

Friday, 28 March 2008

The Secretary  
Senate Select Committee on Housing Affordability in Australia  
Department of the Senate  
PO Box 6100  
Parliament House  
Canberra ACT 2600

Dear Mr Hawkins

The Australia Institute is Australia's leading progressive think tank, based in Canberra.

The Institute wishes to assist the deliberations of the Committee by submitting some research that is pertinent to the terms of reference of this inquiry. In particular, our submission is concerned with:

- a. the taxes and levies imposed by state and territory governments; and
- f. the role of financial institutions in home lending.

### **Housing Stress**

We attach a report entitled *Wherever I lay my debt, that's my home: trends in housing affordability and housing stress 1995-96 to 2005-06* produced by AMP.NATSEM, Issue 19 - March 2008.

This report examines housing stress within the Australian community. Evidence of stress found by the report includes:

- that the cost of housing far outstrips income growth, for example housing now cost 7.5 times the annual disposable income, in 1996 it was only 4 times;
- that almost 23% of households spent over 30% of their disposable income on housing in 2005-06, compared to 19% in 1995-96;
- that almost two thirds of first home owners spent over 30% of their disposable income on housing;

- that Australia has one of the least affordable housing markets in the developed world; and
- that rental vacancies are at an all time low, and that this is likely to fuel rent hikes, further locking renters out of the housing market.

We also attach an extract from the book *Affluenza: When Too Much is Never Enough*, authored by Clive Hamilton with Richard Denniss, released in 2005 (pp20-25). This extract argues that Australian homes are the ‘primary target of excessive consumption spending’ (2005: 20). Their argument is evidenced, in part, by the following:

- since 1955 the average size of a new house has doubled;
- since 1985, there has been an increase of 31% in the average floor area of houses; and
- that this has occurred at the same time as the average number of occupants in a house has fallen.

Put simply, Australians are building bigger houses to house less people. This suggests that one of the causes behind housing stress is our ‘desire for larger, more luxurious and better located houses’ (2005: 21).

This argument is also evidenced by the Productivity Commission Report of 2004 entitled *First Home Ownership*, (the Key Findings of which we also attach) which states that housing demand has come ‘from existing home owners seeking to ‘upgrade’ in established areas’ (xii).

As a cause behind housing stress, this ‘desire for larger, more luxurious and better located houses’ is worth examining. We propose that it has been exacerbated by a number of factors. These, in part, include,

1. Federal and state government tax advantages for the owner-occupier (which are biased against renters).
2. A banking sector willing to lend more than what people are able to repay.

These factors are productive of a culture of over consumption, which drives the desire to own larger and more lavish homes, thereby increasing demand and pricing many people out of the market.

#### *1. Tax advantages for the owner-occupier*

We attach an article by Ross Gittins entitled ‘Renters can’t home in on jackpot’ from the *Sydney Morning Herald* dated 19 September 2007.

In this article, Gittins argues that owner-occupied housing includes tax advantages that have encouraged people to invest in ‘a bigger and better home’ rather than other possible investments, thereby increasing the cost of housing.

This has meant that ‘the rules favour existing home owners to the cost of young people trying to break into home ownership’.

Further, Gittins argues that many Federal and State Government efforts to make housing more affordable either will or have, failed. For example, ‘the first-home owners’ grant, cutting stamp duty, introducing shared ownership schemes or a subsidised saving scheme’ are all likely to increase the cost of housing, rather than alleviate difficulties.

## *2. A banking sector willing to lend more than what people are able to repay.*

The Australia Institute has conducted an online national survey of 1,002 Australians regarding lending practices and corporate responsibility. 72% of respondents in this survey agreed with the statement that ‘it is too easy for banks to lend money to people who can’t afford the repayments’. Public perception is that lending standards have been eased, making credit too easy to get.

Indeed, the Productivity Commission Report of 2004 confirms this argument. It states that much of the ‘increase in housing demand has been due to cheaper, more accessible finance’ (xii).

The easing of lending standards has produced an excess of over committed households, for whom even small interest rate rises can create repayment difficulties. What this has also meant is an increased *demand* for housing, fuelled by easily available credit, which has pushed up the cost of housing and thereby priced out first home buyers from the market.

### **Conclusion: A culture of over consumption**

It is my argument that these factors are part of a culture of over consumption. The demand for bigger and more lavish housing, and the ready availability of credit to fuel this demand, has pushed first home buyers out of the market. Further, those who have managed to enter the market are more likely to experience housing stress, as they are more likely to have purchased homes at inflated prices, with loans that are increasingly difficult to service.

The problems with housing affordability are less the result of interest rate rises and state government land release, and more to do with a culture of over consumption, fuelled by misdirected government policy and readily available credit.

This argument is not to deny the genuine housing stress experienced by some Australians. Rather, it is to suggest that those from higher income groups, who receive tax incentives and status for purchasing larger homes, are pricing many low-income earners out of the market. It is these low-income earners that should be our concern.

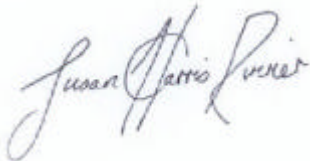
**Recommendations**

That the Committee should actively seek evidence in regard to the provision of public housing for those low income earners and their families who have been priced out of the rental and housing markets.

That the Committee widen their terms of reference to include a concern for those experiencing homelessness or insecure housing due to the rental and housing affordability crises. To assist in this, We attach an article by Erik Jensen entitled 'Rents fuel plight of homeless young' from the *Sydney Morning Herald* dated 18 April 2007.

We commend our research to you and wish the Committee well in their deliberations on this important matter.

Kind regards

A handwritten signature in cursive script, reading "Susan Harris Rimmer".

**Susan Harris Rimmer**  
Acting Executive Director  
The Australia Institute

## TABLE OF ATTACHMENTS

1. AMP.NATSEM (2008) [Wherever I lay my debt, that's my home: trends in housing affordability and housing stress 1995-96 to 2005-06](#), March Issue 19.
2. Hamilton, Clive, with Denniss, Richard (2005) *Affluenza: When Too Much is Never Enough* Allen & Unwin: Australia, pp20-25.
3. Productivity Commission Report (2004) [First Home Ownership](#), No. 28, 31 March.
4. Gittins, Ross (2007) ['Renters can't home in on jackpot'](#) *The Sydney Morning Herald* 19 September.
5. Jensen, Erik (2007) ['Rents fuel plight of homeless young'](#) *The Sydney Morning Herald* 18 April.