



Brotherhood
of St Laurence

Working for an Australia free of poverty

*Submission to the
Productivity Commission
Inquiry into First Home
Ownership*

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Brotherhood of St Laurence
67 Brunswick St
Fitzroy Vic. 3065
ABN 24 603 467 024
Telephone (03) 9483 1183

Internet: www.bsl.org.au

Introduction

This submission is the Brotherhood of St Laurence's response to the Productivity Commission Inquiry into First Home Ownership. The Commission was requested to:

- identify and analyse all components of the cost and price of housing, including new and existing housing for those endeavouring to become first home owners
- identify mechanisms to improve the efficiency of the supply of housing and associated infrastructure and
- identify any impediments to first home ownership and assess the feasibility and implications of reducing or removing such impediments.

This submission stems from our concerns about the lack of affordable housing across many areas of Australia and details the substantial social and economic costs of this shortage. We propose the establishment of a new Housing Investment Incentive Program to stimulate private investment in affordable rental housing, as a key plank of a national housing policy.

The Brotherhood of St Laurence

The Brotherhood of St Laurence (BSL) is a Melbourne-based community organisation that has been working to reduce poverty in Australia since the 1930s. Our vision is for 'an Australia free of poverty'. Our work includes direct service provision to people in need, the development of social enterprises to address inequality, research to better understand the causes and effects of poverty in Australia and the development of policy solutions at both national and local levels. We aim to work with others to create:

- an inclusive society in which everyone is treated with dignity and respect
- a compassionate and just society which challenges inequity
- connected communities in which we share responsibility for each other
- a sustainable society for our generation and future generations.

The BSL has a significant focus on housing in both service delivery and research and policy development. Our housing-related programs include residential aged and community care services, Jobs, Placement, Education and Training (JPET) offering employment support for young people in insecure housing and the Public Housing Advocacy Program (Southern Region, Victoria).

The scope of the housing problem

The lack of affordable housing

We are deeply concerned about the diminishing supply of affordable housing. We see many people living on low incomes who struggle to find accommodation that they can afford. Much research over the last five years has documented the extent of the problem.

The definition of affordable housing used in most of this research derives from the National Housing Strategy which holds that households in the bottom two quintiles of the income distribution have affordable housing if they spend less than 30 per cent of income on housing costs. Those spending more than this proportion can be considered to be living in 'housing stress' (Berry & Hall 2001). In 1999, 742,000 households were in housing stress, of whom 400,000 were private tenants (ABS 2000).

In a report outlining the need for action on affordable housing, Berry and Hall (2001) estimated that in June 2000, no low-income household could afford:

- to buy a three-bedroom house anywhere in Melbourne, Sydney or Adelaide
- to buy a one-bedroom unit anywhere in Sydney. Only 15 per cent of Melbourne households could afford to buy in the outer area (but not inner areas). (p.11)

They also estimated that:

- No low-income household could afford to rent a three-bedroom house anywhere in Adelaide and only nine per cent of households in Melbourne and three per cent in Sydney could afford to rent such a dwelling in the outer areas (but not inner areas)
- Less than five per cent of low-income tenants were able to afford to rent a one-bedroom unit in inner Melbourne or inner Sydney. However, more than 50 per cent of these households could afford to rent such a dwelling in the outer areas of these cities. (p.11)

As a result, they estimated that in 2001:

- Nearly three out of four private rental households (with incomes in the lowest two income quintiles) were experiencing housing stress
- In five of the six capital cities, the number of households experiencing housing stress was growing more rapidly than the total of rental households in the same income categories. (p.12)

Berry and Hall estimated that the number of households experiencing housing stress would double in fifteen years and reach nearly one million within 20 years, if the rate of increase from 1991 to 2001 continued. This analysis was considered to understate the problem because it ignored the increase in housing stress in regional Australia (Berry & Hall 2001, p.31).

Declining rates of home ownership

Another indication of the housing affordability problem is the decline in home purchase rates (Yates 2003). In a comparison of the 25–34 year age cohort between 1981 and 1996, Wulff (2002) reported a decline in home ownership rates (outright owner and purchaser) from 59.6 per cent to 50.7 per cent and an increase in private rental from 26.7 per cent to 35.4 per cent. Wulff also found a significant change in the labour force status of this cohort over this time: fewer were employed full time, more employed part-time and there was a decline in the proportion employed overall.

Reduced stock of affordable rental housing

The increased demand for rental housing was verified in a study of the changing structure of the rental market in Australia between 1986–96 (Wulff, Yates and Burke 2001). Importantly, this study showed that although the stock of dwellings in the private rental market grew at the same rate as the overall number of households during the period, the stock of low rent dwellings fell by 28 per cent. At the same time there were more low income households in the private rental market: a doubling of younger low-income renters (under 45 years) and a 30 per cent increase in the number of older low-income renters.

More households are now spending longer periods in the private rental market, but the market has failed to respond to this increased demand with an increased supply of affordable housing. In addition, the supply of public housing has not kept pace with demand and existing stock now has to be targeted to the most disadvantaged households—those in receipt of income support and with barriers to participation in the labour market.

The dispersion of market incomes

The increase in income inequality over the last decade is exacerbating the problems of housing affordability. Members of low-income households (in the lowest two quintiles of income distribution) have not enjoyed the rate of increase in incomes and the concentration of wealth

experienced by higher income households during this recent period of economic growth (Kelly 2002, Harding & Greenwell 2002). Many are jobless, many of those in part-time and casual employment want more work and want more secure work, and many live in single income households.

The same households in the lowest two quintiles of income distribution are more likely (than all households) to live in rental accommodation and less likely to be purchasing their own home (ABS 2001).

