Australian Government

Department of Social Services

Dr Kathleen Dermody
Committee Secretary
Senate Standing Committees on Economics
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Dr Dermody

Thank you for providing the Department of Social Services (the Department) with an extension to the lodgement date for submissions to the Senate Economics References Committee's Inquiry into Affordable Housing in Australia.

A copy of the Department's joint submission with the Department of the Prime Minister and Cabinet is attached.

The Department understands that the availability of affordable housing is a significant issue for many Australians and welcomes the opportunity to contribute to the discussion of this very important issue.

I note that, to date, the Committee has received more than 90 submissions from a range of stakeholders including individuals, affordable housing providers, academics, local councils and peak representative bodies.

I look forward to the recommendations and findings of the Committee.

Yours sincerely

Felicity Hand
Deputy Secretary

04 April 2014

PO Box 7576 Canberra Business Centre ACT 2610
Email • Facsimile • Telephone 1300 653 227
National Relay Service: TTY – 133 677, Speak and listen – 1300 555 727, internet relay – www.relayservice.com.au
www.dss.gov.au

Submission to the Senate Economics References Committee Inquiry into Affordable Housing

Department of Social Services

March 2014

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Executive Summary

This submission seeks to highlight that:

- While dwelling prices have increased significantly, in both real and nominal terms, since the mid-1980s, the housing market continues to meet the needs of the majority of Australians. However, those Australians who want to purchase a home for the first time, up-grade to a more suitable home, are on low or moderate incomes in the private rental market, or are homeless, face real issues around housing affordability.
- The housing market is complex, with many stakeholders, and as such it is problematic to talk about 'housing affordability' or 'affordable housing' in aggregate terms. Affordability instead should be examined on the basis of 'repayment', 'purchase' and 'rental' affordability.
- Housing affordability is important to both governments and the wider community as it impacts upon productivity, participation and competitiveness, and on broader investment and consumption patterns within the economy.
- While the Commonwealth Government is largely responsible for the policy levers controlling housing demand, state, territory and local governments are almost exclusively responsible for housing supply.
- Public housing has traditionally provided a safety net for those unable to find affordable accommodation in the private sector. However, state and territory housing authorities are currently unable to meet demand for affordable housing for all but the most disadvantaged tenants.
- The supply constraints and ensuing affordability issues also have a profound impact on those who are homeless and at risk of homelessness. The largest growth in the ABS homelessness statistics in the 2011 Census was for those people living in severely crowded dwellings; and severe overcrowding is the painful edge of Australia's supply constrained housing market.

This submission does not seek to make any specific recommendations but notes that:

- Without reforms to existing policy settings, the current issues with housing affordability will not recede, and indeed are more likely to intensify given the current low interest rate environment. This will lead to an increase in the number of Australians excluded from owning their own home, which is likely to put further pressure on the private rental market, and in turn, community and public housing and Commonwealth budget outlays through Commonwealth Rent Assistance.
- Arguably, the only way to sustainably resolve the current issues with housing affordability will involve a structural reduction in the demand for, or an increase in, the supply of housing.
- Governments at all levels therefore have an important role to play in improving housing affordability by addressing structural factors that encourage excessive demand for housing, or unnecessarily reduce the responsiveness of supply to increases in demand.
- To achieve more efficient housing outcomes, governments should seek to alter the framework within which the housing market operates, rather than through direct interventions in the operation of the market.

(Note: The Indigenous housing information that forms part of this submission has been provided by the Department of the Prime Minister and Cabinet)

Introduction

Australia does not build enough houses for its growing population.

Arguably the only way to substantially resolve the current issues with housing affordability involves a structural reduction in the demand for, or an increase in the supply of, housing.

This will require all levels of government to work together to address this issue, which directly or indirectly, impacts all Australians.

Historically, dwelling prices in Australia were around two to three times household income, with dwelling stock increasing more rapidly than population growth. The gap between the increase in dwelling stock and population growth ensured that demographic changes, namely the reduction in household size and increasing life expectancy, did not result in increased price pressure on housing.

Since the introduction of financial deregulation in the mid-1980s, Australians have had greater access to capital for both consumption and investment. As has been noted by the Reserve Bank of Australia (RBA) on a number of occasions, this increased access to capital has largely been used by households to increase their consumption of housing. The additional consumption of housing by both owner-occupiers and investors has increased significantly as official interest rates have continued to fall to record lows. This increase in 'financial' demand for housing has been supplemented by an increase in 'actual' demand for housing, driven by increases in Australia's estimated resident population by around 48 per cent since 1984 and by around 9 per cent since 2008[1].

While demand for housing has increased significantly over the last 30 years, the supply of new dwellings has not responded, with average annual completions of new dwellings remaining around 150,000 since the mid-1980s[2].

As with any increase in demand that is unaccompanied by a corresponding increase in supply, this has led to a significant increase in both nominal and real dwelling prices across Australia over the last 30 years.

This increase in the price of dwellings has been of significant benefit to existing home owners and investors. However, it has had the opposite impact on potential first home owners, potential up-graders, renters and those households in public and community housing.

While the most noticeable impact of the reduction in the availability of affordable housing is the reduction in home ownership experienced by younger Australians, it is also having an impact upon labour force participation, household formation and historical consumption, investment and retirement trends.

The potential size of the impacts stemming from the changes in these historical trends provides a compelling reason for governments at all levels to work together to address the current issues with housing supply and affordability.

[1] Australian Bureau of Statistics (ABS) 3101.0 – Australian Demographic Statistics, June 2013 – Table 1.
[2] ABS 8752.0 Building Activity, Australia, September 2013 – Table 37.

Background

At 31 December 2013, the Australian residential property market was made up of approximately 9,300,700 dwellings which had an estimated total value of $5,017 billion[3]. Approximately $1,263 billion in loans remain outstanding against these dwellings[4].

The market is broadly made up of three categories of households:

- those who can afford housing through private ownership even though some do not have acceptable outcomes (mortgage stress or inappropriate accommodation for their needs);
- those who are able to access the private rental market, even though some do not have acceptable outcomes (rental stress or inappropriate accommodation); and
- those who cannot access the private rental market without government assistance or require intensive assistance such as through public housing or crisis accommodation.

Over 2013, the Australian housing market strengthened, recording increases in prices, approvals and lending. The strengthening of the market appears to be have been driven largely by investors and 'up-graders', with the percentage of first home buyers declining to a record low in November 2013. The reduction of home ownership amongst younger Australians continues a trend that began in the early 1980s (refer Figure 1).

Figure 1: Home ownership rates Australia (per cent)

Source: Census data from Censuses of Population and Housing, 1961-2011.

[3] Australian Bureau of Statistics, 6416.0 - Residential Property Price Indexes: Eight Capital Cities, December 2013. Available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Latestproducts/6416.0Main%20Features2Dec%202013?opendocument&tabname=Summary&prodno=6416.0&issue=Dec%202013&num=&view=>.

[4] ABS 5609.0 Housing Finance, Australia December 2013, Table 12. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Dec%202013?OpenDocument>.

