On 14 February 2008 the Senate established a Select Committee on Housing Affordability to inquire into and report on the barriers to home ownership in Australia, including:

- the taxes and levies imposed by state and territory governments;
- the rate of release of new land by state and territory governments;
- proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- the role of all levels of government in facilitating affordable home ownership;
- the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- the role of financial institutions in home lending; and
- the contribution of home ownership to retirement incomes.

The Committee is to report to the Senate by 16 June 2008.

The Committee welcomes submissions. **The deadline for lodging submissions is 31 March 2008.**

Synopsis

Housing Affordability is not the same as Home Ownership.
Only a small band of household incomes are burdened with the barrier of affordability
Some barriers might be essential to developing a stable market.
We are experiencing a housing market bubble.
Owner- occupied homes should also incur capital gains on a graduated scale.
Governments should not provide blanket Home Cost Assistance
Standardised Planning Guidelines and house Plans
Fast tracking standardised building plans
States and councils could be encouraged to abolish some of these charges.
To facilitate this an investigative committee similar to the "Razor Gang" under Senator Tanner should look for efficiencies and savings.
The rate of land release is only one aspect of home building.
Problem Home loans result from excessively risky push funding to potential clients.
Insuring the Loan
Home Savings Accounts
The mere fact of owning a debt free, substantial asset, which provides shelter and family refuge, is a solid foundation for comfortable retirement living

Housing Affordability is not the same as Home Ownership.

As a typical baby boomer nuclear family- 2 Parents, teachers (1 retired) and 2 children, our financial planning is greatly helped by the fact we own our home. Even though we regard ourselves as underpaid (earning slightly above average earnings) we were much more fortunate than our children because the *housing cost to salaries ratio* at the time of our purchase was about 3 to 2. Now for the same property it would be 8 or even 9 to 2.

I write this submission with my children in mind because I believe they will wish to own a home and raise a family when they are older but they are not blessed with the luxury of above average income. We were able to save enough to own our home within 15 years, without ever receiving government assistance, but our children are extremely unlikely to reach this goal even with government intervention.
The Federal government has announced some worthwhile initiatives such as Home Savings Accounts. We have encouraged and assisted our children to save for a house from their teenage years and believe the concept of a home savings account is a good one.

<u>This enquiry should not preclude other forms of housing</u>

I believe this inquiry is too directed at a specific target; **citizens who wish to purchase a home as residence and probably not as a means of earning an income, but as a home in which they can be or raise a family.**

"Home ownership" as a term of inquiry under the banner of Housing Affordability is somewhat ambiguous. It represents only a subset of a range of housing options.
What does "housing" mean and to whom is the affordability referring?
In the general sense housing means being housed i.e. having some place of residence, which suits the purpose of shelter. It does not necessarily mean, "owning a home" although that is clearly the aim of this inquiry.

For some the prospect of housing is not the expectation of home ownership but rather the option of alternate forms of housing, where personal ownership is not the preferred option.
The drive to enable home ownership should not preclude the need to ease the burdens of those not owning, whether this option is by preference or because homeownership is financially unachievable.

Clearly there is a band of household incomes burdened with the barrier of affordability and this is where Governments should confine their assistance to lower barriers. This band of potential homeowners can be identified by income and by intention to raise a family.
Some incomes are so low that home ownership is not a realistic alternative. They still require housing assistance, but they are outside the scope of home ownership.
It should also be clear that for high-income earners, "affordability" is not an applicable concept. They can easily pay for a basic home in a far-flung suburb, but why would they. High-income earners can afford to balance cost with optional extra's including convenient location as part of the housing package. Above average income earners are not in a burdened position as far as housing cost is concerned. The only barrier to their home ownership is the particularity of the options they choose for their home.

Some barriers might be essential to developing a stable market.
For example, if the potential homeowner is not or has no intention of raising a family, why assist them in the same way as homeowners with a family. Their housing needs are different. They need a less supportive environment.

I would like to see the affordability gap in housing cost be ameliorated so that average wage earners can own a home and bring up a family as my partner and I have managed. I don't know the answers but I would like to make some suggestions.
.

We are experiencing a housing market bubble.
Land scarcity has always been a problem and there is a constant demand pressure. But as rates of housing cost increase exponentially compared to average incomes it seems new buyers will never be able to save enough for a deposit.
This bubble might be due to cyclic factors such as periodic shortages of land and housing, or inter-generational phenomena such as reinvestment of increased retirement incomes and savings for those baby boomers now able to access large amounts of superannuation monies.

The role of all levels of government in facilitating affordable home ownership

Whatever the reasons, Governments need to do more to balance the competing demands for housing. Speculation and opportunistic investment for re-sale at higher prices should be discouraged.
To that end **Taxing Capital Gains on property (including own Home) should be re-jigged to align with the 12-month Stock market share gains rule. Owner-occupied homes should also incur capital gains on a graduated scale so that after 5 years the Tax is reduced to Nil.**

Governments should not provide blanket Home Cost Assistance

Home Owner support grants have only exacerbated the problem of excessive house prices. In fact I think such blanket front-end grants, by increasing the levels of competition, serve only to raise the price of a home beyond the value of such a grant. This bubble has been further fuelled by speculation and opportunism.
Whatever the reasons, lack of market regulation and planning has lead to the current mismatch between property pricing and the average wage earner's ability to service loans they might obtain
The Federal government would have been better to offer ultra low interest loans to means tested buyers with a certain deposit savings level to fund up to 25% of the house cost.
In present circumstances potential homeowners can only gamble on they likelihood that they can borrow the huge cost of a dwelling and be able to repay the loan without meeting some financial disaster.
No doubt our children will call upon their parents to assist, but our savings will do no more than supplement their ability to meet deposit requirements for a housing loan. The major barrier they face is being able to service a loan, which may be 6 or 7 times their average wage.

