mr A Ellson, *Committee Hansard*, 7 April 2008, pp 16–17.

35 Mr B Haase MP, *Committee Hansard*, 7 April 2008, p. 41.

36 Pilbara Regional Council, *Submission 96*, p. 2.

37 Real Estate Institute of Western Australia – Pilbara Division, *Submission 94*, p. 1.

8.33 Mrs Leann Cooper also saw a role for government in providing housing for low-income workers in Karratha: '…the state and federal governments should be involved in having more availability of affordable state housing for the low-income workers who do not get houses supplied with their work.'[38]

8.34 The Hon Fred Riebeling MLA, the local state member, concluded his evidence to the committee by stating: 'I hope your deliberations lead to me being able to announce ICEHA being reopened!'[39] The ICEHA was established under the *Industrial and Commercial Employees' Housing Act 1973* (WA). Mr Riebeling described it as:

> … a Commonwealth funded system that was developed in the mid-eighties. I think there were about 160 ICEHA homes built in Karratha. They were particularly directed at small business people. They could be allocated ICEHA homes and they would rent those homes to their employees … It was a great system that responded to small business needs … The Commonwealth can contribute, if it is possible to reintroduce that system, by putting money into that.[40]

8.35 As such, Mr Riebeling saw the reintroduction of ICEHA as a potential solution to the problem non-government organisations and small businesses have in attracting and retaining staff because otherwise potential employees are unable to afford to live in Karratha.[41]

8.36 The Pilbara Association of Non-Government Organisations (PANGO) called for the state government to make a number of changes to how public housing is allocated and managed in the region which would require an increase in funding for public housing. Specifically, PANGO suggested that the Western Australian Government:

- allocate a percentage of Government Regional Officers' Housing to non-government organisations;
- allocate on a peppercorn lease the refurbished units in Brown Place, South Hedland, to non-government organisations;
- seriously review the eligibility scales for public housing in the Pilbara with a proposed increase of at least 25 per cent on the existing income eligibility levels; and
- guarantee security of tenure for those tenants currently in public housing and outside the eligibility limit.[42]

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38 Mrs L Cooper, *Committee Hansard*, 7 April 2008, p. 26.

39 Hon F Riebeling MLA, *Committee Hansard*, 7 April 2008, p. 9.

40 Hon F Riebeling MLA, *Committee Hansard*, 7 April 2008, pp 3–4.

41 Hon F Riebeling MLA, *Committee Hansard*, 7 April 2008, p. 9.

42 Pilbara Association of Non Government Organisations, *Submission 95*, p. 3.

Plans to establish a regional community housing association in the Pilbara

The Pilbara Association of Non-Government Organisations is currently looking to establish a not-for-profit community housing association. The Chairman of the Association, Mr Bob Neville, told the committee it will request from the state government 50 to 60 lots of land to 'kick-start' the community housing association in the Pilbara region. The aim is to have the association operated through an established Hedland-based local Indigenous housing association.[1]

The Western Australian Department of Industry and Resources recently engaged Stamfords Advisors Consultants to undertake a feasibility study for affordable rental property in Port Hedland. Stamfords found 'a severe need for affordable rental housing for those who are unable to obtain housing in either the private or public markets'.

Stamfords recommended a not-for-profit housing company as the most appropriate model to increase the supply of affordable rental housing. The company would set rents at a percentage of incomes and at below market rates and tenants would be eligible to receive Commonwealth Rental Assistance.

This model would not be commercially viable without state support. Stamfords argued that the company would need to be supported by a grant of land assets from the state free of charge, which would be returned to the state at the completion of the project. It also suggested tax deductible donations from the private sector and a $5 million loan from the State to be repaid over 20 years.

Sources: Mr B Neville, *Committee Hansard*, 7 April 2008, p. 22. Stamfords, 'Feasibility study for affordable rental property in the town of Port Hedland', March 2008, pp. 4–6.

Recommendation 8.3

8.37 **The committee recommends that the Western Australian government increase the investment in public and community housing in the Pilbara region as a matter of priority. The merits of the Stamfords / Pilbara Association of Non Government Organisations proposal and/or the development of apartment buildings should be considered as a means of rapidly addressing unmet need for social housing in Karratha.**

Changes to local government funding arrangements

8.38 Local governments in Western Australia are unable to rate properly resources companies operating under pre-2005 State Agreement Acts.[43] Councillor David Hipworth of the Pilbara Regional Council told the committee that as a result of this those people who choose to live in the Pilbara:

> …have to pay higher rates and charges to offset the maintenance and renewal costs incurred from resources companies accessing and using Pilbara's community infrastructure, because these companies cannot be properly rated. The royalties and rents being paid by the resources

43 Pilbara Regional Council, *Submission 96*, p. 4.

> companies end up in the Commonwealth and state coffers, with very little being returned to local governments for service and asset maintenance, renewals and development.[44]

8.39 Furthermore, without adequate funding local governments are unable to process development applications quickly, thereby exacerbating the housing shortages. Ms Gloria Jacob suggested that staff should be seconded to the region to assist with planning 'because the shires do not have the staff resources to process those [development applications]—it is not that they are slow; they just do not have the people on the ground to do that'.[45]

Changes to fringe benefits tax and zone allowances

8.40 Councillor Bradley Snell of the Pilbara Regional Council suggested that changes to the Fringe Benefits Tax and Zone Allowances could assist in making housing more affordable in the Pilbara:

> … what we would like to see is changes to the rules concerning fringe benefits tax and zone allowances to encourage mining operations to set up houses permanently in the town, because that will also help with attracting other people—making our towns more normalised instead of just big camps.[46]

8.41 Similarly, Professor Fiona Haslam McKenzie, Director of the Housing and Urban Research Institute of Western Australia noted that:

> The zone benefits have not really changed for the best part of 15 years, and the cost of living in a remote community is very difficult for people living in a metropolitan environment to fully understand. So I think zone allowances do need to be addressed. I think they would go some way to attracting people into the community.[47]

8.42 The Pilbara Regional Council suggested that the zone allowance should be doubled and noted that this would 'provide immediate fiscal relief to many people in urgent need of assistance'.[48]

8.43 Mrs Leann Cooper, President of the Karratha and Districts Chamber of Commerce, also called for changes to the Fringe Benefits Tax and noted that:

> Years ago you had tax relief for having your staff here. A lot of that has gone as well… They just put on these taxes that inhibit you giving your staff these benefits.[49]

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44 Cr D Hipworth, *Committee Hansard*, 7 April 2008, p. 12.

45 Ms G Jacob, *Committee Hansard*, 7 April 2008, p. 60.

46 Cr B Snell, Pilbara Regional Council, *Committee Hansard*, 7 April 2008, p. 13.

47 Professor F McKenzie, *Committee Hansard*, 8 April 2008, p. 50.

48 Pilbara Regional Council, *Submission 96a*, p. 3.

An increased diversity of housing options in the Pilbara

8.44 The committee noted when it was in Karratha that there was a decided lack of diversity in the housing stock there. This was reflected in evidence provided to the committee:

> One of the main things we have been working on with the state government is to produce some housing that people can afford. A lot of the houses that are being built here now—and I am sure it is the same in Port Hedland, Newman and a lot of the areas in the north-west—are huge houses. They have four bedrooms and two bathrooms and are massive. We do not want that sort of house. We would be quite happy with units that have two bedrooms and one bathroom.[50]

8.45 Senator Alan Eggleston has offered the following suggestion:

> Rather than developing single homes on single blocks, particularly given the shortage of land, high-rise apartments should be considered as they would provide accommodation for a large number of people. For years there has been such a high-rise development in South Hedland, but more are needed.[51]

8.46 As a temporary measure to address the immediate shortage of housing for workers in the Pilbara it has been suggested that 'seatainer accommodation' be considered as an option. Mr Barry Haase MP, Federal Member for Kalgoorlie, described seatainer accommodation as:

> stackable self-contained units that are the equivalent of a seatainer in size. Landed at about $12,000 and made available at some $25,000, they are sadly the most readily available solution to local accommodation problems. I am pleased to report that local government is positively considering an application for that style of accommodation to be made available in Karratha. But the wags, the media commentators and the cartoonists have had a great deal of fun with the idea of employees living in seatainers, albeit they are very well appointed and air-conditioned and have all the mod cons.[52]

8.47 Similarly, Mr Gary Slee told the committee that:

> A lot more buildings are being brought out from overseas—from Thailand, China and so forth—and those particular buildings are substantially cheaper than trying to build up here; in other words, you are designing it for trades, completely. If you could also have land that was very affordable, cheap land, you could then put these cheaper houses on that, and you could probably solve the affordability issue to a great extent. But it would have to

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49 Mrs L Cooper, *Committee Hansard*, 7 April 2008, p. 30.

50 Mrs L Cooper, *Committee Hansard*, 7 April 2008, p. 28.

51 Senator A Eggleston, *Senate Hansard*, 13 May 2008, p. 1568.

52 Mr B Haase MP, *House of Representatives Hansard*, 12 February 2007, p. 88.

> be some sort of community operation rather than a private enterprise one, strictly. That is the way it is being done now—bringing those houses in from overseas at a much cheaper rate.[53]

8.48 The Hon Fred Riebeling MLA also suggested that the 'benefits of those single men's camps should not be underestimated'.[54]

A coordinated response

8.49 As noted above, the housing affordability problem in the Pilbara is multifaceted and it will require a coordinated response. It was suggested to the committee that the region needs an 'emergency intervention':

> …a leader to come in…Send somebody here who can make things happen.[55]

> I would suggest that as simplistic as this suggestion is, to convene a meeting of people who have the authority to make decisions at the table, people at the table who will make a financial and operational commitment, then things could move forward in a coordinated approach, would provide an answer to a situation that is spiralling out of control. Agencies (at all three tiers) appear paralysed by the enormity of the situation therefore do nothing or provide small investments funds in an ad hoc manner which achieves little.[56]

Recommendation 8.4

8.50 The committee recommends that the Australian and Western Australian Governments establish a high-level emergency taskforce to consult with Pilbara communities and industry to develop a coordinated response to the housing affordability crisis in the Pilbara with a view to creating long-term sustainable communities in the region.

Recommendation 8.5

8.51 The committee recommends that, in conjunction with the emergency taskforce, all tiers of government hold a number of all-party community meetings in the Pilbara region to give Pilbara residents the opportunity to speak directly to elected representatives regarding the response required to address the housing affordability crisis in the region.

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53 Mr G Slee, *Committee Hansard*, 7 April 2008, p. 59.

54 Hon F Riebeling MLA, *Committee Hansard*, 7 April 2008, p. 5.

55 Ms G Jacob, *Committee Hansard*, 7 April 2008, p. 59.

56 Pilbara Area Consultative Committee, *Submission 93*, p. 11.

The need to learn lessons

8.52 There are other areas in Australia, notably Roxby Downs in South Australia, which some fear could soon face similar problems to Karratha. It is important that lessons are learned from the experiences of the current resource boom-related expansion.

'Sea change' regions

8.53 Housing affordability can also be low in the 'sea change' regions of Australia. These are coastal areas outside the capital cities attracting an influx of professionals seeking a more relaxed lifestyle. Improved telecommunications facilities often make it easier for professionals to work from these areas and further increase their appeal.[57] As the new arrivals are generally selling properties near the centre of capital cities, they are often in a position to bid up prices in these coastal towns to levels that existing residents cannot match.

8.54 The eponymous television series from which the term 'sea change' is derived was set on the Great Ocean Road in Victoria. During this inquiry, the Gold Coast City Council described themselves as a 'sea change' region, as did the contiguous regions in northern New South Wales.[58] South Australia has 'sea change' areas such as Victor Harbour and the south coast.[59] In Western Australia, improved transport links to Perth have made Mandurah something of a sea change region, helping make it the fastest-growing region in Australia and one of the most unaffordable in the world.[60]

8.55 A 2005 report by the Planning Research Centre at the University of Sydney identified five different typologies of communities affected by sea change. They are: coastal towns on the edge of capital cities such as Gosford in New South Wales and Casey in Victoria; small to medium coastal towns within three hours drive of a capital city such as Bunbury and Busselton in Western Australia; coastal cities with populations of more than 100,000 including Newcastle and Cairns; tourism and leisure communities such as Byron Bay and Whitsunday; and small remote coastal communities surrounded by protected natural areas such as Robe and Grant in South Australia.[61] The report notes that the major drivers of population growth in these coastal regions are of working age—younger than 50.

8.56 Growth in sea change areas is associated with new jobs in lower paid occupations such as retail, restaurants and tourism.[62] A problem arises if the new

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57 See Marshall et al (2003, p. 6).

58 Ms C McCool, Gold Coast City Council, *Committee Hansard*, 15 April 2008, p. 2; Ballina City Council, *Submission 76;* Hon C Cusack MLC, *Submission 91*.

59 UDIA (SA), *Submission 20*.

60 Salt (2005, p. 11); Demographia (2008).

61 Gurran, Squires and Blakely (2005, pp 4–6).

62 Gurran, Squires and Blakely (2005, pp 2–3).

arrivals displace established but lower-skilled workers who find themselves no longer able to afford housing in the region. In this context, the Northern Rivers Social Development Council drew the committee's attention to perhaps the most iconic of Australia's sea change regions:

> Think of Byron Bay: it is a community where there are some extraordinarily rich people, but the average income …is around 60 per cent of the New South Wales average. Public housing stock in Byron Bay is three per cent of rental stock; it is one of the lowest...in the state. The economy … is absolutely dependent on low-priced labour particularly in the hospitality sector and the arts but across the whole economy. People cannot afford to live in Byron shire and work there, so there is incredible difficulty in attracting and retaining the type of young, entrepreneurial, upwardly mobile workers that that economy requires…Many workers in that economy—and it is not that different for Tweed or Lismore—need affordable rental accommodation to have somewhere secure and safe to live and also to be able to generate the excess income necessary to save a deposit and move into home ownership.[63]

8.57 Their suggested solution is improving the stock of rental housing. This should be provided by a non-profit community housing organisation or a consortium of regional councils rather than a government-run public housing agency. The focus must be on ensuring that low income workers that are essential to the regional economy are adequately and affordably housed:

> In some ways it is a return to the situation post World War II, where there was an acute shortage of housing for workers. That is what generated the initial investment by government in public housing; it was because there was a crisis such as this. There was a shortage of housing stock fundamentally, and an initiative was brought in by government—and indeed supported by governments of both persuasions—that over a period of 20 years or so addressed that demand for affordable housing.[64]

Ballina

8.58 As well as working professionals seeking a less stressed lifestyle, some 'sea change' destinations are attracting significant numbers of retirees. This is leading some of the regions to face the issues of an ageing population before the rest of the country. The 2005 Planning Research Centre report noted that:

> [A]s the baby-boomer generation is expected to start retiring later this decade, the number of retirees moving to the coast is likely to rise again, contributing to an overall increase in the rate of population growth in these places.[65]

63 Mr T Davies, *Committee Hansard*, 15 April 2008, p. 21.

64 Mr T Davies, *Committee Hansard*, 15 April 2008, p. 22.

65 Gurran, Squires and Blakely (2005, p. 2).

8.59 The committee held a public hearing in Ballina on the New South Wales north coast, where the majority of population growth from 2001–2006 has occurred in the over 50 age groups. Ballina's average house price has increased from $178 000 in 2001 to $369 000 in 2006. In 2006, the Ballina Shire's median weekly household income was just $779, compared with $1027 nationally.[66] The Ballina Shire Council told the committee that the shire:

> …is currently experiencing acute housing stress, with many low-income earners and first home buyers largely priced out of the housing market. The New South Wales Department of Housing, through its Centre for Affordable Housing, provided us with statistics that state that 79 per cent of very low income households in Ballina are currently under home purchase stress. In the June quarter of 2007, the Department of Housing estimated that there were no dwellings available for purchase to very low income households.[67]

8.60 The Council identified the major obstacle to improving housing affordability as the inefficiency and complexity of planning process. It cited several specific impediments, including delays in obtaining development consent due to the state government, disputes between the landholder and developers, and delays relating to the financial arrangements of developers.[68]

Western Sydney

8.61 The challenge of releasing more land on the urban outskirts of capital cities is discussed in Chapter 5. While the capital cities faces broadly similar planning and land supply issues, the case of western Sydney is of particular note. Over the past decade the suburbs of western Sydney have experienced a more pronounced increase and subsequent fall in house price than in most other parts of Australia.

8.62 The western Sydney region has eight of the ten national postcode areas with the highest rates of arrears on home loans.[69] This follows from the unusually high degree of mortgage stress there. Chart 8.1 shows that based on 2006 Census data, the regions of west and south-west Sydney recorded the highest proportion of owner-occupier households with debt-servicing ratios over 30 per cent.

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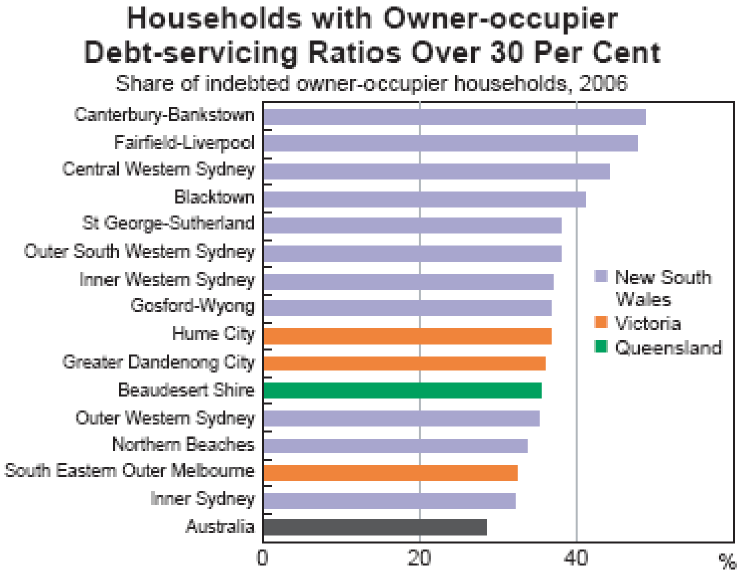
66 Ballina Shire Council, *Submission 72*, p. 2.

67 Mr R Kenk, *Committee Hansard*, 15 April 2008, p. 2.

68 Ballina Shire Council, *Submission 72*, p. 1.

69 A study by Fitch Ratings cited in *The Age*, 30 May 2008, p. 7. This point was also made by the Reserve Bank; *Proof Committee Hansard*, 24 April 2008, p. 9.

Chart 8.1



Source: Reserve Bank of Australia, *Financial Stability Review*, September 2007, p. 46, based on ABS census data.

8.63 The chart accords with local information. Mrs Sharon Fingland, Assistant Director of the Western Sydney Regional Organisation of Councils (WSROC), told the committee that a high proportion of communities in western Sydney are experiencing housing stress. She explained:

> That is due to the region's population and economic structure combined with its rapid rate of development. Western Sydney contains many areas with concentrations of overseas-born people who have poor English-speaking skills, and there is a high proportion of low-income earners and very young families. Parts of the region also experience high unemployment and low employment participation rates, including amongst those living in public housing as well as those who are in the private rental market. And those in the private rental market actually have more limited welfare support.
>
> As a result, we are concerned that the region is becoming much more divided and polarised and that this is exacerbated by growing social diversity. For example, many of our communities are concentrated in the older suburbs, often in areas that have little public housing, with limited and increasingly obsolescent infrastructure. And the proportion of wealthier families is increasing in the outer suburbs. So we are having a shift between our outer and our inner suburbs. However, even in the newer, wealthier suburbs, people are suffering the impacts resulting from higher interest rates and the previous government's taxation policies.[70]

70 Mrs S Fingland, *Committee Hansard*, 3 April 2008, pp. 13–14.

8.64 Mrs Fingland also attributed the growing divide in western Sydney to the supply of rental housing. She told the committee that 'quite vast tracts' of western Sydney are dominated by private rental housing. Those in this housing are of a similar demographic to people in public housing but they do not receive the welfare support.[71]

8.65 Mr Colin Berryman, a Program Coordinator for WSROC, highlighted three particular aspects of the housing affordability problem as it relates to western Sydney. First, the percentage increase in housing sale prices and costs was greater in many areas of western Sydney than in other parts of the city. Second, the areas that were traditionally the lower cost areas increased their housing costs at a greater rate than other areas. Third, the decrease in median house prices at the end of the period 2004-2006 was larger in western Sydney than for Sydney as a whole.[72]

8.66 The committee acknowledges that many households in western Sydney are highly geared, making them more susceptible to default in the event of higher interest rates or an economic downturn. The higher price of food and fuel will add to the financial pressures on many households.[73]

8.67 The Deputy Governor of the Reserve Bank also commented that the financial positions of households are particularly tight in some regions of western Sydney. He offered the following reasons:

> the rise in house prices and the associated increase in turnover came later in this region than in the rest of Sydney, and the increase in house prices ended up being much larger. An implication of this is that a higher proportion of households in this region bought towards the peak of the market. Second, income growth in this part of Sydney is substantially slower than in other parts of Sydney and Australia. In other words, the rise in house prices in Western Sydney was less well supported by income growth than in other parts of Australia. Third, a disproportionately large share of the housing loans in this region were sourced from non-bank lenders, which I think might imply that a smaller proportion of borrowers in this region were able to meet the lending criteria of the major banks.[74]

8.68 This last point is illustrated by Table 8.1.

71 Mrs S Fingland, *Committee Hansard*, 3 April 2008, p. 17.

72 Mr C Berryman, *Committee Hansard*, 2 April 2008, pp. 14–15.

73 Mrs S Fingland, *Committee Hansard*, 3 April 2008, p. 14.

74 Mr R Battellino, *Proof Committee Hansard*, 24 April 2008, p. 9.

Table 8.1: Owner-occupier housing loans: per cent by mortgage originators (2006)

Blacktown	21
Canterbury-Bankstown	23
Central Western Sydney	22
Fairfield-Liverpool	24
Inner Western Sydney	19
Outer South Western Sydney	20
Outer Western Sydney	19
Rest of Sydney	*16*
Australia	*11*

Sources: ABS, Perpetual, RBA

Conclusion

8.69 This chapter has identified three areas of Australia experiencing particularly acute housing affordability problems. Karratha, a booming mining town in Western Australia's Pilbara region, is suffering from an extreme shortage of housing demanding urgent action. Those who do not enjoy mining wages are essentially locked out of both the home purchase and the rental markets. Ballina, on the northern coast of New South Wales, also has a shortage of available land for housing. The town continues to attract retirees and its many low income earners have been priced out of the housing market. The suburbs of western Sydney are a striking microcosm of the housing affordability crisis nationally. They are highly geared, on relatively low incomes, and are disproportionately represented among those areas suffering mortgage stress and falling behind on home loan repayments.