Affordable Housing in Australia

What is 'affordable housing'?

There are a number of terms which are used interchangeably to describe the current issues that many Australians face in accessing appropriate and affordable accommodation.

These include the term 'affordable housing', which is used by some commentators and academics to refer to specific types of low cost housing such as public or community housing. However, given there is no single accepted definition of what constitutes 'affordable housing', this submission has assumed that the term 'affordable housing' refers to the ability of all individuals and households to access housing that is appropriate and affordable to them.

Measures of 'affordable housing'

As with the definition of 'affordable housing', there is no universally accepted measure of what constitutes 'affordable housing' for owner-occupier or rental purposes. This is largely due to the concept of 'affordability' being influenced by a number of complex factors including:

- the price of housing;
- the financial capacity of owner-occupiers and renters;
- the ability of owner occupiers and investors to access credit;
- the cost of that credit;
- the supply of suitable housing stock and rental accommodation; and
- the interaction between these factors.[5]

In Chapter 3 of the 2008 Select Committee on Housing Affordability in Australia's report, '*A good house is hard to find: Housing affordability in Australia*'[6], the committee noted there are a number of approaches to the measurement of 'affordability' that rely either on the measurement of the cost of rent against a household's income; or alternatively a more holistic examination of whether the cost of housing impedes a household's ability to meet their other basic needs[7]. Broadly these approaches include:

- the '30 per cent rule' – under this rule, housing is considered to be affordable where it takes up less than 30 per cent of a household's gross income before tax[8];
- the '30/40' rule – under this rule, housing is considered to be affordable where a household spends less than 30 per cent of its gross income on housing where it has disposable household income in the bottom 40 per cent of the income range[9];

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[5] Australian Bureau of Statistics 4102.0 Australian Social Trends 1994. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/2f762f95845417aeca25706c00834efa/dbd46552aa41b8deca2570ec00787a56!OpenDocument>.

[6] Senate Select Committee on Housing Affordability in Australia, 'A good house is hard to find: Housing Affordability in Australia'. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/hsaf/index>.

[7] National Affordable Housing Summit Group. Available at: <http://www.qahc.asn.au/modules/tinyd0/index.php?id=8>

[8] Australian Institute of Health and Welfare, 'Housing assistance in Australia 2013'. Available at: <http://www.aihw.gov.au/publication-detail/?id=60129545054>.

[9] The '30/40 rule' was introduced in 1991-1992 through the Federal Government's National Housing Strategy and refers to the point at which a household in the lowest 40 per cent of income distribution spends 30 per cent of its gross household income on housing costs.

- comparing house prices to consumer prices – under this approach, house prices are compared to growth in the overall consumer price index (CPI) and where house price growth exceeds CPI growth, housing is considered to be increasingly unaffordable;
- comparing house prices to incomes[10] – broadly, housing is considered to be affordable if it costs less than three times household income[11];
- a comparison of the extent to which average weekly earnings can repay and service a mortgage for a median-priced dwelling[12];
- determining the deposit gap – this approach measures the gap between the median dwelling price and average borrowing capacity as a percentage of a households disposal income (a larger deposit gap reflects relatively more unaffordable housing);
- identifying the amount of residual income of a household – this approach looks at the amount of income a household has after paying its housing costs and whether this is sufficient to maintain the household's standard of living[13]; and
- the effects on home ownership rates – a reduction in home ownership rates indicates a reduction in affordability for potential owner-occupiers.

All of these approaches have their relative strengths and weaknesses. However, it should be noted that most standard measures of affordability show an improvement when household income is growing faster than house prices, or when interest rates fall and increase the borrowing capacity of households. It should also be noted that applying some of these measures to total populations including, for example, home owners that have already paid off their homes, can limit the usefulness of particular measures, and that the methodology used to calculate house prices and household income can have a significant impact on measurement of affordability[14].

Given the different characteristics of owner-occupiers, potential purchasers and renters, a generic measure of housing affordability that seeks to measure affordability across all three types of household is unrealistic.

To take into account the different characteristics of these types of households, as well as the different issues they face in relation to 'housing affordability', this submission seeks to consider the issue of affordable housing in the context of 'repayment affordability' (owner-occupiers), 'purchase affordability' (potential purchasers) and 'rental affordability' (renters) without formally applying the measures of affordability listed above.

[10] Ryan Fox and Richard Finlay, 'Dwelling Prices and Household Income', Reserve Bank of Australia Bulletin December Quarter, 2012, p.13. Available at: <www.rba.gov.au/publications/bulletin/2012/dec/pdf/bu-1212-2.pdf>.
[11] Indicators of Sustainable Development: House Price-to-income Ratio. Available at: <http://esl.jrc.it/envind/un_meths/UN_ME050.htm.>.
[12] HIA-Commonwealth Bank Affordability Report, September 2013. Available at: <http://economics.hia.com.au/publications/hia_cba_affordability_report.aspx>.
[13] M Stone, T Burke and L Ralston, 'The residual income approach to housing affordability: the theory and the practice, positioning paper', AHURI, 2011 p 8.
[14] The article 'Dwelling Prices and Household Income', in the Reserve Bank of Australia's bulletin, December quarter 2012, provides a detailed description of the impact that different methods can have on the measurement of house prices and household income.

Why is affordable housing important?

Before examining the different measures of affordability, the question must be asked why should governments at the Commonwealth, State and Territory and local level, as well as the broader community, be concerned about the availability of affordable housing?

Government

There are arguably four key reasons why governments should be concerned about the availability of affordable housing. These are:

- labour force and community participation;
- productivity;
- impacts on historical investment and consumption trends; and
- the intersection of housing with other areas of government responsibility.

Labour force and community participation

For low and moderate income Australians, labour force participation leads to greater financial security, self-esteem and social engagement. Given Australia's ageing population and the pressure this will place on both government budgets and the availability of labour, there are significant and tangible economic benefits that could be derived from ensuring that as many younger Australians as possible have access to affordable housing and are therefore able to actively participate in the labour force.

Productivity

Access to adequate and affordable housing also plays an important role in ensuring that labour can most productively be matched with capital to maximise economic output.

For example, structural changes within the economy, such as the rebalancing that will occur following the end of the investment phase of the mining boom, will provide an opportunity for workers to relocate to other areas of Australia experiencing shortages of skilled and unskilled labour. The relocation of these workers will allow industries in these areas to increase production but will also help to reduce any artificial pressures on wage growth. Both of these factors will help to increase the overall productivity of these industries.

At a local level, the availability of affordable housing close to an employees' place of work allows for a reduction in commuting time, a reduction in road and transport congestion and better developed local and community networks.

Impacts on historical investment and consumption trends

Household formation is a significant factor in determining the consumption decisions made by individuals and households. There is evidence that housing affordability has played a role in delaying household formation, with the number of individuals per household recently increasing for the first time in almost 100 years. This delay has impacted upon the demand for new homes and secondary products such as white goods and other furnishings. Housing affordability has also impacted upon the discretionary spending of private renters and mortgagees who now devote a higher proportion of their after-tax income to either rental or mortgage payments than historically has been the case.

