



31 March 2008

Select Committee on Housing Affordability in  
Australia  
Australian Senate  
By email: [housing.sen@aph.gov.au](mailto:housing.sen@aph.gov.au)

Dear Committee Members,

**Re: Inquiry into Housing Affordability**

I enclose a submission on behalf of the Australian Council of Social Service (ACOSS) to the Senate Inquiry into Housing Affordability.

ACOSS is peak council of the community services and welfare sector and the national voice for the needs of people affected by poverty, disadvantage and inequality. Consistent with this mission, we are concerned to ensure that low income people are able to access safe, secure, appropriate and affordable housing.

The Inquiry's Terms of Reference are to examine and report on the barriers to home ownership in Australia. In this brief submission, we will address some of the terms of reference, in addition to raising some broader structural issues affecting housing affordability beyond home purchase.

Thank you for the opportunity to participate in this inquiry. If the Committee has any further questions in relation to this submission, please contact me on (02) 9310 6200, or by email at [andrew@acoss.org.au](mailto:andrew@acoss.org.au).

Yours sincerely,

Andrew Johnson  
Executive Director  
Australian Council of Social Service (ACOSS)



## Submission to Senate Inquiry into Housing Affordability

### Introduction

Safe, secure and affordable housing is essential for individual, family and community wellbeing. Due to worsening problems of housing affordability, more than three-quarters of a million lower income households are paying housing costs which exceed the commonly-used affordability benchmark of 30 per cent of household income for households in the lowest 40% of income distribution. While many Australians are struggling with housing costs, the majority of those in housing stress are private renters. Vacancy rates have reached their lowest point in twenty years and rent is rising much faster than wages.<sup>1</sup> As a result of these factors, some 65% of private renters are currently experiencing housing stress.<sup>2</sup> Rising rent levels have also increased the pressure on public housing and crisis accommodation services and contributed to the current rate of homelessness. At a time when more than 100,000 people are homeless, crisis accommodation services are turning away more than half of all those seeking new accommodation<sup>3</sup>, mostly due to a lack of accommodation, and public housing stock has declined.

Due to the complex and interdependent nature of these housing pressures, effective responses to the challenge of affordability must include all sections of the housing market, employ a broad range of policy levers and involve both long and short term solutions. We therefore welcome the appointment of a Minister for Housing and Government commitments to a National Affordable Housing Agreement, the National Rental Affordability Scheme, the Housing Affordability Fund, a housing supply research council, the Homelessness Steering Committee and funding for housing for those experiencing homelessness. The Government's commitment to a social inclusion agenda also offers a unique opportunity to address the crisis in housing affordability in a broader social policy context.

### Poverty and social inclusion

ACOSS released research last year which showed that an estimated 2,210,000 people or 11.1% of Australians, including 412,000 children, lived below the poverty line in 2006.<sup>4</sup> These Australians are currently excluded from the benefits of national prosperity, missing out on adequate housing, education and health care and excluded from the employment market.

ACOSS has consistently advocated that a coordinated response to disadvantage is required in order to achieve the goals of a fairer and more equitable society. We support the development of a social inclusion strategy which addresses not only poverty, but all aspects of social exclusion.

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<sup>1</sup> Julian Disney, University of New South Wales, 'Election 2007: Affordable rental housing', *Australian Renew of Public Affairs*, September 2007, accessed at <http://www.australianreview.net/digest/2007/election/disney.html>.

<sup>2</sup> AHURI, 'Housing Affordability: a 21st century problem', National Research Venture 3: Housing Affordability for Lower Income Australians, by Judith Yates and Vivienne Milligan et al, September 2007 at 19.

<sup>3</sup> Australian Institute for Health and Welfare, *Demand for SAAP Accommodation by Homeless People 2005-06, 2007*, pg 56.

<sup>4</sup> Australian Council of Social Service, *Australia Fair: Update on those missing out – The numbers and stories of those missing out, 2007*.