Chapter 9

Current and proposed schemes to increase home ownership

First Home Owner Grant (FHOG) Scheme

9.1 When the FHOG was introduced in July 2000, it paid $14 000 to first home purchasers of new dwellings and $7000 for the purchase of existing dwellings. The scheme now offers $7000 for all first home purchasers. Responsibility for its $1 billion cost has been transferred from the Australian government to the states.[1]

9.2 The Urban Development Institute of Queensland noted that while the FHOG provides substantial assistance to new entrants to the housing market:

> the comparative value of the subsidy…has…been substantially eroded to such an extent that it is now equivalent to less than 2 per cent of the purchase price of an average new home.[2]

9.3 A few representatives of the property sector called for the FHOG to be increased and/or indexed to further rises in house prices.[3]

9.4 The majority of witnesses before the inquiry argued for the FHOG to be restricted. For example, Professor Disney said the FHOG 'should have been means tested or limited to houses of certain value'.[4] ACOSS said 'if the scheme is going to remain, to get the maximum benefit for return it needs to be targeted at low-income and disadvantaged Australians'.[5]

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1 FaHCSIA, *Submission 104,* p. 8.

2 UDIA–Queensland, p. 23.

3 Master Builders Australia, *Submission 30*, p. 11; UDIA (2007, p. 22); Mr P Bushby, Real Estate Institute of Tasmania, *Proof Committee Hansard*, 5 May 2008, p. 17; Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 38.

4 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 30.

5 Mr Johnson, Australian Council of Social Service, *Committee Hansard*, 2 April 2008, p. 79. Other advocates of some form of means testing for the grant include Professor Phibbs (*Committee Hansard*, 3 April 2008, p. 50); Mr T Davies, Northern Rivers Social Development Council, *Committee Hansard*, 15 April 2008, p. 23; Mr J Sutton, CFMEU, *Proof Committee Hansard*, 24 April 2008, p. 7; Shelter WA (*Submission 42*, p. 3); Community Housing Coalition of WA (*Submission 86*) and Mr P Bushby, Real Estate Institute of Tasmania, *Proof Committee Hansard*, 5 May 2008, p. 17. The latter's national body conceded the grant 'possibly could be better targeted'; Mr M Munro, Real Estate Institute of Australia; *Proof Committee Hansard*, 7 May 2008, p. 42.

9.5 Shelter WA thought it unfair that people who had previously owned a house in Australia were ineligible for a FHOG but people who had previously owned a house overseas could still receive it.[6]

9.6 Other concerns about fairness were also raised:

> You are only eligible for that [grant] once. So, if you have experienced a domestic violence situation and have had to leave your home, you are not eligible for another grant. That applies if you are a single person going back into homeownership, part of a family or part of a couple, having gone into another relationship.[7]

9.7 The scheme also rules out the strategy of young adults buying an apartment or smaller property and renting it out for a few years to pay off a portion of the mortgage before moving in.

9.8 Moreover, the FHOG was criticised as driving up house prices, raising questions about its effectiveness. The Productivity Commission has commented:

> Measures that increase purchasing power will tend to increase house prices, particularly if there is limited capacity to augment supply in response to the ensuing increase in demand. This will benefit existing home owners at the expense of those seeking to purchase, including first home buyers – though recipients of assistance will still be better off overall.[8]

9.9 This is also the view of a number of academics who gave evidence to the inquiry, and a diverse range of other witnesses, from the Planning Institute to the Australian Association of Social Workers.[9]

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6 Shelter WA, *Submission 42*, p. 8.

7 Dr S Tually, *Proof Committee Hansard*, 28 April 2008, p. 44.

8 Productivity Commission (2004, p. 214).

9 Professor Atkinson, *Submission 26*; Professor Beer, *Proof Committee Hansard*, 28 April 2008, p. 49; Professors T Burke and K Hulse, *Submission 33*, p. 7.; Professor J Disney (2008, p. 259); Professor P Phibbs, *Committee Hansard*, 3 April 2008, p. 50; Professor T Sorensen, *Submission 50*, pp 7, 9; Professor R Stimson, *Committee Hansard*, 14 April 2009, pp 40–1; Stretton (2005, p. 121); Urban Research Centre of University of Western Sydney, *Submission 32*; Mr N Savery, Planning Institute of Australia, *Proof Committee Hansard*, 1 April 2008, p. 58; Australian Association of Social Workers, *Submission 54*, p. 7; Mr T Davies, Northern Rivers Social Development Council, *Committee Hansard*, 15 April 2008, p. 16; National Shelter, *Submission 57*, p. 12; Dr B Edgerton, *Submission 74*; Mr D van der Klauw, *Submission 80*. It is also the view of the head of the Tasmanian Treasury; Tasmanian Committee on Housing Affordability (2008, p. 96). Under questioning, Mr Harnisch from Master Builders Australia also conceded 'perhaps it has been capitalised into housing prices', *Committee Hansard*, 1 April 2008, p. 24. Even the UDIA conceded 'it could be argued that giving a rebate or a grant to everybody as a first home buyer had an inflationary effect'; Mr M Scott, UDIA, *Committee Hansard*, 1 April 2008, p. 73.

9.10 The Reserve Bank also criticises similar concepts:

> it is now widely accepted that policies that simply give people more money to spend on housing are likely to be capitalised into higher housing prices.[10]

9.11 Economics journalist Ross Gittins explains why increasing the FHOG, and similar schemes, appear an attractive response to affordability problems but would actually be counterproductive:

> All these measures would work if you were the only person who benefited from them. That is why they *sound* like they would help. But because all the other would-be home buyers you are competing against also benefit, the attempt to make prices more affordable ends up pushing them higher.[11]

9.12 The UDIA criticises opponents of the FHOG by alleging that they do not oppose other policies which raise house prices.[12] The Real Estate Institute argues 'you would be hard pressed to argue that a $7000 handout to 14½ per cent of the marketplace has led to a $241 000 price increase'. The committee has not received evidence that it would add $241 000 to house prices. Rather, the issue raised is what it does add to house prices. Under questioning Master Builders Australia acknowledged 'perhaps it has been capitalised into housing prices'.[13]

9.13 The FHOG was introduced at the same time as the new tax system which included the GST. The MBA continues to justify it as 'a compensation for the GST'.[14] However, the GST applies to the construction of *new* houses regardless of who buys them while the FHOG is paid to *first* home buyers, the vast majority of whom buy existing rather than new homes.[15]

9.14 The committee believes there are solid grounds to amend the FHOG, particularly given the added assistance of First Home Saver Accounts (see below). The FHOG would contribute more to improving housing affordability if it provided an incentive to increase the supply of houses rather than just increasing the demand for them. This could be done by reverting to the scheme's original structure, which gave a larger payment to purchasers of new dwellings than purchasers of existing dwellings. This could be achieved by reducing the current amount given to first home buyers of existing dwellings while increasing the current payment to first time purchasers of new dwellings. Given that the vast majority of first home buyers purchase existing

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10 Richards (2008).

11 R Gittins, 'Renters can't home in on jackpot', *Sydney Morning Herald*, 19 September 2007, reprinted in Australia Institute, *Submission 56*.

12 UDIA (2007, p. 24).

13 Mr W Harnisch, Master Builders Australia, *Committee Hansard*, 1 April 2008, p. 24.

14 A similar argument was put by Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 41.

15 In 2005–06, 86 per cent of first home buyers bought an established home; ABS (2007a).

houses, this amendment may add to revenue which can help fund the measures to increase affordable housing discussed in chapter 10.

Recommendation 9.1

9.15 The committee recommends that the Australian Government should increase the First Home Owners Grant Scheme for those buying new dwellings and lower it for buyers of existing dwellings. Any funds saved should be directed towards measures to increase the supply of affordable housing.

First home saver account scheme (FHSA)

9.16 In February 2008, the Australian Government announced its intention to introduce a FHSA for those saving to buy a first home. The scheme is intended to be a tax effective way to save a deposit for a first home through a combination of a government contribution and a low tax rate. Under the scheme, the Government will pay a contribution in addition to that paid in by the individual. The investment earnings that accrue in the accounts will be taxed at 15 per cent, while withdrawals will be tax free where they are used to purchase a first home in which to live. The account is capped at a limit of $75 000 (which will be indexed).

9.17 The details of the scheme, announced in the Budget after the committee had completed its hearings, differ somewhat from the initial proposal. Some of the comments the committee received may therefore no longer be applicable. The start of the scheme was deferred to October 2008.

9.18 Some aspects of the scheme are widely praised, such as the encouragement for households to save more and build a deposit. This may help build a culture of saving. As Abacus, representing building societies and credit unions, put it:

> Instilling a savings habit in a prospective borrower is valuable preparation for servicing a loan and any equity for a first home borrower via a deposit provides a buffer against a fall in house values.[16]

9.19 Abacus also hoped that the scheme could smooth house prices:

> The present system of disadvantaged taxation treatment of the accumulation of the first home deposit is likely to encourage impatience at those times when house prices are rising most rapidly. When the aspiring first home-owners can see that in after-tax terms their house deposit accumulations are growing at a healthy annual rate, they might be expected to act with greater patience during periods of over heating in house prices generally. By this means the First Home Saver Policy would then be expected to have some

16 Abacus, *Submission 52*, p. 8. Similarly, Professor T Sorensen comments, 'the merit lies in encouraging would-be home-purchasers to save for their future and, hopefully, develop a life-long habit'; *Submission 50*, p. 11.

> positive ‘smoothing’ effect in terms of new residential construction spending and construction activity across the Australian economy.[17]

9.20 There were three concerns expressed about the scheme, two of which have at least partly been addressed by the government's modifications. Firstly, the scheme was criticised for being too complex. Among witnesses calling for it to be simplified were the Australian Bankers' Association, representing the banks which will be expected to administer the accounts.[18] Abacus, representing building societies and credit unions, also warned that:

> Optimising the FHSA initiative will require FHSA products that are attractive to, and understood by, young people. Each additional layer of complexity in the regulatory framework will reduce returns to savers, dampen competition and choice, and slow the arrival of FHSA products to market.[19]

9.21 The changes announced in the Budget go some way to addressing these concerns by simplifying the government contribution, clarifying the rules and providing for a simplified disclosure statement.[20]

9.22 Secondly, it was called unfair, as in the initial formulation the government made larger contributions for savers in higher tax brackets.[21] The final version in the budget addresses this criticism to a degree. Instead of the government contribution being tied to the marginal tax rate (meaning that low income earners received a maximum contribution of $750 a year while high income earners could receive $1500), the government now contributes 17 per cent on the first $5000 of private contributions (a maximum contribution of $850) for all.[22]

9.23 Finally, there were concerns that, similar to the FHOG, it will lead to higher house prices.[23] However, this will not happen immediately. 'No demand stimulation will occur for at least four years, that being the minimum saving period before draw-down of the accumulated savings.'[24] Ideally, this gives time for measures to boost supply to take effect before the demand stimulus from the scheme hits the market.

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17 Abacus, *Submission 52*, p. 9.

18 Mr N Hossack, ABA, *Committee Hansard*, 2 April 2008, p. 16.

19 Abacus, *Submission 52*, p. 8.

20 FaHCSIA, *Submission 104*, p. 8.

21 Among those making this criticism were National Shelter, *Submission 57*, p. 14.

22 Ms A Sampson, 'Budget helps first-home buyers to save a bit faster', *Sydney Morning Herald*, 17 May 2008, p. 49.

23 Dr B Edgerton, *Submission 74*.

24 Mr N Hossack, *Committee Hansard*, 2 April 2008, p. 15.

State government assistance

9.24 State governments' stamp duties are discussed in the first part of Chapter 7. As noted in Table 7.1, the governments mostly offer some concessions on stamp duty to first home buyers.

9.25 Some state governments have concessional loan schemes. For example, Keystart in Western Australia was launched in 1989 to provide home loans to low income earners, and in 2006–07 over 3000 applicants, about a third of which were first home buyers purchasing new homes, shared in $381 million.[25] A list of state lending programmes is given in Australian Institute of Health and Welfare (2008a).

9.26 The ACT government's Land Development Agency makes a portion of its serviced land available to specific sectors of the market, such as first home buyers.

Shared equity schemes

9.27 A recent innovation to help people into home ownership is 'shared equity' schemes, with equity injected either from a private bank or a government agency. It is important that these shared equity models are targeted to only support affordable housing—to prevent applicants merely seeking to bid up to bigger houses.

9.28 A private sector scheme is offered by Rismark International in conjunction with Bendigo & Adelaide Bank. As an example of how it works, a house purchase may be funded with 20 per cent 'equity' (ie deposit) from the homebuyer, 20 per cent equity from a bank and 60 per cent the usual loan from the bank. This means that the bank shares in both capital gains and losses. The Bank described the scheme as follows:[26]

> When that property is then sold, the loan would be discharged, the owner would get their percentage share of the equity in the sale and the bank would take its percentage share of the equity in the sale.[27]

9.29 Mr Christopher Joye, the CEO of Rismark, noted that:

> It is available in all metropolitan areas in mainland Australia. We expect to extend it to Tasmania shortly. The product is targeted right across the life-cycle spectrum, from first home buyers to upgraders, refinancers and

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25 WA Government, *Submission 87*.

26 Not necessarily symmetrically; Rismark typically keeps 40 per cent of capital gains but incurs only 20 per cent of capital losses; Mr C Joye, Rismark, *Proof Committee Hansard*, 7 May 2008, p. 27.

27 Mr M Hirst, Bendigo & Adelaide Bank, *Committee Hansard*, 23 April 2008, p. 9. It is described by Rismark as follows: 'It is a zero interest home loan for up to 20 per cent of the value of the property in question. It is a 25-year loan that requires no repayments during that 25-year term. It can be repaid by the homeowner or the borrower at any point in time over the 25 years with no prepayment penalties and no switching costs. It is used in conjunction with a traditional home loan.'; Mr C Joye, Rismark, *Proof Committee Hansard*, 7 May 2008, p. 27.

> those who want to release equity from their homes... the average property value is around $494 000—which is slightly above the median house price in Australia.[28]

9.30 The scheme has not become widespread, and may need the involvement of superannuation funds for this to happen:

> The problem that we have…is that those assets are not really appropriate assets for a bank balance sheet because the cash flow associated with them is lumpy and it comes in at the end when people decide to sell the home…What we really need to be able to continue with those products is access to patient capital that does not have the same cash flow demands as a bank might have.[29]

9.31 Shared equity packages are sometimes offered by governments. The ACT government explains:

> Shared equity is also being sponsored. Housing and Community Services ACT are introducing shared equity…for people whose incomes are rising and who we want to encourage into that stream. Community Housing Canberra is also following that up and we are encouraging private schemes as well.[30]
>
> …a product that will allow them to purchase 70 per cent or more of the property and we will take a second mortgage on the remaining 30 per cent. That makes the title issue easier for the banks to deal with, and certainly that is the financial advice that we have received. The usual borrowing rules would apply, so the bank would come in and make an assessment to see whether the tenants are able to meet the repayment requirements. As the process is gone through, we will just test their income on an annual basis to see whether they should be purchasing more of the property off us. We will not charge them rent on the remaining 30 per cent; however, we will expect them to undertake full property maintenance and to pay all rates and outgoings for the property.[31]

9.32 The WA Government introduced a shared equity programme in April 2007 called 'First Start'. The Government has committed $300 million over three years to the scheme, which will involve equity of up to 40 per cent of the value of the house. The scheme is restricted to households with incomes below $70 000 and houses priced below $365 000.[32] The home owner is allowed to increase their equity share in the home over time by buying it from the government. In its first year of operations 1100 applications were approved.

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28 Mr C Joye, Rismark, *Proof Committee Hansard*, 7 May 2008, pp 27 and 33.

29 Mr M Hirst, Bendigo & Adelaide Bank, *Committee Hansard*, 23 April 2008, p. 9.

30 Mr G Tomlins, ACT Government, *Proof Committee Hansard*, 7 May 2008, p. 17.

31 Mr M Hehir, ACT Government, *Proof Committee Hansard*, 7 May 2008, pp 22-3.

32 WA Government, *Submission 87*.

9.33 Shared equity schemes received some guarded support from the real estate industry:

> We do support the use of shared equity products but to a limited extent. We would say that they can be an important component of the marketplace.… Certainly they are growing, and we think that if those products can help persons who would otherwise not be able to afford to purchase a home get into the market then they have a role to play…we would have concerns if this were to become a mainstream lending product. If anyone could rock along and say, ‘I was going to buy a three-bedroom home but instead I am going to buy a four-bedroom home,’ and simply increase the amount that they borrow to fund that, we would caution against it. Suddenly there is more demand in the marketplace for larger homes. People are essentially bidding up prices.[33]

9.34 Less enthusiastic was John Symond:

> I do not believe that that is something that will work when you analyse the value and benefits to a consumer. I believe that the lending conditions in this country have been so lax that you really had to be in a desperate credit worthiness state not to be able to borrow money to get into a property. This is going back pre credit crunch. I am not a fan of it and I do not believe it is good value for homeowners. They need to control their own destiny.[34]

9.35 However, there are legitimate concerns that shared equity schemes must abide by this central purpose and should not become a vehicle for home buyers to demand bigger and more extravagant homes. It is important that these shared equity models are targeted to ensure that affordable housing is promoted and to prevent applicants from bidding for bigger houses. This could be achieved by capping the value of the property and/or means testing applicants. It is arguable that these schemes are better suited to public or not-for-profit models, perhaps with the backing of super funds. Various types of limited equity cooperative are used extensively and have worked well in parts of the United States.[35]

Land rent scheme

9.36 The ACT government explained its scheme:

> Land rent is essentially where the government keeps the economic value of the land and rents out the land. If we take a $300 000 house, 45 per cent of households could purchase that. The mortgage that you pay for the land is $260 a week. This was worked out on a slightly different interest rate. The

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33 Mr M Munro, Real Estate Institute of Australia, *Proof Committee Hansard*, 7 May 2008, p. 44. The UDIA's Western Australian division supported the First Start scheme there; *Submission 45*.

34 Mr J Symond, Aussie Home Loans, *Proof Committee Hansard*, 7 May 2008, p. 67.

35 Dr L Crabtree, *Committee Hansard*, 3 April 2008, p. 53. See also Dr L Crabtree, 'Models of perpetually affordable home ownership: report and case studies from the United States of America', Urban Research Centre, University of Western Sydney, June 2008.

> land rent would drop that from $260 to $61 a week and so 70 per cent of households could now buy the same house but rent the land. If we go to our compact product you will see that you need an income of $33 000, so 80 per cent of households can now buy a $100 000 house on a small block. That is, again, attacking this affordability gap.[36]

9.37 The land rent scheme has some similarity with the shared equity scheme, in that 'the ACT government retains the equity in the land, the purchaser takes on the equity in the house'.[37] As the scheme is novel, it will be important that participants understand it. An education programme is being developed with Canberra Institute of Technology to ensure this.

Mortgage corporation—'AussieMac'

9.38 The creation of 'a public institution that can render liquidity' to the market for securitised mortgages was also proposed to the committee by Mr Joye.[38] It is based on a similar institution in Canada, and bears some similarity to the longstanding 'Freddie Mac' and 'Fannie Mae' in the United States.[39]

9.39 The suggestion was endorsed by John Symond, who was concerned that a drying up of liquidity in the securitised mortgage market risked a return to the situation before the 1990s when a handful of banks were almost the only providers of mortgage finance and the margins charged home buyers and investors were consequently considerably higher.