Owner-occupied properties are the largest asset held by households, accounting for approximately 43 per cent of household assets. In addition, almost 20 per cent of households own property other than the dwelling in which they live, including residential and non-residential property for rent, and holiday homes[15]. This makes property a key determinant of household wealth and, in turn, a key factor influencing household saving and consumption patterns which are key drivers of the broader economy.

Intersection of housing with other areas of government responsibility

Housing is directly linked to a number of other areas of government policy responsibility such as immigration, taxation, aged care, the Age Pension and national infrastructure. Given these interactions, housing affordability has the potential to both negatively and positively impact upon the success of government policy in these areas.

Community

There are a number of reasons why the broader community should also be concerned about the availability of affordable housing. These relate to:

- household formation;
- retirement adequacy;
- dwelling type and location; and
- the financial risks faced by households.

Household formation

As noted above, the size of the average household in Australia increased for the first time in almost 100 years between 2006 and 2011. One of the key drivers of this increase is the trend for younger Australians, who would have previously moved out into the rental market or into home ownership, to stay at home due to the current issues with housing affordability. While an unanticipated impact of this change has been the increased financial burden that has been placed on the parents of these children, this change may also limit the willingness or ability of younger Australians to start a family of their own.

Retirement adequacy

Historically, the retirement system assumes that the majority of households will enter retirement having discharged any mortgages on their property and would simply supplement any savings they have with the Age Pension to ensure an adequate standard of living in retirement.

These assumptions are currently being challenged by both the decline in home ownership as well as the recent trend where more retirees are entering retirement with mortgages remaining on their primary place of residence.

Figure 2 illustrates that this trend is likely to continue, with the result that less of today's younger Australians will own their own home when they retire, even though they may inherit a share of the housing gains made by their parents. As such, it is also likely that a greater number of Australians will be forced to rent during their retirement.

[15] ABS, 6554.0 – Household Wealth and Wealth Distribution, Australia, 2011-12

Given that retirees in the private rental market may be relying on government payments or fixed interest investments, any increase in accommodation costs, above the increase in these payments of the return generated by these investments, is likely to place them into financial hardship.

In order to deal with increased rental costs, retirees may have to move away from established networks of carers and friends and family, as well as health care, to more affordable locations. In extreme cases, increases in rent may result in homelessness for those retirees on very low incomes.

Figure 2: Analysis of home ownership rates by year in which household was 25-34 years

Source: Yates 2011, Explaining Australia's trends in home ownership', *Housing Finance International*, Winter, p 6-13

Dwelling type and location

Historically, Australia has overwhelmingly constructed free standing houses with apartments and other types of dwellings making up around 30 per cent of housing stock. Since the end of the global financial crisis, the number of free standing houses being constructed has fallen to around 55 per cent[16].

The increase towards dwellings other than free standing housing is likely to exacerbate the social implications already evident in areas of high density. This includes disputes with neighbours around noise and the use of shared space, as well as disputes over the management of collective dwellings by strata managers or body corporates.

The University of New South Wales and Shelter NSW released a detailed report in 2010, '*Living well in greater density'* which highlights some of the social implications associated with a move toward high density living[17].

[16] ABS, 8731.0 - Building Approvals, Australia December 2013, Table 6. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/allprimarymainfeatures/A430FF9518548E40CA257C900010F3DE?opendocument>.
[17] Easthope, H and Judd, S (2010), 'Living Well in Greater Density'. Available at: <http://www.be.unsw.edu.au/high-density-living/projects/living-well-greater-density>.

Financial risks faced by households

As dwelling prices have increased over the last 30 years, so too has the amount borrowed by households to pay for these more expensive dwellings. This has significantly increased the leverage of the household sector of the economy.

While the increase in debt and dwelling prices has been of significant benefit to existing owners, the absolute increase in the size of mortgages, as opposed to simply the amount that is required to pay off a mortgage, has significantly increased the level of risk taken on by households entering the housing market.

These households are more susceptible to negative equity and their ability to sell their property to get out of financial difficulty is significantly less than households that entered the housing market at an earlier stage.

While these issues are not relevant to households unless they are forced to sell their property, they do make these households significantly more susceptible to unforeseen circumstances such as family breakdown or unemployment, with the financial pressure on these households sometimes being a trigger for family breakdown.

Is housing affordable?

As noted above, this question arguably needs to be addressed in the context of 'repayment', 'purchase' and 'rental' affordability.

Repayment Affordability

'Repayment affordability' is largely governed by increases to household income and variations to mortgage repayments.

Lending

The total value of lending commitments for both owner-occupiers and investors rose across 2013 in response to historically low interest rates. Around $183.3 billion was loaned to owner-occupiers in 2013, up from $163.4 billion in 2012 and approximately $109 billion was loaned to investors, up from $87.2 billion in 2012[18].

Figure 3: Lending Commitments – All Lenders

	Owner–occupied housing $ million			**Investment housing $ million**		
Year	Construction	Existing Dwellings	Total	Construction	Existing Dwellings	Total
2012	16,470	146,621	163,360	5,204	82,010	87,214
2013	18,354	164,926	183,280	6,552	102,480	109,032

Source: Reserve Bank of Australia, Lending Commitments – All Lenders, Table D6.

While the value of lending commitments increased, the composition of those households taking out loans changed across 2013.

[18] Reserve Bank of Australia, Lending Commitments – All Lenders, Table D6. Available at: <http://www.rba.gov.au/statistics/tables/index.html>.

First home owners represented approximately 15.0 per cent of total owner-occupied housing finance commitments in January 2013[19]. However, by December 2013 this had fallen to 12.7 per cent, the second lowest rate since records commenced in July 1991. The share of loans to investors, however, increased from approximately 36.3 per cent to 39.8 per cent over the same period[20].

Figure 4: Financial Aggregates Percentage change (a)

	Three-month ended		Year ended
	Sept 2013	**Dec 2013**	**Dec 2013**
Total Credit	0.9	1.2	3.9
Owner-occupied housing	1.1	1.4	4.6
Investor housing	1.7	2.2	7.1
Personal	0.4	0.1	0.9
Business	0.4	0.5	1.7
Broad Money	1.7	1.7	5.8

Source: Australian Prudential Regulatory Authority (APRA); RBA (a) Growth rates are break adjusted and seasonally adjusted

Interest rates

Australia's official cash rate was 3.0 per cent at the beginning of 2013, but was reduced by 0.25 per cent in both May and August and currently stands at 2.5 per cent[21]. The RBA's measure of bank interest rates indicates that as at 1 January 2013, the interest rates offered by banks were 6.45 per cent for standard variable mortgages, 5.70 per cent for discounted variable mortgages and 5.50 per cent for three year fixed rate mortgages. By December 2013, these rates had fallen to 5.95 per cent for standard variable mortgages, 5.10 per cent for discounted variable mortgages and 5.3 per cent for three year fixed rate mortgages[22].

