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## **A QCHC Submission to the Senate Inquiry into Housing Affordability in Australia**

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### **1. About QCHC**

Queensland Community Housing Coalition is the peak body representing the interests of community housing providers in Queensland that provide around 9,000 homes for people in housing need.

Its members include not-for-profit housing companies, housing associations, church providers, local government providers, crisis accommodation providers, co-operatives and indigenous community housing providers.

Along with policy advocacy and our strategic research partnership with Bond University School of Sustainable Development, QCHC provides a range of direct services to our sector. These include brokering affordable housing opportunities, providing accredited training through our Registered Training Organisation, group insurance, property management software, and assistance with regulatory compliance, accreditation and quality improvement.

Because our members work in the arena of housing market failure, we understand that a prime objective of government economic and social policy must be an effective and efficient housing system.

Equally important is for housing tax relief, subsidy and direct public provision to contribute in a cohesive way to this objective, and to ensure decent housing outcomes for all Australians and the effective use of taxpayer funds.

### **2. Introduction**

In terms of housing size, quality, amenity and environmental health, Australia is amongst the best-housed nations in the world. However, over the past decade or so, Australia has seen housing affordability eroded to the point where it now has one of the most serious housing affordability problems of any developed country.

Changes in economic and social conditions over the past 25 years, and a range of government policy interventions, have driven housing system responses that are characterised by significant market failure.

These changes include labour market reform and increased participation rates, financial liberalisation, demographic and household formation patterns and immigration.

The housing market is being increasingly polarised between 'housing haves and housing have nots' and this will have long term repercussions for a wide range of policy areas.

The fact that so many Australians are experiencing stress is a measure of the failure of economic and social policy to ensure that the housing market meets the requirements of diverse households and that incomes and housing costs have some rational relationship.

The 2004 Productivity Inquiry report into home ownership identified some \$25 Billion in tax relief to home owners and in addition the Commonwealth spends over \$4 billion through various housing programs like FHOG, CSHA and CRA

The community might well ask why we have a housing problem at all, given these concessions and outlays. Obviously it is not down to a lack of money being thrown at the system. Indeed, the type and distribution of financial interventions in the housing system and the often contradictory objectives of such intervention are contributing to the failure in the system.

In addition there are a range of taxes and fees placed on housing transactions, including the GST on new homes, various planning and infrastructure charges and stamp duty

Housing tax concessions, public spending, taxes and charges have grown up in an ad-hoc way. Some work against each other and taken as a whole they do not facilitate an effective housing market nor do they direct resources to where they are needed to maximise housing outcomes.

This leaves the burden of market failure on relatively small-scale government programs like the direct provision of social housing; or increased income subsidies to renters, which may well simply fuel rental increases in tight market conditions.

Those, [including the Australian Government] who argued in 2004 that the market would correct itself in a timely way, and therefore little or no reform was necessary, were plainly wrong.

### **3. Drivers**

A number of the most significant drivers have been well articulated and presented at national housing conferences over the decade. We are not short of research or policy options as the dedicated housing research of AHURI has been complemented by

extensive industry based research from the Housing Industry Association and Urban Development Institute of Australia along with financial institution analysis.

The points below are not judged to be 'good' or 'bad' in terms of the housing system, they are simply a range of drivers that we need to understand if we are to design better policy. Like the housing system itself, some of the drivers are in contradiction and some can have both positive and negative outcomes for different segments of the Australian community or for different markets.

#### *Demand-Side Drivers:*

- Rise in two income families
- Availability of credit
- Relatively low interests rates for a decade
- Tax relief
- Community and media attitudes about the 'investment value' of the family home
- Immigration
- Household formation, including smaller households and divorce. [Divorce can mean the demand for two homes with similar amenities for shared custody of children, but on split incomes, requiring greater affordability]
- Consumption patterns including housing size

#### *Supply-Side Drivers*

- With demand-side factors remaining strong, [and this is likely to remain the case as long as the economy and employment remains strong] the supply shortage represents the most serious ongoing risk driving the affordability crisis.
- Land supply constraints in some critical markets
- Infrastructure back-log and costs
- Tax, fees and charges [ particularly the gst on new homes and the issue of which infrastructure should be paid for by purchasers of new homes or by the community at large]
- Poor levels of standardisation in the housing and planning system
- Skill shortages in some areas

#### *Other Factors*

- Whilst employment participation rates are an Australian success story, we also have a high level of casual and part time employment by OECD standards and income-security is a significant factor both in the ability to enter home ownership and in the ability to compete in a tight rental market.
- Despite skilled labour shortages, under-employment remains an issue for some groups
- The role of HECs for younger graduates that may have been candidates for home ownership and its relationship to the tax system means that some young people are paying both tax and HECS at relatively modest income levels and are thus unable to enter the home ownership market.

