

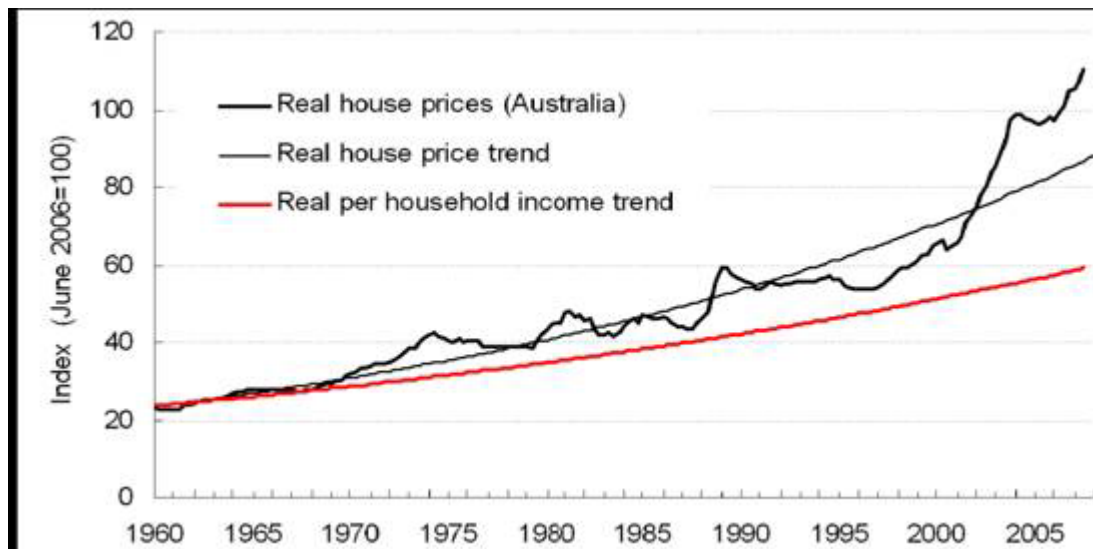


## SUBMISSION FROM NATIONAL SHELTER TO THE SENATE SELECT COMMITTEE ON HOUSING AFFORDABILITY IN AUSTRALIA

### INTRODUCTION

As Australia's peak non-government organisation representing the interests of low-income housing consumers, National Shelter is becoming increasingly involved with the acute affordability issues preventing low to middle income earners from entering the housing market.

Australian housing has been in a long term trend to record low affordability rates. The real house price trend relative to income trend data shown below (Judy Yates et al Source: NRV3, RP11, AHURI 2008) reveal that this is a problem that has been growing since the 1960's. It is a structural rather than cyclical problem and one likely to get worse, or at best remain at record low levels, for the foreseeable future.



Increasingly Australian households are becoming reliant on private rental housing, for longer periods of time, due to employment mobility, casualisation, and other factors, but also as a direct result of being unable to secure home ownership options due to price, deposit gap, finance availability and increased household formation rates.

It is important to realise the inter-relationship of the parts of the housing market to each other. It is surprising there was no reference in the Senate Committee TOR to either changes in the private rental market or the impact of Commonwealth Tax policy on housing affordability. Solutions to home ownership may be found in the interaction of the rental and home ownership markets and via the impact of Commonwealth tax policy on housing.

The majority of Australian households aspire to own their own home, and approximately 70% of Australia's 8 million households either own or are purchasing their home. This aspiration for home ownership is supported by a range of tax advantages and by direct government support programs, however due to current market circumstances, these programs and tax policies have proven to be more favourable to higher income consumers.

The state of crisis for the Australian housing sector has been intensifying for many years with rising house prices indicating that demand is severely outstripping supply. However, while home ownership has undoubtedly become a volatile issue, National Shelter believes that Australia's private rental market is where the most severe issues of unaffordability lie. Also, given that Australia's rental and purchasing markets are unable to exist in isolation from each other this rental stress is in turn having negative implications on climbing house prices, allowing for very little relaxation within the market. Moderate income earners and traditional potential purchasers are being forced to remain in the rental market and rent below their means as a money saving tactic, in addition to low income earners being forced to rent above their means, offering very little chance of ever moving from rentals to home ownership.

National Shelter takes the view that there are multiple factors contributing to this level of affordability all of which will be extensively outlined and established in this submission, however in order to effectively tackle the issue of home ownership, the limitations of the private rental market and the subsequent effect those limitations are having on people's ability to make a purchase need to be given full consideration.

## **THE TAXES AND LEVIES IMPOSED BY STATE AND TERRITORY GOVERNMENTS**

The Australian tax system plays a huge role in the housing market, with a range of tax subsidies built into the system to encourage home ownership and investment in rental housing. Unfortunately, many of these measures exacerbate the inequities in our housing system, providing greater subsidies to those who are better off, providing greatest benefit to home owners at the end of their housing career when they are under the least financial pressure, and encouraging investment in the high end of the housing market while efforts to attract private investment into affordable housing

have had limited success. Analysis by Prof Judith Yates from the Australian Housing and Urban Research Institute shows that the benefits of these tax exemptions provide greater benefits to those who are older, own their homes outright, and own higher value homes.