Household income

Over the 12 months to November 2013, full-time male and female earnings increased, as did total earnings per person. Male full-time earnings increased to $1621.50 in November 2013, up from $1580 in November 2012 (2.6 per cent); female full-time earnings increased to $1287, up from $1246 (3.3 per cent); and total earnings per person increased to $1114, up from $1081 (3.0 per cent)[23].

Households in arrears

In its September 2013 Financial Stability Review, the RBA highlighted that aggregate indicators of household financial stress generally remain low, with the non-performing share

[19] ABS, 5609.0 – Housing Finance, Australia December 2013, Table 9. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/5609.0Main%20Features2Dec%202013?opendocument&tabname=Summary&prodno=5609.0&issue=Dec%202013&num=&view=>.
[20] Reserve Bank of Australia, Table D6 Lending Commitments – All lenders. Available at: <http://www.rba.gov.au/statistics/by-subject.html>.
[21] Reserve Bank of Australia, Interest Rates and Yields, - Money Market – Monthly – Table F1. Available at: <http://www.rba.gov.au/statistics/tables/index.html#interest_rates>.
[22] Reserve Bank of Australia, Indicator Lending Rates – Table F5. Available at: <http://www.rba.gov.au/statistics/tables/index.html#interest_rates>.
[23] ABS, 6302.0 – Average Weekly Earnings, Australia - Trend, Table 1. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6302.0Nov%202013?OpenDocument>.

of banks' housing loans (i.e. past due or impaired) remaining fairly steady since September 2012 at around 0.7 per cent.

Figure 5: Banks' Non-performing Assets (Domestic books)

Source: APRA (Note: * includes lending to financial businesses, bills, debt securities and other non-household loans.)

Banks have indicated that housing loan performance over the next 12 months is likely to be broadly steady, with any improvement dependant on conditions in the labour market[24].

Purchase affordability

'Purchase affordability' is broadly influenced by the price and availability of dwellings, changes to household income, access to credit (including the size of deposits), as well as the cost of credit.

Dwelling Prices

As at 31 December 2013, the mean dwelling price across Australia's eight capital cities was $539,400, approximately 9.3 per cent higher than 12 months earlier, as reported by the ABS[25], with the median dwelling price across these cities reported by RP Data-Rismark increasing by 9.8 per cent to $540,000[26].

Moderate house price growth was recorded across all major metropolitan areas with Sydney, Perth and Melbourne recording the largest increases. House price growth for 2013 was approximately 9.9 per cent, with unit values increasing by 9.0 per cent[27].

Price growth has continued into 2014, with RP Data reporting a 2.7 per cent increase in dwelling prices in January 2014.

[24] Reserve Bank of Australia, Financial Stability Review, September 2013. Available at: <http://www.rba.gov.au/publications/fsr/>.
[25] Australia Bureau of Statistics, 6416.0 Residential Property Price Indexes: Eight Capital cities, Dec 2013. Available at: < http://www.abs.gov.au/ausstats/abs@.nsf/cat/6416.0>.
[26] RP Data-Rismark December Hedonic Home Value Index Results, December 2013. Available at: < http://www.rpdata.com/research/home_values_finish_2013_calendar_year_9-8_per_cent_higher.html>.
[27] RP Data-Rismark December Hedonic Home Value Index Results, December 2013. Available at: < http://www.rpdata.com/research/home_values_finish_2013_calendar_year_9-8_per_cent_higher.html>.

Figure 6: Annual change in dwelling prices 2013

City	Price December 2013 (RP Data-Rismark)	Percentage Increase (RP Data-Rismark)	Percentage Increase (ABS)
Sydney	$655,250	14.5%	13.8%
Melbourne	$563,000	8.5%	7.9%
Darwin	$540,000	3.3%	5.0%
Canberra	$530,000	3.5%	-0.3%
Perth	$520,000	9.9%	8.7%
Brisbane	$445,250	5.1%	5.7%
Adelaide	$386,000	2.8%	3.4%
Hobart	$330,000	2.2%	4.9%
National	$540,000	9.8%	9.3%

Source: ABS and RP Data-Rismark

Land Sales/Prices

The September 2013 quarter residential land report from the Housing Industry Association (HIA) indicates the volume of sales remains relatively high compared to 2011 and 2012, but significantly lower than the peak in 2009. For the September quarter of 2013, there were 16,638 land transactions which represents an increase of 38.4 per cent on the same quarter of 2012. For the 12 months to 30 September 2013, 61,824 sales were reported which represents a 20.1 per cent increase on the previous 12 months to September 2012[28].

The price of land also increased in the September quarter of 2013, with median prices increasing by 2.9 per cent to $199,000. Median lot prices in capital cities increased by 3.3 per cent to $226,448 while median lot prices in regional Australia rose by 2.1 per cent to $157,756 over the quarter[29].

Again, there were significant variations between capital cities as illustrated in Figure 7.

Figure 7: Median prices of residential lots, September 2013 quarter

City	Price per lot	Median lot size m2	Price per m2
Sydney	$295,000	525	$562
Melbourne	$210,000	447	$470
Perth	$250,000	423	$591
Brisbane	$205,000	511	$402
Adelaide	$177,250	375	$473
Hobart	$135,000	683	$198
National	$198,953	n/a	n/a

Source: HIA-RP Data, Residential Land Report, September 2013 Quarter

Dwelling commencements

There was a moderate increase in the number of dwellings commenced across 2013, with the total number of dwellings commenced in the September quarter of 2013 increasing in trend terms by 4.9 per cent to 40,603 dwellings compared to the September quarter of 2012.

[28] HIA-RP Data Residential Land Report, September 2013 Quarter, p2. Available at: <http://economics.hia.com.au/publications/land_report.aspx>.
[29] HIA-RP Data Residential Land Report, September 2013 Quarter, p2. Available at: <http://economics.hia.com.au/publications/land_report.aspx>.

Figure 8: Dwelling commencements September Quarter 2012 and 2013

State	Commencements Sept Qtr 2013 (trend)	Commencements Sept Qtr 2012 (trend)	Percentage change
NSW	10,889	9,177	18.7%
Victoria	11,115	13,175	-15.6%
Northern Territory	503	565	-11.0%
ACT	1,302	1,022	27.4%
Western Australia	6,871	5,252	30.8%
Queensland	7,789	7,159	8.8%
South Australia	2,347	2,042	15.0%
Tasmania	464	491	-5.5%
Total	40,603	38,713	4.9%

Source: Adapted from ABS, 8752.0 – Building Activity, Australia, September 2013, Table 35

Residential Property listings

The level of residential stock available for purchase fell across 2013. In December 2013, 337,744 dwellings were available for purchase, down around 4.3 per cent from the 352,784 available in December 2012[30]. The fall in listings is arguably partly driven by increased sales but may also be as a result of owner-occupiers and investors reacting to increased prices and withdrawing stock from the market in the expectation of continued price growth.

Reduced levels of stock are likely to contribute to increases in dwelling prices given that they are unlikely to be matched by a corresponding reduction in demand.