Twenty-two out of thirty OECD nations have implemented national social inclusion or poverty strategies to share the social and economic benefits of the nation. Given the persistence of joblessness, poor health and other forms of disadvantage for some Australians, such a strategy is needed to bring people in from the margins of society and provide a tool to strengthen communities for the future.

Safe, appropriate, affordable and accessible housing must be available to enable people to participate in the social and economic life of the nation. In recognition of its importance, housing affordability and homelessness have formed core parts of social inclusion policies in other countries, with benchmarks and targets set relating to housing affordability, the appropriateness and adequacy of housing and rates of homelessness. The Labor Government's stated commitment to a social inclusion agenda provides a unique opportunity to develop a coordinated national response to these issues, and to set benchmarks and targets to improve housing affordability.

### **The crisis in housing affordability**

The number of households in housing stress or housing crisis has significantly increased over the last decade.<sup>5</sup> This has affected both home purchasers and those in the private rental market. It has also increased pressure on public housing, reduced exit options for current public housing tenants or those in crisis accommodation and has contributed to rates of homelessness.

Around 15% of all households currently pay at least 30% of their income in meeting their housing costs.<sup>6</sup> Particular groups including low income households, private renters and first home buyers are worse affected than others. Research shows that:

- nearly 30% of lower income households (or more than 800,500) are in housing stress<sup>7</sup>;
- 65% of private renters are experiencing housing stress<sup>8</sup>;
- nearly two-thirds of all first home buyers are paying more than 30% of their income on housing costs.<sup>9</sup>

As these figures show, the situation for private renters is particularly serious, with many no longer aspiring to, or able to aspire to, home ownership.<sup>10</sup>

There are a number of unique social and economic benefits conferred by home ownership. Most significant of these are stability, permanence and financial security. These factors enable individuals and families to create strong local networks and also play a role in strengthening communities. However, with increasing house prices relative to wages and high rental costs, many low income Australians are unlikely to ever be able to save for a house deposit or meet mortgage payments.

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<sup>5</sup> Housing stress occurs when households in the bottom 40% of the household income distribution contribute at least 30% of their gross household income on housing costs. Housing crisis occurs where these households contribute at least 50% of gross household income on housing costs.

<sup>6</sup> AHURI, Yates, J and Gabriel, M. (2006) *Housing affordability in Australia*, February 2006 and Yates, J (2007) *The polarisation of housing affordability*, August 2007.

<sup>7</sup> Ibid.

<sup>8</sup> AHURI, 'Housing Affordability: a 21st century problem', National Research Venture 3: Housing Affordability for Lower Income Australians, by Judith Yates and Vivienne Milligan et al, September 2007 at 19.

<sup>9</sup> AMP and NATSEM, *Wherever I lay my debt, that's my home*. This includes purchasers at all income levels.

<sup>10</sup> AHURI. Housing Affordability: A 21<sup>st</sup> Century Problem, at 5 and Burke, T. and Pinnegar, S. with Phibbs, P., Neske, C., Gabriel, M., Ralston, L. and Ruming, K. (2007) *Experiencing the housing affordability problem: blocked aspirations, trade-offs and financial hardships*, August 2007.

ACOSS submits that, as a matter of fairness, those who are excluded from home purchase should not be excluded from security of tenure which enhances social connectedness and inclusion. While public housing was originally intended to provide security of tenure for tenants unable to enter the home purchase market, with increasing pressure on the system, there have been trends towards tighter targeting and limited tenure. ACOSS recommends that investment in public and community housing be increased to bring the level of public and community housing to a minimum benchmark of 6% of national housing stock. This would include facilitating an effective mix of public and private investment options that: upgrade and renew housing stock (including maintenance), increase the supply of new stock and address the operational viability of State Housing Authorities.<sup>11</sup>

In addition to strengthening public housing, it is necessary to provide for secure, stable and affordable private rental housing to provide many of the social benefits of home ownership to renters. ACOSS recommends that consideration be given to strengthening rental tenancy protections while providing incentives for investment in low cost rental housing. The Government's announcement of the National Rental Affordability Scheme will play a significant role in increasing investment in low rent housing. Opportunities for secure, affordable, long term rental for low income households now need to be explored.<sup>12</sup>

Commonwealth Rental Assistance (CRA) is the most significant form of direct rental assistance provided by Government to tenants in the private rental market. To ensure that CRA best meets the needs of struggling renters, ACOSS calls for a review of the scheme.