- A sense of housing wealth fuelled by housing inflation [the median rise was 18% in Brisbane in 2007] can have implications for wider credit-driven consumption and also feed into inflationary pressures, most recently through rent increases.

#### **4. Tax Concession, Taxes & Fees and Spending**

Earlier in this submission, we questioned the effectiveness of the range of Commonwealth tax concessions and interventions and asked, on behalf of the community, why almost \$30 billion in annual intervention cannot secure the housing outcomes we should expect.

One of the reasons, that has been researched by groups like the Committee for the Economic Development of Australia and the Brotherhood of St Lawrence and by Professor Judith Yates is the distribution of that Government support.

In a nutshell, tax concessions go disproportionately to those who need them the least *and* they go disproportionately to those in the later periods of their housing careers.

In addition, negative gearing and the halving of capital gains on investment properties has contributed to the benefits enjoyed by this section of society. Established home owners have used equity in their own homes to participate in a [substantially] taxpayer funded rental property segment that, until the last year or so, has been almost exclusively driven by expectations of capital growth.

Whatever the other merits of negative gearing more generally are, they are not a good use of public funding [concessions] for housing outcomes or for an effective housing system.

When we add in State and Local Government taxes and charges, the problem is exacerbated.

Transaction taxes like Stamp Duty do not assist industry efficiency. States rely heavily on such inflation driven windfalls and this can be a political tension when seeking to reconcile their income needs and the effectiveness of the housing system.

Infrastructure charges, particularly flat-rate structures, do little to reward affordable housing provision or, indeed, environmental responsible housing.

For example a \$60,000 fee per lot is more easily absorbed in a \$600,000 4 bed, 3 bathroom large home than in a \$300,000 small lot workers cottage.

With smaller households and the urgency of environmental concerns, we need to properly cost the over-consumption of housing and at the same time address the spruiking of the investment value of our homes, above all other values.

Progressive fees and charges can help steer the industry over the long term and reward appropriate land use, affordability and sustainability.

## **5. Political Tensions & Policy Choices**

To make housing more affordable requires the relationship between incomes and prices to resume some sustainable relativity.

This could be achieved by house prices falling or the incomes of those in the bottom three quintiles rising more rapidly than house prices over a long period of time.

One approach is to significantly improving supply to help dampen house price inflation.

Another way to impact demand is already more evident as higher interest rates cause increased defaults. Continued inflation and interest rates responses may simply slow the economy [outside the resources-boom areas] and this could lead to rises in unemployment which might reduce demand.

Both of the last two will come at a harsh social and individual price.

### **No Losers?**

In an environment already characterised by housing winners and housing losers, it is difficult to conceive of policy that would achieve better long term housing outcomes, including improved affordability, without winners and losers.

Whilst understanding that purchasers in housing stress need to be supported, particularly those facing repossession, a 'no-disadvantage test' for current home owners could severely constrain the necessary long term policy reforms.

That is the biggest political hurdle.

Many households feel they have done well out of the house price boom, with an increase in [untaxed] capital gain and an improved access to credit. Some of these households also benefit from negative gearing of investment property.

In contrast, many lower income working households are now 'economically excluded' from home ownership and potentially represent a future class of permanent renters, with long term consequences for inter-generational wealth and income support, to name just two.

Furthermore, very low income people and those who are vulnerable are increasingly living in a state of indefinite housing insecurity and tertiary homelessness or they are channelled into what remains of the residual 'welfare housing tenure' that has replaced the public housing model in Australia. This adds to the fragmentation of housing system responses and places further barriers to housing mobility and choice.

### **Progressive taxes and better re-distribution?**

This is another policy area that is full of political tensions and choices.

Tax concessions that fuel over-consumption and disproportionately benefit wealthier residents at the end of their housing careers, needs to be replaced by assistance to those who need it and be distributed at the point when it can best assist that household.

Tax and tax concessions need to be simplified and streamlined and as a package they should have a bias against price inflation.

Putting the GST for buyers of new homes whilst treating the sale of an existing home as capital gain free, and each of these tax arrangements being 'blind' to affordability, wealth and income, is one area ripe for simplifying.

### **Regulation, Incentives and Free Markets**

Another area that involves difficult choices and political philosophy is in the appropriate balance between a regulatory approach, incentives and the functioning of the market.

Housing activity in Australia may be characterised as a free market but in reality it is a highly conditional market governed by building codes, planning requirements, taxes and tax concessions and property law including residential tenancies law and retirement villages legislation.

How households express their choices and how the market responds is highly conditional on factors like regulation, tax arrangements and relative cost-benefits.

Overseas experience would indicate that different packages can influence market effectiveness. The provision of affordable housing through inclusive zoning is one such example, but such initiatives would need to ensure that other low to moderate income households aren't bearing the cost for improved access at the bottom of the market.