Figure 9 outlines the variation across the eight capital cities with Darwin experiencing a 19.8 per cent increase in listings while Sydney recorded a 19.6 per cent fall.

Figure 9: Residential property listing December 2012 and 2013

City	Listings Dec 2012	Listings Dec 2013	Yearly Change
Adelaide	17,629	16,122	-8.5%
Perth	19,939	18,852	-5.5%
Melbourne	42,128	41,129	-2.4%
Brisbane	26,645	25,577	-4.0%
Canberra	3,495	3,260	-6.7%
Sydney	25,477	20,479	-19.6%
Darwin	1,112	1,332	19.8%
Hobart	4,828	4,555	-5.7%
National	352,784	337,744	-4.3%

Source: SQM Research Media Release: Stock Levels Slide During December, January 2014

Rental affordability

Rental affordability is generally driven by two factors, which are the availability of rental stock and household income (refer ‘repayment affordability’).

[30] SQM Research Media Release: Stock Levels Slide During December, January 2014. Available at: <http://www.sqmresearch.com.au/media.php>.

Rental Vacancy Rates

Residential vacancy rates rose marginally across Australia in 2013 from 2.3 per cent in December 2012 to 2.6 per cent in December 2013[31]. A vacancy rate of 3 per cent is considered to reflect equilibrium between supply and demand[32], with levels lower than this contributing to increases in rents, and levels higher than this contributing to a reduction in rents.

Figure 10 highlights that there has been an increase in rental availability in Perth, Brisbane Canberra and Darwin in December 2013 when compared with December 2012. All other capital cities recorded a tightening of their rental markets.

Figure 10: Residential rental vacancies December 2012 and 2013

City	Vacancies Dec 2012	Vacancy rate	Vacancies Dec 2013	Vacancy rate
Adelaide	2,779	1.7%	2,819	1.6%
Perth	1,710	0.9%	4,038	2.1%
Melbourne	15,484	3.6%	15,037	3.4%
Brisbane	6,156	2.2%	7,993	2.8%
Canberra	858	1.7%	1,220	2.3%
Sydney	11,604	2.1%	12,071	2.1%
Darwin	406	1.7%	468	1.9%
Hobart	549	2.0%	439	1.6%
National	63,186	2.3%	73,082	2.6%

Source: SQM Research Media Release: Vacancy Rates December, December 2013

Median rental prices

Median weekly asking rents for both houses and units increased marginally across 2013.

Figure 11 highlights that there was an increase in rents for both houses and units in Adelaide, Perth, Melbourne, Brisbane and Sydney, while Canberra was the only capital to record falls in rents for both houses and units.

Figure 11: Median weekly asking rents

City	Houses Dec 2012	Houses Dec 2013	Percentage change	Units Dec 2012	Units Dec 2013	Percentage change
Adelaide	$340	$350	2.9%	$275	$285	3.6%
Perth	$470	$480	2.1%	$395	$400	1.3%
Melbourne	$360	$375	4.2%	$350	$350	0.0%
Brisbane	$390	$400	2.6%	$375	$375	0.0%
Canberra	$480	$460	-4.2%	$430	$410	-4.7%
Sydney	$500	$500	0.0%	$460	$485	5.4%
Darwin	$650	$700	7.7%	$550	$570	3.6%
Hobart	$320	$310	-3.1%	$250	$260	4.0%

Source: Australian Property Monitors, Rental report, December Quarter 2013

[31] SQM Research Media Release: Vacancy Rates December, December 2013. Available at: <http://www.sqmresearch.com.au/media.php>.
[32] National Housing Supply Council 2013, *National Housing Supply Council: State of Supply Report: Changes in how we live*, p19. Available at: <http://treasury.gov.au/Policy-Topics/PeopleAndSociety/completed-programs-initiatives/NHSC>.

Overview of affordability in 2013

An analysis of ‘repayment’, ‘purchase’ and ‘rental’ affordability over 2013 produces three different outcomes.

For owner-occupiers and investors, ‘repayment affordability’ improved over 2013 as a result of official interest rates falling to record lows and household income continuing to record modest growth.

For potential purchasers, ‘purchase affordability’ declined over the course of 2013, as the Australian housing market recorded price increases that exceeded income growth and outweighed the benefits of reduced interest rates.

For renters, ‘rental affordability’ remained largely unchanged given that the availability of rental stock (i.e. the rental vacancy rate) was largely unchanged across 2013 and household income only increased moderately.

What factors govern the availability of 'affordable housing'?

The availability of 'affordable housing' is driven by the demand for, and the supply of, housing.

The factors that influence the demand and supply for housing are a complex mix of economic political, social and demographic forces that have previously been the subject of detailed consideration through the Australia's Future Tax System Review[33], the 2008 Senate Inquiry into Housing Affordability[34]and the Productivity Commission's Inquiry into First Home Ownership[35].

Demand factors influencing 'affordable housing' include household income, access to credit, interest rates, population growth, taxation, demographic changes and government incentives. These factors are largely the responsibility of the Commonwealth Government.

Supply factors influencing 'affordable housing' include planning and land approval processes, the provision of housing related infrastructure, the level of charges applied to new developments and land release policies. These factors are largely the responsibility of state, territory and local governments.

Factors influencing the demand for housing

Household income

Household income is a key determinant of housing demand as it governs the amount that can be borrowed for the purchase of a dwelling or allocated to rental payments.

Since November 2008, there has been a steady increase in total weekly earnings per person from around $910 per week to $1114 (November 2013) or an increase of approximately 22.5 per cent. Male full-time adult total earnings also increased across this period from around $1306 to $1622 (24 per cent), with female full-time adult total earnings increasing from $1047 to $1287 (23 per cent). Total full-time adult earnings also increased from $1211 to $1500 (24 per cent)[36].

Access to credit

Access to credit is determined by a number of factors such as the credit worthiness of the potential applicant, the financial institution's willingness to lend (which is evidenced by the loan to valuation ratios they are willing to offer), as well as a number of other factors that this submission does not seek to explore given that policy responsibility for these matters does not rest with this Department.

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[33] Australia's Future Tax System Final Report, 2010, Chapter E: Enhancing social and market outcomes. Available at: <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/index.htm>.
[34] Senate Select Committee on Housing Affordability in Australia, *A good house is hard to find: Housing affordability in Australia*, June 2008. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/hsaf/report/index>.
[35] Productivity Commission Inquiry Report No.28, 31 March 2004 – First Home Ownership. Available at: <http://www.pc.gov.au/projects/inquiry/first-home-ownership/docs/finalreport>.
[36] ABS, 6302.0 – Average Weekly Earnings, Australia - Trend, Table 1. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6302.0Nov%202013?OpenDocument>.

Since 2008, the amount of borrowing by owner-occupiers has increased from approximately $154 billion to approximately $183 billion in 2013, and for investors from approximately $81 billion to $109 billion as illustrated in Figure 12. Given this increase, there does not appear to be any significant constraint on borrowing[37].