Public and community housing plays a vital role in meeting the housing needs of low income Australians for whom other housing sectors are unaffordable or inappropriate. Although the demand for public housing remains high and is likely remain so, driven by an increase in the aged population and the continuing increase in single-parent families<sup>13</sup>, the supply of public housing has declined from 365,000 in 1995 to 341,000 dwellings in 2006, resulting in tighter targeting and shorter tenure periods in many states and territories.<sup>14</sup> Further, the supply of community and other non-profit housing remains very low by international standards. In most states, people cannot obtain public and community housing unless they have very low incomes or experience other major forms of disadvantage. Given the inter-dependence of all sections of the housing market, increased investment in social housing must form part of the government response to housing affordability.

The most serious effects of the housing affordability crisis are being felt by the more than 100,000 people who find themselves homeless on any one night. One in ten of these are children under twelve. Recent research suggests that, of those who seek assistance from crisis accommodation services, some 50% are private renters.<sup>15</sup> Of those who receive assistance, the lack of public housing and the high cost of private rental accommodation constrain exit options from crisis accommodation. ACOSS has

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<sup>11</sup> See ACOSS, Budget Priority Statement 2007-2008.

<sup>12</sup> *Ibid* at 45.

<sup>13</sup> AHURI, 'Projected housing demand in Australia to 2011', *AHURI Research and Policy Bulletin*, Issue 33 June 2004.

<sup>14</sup> Australian Institute of Health and Welfare, *Australia's Welfare 2007*, at 237.

<sup>15</sup> St Vincent de Paul Society, *Don't Dream it's Over*, 2007 at 7.

welcomed the Government's announcement that it will work through COAG to build an additional 600 houses for homeless individuals and families over the next ten years and will expand cultural and sporting programs for those experiencing homelessness. We are also pleased that the Government has established the Homelessness Steering Committee, to produce a Green Paper and White Paper on homelessness.

The impact of the crisis in affordability on the Indigenous population, and the specific housing needs of this population group, must also be considered. Although a detailed discussion of Indigenous housing needs is beyond the scope of this submission, the exclusion of many Indigenous people from both home ownership and the private rental market must be emphasised, as well as the significant under-investment in Aboriginal housing. We welcome the Prime Minister's commitment to establish a joint policy commission which will address Indigenous housing and the Government's recent commitment to increase funding for housing in the Northern Territory in the 2007-08 financial year, through the Aboriginal Rental Housing Program and the Community Housing and Infrastructure Program.<sup>16</sup>

### **The need for demand and supply side measures**

The construction of new housing is falling behind the level of need, which is aggravating pressures on house prices. Recent research suggests that there was a shortfall of about 30,000 dwellings in 2007, with a greater shortfall predicted in future years.<sup>17</sup>

Affordable housing is most needed in places where the labour market is strong and a broad range of essential services are available. With the lack of affordable housing in inner city areas, many low-income Australians have been forced to move to outer-urban suburbs. These suburbs are often poorly served by transport and essential services, and involve long commuting times and high transport costs for residents working in urban centres or other parts of the city. There is a need for all levels of Government to work together to ensure the provision of adequate transport and community infrastructure in outer urban areas.