Professor Julian Disney from the University of NSW suggests that politicians and the media continue to concentrate on the position of home purchasers. There has been much less attention or support for the main two ways in which house prices could be substantially moderated, albeit over the longer term. First, the inflationary and inequitable tax exemptions for owner-occupiers from capital gains tax and land tax should be capped. This could be accompanied by reductions in stamp duty for lower-priced housing. Second, a major national program should be developed to strengthen economic and population growth in substantial regional cities. It is no coincidence that by international standards Australia has an exceptionally high proportion of its population in large cities and exceptionally high house prices relative to income. Appropriate measures include much greater public infrastructure investment in regional areas and tax reform to encourage regional investment by the private sector.

The most important early priorities, however, are to improve the supply of affordable rental housing. This is partly because they provide the best hopes of achieving significant and relatively prompt improvements in housing affordability without risking making matters worse. But it is also because the great majority of people in unaffordable housing are renters, not purchasers.

Up to half a million lower income households already pay rents above 30 per cent of their income and the number will continue to grow rapidly because vacancy rates have reached their lowest levels in twenty years and rent levels are rising much faster than incomes. Moreover, the very large increases in the proportion of jobs which are part-time, precarious or short-term are making renting a necessary option for the growing number of people who lack sufficient job security to undertake the heavy financial commitment and relative immobility that can be involved in home purchase.

The supply of affordable housing for private renters is clearly inadequate, despite big increases in expenditure on rent assistance over the last fifteen years or so. New investment has declined, especially at the lower end of the market, as house prices have risen far more than rents. Many rents would need to rise by more than 50 per cent to provide competitive rates of return. A further problem is that most low-rent housing stock is not occupied by lower income households. This situation is likely to worsen substantially as a result of low vacancy rates and increasing competition between potential tenants. (Julian Disney: Australian Review of Public Affairs: September 2007)

National Shelter does not seek to reduce the tax benefits available to owner-occupiers. However, we believe that equity considerations demand that this situation be balanced up, so that low income renters can get access to a similar level of benefit.

Over the past decade or more, a number of proposals have been developed which would make private sector investment in affordable housing attractive. These include the proposals for introduction of a National Affordable Housing Bond and a tax credit scheme developed by the National Affordable Housing Consortium, and more recently the National Affordable Housing Incentive Scheme (NARIS) developed by the National Affordable Housing Summit. These schemes all propose systems for modest subsidy or tax incentives to attract investment, particularly from institutional investors such as superannuation funds, into affordable rental housing.

### **Taxes and levies imposed by state/territory governments**

The significant taxes levied by State and territory governments include:

1. Payroll taxes which are taxes levied on salaries paid to employees
2. Stamp duties which apply to a large number of transactions including mortgages and the buying and selling of property
3. Land taxes which are levied on land value, council rates are also levied on land value
4. Gambling taxes
5. Fire services levy

State/territory governments generate a significant amount of their revenue from property taxes and other charges which will leave them exposed to falling prices in the residential property market (Refer to Table below).

### **Breakdown of total state taxation 2003/04 Source ABS Taxation Revenue Cat No 5506**

	2003/04 %	2003/04 (\$m)
Payroll taxes	22.5	10820
Taxes on immovable property	23.9	11459
Stamp duties on conveyances	21.8	10470
Other taxes on financial and capital transactions	5	2410
Taxes on gambling	8.4	4040
Taxes on insurance	6.7%	3231

Motor vehicle taxes	10.7	5126
Other taxes	1	485
Total	100.0	48,028

### **Taxes on transfer of residential property**

Stamp duty is imposed on transfers of residential property as a progressive tax (higher value assets attract a higher rate of tax).

Jumps in property prices have meant that houses are now moving into higher tax brackets, this form of revenue raising is increasing.

Many state governments have begun to introduce exemptions for 1<sup>st</sup> homebuyers but have failed to address the bracket creep factor i.e. higher prices for houses more tax for state government. Stamp Duty is seen as an inefficient, inequitable and unstable revenue source.

### **Taxes on property ownership**

Both State and local governments impose taxes on property ownership. They are usually levied annually on the total unimproved value of land owned and are akin to a wealth tax.

In Queensland there are 19 different land tax rates, while the ACT levies four and the NT has no levies.

**Separate municipal rates are levied on land values by councils.** Generally there are concessions and exemptions for pensioners, owner-occupied housing and land used for charitable, religious, recreational and agricultural purposes. Councils generally have fewer exemptions.

The system for valuing land varies between states but most jurisdictions use the value of land from the previous year, while an average of the previous three years is used in Queensland and the ACT.

Property taxes are generally more efficient but they are influenced by development, use and rezoning. **For example a property can be taxed if it is rental accommodation but untaxed if it an owner occupier home.**

All states have a progressive scale of land tax and most have a tax-free fresh-hold. Some current issues/inequities in land tax include:

- Land value may not be a good indicator of a taxpayers capacity to pay, they may have bought cheap land which is now experiencing rapid rises in price, or they are confronted

with increased mortgage costs because of interest rises placing pressure on the household budget

- It taxes lessors of rental properties, an additional fee which is then more often than not passed down to tenants.

Land taxes do:

- Encourage greater compliance by tax payers
- Administrative costs can be high for state governments as they have to assess value of all properties, but valuations do have other uses such as determining local council rate charges

### **Negative Gearing**

Whilst the Inquiry is not seeking specific information on the impact of Federal Government's Negative Gearing Scheme on housing affordability National Shelter does believe that a review of this tax benefit is required so as to ensure there is a consistent approach by all levels of government in ensuring housing becomes more affordable.