Although for specific segments, such as first home buyers, there has been a significant fall in the number of loans being taken out, the size of loans granted to first home buyers has actually increased. This would point to different factors such as the overall level of affordability, and the increase in the required amount of a deposit, impacting upon first home buyers' willingness and ability to borrow rather than any structural constraints.

Figure 12: Lending Commitments – All lenders

Year	Total lending commitments owner-occupied housing $(million)	Total lending commitments investment housing $(million)	Total lending commitments all housing
2008	153,749	81,414	235,163
2009	185,288	82,979	268,267
2010	155,728	84,702	240,430
2011	158,507	79,234	237,741
2012	163,360	87,214	250,574
2013	183,280	109,032	292,312

Source: Adapted from Reserve Bank of Australia, Lending Commitment – All lenders, Table D6

Interest Rates

Just as important as households' ability to borrow, is their capacity to borrow which is based primarily on their income, the amount of their deposit and the prevailing interest rate.

Since August 2008, official interest rates have fallen from 7.25 per cent to 2.5 per cent.

The interest rates offered by the banks over this period have varied from 9.6 per cent for standard variable loans and 9.4 per cent for three year fixed loans in July 2008 to 5.75 per cent for standard variable loans in April 2009, and 5.1 per cent for three year fixed loans in August 2013[38].

Demand from investors

Demand for residential property from both domestic and international investors has increased since 2008. Since 2008, investors' share of overall lending for housing has increased from approximately 35 per cent to 37 per cent[39]. The majority of this increase has been for investment in existing properties as evidenced by Figure 13.

In addition to investments by individuals, investments in residential property through self-managed superannuation funds have increased over this period to approximately 23 per cent of their total direct property holdings.

[37] Reserve Bank of Australia, Table D6 Lending Commitments – All lenders. Available at: <http://www.rba.gov.au/statistics/by-subject.html>.
[38] Reserve Bank of Australia, Table F5 Indicator Lending Rates. Available at: <http://www.rba.gov.au/statistics/by-subject.html>.
[39] Reserve Bank of Australia, Table D6 Lending Commitments – All lenders. Available at: <http://www.rba.gov.au/statistics/by-subject.html>.

As noted by the RBA, the growth in this investment has been partly driven by changes to superannuation legislation that have made direct property investment through self-managed superannuation funds more accessible[40].

Figure 13: Value of lending commitments in investment housing by category, Australia, Jan 1985 to Dec 2013

Source: RBA, Statistical Table D6 Lending Commitments - All Lenders

Demand from overseas buyers, especially for new properties, has also increased over this period as highlighted in Figure 14.

Figure 14: Demand for new and existing properties from overseas buyers (per cent)

Source: NAB Quarterly Australia Residential Property Survey: Q4 2013

A more detailed comparison of any trends in foreign investment over this period is made difficult by the changes to the foreign investment rules regarding temporary residents introduced on 1 April 2009, which were then subsequently removed in April 2010.

[40] Reserve Bank of Australia, Financial Stability Review, September 2013, p57. Available at: <http://www.rba.gov.au/publications/fsr/>.

The Foreign Investment Review Board figures for 2008-09 and 2009-10 reflect the changes in policy settings over this period.

On 19 March 2014, the Commonwealth Government referred the issue of foreign investment in residential real estate to the House of Representatives Standing Committee on Economics for inquiry and report. The Committee is to report by 10 October 2014[41], and will examine:

- the economic benefits of foreign investment in residential property;
- whether such foreign investment is directly increasing the supply of new housing and bringing benefits to the local building industry and its suppliers;
- how Australia's foreign investment framework compares with international experience; and
- whether the administration of Australia's foreign investment policy relating to residential property can be enhanced.

Population

Population is also a key driver of housing demand, given the need to house both the domestic population as well as new arrivals. From June 2008 to June 2013, Australia's estimated resident population (ERP) increased by around 1.882 million people or 376,340 people per year[42].

Figure 15 illustrates that the current growth in Australia's population is historically high, with a significant increase occurring in 2004-05 driven largely by an increase in net overseas migration. Population growth peaked in the year to December 2008, with an increase in the ERP of 459,500, before falling to a recent low of 304,000 in the year to March 2011. Population growth has again increased significantly to 407,000 in the year to June 2013, largely driven by increased net overseas migration.

Figure 15: Changes in Australia's estimated resident population 1982 to 2013

Source: ABS 3101.0 – Australian Demographic Statistics, June 2013

[41] Parliament of Australia, House Standing Committee on Economics, 'Inquiry into foreign investment in residential real estate', 19 March 2014. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/House_of_Representatives_Committees?url=economics/foreigninvestment/index.htm>.

[42] ABS 3101.0 – Australian Demographic Statistics, June 2013, Table 1. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Sep%202013?OpenDocument>.

On 26 November 2013, the ABS released revised projections for Australia's population growth over the period to 2101. These projections indicate that Australia's population is expected to grow faster than previously expected, to between 36.8 million and 48.3 million by 2061 and 42.4 million and 70.1 million by 2101. Previous estimates indicated that Australia's population would increase to between 30.9 million and 42.5 million by 2056 and 33.7 million to 62.2 million by 2101[43].

Demographics

The size of the average household plays a significant role in determining the need for housing in Australia given that an increase in household size reduces the demand for housing stock, while a reduction in household size increases demand for housing stock.

The 2011 Census reported an increase in the size of the average Australian household for the first time since records started in 1911. While the size of the increase was very small, the significance is that it represented a substantial departure from previous estimates undertaken by the ABS[44].

Taxation

Taxation settings play a significant role in determining demand for residential property.

Given that portfolio responsibility for taxation rests with the Commonwealth Treasury, this submission does not undertake an in-depth analysis of Australia's current taxation settings. The Commonwealth Government has foreshadowed it will be examining the current operation of Australia's taxation system through a white paper process.

Further analysis of Australia's current taxation settings including negative gearing, the capital gains tax exemption for main residences and the capital gains tax discount is contained in the final report of the Australia's Future Tax System Review - Chapter A: Personal Taxation[45].

Government incentives

Over the period 2008 to 2013, governments at all levels provided incentives to encourage new entrants into home ownership. The key incentives included first home owner grants, new home grants and stamp duty concessions at the state and territory level, and the first home owner boost provided by the Commonwealth from October 2008 to December 2009.

Provision of these grants led to significant increases in first home owner activity between October 2008 and December 2010.

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[43] ABS, 3222.0 – Population Projections, Australia, 2012 to 2101. Available at: <http://www.abs.gov.au/ausstats%5Cabs@.nsf/mediareleasesbyCatalogue/7DB4DD841EA3A2A5CA2574B9001E26F6?Opendocument>.

[44] ABS, Year Book Australia 2012. Available at: <http://www.abs.gov.au/ausstats/abs@.nsf/mf/1301.0>.

[45] Australia's Future Tax System Review, 2010, Chapter A: Personal Taxation. Available at: <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_a1-3.htm>.

However, the percentage of first home owners as a percentage of all dwellings financed, has since gradually fallen to reach an all-time low of 12.3 per cent in November 2013[46].