9.40 He elaborated:

> Christopher Joye’s suggestion to copy the Canadian mortgage backed security model has a lot of merit. I would probably tend to believe that we need a government supported liquidity initiative. The Canadian model would have been explained to you but they have not been impacted by the global credit crunch. Homeowners in Canada still have affordable interest rates. They are not out of money. We may find that, if funds start to get rationed in this country, it will be a serious problem for everybody not just

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36 Mr G Tomlins, ACT government, *Proof Committee Hansard*, 7 May 2008, p. 17.

37 Mr M Hehir, ACT Government, *Proof Committee Hansard*, 7 May 2008, p. 23. It also has some similarity to the 'community land bank' scheme proposed by Dr S Turnbull (*Submission 62*) as a means of improving affordability by 'democratising wealth'.

38 Mr C Joye, *Proof Committee Hansard*, 7 May 2008, p. 31.

39 The Canadian model is the Canada Housing Trust. The idea was discussed at the 2020 summit and is being pushed by the Australian Securitisation Forum; *Australian Financial Review*, 30 April 2008, p. 58. It will be examined by the House of Representatives Standing Committee on Economics as part of its recently announced inquiry into competition in the banking sector. http://www.aph.gov.au/house/committee/economics/banking08/index.htm Mr Joye described the proposal in an article in *The Age* on 10 April 2008, p. 10.

> homeowners... I am fully supportive of a government supported liquidity initiative and I do hope that the government has a hard look at that.[40]

9.41 The mortgage corporation was also supported by the Construction, Forestry, Mining and Energy Union, on the grounds that it would 'preserve competition in the home mortgage market (a critical element in any affordability solution)'.[41]

9.42 A critical view was put by Professor Sorensen:

> These are developments of Freddie Mac and Fannie Mae, which exist in the United States. They are mortgage providers. I actually think that the financial side of the housing system that we have is pretty well catered for in Australia. One of the events of the last five years and one which has actually propelled housing prices higher is the advent of a variety of secondary mortgage lenders, who did a very efficient job in forcing down interest rates for home borrowers but, in so doing, enabled them to pay more for housing with the budgets that they had, and that underpinned at least part of the rise in house prices. I am not sure that we need similar agencies to those in the United States.[42]

Recommendation 9.2

9.43 The committee recommends that Treasury examine the international experience with a securitised mortgage scheme and its application to Australia with a view to determining whether an 'Aussie Mac' style product would be beneficial in the Australian market.

Calls for further tax concessions

9.44 The WA division of the Urban Development Institute advocated further tax concessions for housing, namely 'that first home buyers be given full tax relief on their interest payments when they buy a property, established or new, to the value of $450,000 and that the tax deductibility is for the first five years'. The committee is not aware of a costing of this proposal. It could be substantial, especially if it encouraged households to borrow more and put pressure on house prices. Mortgage interest on owner-occupied housing is an allowable tax deduction in Switzerland and the United States, but Switzerland taxes capital gains on owner-occupied housing (Table 4.3).

9.45 John Symond proposed a more targeted plan for interest deductibility, only applying to new dwellings:

> a tax incentive for the first five years of $15 000 per annum of their income; that it would be a tax deduction…During that first five years, it would give a young couple a chance to start a family—they may be one income down

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40 Mr J Symond, *Proof Committee Hansard*, 7 May 2008, p. 67.

41 CFMEU, *Submission 36*, p. 8.

42 Professor A Sorensen, *Proof Committee Hansard*, 7 May 2008, p. 56.

> while they have children—and in the five-year period after that initial five years they would repay half of it, in a similar way that HECS works.[43]

9.46 A suggestion was made for a tax concession to facilitate downsizing, as a means of opening up large homes for families:

> At present, the downsizing from a traditional home to a unit, for example, has financial implications, and unless this is addressed many people will simply stay put. However, these existing homes may be affordable and ideal for a young family, hence this could have a domino effect within the community. It is worth considering state and federal taxation initiatives to downsize. Side benefits of reduced energy costs and smaller, smart dwellings would also flow.[44]

9.47 A preferable way of achieving the same goal may be to move from stamp duties towards tax systems that do not tax transactions, as discussed in chapter 7.

Assistance to keep people in home ownership

9.48 There have been calls for more programmes to help people at risk of falling out of home ownership due to changes in income, typically the result of unemployment or relationship breakdown. Professors Burke and Hulse note that 'there is no national programme of assistance in such circumstances yet when they drop back to rental they can, in most circumstances, avail themselves of Commonwealth Rent Assistance.'[45]

9.49 Homeowners struggling to meet mortgage payments to stay in their homes account for about a fifth of families being counselled under the HOME Advice Program, which also provides limited financial assistance. As most of the programme's clients are renters, the scheme is discussed in the following chapter (see recommendations 10.8 and 10.9).

9.50 There have been increasing media reports of families accessing superannuation to meet mortgage repayments.[46] This is a disturbing trend as there is a large risk that households will use up the superannuation in a vain attempt to keep up mortgage payments, just delaying accepting that their mortgage is unsustainable and the home will have to be sold. They then risk entering retirement with neither a home nor superannuation.

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43 Mr J Symond, Aussie Home Loans, *Proof Committee Hansard*, 7 May 2008, pp 65-6. The plan is set out in Symond (2007). The scheme is capped at property prices of $500 000.

44 Mr P Bushby, Real Estate Institute of Tasmania, *Proof Committee Hansard*, 5 May 2008, pp 18–19.

45 Professors Burke and Hulse, *Submission 33*, p. 7.

46 One press report says over 9000 applications for accessing superannuation to forestall home repossession were approved last year; *Herald Sun*, 8 May 2008.

9.51 Professor Sorensen opines that:

> The squandering of such [superannuation] savings in a falling market to keep people in homes they have mistakenly bought at excessive prices is stomach churning.[47]

9.52 A helpful initiative of one credit union which may help some families avoid getting into difficulty is a 'pause feature', under which borrowers can cut repayments by 50 per cent for six months during maternity/paternity leave.[48]

9.53 The Bendigo and Adelaide Bank told the committee that their approach to home loan lending goes beyond the initial loan, working with mortgagees to make repayments throughout the life of their loan:

> We also think about the issue of our role beyond that initial purchase. It is not about completing a sale; it is about a relationship that is likely to endure for a good, long period of time. So the responsibility of preparing ourselves, even in changed circumstances, is equally important. It is not the sale of the product; it is the effectiveness of the product over the life of that product. We have structures—although they have not been tested in the last few years—like mortgage help centres and customer help centres, which are very much about trying to talk to people if stresses emerge so we can actually help them through those difficult times and perhaps develop strategies before the problem becomes more serious. We see banks and their role as being very, very important, particularly those banks that focus very much on relationship and community connections, because this gives us the opportunity to play that larger role in partnership with those communities and customers in achieving their aspirations.[49]

9.54 The committee strongly supports this approach and encourages other lending institutions to adopt a similar approach.

Recommendation 9.3

9.55 The committee recommends that the Commonwealth government increase support for home owners to undertake counselling to improve their financial literacy before they are allowed to access their superannuation to make mortgage repayments.

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47 Professor T Sorensen, *Submission 50*, p. 11.

48 Abacus, *Submission 52*, p.7.

49 Mr R Hunt, *Committee Hansard*, 23 April 2008, p. 3.

Chapter 10

Measures to increase affordable rental housing

10.1 Through choice or necessity, around one third of Australians will rent their home rather than buy it. It is, therefore, important to ensure access to appropriate and affordable rental accommodation. The committee heard evidence that affordable rental housing is not only necessary to assist lower income earners or welfare recipients who struggle to meet market rents, but also to assist some communities to attract and retain essential workers in high housing cost areas. For example, Ms McCool from the Gold Coast City Council advised the committee that

> Some of our workers, mainly in the hospitality and construction industries—or the service industries generally, not just hospitality but child care, schoolteachers and police officers—would find it incredibly hard to rent accommodation let alone enter the property ownership market on the Gold Coast currently.[1]

10.2 There is currently a range of government programmes aimed at supporting people to obtain affordable rental accommodation. These include:

- private rental housing assistance, through Commonwealth Rent Assistance and programmes provided by state and territory governments aimed at assisting low income households; and
- the provision of public and community housing, including both medium- to long-term housing and emergency or crisis accommodation.

10.3 These programmes, which are discussed in some detail below, primarily provide assistance to low income families and welfare recipients. There do not appear to be many programmes which seek to target workers in 'essential services', who are finding it increasingly difficult to access affordable housing in some areas of Australia. By increasing the supply of affordable rental housing, the National Rental Affordability Scheme may, if successful, provide some assistance in this regard, however it does extend over long time frames.

Commonwealth State Housing Agreement

10.4 Many of the programs aimed at supporting people to access affordable rental accommodation are delivered under the auspices of the Commonwealth State Housing Agreement (CSHA). The first CSHA was agreed in 1945. The current agreement is

1 Ms C McCool, *Committee Hansard,* 15 April 2008, p. 5.

for the period 1 July 2003 to 30 June 2008, and is to be replaced by a National Affordable Housing Agreement, which is currently under development.[2]

CSHA funding[3]

10.5 Total funding for the CSHA in 2005-06 was $1.3 billion, which was comprised of $944 million in Commonwealth funding and $364 million in state matching grants. Commonwealth grants comprised:

- base funding ($744 million), which is general purpose funding that can be used for any housing assistance purpose. The vast majority is used for public housing; and
- identified programme funding, which can only be used for the specific purpose for which it was provided. The identified programmes are the:
  - Aboriginal Rental Housing Program ($93 million);
  - Community Housing Program ($66 million); and
  - Crisis Accommodation Program ($41 million), which provides capital funding for services funded under the Supported Accommodation Assistance Program.

10.6 The states and territories are required to contribute to the agreement in the order of 48.95 per cent of the base funding that they receive from the Commonwealth.[4] According to the *Independent Audit of Government Contributions to Housing Assistance,* for the period 1996–97 to 2004–05, funding provided by the states has generally been in excess of that required to meet their matching obligations under the CSHA.[5] No breakdown of how state and territory funds were allocated was available, however, some data may be provided against specific programmes discussed below.

Private Rental Housing Assistance

Commonwealth Rent Assistance

10.7 Commonwealth Rent Assistance (CRA) is a non-taxable income supplement paid through Centrelink. The payment is added on to the pension, allowance, or benefit of eligible income support recipients who rent in the private rental market.

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2 FaHCSIA has advised the committee that the current agreement will continue until December 2008.

3 Unless otherwise stated, information in this section has been sourced from the following document: Department of Families, Community Services and Indigenous Affairs (2007), *Housing Assistance Act 1996, Annual Report 2005-06,* Commonwealth of Australia.

4 Commonwealth of Australia, (2003), 'Housing Assistance (Form of Agreement) Determination 2003', *Commonwealth of Australia Gazette,* No. S 276, 17 July.

5 South Australian Centre for Economic Studies (2008, p. i).

Pensioners, allowees and those receiving more than the base rate of Family Tax Benefit A may be eligible for rent assistance. According to the Australian Council of Social Service:

> Commonwealth Rental Assistance (CRA) is the most significant form of direct rental assistance provided by Government to tenants in the [private] rental market.[6]

10.8 Rental Assistance is paid at the rate of 75 cents for every dollar of rent paid above the specified minimum rent threshold, up to a maximum amount. The minimum rent threshold and maximum rate of rent assistance varies according to the family situation of the recipient and the number of dependent children.[7] In 2006–07, the CRA programme provided $2.2 billion of assistance, a real increase of 12 per cent over the last ten years.[8] In June 2006, 23 per cent of Centrelink clients were receiving rent assistance.[9]

10.9 As outlined in Table 10.1, CRA is effective in reducing the proportion of income that recipients are spending on rent. However, 23 per cent of CRA recipients may still be classified as being in housing stress (that is, paying more than 30 per cent of their income on housing) and a further 8 per cent remain in housing crisis (paying more than 50 per cent of their income on housing) even after receipt of the benefit.

Table 10.1: Recipients (income units) of Commonwealth Rent Assistance, proportion of income spent on rent with and without CRA, by state/territory, June 2006 (per cent)*

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
30% to 50%									
With CRA	25.0	22.6	23.3	20.1	21.6	19.8	23.6	23.4	23.2
Without CRA	35.1	36.9	34.4	35.4	34.5	37.5	25.5	36.0	35.3
Over 50%									
With CRA	10.1	8.3	8.0	5.5	5.9	4.8	14.1	6.9	8.4
Without CRA	26.7	23.9	23.4	19.1	20.9	19.2	30.6	22.9	24.0

* Reproduced from: AIHW (2007a, p. 224).

10.10 A number of witnesses and submissions expressed concern about the effectiveness of the CRA in meeting the needs of low income families:

6 Australian Council of Social Service, *Submission 40*, p. 3.

7 FaHCSIA website: www.fahcsia.gov.au/internet/facsinternet.nsf/housing/rentassist.htm

8 Productivity Commission (2008, p. 16.5).

9 AIHW (2008a, p. 28).

> …we are concerned that Commonwealth rent assistance was taken out of the Commonwealth-state housing budget, was folded into another vehicle—the Social Security Act—and has really failed to deliver affordability for people in receipt of rental assistance. I think the breakdown of figures shows that it makes rentals affordable for about a third of people; another third, because of the exemptions of some parts of their income, are arguably not really in rental stress in the first place; and for another third it is completely inadequate. So I guess when we look at the $2 billion-odd that goes into rent assistance, yes, our concern is that it is a very blunt and inadequate instrument for at least a third of the recipients.[10]

10.11 It was argued that the CRA might better meet the needs of low income recipients if the maximum rate of rent assistance, which is the same nationally, varied by region, so as to better reflect market rents in different cities and regions:

> …the funding levels available under Commonwealth rental assistance should take into account regional differences in the private rental market. I know that sounds like it might be an impossible thing to do, but there are particular cities, particular places, where it is not going to touch the surface in terms of keeping people in their accommodation or buying them any accommodation.[11]

10.12 The eligibility requirements for CRA have also been criticised as they exclude some low income groups who may be experiencing housing stress, such as low income working households without children (and therefore not in receipt of family tax benefit), Austudy recipients, migrants subject to benefit waiting periods, and people reliant on long term insurance benefits.[12] As such, there have been calls for the CRA to be re-cast as a housing affordability support for a diverse range of low income households, including home purchasers:

> …if one looks at [rent assistance] in a holistic sense as an affordability support, it is arguable that it should be available to home purchasers in temporary financial stress. It could, for instance, take into account mortgage interest payment as a quasi rental payment. Where mortgagers suffer financial setbacks, such as job loss or difficulties arising from marital breakdown, assistance could be available in a quantum similar to what would be received in the private rental market.[13]

10.13 There was also some question about whether rent assistance was the most effective use of Commonwealth funds in terms of its impact on affordable housing, and whether it may in fact have an inflationary effect on rents. Dr Crabtree from the University of Western Sydney noted that:

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10 Ms B Kitching, *Committee Hansard,* 8 April 2008, p. 25.

11 Major D Eldridge, *Committee Hansard,* 23 April 2008, p. 39.

12 Hancock and Barnett (2005, pp 17–18).

13 Hancock and Barnett (2005, p. 18).

> From my discussions with the community housing sector and the cooperative housing sector, I think there is a potential for better use of those [rent assistance] funds. It does tend to just feed through into private landlords' pockets and does not actually do anything about addressing the supply of affordable housing. From my work with the sector in Australia, I would say that there are better ways, or maybe it is worth looking at better ways, of using that money.[14]

10.14 Given the concerns that the CRA is a 'blunt tool' for addressing housing affordability, a number of witnesses and submissions called for a review of the programme.[15] For example the Australian Council of Social Service indicated that:

> What we would like to see is a review into Commonwealth Rent Assistance: (a) how it meets the needs of those people who need it and (b) how it interacts with current policies and policies that are going to come on stream over the next year.[16]

Recommendation 10.1

10.15 **The committee recommends that the Australian Government commission an independent evaluation of the Commonwealth Rent Assistance programme, to ascertain its effectiveness and cost effectiveness in improving housing affordability for low to medium income households and to make recommendations regarding future directions for the programme, including eligibility criteria.**

10.16 **The review should be undertaken in the context of a more comprehensive review of all government initiatives, both supply side and demand side, aimed at improving housing affordability.**

Recommendation 10.2

10.17 **The committee recommends that the Australian, state and territory governments increase the quantum of support available under Commonwealth Rental Assistance for older Australians living in private rental accommodation.**

Private Rent Assistance

10.18 Under the Commonwealth State Housing Agreement, each state and territory runs programmes aimed at assisting eligible low income households to establish and

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14 Dr L Crabtree, *Committee Hansard,* 3 April 2008, p. 50. Similarly, Professor P Troy opined that 'the rental assistance appears to simply increase the level of asking rents for rental housing'; *Submission 11*, p. 4. This argument was also made by Mr P Pollard, *Submission 25*.

15 See for example, Major D Eldridge, Salvation Army, *Committee Hansard,* 23 April 2008, p. 39 and Dr Crabtree, Urban Research Centre, *Committee Hansard*, 3 April 2008, p. 50.

16 Mr A Johnson, *Committee Hansard,* 2 April 2008, p. 73.

maintain private rental tenancies. While the nature of these programmes and the eligibility requirements vary by jurisdiction, they commonly provide one-off forms of assistance such as bond loans, assistance with rental payments and relocation expenses.[17]

10.19 In 2005–06 the states and territories provided $78 million worth of private rent assistance to 134 000 households. Of those households 75 per cent received bond loans, 37 per cent received rental grants and subsidies, 2 per cent received payments to assist with relocation expenses and 8 per cent received other one-off grants.[18]

Social Housing

10.20 Under the CSHA, social housing refers to both public housing, which is delivered by state and territory housing authorities, and community housing, which is generally provided by the not-for-profit sector.

Public Housing

10.21 Government owned and managed housing is provided under the Commonwealth State Housing Agreement in the form of both mainstream public housing and Indigenous housing. Public housing was first provided under the CSHA in 1945 and, according to Professor Troy:

> was originally designed to provide rental housing of high standard to any who sought it. It was a public housing program. The ambition was to provide as much as half the housing.[19]

10.22 As well as providing affordable homes of reasonable quality to low- to medium-income households, public housing also contributed to home ownership, as many people who rented public housing eventually purchased their home from state housing authorities or went on to purchase privately:

> the old-style postwar public housing…was targeted at low-to moderate-income working families, who were using that as, if you like, a normal part of the rental housing market and very often as a pathway towards homeownership.[20]

10.23 In the mid 1990s, the nature of public housing in Australia changed. In the early 1990s the client base of most public housing authorities was 'dominated by couples with children, and almost a third of households were in full-time employment and paying market rents.'[21] However, the 1996 CSHA gave priority to targeting public

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17 AIHW (2008a, pp 28–29).

18 AIHW (2008a, p. 29).

19 Professor P Troy, *Submission 11*, p. 2.

20 Mr A Farrar, *Committee Hansard,* 2 April 2008, p. 3.

21 Hall and Berry (2007, p. 1).

housing to those most in need, that is, those experiencing the lowest incomes or in dire need of housing assistance. The 1996 agreement also eliminated the separation between capital and recurrent purposes for which grants could be applied.[22]

10.24 Mr Adam Farrar, from the NSW Federation of Housing Associations, advised that these changes led to quite dramatic shifts in the nature of public housing tenants:

> … across the country we have turned public housing from being a low-cost, affordable rental market into being the response that we failed to put in place after we started deinstitutionalisation [of, for example, people with mental health problems] 15 to 20 odd years ago. It has been recently recognised, for example, that we did not put in place the kind of mental health solutions that followed the closure of mental health facilities. It has also been recognised, but less explicitly, that the accommodation options did not follow…
>
> As a result—partly, for the past 10 or 15 years, simply as a result of demand—public housing has shifted to being that response. Its client group has become people who otherwise in the past would have been either in aged care, in government youth facilities or in mental health facilities. Increasingly we are seeing that move from an implicit change due to demand to quite an explicit policy. New South Wales has made it quite explicit that that is its target group now. It does not house low to moderate-income households and, instead, it is there to meet that demand…[23]

10.25 Other witnesses, such as Professor Disney, noted that this over-targeting of public housing to the most severely disadvantaged had threatened the viability of the public housing system as:

> It means not only that they [state housing authorities] cannot charge enough rent to meet their costs but also that they have higher support costs for the people who are living there. Of course, in many ways, really, things that were being met out of the health and welfare budget are now being met out of the public housing budget as the consequence of de-institutionalisation. Housing is now picking up the tab…[24]

10.26 This point was explained in more detail by Mr Farrar, who noted the vicious circle that has been created for the public housing system:

> In Australia we have a unique way of funding housing affordability for people who live in social housing. In other countries, they charge the cost of providing that housing—as you would in any other kind of market—and then there is either a CSO subsidy or an explicit subsidy to the tenants which meets the gap. In Australia, we chose to do it by charging a rent which we deemed to be affordable—which was a proportion of income. So

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22 Hall and Berry (2007, p. 13).