In a recent editorial 'Apply the breaks to negative gearing' the Age Newspaper Editorial (20/03/08) made the following observations on negative gearing:

*'Invest in a house or flat, rent it at a loss, use the loss to reduce tax and then rely on less punitive capital gains to make the investment pay. As statistics published in the Age on 19<sup>th</sup> March show in 2005/06 more than 1 million Australian landlords wrote off losses of \$9 billion to claim \$3.5 billion in tax subsidies.*

*Not so effusive is the first home buyer driven out of the market by an expanding legion of cashed up buyers who see a' house as a tax write off' rather than as a residence. As this newspaper reports today Melbourne's rental crisis has worsened to a point where rental vacancies are now below 1% for the first time and Inner city vacancy rates are 0.05%. Cutting tax concessions makes more sense than fuelling the market by for example increasing grants to first home buyers.*

*On 19<sup>th</sup> March some disturbing figures from the National Centre of Economic Modelling – yesterday's Tax Office statistics show 1.1 million low and middle income households are spending about a third of their gross income on rentals or mortgages, an increase of 220,000 households since 2004'.*

The Australian Tax Office treats deductibility of interest by allowing investors to claim a tax deduction for interest only if the purpose of their loan is to buy income producing assets such as property or shares. First home buyers cannot claim interest on their home loan but are able claim it on a loan to buy an investment property.

This prompted Neil Whittaker a financial adviser for the Sunday Mail Newspaper to provide the following advice to 1<sup>st</sup> home buyers in his newspaper column on 23<sup>rd</sup> March: *to buy a house, move into house and stay there at least 6 months as this will ensure eligibility for the first home buyers grant and will also exempt property from capital gains tax for up to 6 years provided they don't claim any other house as their residence in that time. As long as though they return to their own homes before the 6 years is up , all capital gains will be tax free even though they have enjoyed the benefits of tax deductibility of all the outgoings including interest.*

National Shelter is not opposed to the concept of negative gearing but it believes it is now an appropriate time to conduct a review of this tax benefit so as to ensure there is a consistent approach by all levels of government in addressing housing affordability both in the home purchase and residential rental markets.

### ***National Shelter proposes***

- 1. A full review of the impact of the tax system on housing affordability, aimed at developing reforms which will improve access to housing by low income households. This review should examine a range of options including:**
  - **The Federal Government explore the option of tapering negative gearing for higher value properties to provide greater incentive to invest in more affordable housing**
  - **The Federal Government explore the option of increasing the Capital Gains Tax exemption rate for affordable rental housing**
  - **National Shelter welcomes the Federal Government initiative of introducing a tax credit system for investment in affordable rental housing**
- 2. National Shelter welcomes the Federal Governments development of financing and investment strategies at a national level which can attract institutional investment into affordable housing, with options including the creation of a national housing bond, the introduction of tax credits to finance affordable housing, and the introduction of a National Affordable Rental Incentive Scheme.**

## **2. THE RATE OF RELEASE OF NEW LAND BY STATE AND TERRITORY GOVERNMENTS**

National Shelter has kept abreast of the debates on how land shortages, complex approval processes, and developer contributions to community infrastructure are impacting on housing affordability. But land release initiatives will need to be carefully planned for as extricating an

important part of the economy such as housing from the vice of restrained land availability can lead to price collapses and financial distress to the industry and recent home buyers.

Land release initiatives do need to consider the impact the release of land on city fringes without adequate infrastructure will have for future generations of housing consumers. As David Keir from Delfin Lend Lease observed: “Supply-side” solutions – based on increasing the supply of land which can be used for housing, or reducing the cost of bringing new housing on to the market – potentially offer greater chances of improving housing affordability. But they do suffer from the problems that the majority of would-be home buyers don’t want to live in the areas where new land supply could be most readily brought on to the market, on the far fringes of our major cities; and changes to town planning laws which might permit greater urban density tend to be highly unpopular with existing residents of established suburbs.

National Shelter is of the view that the release of new land will partially address some of the issues associated with housing affordability but land release initiatives will need to consider issues relating to infrastructure including access to employment, services and transport if they are to be successful. The ‘Housing Affordability Fund’ may partially address some of these issues.

The Federal Government recently announced the establishment of a new Housing Affordability Fund which will invest up to \$500 million to lowering the cost of building new homes by working with levels of government particularly local government to reform infrastructure and planning requirements.

Under the Housing Affordability Fund local governments will be able to apply through a competitive process to receive grants to cover some of the cost of new housing infrastructure. Proposals will have to outline how councils will cut red tape and reform the planning process. The Federal Government is of the view that by lowering infrastructure charges and holding costs this will contribute to a reduction in new housing costs.

The Federal Government’s Housing Affordability Fund will favour innovative proposals that reduce the upfront financial burden of infrastructure costs on new home buyers by spreading the cost of infrastructure over time. Most Australians dream of owning their own home but today many are faced with the harsh fact that housing is less affordable than at any time in our history.

Despite the consistent economic and employment growth of the past decade, there is still a substantial minority of Australians who miss out on good quality, affordable housing. Almost 1.2 million households are in “housing stress”, defined as having to pay over 30% of their income in



housing costs, and over 400,000 are in “extreme housing stress”, paying over 50% of their income on housing.

Affordable housing is essential to the wellbeing of every community, and needs to be planned for at the outset of any new development or redevelopment. If affordable housing is unavailable in local communities, people are forced to either pay unaffordable rents and live in housing stress, or commute long distances from more affordable areas. Ultimately, this would lead to the polarisation of our cities, undermining the social diversity which makes them attractive places to live and work.

The release of new land will require cooperation and collaboration between State Government and Local Government bureaucracies. The Federal Government has a key role in helping foster cooperative relationships between them.