### **Proposed assistance for first home owners by the Commonwealth government and their effectiveness in the absence of increased supply**

There are two forms of direct assistance to first home owners provided by the Commonwealth Government: the First Home Owner Grant and the First Home Saver Accounts. Other initiatives, like the Housing Affordability Fund, are designed to benefit first home owners indirectly (in this case, money is provided to local governments to reduce the infrastructure costs to home purchasers). In addition to these demand side measures, supply side measures have been discussed above.

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<sup>16</sup> Minister for Families, Housing, Community Services and Indigenous Affairs, '\$64.6 million committed to Northern Territory for Indigenous Housing', Media Release, 16 January 2008.

<sup>17</sup> AIHW, *Housing Assistance in Australia*, 2008.

### ***First Home Owners Grant***

The First Home Owners Grant (FHOG) is a one-off payment of \$7000 made to all eligible first home purchasers, regardless of income. The Grant was introduced by the Coalition Government, but the Labor Government has indicated that it will retain the payment scheme.

The FHOG is not the most efficient or equitable mechanism to improve housing affordability. In its inquiry into First Home Ownership, the Productivity Commission found that the scheme would have more impact on home ownership if better targeted at low income households, finding that the bulk of FHOG housing assistance goes to households with above average incomes.<sup>18</sup> It recommended that, if the scheme were to continue, it should be targeted to lower income households. Alternatively, it suggested that larger social benefits might be obtained by re-directing the funds to address the broader housing needs of low income Australians, recommending a public review to consider these questions. ACOSS recommends that if the First Home Owners Grant is to be retained, it should be re-targeted to lower income households and restricted to the purchase of homes at the lower end of the market. Alternatively, consideration should be given to the re-direction of the funds to address the broader housing needs of low income Australians.

### ***First Home Saver Accounts***

First Home Saver Accounts will provide a special low tax superannuation style savings option. Saving is to be facilitated both through lower taxes on account earnings and a Government contribution. The accounts are designed to ensure that a couple each earning average incomes and saving for a first home, putting aside 10% of salary, will be able to save a deposit of more than \$85,000 over five years. For low income earners, the Government will make a minimum 15% contribution on after tax contributions of up to \$5000.

While changes have been made to improve the equity of the scheme, low income Australians will receive a lower Government contribution than higher income earners making equal contributions to the account. To further enhance the equity of the scheme, we recommend that low income people should receive an equal Government contribution per dollar saved to that paid to higher income earners.

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<sup>18</sup> Productivity Commission, *First Home Ownership*, Productivity Commission Inquiry Report, No 28, 31 March 2004 at xxxi.

## **The role of all levels of government in facilitating affordable home ownership and the effect on the market of government intervention in the housing sector**

As is evident from the above discussion, the housing market is currently not operating either efficiently or equitably. For this reason, Government intervention in the housing market is justified and necessary to reduce the negative impact of the market on lower income households. All levels of Government must play a role in facilitating affordable home ownership. ACOSS has consistently advocated for a National Affordable Housing Agreement to provide a framework for Commonwealth/State cooperation around these issues, in addition to a national affordable housing goal (for example, to halve the proportion of low income households in unaffordable housing by 2025). Local government representatives should also be involved in negotiations, and attention given to the role of non-profits in improving housing affordability.

The COAG Housing Working Group has been set a number of goals to progress the Commonwealth Government's housing agenda, including reducing developer charges and planning delays through a Housing Affordability Fund, building new affordable rental properties through the National Rental Affordability Scheme (NRAS) and building 600 homes for those experiencing homelessness.

The NRAS is a government intervention explicitly designed to stimulate private sector investment in low-cost rental housing, by providing incentives in the form of a cash rebate. While negative gearing and capital gains tax schemes provide incentives for investment in high value rental properties, until now there have been no incentives to encourage investment in low-cost rental housing. ACOSS therefore welcomes the Government's commitment to the NRAS, which we believe will increase the stock of low-cost rental housing available.