23 Mr Farrar, *Committee Hansard,* 2 April 2008, p. 3

24 Professor J Disney, University of New South Wales, *Committee Hansard,* 2 April 2008, p. 33.

> in a sense the system had to subsidise it internally. It has a perverse consequence: as you target more tightly to lower-income households your income falls. As a result, state housing authorities across the country are to all intents and purposes bankrupt. For a number of years they have been cannibalising their own supply simply to maintain their operations. This is due to the fact that we have targeted more tightly. We have targeted more tightly because we created a population whom we have stopped housing in institutions. So demand increased and, at the same time, we reduced funding for new supply and our formula reduced the income streams. It was a dire position.[25]

10.27 The overall impact of the changes to public housing in Australia over the last ten years has been a steady decline in public housing stock, an increase in waiting lists and a diminished reputation for public housing in the Australian community.

Public housing stock

10.28 Many witnesses lamented the decline in public housing stock in Australia. For example, ACOSS indicated that:

> what has been extraordinary is that over the last 10 years, given the increased numbers of people who are living in poverty and given the fact that our population has increased, the number of houses available in public and community housing…has declined.[26]

10.29 Mr Davies, from the Northern Rivers Social Development Council indicated that:

> Public housing now forms a very small part of the overall housing market—under five per cent of all housing and 15 per cent of all rental housing stock across the state, and I think it is a similar figure nationally.[27]

10.30 The decline in public housing stock is born out by the statistics. Between 1996 and 2006, the number of public housing dwellings nationally declined from 372 134 to 341 378, a reduction of around 8 per cent.[28] During this same period, Australia's population increased by around 13 per cent, making the decline in public housing even more significant.

10.31 Not surprisingly, funding for public housing has also declined in real terms. According to the Productivity Commission, in 2006–07 the Australian, state and territory governments provided $1.3 billion for housing assistance under the CSHA, the bulk of which was for public and community housing. Real expenditure on CSHA

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25 Mr A Farrar, *Committee Hansard,* 2 April 2008, p. 3.

26 Mr A Johnson, ACOSS, *Committee Hansard,* 2 April 2008, pp 72–73.

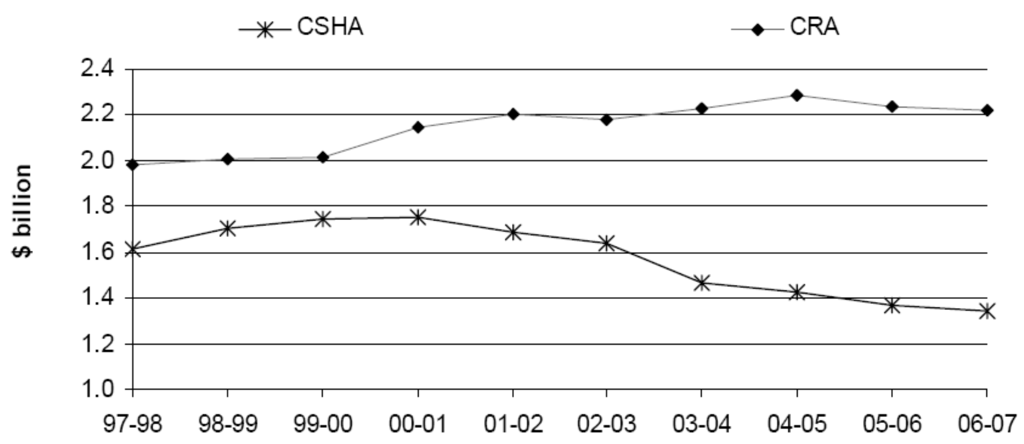
27 Mr Davies, *Committee Hansard,* 15 April 2008, p. 21.

28 AIHW (2007a, p. 457).

assistance declined by 16.7 per cent between 1997–98 and 2006–07 (refer to chart 10.1). Public housing is the largest form of assistance provided under the CSHA.[29]

Chart 10.1

Real government expenditure on CSHA assistance and CRA (2006-07 dollars)[a]



a Data may not be comparable over time and comparisons could be misleading. Reasons for this are provided in table 16A.79.

Source: CSHA (1999); FaCS (various years); FaCSIA (2007); FaCSIA (unpublished); table 16A.79.

Source: Productivity Commission of Australia (2008, pp. 16.5-16.6).

Waiting lists

10.32 Some witnesses indicated that public housing stock has declined so severely that even those in priority need can no long access it in a timely way:

> One would assume that a person in a women's refuge would move into secure public housing. But that is no longer the case; it is not automatic.[30]

10.33 According to the AIHW, of the 24 282 households newly allocated to either public housing or state owned Indigenous housing in 2006–07, half were classified as in greatest need. Of those, 50 per cent were housed within 3 months of joining the waiting list, a further 21 per cent were housed within 3–6 months, and 4 per cent waited 2 years or more.[31]

10.34 As detailed in Table 10.2, public housing across Australia is virtually fully utilised, with occupancy rates of 98 per cent in 2007. At 30 June 2007, a total of

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29 Productivity Commission of Australia (2008, pp. 16.5-16.6).

30 Mr A Johnson, Australian Council of Social Service, *Committee Hansard,* 2 April 2008, p. 74.

31 Cited in AIHW (2008a, p.16).

176 321 households were on waiting lists for public rental housing, of which 11 700 households were classified as being in 'greatest need'.[32]

Table 10.2 Public housing - occupancy rates (per cent)[a]

	NSW	Vic	Qld	WA	SA	Tas	ACT	NT	Aust
2003	98.3	96.5	97.9	95.7	94.9	96.8	98.7	93.9	97.1
2004	98.7	96.6	98.7	95.3	95.4	97.4	97.2	93.8	97.4
2005	98.7	97.3	98.6	95.6	96.1	98.0	98.1	94.1	97.7
2006	98.6	97.5	98.9	96.2	96.2	98.4	98.7	95.6	97.8
2007	98.6	97.6	99.1	96.5	97.1	98.7	98.6	95.7	98.0

[a] Data may not be comparable between jurisdictions and over time and comparisons could be misleading. Reasons for this are provided in table 16A.6.

Source: AIHW (2003c, 2004c, 2005c, 2006d, 2007a); table 16A.6.

Source: reproduced from Productivity Commission (2008, p. 16.37).

Attitudes to public housing

10.35 The committee heard that, due to the changes that have occurred to public housing over recent years, it is now viewed very negatively by the community and public housing tenants are often stigmatised:

> The stigma in this area around public housing is extremely high. I know that people—even my own family—who buy a house and find out that it is public housing next door can often act inappropriately to those people when they could be quite decent people.[33]

10.36 This creates difficulties for the expansion of public housing, even if funding is available, as many communities are resistant to the inclusion of public housing in their area, due to the social problems that may be associated with it. For example, in the Northern Territory, Ms Vine Bromley from NT Shelter Inc stated that:

> The only public element of the new housing that is going into any of the new suburbs that are opening up in the Territory right now is for seniors, because they are nicer public housing tenants and more acceptable to the community that they will be living in.[34]

10.37 Notwithstanding the difficulties, there was general consensus among community organisations that 'we really need to get back to a broader social mix in public housing and to spreading it around in a more diversified way.'[35] Professor Disney argued that this would best be done through the National Affordable

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32 AIHW (2008b, p. x).

33 Ms J McIvor, *Committee Hansard,* 3 April 2008, p. 6.

34 Ms T Vine Bromley, *Proof Committee Hansard,* 28 April 2008, p. 20.

35 Professor J Disney, *Committee Hansard,* 2 April 2008, p. 33.

Housing Agreement, which is to replace the CSHA, and that additional investment would be required:

> …at the very least, [we should] restore the funding that has been cut over the last 15 years or so. About $300 million really needs to be put back in again over the next few years. But we have to get the product right that it is being put back into.[36]

10.38 While community organisations agree that there needs to be an additional investment in public/community housing, there was less consensus on the quantum:

> Just in percentage terms, there are various people who are saying that we need to return to six per cent of housing stock available that is public and community housing. There are groups who say that we need to go much further and have another target of eight per cent and then another target of 10 per cent to ensure that we are not just going back to historical levels but ensuring that we have more stock than we did historically. We have done some modelling on what it would cost in the first year… you are looking at an investment in the first year in a budget cycle of about $500 million as the starting point to get us to a target of at least six per cent.[37]

Community Housing

10.39 In addition to public housing, the CSHA also provides mainstream community housing. According to National Shelter 'community housing is, by and large, housing the same client group—with some greater degree of flexibility—as public housing properties'.[38] However, community housing differs from public housing in that the tenancy and dwelling management is run by a community-based service provider, rather than by state and territory governments. In addition, 'community housing tenants can attract rent assistance payments from the Commonwealth whereas public housing tenants do not.'[39]

10.40 Unlike public housing, community housing providers may also offer tenants an opportunity to participate in the decision making and management of the organisation.[40] Community housing providers also offer a range of support services, including personal support, advice and referral, training and employment support and financial and material assistance.[41]

10.41 Many community housing associations allow or even encourage tenants to modify and renovate their houses through a model they call "sweat equity". This not

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36 Professor J Disney, *Committee Hansard,* 2 April 2008, p. 33.

37 Mr A Johnson, ACOSS, *Committee Hansard,* 2 April 2008, p. 78.

38 Mr A Pisarski, National Shelter, *Proof Committee Hansard,* 7 May 2008, p. 75.

39 Ms P Winzar, FaHCSIA, *Proof Committee Hansard,* 7 May 2008, p. 10.

40 AIHW (2007a, p. 232).

41 AIHW (2007a, p. 232).

only maintains or improves the value of the house and reduces ongoing maintenance costs, but also increases the tenant's sense of ownership and control over their environment. The Managing Director of Common Equity Housing commented:

> The effect of this is that the tenants take great pride in their homes. I talk about the front fence syndrome. We do not just let people paint their front fence; we are actually out there physically encouraging them to do it. Anecdotally that means we pay for the paint and the person paints their fence, but it makes them proud of their house and it has a great effect in the neighbourhood. As I say to people, 'When you're out there painting your front fence, the neighbours talk to you. The neighbours assume you own the house and you're not seen as a welfare housing case.' That is pretty much how our program runs. Our houses are all interspersed in the community, and people do not view themselves as tenants. They view themselves as very proud of being a part of their cooperative, and that is a mentality that I think is really important in good effective social housing.[42]

10.42 Through offering long-term leases and security of tenure, providing support and referral services, and also by encouraging "sweat equity" community housing is able to provide many of the social benefits of home ownership on health and well being discussed in chapter 2.

10.43 Some Community Housing Associations also support the transition from rental to home ownership, allowing tenants who have developed their earning capacity to purchase their property from them and using the capital to develop another unit of affordable housing elsewhere. This could either take the form of an outright purchase, a limited equity deed, or a share in the association comparable to the housing cooperative model discussed in chapter 11.

10.44 At 30 June 2007 there were approximately 33 557 households living in community housing in Australia. Ninety-four per cent of community housing households were low income households and 5 per cent were identified as Indigenous households. Two-thirds of CSHA community housing was located in major cities, with 20 per cent in inner regional areas and 10 per cent in outer regional areas. The remaining 3 per cent were located in remote and very remote areas.[43] As with public housing, occupancy rates in community housing are very high, running at 96.7 per cent in 2006–07.[44]

10.45 National Shelter emphasised that community housing providers are under similar financial pressures to those experienced by the public housing sector:

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42 Mr J McInerney, *Committee Hansard*, 23 April 2008, p. 12.

43 AIHW, (2008c, p. ix).

44 AIHW, (2008c, p. 21).

> That level of income really does not give public or community housing agencies the ability to grow their systems. They can maintain at a static level what they currently do, but they cannot grow their systems.[45]

10.46 The Committee heard that a number of community housing providers are working together to try and access funds to expand the community housing sector. Mr Murnane, from Argyle Community Housing, advised that five large housing organisations in NSW have formed a development company called Blue Chip, with a view to tendering for government funds to expand the sector:

> The New South Wales government have the Affordable Housing Innovations Fund. They have $8 million, and we are lodging a tender under that program tomorrow… Blue Chip are proposing to acquire government funding, make some contributions ourselves and borrow some money on the private sector. In fact, we have been able to demonstrate—and we have a number of small projects currently underway—that, anywhere in the metropolitan area, we can provide a house for $160,000 cost to government. So, for the $8 million that is currently available under the Affordable Housing Innovations Fund, we anticipate that we would be able to produce 50 units of housing.[46]

10.47 Similarly, Mr Murnane told the committee that fifteen national housing providers have got together and formed PowerHousing Australia, which will be able to act on behalf of members at a national level:

> PowerHousing has been set up so that organisations like the Commonwealth government, Delfin Lend Lease, Stockland and some of the big developers can go to one organisation, deal with it and then we would share that out amongst the members wherever the need is.[47]

10.48 In addition, because of the additional flexibility available to community housing organisations, state and territory governments are encouraging growth in the sector and a number have, or are considering, transferring some public housing stock to community providers.[48] For example, Mr Murnane from Argyle Community Housing Ltd, advised the committee that:

> We recently took over managing the entire housing property stock of New South Wales Department of Housing in the Wingecarribee Shire, so we manage 390 housing properties of the department in that area. As a result of that transfer, overnight we became the council's largest residential ratepayer and we have been able to negotiate, with local developers and the council, being given some land. We did a presentation to the Wingecarribee

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45 Mr A Pisarski, National Shelter, *Proof Committee Hansard,* 7 May 2008, pp 75–76.

46 Mr B Murnane, *Committee Hansard,* 3 April 2008, pp 39–40.

47 Mr B Murnane, *Committee Hansard,* 3 April 2008, p. 40.

48 See, for example, Mrs K Fijac, Department of Housing and Works, Western Australia, *Committee Hansard,* 8 April 2008, p. 9; and Mr M Hehir, ACT Department of Disability, Housing and Community Services, *Proof Committee Hansard,* 7 May 2008, p. 22.

council about the cost of affordable housing in the shire. They set up a housing strategy group and donated some land, and the developer donated some land and sold us other land cheaply. So at the moment we have eight houses under construction in the Wingecarribee Shire.[49]

10.49 There was some question about whether the transfer of public housing stock to community housing was acceptable to the Australian Government as, because community housing tenants would be eligible for rent assistance, it could be perceived as 'double dipping':

> It is something we are actually having a look at at the moment… on the one hand we would be concerned if there were massive cost shifting from state governments by transferring their stock into community housing, which would then generate a rent assistance payment. The reason, I suppose, given for not paying rent assistance in public housing is that the Commonwealth has already made a substantial contribution to the cost of that housing, so to subsidise again through rent assistance would be a bit of a double dip. However, having said that, the other side of the argument is pretty convincing also—that is, that community housing, and particularly the tenancy support that they can give people, is certainly a quality product. In many cases they do a fantastic job, so as a model for sustainable housing for low-income people it is very attractive. So we are weighing that at the moment.[50]

10.50 The Department of Family, Housing, Community Services and Indigenous Affairs also questioned how the community housing sector might best develop in Australia:

> Whether or not the community housing sector has the capacity to manage significantly larger numbers of housing stock, I do not know. There is also, for me, a bit of an issue about whether or not it is necessary for community housing organisations to own the houses, to have long head leases on the houses or whether or not they can in fact provide that tenancy support effectively to people in private rental also, which could be another option.[51]

10.51 National Shelter warned that, without additional investment and support, it would be difficult for the community housing sector to develop to meet growing needs:

> We do not have a Housing Benefit like the UK. We do not have the levels of capital resourcing like they do in the UK. We do not have the legislative requirement for local authorities to house people like they do in the UK. Without those sorts of measures sitting around a community housing system, it can be stagnant. It will grow through things like the National Rental Affordability Scheme, but it will not be able to do the full job or be

49 Mr B Murnane, *Committee Hansard,* 3 April 2008, p. 41.

50 Ms P Winzar, FaHCSIA, *Proof Committee Hansard,* 7 May 2008, p. 10.

51 Ms P Winzar, *Proof Committee Hansard,* 7 May 2008, p. 10.

able to cope with the kinds of stock transfers away from public housing to community housing that we have seen in other countries.[52]

Recommendation 10.3

10.52 **In order to meet the immediate need for social housing of highly disadvantaged households, the committee recommends that significant new funding be invested, by both the Australian Government and state and territory Governments, under the new National Affordable Housing Agreement, with the aim of increasing the pool of social housing to at least 6 per cent of housing stock.**

Recommendation 10.4

10.53 **The committee recognises the strengths that the Community Housing Sector brings to the delivery of social housing in Australia. In order to ensure that these strengths are fully employed, the committee recommends that the Australian, state and territory governments work more closely with Community Housing Associations to support them in meeting their social housing commitments and to explore options for attracting more investment, including private sector investment, into not-for-profit models of housing provision.**

Recommendation 10.5

10.54 **With a view to building more sustainable social housing in the longer term the committee recommends that the pool of social housing stock be increased to at least 10 per cent of housing stock by 2020, facilitating the entry into social housing of a more diversified mix of low to medium income earners.**

10.55 The purchase of this additional social housing stock could be funded by way of low interest loans to state and territory housing authorities and/or community housing providers from the Commonwealth infrastructure fund.

Recommendation 10.6

10.56 **As an additional measure to improve the sustainability of social housing, the committee recommends that the formula used to calculate the level of rent paid in social housing be reviewed, with a view to enhancing the sustainability of social housing stock (and, if possible, providing for growth), while maintaining affordability.**

10.57 **The review should include an examination of the interaction between social housing and Commonwealth Rent Assistance payments, and how these two programmes might be best utilised to maximise socially and economically sustainable outcomes in terms of access to affordable housing.**

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52 Mr A Pisarski, *Proof Committee Hansard,* 7 May 2008, pp 75–76.

Emergency assistance programmes

10.58 In addition to rental assistance programmes and public and community housing, governments also provide a number of programmes designed to prevent and address homelessness.

Supported Accommodation Assistance Program

10.59 The Supported Accommodation Assistance Program (SAAP) is a joint Australian and State and Territory government programme that provides transitional supported accommodation and support services to people who are homeless or at risk of becoming homeless.[53]

10.60 According to the Productivity Commission, recurrent funding of SAAP services was $356 million in 2006–07. Nationally, real recurrent SAAP funding per person has decreased from $18 in 2002–03 to $17 in 2006.[54]

10.61 SAAP agencies provide a range of services to homeless people and those at risk of becoming homeless including the provision of crisis housing and short term supported accommodation; medium to long term supported accommodation; outreach support; day support and telephone information and referral.[55]

10.62 Major Eldridge from the Salvation Army indicated that SAAP programmes have 'backed up' and that:

> Good services are finding themselves unable to provide beds at the crisis point and unable to secure beds at the exit points. So we need to really look at how we might support that program and deal with the current affordability crisis.[56]

10.63 This was reflected in the data from the SAAP 'Demand for Accommodation Collection', which showed that nationally in 2005–06, 54 per cent of adults and unaccompanied children requesting immediate new SAAP accommodation on a given day were turned away.[57] Major Eldridge called for the expansion of the SAAP as a 'national response to the needs of households at risk and people experiencing homelessness.'[58]

10.64 The 2008–09 federal budget included a measure 'A Place to Call Home' aimed at reducing the number of people turned away from SAAP services. Under the

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53 FaHCSIA website: www.fahcsia.gov.au/internet/facsinternet.nsf/housing/saap_nav.htm

54 Productivity Commission (2008, p. 15.56).

55 Productivity Commission (2008, p. 15.55).

56 Major D Eldridge, *Committee Hansard,* 23 April 2008, p. 39.

57 Productivity Commission, (2008, p. 15.61).

58 Major D Eldridge, *Committee Hansard,* 23 April 2008, p. 39.

initiative $150 million over five years will be provided to states and territories to create 600 new homes for homeless individuals and families. According to the Budget Fact Sheet:

> Instead of going to a refuge, homeless families and individuals will move directly into this housing and receive tenancy and other support for the first 12 months. They will not have to leave the housing at the end of the support period. The housing will be transferred to the general public housing pool and their tenancy extended in accordance with normal tenancy arrangements for public housing.
>
> Indigenous people will be provided with homes and support services at least in proportion to their share of the homeless population.[59]

Recommendation 10.7

10.65 The committee recommends that the Australian Government consider whether the level of increased support to the Supported Accommodation Assistance Program being offered under the 'A Place to Call Home' initiative is sufficient to address the level of unmet need, and increase support to emergency assistance programmes provided by charitable organisations to assist the growing numbers experiencing financial crisis.

Household Organisation Management Expenses (HOME) Advice Program

10.66 The Household Organisation Management Expenses (HOME) Advice Program is a pilot early intervention programme aimed at assisting families who are experiencing difficulties in maintaining tenancies or home ownership due to personal or financial circumstances.[60] FaHCSIA delivers the programme through a partnership with Centrelink and community agencies in eight locations throughout Australia, one in each state and territory. The South Australian location specifically targets Indigenous families.

10.67 Between 1 July 2004 and 30 June 2007 the HOME Advice Program assisted 1 636 families, including 2 303 adults and 3 438 children. About 60 per cent were single parent families and a further 29 per cent were couples with children. Most families (82 per cent) were in some form of rental accommodation. As outlined in Table 10.3, below, families tended to present to the Home Advice Program with a range of complex problems.[61]

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59 Department of Families, Housing Community Services, and Indigenous Affairs, (2008).