The combination of higher house prices and insecure or low paid work means that many younger people face a significant hurdle in moving to home ownership. Moreover, since they are also paying relatively high rents and sometimes paying off other debts, their ability to save for a deposit is restricted. A study of renters in 1990s found that inability to enter home ownership was strongly influenced by employment status (Merlo et al. 2003). Over a period of three years, few of the aspiring households surveyed achieved their goal of home ownership.

Market failure in housing

The BSL and the Committee for the Economic Development of Australia (CEDA) together commissioned the Allen Consulting Group to conduct a cost benefit analysis of three options to increase private sector investment in affordable housing. A copy of their report is provided with this submission.

The report clearly identifies a market failure in housing. The failure stems from several sources, including the length of time required for supply to adjust to demand and barriers to institutional investment.

Current policy responses have either been unable to counter the effects of market failure; for example, public housing stock has not kept pace with demand. Some policies, such as negative gearing, appear to exacerbate over-investment and price rises at the top end of the market, while doing little to promote greater supply at the bottom (Wood 2001a, 2001b; Wood et al. 2002).

The relationship between home ownership and rental

While the Productivity Commission Inquiry is concerned primarily with first home ownership, we believe that this question cannot be adequately considered without also exploring rental arrangements.

As we have described above, declining rates of home purchase put increased demand onto the private rental market, increasing rents. Many private renters, especially those with lower incomes, are faced with high rents which reduce their capacity to save for home purchase.

For an increasing number of people, renting is the preferred housing option—or in some cases, the only one available. Some people prefer renting to allow greater mobility in taking up employment opportunities. Others are unwilling to enter into the financial commitment of a mortgage as they already have other debts such as HECS. Many people simply cannot afford or risk a mortgage because of uncertain, fluctuating or low incomes.

Why should the government intervene?

Housing has private and public benefits. Obvious private benefits include shelter and, for some, capital appreciation and income from home ownership. There are also significant public benefits arising from the provision of adequate, secure and affordable housing, including the contribution to economic growth, good health and the development of social capital. Importantly, well located and affordable housing can enable people more easily to take up employment opportunities, therefore increasing participation rates.

Distance and lack of transport services have been identified in research by the BSL as barriers to employment opportunities for workers living on the fringes of capital and regional cities (Taylor & Jope 2001). Many of those interviewed for this research stated that housing affordability was the main factor in choosing to live in the outer suburbs, but one consequence was that their access to employment was constrained. This finding was reinforced by more recent research into the experience of housing stress (Brotherhood of St Laurence 2003).

Well-located, secure and affordable housing can improve access to part-time and casual employment, in the growth industries of leisure and entertainment as well as retail sales and hospitality, located in areas with high incomes and high land values. Such housing can improve the rates of economic and social participation in households that are now jobless, in particular those headed by sole parents.

While home ownership is desirable for many reasons, it also represents a relatively immobile and illiquid investment which means less ability to move in response to employment opportunities. More secure and affordable rental tenure may be a better option to support a more mobile workforce and provide easier access to changing employment opportunities.

The current demand subsidy for rental housing assistance (Commonwealth Rent Assistance) is portable and if it was of sufficient value could assist households to move to areas with stronger labour markets (Bradbury & Chalmers 2003; Hulse & Randolph 2003). However, rent assistance appears to have done little to expand the supply of affordable private rental housing, and we believe more direct supply side intervention is necessary.

Improving the supply of affordable rental housing would also provide a transitional pathway for those living in public housing. The combination of withdrawal rates from benefits, income tax rates, taper rates from public housing subsidies, high private rents and transport costs means that jobless households living in public housing are sometimes no better off if they gain paid employment. A greater supply of affordable rental accommodation could form an important part of a package of measures to enable jobless families to take up employment opportunities and, over time, move from renting to home ownership.

What should be done?

All levels of government have a responsibility to respond to the limited availability of affordable housing, but the Commonwealth Government is uniquely placed to take a leadership role. This would include the establishment of a federal department of housing and the development of a national housing policy through the Council of Australian Governments.

The Allen Consulting Group investigated three policy options, targeted to households with annual incomes between \$20,000 and \$40,000:

- the Bonds Model – government investment in affordable housing financed by government bonds, supplemented by a recurrent government subsidy
- the Partnerships Model – private sector investment in affordable housing financed by private equity and/or debt investment, supplemented by a flexible government capital grant or recurrent subsidy
- the Tax Credits Model – private sector investment in affordable housing financed by private equity and/or debt investment, supplemented by a fixed recurrent subsidy delivered through a tax credit.

The Allen Consulting report shows that it is feasible to introduce a modest new spending program which would increase the supply of affordable housing. The three options highlighted in the report all have differing strengths and weakness but each is cost-effective, practical and better targeted than current supply side policies such as negative gearing. For a modest investment starting at \$100

million per year and gradually increasing to \$1 billion per year, Allen estimate that the Bonds model could increase the supply of affordable housing units by around 150,000 over a decade.

Recommendations

Since the Commonwealth Government has a critical role in responding to the limited availability of affordable housing, the BSL proposes that:

- the Commonwealth Government establish a Department of Housing
- the Commonwealth, in conjunction with state and local governments, the housing and finance industries and the community housing sector, develop a national housing policy
- the overarching goal of this policy be to increase the supply of affordable housing through better coordination of existing measures and modest new spending
- as part of a national policy, the Commonwealth government establish a ‘housing investment incentive program’ to stimulate private investment in affordable rental accommodation, starting with expenditure of \$100 million per annum and increasing by \$100 million each year to a peak of \$1 billion per annum
- the housing investment incentive program be based on one or more of the three options explored in the Allen report, possibly after trialling all three options to assess their relative efficacy.

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