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The Select Committee is charged with inquiring into and reporting on the barriers to home ownership in Australia.

I offer the following comments in the way of a brief review of the history of housing policy in Australia. I have drawn heavily on my own writings in doing so which is not to be taken as implying that other views are not important. They clearly are. I have however been pressed for time and deadlines arising out of other research commitments.

I hope that the comments are useful and would be pleased to discuss the issues further with members of the Committee if that is their desire.

Yours faithfully

Professor Patrick Troy AO

It is important in considering this issue to review the history of home ownership in Australia. In the following I offer a brief overview of the history of this aspect of our society. I do so because there are several assumptions underlying current policy proposals to address the issues of high housing rentals and home ownership that appear to misunderstand the nature of Australian society and the efficacy of various initiatives taken since 1945 to deliver a reasonable degree of equity in meeting its accommodation needs.

Australia is a market economy and like many such economies in the developed world found itself with what may be regarded as a 'natural' level of home ownership of approximately 50% by the end of the nineteenth century. The level stayed fairly constant being recorded at 49.4% in 1911, 52.4% in 1921, 52.6% in 1933, and 53.4% in 1947. This level of owner occupation was better than had been achieved in the USA, Canada or the UK.

The popularity of the terminating building society in offering households of limited means the opportunity of achieving home ownership was thought to be a significant influence in achieving this high level.

In spite of this level of home ownership access to housing of reasonable standard and rent presented difficulties for low and moderate income households.

A variety of initiatives were taken to address these issues of concern. Rent control was introduced in 1915 to provide some relief for low income households but the scheme was quickly abandoned.

The Commonwealth attempted to improve the level of owner occupation among 'respectable white collar workers' in the 1920s but the scheme was ineffective. Promises were also made at the Commonwealth level in the 1930s to address what was seen as a housing crisis although no effective programs emerged. State governments undertook a variety of initiatives. Some took initiatives encourage construction of housing for sale to moderate income households and others to construct 'demonstration medium density housing' in the belief that private entrepreneurs could be encouraged to construct such housing of good quality for economic rental. The belief was misplaced.

Some local authorities also built 'model housing' for rental to low income households but again the local authorities never had the capital to develop the schemes to the appropriate scale.

The various state initiatives to improve the housing conditions of low income households in the late nineteenth and early twentieth centuries were small scale and generally under-funded. The low level of investment in housing during the 1930s created a situation by the outbreak of WWII where housing especially for low income households was in short supply and of poor quality.

Moreover, private rental housing was generally of poor quality (including that managed by philanthropic organisations like the churches). To prevent excessive profiteering during the war and immediately after it rent controls were introduced in some states to relieve the stress on households but this was not popular with the owners of such housing.

One of the concerns that exercised the Commonwealth government - even during the dark days of the war was the strongly felt need to improve the supply of housing of good standard and reasonable cost. Following the Commonwealth Housing Commission report of 1944 the Commonwealth proposed a collaborative program to the states to construct housing. Not all states originally agreed to participate in the program with South Australia and Queensland initially declining to be involved although both eventually did participate.

The Commonwealth State Housing Agreement of 1945 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. The program was pursued with much energy and quickly had a major influence on supply of housing and in particular on housing quality. The private sector had to 'lift its game' on housing quality in order to compete with the public programs. The constraint on the sale of housing was relaxed following the election of the Menzies government in 1949 and the state housing authorities were able to sell housing to their tenants and to others on their waiting lists.

The CSHA program was highly successful.

One of the Commonwealth conditions under the CHSA was that states were required to establish planning authorities to ensure the efficient development of the metropolitan areas that were rapidly expanding as a result of the pent up demand and population growth including the migration program.

Menzies had campaigned promising to increase the level of home ownership. The CSHA quickly became one of the important tools in achieving this end, directly through the construction of housing and indirectly, from 1956, through funds made available to the permanent building societies. Other tools included the imaginative use of the War Service Home loans scheme and the requirement that banks held a proportion of their portfolio in domestic real property assets. The level of home ownership rapidly increased to 63.3% by 1954 and to 70.3% by 1961.

Moreover, with such a high level of public activity in the housing market the case for better planning of development on the fringe of most cities became imperative. The Commonwealth had constructed an aggressive migration program but had not supported the states in their response when they pointed to the need to invest in infrastructure services to meet the needs of the increasing population. The states did not have the resources to fund the needed infrastructure. The major instrument the states had was to try to control release of land on the fringe to ensure that services could be economically provided. This essentially was confined initially to provision of water services and electricity and to basic roads. The provision of waste management services was often by septic tank services although this was confined to areas where such an approach was feasible.

The provision of many other local services, including drainage and provision of recreational facilities was by the local authorities most of which had limited resources and provided the services as and when they could. The immediate effect of this approach to urban development (which was the traditional approach) was that much of the suburban development of Australia's cities was deficient in drainage, lacking in footpaths and with low levels of development in recreational, social and cultural facilities.