60 FaHCSIA website: www.fahcsia.gov.au/internet/facsinternet.nsf/housing/fhpp.htm

61 MacKenzie et.al. (2007, p. 11).

Table 10.3: Most common factors contributing to case complexity, 2005–07*

Factor	Per cent (%)**
Sought emergency financial assistance in the past 6 months	**51**
Few social support networks	**50**
Debt impairing family / social functioning	**51**
Family conflict	**41**
History of family violence	**40**
Poor budgeting skills	**44**
Limited employment opportunities	**40**
Mental illness indicated	**36**
No reasonable transportation to attend work	**19**
AVO/restraining/intervention order in place	**16**

* Source: MacKenzie et.al, (2007), p. 11
** Cases reporting the issue affecting the management of the case as a proportion of all cases in 2005-07

10.68 With the aim of preventing families from becoming homeless, the HOME Advice Program provides a diverse range of support. Key aspects of the programme include:[62]

- early identification of families at risk and early intervention to prevent homelessness by securing the families' housing situation and resolving the most immediate financial crisis issues;
- an holistic approach that involves working with the entire family, including children, and being Indigenous inclusive;
- a family centred approach that involves working with the family on the full range of issues with which they are faced, with a view to building resilience and achieving sustainable outcomes;
- provision of flexible brokerage services, to provide for timely financial support, and to allow the purchase of additional support services to meet the families needs. This may include assistance to meet rent or mortgage arrears through an initial payment aimed at averting the threat of eviction, followed by the development of a budget incorporating regular arrears repayments; and
- a partnership approach between the community agency providing the HOME Advice Program, Centrelink, and other services. This includes the provision of a dedicated Centrelink Home Advice social worker to provide case management and rapid response to address complex income support issues.

10.69 An evaluation of the HOME Advice Program looked at housing outcomes for families who had passed through the programme in 2005. It found that: 86 per cent of families had remained in adequate housing (79 per cent) or improved their housing situation (7 per cent); 6 per cent had remained in inadequate housing; and 6 per cent

62 MacKenzie et.al, (2007, pp. 17-20).

were in a worse housing situation. The outcome for 5 per cent of families was unknown.[63]

10.70 The evaluation also followed up clients six to twelve months after participating in the programme to assess the sustainability of outcomes. This follow-up found that around half of the families had not experienced homelessness since leaving the program, a quarter had become homeless at some point and the remainder could not be followed up. If clients seen by the Northern Territory and South Australian HOME Advice services (who had a high proportion of Indigenous clients) were removed from the statistics, the proportion of past participants in the program who had never experienced homelessness increased to almost three-quarters. There was a clear difference between Indigenous and non-Indigenous clients in terms of outcomes, with Indigenous families much more likely to experience a period of homelessness following their participation in the programme.[64]

10.71 In addition to helping prevent families from becoming homeless, the evaluation found that the HOME Advice Program assisted many families to resolve financial problems, particularly problems with Centrelink entitlements or debt, and to meet their goals in relation to employment. Participation in the programme also improved family resilience and community connectedness. The evaluation found that the two variables that contributed most to successful outcomes were:

- the availability of brokerage, allowing families to be supported early in a crisis; and
- the intensity of support provided to families, with arbitrary restrictions on the amount of support that could be made available viewed as being counter productive.[65]

10.72 A number of witnesses were aware of the Home Advice Program and suggested that it should be expanded nation wide:

> We have had a good look at—we are not participants in—the trial of the HOME Advice Program. It is a pilot program… It certainly did seem to be a very useful program—talking to some of the providers who have delivered it—in terms of preventing people from falling out of rental housing. They do have some brokerage money. They also have an opportunity to maintain people in their current accommodation and prevent at risk families from becoming homeless. We would like to see that program extended across the country.[66]

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63 MacKenzie et.al, (2007, pp 46-47).

64 MacKenzie et.al, (2007, p. 48).

65 MacKenzie et.al, (2007, p 56).

66 Major D Eldridge, *Committee Hansard,* 23 April 2008, p. 39.

10.73 One witness also saw potential for the programme in preventing families from falling out of home ownership:[67]

> We would suggest that an expanded version of that program [HOME Advice] could have a very productive role, and it would actually be a better way of maintaining homeownership, getting people into homeownership and keeping them in homeownership than what currently exists… I imagine there are a number of different ways in which it could be followed. It could be a referral program; it could be something that banks refer people to; it could be something that Relationships Australia takes responsibility for…[68]

10.74 In 2005–06 the Home Advice Program was estimated to have cost between \$1 323 and \$3 436 per client, with an average cost per client of \$2 030. If Centrelink contributions were included, the average cost per client was \$3 079. This compared favourably to an average cost per client under the Supported Accommodation Assistance Program, which provides assistance to homeless persons, of \$3 130.[69] Thus, by helping to prevent families from becoming homeless, the programme was providing savings to the Australian Government, while also achieving positive social outcomes for the families concerned and the broader community.

Recommendation 10.8

10.75 The committee recommends that the HOME Advice scheme be expanded nationally to provide early intervention services for families at risk of homelessness. The scheme should be evaluated after five years, including a comprehensive economic evaluation, to ensure that the expanded programme continues to provide economic and social benefits to the community.

Recommendation 10.9

10.76 The committee recommends that consideration is given to expanding referral pathways to the HOME Advice scheme to include financial institutions, so as to better capture low income mortgagees who may be at risk of becoming homeless (see paragraphs 9.48–9.55).

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67 Note: the current programme does not exclude home owners, however, as noted above, the vast majority of clients are in some form of rental accommodation.

68 Professor A Beer, Australian Housing and Urban Research Institute Southern Research Centre, *Proof Committee Hansard*, 28 April 2008, p. 51.

69 MacKenzie, et.al. (2007, p.62).

National Rental Affordability Scheme[70]

10.77 The National Rental Affordability Scheme (NRAS) was announced by the Government on 3 March 2008 as a supply-side response to dealing with the shortage of affordable rental property in Australia. The scheme aims to:

- increase the supply of affordable rental dwellings by 50 000 by 2012;
- reduce rental costs for low and moderate income households; and
- encourage large scale investment in and innovative delivery of affordable housing.

Recommendation 10.10

10.78 The committee recommends that the Australian government encourage applications under the National Rental Affordability Scheme that would target the development of new affordable rental properties in areas of greatest need and/or for communities needing affordable housing for essential services workers.

10.79 Under the scheme, a National Rental Incentive will be available to providers of new dwellings, on the condition that they are rented to low and moderate income households at 20 per cent below market rate. The incentive will be available for a period of ten years, provided that the property continues to be rented to a household that meets the eligibility criteria.

10.80 The annual National Rental Incentive will comprise:

- a Commonwealth Government tax offset or grant of a specified value ($6 000 initially and indexed annually thereafter according to the rental component of the Consumer Price Index). The Commonwealth contribution will be provided as a refundable tax offset, except to non-profit organisations endorsed as a charity, who may receive the contribution in the form of a grant; and
- a State or Territory contribution in the form of direct financial support of a specified value ($2 000 per annum) or some other support of equivalent value.

10.81 For the purpose of the National Rental Incentive, dwellings will be regarded as new if they are increasing the supply of lower-cost rental housing. This may include newly constructed dwellings that have never been occupied on a residential basis or are being substantially rehabilitated, such as a motel being converted into residential housing. Refurbishments of existing dwellings will not be eligible unless refurbishment leads to a net increase in the number of dwellings.

10.82 In terms of the eligibility criteria for tenants to ensure continued eligibility for the National Rental Incentive scheme, the discussion paper indicates that this will be

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70 Information about the Scheme has been sourced from the Australian Government (2008b).

modelled on eligibility for Commonwealth Rent Assistance or the low income Health Care Card. Table 10.4 provides an indication of the income limits for CRA and low income Health Care Card on which tenant eligibility could be based.

Table 10.4: Income limits

Income limits for continuing eligibility for the CRA are:	
Single age pensioner	$39 000
Couple, no children, both age pensioners	$65 000
Working family (FTB recipient) two children under 12 years old	$67 000
Working family (FTB recipient) three children under 12	$80 000
Income limits for continuing eligibility for the low income HCC are:	
Single	$28 300
Couple, no children	$47 000
Couple, 2 children	$52 000

Views on the Scheme

10.83 The community sector was generally positive about the National Rental Affordability Scheme. The Australian Council of Social Service indicated that:

> We think that it is a big breakthrough, because it provides for the first time a real incentive for people to invest in low-income housing.[71]

10.84 It was noted, however, that the scheme had only just been announced and that no details were available about how it would work (unfortunately the discussion paper was not released until after the committee had completed taking evidence). As such, witnesses were only able to talk theoretically about the potential effectiveness of the scheme.

10.85 A number of witness from the community housing sector indicated that they believed the scheme would allow them to expand their operations. For example, Mr Murnane from Argyle Community Housing Ltd stated that:

> …we are quite excited about this proposal—there would be I think in rough terms about $600 million available. The thing that made it exciting for us was that there was about an $8,000 subsidy to go with it. There was a $6,000 subsidy over a 10-year period from the Commonwealth and $2,000 per unit from the state. When we looked at those figures, we could provide housing under that proposal. We have only had a very preliminary look at it, because we have been caught up with other things, but we could provide housing under that scheme, particularly, if those figures were indexed over a 10-year period. We have negotiated arrangements with financial institutions that are more than happy to fund us to be able to develop housing based on the figures outlined in the NRA Scheme. We think that is a positive move.[72]

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71 Mr A Johnson, *Committee Hansard*, 2 April 2008, p. 79.

72 Mr B Murnane, *Committee Hansard*, 3 April 2008, p. 46.

10.86 Others, while supportive of the scheme, questioned whether it would deliver all that it had promised and stressed the need for the scheme to be flexible and responsive to the lessons learnt during implementation:

> I think that we need to test the National Rental Affordability Scheme in the marketplace first. I do not think there is any help in just doing some modelling. After all, this is about real investments with real investors, so we need to test it in the real marketplace. I would like to see a guarantee that the scheme can be fine-tuned in response to that.[73]

10.87 Ms Kakas, from the Property Council of Australia, indicated that she believed that:

> …we have the opportunity, if the National Rental Affordability Scheme is properly designed, to bring some maturity and some changes into the marketplace to bring superannuation, developers, trusts and new ways of bringing products to market and to keep investors in place.[74]

10.88 In respect of whether members of the Property Council would participate in the scheme, Ms Kakas advised that:

> I think not having the detail certainly adds a level of constraint and speculation which keeps our development people as a whole putting their toe over the sidelines, saying, 'We'd like to participate and we think this has real potential but we really need to see how it is going to work on the ground and whether or not there is some feasibility and flexibility there to allow for innovation to occur.'[75]

10.89 The question of whether institutional investors, such as superannuation funds, would actually participate in the scheme was also raised by a number of witnesses. For example, Mr Sutton from the Construction, Forestry, Mining, Energy Union told the committee that:

> …[the] rental package proposal, is hoping that institutional players like super funds will come and fill that space. I am not yet convinced, because we have not seen all the detail or the mechanics of how that is going to work, that it will marry the two things together. I am certainly hoping we can. I myself am a superannuation trustee, and of course you have a fiduciary duty when you sit at the super fund.[76]

10.90 Mr Farrar from the NSW Federation of Housing Associations suggested that, as an incentive to attract institutional investors to the scheme, the government look at underwriting their investment in the short term:

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73 Mr A Farrar, *Committee Hansard,* 2 April 2008, p. 9.

74 Ms C Kakas, *Proof Committee Hansard,* 24 April 2008, p. 16.

75 Ms C Kakas, *Proof Committee Hansard,* 24 April 2008, p. 16.

76 Mr J Sutton, *Proof Committee Hansard,* 24 April 2008, p. 5.

> It would be prudent at a time like this for government to provide, even if it is only for a temporary period, some underwriting of that risk so that the market can come into the marketplace with an unknown product and some confidence that they are not going to lose their shirts on it. I think they will very quickly learn that it is not a high-risk but a low-risk business.'[77]

10.91 The National Rental Affordability Scheme aims to help create an additional 50 000 affordable rental dwellings across Australia by 2012 and, if successful, will offer a further 50 000 incentives from 2012. Some questions were raised as to whether this was achievable in light of the skills shortages faced by the construction industry and other limiting factors, such as land availability.

10.92 In response to these concerns FaHCSIA indicated that

> …by the time we get to year 5, we would be thinking that is around about another 20 to 30 additional dwellings at that point—that is 20,000 to 30,000 on top of the hopefully 200,000 dwellings a year that will be being built at that point. We are talking about 2011-12, so in that sense it is not that much of an increase for the industry as a whole.[78]

10.93 Ms Winzar also advised the Committee that, while FaHCSIA had not had explicit discussions with the Housing Industry Association and other stakeholders about whether the industry could deliver an additional 50 000 dwellings, 'the industry associations are well aware of what the government is trying to do.'[79]

10.94 In addition to the concerns raised about whether the National Rental Affordability Scheme will be successful in attracting institutional investors and delivering the full quantum of dwellings, some questions were also raised about whether the scheme will deliver additional affordable housing in the right areas.

10.95 Mr Farrar from the NSW Federation of Housing Associations indicated that he understood that the NSW government had undertaken some modelling:

> which suggests that because the market is variable then the incentive is going to work better in places where the need is least and work less effectively in places where it is highest.[80]

10.96 This issue was to some extent acknowledged by the Department of Families, Housing, Community Services and Indigenous Affairs who noted that:

> …it may well be that, for an institutional investor, the entry price of such a measure as the National Rental Affordability Scheme is not attractive in Sydney, notwithstanding the prospect of longer term capital growth, and

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77 Mr A Farrar, NSW Federation of Housing Associations, *Committee Hansard,* 2 April 2008, p. 9.

78 Ms P Winzar, *Committee Hansard,* 1 April 2008, p. 15.

79 Ms P Winzar, *Committee Hansard,* 1 April 2008, p. 17.

80 Mr A Farrar, *Committee Hansard,* 2 April 2008, p. 9.

> that they would prefer to see an investment in Wollongong, Newcastle or Dubbo or in one of the regional centres.[81]

10.97 The Department went on to indicate that they are not overly concerned about targeting, at least in the initial rollout of the programme, as 'with rental vacancy levels below three per cent in all capital cities, in a sense it does not matter where they are targeted—because there are rental shortages right across Australia.'[82] The Department acknowledged, however, that this was an issue that they may need to address over time:

> We will monitor the developments as they go along. After about year 2, I think we will have a pretty clear sense about whether or not we need to do something different in some particular areas which still have significant levels of rental stress.[83]

10.98 The Department also emphasised that state governments could offer additional incentives to attract investors into their state, or into particular housing markets.[84] This is something being considered at some levels, with the Gold Coast City Council indicating that the Council 'is considering incentives to the private sector in light of the Australian government's National Rental Affordability Scheme.'[85]

10.99 Linked to the issue of whether the National Housing Affordability Scheme will be adequately targeted geographically, is whether it will address the problems being experienced by some communities in ensuring that affordable housing is available for essential workers. As noted above, a number of witnesses to the inquiry stressed that affordable rental housing was required not only to assist lower income earners or welfare recipients who struggle to meet market rents, but also to assist some communities to attract and retain essential workers in high housing cost areas.

10.100 The income levels being proposed as part of the tenant eligibility criteria, as outlined in Table 10.4, would appear to exclude many workers who might be classified as 'essential'. For example, the base salary (before shift penalties) for a first year nurse in NSW is around $48 000 per annum, and for a probationary constable it is around $47 000 per annum. Both of these professional groups would be excluded from eligibility for affordable housing under the criteria proposed in the discussion paper.

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81 Ms P Winzar, FaHCSIA, *Committee Hansard,* 1 April 2008, p. 17.

82 Ms P Winzar, *Committee Hansard,* 1 April 2008, p. 16.

83 Ms P Winzar, *Committee Hansard,* 1 April 2008, p. 16.

84 Ms P Winzar, *Committee Hansard,* 1 April 2008, p. 16.

85 Ms C McCool, *Committee Hansard,* 15 April 2008, p. 3.

Recommendation 10.11

10.101 **The committee recommends that the Australian Government considers how community housing providers and housing cooperatives might be assisted to access funding under the National Rental Affordability Scheme.**

Recommendation 10.12

10.102 **The committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs conduct a mid-implementation review of the National Rental Affordability Scheme in 2010 to assess the extent to which it is meeting its objectives.**

10.103 **The review should examine:**

- **the extent to which institutional investors have been attracted to the scheme and any barriers to their participation;**
- **the number of new dwellings brought on line or in development under the scheme and whether the scheme is on track to meet its target of 50 000 new dwellings by 2012;**
- **the extent to which factors such as workforce shortages in the construction industry or land shortages have limited the rollout of the programme;**
- **whether the scheme is improving access to affordable rental housing equally across the country, or whether there are geographical pockets of high need that are not being addressed;**
- **whether there is a continuing issue of attracting and retaining 'essential workers' in some communities and to what extent, if any, the National Rental Affordability Scheme has addressed this issue; and**
- **any additional contributions to the scheme provided by state and territory or local governments and the extent to which these appear to have affected the uptake of the scheme in that state or local government area.**

Other issues

10.104 While home ownership is an important aspirational goal for many Australians, long term rental may be a more attractive prospect if some of the benefits of home ownership could be translated into the rental market. According to the Western Sydney Organisation of Councils:

> There appears to be the perception that ownership in its current form is the only form of desirable housing, whereas surveys indicate that what people really want is security of tenure.[86]

86 Western Sydney Regional Organisation of Councils Ltd, *Submission 31*, p. 4.

10.105 Lack of secure tenure was seen as one of the major deficits of the private rental market and something which often prompted people to enter home ownership even when they could not afford to do so:

> We have transitional communities because leases are often for six or 12 months and people are moving endlessly. When they are offered the First Home Owner Grant, they think, 'This is an opportunity for me to set up home, to have some security,' but they do not have the income to cover their mortgage.[87]

10.106 Several witnesses suggested that security of tenure might be addressed via the development of more uniform tenancy laws across Australia:

> We would like to see a consistent national framework specific to tenancy legislation. It is quite complex at the moment. We operate in a number of states and there does not seem to be any consistency.[88]

10.107 The Australian Council of Social Service suggested that such an approach might be incorporated in the future National Affordable Housing Agreement:

> Many international experts have come to the country and said that one of the things that could possibly be done under… the National Affordable Housing Agreement, is to provide a national set of standards for people in the private rental market. Clearly, they are not strong enough.[89]

10.108 It is argued, however, that stronger tenancy laws could provide disincentives for investment in the private rental market, leading to decreased supply and increased housing affordability problems in the longer term.

10.109 A number of witnesses suggested that the best way to address security of tenure in the rental market was to provide people with a more diverse range of tenancy options than are currently available. Housing cooperatives were put forward as one such alternative.

10.110 Mr McInerney, from Common Equity Housing, currently provides community housing on a cooperative basis in Victoria

> We ask the tenants to form a local cooperative, usually of between 12 and 20 households, in an area or with an interest group. They form a corporative and manage their own rent collection. They pay rent to their own cooperative and pass on 55 per cent of the rent collected to the company. We service the debt and provide them with assistance, expertise and resources to run their little businesses—they actually run small businesses. They are responsible for the day to day maintenance of their properties, and

87 Ms J McIvor, *Committee Hansard,* 3 April 2008, p. 10.

88 Major D Eldridge, *Committee Hansard,* 23 April 2003, p. 40.

89 See Mr A Johnson, ACOSS, *Committee Hansard,* 2 April 2008, p. 77.

> the company does any capital works on the properties. The effect of this is that the tenants take great pride in their homes.[90]

10.111 Under their current scheme, Common Equity Housing owns the houses that are being rented by the Co-operative, however Mr McInerney sees opportunities for equity cooperatives, where people invest in the co-operative and the co-operative provides them with a home, at reduced rent. The co-operative would offer secure tenure and people would be able to decorate the house and make improvements (at their own expense), meaning it would be much more like a home that they actually owned.

> With this equity housing, you buy into a company or a co-operative rather than into an individual property and the investment that people put in themselves is protected. They would not get capital gain—that would stay with the not-for-profit provider—but their money would be refundable when they left and probably CPI-ed as well for the duration of the time they stayed in the property…[91]

10.112 The submission to the inquiry from the Urban Research Centre provides a more detailed overview of how limited-equity co-operatives work overseas:

> In cooperative housing, residents are members and shareholders of a non-profit co-operative corporation holding title to the housing, with ownership of that share granting a right to reside in a housing unit. In market-based cooperatives, share values increase in line with surrounding property prices, but the pooling of resources into the cooperative make initial purchase easier. In limited-equity cooperatives, shareholders are entitled to a limited equity gain on their corporate share at resale; this gain is indexed according to a pre-determined formula which may correlate to CPI or a percentage of surrounding market gain. This ensures that the affordability of the share is retained over time. Housing cooperatives are unique in that residents are shareholders in the corporation owning their home and as such, have ultimate control over the corporation's assets and operations and over the enforcement of restrictions placed on title and occupancy. The terms of occupancy are secured via a lease between the homeowner and the co-operative.[92]

10.113 The Urban Research Centre also notes that the use of limited-equity housing is quite extensive in some countries, such as Sweden, where market-based and limited-equity cooperatives house over 500 000 individuals, representing 15 per cent of the housing market.[93]

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90 Mr J McInerney, *Committee Hansard,* 23 April 2008, p. 12.