Factors influencing the supply of housing

Since 2008, various jurisdictions have made changes to their planning, approval and land release processes, with the Council of Australia Governments (COAG) also undertaking detailed work on the issues restricting the supply of new housing.

COAG published the findings and recommendations from this work in its August 2012 report, '*Housing Supply and Affordability Reform'* (HSAR)[47].

While there has been a number of initiatives progressed since 2008, Figure 16 highlights that a significant, and more importantly a sustainable, increase in housing supply, has not yet been achieved.

Figure 16: Dwelling Completions Australia Quarterly (trend)

Source: ABS 8752.0 Building Activity, Australia September 2013 - Table 37

Planning and approvals

Ensuring jurisdictions have efficient and unrestrictive planning regimes that allow for rapid responses in housing supply is one of the key determinants of whether a jurisdiction is able to produce sufficient affordable housing[48].

In Australian jurisdictions, the main issues around planning and approvals relate to how to streamline current approval processes and how to remove unnecessary or unreasonable planning restrictions inhibiting new residential development.

[46] ABS, 5609.0 – Housing Finance, Australia, December 2013, Table 9a. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Jan%202014?OpenDocument>.
[47] Council of Australian Governments, Housing Supply and Affordability Report, August 2012. Available at: <http://www.coag.gov.au/node/451>.
[48] Demographia, *10th Annual Demographia International Housing Affordability Survey: 2014, p 27*. Available at: <http://www.demographia.com/>.

The HSAR report examined state and territory planning regimes in detail and recommended that jurisdictions should continue to:

- work to improve the efficiency of referrals;
- improve development assessment and rezoning processes;
- work towards a greater use of code-based assessment of applications; and
- examine the cost and benefits before local councils introduce planning and development requirements that exceed state planning and development requirements.

New South Wales, Victoria, South Australia and Western Australia are currently undertaking some form of planning reform.

State taxation

A significant amount of state and territory revenue is derived from land taxes, stamp duty and other property taxes, charges and levies.

Since 2008, only the ACT has undertaken significant reforms to the way in which it taxes property. As part of its 2012-13 Budget, the ACT Government announced that it would abolish conveyance duty and insurance taxes and make Residential General Rates and Land Tax more progressive[49].

While this is a significant step in moving to the imposition of more efficient taxes[50], the revenue foregone will be replaced through increases in general commercial and residential rates, as well as an adjustment to utilities tax to reflect land value appreciation.

However, even with these changes revenue streams will rely on land value. An incentive therefore remains for State and Territory Governments to ensure that high land, and in turn property prices[51], continue.

Provision of housing infrastructure and infrastructure charges

A necessary requirement for the development of new housing supply is the provision of related infrastructure. In greenfield sites, this includes provision of new roads, power, water, sewage and public transport. In brownfield sites, this includes the improvements necessary to connect the development to existing infrastructure.

Historically, such infrastructure was funded using a debt-base model, with interest and capital paid off by residents through subsequent increases in rates. More recently, governments have adopted 'user pays' models, where infrastructure is funded through 'up-front' development contributions rather than paid off over the effective life of the infrastructure.

On 13 November 2013, the Commonwealth Government commissioned a Productivity Commission inquiry into ways to encourage private financing and funding for major

[49] ACT Government. Available at: <http://apps.treasury.act.gov.au/taxreform>.
[50] Australia's Future Tax System Review, Final Report, Chapter 6 Land and Resource Taxes. Available at: <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_6.htm>.
[51] Senate Committee on Housing Affordability in Australia 2008, 'A good house is hard to find: Housing affordability in Australia', p 73. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/hsaf/index>.

infrastructure projects, including issues relating to the high cost and the long lead times associated with these projects[52].

The Productivity Commission released its draft report on 13 March 2014[53]. The report notes that the principle of apportioning only attributable costs to developers has been embodied in legislative arrangements in New South Wales, Queensland, Western Australia and Tasmania. However, it also notes that social infrastructure that provides broad-based benefits to the community may be more appropriately funded from a broad-based revenue source rather than from developer contributions.

The HSAR report also examined the use of infrastructure charges to fund housing infrastructure and recommended that COAG agree to four principles around efficiency, transparency and accountability, predictability and equity.

It also found that the transparency and certainty of infrastructure charging regimes could be increased through:

- local councils publishing information on publicly accessible websites about infrastructure charging frameworks and arrangements in practice; and
- states and territories making readily available information on how infrastructure charging frameworks and arrangements operate in practice through a state/territory based process.

New South Wales, Queensland and Victoria have undertaken reforms to, or have commenced reviews of, the way in which infrastructure charges are levied.

Land Release

The release of land in Australia is largely governed by State and Territory governments.

Since 2008, there has been recognition of the need to release more land to improve housing affordability. However, decisions on land release are dependent on a number of other factors such as the capacity of the market to absorb any new releases, the impact that any new land release will have on the price of existing property, the cost of infrastructure involved in servicing any new releases, and the ability of the residential construction industry to bring any new land to market.

Figure 17 highlights that while there has been recognition of the need to release more land, residential land sales remain historically low.

While the number of residential land sales remains historically low, the price of residential lots has increased to historic highs[54]. The increase in land prices is magnified when the reduction in average block size is also taken into account, as highlighted in Figure 18.

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[52] Joint Press Release, 'Productivity Commission Inquiry into Infrastructure Costs', the Hon Tony Abbott MP, Prime Minister, the Hon. Joe Hockey MP, Treasurer, the Hon. Jamie Briggs MP, Assistant Minister for Infrastructure and Regional Development, 13 November 2013. Available at: <http://www.minister.infrastructure.gov.au/jb/releases/2013/November/jb008_2013.aspx>.
[53] Productivity Commission, Public Infrastructure – Draft Report. Available at: <http://www.pc.gov.au/projects/inquiry/infrastructure/draft>.
[54] HIA-RP Data, Residential Land Report, September Quarter 2013, p3. Available at: <http://economics.hia.com.au/publications/land_report.aspx>.

Figure 17: Residential Land Sales and Detached house starts - Australia

Source: ABS, rpdata.com, HIA Economics

Figure 18: Residential Land Valued (price per square meter) – Capital Cities

Source: rpdata.com, HIA economics

The role of government in housing and homelessness

While Australia's housing market currently meets the needs of the majority of Australians, it does not provide adequately for everyone.

Governments at all levels therefore have an important role to play in facilitating efficient housing outcomes by addressing structural factors that encourage excessive demand for housing, or unnecessarily reduce the responsiveness of supply to increases in demand[55]. Generally this could be achieved by altering the framework within which the housing market operates, rather than through intervention in the operation of the market itself.

Commonwealth involvement in housing

The first Commonwealth-State Housing Agreement (CSHA) was finalised in November 1945. The main impetus for such an agreement was provided by the Commonwealth Housing Commission in a report it released in August 1944. The Commission reported that there was an estimated housing shortage of 300,000 dwellings; and advised the Commonwealth to take an active role in providing housing to overcome this shortage. Since 1945, the Commonwealth has made financial allocations to the States (and Territories) for this purpose.