The pressures on state governments to provide or improve services became intolerable. Their response was to try to shift the burden of provision of basic services on to the land developers most of whom simply made their profits from the 'conversion of agricultural land to urban land'. The argument in part had been that if developers were required to provide funding of a variety of urban services they would offer less for the fringe rural lands thus keeping prices to a minimum. The innocence of this approach quickly became apparent as land prices increased as owners of broadacres and developers simply delayed their projects and recouped their outlays to meet the costs of providing the servicing costs of the land.

The problem was compounded as local and state authorities sought to recover the costs of providing a range of services that were needed to provide for the additional population in their areas but not necessarily provided on the estate being developed.

These imposts seemed logical but they led to significant inflation in the prices of allotments. Moreover, whereas in traditional developments they were paid for as and when they could be financed from the rate income of the local authority and therefore at low interest loans they were now paid for 'up front' by the purchaser and at the higher commercial interest rates.

The immediate impact of this was a general rise in property values in the older areas. This also had a regressive effect because under the ways in which the rate burdens were assessed to pay for the provision of a variety of urban services, including services to property, those occupying the new higher priced housing that was fully serviced were required in effect to pay for part of the historic costs incurred by local authorities in providing services to the older areas.

Paradoxically, the rate of urban growth and the demand for better planning of the provision of urban services required planning authorities to be more specific about the areas into which they wanted development to occur. This meant that land on the urban fringe increased in value significantly beyond its value as rural land. Urban plans were often described as speculators' guides to development.

The effect of this process was that the price of fringe allotments simply increased thus providing an automatic strong underlying source of inflation in housing prices. Housing became less affordable.

Having reached a little over 70 % owner occupation by the early 1960s the Commonwealth struggled to maintain that level. Politically it was pressured to pursue a policy of home ownership for all but the reality was that in spite of schemes like the First Home Buyers' scheme it was difficult to hold that level. From 1966 all initiatives of the Commonwealth Government have battled to hold the level at 70% and for most of the period that level was unsustainable. That is, despite government initiatives to increase home ownership there remained a high demand for rental accommodation. For most of the past forty years this has been running at about 32 %.

The dramatic change in the CSHA in 1978 progressively worsened the situation. The 1978 changes to the CSHA, converting it from a public to a 'welfare' and then to a 'social' housing program were based on assumptions that as most of the people who lived in housing authority housing were not the poorest and as

most of the poorest did not live in level housing authority such housing should be reserved for the poorest and those households even marginally above this low level should be charged market or market related rents. Those that could, including many whose income was barely above average weekly earnings moved out of public housing. This led to the situation where housing stock that had been built by the housing authorities as public housing now became social or welfare housing. The consequential appearance of areas of households of multiple disadvantage quickly emerged. Many of these areas have been the sites of social disturbance and exhibit serious degrees of alienation. They tend also to be in areas with low levels of employment opportunity which tends to further intensify the desegregation effects. The states have tended to sell some of their housing to raise the funds ostensibly needed to provide rental housing where it was needed. The process has however tended to result in the sale of well located housing and replacing it with housing at the fringe of the city. A consequence of the policy change is that the stock of rental housing has fallen and much of what remains is not well located. The Commonwealth's Rental Assistance scheme designed to assist households into the rental market and to increase the supply of rental housing has not been regarded as having had much beneficial effect and in particular it does not appear to have increased the supply of rental housing. The rental assistance appears to simply increase the level of asking rents for rental housing.

Over the last decade or so we have also seen significant changes to the investment regime in all forms of housing.

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 taxes are not paid on the family home. The family home was thus seen by middle income households as an opportunity to maximise their savings. The changes in funding practices of lending institutions made loans relatively easily available compared with earlier lending practices. Finance houses including the banks routinely lent more than the price of housing (often with minimum checks on either the price of the dwelling or on the capacity of purchasers' capacity to repay the loans). This fuelled a housing market frenzy in which it appeared that everyone could make money. Housing prices experienced high rates of increase everywhere. There seemed no end to the boom. Banks did particularly well in this climate.

Owner occupiers were encouraged by lending institutions to 'unlock' the wealth they held as equity in their dwelling by taking out loans against their property to fund consumption. In the seemingly endless boom in housing prices this seemed like a rational strategy and that they 'could have everything they wanted - now'. It is now clear that the lending institutions did not act with the best interest of their borrowers in mind. It is also clear that borrowers acted in the market with less than adequate information thus compounding the problems they now face.

To compound matters state governments adopted a densification strategy. This strategy 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.

They also were led to the view that increasing density would reduce environmental stresses - especially in claims that energy and water consumption was and would be lower for higher density housing. There never was any research evidence to support the policy but the governments energetically enforced densification targets on local government authorities regardless of their adopted planning schemes. They also adopted a policy of reducing the supply of land on the fringe in order to increase the demand for higher density housing.

Paradoxically, one of the arguments advanced to support densification was that such a policy would increase housing choice and produce a stock of housing closer to the claimed distribution of households. The fact that the densification actually led to reduced choice of dwelling sizes in most areas and reduced flexibility of housing has not occasioned any review of the policy.