National Shelter is aware that the majority of state/territory governments have recently embarked on implementing ‘housing affordability strategies and initiatives’. Several of these strategies such as the Queensland Governments Housing Affordability strategy include the release of new land for future residential development. All of these strategies provide more than the release of new land to achieve more equitable housing affordability outcomes for housing consumers. For example in Queensland the newly formed Urban Land Development Authority assigned roles will include:

- Designating land for housing development in regional areas with high housing demand
- Having the power to deliver a range of housing products including mandating a level of affordable housing on sites that fall under the Authority’s jurisdiction
- Increasing the supply of land ready for development in selected areas (initially in Woolloongabba, Bowen Hills, North shore Hamilton, Fitzgibbon and Mackay Showgrounds)
- Identifying and developing underutilised government land for urban proposals
- Monitoring housing supply and demand issues and having the capacity to respond to these issues in select locations that already have well developed local infrastructure
- Overseeing development planning for significant Government owned sites in various regions throughout Queensland.

A key theme in this strategy is to ensure that new land earmarked by the Urban Land Development Authority for future ‘affordable housing projects’ are located close to geographic areas with adequate infrastructure.

Some of the other land release initiatives announced by state governments that National Shelter is aware of include:

- On the 4<sup>th</sup> March 2008 the Victorian Premier John Brumby announced his government's intention to fast track the release of a further 90,000 housing blocks which constitutes about three years' supply. This should reduce prices at a time when interest rate increases are reducing affordability. And if handled well, it will push prices down without bringing about a price collapse.
- The South Australian Government in mid 2007 announced the release of 200 hectares of land in North Adelaide which will contribute to 2600 additional allotments of land for affordable housing development.
- The Western Australian Government in June 2006 announced the appointment of a Land Release Coordinator whose primary role will be to free up land in the supply pipeline for future residential developments. Up to 40,000 housing lots have been identified and given conditional approval as future residential development sites.

A number of these initiatives were planned well in advance of the last Federal Election and given the Federal Government's commitment to affordable housing, both state and territory governments have improved capacity to work cooperatively with the Commonwealth in addressing the housing affordability crisis in the private rental and home purchase markets.

National Shelter is also of the view that land release initiatives for affordable housing need to consider the pent up demand for private rental accommodation, public and social rental housing, as well as the home purchase market. Housing stress is not restricted to a particular form of housing tenure as there is a lack of affordable across all housing tenures.

In addition, it is important to ensure that housing and communities are well designed for ecological as well as economic sustainability, and that housing forms are accessible to people with disabilities and people from a wide range of cultures and household types.

Planning and land development, and land release initiatives are primarily the responsibility of State/Territory and local governments. While it is not suggested that the Commonwealth should take over these areas of responsibility, there are benefits to greater consistency between States and Territories and this could be achieved through the work of the Ministerial Council for Housing, Urban and Regional Development. There also needs to be better coordination between State/Territory planning activities and Commonwealth initiatives in the areas of infrastructure funding and economic development.

Whilst the Federal Government has also announced they will be approaching their own departments to identify surplus land that will be released for residential and community developments, It will

take some time for them to ascertain what land is available and in ensuring how this land can be best used to achieve more affordable housing, more community amenities, and more jobs. Initial land release initiatives are more likely to stem from state/territory governments actions than the federal government.

***National Shelter proposes***

- ***That the Commonwealth and State/Territory Ministers for Planning and Local Government develop a set of uniform standards for planning and future land development which includes the release of new land***
- ***That these standards include processes and levers to generate affordable housing through the planning system, with a target of 15% of all new housing to be affordable, and one third of this to be social housing***
- ***That universal design guidelines (that is, guidelines which ensure all housing is designed to be physically accessible to all people) be incorporated into planning and building regulations***
- ***That planning for the development of economic “hot spots” such as mining communities, rapidly developing urban areas, and key tourist destinations, include measures to ensure that there is adequate affordable housing in these communities.***
- ***That future land release initiatives ensure that affordable housing is well located with access to employment, services and transport networks***
- ***That affordable housing developed on these sites is sustainable both for individuals and the environment.***

***National Shelter welcomes***

- ***The establishment of the Federal Governments ‘Housing Affordability Fund’ to act as an incentive to local government to reform infrastructure and planning requirements associated with new housing developments***

**3. PROPOSED ASSISTANCE FOR FIRST HOME OWNERS BY STATE, TERRITORY AND THE COMMONWEALTH GOVERNMENTS AND THEIR EFFECTIVENESS IN THE ABSENCE OF INCREASED SUPPLY**

Government assistance programs continue to play an important role in providing people with the initial means of entering the housing market. With inflated house prices and continually rising interest rates it is clear that entering and remaining in the housing market is becoming increasingly

unachievable. In many cases without government assistance the prospect of owning a property would be nearly impossible.

While National Shelter recognises the benefits offered by the Australian Governments' assistance programs, we are also able to identify many shortcomings within these schemes (primarily the First Home Owners Grant) which generate questions as to whether or not the costs of the schemes effectively outweigh the social benefits.

### **THE FIRST HOME OWNERS GRANT**

The First Home Owners Grant is Australia's primary method of providing direct assistance to new entrants into the housing market and is considered to be a valuable and necessary resource by many younger households. However, it is National Shelter's view that the effectiveness of this grant in assisting low to middle income earners to penetrate the housing market has been limited for the following reasons:

#### **1. Without being means tested the FHOG is supplying financial assistance to those who already have the private capacity to enter the market**

As it currently stands, all first home purchasers are currently eligible for the grant, regardless of their income, the price of the property and whether or not they already own property overseas.