91 Mr J McInerney, *Committee Hansard,* 23 April 2008, p. 13.

92 Urban Research Centre, University of Western Sydney, *Submission 32*, p. 6.

93 Urban Research Centre, University of Western Sydney, *Submission 32*, p. 6.

Recommendation 10.13

10.114 **The committee recommends that the Australian Government examine the capacity of the community housing sector to operate as a provider of choice of affordable adaptable housing for people living with a disability, and investigate how it can support this sector to provide more units of appropriate housing.**

Recommendation 10.14

10.115 **The committee recommends that the Australian, state and territory governments investigate options to encourage community housing associations to develop more housing to meet the future needs of an increasing number of older Australians for affordable and adaptable housing that supports 'ageing in place.'**

The Stretton scheme

10.116 Another alternate tenancy model was presented to the committee by eminent academic Professor Hugh Stretton, who proposed a scheme aimed at improving affordable housing by separating the shelter aspect of home ownership from the speculative motive. It would introduce a new 'style of housing which should have the special capacity that it could not be inflated. It could not contribute to the inflation of other housing and might well moderate it somewhat.'[94] While this model relates primarily to home ownership rather than rental, it is included here because of the rent-to-purchase aspect of the proposal, as outlined below.

10.117 The scheme involves the government sponsoring a public trust which would build and then sell (at cost) homes whose price could not rise faster than the CPI (as they could only be resold back to the agency that sold them). This would exert a dampening influence on overall house price inflation. The homes would be built by private builders who submit competitive tenders and commit to training a quota of apprentices.[95] For people unable to buy the homes immediately, Mr Stretton suggests the trust could offer them on a 'hire purchase' basis; paying an above-market rent for a number of years but then most of that rent being deducted from the purchase price. At least in its start-up stages, the scheme would require government subsidy, but may be more cost-effective than other forms of housing assistance.

10.118 While Mr Stretton's scheme is innovative, there are some similarities with cooperative housing schemes internationally.[96]

10.119 Given the failure of the housing market in Australia to provide access to appropriate and affordable housing for many Australians, there seems to be value in

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94 Mr H Stretton, *Proof Committee Hansard*, 28 April 2008, p. 26.

95 The scheme is described in *Submission 16*, and draws on Stretton (2005).

96 For example, the scheme has similarities with the Community Land Trust model in the United States.

exploring options for alternative forms of rental tenure, which have the potential to provide the security and social benefits usually associated with home ownership, but without the financial cost of a mortgage.

Recommendation 10.15

10.120 **The committee recommends that the Department of Families, Housing, Community Services and Indigenous Affairs conduct an independent evaluation of alternative tenancy and ownership models, such as housing cooperatives, currently operating in or proposed for Australia or overseas, to assess their efficacy in providing secure and affordable housing in the Australian context. The evaluation should include a review of any legislative or administrative barriers to the introduction or expansion of such schemes in Australia.**

10.121 **If the results of the evaluation indicate that there may be a role for alternative tenancy and ownership models in the Australian context, options should be developed for supporting and promoting uptake of such models.**

Chapter 11

Longer-term responses

11.1 There is a cyclical element to the current problem of housing affordability in Australia. When interest rates rise, as there is a lag before house prices slow or fall, measures of housing accessibility and housing stress deteriorate. Indeed, particularly in an economy such as Australia's where home loans are predominantly at variable interest rates (Table 4.1), some increase in housing stress and subsequent slowing in consumer spending is part of how a tighter monetary policy acts to rein in inflation.

11.2 However, most of the current problem in housing affordability is structural rather than cyclical. It has been building over a long time. As Professor Yates said, it:

> is not something short term that happened in the last three or four years, it is something that has been going on for up to, I would say, 30 years. I would pinpoint it to the mid-seventies when inflation took over and housing became important as an asset rather than as something that provided shelter.[1]

11.3 Resolving it is also likely to take a long time, especially if policymakers are unwilling to take steps that involve large falls in house prices, which would push significant numbers of households into negative equity. If house prices remain steady, and wages grow at the recent pace of 4 per cent a year, house prices will not return from seven to three times annual income until 2030 (refer Chart 3.2).[2] If house prices are just constrained to growing no faster than consumer prices, then it would take until almost 2070 to return house prices to three times earnings.

11.4 The longer term outlook is worthy of ongoing analysis. The government's inquiry in 1991 looked forward 15 years. It said:

> The projections indicate that by the year 2006 the vast majority of Australian will be well housed in their own homes without excessive housing costs. But if real house prices or real rents increase, younger households attempting to access home ownership and in particular lower income private renters will be vulnerable to housing stress. In both cases, the position of single-income households will be worse than has been the case in the past.[3]

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1 Professor J Yates, *Committee Hansard*, 2 April 2008, p. 38.

2 This calculation is based on the existing stock of housing. If new stock is brought on at lower prices, it would pull down the average price and speed up the process. However, this may not be possible without also bringing down the price of existing housing.

3 National Housing Strategy (1991b, p. xiii). The projection of the majority being well placed for housing was made despite, or perhaps because of, projections that interest rates would have remained over 10 per cent by 2006.

11.5 This could be seen as prescient. It certainly identifies the groups now most likely to be struggling.

11.6 Looking forward from our own time, Yates (2008, p. 11) projects that by mid-century there could be an additional half million households in housing stress. The government currently produces an *Inter-Generational Report*, which looks at the impact over coming decades on the fiscal balance of factors such as the ageing population. Given the concerns expressed by some witnesses (chapter 4) about the current tax system which is regarded as favouring those who have housing and seek to invest in property over those who do not, it is important to consider the issue of inter-generational equity. A longer-term analysis of housing affordability could be either incorporated in the next of these reports or produced as a separate document.

11.7 This final chapter looks at two important issues that will influence housing affordability in Australia over the long term. The first is the need for regional development. The second is the environmental sustainability of future housing.

Regional development policies

11.8 In the longer term, decentralisation policies offer scope to allow more people access to housing that is affordable both in regard to its purchase price and in regard to the cost of commuting from it to work.

11.9 As one senator asked at a hearing:

> Does it seem peculiar that we always seem to be trying to take the mountain to Mohammed? …rather than trying to find affordable houses in the eastern suburbs of Sydney, how about we try and stimulate employment where there is cheaper land and a greater prospect of people getting into the housing market at the ground level? [4]

11.10 He gave a good example of this being successfully achieved. While it had more to do with Sydney-Melbourne rivalries than a concern about housing affordability, the founding fathers chose to put the national capital away from an existing city. The result was that there are now '350 000 people living on a creek in southern New South Wales'[5] who would otherwise be adding to the pressure on housing prices in Sydney or Melbourne.

11.11 Professor Disney strongly advocates regional centres:

> The other long-term priority—hard to achieve but, I think, enormously important—is to strengthen regional centres in Australia. If you try to think why it is that Australia has what seems to be about the worst housing affordability in the world…one of them is that we are more concentrated than any other developed country in a few major cities. I think that that is a

4 Senator B Joyce, *Committee Hansard*, 1 April 2008, pp 32 and 68.

5 Senator B Joyce, *Committee Hansard*, 1 April 2008, p. 69.

> major contributing factor to excess demand in those areas driving up prices. …Over the long term—40 or 50 years—I think a very high national priority should be to strengthen the proportion of our population living outside our biggest three cities. That will have a number of benefits, including for productivity of our economy, but it will also, I think, restrain housing costs and transport time.[6]

11.12 The best-known example of a push for decentralisation was the mid-1970s 'growth centres' initiative in Albury-Wodonga and Bathurst-Orange. These projects had some success, and may well have had more if government support for them had been sustained. Today, the Murray River would probably not be chosen as a site for increasing population.

11.13 Professor Disney commented:

> There are some parts of Australia to which this is much more suited than others. I think Victoria and Queensland stand out as the two that have the best prospects—and, of course, Queensland is already much more regionalised than others. I should also emphasise that I sometimes talk about them as clusters rather than as centres; in other words, if there are three substantial cities of 70 000 to 80 000 within an hour's drive of each other, that is the same as one centre. So, in the case of Victoria, I always felt that Ballarat, Bendigo, Castlemaine et cetera had a lot of potential; in fact, it was the original proposal for where a multifunctionpolis might be. I think it would have worked very well with high-speed transport between those centres creating a cluster, which is what you have in Europe—a lot of people and organisations that play a major role in national life live and work in quite small centres.[7]

11.14 As Professor Disney pointed out, the European experience demonstrates that cities do not have to have populations in the millions to offer good jobs and attractive lifestyles. For example, arguably the richest town in Switzerland is Zug, the headquarters of, among others, multinational mining company Xstrata, and it has a population of only 25 000. The world's largest food company Nestlé is headquartered in the smaller town of Vevey. Basel, with a population of under 200 000, is home to the headquarters of the global pharmaceutical companies Roche and Novartis. Geneva, with a similar population, hosts many international organisations. As well as offering good jobs, these cities are culturally rich with excellent rail connections.

11.15 Another feature of making regional living attractive is providing high quality communications in country towns:

> In country towns you will often find that the post and telegraph office will have been a very handsome building in the centre of town—it was recognised how fundamental post and telegraph was to country towns but,

6 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 30. Similar views were put by National Shelter, *Submission 57*, p. 3.

7 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 35.

nowadays, it is about videoconferencing, high-speed broadband and those sorts of things. So those are crucial.[8]

11.16 A good way of developing the right incentives is 'to ask why one would not live in a regional centre—"What is it that I think I would miss?"—and try to counteract that'. So cultural, educational, sporting and entertainment facilities are important.

Table 11.1: Demographic comparison

				Urban population (% of total)	
	Urban population (% of total)	Population density (persons per km^2)	Detached houses (% of total)	in two largest cities	In cities between 500,00 and 1 million people
Australia	89	3	77	54	0
Austria	66	96		21	0
Belgium	97	340		48	9
Canada	80	3	56	43	20
Denmark	85	125		25	0
France	76	112		49	13
Germany	88	231	31*	20	22*
Ireland	60	56		32	0
Japan	77	336	59	19	8
Netherlands	66	391		28	8
New Zealand	86	14		66	0
Sweden	84	20		61	33
Switzerland	68	178		18	12
United Kingdom	89	245	26	18	4
United States	80	30	61	17	10

Sources: Ellis and Andrews (2001, p. 16); Ellis (2006, p. 22); Lawson and Milligan (2007, p.20); Reserve Bank of Australia (2003, p. 29); SBS World Guide. *west Germany

11.17 'Medium-sized' cities are defined as having between 500 000 and a million inhabitants. Professor Disney notes that 'most developed countries have quite a number and they have 20 per cent, 30 per cent or 40 per cent of their total population living in cities of that size'.[9] This is true of Europe and the United States.

8 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 36.

9 Professor J Disney, *Committee Hansard*, 2 April 2008, p. 32. Australia's urban structure is also cited as a reason for high house prices by Mr P Pollard, *Proof Committee Hansard*, 7 May 2008, p. 59.

Significantly, it is also true of Canada, the closest geographical parallel to Australia.[10] (Table 11.1) In Australia the only 'city' of around that size is the Gold Coast, and in some ways it functions more as an outlying suburb of the greater Brisbane conurbation.[11] Among reasons Australia may have developed this way is that its major population growth occurred well after the advent of the car and its federal structure favoured a small number of cities.[12]

11.18 Another way that promoting regional centres would improve affordability is through boosting productivity, and hence incomes, by reducing congestion.

11.19 Admittedly, encouraging regional development is challenging, and requires government to take a lead in moving employment centres there:

> Around the whole world there is very little evidence to show that public policies that are explicitly oriented towards deliberately decentralising population and economic activity work. The overwhelming evidence is that they do not. You can try to develop growth with strategic infrastructure investment. The role that the Commonwealth has played in Townsville, for example, with the military base and that sort of thing, is a case in point. Certainly governments can play a very large part….most of the successful larger towns in Australia have a very substantial public sector base to their employment—in the order of 22 and 25 per cent in just about every case. That is related to things like big base hospitals and health infrastructure, regional offices of federal and state government, educational institutions, regional universities, TAFE colleges and the like. I certainly would suggest to you that there is a very explicit and direct role that governments at both the Commonwealth and state level can play in enhancing the greater success of places outside metropolitan areas that are a success, but I cannot foresee a situation where you are going to really stop the continuing attraction of the large metropolitan region. Around the Western world, the big cities are growing bigger simply because of what are standard agglomeration economies and the much more diversified labour market of those big metropolitan conurbations.[13]

11.20 Again the example of Canberra is illustrative. While initially a 'public service town', the majority of jobs are now provided by the private sector.

11.21 It is clear to the committee that if Australia is to move towards greater decentralisation of its population, government services need to take the lead. Options might include Commonwealth and State Government public service departments moving their headquarters to a regional area, rather than being centralised in the capital cities.

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10 Self (1995, p. 253).

11 Mr M Papageorgiou, *Committee Hansard*, 14 April 2008, p. 20.

12 Yates (2007, p. 7) and Ellis and Andrews (2001).

13 Professor R Stimson, *Committee Hansard*, 14 April 2008, p. 44.

11.22 Such an approach would have both advantages and disadvantages for government departments. One of the advantages might be that departments are better able to attract and retain staff. For example, during 2006–07, 88 per cent of Commonwealth agencies reported that they had experienced difficulties recruiting people with the required skills.[14] Lack of affordable housing in the ACT is seen as one of the factors making recruitment more difficult[15]. If a regional area offered affordable housing and good amenities, with easy access to a capital city, it may be a very attractive prospect for many seeking to work in the public sector. Departments may also be seen as less 'city centric' and more responsive to the needs of the broader community if they were located away from capital cities.

11.23 Disadvantage of decentralisation would include increased costs in terms of travel and teleconferencing, and reduced accessibility of public servants to the Minister (and to a lesser extent the Parliament) as they would not be able to attend meetings and proceedings physically at short notice. Dispersal of government departments across various regional centres may also reduce opportunities for formal and informal networking and information exchange.

The need for environmentally sustainable housing

11.24 For housing to be deemed truly 'affordable', it needs to have more than just a modest purchase cost or a manageable weekly rent or mortgage repayment. It needs to be affordable in terms of the transport and energy costs incurred from living in it. A number of witnesses discussed the 'hidden' costs that can make an affordable home (in terms of mortgage repayments) unaffordable:

> People come out here thinking that it is going to be cheaper to live, but what they find is that there are hidden costs—petrol, cars and so on. They realise once they get out here that it is not as cheap as they thought.[16]

11.25 According to the Western Sydney Regional Organisation of Councils there is a significant relationship between 'transport infrastructure and transport costs and housing locational costs and locational disadvantage'.[17] This underscores the importance of affordable housing being located in areas with good social and transport infrastructure. It also underscores the importance of affordable housing being environmentally sustainable in the longer term.

11.26 As Australia responds to global warming and moves towards a low carbon economy, the costs of running a home, including heating and cooling, are expected to rise significantly. As noted in the Garnaut interim report,

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14 Australian Public Service Commission (2006, p. 54).

15 Mr D Rumbens, cited in *Canberra Times,* 13 December 2007, p. 1.

16 Ms J McIvor, *Committee Hansard,* 3 April 2008, p. 7.

17 Mrs J Fingland, *Committee Hansard,* 3 April 2008, p. 24.

> … the cost of these [emissions] permits…will mostly be passed through to consumers in the form of higher electricity and other energy prices, at least in the early years of the scheme when a relatively low proportion of energy derives from alternative, low-emissions sources embodying greater economic costs. These price rises will disproportionately affect low income households…[18]

11.27 This message seems to have been heeded by the South Australian government. They:

> see energy efficient design as being a key part of that, particularly heading into the future with issues around climate change.[19]

11.28 A number of witnesses expressed concern about whether the common pattern of large houses being built on the ever-expanding fringes of large cities meets the need for environmentally sustainable housing:

> the McMansion bomb is not just a bomb in relation to the financial issues; it is a bomb in terms of the environment because of the destruction it does to the biodiversity of large chunks of our cities—it is very, very inefficient environmentally.[20]

11.29 Professor Troy suggested that the expectations that many Australians have of housing involving large free-standing homes might be tempered somewhat if placed within the context of Australia's response to global warming and reducing our carbon footprint:

> we are not even attempting to do that. We are not even trying to relate it and sugar-coat the pill by saying, 'This is environmentally a better way to go,' for example. There is no acculturation education program designed to get people to be more modest about their footprint on the environment. We have to do it and do it big time.[21]

11.30 Concerns were expressed that while 'affordable' (in a narrow sense) housing is important, it should not be pursued at any price. The Queensland Government, through its *Urban Land Development Act* was seen by one witness as having:

> given themselves the right to override local government planning schemes and even to override their own legislation, which has restrictive measures to protect biodiversity, vegetation of high value and waterways and even to protect people from natural hazards. So they have given themselves the

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18 Garnaut (2008, p.48).

19 Ms K Kelly, *Proof Committee Hansard*, 28 April 2008, p. 33.

20 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 117. Similar concerns were expressed by Ms P van Reyk, *Submission 8*, p. 1.

21 Professor P Troy, *Committee Hansard*, 1 April 2008, p. 119.

right to override anything that the people of the area care about in order to provide 'affordable housing'.[22]

Recommendation 11.1

11.31 The committee recommends that the forward plans of the Australian, state and territory governments incorporate policies for mid-size regional cities to ensure they are better able to form sustainable communities, to cope with the transport impacts of peak oil and climate change, and to invest in infrastructure.

Senator Marise Payne

Chair

22 Ms S Davis, *Committee Hansard*, 14 April 2008, p. 30.

Additional comments – Senator Andrew Bartlett

I support the Committee's report and the recommendations. The report is a valuable and fairly comprehensive examination of a complex but very pressing issue. It is a great shame that the previous government did not engage in or examine many of these issues over a period when the crisis in housing affordability continued to worsen considerably.

Given the seriousness of the housing affordability crisis and its entrenched nature, I am concerned that there needs to be some more immediate measures alongside the medium-term proposals put forward in this report, as well as those being adopted and considered by the new federal government. I believe the single most effective measure to provide an immediate increase in affordable housing is to boost funding for the supply of affordable rental housing. While I support and welcome the proposal in Recommendation 10.2 to boost the supply of social housing, given the urgency and entrenched nature of the problem, there are grounds for supporting a greater boost in funding in this area.

I particularly welcome the Committee's Recommendation 4.2, which calls for a (long overdue) review of the impacts on housing affordability of existing tax arrangements in the area of negative gearing and capital gains tax. However, I believe this review must also consider the capital gains tax exemption on the family home. It is unacceptable that so little effort seems to have been put in by Treasury to try to quantify the scope of such a large tax break, but this Committee's report (at Table 4.2) has estimated that this exemption costs approximately $20 billion a year!

While many witnesses appearing before the Committee acknowledged that removing or modifying this exemption would be very difficult politically, I don't believe an exemption which provides such a huge tax break, has the potential to significantly distort housing markets and is highly regressive in its application should be seen as off-limits, given the seriousness of the housing affordability problem and particularly the structural nature of the problem.

Indeed, given the seriousness of the housing affordability crisis, the enormous amount of revenue foregone as a result of this tax exemption and the potential for such revenue to be invested into social or affordable housing, I believe consideration should be given to immediately phasing out or capping the capital gains tax exemption in the family home. Introducing a tax such as this would have to be grandfathered, in the same way as the capital gains tax itself was when it was introduced, but it is time this option was put on the table.

I also welcome the Committee's consideration of modifying the First Home Owners Grant Scheme, and the suggestion that any funds saved be redirected into increasing the supply of affordable housing. However, in my view the case has been made for the Grant to be means tested. Funds spent in this area should be targeted at assisting people who couldn't otherwise afford it to enter the housing market, not at helping people who can afford to buy a house to buy a slightly more expensive one. For the same reason, there should be a cap in the overall price of a house that First Home Owner Grant funds can be used for.

Finally, the role of private rental in providing housing for people was touched on by many witnesses. The terms of reference for this inquiry unfortunately didn't lend themselves to a full examination of some of these issues, which is unfortunate given that this sector is where the worst affordability problems lie and where many people are most vulnerable in regards to security over their homes. Given that it wasn't a direct focus of the inquiry – in part because much of the issues are the responsibility of state governments - it is difficult to make precise recommendations in this area. However, I believe there is a strong case for improved tenancy laws at state and territory level which strengthen the security of tenure and restrict profiteering and excessively large or frequent rent increases.

Andrew Bartlett
Senator for Queensland

Additional comments from the Australian Greens

Senator Rachel Siewert

The best way to deliver appropriate, secure affordable housing is a complex and pressing issue. The cost and opportunity of securing affordable housing in a location that offers reasonable access to workplaces, services and amenities, regardless of whether it is through getting a mortgage or private rental, has been a big issue for a growing number of ordinary Australians for some time now[1]. At best this is a timely report, at worst it is one whose time is long overdue.

The Australian Greens support the findings and recommendations of the committee but wish to make some additional comments.

To the extent to which we seek to bestow the social benefits of security, well-being and connection to community that are associated with home ownership[2], we need to be mindful in developing and pursuing policies that aim to increase housing affordability that we do not forget the equity issues for those who cannot or do not aspire to own their own home. We therefore need to ensure that housing affordability does not come at the expense of rental affordability, and that we take an integrated policy approach to meeting our communities housing needs.