Housing affordability is affected by various forms of government intervention. At a Commonwealth level, a diverse range of policies have an impact, including: taxation, rent assistance, home purchase assistance, migration, employment, transport and regional development. State Government property and land taxes have an impact, as does funding for public and community housing, transport and infrastructure planning and resourcing. Local councils impact upon the housing market through planning and development processes. All levels of Government have a role to play in creating housing affordability benchmarks and targets.

Given the impact of a broad range of policies and taxes on housing affordability, it would be useful for the Committee to examine the impact of Commonwealth taxes and levies, including negative gearing and capital gains tax. Negative gearing and capital gains tax work together to encourage investment in properties at the higher end of the market.

Once the impact of the NRAS on the market can be measured, there is a strong case for conducting a review of negative gearing and capital gains tax measures. Consideration should be given to proposals that allow investors to deduct expenses only against income from the same class of investment (for example, rent received, capital gains or dividends) rather than from wages. Any changes made to tax policy

in this area should include mechanisms to monitor their impact on the housing market and housing affordability.

### **The role of financial institutions in home lending**

The relaxation of regulation of home lending practices has contributed to an increase in the number of 'heavily indebted marginal home buyers with greater vulnerability to housing stress'.<sup>19</sup> It has also contributed to the housing affordability crisis, with more people able to access finance to purchase homes, such that demand has outstripped supply. With the official Reserve Bank cash rate increasing to 7.25% on 4 March, the twelfth increase since May 2002, low and middle income, highly indebted mortgagees are under particular strain.

ACOSS is concerned about the impact of relaxed home lending regulation on lower income Australians in an increasingly complex home lending environment. We recommend that home lending regulations be reviewed to ensure those on low incomes and/or with low levels of financial literacy are better protected from high risk home lending practices. We refer the Committee to the findings and recommendations of the House of Representatives Standing Committee on Economics, Finance and Public Administration in its *Inquiry into home loan lending practices and the processes used to deal with people in financial difficulty*. In particular, we refer the Committee to the recommendation that the Commonwealth Government regulate credit products and advice, including the regulation of mortgage brokers and non bank lenders.

Finally, we suggest that the Commonwealth and State/Territory Governments should work together to establish shared equity schemes such as those operating in Western Australia and South Australia. In these States, the State Government acts as a lender for low income home purchasers. The West Australian First Start Scheme is a shared-equity scheme, under which eligible first homebuyers may be able to purchase or construct a home up to \$375,000 in conjunction with Keystart (an initiative of the West Australian Government, owned by the Department of Housing and Works) and the Department of Housing and Works. Homestart Finance, a statutory corporation established by the South Australian Government, facilitates home ownership in South Australia by lending to lower income households.

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<sup>19</sup> AHURI, *Housing Affordability: A 21<sup>st</sup> Century Problem*, at 39.



## **The contribution of home ownership to retirement incomes**

Recent research indicates that an increasing number of older Australians are experiencing housing stress, and that fewer Australians are now able to pay off their mortgages by the age of 59 (dropping from 54.4% to 35.8%).<sup>20</sup> This will have serious ramifications for financial security in retirement. It also places further pressure on the private rental market, which has experienced a growth in this age group from 16.5% of all private renters in 1995-6 to 19.6% in 2005-6.<sup>21</sup>

For retired households in the private rental market, affordability problems can be acute. Though older people often have priority access to public housing, many are still unable to secure appropriate and affordable accommodation which meets their specific needs given current high demand and long waiting lists. A range of policy responses are needed to ensure that the housing needs of increasing numbers of older people are met. This includes not only support for older people to remain in their own homes, but safeguards to provide for secure tenure for those in the private rental market, assistance to meet rent payments, an expansion of social housing and the construction of additional aged residential and care facilities.

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<sup>20</sup> AMP and NATSEM, *Wherever I lay my debt, that's my home* at 24.

<sup>21</sup> AMP and NATSEM, *Wherever I lay my debt, that's my home* at 24.