Incentives on the other hand, could simply be absorbed in the profit line and make no real difference to affordability. Improving the effectiveness of incentives can be achieved but often at the cost of increased complexity and administration.

Regulation and incentives can help steer the market by penalising undesirable aspects of the system like excessive housing size and rewarding others like affordability and sustainability.

If we accept the prospect of a significant number of households being permanently housed within the private rental system, as they are in some European country's, then we will need to revisit the framework that supports that system. This may include tenancy law, rent setting, rent assistance, standards and other forms of rental arrangements like rental housing co-operatives.

Ensuring the regulatory framework, targeted incentives and the tax system work in a cohesive way should be a priority for reform.

## **6. Recommendations**

### ***a) Improve Supply***

Address supply constraints.

Co-ordinated approach to all levels of Government land

Ensure the NRAS is economically feasible and meets its target

Facilitate urban renewal inclusion of new affordable housing

Establish a distinct capital funding stream for new community based affordable housing

### ***b) Real incomes of lower paid workers to rise more than house prices***

Create the conditions necessary for a sustained effort to improve the incomes of lower paid workers. This should be part of a national effort to reduce housing stress, but also as a broader set of anti-poverty objectives like those delivered by country's like Ireland.

The inter-face between income support, family benefits and the tax system should be a primary focus of this effort, along with the identification of ways such reform can be progressed that minimises its inflation impacts. [Given that inflation disproportionately impacts on the low paid]

### ***c) Progressive taxes & tax relief***

Review and streamline Commonwealth and State tax concessions and taxes to improve the housing system and ensure assistance is distributed to meet housing policy objectives

### ***d) Progressive fees and charges***

Streamline fees and charges and ensure fees and charges reward desirable outcomes like affordability and sustainability and penalise undesirable outcomes.

### ***e) Planning and Infrastructure***

Agree a national framework for the types of infrastructure that it is reasonable for new home buyers to pay, those that the wider existing community should meet and those that require a different approach across long time lines and across generations.

Broaden the Housing Infrastructure Funding concept to ensure an adequate national investment stream into infrastructure

Seek to link infrastructure assistance to regional development goals and growth management strategies.

Agree a national framework for residential planning, including principles for neighbourhood planning that will lead to integrated mixed income, mixed tenure communities, design innovation and targets for housing diversity.

*f) Affordable Housing Industry*

Housing economics have not responded in the way expected, even as recently as the Productivity Commission Report in 2004, and the current housing system is increasingly incapable of meeting the wider housing needs in our changing society.

The range of initiatives outlined by the new Rudd Government are most welcome, but they may not deliver the structural reform required for the long term.

It is important that initiatives and programs work together to generate the conditions for the emergence of an affordable housing industry over the long term. This industry should involve innovations in financing, design, development and management of affordable housing and drive efficiencies in the planning and production of affordable homes.

The reform of existing concessions, taxes and fees and the establishment of national frameworks around residential planning should ensure better targeting of assistance. Assistance should be more sophisticated and discreet and help achieve integrated mixed income, mixed tenure outcomes across all neighbourhoods as well as enhancing choice and economic mobility.

*g) New delivery and safety-net arrangements*

Two programs that the Government could consider for assisting home ownership over the short to medium term are:-

- A unique not-for-profit shared equity home ownership model being developed in Brisbane that does not add fuel to the bottom of the existing home buyer market, but removes demand from the tight rental market by providing an alternative pathway into home ownership for low to moderate income earners. QCHC would be pleased to share the detail of the initiative with the Senate if you wished to explore the option further.
- A nationally funded program for not-for-profit housing providers to buy properties where families are being repossessed. The aim is for eligible families to be able to continue to live in their homes as tenants renting at an affordable housing rent. This would avoid the disruption and cost of moving, help prevent a risk of homelessness [with a high-cost temporary intervention then more likely] and avoid disruption to children's education. Further down the line renters may be able to purchase on a shared equity basis as a way of re-entering affordable home ownership.



## **7. Conclusion**

As a nation, we have good research and evidence on the way our housing system works. We are aware of international comparisons and we have analysed the strength of different responses.

We have a national government with a package of initiatives that has been endorsed by the community at last year's elections.

We have industry, community, unions and governments interested in finding a long term common solution to the affordability crisis.

We have current winners and losers and reform will inevitably involve changes for different households. The political choices are pretty unpalatable, but the consequences of not facing those choices are very serious.

It is time for us to have a mature community debate about what kind of housing system really reflects our commitment to values like fair-go, inclusiveness and strong neighbourhoods and how government assistance should be distributed.

QCHC and its members are part of that community debate and we will be part of the delivery of better housing outcomes and a better housing system.

*Mike Myers  
QCHC Executive Director  
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