So, what is the situation?

Housing is less affordable now than at any time over the last century. More households endure housing stress as they attempt to attain the dream of owning their own home. Increasing proportions of households enter retirement with significant mortgages thus undermining one of the cornerstones of the social security system which has been built on the assumption that retired households, having paid their mortgages out or in secure rental accommodation can have a comfortable retirement with low cash incomes. Record numbers of households now find themselves having housing outlays – either for rent or mortgage repayments - beyond levels that most social policy analysts think are sustainable without high social costs.

Record numbers of households find themselves either having their mortgages foreclosed or forced to sell their dwellings.

What is the underlying demand for owner occupation?

It seems reasonable to assume that in market economies we cannot expect to be able to sustain owner occupancy levels much above 66%.

That is, we must make policy on the assumption that about one in three households will be expected to rent their housing.

We know that a sizeable proportion of households are happy to rent at reasonable rent levels because they do not wish to commit themselves to buying. This is the case for those who are in transit, who expect that their career or job opportunities will lead them into moving at relatively short notice. It is also the case for those who have not yet settled into a permanent or stable relationship and do not wish to saddle themselves with a mortgage on their own dwelling. Those who have yet to embark on a family building phase of their life and whose interests and demands may be met with relatively temporary accommodation may also not be attracted to ownership. (Many of these households ultimately enter the home ownership market.)

There are also households who simply never want to own.

The total of these households is of the order of 15%.

This means that there are about 18 % of households who are renting and see this as an inferior form of tenure.

We have some evidence that approximately 92% of people die having at some stage in their life owned real property. That is, about 8% never reach the level of income or wealth to become property owners.

We also know that a significant proportion of households who at some stage owned their own home found that they could not sustain ownership. That is, for a variety of factors due often to simple exigencies of life they could not continue to enjoy the benefits of owner occupation. Some of these households are those

whose occupations are transient. Most would be classified as 'low income households'. Some are households who through illness or accident do not have regular employment. Others are households that have 'broken up' and even when they enjoyed owner occupation find that after the break-up they can no longer afford owner occupation (women in failed relationships are often in this category). The proportion in this category is about 8%.

That is, we can see that approximately one in six households are in some need of help with accommodation. This begins to set the level of housing supply that might be seen as the appropriate level for government or community support. In Australia we currently support, through government action, between 4 and 5% of households which is significantly less than might be expected. To reduce pressures in the housing market government or community programs need to be treble their present level. That is, if the proportion of income paid in rent is to be reduced to what is regarded as reasonable the supply of rental housing provided by government or community programs will need to be increased by up to three times the current level.

We should note here that most governments in advanced economies face similar pressures and appear in most cases to accept even higher levels of need to provide or support the provision of accommodation for rental accommodation.

What are the responses open to governments in Australia?

If we accept that the economic and social benefits of a well housed population are significant and we further accept that governments have an obligation to ensure that the less fortunate are treated with respect by having secure housing of good quality and standard available to them then governments can not avoid the obligation to develop housing policies and programs that are equitable and humane.

In the case of the Commonwealth it should be noted that the Commonwealth Treasury has always opposed the Commonwealth's housing initiatives out of a belief, in spite of evidence to the contrary, that the market delivers the best outcomes which means that there is a major institutional issue to be overcome if the Commonwealth is to succeed in developing policies and programs to ensure a more equitable way of housing the population.

It should be clear, however, that there are no quick fixes and that we should be wary of simple physical determinist 'solutions'.

A balanced housing policy and program would contain the following elements:

1. Elimination of the negative gearing provisions for investment in housing.
2. Renewal of the CSHA to ensure that the stock of rental housing was rapidly increased in locations that enable low and moderate income households to have security of tenure and to participate in the workforce.
3. Phasing out the Rental Assistance program with the savings to be applied to increasing the construction of rental stock.
4. Ensuring that the new public housing stock was not provided in the form of large developments that lead to large concentrations of households of multiple disadvantage.
5. Use the CSHA to ensure that community housing programs are developed to increase rental housing stock strategically located throughout the metropolitan areas and in regional centres.
6. Encourage philanthropic investment in non profit forms of housing providing at least one quarter of housing in such developments are for low income households.
7. Encourage a variety of forms of community provision of rental and cooperative housing.
8. Introduction of regulations of financial institutions so that they maintain levels of investment in housing closer to the levels they observed prior to deregulations.

9. Introduction of regulations of financial institutions that they should place a limit on the proportion of a property's value that can be held as a mortgage.
10. Funding the compulsory acquisition of land on the fringe to be developed by state public agencies or private corporations under licence to state government to increase the supply of land.
11. Changing the financing and nature of urban services provided by government to reduce costs of servicing land.
12. Requiring the states, as a condition of support under the CSHA, to ensure that low and modest income housing is provided close to employment opportunities
13. Requiring the states, as a condition of support under the CSHA, to ensure that all housing be constructed to environmentally sustainable standards.

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