While figures on the income of FHOG recipients are not available, National Shelter is concerned with the amount of money to have been received by people who are not necessarily under housing stress or finding it difficult to establish the financial means to enter the housing market. The untargeted nature of this scheme allocates financial resources to high income earners, restricting its effectiveness in assisting those in the low to moderate income brackets.

#### **2. The FHOG has an overall inflationary effect on the housing market which would ultimately make it self-defeating**

It is consistently argued that the FHOG has been a contributing factor to the increases in house prices that have occurred across Australia since the introduction of the scheme in 2000.

In a recent article by Macquarie Bank, Macquarie: Helping people into the housing market (28.11.07) it was argued "that most housing schemes have a tendency to boost demand for housing rather than supply. This then puts upward pressure on prices".

The subsequent inflation of housing prices implies that the FHOG, under its current policy parameters increases access to home purchasing for some recipients at the expense of reducing

affordability for all prospective home buyers. As with any scheme which further generates housing demand, unless supply is also generated inflationary effects are inevitable.

### **3. The FHOG does not help to relieve the long term pressures of housing costs**

The FHOG is a one-off payment that, regardless of any success it may have had in reducing the gap between savings and deposits, does nothing to alleviate housing stress associated with paying off larger and larger mortgages.

In a recent article, 'Dark side to home boom' the Sydney Morning Herald (25.09.2007) Australia's growing mortgage stress was demonstrated:

*'The dark side of Sydney's housing boom has been revealed by figures showing almost one in every 200 homes in Fairfield and Liverpool were subjected to a court-ordered eviction last year.*

*The data from the NSW Sheriff's Office was contained in a review of household finances released yesterday by the Reserve Bank.*

*While the rest of the country enjoyed rude financial health, Sydney's western suburbs were singled out as the nation's biggest "pocket of stress".*

*It said a combination of hefty mortgages, falling house prices and above-average unemployment had proved a disastrous mix. A disproportionately large number of borrowers in the area had taken out investment housing loans around the peak of the house price cycle.*

*Lured by the prospect of rapidly rising house prices, almost one in two mortgage holders in the Fairfield-Liverpool area entered into mortgages which took more than 30 per cent of their income to service.'*

The FHOG provides people the means to obtain a house deposit, but offers no preparation or assistance in servicing long term mortgage repayments, or being able to manage rising interest rates and general economic turbulence.

### **FIRST HOME SAVER ACCOUNT**

National Shelter welcomes the introduction of the First Home Saver Account as an assisted means to enable potential purchasers to accumulate a house deposit. The superannuation style account which is beneficial through the combination of lower taxes on account earnings as well as government contributions is a vital step in order to facilitate the entrance into the housing market. However, National Shelter believes that there are risks associated with this scheme and cautionary measures need to be taken.

One of the major risks associated with the First Home Saver Account, is the possibility of the scheme initiating further price inflations due to the increase of housing demand. This increase in demand is associated with any incentive, and therefore needs to be counteracted with an increase in supply to prevent price inflation. Unless housing demand is increased in conjunction with housing supply, The First Home Savers Account could potentially further exacerbate Australia's housing affordability crisis.

In addition to this, National Shelter also believes there are several changes that need to be made to the scheme in order to create an equitable balance between high income earners and low income earners. Under the current parameters of the First Home Saver Account those that are operating on a low income will receive a lesser government contribution than higher income earners making an equal contribution to the account. The Government contribution will vary from 15 to 30 per cent of contributions depending on the account holder's marginal income tax rate.

**National Shelter Proposes:**

- 1. That the First Home Owners Grant be targeted at low to moderate income households who need assistance to enter the home ownership market, and be restricted to the purchase of homes at or below the median price for the Local Government Area in which the purchase is taking place. The Commonwealth government should also examine the option of providing this benefit as an interest-free loan rather than a grant.**
- 2. That Commonwealth and State/Territory government's work together to introduce shared home ownership schemes which give households the benefits of capital growth in the value of their housing.**
- 3. National Shelter recommends that the level of Government contribution be increased to 30% of post-tax contribution, or \$1500, for those on marginal tax rates of less than 45%. This will ensure equity between low income earners and high income earners, and effectively target the assistance to where it is needed most.**

**THE ROLE OF ALL LEVELS OF GOVERNMENT IN FACILITATING AFFORDABLE HOME OWNERSHIP**

Australian Governments at all levels – federal, state and local – are imperative in the process of ensuring the facilitation of affordable housing, in both the purchasing and private rental markets. Governments intervene in and dominate the housing market in a number of ways including:

- Through the tax system, with owner occupied housing exempt from capital gains tax and negative gearing provisions applying differently to rental housing than to other investments

- Through the social security system, with over 940,000 households receiving rent assistance
- Through the direct construction and management of social housing, accounting for 5% of the total Australian housing market
- Through a range of regulatory processes, including urban planning, building regulations, and tenancy law, which affect the housing market in various ways.

The Commonwealth government alone spends approximately \$4 billion per year on direct housing assistance to households (including Commonwealth Rent Assistance, First Home Owners Grant and capital grants under the Commonwealth State/Territory Housing Agreement) and forgoes over \$20 billion through tax concessions to owner occupiers and investors in rental housing.

However, while many Australian governments have taken measures to improve the state of housing affordability at this time, increased attention needs to be paid to the impact that is being had on society, with clear provisions being set out to increase affordable levels.