It is important to note that many of the social benefits of home ownership appear to be related to security of tenure rather than home ownership *per se*. The committee heard important evidence of how longer-term and more secure leases were being offered to tenants in Australia by community housing associations – which also actively encouraged a greater degree of participation and control by tenants by offering them "sweat equity" for property improvements. The committee also heard how longer and more secure tenure arrangements play a key role in private rental markets in Europe, and offer a means of improving the social benefits of housing security.

To this end the Australian Greens recommend:

That the Commonwealth press State and Territory Governments to consistently amend their Tenancy Acts to increase security of tenure as part of the funding arrangements for the National Rental Affordability Scheme (NRAS).

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1 For example, United Nations Special Rapporteur on adequate housing, Miloon Kothari, Mission to Australia, Preliminary observations, 2006

2 As discussed in Chapter 2 – including financial security, stability of social networks and engagement, connection to community, sense of control over one's environment, enhanced of self esteem, continuity of children's education and friendships …etc

The Australian Greens consider the evidence presented by not-for-profit community housing organisations of the innovative manner in which they are improving the cost, amenity and social benefits of housing (both through secure and affordable rental and, as discussed below, through alternative models of affordable home ownership) was the shining light of the inquiry.

In addition to the issues of security of tenure, participation and 'sweat equity' mentioned above, we were also impressed by the manner in which they were providing accessible housing for people living with a disability and supporting 'ageing in place' … by retrofitting existing housing or developing more appropriate housing within the neighbourhood and offering ageing tenants the choice of moving.

We strongly urge Federal, State and Local levels of Government to engage with the not-for-profit community housing sector to tackle barriers to the expansion of affordable housing schemes.

Affordable living

We need to be mindful that to be truly affordable the cost of housing needs to take into account not only the ongoing cost of rental or mortgage repayments but also the cost of living in that particular housing – including the cost of transport to work and to access social services and community life, as well as the cost of utilities such as power, water, heating and cooling.

The issue of affordable living presents a number of key challenges – including the high costs of transport of what may be seen to be affordable housing on the expanding urban fringes of our cities; the increased cost and therefore reduced initial affordability of sustainable or 'green' housing which can dramatically reduce water and energy consumption; and the equity issues involved for those in private rental who bear the increasing costs of inefficient housing while there is no incentive for landlords to retrofit energy and water saving improvements.

The Australian Greens believe that more consideration needs to be given to how we encourage and support developers and housing providers to build more energy and water efficient housing, and housing that is better able to be adapted to the changing needs of its owners or occupiers through its lifespan. There is the potential for governments to identify means by which the up-front cost of building sustainable housing or retrofitting existing housing can be reduced and some of the benefits of reduced utility costs captured over time to make such initiatives cost-neutral. This requires an integrated approach at the local, state and federal levels to the incentives and requirements placed on developers and housing providers.

Similarly there are opportunities for governments to provide incentives to landlords to invest in more efficient and affordable housing by specifying minimum efficiency standards and requiring owners of inefficient rental properties that fail to meet those standards to meet the additional utility costs of their tenants.

'Key' workers and the insecure workforce / risky loans

With the rising cost of housing in Australia the size of the group of those excluded from home ownership and forced into a tightening private rental market is continuing to expand. There are emerging concerns that the inability of key workers (such as police, nurses or teachers) to be able to secure affordable housing within reach of the communities where they are needed is undermining the sustainability of many key social services. The increase in casual and part-time work brought about by changes to our industrial relations system, together with the move in a number of sectors to shorter term contracts, also means that there is a growing section of the working community who lack the long-term financial security required to secure a mortgage with a bank or other mainstream financial institution.

Deregulation and competition within the financial sector has led to increased access to credit that has enabled a larger number of Australian families to obtain a mortgage. While this has extended the social benefits of home ownership to many who may have been previously excluded it has also had some negative consequences both in terms of driving demand in the housing market and in producing a class of more complex, risky and expensive loans targeting those on lower and less secure incomes. One consequence of the proliferation of non-standard, low documentation and reduced equity mortgages is that some of the most complex products are being marketed to those with the least capacity to manage the risk – leading to increasing levels of mortgage stress and defaults.

The Australian Greens believe that we need to give greater consideration to some re-regulation of the credit sector to tighten up on the ability to promote complex and risky products to those who possibly don't understand or afford them. We note the evidence presented to the committee by a number of responsible lending institutions and particularly wish to take note of the early intervention practices and financial counselling services they extend to help customers who get into financial difficulty protect their equity and housing security. We also note the international evidence of greater duty of care requirements being placed on lending institutions.

The Australian Greens believe that the Commonwealth should be looking into measures which place more responsibility onto the lender to ensure they have a duty of care to their clients for the products they promote and sell to them to ensure they do not encourage them to borrow beyond their means.

Recommendation: That the Commonwealth investigate forms of regulation of lending institutions aimed at limiting the targeting of complex or inappropriate products to those who cannot afford or manage them.

Recommendation: That the Commonwealth consider introducing duty of care requirements for lending institutions to make them take some responsibility for assisting and advising mortgagees who cannot keep up with mortgage payments.

Town Hubs and Regional Cities?

Adaptable housing?

Taxation

The Australian Greens remain concerned by the extent to which our current taxation system (in particular capital gains tax and negative gearing) acts as a driver of higher rental costs, and the manner in which those looking to invest in rental properties compete with aspirant home owners. We believe that the Australia's Future Tax System Review Panel provides an opportunity to address the inflationary pressure that competition from the property investment sector puts on housing affordability. We believe this review should look to the means by which changes to our system of taxation might discourage some of this speculation by reducing taxation incentives at the higher end of the market while encouraging investment in affordable rental accommodation. To this end we think that the recommendation in the committee report to the Australia's Future Tax System Review Panel should be stronger and more directive.

Recommendation: That Australia's Future Tax System Review Panel consider the implications for housing affordability, as well as the overall fairness of the tax system, of the:

tax discount for capital gains on investor housing;
exemption from land taxation of owner-occupied housing; and
current negative gearing provisions.

…with a view to reducing competition between investors and home owners while encouraging investment in affordable rental housing.

We also believe that the concerns as to whether the application of the Goods and Services Tax to Stamp Duty is an unnecessary and anomalous 'tax on a tax' have not been adequately addressed, and so recommend:

Recommendation: That the Australia's Future Tax System Review Panel also review the application of the Goods and Services Tax to Stamp Duty as a 'tax on a tax' anomaly.

First Home Owners Grant Scheme

The Australian Greens note the evidence presented to the committee of the blunt nature of the FHOG scheme as a measure to improve housing affordability. We believe that this evidence exposed a tension within the FHOG scheme between the intention to address <u>equity</u> issues – by providing support to young families who might not otherwise be able to achieve home ownership within the current market – and the attempt to address <u>supply</u> issues, by encouraging first home owners to buy new houses by providing more money to those who can afford to do so.

The Australian Greens believe the best and most efficient use of this grant scheme is to help young families into housing, not to tackle supply side issues – which can arguably be done more effectively through other, more targeted initiatives.

Offering a greater incentive to first home buyers to buy new houses does two things which we believe introduce unintended consequences for housing affordability. Firstly, it unfairly favours those with a higher income or more family resources who can afford to buy a more expensive new home (that is, it is inequitable). Secondly, it encourages new families to buy cheaper new homes on the fringes of our cities … where they are away from the services and employment opportunities they need at that stage of life.

Both the Reserve Bank & Ross Gittins credibly argue that as a supply strategy the FHOG is inefficient and inflationary – that it has the effect of pushing up prices rather than effectively increasing supply.

To this end the Australian Greens oppose any moves to introduce a two-tiered system that provides increased funding for the purchase of new homes. We also believe that the FHOG should be better targeted – to more effectively address equity issues for those who would not otherwise be able to secure affordable housing, while at the same time reduce its inflationary impact by not providing more money to those first home buyers who can already afford to enter the market and do not need encouragement to buy a bigger or more expensive house.

Recommendation: That the Commonwealth introduce means testing and a property price limit on the First Home Owners Grant Scheme.

Affordable in perpetuity?

The major challenge for shared equity schemes and other alternative ownership models is how they stand the test of time and whether they are able to deliver affordable housing in perpetuity.

The Australian Greens welcome the consideration by the Commonwealth and some state and territory governments of shared equity schemes (notably West Australia's First Start program and the ACT's shared equity scheme), and note the consideration given to these schemes in Chapter 9 of the committees report. We also note that some financial institutions are also offering shared equity models.

While we welcome these moves as a step in the right direction, we note that there are limits to the amount of money banks can afford to have tied up in longer-term shared equity schemes, and that there are some drawbacks for governments inherent in the manner in which the current model of shared equity requires ongoing top-up subsidies to maintain the number of units of affordable housing their initial investment delivers in perpetuity.

Dr Louise Crabtree from the Urban Research Centre at the University of West Sydney presented some interesting research[3] on international alternative tenure models to the committee. Since the inquiry concluded she has released a report on the findings of her subsequent research trip to the United States which analyse the affordable home ownership models which are now being rolled out in the US at a significant scale.

The shared equity systems currently being advanced within Australia rely on a dual mortgage approach in which the state holds a mortgage for a certain percent of the value of the home on the assumption that the homebuyer will eventually buy them out and the funds will be returned to the state to be used to subsidise another home owner. The problem with this type of 'subsidy recapture model' is that the value of the subsidy returned at this point will be lower than what would at that point in the future be required to get a family on a similar level of income into a similar unit of housing.

By comparison, subsidy retention models – such as Community Land Trusts, Limited Equity Cooperatives and Deed Restricted Mortgages are able to prevent this slow subsidy leakage and allow governments and philanthropic organisations to deliver an investment in affordable housing in perpetuity.

The other benefit of these subsidy retention models is that by tying the subsidy to the creation of affordable housing stock they produce a supply side strategy that does not introduce more buyers and more cash into overheated housing markets, and thus do not push up inflationary demand.

For Australia to be able to deliver these models requires greater consideration of the legislative and regulative barriers and requirements. To this end we recommend:

Recommendation: That the Council of Australian Governments examines the application of subsidy retention models to deliver affordable housing in perpetuity within the Australian context.

Recommendation: That COAG examines the legislative and regulative barriers and requirements for implementing subsidy retention models, and recommends appropriate reforms to Commonwealth, State and Territory, and local Governments to enable them as appropriate

[3] Models of perpetually affordable homeownership: report and case studies form the United States of America. URC. June 2008.

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APPENDIX 1
Submissions Received

Submission Number	Submitter
1	Mr Campbell Simpson
2	Professor Peter Newman
3 & 3a	Ms Betty E Moore
4	Mr Colin Cook
5	Mr Peter Donald
6	Ms Joy Wii
7	International Association of Public Transport
8	Ms Petrina Van Reyk
9	Australian Institute of Urban Studies, Queensland Division
10	Mr Geoff Holman
11	Professor Patrick Troy AO
12	Sustainable Population Australia Inc, Tasmania Branch
13	Dr Elizabeth Karol & Dr Margaret Giles
14	Mortgage & Finance Association of Australia
15	Local Government Association of Tasmania
16	Mr Hugh Stretton AC
17	Housing Industry Association
18	Queensland Community Housing Coalition
19	Australian Housing and Urban Research Institute
20	Urban Development Institute of Australia, South Australia
21	Housing & Urban Research Institute of Western Australia
22	Mr Terence Booth
23	Wildlife Preservation Society of Queensland, Bayside Branch
24	Urban Development Institute of Australia, Queensland
25	Mr Paul Pollard
26	Dr Rowland Atkinson
27	Professor Gavin Wood
28	Nature and Society Forum
29	Mr Stephen McIntosh
30	Master Builders Australia
31	Western Sydney Regional Organisation of Councils
32	Urban Research Centre, University of Western Sydney
33	Associate Professor Kath Hulse & Professor Terry Burke
34	The Salvation Army
35	Municipal Association of Victoria

36	Construction Forestry Mining and Energy Union
37	Brisbane City Council
38	City Futures Research Centre, University of New South Wales
39	Tasmanian Liberals
40	Australian Council of Social Service
41	Gecko - Gold Coast & Hinterland Environment Council
42	Shelter WA
43	Planning Institute of Australia
44	Urban Development Institute of Australia (National)
45	Urban Development Institute of Australia Western Australia
46	Real Estate Institute of Australia
47	Dr Nicole Gurran
48	Mr Loris Hemlof
49	Urban Development Institute of Australia, New South Wales
50	Adjunct Professor Tony Sorensen
51	Australian Prudential Regulation Authority
52	Abacus - Australian Mutuals
53	Real Estate Institute or Western Australia
54	Australian Association of Social Workers
55	Mr Vince Mangioni
56	The Australia Institute
57	National Shelter
58	Mr Robert Mostafavi and Mrs Soghra Lashkenarie
59	City of Port Phillip
60	Association to Resource Co-operative Housing
61	Mr Phil Williams
62	Dr Shann Turnbull
63	Cr Julie Burke
64	Mr Geoffrey Alexander
65	Associate Professor Angelo Karantonis
66	Northern Rivers Social Development Council
67	The Mercury Centre
68	Northern Territory Government
69	Mr Richard Stone
70	Mr John McAuley
71	Local Government Association of Queensland
72	Ballina Shire Council
73	Fair Access to Initial Real Estate
74	Dr Brett Edgerton
75	ACT Government
76	Tweed Shire Council
77	St Vincent de Paul Society National Council of Australia
78	Mr Craig Gedye

79	Mr Tony Powell AO
80	Mr David Van Der Klauw
81	Tasmanian Government
82	The Village Building Co.
83	Professor Robert Stimson & Dr Alistair Robson
84	Property Council of Australia
85	City of Greater Geelong
86	Community Housing Coalition of WA
87	Western Australian Government
88	South Australian Government
89	NT Shelter
90	New South Wales Government
91	Hon Catherine Cusack, MLC
92	Pilbara Community Legal Service
93	Pilbara Area Consultative Committee
94	Real Estate Institute of Western Australia, Pilbara Division
95	Pilbara Association of Non Government Organisations
96	Pilbara Regional Council
97	Anglicare Tasmania
98	Launceston City Council
99	Tassie Home Loans
100	Infrastructure Partnerships Australia
101	AussieBuild 3000
102	Professor Andrew Beer, Dr Emma Baker, Dr Selina Tually & Dr Debbie Faulkner
103	Confidential
104	Department of Families, Housing, Community Services and Indigenous Affairs
105	The Hon Danna Vale MP

APPENDIX 2

Additional Information Received

- Australian Government, '*Making Housing Affordable again*';
- Received on 7 April 2008, by the Pilbara Development Commission;
- Received on 7 April 2008, by the Pilbara Regional Council, dated 16 April 2008;
- Received on 7 April 2008, by the Pilbara Development Council, '*Housing Affordability in the Pilbara*';
- Received on 8 April 2008, by Ms Veronica Rodenburg, Chief Executive Officer, Yaandina Family Centre. Letter from Pilbara & Kimberley Care Inc;
- Received on 8 April 2008, from the Australian Bankers' Association (ABA). Answers to Questions taken on Notice on Wednesday 2 April 2008;
- Received on 8 April 2008, from Stamford's, '*Feasibility Study for Affordable Rental Property in the Town of Port Headland*';
- Received on 23 April 2008, from Common Equity Housing Ltd, '*Rental Housing Co-operatives*';
- Received on 2 May 2008, from Mr Michael Papageorgiou, Brisbane City Council. Response to questions;
- Received on 20 May 2008, from the Ballina Shire Council. Answers to Questions taken on Notice on Tuesday 15 April 2008;
- Received on 20 May 2008 from Dr Rowland Atkinson, University of Tasmania on behalf of Dr Daphne Habibis. Answers to Questions taken on Notice on Monday 5 May 2008;
- Received on 30 May 2008 from the Mr John Sutton, National Secretary, Construction, Forestry, Mining, Energy Union (CFMEU) National Office. Answers to Questions taken on Notice on Thursday 24 May 2008;
- Received on 11 June 2008 from the Department of Families, Housing, Community Services and Indigenous Affairs. Answers to Questions taken on Notice on Tuesday, 1 April 2008 & Wednesday, 7 May 2008.

TABLED DOCUMENTS

- 2 April 2008, SYDNEY NSW:
    - Associate Professor Judith Yates, '*Australia's Housing Affordability Crisis*' Paper;
    - Associate Professor Judith Yates, '*Australia's Housing Affordability Crisis*' PowerPoint presentation;
    - UDIA NSW, '*Modest Single Storey House in Sydney's South West Growth Centre*';
    - UDIA National, '*An industry report into affordable home ownership in Australia*'.
- 3 April 2008, CAMPBELLTOWN NSW:
    - Mr Brian Murnane, Argyle Community Housing Association, '*Annual Report 2006-2007*';
    - Mr Brian Murnane, Argyle Community Housing Association, '*St Vincent de Paul Society – Don't Dream it's Over, Housing Stress in Australia's Private Rental Market*' Report, July 2007;
    - Mr Brian Murnane, Argyle Community Housing Association, '*BlueCHP Ltd*' brochure;
    - Mr Brian Murnane, Argyle Community Housing Association, '*Planning for the Future: New directions for Community Housing in NSW 2007/08-2012/13*' report;
    - Mr Brian Murnane, Argyle Community Housing Association, '*Department of Families, Community Services and Indigenous Affairs – Request for Information Increasing the Supply of Social Housing*';
    - Ms Jane McIvor, Macarthur Community Forum, '*Supporting Evidence*'.
- 7 April 2008, KARRATHA WA:
    - Mr Steve Parry, Director, Housing Service Delivery WA, Dept. of Housing & Works, '*Eligibility relating to the Income of Applicants*'.
- 8 April 2008, PERTH WA:
    - Mr Neil Thomson, Assistant Director, Microeconomic Policy WA, Department of Treasury & Finance, '*Economic Review of Land & Housing Markets in Western Australia*';
    - Dr Christina Birdsall-Jones, Research Fellow, John Curtin Institute of Public Policy, Curtin University, '*Indigenous Housing Ideologies*'.
- 14 April 2008, BRISBANE QLD:
    - Local Government Association of Queensland, '*Assessment of the Factors Influencing Housing Affordability in Queensland*' Report;
    - Mr Mike Myers, Queensland Community Housing, '*Understanding Affordable Housing*' papers.

- 15 April 2008, GOLD COAST QLD & BALLINA NSW:
    - Ballina Shire Council, (Views of a councillor, not Council). Email from Scott Simon to Alan Rich, Friday 11 April 2008.

- 23 April 2008, GEELONG VIC:
    - Mr Jason Black, Planning Institute of Australia, Brochure pack.

- 24 April 2008, NARRE WARREN & MELBOURNE VIC:
    - Mr Ric Battellino, Reserve Bank of Australia, Charts on Housing;
    - WAYSS, '*Housing Information & Referral*';
    - WAYSS, '*Support Services Funded Targets & Actual Service Provision 1/07/06-30/06/07*';
    - Mr Liam Hodgetts, City of Casey Council, Answers to Questions taken on Notice;
    - City of Casey Council, PowerPoint Presentation;
    - City of Casey Council, Article by Mark Peel, 16 Sept. 2007.