State Taxes and levies.
In my lifetime these have increased at greater than the CPI rate.
The rate of State Taxes and Levies eg council rates are based on the valuation of the property and I believe property values have increased at a higher rate than both wages and the CPI.

Across Australia, State taxes and levies are inconsistently applied. State land taxes are applied on differing sliding scales and applied in accordance with differing regimes. To reduce housing costs I believe State Land Tax on housing should relate the value of the house to a multiple of the Minimum wage. Eg if the National Minimum wage is $30,000 then land tax should not be levied until the property is valued at say 20 times this or $600,000.
Council Planning bureaucracy and regulations are essential barriers to new housing development but operate inefficiently.

<u>Standardised Planning Guidelines and house Plans</u>
Fast tracking standardised building plans.
Homeownership through building on new land is most often done through agency of the Land developer. More often than not, house plans are standardised and pre-optioned. When a developer presents standardised house plans to a council which has already granted approval under the planning guidelines why shouldn't the next person who has the same plan and in the same estate be automatically and quickly approved without the expensive drawn out processes that currently occur.
If planning regimes and housing plans are standardised the time and cost of planning should be much reduced.
Some local councils say they try to contain rate increases, but they always expand the claims they make on Householders. I believe some extra levies such as rubbish collection should have been paid for in the general rates they collect. **Better still states and councils could be encouraged to abolish some of these charges.**
To facilitate this an investigative committee similar to the "Razor Gang" under Senator Tanner should look for efficiencies and savings.

Homeowners with growing families need financial mechanisms to mitigate the growth in State and Local Government costs and defer the burden.
Mechanisms could include a rebate style offset based on number of children, income and length of residence.
Alternatively housing finance packages could include a provision for future Taxes and levies for a negotiated time. Effectively amortising these early costs to the life of their home loan.

<u>Rates of land release</u>
The rate of land release is only one aspect of home building. Increased land release is a classic economic approach to lower prices by reducing or meeting demand.
Land released on the city outskirts (the traditional approach) involves urban environmental issues, which must be taken into account. The main issues are not simply transport costs and proximity to work location, but also the high cost of sub-urban council planning barriers and low quality of early stage community services. Not only are there obviously accountable costs of establishing green fields services, but there are also the unseen costs of establishing adequate community infrastructure. Quite often during workdays these outer fringe areas become urban wastelands, virtually deserted and without community whereas during leisure times they can be less than enjoyable environments due to lack of established community infrastructures, particularly for the youth and special needs groups such as new immigrants.

It may make more economic sense to release land or provide new housing in the inner city areas where higher-density living is the preferred option. Quite often there are established community infrastructures, which can be rejuvenated, and re-established.

My eldest son abandoned living in our Melbourne suburb and travelling to work in the city because of travel costs and for a better lifestyle. He teamed up with a group of friends to rent an inner city apartment. He was able to walk to work; he gained a better sense of community and a happier lifestyle. Paradoxically his living costs are reduced his earning rate has increased and he has more leisure time.

Land release may be better targeted in regional growth areas rather than around capital cities where services are more expensive.

Where money is involved the smart money will always look for a profit. Farsighted profiteers look for government trends to lock up property, which may yield a substantial opportunistic gain. Governments can overcome these barriers to development by applying annual holding charges to purchasers who have unconverted property in designated residential growth areas.

<u>The role of financial institutions in home lending</u>

Most reputable financial institutions involved in home finance have well defined and regulated criteria for financing home purchase.

The problem is excessively risky push funding to potential clients. The government should set funding and eligibility guidelines which clearly define a Financial Rating regime for each home-finance package. That way each client can clearly understand how much risk they can sustain and whether the financier is encouraging risky behaviour. This Financial risk rating should be rated to compulsory loan insurance.

Insuring the Loan

The lender should be accountable on a percentage rebate basis to indemnify the client for their loan funding.

This should take the form of insurance against loss of loan repayment and foreclosure suspension for 12 months from the date of mortgage distress eg. 3 missed payments. By insuring themselves against client failure to repay the loan rather than the standard income protection insurance the mortgagor has a financial incentive to ensuring a responsible, sound loan processes. Higher insurance premiums will cost outrageous lenders more than those who stay within prudent guidelines.

Loss of Income or Payments Protection Insurance should be compulsory for clients up to 12 months of repayments. Self-insurance should be forbidden.

Home Savings Accounts

Financial Institutions have had such accounts, which are usually nominally related to housing and are supposed to enable the holder to get a home loan more easily. I believe that Topping up such accounts with Federal Grants is a better incentive than the current Housing Loan Grants. These accounts should be aimed at building a substantial deposit for a home loan. The problem is that such accounts usually attract little or no interest and as such actually lose money after inflation is taken into account. Housing Deposit Accounts need to be related to the Residential Housing market. That way the value in such accounts will be realistically related to the growing financial cost of housing.

Contribution of home ownership to retirement incomes.

The mere fact of owning a debt free, substantial asset, which provides shelter and family refuge, is a solid foundation for comfortable retirement living.

While not every homeowner can use the value of the home equity to enable an enhanced retirement lifestyle we have been able to use this home-equity. The growth of home equity refinancing from banks and credit unions has enabled us and others to increase superannuation contributions and prudently invest in other assets without the risk of such problems as margin calls.

Had we been blessed with inherited assets we could have made further provision for our children and ourselves. Had we been adventurous we could have progressively improved our home, tax-free by selling and buying a better family home and therefore move into a better environment. I see nothing wrong with this process as long as speculators cannot rort the process. That is why I believe home owners should pay capital gains tax if they sell before five years of habitation.

Thankyou for listening,

Stephen J. McIntosh