### ***Government Responsibilities***

Responsibility for housing policy is currently divided amongst a number of different Ministries and departments. At the national level, these include Treasury, the Department of Families, Housing, Community Services and Indigenous Affairs, Centrelink, and the Department of Infrastructure, Transport, Regional Development and Local Government. This position is mirrored at State/Territory government level, and local governments also play significant roles in the housing system. The result of this distribution of responsibilities is that there is no overall policy position on housing issues, and different departments often pull in different directions. The distribution of responsibilities amongst levels of government looks something like this.

	<b>Commonwealth</b>	<b>State/Territory</b>	<b>Local</b>
Tax and Finance	Major taxation responsibility including income tax and GST.	Responsible for some taxes including land tax and stamp duty	Property rates
Housing assistance	Direct delivery of Commonwealth Rent Assistance and First Home Owners Grant Funding of Social	Responsible for funding and direct delivery of social housing, and home lending schemes aimed at low to moderate	Some local governments are direct social housing providers.

	Housing	income households.	
Planning and land development	Minimal Role	Responsible for planning legislation, policies and regional planning processes	Responsible for local planning schemes and development control
Regulation	Regulate the financial system via the Reserve Bank, and responsible for companies legislation	Responsible for a range of housing-related legislation including tenancy law, regulation of the Real Estate industry and regulation of associations	Responsible for some forms of regulation such as licensing boarding houses and caravan parks.
Human Service Delivery	Jointly fund a range of programs in homelessness, disability, health and aged care	Fund and administer the majority of human services programs, as well as directly providing many services	Some local governments are direct providers in areas such as aged care, disability and youth support

Many of these responsibilities are determined by the Australian Constitution and it is not suggested that there be a major redistribution. However, lack of coordination hampers the ability of governments to respond adequately to the level of housing stress in our society.

### **Housing Plan for South Australia**

An example of an Australian government taking proactive measures to improve the government coordination on a local and state level, and also to forcibly generate more affordable housing is in South Australia, when in 2005 the Affordable Housing Innovations Unit was established and guidelines and initiatives were introduced to guarantee the consistent development of affordable housing.

In a report, 'Housing Plan for South Australia' (2005) the initiatives were described: 'The Plan is focused on enabling the provision of more affordable housing in South Australia, and reducing the number of South Australians experiencing housing stress, as expressed in targets of South Australia's



Strategic Plan. It is a plan to make affordable housing available to more people, provide quality housing for those in need in our community and renew and reinvigorate neighbourhoods.'

'The Affordable Housing Innovations Unit (AHIU) has been established to facilitate the delivery of innovative, affordable housing solutions for South Australians on low to moderate incomes as outlined in the Housing Plan for South Australia. The AHIU is undertaking a number of initiatives to achieve the specific target under the Housing Plan to achieve 15% of housing in all new significant developments to be affordable housing, including 5% high need housing'

National Shelter supports the measures taken by the South Australian Government to increase the facilitation of affordable housing and believes these guidelines should be adopted by all Australian governments on both state and federal levels.

## **RECOMMENDATIONS**

The following recommendations are aimed at improving coordination and ensuring that all levels of government work together to reduce homelessness and housing stress.

### ***National Shelter recommends:***

**The introduction of a National Housing Strategy addressing the overall direction of housing policy in Australia, and aiming at concrete reductions in the level of homelessness and housing stress over a five year period. These reductions should be modelled of the South Australian standards of ensuring 15% of all developments are affordable housing, with 5% of that being dedicated to social housing.**

- **A new Ministerial Council for Housing, Urban and Regional Development under the COAG (Council of Australian Governments) system, incorporating the current Ministerial Councils for Housing, Local Government and Planning and including local government representation**
- **The rest of this document outlines a set of policy directions which should be included in the National Housing Strategy, and addressed jointly by the Commonwealth, State/Territory and local governments through the Ministerial Council.**

## **THE EFFECT ON THE MARKET OF GOVERNMENT INTERVENTION IN THE HOUSING SECTOR INCLUDING PLANNING AND INDUSTRIAL RELATIONS LAWS**

As an unfunded peak reliant on the generosity of the funded State/Territory Shelters National Shelter is not able to address this particular section of Senate submission to the extent that it would like to.

National Shelter recognises there are strong links between government interventions in the housing sector including planning and industrial relation laws and the crisis in housing affordability whether this is in the home purchase, private/social housing rental markets.

All tiers of government throughout most regions in Australia via mechanisms such as land use planning, the staging of special events including the Americas Cup in Freemantle, Expo 88 in Brisbane, and the Sydney Olympics in Sydney have contributed to the crisis in housing affordability both at the micro and macro levels.

Often the various tiers of government with roles in planned interventions have failed to recognise the social, environmental or economic impacts that these interventions are putting in motion. For example during Expo 88 3000 private rental households in the suburbs of West End and Highgate Hill were displaced from their accommodation during the staging of this event because the State Government had not planned for additional units of accommodation to cater for tourists/workers attending this event. (Southside Urban Research Group; the 'Trouble with Neighbours, the impacts of Expo 88 on the suburbs of South Brisbane, West End, Highgate Hill; September 1988).

But National Shelter also acknowledges examples of better planned interventions by the various tiers of government such as the 'Building Better Cities initiative developed by Hawke Government in collaboration with State and Local Governments in the late 1980's and early 1990's.