APPENDIX 3

Public Hearing and Witnesses

CANBERRA, TUESDAY 1 APRIL 2008

- CHAMBERLAIN, Mr Scott, Executive Director
  Workplace and Small Business Policy, Housing Industry Association
- DE CHASTEL, Ms Elizabeth Ellen, National Policy Manager
  Planning Institute of Australia
- GALLAGHER, Mr Philip Francis, Manager, Retirement and Intergenerational Modelling and Analysis, Department of the Treasury
- GARTON, Mr Phil, Manager, Household and Labour Unit,
  Department of the Treasury
- HARNISCH, Mr Wilhelm, Chief Executive Officer,
  Master Builders Australia
- JAY, Ms Dianne Mary, Chief Executive Officer,
  Planning Institute of Australia
- JONES, Mr Peter, Chief Economist,
  Master Builders Australia
- LINDSAY, Mr Richard, Chief Executive Officer,
  Urban Development Institute of Australia (National)
- PRESTON, Mr Robb, Analyst,
  Department of the Treasury
- SAVERY, Mr Neil, National President-elect,
  Planning Institute of Australia
- SCOTT, Mr Michael, Past President,
  Urban Development Institute of Australia (National)
- SILBERBERG, Dr Ronald, Managing Director,
  Housing Industry Association
- TANTON, Mr Robert, Principal Research Fellow, National Centre for Social and Economic Modelling, University of Canberra
- TROY, Professor Patrick Nicol,
  Private capacity
- WALL, Ms Clare, Branch Manager, Office of Housing, Housing Group,
  Department of Families, Housing, Community Services and Indigenous Affairs
- WINZAR, Ms Peta, Group Manager, Housing Group,
  Department of Families, Housing, Community Services and Indigenous Affairs

SYDNEY, WEDNESDAY 2 APRIL 2008

- BLANCATO, Mr Ross, President,
  Urban Development Institute of Australia, New South Wales
- DAVIDSON, Mr Peter Geoffrey, Senior Policy Officer,
  Australian Council of Social Service
- DISNEY, Professor Julian Henry Plunkett, Director, Social Justice Project,
  University of New South Wales
- FARRAR, Mr Adam, Executive Director,
  New South Wales Federation of Housing Associations
- FERNANDO, Dr Nick, Executive Manager, Home Lending Products,
  Acquisition, Pricing and Strategy, Retail Banking Services, Mortgage Wealth,
  Commonwealth Bank; Australian Bankers Association
- GURRAN, Dr Nicole, Senior Lecturer, Urban and Regional Planning,
  University of Sydney
- HOSSACK, Mr Nicholas, Director, Prudential, Payments and Competition
  Policy, Australian Bankers Association
- JOHNSON, Mr Andrew, Executive Director,
  Australian Council of Social Service
- PHILLIPS, Ms Jacqueline, Policy Officer,
  Australian Council of Social Service
- RANDOLPH, Professor Bill, Director, City Futures Research Centre,
  University of New South Wales
- WOODCOCK, Mr Scott Nelson, Executive Director,
  Urban Development Institute of Australia, New South Wales
- YATES, Associate Professor Judy, Member,
  Australian Housing and Urban Research Institute

CAMPBELLTOWN, WEDNESDAY 3 APRIL 2008

- BERRYMAN, Mr Colin Andrew, Program Coordinator, Western Sydney Regional Organisation of Councils
- CRABTREE, Dr Louise, Research Program Coordinator, Urban Research Centre, University of Western Sydney
- DEGOTARDI, Mr Mark Campbell, Head of Public Affairs, ABACUS-Australian Mutuals
- FINGLAND, Mrs Sharon Ruth, Assistant Director, Western Sydney Regional Organisation of Councils
- HAY, Councillor Anthony (Tony), President, Western Sydney Regional Organisation of Councils
- JOHNSTON, Ms Kate, Research Project Officer, Urban Research Centre, University of Western Sydney
- LAWRENCE, Mr Jeffrey Keith, Director, Planning and Environment, Campbelltown City Council
- McIVOR, Ms Jane, Director, Macarthur Community Forum
- MURNANE, Mr Brian, Executive Manager, Development, Argyle Community Housing Ltd
- PHIBBS, Professor Peter Julian, Coordinator, Academic Programs, Urban Research Centre, University Of Western Sydney
- TOSI, Mr Paul, General Manager, Campbelltown City Council

KARRATHA, MONDAY 7 APRIL 2008

- BLAYNEY, Mr Mark William, Vice-President,
  Karratha and Districts Chamber of Commerce
- BROOK, Mr Warren, Commanding Officer,
  Salvation Army, Karratha
- BROOK, Mrs Phyllis, Refuge Manager and Associate Officer,
  Salvation Army, Karratha
- COOPER, Mrs Leann Allison, President,
  Karratha and Districts Chamber of Commerce
- ELLSON, Mr Adrian John, Executive Officer,
  Pilbara Regional Council
- GIBSON, Mr Lindsay Gordon, Chairperson, Pilbara Division,
  Real Estate Institute of Western Australia
- HAASE, Mr Barry, Private capacity
- HIPWORTH, Councillor David, Councillor,
  Pilbara Regional Council
- HOWE, Mrs Coral Pearl, Sales and Marketing Consultant,
  Ray White Karratha
- JACOB, Ms Gloria, Deputy Chair,
  Pilbara Area Consultative Committee
- MOLONEY, Mr Michael, General Manager Operations,
  Western Australian Land Authority (trading as LandCorp)
- NEVILLE, Mr Robert David, Chairperson,
  Pilbara Association of Non Government Organisations
- PARRY, Mr Steven Colin, Director, Housing Service Delivery,
  Department of Housing and Works
- RIEBELING, The Hon. Fred, Speaker of the Legislative Assembly,
  Western Australian Government
- SLEE, Mr Gary Russel, Board Member and Treasurer,
  Pilbara Area Consultative Committee
- SNELL, Councillor Bradley Allan, Councillor,
  Pilbara Regional Council
- WEBSTER, Mr Stephen, Chief Executive Officer,
  Pilbara Development Commission
- WHITE, Ms Antonina, Financial Counsellor,
  Pilbara Community Legal Service
- WILLIAMS, Mrs Nanette, Area Manager,
  Pilbara Community Legal Service

PERTH, TUESDAY 8 APRIL 2008

- ARNOLD, Mrs Anne, Chief Executive Officer,
  Real Estate Institute of Western Australia 30
- BIRDSALL-JONES, Dr Christina, Research Fellow, John Curtin Institute of Public Policy, Curtin University of Technology,
  Housing and Urban Research Institute of Western Australia
- DARBY, Mr Stewart, Director of Policy and Research,
  Real Estate Institute of Western Australia
- EKELUND, Ms Dorte, Deputy Director General,
  Department for Planning and Infrastructure, Western Australia
- EVANS, Mrs Lynne, Chair,
  Community Housing Coalition of Western Australia
- FIJAC, Mrs Kerry Anne, Deputy Director General, Housing,
  Department of Housing and Works, Western Australia
- GOOSTREY, Ms Debra, Chief Executive Officer,
  Urban Development Institute of Australia, Western Australia
- GUISE, Mr Daniel, Best Practice Unit Manager,
  Community Housing Coalition of Western Australia
- HASLAM McKENZIE, Professor Fiona, Director, John Curtin Institute of Public Policy, Curtin University of Technology,
  Housing and Urban Research Institute of Western Australia
- HEMSLEY, Mr Warwick, President,
  Urban Development Institute of Australia, Western Australia
- KITCHING, Ms Bronwyn, Executive Officer,
  Shelter WA
- MARCELINO, Mr Victor, Councillor,
  Urban Development Institute of Australia, Western Australia
- McCLUGHAN, Mr Colin Jackson, Executive Officer,
  Community Housing Coalition of Western Australia
- RODENBURG, Mrs Veronica Anne, Chief Executive Officer,
  Yaandina Family Centre Inc.
- ROWLEY, Dr Steven, Senior Lecturer, School of Economics and Finance,
  Curtin Business School, Curtin University of Technology,
  Housing and Urban Research Institute of Western Australia
- RUDDOCK, Ms Amy Elizabeth, Executive Officer, North West Region,
  The Chamber of Minerals and Energy of WA
- SATTERLEY, Mr Nigel, Member,
  Urban Development Institute of Australia, Western Australia; Satterley Property Group, Western Australia
- STEWART, Ms Heidi, Research Manager,
  Shelter WA

- THOMSON, Mr Neil David, Assistant Director, Microeconomic Policy, Department of Treasury and Finance, Western Australia
- THORN, Mr Michael Thomas, Director, Policy Division, Department of the Premier and Cabinet, Western Australia

BRISBANE, MONDAY 14 APRIL 2008

- ADAMS, Mrs Mary Anne Roselyn, Secretary, Gecko-Gold Coast and Hinterland Environment Council Association Inc.
- BALTAIS, Mr Simon Joseph, Secretary, Wildlife Preservation Society of Queensland, Bayside Branch
- DAVIS, Ms Sheila Eileen, Campaigns Coordinator, Gecko-Gold Coast and Hinterland Environment Council Association Inc.
- EDGERTON, Dr Brett, Private capacity
- GILLAN, Mr Brett, Vice-President, Urban Development Institute of Australia (Queensland)
- HAILEY, Mr Brent, President, Urban Development Institute of Australia (Queensland)
- HOFFMAN, Mr Gregory Thomas, Director, Policy and Representation, Local Government Association of Queensland
- KINSELLA, Mr James, Manager, Sunshine Coast Branch, Urban Development Institute of Australia (Queensland)
- MYERS, Mr Michael, Executive Director, Queensland Community Housing Coalition Limited
- MYERSON, Mr Mark, Manager, Environment and Planning, Local Government Association of Queensland
- PAPAGEORGIOU, Mr Michael, Acting Manager, City Planning and Sustainability, Brisbane City Council
- PLANT, Dr Tanya, Manager, Strategic Policy, Urban Development Institute of Australia (Queensland)
- ROBSON, Dr Alistair Paul Leslie, Research Fellow, University of Queensland
- SHARPLESS, Mr Robert, Ipswich Branch President, Urban Development Institute of Australia (Queensland)
- STEWART, Mr Brian, Chief Executive and General Counsel, Urban Development Institute of Australia (Queensland)
- STIMSON, Professor Robert John, Convenor, ARC Research Network in Spatially Integrated Social Science
- ZALTRON, Mr Martin, Manager, Planning Policy, Urban Development Institute of Australia (Queensland)

SURFERS PARADISE, TUESDAY 15 APRIL 2008

- DUTTON, Mr Col, Branch President,
  Urban Development Institute of Australia (Queensland) Gold Coast Branch
- McCOOL, Ms Colette, Director, Community Services,
  Gold Coast City Council
- PISTOL, Mrs Donna, Executive Committee Member,
  Urban Development Institute of Australia (Queensland) Gold Coast Branch
- RANSOM, Mr David, Executive Committee Member,
  Urban Development Institute of Australia (Queensland) Gold Coast Branch
- ROWE, Mr Warren, Director, Planning Environment and Transport,
  Gold Coast City Council
- SPRAGG, Mr Robin, Social Planner,
  Tweed Shire Council

BALLINA, 15 APRIL 2008

- COSTELLO, Mr Glenn William, Chairman of the Board,
  Ballina Chamber of Commerce and Industry Inc.
- DAVIES, Mr Tony, Chief Executive Officer,
  Northern Rivers Social Development Council
- HUEGILL, Mrs Clarissa, Board Member,
  Ballina Chamber of Commerce and Industry Inc.
- KENK, Mr Roberto Antonio, Social Planner,
  Ballina Shire Council
- MARRIOTT, Mr Bryan William James, Secretary/Treasurer,
  Ballina Chamber of Commerce and Industry Inc.
- SCOTT, Mr Simon McKenzie, Strategic Planner,
  Ballina Shire Council
- WILSON, Mr Chris, Manager, Community Services and Development,
  Northern Rivers Social Development Council

GEELONG, WEDNESDAY 23 APRIL 2008

- BLACK, Mr Jason, President, Victoria Division, Planning Institute of Australia
- BRENTON, Mr Cameron Jonathan, Coordinator, Strategy, Development Sustainability, City of Greater Geelong
- BUTTERWORTH, Dr Iain Mark, Faculty of Health, Medicine, Nursing and Behavioural Sciences, Deakin University
- DUFTY, Dr Gavin, Manager, Policy and Research, St Vincent de Paul Society
- ELDRIDGE, Major David John, Territorial Social Program Secretary, Australia Southern Territory, Salvation Army
- HIRST, Mr Michael John, Chief Executive, Retail Bank, Bendigo and Adelaide Bank Ltd
- HORTON, Ms Netty, General Manager, Community Services, St Vincent de Paul Society
- HUNT, Mr Rob, Managing Director, Bendigo and Adelaide Bank Ltd
- INCERTI, Ms Kate, Social Worker, Housing Information and Support, City of Port Phillip
- McINERNEY, Mr John Francis, Managing Director, Common Equity Housing Ltd
- MORAN, Dr Alan, Director, Deregulation, Institute of Public Affairs
- SPIVAK, Mr Gary, Housing Development Officer, City of Port Phillip
- TUOHEY, Ms Anne, Research and Policy Coordinator, Aged Care and Community Services, St Vincent de Paul Society
- WAGER, Ms Jane, Coordinator, Community Development, City of Greater Geelong
- WORN, Mr Stuart, Executive Officer, Victoria Division, Planning Institute of Australia

NARRE WARREN, THURSDAY 24 APRIL 2008

- BIRRELL, Dr Bob, Director,
  Centre for Population and Urban Research, Monash University
- BURKE, Prof. Terry,
  Australian Housing and Urban Research Institute
- HEALY, Dr Ernest John, Research Fellow,
  Centre for Population and Urban Research, Monash University
- HODGETTS, Mr Liam Anthony, Manager, Strategic Development,
  City of Casey
- NADEN-MAGEE, Ms Susan, Manager,
  Casey North Community Information and Support Service Inc.
- O'CALLAGHAN, Mr Mark, Manager, Housing Services,
  WAYSS Ltd
- PETERSON, Ms Janice, General Manager, Support Services,
  WAYSS Ltd
- PETRIDES, Ms Leanne, Manager,
  Cranbourne Information and Support Service Inc.
- WINTER, Dr Ian, Executive Director,
  Australian Housing and Urban Research Institute

MELBOURNE, THURSDAY 24 APRIL 2008

- BATTELLINO, Mr Ric, Deputy Governor,
  Reserve Bank of Australia
- KAKAS, Ms Caryn, Executive Director, Residential Development Council,
  Property Council of Australia
- RICHARDS, Dr Anthony John, Head of Economic Analysis Department,
  Reserve Bank of Australia
- SUTTON, Mr John David, National Secretary,
  Construction, Forestry, Mining, Energy Union

ADELAIDE, MONDAY 28 ARPIL 2008

- BAILEY, Mr David Loudon, Chair, Policy Committee, South Australian Division,
  Planning Institute of Australia
- BAKER, Dr Emma, Research Fellow,
  Flinders University and Australian Housing and Urban Research Institute Southern Research Centre
- BEER, Professor Andrew, Researcher,
  Flinders University and Australian Housing and Urban Research Institute Southern Research Centre
- FAULKNER, Dr Debbie, Director,
  Australian Housing and Urban Research Institute Southern Research Centre, Flinders University
- JACKSON, Mr Peter Allan, President, South Australian Division,
  Urban Development Institute of Australia, and Member, National Council of UDIA
- KELLY, Ms Kirsty Michelle, State Manager, South Australian Division,
  Planning Institute of Australia
- MARKER, Mr Ian William, Vice-President, South Australian Division,
  Urban Development Institute of Australia
- McKEAN, Mr John, Executive Director, South Australian Division,
  Urban Development Institute of Australia
- RUSSELL, Mr Christopher John, Director, Government Relations and Communications, Local Government Association of South Australia
- STRETTON, Mr Hugh, Private capacity
- TUALLY, Dr Selina, Research Fellow,
  Flinders University and Australian Housing and Urban Research Institute Southern Research Centre
- VINE BROMLEY, Ms Toni, Executive Officer,
  NT Shelter Inc

LAUNCESTON, MONDAY 5 MAY 2008

- ABERNETHY, Mr Ian, Development Services,
  Launceston City Council
- BUSHBY, Mr Peter Maxwell, State President,
  Real Estate Institute of Tasmania
- FLANAGAN, Ms Kathleen Mary, Research and Policy Officer, Social Action and Research Centre, Anglicare Tasmania
- HABIBIS, Dr Daphne, Senior Lecturer, Housing and Community Research Unit, University of Tasmania
- PHILLIPS, Mr John Brendon, Managing Director,
  Tassie Home Loans Pty Ltd

CANBERRA, WEDNESDAY 7 MAY 2008

- ANGLEY, Mr John Nicholas, Acting Deputy Secretary,
  Department of Infrastructure, Transport, Regional Development and Local Government
- FARNSWORTH, Ms Penelope Anne, Director, Social Policy and Implementation,
  ACT Chief Minister's Department; and Member, Affordable Housing Steering Group
- HEHIR, Mr Martin, Deputy Chief Executive,
  ACT Department of Disability, Housing and Community Services; and Member, Affordable Housing Steering Group
- JOYE, Mr Christopher Ronald Edward, Chief Executive Officer,
  Rismark International
- MUNRO, Mr Mathew, Policy Manager,
  Real Estate Institute of Australia
- PAHLOW, Mr Michael John, Acting Executive Director,
  Department of Infrastructure, Transport, Regional Development and Local Government
- PISARSKI, Mr Adrian, Chairperson,
  National Shelter Inc.
- POLLARD, Mr Paul Henry, Private capacity
- SORENSEN, Professor Anthony David, Private capacity
- SYMOND, Mr John Joseph, Chairman and Chief Executive Officer,
  Aussie Home Loans
- TOMLINS, Mr George, Executive Director, Strategic Priorities,
  ACT Chief Minister's Department; and Chair, Affordable Housing Steering Group

- WALL, Ms Clare, Branch Manager, Office of Housing, Housing Group,
Department of Families, Housing, Community Services and Indigenous Affairs
- WINZAR, Ms Peta, Group Manager, Housing Group,
Department of Families, Housing, Community Services and Indigenous Affairs

APPENDIX 4

Glossary

accessibility	scope for new home buyers to enter the housing market (sometimes used to distinguish from 'housing stress' suffered by current owners)
ACOSS	Australian Council of Social Service
adaptable housing	housing for which the initial design of the building allows its structure to change
ADI	authorised deposit-taking institution: a bank or similar financial intermediary supervised by APRA
affordability index	compiled by the Commonwealth Bank and the Housing Industry Association, the index relates the monthly loan repayment on a typical 25 year mortgage loan large enough to pay 80 per cent of the cost of a house with the median price paid by first home buyers, to household income
AHURI	Australian Housing and Urban Research Institute; a network of Australian academics working on housing issues
APRA	Australian Prudential Regulation Authority; the supervisor of banks and other financial intermediaries
cooperative housing	a form of housing tenure where a corporation or similar legal entity owns real estate, with each shareholder granted the right to occupy one housing unit
Commonwealth-State Housing Agreement	a joint Commonwealth-State arrangement which aims to assist both renters and purchasers obtain appropriate accommodation. The main identified funding priorities of the CSHA are public housing, community housing, crisis accommodation, Aboriginal rental housing, private rental support and home ownership support.
community housing	housing that is funded primarily by government but managed and sometimes owned by a non-profit community organisation

CPI	Consumer Price Index: Australian Bureau of Statistics measure of price change based on a set basket of goods and services
CSHA	Commonwealth State Housing Agreement
debt-servicing ratio	the cost of making interest and principal mortgage repayments as a proportion of gross household income
Demographia	a consultancy operated by road transport lobbyist Wendell Cox, which compiles a cross-country comparison of housing affordability
deposit gap	the amount by which the average house price exceeds the amount which a household on an average income can borrow
effective demand	the willingness and ability of potential buyers to pay for housing at existing market prices
FaHCSIA	Department of Families, Housing, Community Services and Indigenous Affairs
FHOG	First Home Owners Grant: a Commonwealth scheme introduced in 2001 giving a lump-sum grant to first home buyers
Generation X	definitions vary but the term broadly refers to those born between the mid 1960s and the mid-to-late 1970s; the first offspring of the 'baby boomers'
greenfield sites	former farmland land on the periphery of towns and cities rezoned for urban development
HECS	Higher Education Contribution Scheme
HELP	the successor scheme to HECS
HOME	Household Organisation Management Expenses Advice Program: a pilot early intervention programme aimed at assisting families experiencing difficulties in maintaining tenancies or home ownership due to personal or financial circumstances.
Housing Affordability Fund	Commonwealth government scheme to commence on 1 July 2008 investing $500 million over five years in infrastructure linked to housing developments

housing stress	(low income) households that pay more than 30 per cent of their gross income in mortgage repayments; see 30/40
hypothecate	earmarking particular revenues for particular expenditure purposes. For example, in the US, spending on highways is financed by petrol excise
ICEHA	a Western Australian scheme for building homes to house workers for small business, under the *Industrial and Commercial Employees' Housing Act 1973.*
inclusionary zoning	whereby councils require developers to either contribute a percentage of new homes for low-cost housing or pay the equivalent in cash to build social housing elsewhere
infill sites	housing development within existing suburbs (as opposed to 'greenfield development')
mortgage stress	condition of households (in the bottom two income quintiles) that spend more than 30 per cent of their gross income on mortgage repayments
National Rental Affordability Scheme	Commonwealth government scheme funding tax incentives for investors to build up to 100,000 new affordable rental properties
negative gearing	taxation arrangement whereby when costs exceed investment income, the loss may be deducted from other taxable income
paraplanners	town planners with only a one-year diploma qualification, who could deal with routine low-value planning applications to free up more qualified planners for more important assessments
peppercorn lease	a lease where there is only a token rent payable
public housing	housing that is funded and provided by government directly
RBA	Reserve Bank of Australia; the central bank responsible for Australian monetary policy
rental stress	households that pay more than 30 per cent of their gross income in rental payments

SAAP	Supported Accommodation Assistance Programme: a joint Australian and State and Territory government programme providing accommodation and support services to people who are homeless or at risk of becoming homeless
securitisation	a financing technique that converts illiquid assets such as loans into marketable securities. The securities, which are backed by pools of assets, are then sold to institutional investors.
shared equity	a form of tenure where the resident and another (public, community or private) investor jointly own a property and share capital gains
social housing	an umbrella term to describe both public housing and community housing: subsidised housing, usually rental
UDIA	Urban Development Institute of Australia: a federation of five state associations that aims to promote the urban development industry
UDIA/Matsuik measure	classifies a housing market as unaffordable when a household spending 30 per cent of the average income in that region on repayments (with a 10 per cent deposit) could purchase less than 15 per cent of houses in that region
underlying demand	estimate of the number of new dwellings needed based on past growth in population, migration, living standards and the demolition of existing housing (as opposed to 'effective demand')
'30/40' rule	a measure of housing affordability which defines mortgage stress as those households in the lowest 40 per cent of the income distribution spending more than 30 per cent of their gross income on housing