National Shelter whilst recognising there are no quick fixes to the current housing affordability crisis is quietly confident that future government interventions will be more considered in their approaches to the issues pertaining to housing affordability. There also appears to be more profound understandings by all tiers of government that they may have contributed to aspects of the current housing affordability crisis and a growing recognition that they all have roles to play in assisting to alleviate the crisis.

Employment trends and industrial relations policy over the past decade have certainly played a contributing role in the housing crisis. It is very common to hear from our colleagues employed in the NGO sector that they are struggling to pay the rent or to find accommodation that they can afford and there is also perceived threat by some colleagues of becoming homelessness.

## **THE ROLE OF FINANCIAL INSTITUTIONS IN HOME LENDING**

Financial institutions and their policies and attitudes towards home lending are playing an intricate role in perpetuating Australia's affordable housing crisis. At increasing rates, home owners with mortgage debt are struggling to keep up with interest rate rises and economic challenges and are therefore experiencing forced housing repossession and bankruptcy. While this occurrence can't be

made the sole responsibility of financial institutions, recently relaxed lending regulations (Housing Affordability: A 21<sup>st</sup> Century Problem, AHURI, 2008) have encouraged an extremely casual approach towards measuring the appropriateness and affordability of a loan prior to that loan being granted. It is in this scope that financial institutions have a responsibility to efficiently assess loan and credit card applications in order to reduce growing debt levels and therefore ease the stress on housing affordability.

The exacerbation of the housing crisis by financial institutions was demonstrated in a Four Corners report, 'Debtland' (31.03.08) where Brian Johnson, A Banking Analyst for JP Morgan stated that:

*'The banks are just handing out money on credit cards like there is no tomorrow...They take someone's disposable income and then they work out what these people need to live on, but they use a poverty index to actually do that.'*

*'Now when I have a look at that dollar figure, I can't reconcile how anyone – a family of four for example – could live in any urban centre on that amount and actually live. It should be called extreme poverty. But I think it's somewhat naive to think that people in extreme poverty will be still happily paying off their home loan – its nonsense.'*

In that same report (Debtland, 31 March 2008) Professor Terry Burke from Swinburne University stated that:

*'Almost 50% of households were relying on either overtime or a second job of the main income earner to sustain the mortgage... We're thinking probably in the order of 250 000 to 300 000 households are potentially at risk of falling over because of either interest going even higher than they are at the moment or because of a slowdown in the economy and loss of a second job or loss of overtime.'*

In addition to households being forced into housing stress, the relaxation of lending regulations has enabled more people to access the funds to purchase a house, which once again increases the demand without adjusting the supply. The increase of demand within the housing market has an inflationary effect on prices and a negative impact on the overall issue of affordability.

The impact of the lending power that financial institutions have is being heavily felt by low to moderate income earners and marginalised social groups that have a limited understanding of Australia's economic system. (Debtland, 31.03.2008) Prime Minister Kevin Rudd has said that this level of housing stress "is creating a whole new class of homeless people, and is a situation many working families could find themselves in because of the spiraling cost of housing," (Housing Stress Creating Homelessness: PM, Sydney Morning Herald, 18.03.2008)

## Recommendations

In order to combat increased housing stress felt by low to middle income earners in addition to rising debt levels National Shelter recommends the following actions be taken:

- 1. The implementation of stricter regulations regarding financial lending in order to protect the long term interests of low to middle income earners and those with a limited understanding of Australia's economic industry.**
- 2. National collaboration to establish Shared Equity Schemes in all States and Territories (such as those already operating in Western Australia and South Australia) in which the State Governments can act as lenders for low to middle income earners.**

## THE CONTRIBUTION OF HOME OWNERSHIP TO RETIREMENT INCOMES

National Shelter will need to undertake more work in relation to Seniors Housing. On the surface there is data to suggest that older Australians have never had it so good with high rates of homeownership, rising house prices which are contributing to seniors total asset value, and lower levels of debt.

*Older Australians are particularly characterised by very high rates of home ownership. From research conducted recently, 91% of couple only households aged 65 or over were homeowners compared with 52% of couple only households with people under 35. Among those living in private dwellings, overall 81% of households were home owners, while 6% of households were public renters, 7% were private renters, and 4% were living rent free. (The Australian Federal Senate Standing Committee on Community Affairs Inquiry into cost of living pressures on older Australians March 2008; P10).*

NATSEM and AMP research also reported that debt levels decrease with age and that retired household's generally have fewer debts than households where there is continuing employment. Retired households debt levels are almost a quarter of those of employed households. (AMP/National Centre for Social and Economic Modelling; 'the Lump Sum: Here Today, Gone Tomorrow'; March 2004, AMP.NATSEM Income and Wealth Report Issue 7)

The Department of Families, Community Services and Indigenous Affairs in their Social Policy Paper 29 held the view that '*older people were less likely than other demographics to experience financial stress. The level of financial stress declines with age to about 5% in those after 70. Very few seniors (less than 2%) consider themselves to be poor*'. (Department of Families, Community Services and

Indigenous Affairs; Social Policy Research Paper 29; Income Poverty, Subjective Policy and Financial Stress; 2007; p22-33)

Whereas the Older People Speak Out and Seniors Branch aligned with Queensland Shelter states *'Accommodating an ageing society appropriately is one of the major issues facing Australian society especially in Queensland which remains a growth area for older people. Over three quarters of the population of over 60s own or are paying off their own home. Long-term residence in their own home provides a sense of security and continuity and a base for daily activities and social interaction. It also provides an asset base for their entry into appropriate aged care facilities if they are required'*.

*It is widely assumed that the majority of seniors; do own their home and can afford it. In many cases this is becoming a myth. While most do enjoy successful home ownership, there are a growing number who are housed inappropriately for their needs as they age and are unable to access alternative accommodation more appropriate to their needs. At most risk is both single older men and women. Pension rates for singles put them at a disadvantage to couples in providing accommodation for themselves'.*

*'Elderly people are beginning to be significantly affected by the same influences currently facing the general community with rising housing interest rates, less spending capacity for housing maintenance, rising rental costs in the private market and long waiting lists for social/public housing'.*

The Australian Federal Senate Standing Committee on Community Affairs Inquiry into cost of living pressures on older Australians in their Executive Summary wrote:

*'The evidence before the committee clearly demonstrates the complexity of assessing the financial situation of older people. Irrespective of their incomes, generally many older people are in a more advantageous financial position than much of the rest of the population with respect to assets and debt. Therefore, measures of the capacity of older people to afford the cost of living must take into consideration factors such as rates of home ownership and the consequently lower housing costs associated with these rates. **But this also highlights the importance of ensuring there is adequate assistance for the large minority who, for whatever reasons, find themselves in a disadvantaged financial position with respect to their peers. For example, the Government needs to ensure adequate policies exist to assist the 30 per cent of aged pensioners who rely on the private, public or community housing rental market'**.*

A recent report by AMP/NATSEM observed *'older generations are also taking more debt into retirement with twice as many people aged over 60 paying of a mortgage than 10 years ago (9.5% in*

*2005/06 compared to 4.2% in 1995/96. This age group also experienced the biggest jump in housing stress, up about 80% from 5.3% in 1995/96 to 9.5% in 2005/06. (AMP/NATSEM 'Wherever I lay my debt, that's my home'; March 2008; AMP/NATSEM Income and Wealth Report Issue 19; p3)*

National Shelter is of the view that under the previous federal administration there was increased polarisation between the 'haves' and 'have nots' which impacted on every segment of Australian Society including the elderly. The new Federal Government will need to tread cautiously in their responses to 'seniors and housing'. It cannot assume that there are strong links between home ownership and retirement incomes and that any historic links may be becoming increasingly tenuous.

### **National Shelter proposes**

**An Older Persons' Housing Strategy needs to be developed as a priority by both State and Federal government departments of housing and/or communities/families.**

### **CONCLUSION**

With evidence presented through this submission, National Shelter believes that there are many overlapping factors which are preventing access to the market of home ownership. However, the parameters of this submission are narrowly set, and while important, do not effectively address the core issues which are perpetuating Australia's housing crisis.

It is National Shelter's view that the housing market needs to be considered collectively to establish solutions to facilitate affordable housing and enable relief for home owners and prospective purchasers. The role of the private rental market in the overall state of Australia's housing crisis is an imperative consideration, and the interaction between the markets is a necessary and seemingly absent element of this enquiry.

## BIBLIOGRAPHY

1. Australian Associated Press, 2007, '*Housing affordability hits new record low*', retrieved from: [www.news.com/aap](http://www.news.com/aap)
2. AMP, '*The Inaugural Quarterly AMP Rental Report*', 2007.
3. AMP/NATSEM, 2008 '*Wherever I lay my debt, that's my home*' AMP/NATSEM Income and Wealth Report Issue 19
4. Australian Bureau of Statistics. 2008, '*Breakdown of total state taxation 2003/2004*' [www.abs.gov.au](http://www.abs.gov.au)
5. The Age Newspaper, 2008, '*Apply the Breaks to Negative Gearing*' retrieved from: [www.theage.com.au](http://www.theage.com.au)
6. Corbett, K. 2007 '*Call for cheap rental housing scheme*', retrieved from: [www.news.com/aap](http://www.news.com/aap)
7. Disney, J. 2007, '*Election 2007: Affordable Rental Housing*' retrieved from: [www.australianreview.net](http://www.australianreview.net)
8. Four Corners, '*Debtland*' (video recording) 2008, ABC, [www.abc.net.au/4corners](http://www.abc.net.au/4corners)
9. Irvine, J. 2007, '*Dark side to home boom*' The Sydney Morning Herald, retrieved from: [www.smh.com.au](http://www.smh.com.au)
10. Jensen, T. 2007, '*Affordability Plunges*' The Courier Mail, retrieved from: [www.thecouriermail.com.au](http://www.thecouriermail.com.au)
11. Macquarie Bank. 2007, '*Helping people into the housing market*' retrieved from: [www.macquarie.com.au](http://www.macquarie.com.au)
12. Michael Potter, 2005 '*state taxes in serious need of reform*' , Pge 21- 27.
13. National Shelter, 2007, '*National Shelter Policy Platform*', retrieved from: [www.shelter.org.au](http://www.shelter.org.au)
14. National Affordability Housing Summit, 2007, '*Round Tables on Developing a National Affordable Housing Agreement: Background Papers and other Material*'
15. South Australian Government, 2005. '*Housing Plan for South Australia*', retrieved from: [www.localgovt.sa.gov.au](http://www.localgovt.sa.gov.au)
16. Whittaker, N. 2008, '*Turn Negative into a Positive*' The Courier Mail retrieved from: [www.thecouriermail.com.au](http://www.thecouriermail.com.au)
17. Yates, J. 2008, '*AHURI Reference: NRV3 RP11*', retrieved from: [www.ahuri.edu.au](http://www.ahuri.edu.au)