Section 96 of the Constitution, which allows for the Federal Parliament to 'grant financial assistance to any State on such terms and conditions as the parliament thinks fit', has been the legal avenue by which the Commonwealth has provided funds to the States and Territories for housing assistance purposes.

The first CSHA allocated funds for the construction of new dwellings for rental only; 50 per cent of this housing went to ex-defence force personnel. Over the period 1956 to 1973, the main aim of the CSHA was to encourage home ownership via the provision of low interest loans. In 1973, the emphasis moved towards targeting housing assistance to low income earners. Over this period, the Commonwealth provided funding and the States were responsible for service delivery.

In 2009, the CSHA was replaced by the National Affordable Housing Agreement (NAHA). The NAHA is a broad-ranging, ongoing housing agreement which commits approximately $6.2 billion in funding to the States and Territories through national specific purpose payments (SPPs). These payments are intended to assist jurisdictions to meet the objective of ensuring that all Australians have access to affordable, safe and sustainable housing that contributes to social and economic participation.

Role of public housing

Public housing is an in-kind benefit provided by the States and Territories that operates independently of the income support system. Public housing offers greater security of tenure than is available to many people in the private market, with around 75 per cent of public housing tenants having been with their current provider for more than five years. However, as 86 per cent of tenants are receiving support payments that do not have a participation

[55] Productivity Commission, Inquiry into First Home Ownership 2004. Available at: <http://www.pc.gov.au/projects/inquiry/first-home-ownership/docs/finalreport>.

requirement, employment rates among public housing tenants are low and have been declining over time.

Eligibility for public housing is determined by state and territory housing authorities based on individual and household income, as well as a number of other criteria aimed at establishing those most in need of housing. Rents are typically set at a maximum of 25 per cent of tenant income, with the assistance received by tenants equal to the difference between the rent that is charged and the market rent of the property. As a result, the amount of rental income that can be generated from public housing stock has fallen.

This has placed an increasing burden on government funding to ensure the viability of the existing public housing stock and has limited the funds available for the development of new stock as illustrated in Figure 19.

Figure 19: Construction of Dwelling Units (Public Sector)

Source: ABS 8731- Building Approvals, Australia Jan 2014 and 8752 – Building Activity, Australia, Sept 2013

The funding pressure experienced by public housing has led to two trends. The first is the sell-off of public housing stock to pay for the ongoing maintenance costs of stock that remains under government ownership. The second is the transfer of the management of public housing, and in some cases title, to the underlying stock to the community housing sector[56]. The impact of both of these trends on the total stock of public housing in Australia is highlighted in Figure 20.

Figure 20: Public Housing 2008-13

Year	NSW	VIC	QLD	WA	SA	TAS	ACT	NT	Total
2008	120,046	64,720	50,709	31,514	43,189	11,618	10,797	5,273	337,866
2009	118,907	64,741	51,131	31,668	42,448	11,585	10,789	5,195	336,464
2010	115,686	65,064	51,705	31,501	42,010	11,460	10,858	5,099	333,383
2011	111,547	64,941	51,976	33,840	41,638	11,316	11,063	5,050	331,371
2012	112,310	64,768	51,793	33,896	40,906	11,203	10,950	5,080	330,906
2013	111,216	64,616	51,675	33,661	40,018	11,139	10,956	5,059	328,340

Source: Productivity Commission, Report on Government Services 2014, Table 17A.3

[56] A Progress report to the Council of Australian Governments from Commonwealth, State and Territory Housing Ministers – Implementing the National Housing Reforms, November 2009 p.26. Available at: <http://www.coag.gov.au/node/91>.

The role of public housing in the provision of affordable accommodation in Australia may become more limited in future given the ongoing trend to transfer the management of public housing to community housing providers. In future, the sole focus of public housing may be on those people with special and high needs rather than low-income Australians.

Role of community housing providers

Community housing also provides housing for people on low and moderate incomes, as well as households and individuals with special needs. However, unlike public housing, community housing is generally run by not-for-profit providers, although the properties run by these providers may be owned by government, not-for-profit organisations or private investors.

Rents for community housing are set at the discretion of the community housing provider. Where an organisation is providing long-term housing, it is common for the provider to set rents broadly in line with those provided under public housing - i.e. 25 to 30 per cent, of an individual's or household's income.

While community housing is not a perfect substitute for public housing, as it does not provide the same certainty around tenure and rent, it does play an important role in providing accommodation for those low income households who are unable to access public housing, or those households that transition out of public housing into the private rental market. At 30 June 2013, Australia had a public housing waiting list of 158,971[57] applicants.

Role of private and institutional investors

Private and institutional investors have a significant role to play in the provision of affordable housing in Australia. Currently, residential investment is dominated by small scale 'mum and dad' investors. While these investors play a very important role in the provision of rental accommodation, they have been unable to generate a sufficient quantity of affordable rental properties to meet demand.

Recently, affordable housing advocates have turned their attention to how to attract institutional investors into the affordable housing market, given the scale and financial backing these investors can provide[58].

To date, efforts to attract a significant level of institutional investment into affordable housing have been unsuccessful, primarily due to the return offered on these investments. Given the fiscal constraints on all levels of government, necessary changes will need to be considered to ensure that private and institutional investors are able to take on a greater role in the provision of affordable housing.

The Minister for Social Services, the Hon Kevin Andrews MP, has already highlighted the importance of addressing inefficiencies in the market to improve the viability of investing in housing, as well as the importance of ensuring that the right economic settings to create an environment conducive to greater investment in affordable housing are in place.

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[57] Productivity Commission, Report on Government Services 2014, Table 17A.5. Available at: <http://www.pc.gov.au/gsp/rogs/housing-homelessness>.

[58] Australian Housing and Urban Research Institute Final Report No. 202, Financing rental housing through institutional investment, March 2013. Available at: <http://www.ahuri.edu.au/publications/projects/p71016>.

Role of Indigenous housing

Despite the progress made under the National Partnership Agreement on Remote Indigenous Housing (NPARIH), significant issues remain. The *NPARIH Review of Progress 2008-2013* identified a number of issues still facing remote Indigenous housing. A critical shortage of housing still exists in remote Australia and the condition of houses remains poor in many communities.

Tenancy arrangements in remote communities remain well below that experienced in mainstream public housing. This is most evident through much lower average rent collections than is seen in the broader public housing sector. Lower rents mean there is less funding available for repairs and maintenance which over time results in a quicker depreciation of the asset base across remote Australia. In order to ensure the sustainability of the sector going forward, it is important that tenancy agreements are put in place, rents are charged at a level consistent with mainstream public housing, the collection of rent is enforced and the cost of any damage caused by tenants is recovered from tenants. This is consistent with how social housing operates in non-remote areas.

While tenure reform has been pursued through the current agreement, it has been ineffective in enabling a private rental market to be established or facilitating a broad uptake of home ownership opportunities across remote Australia.

In many remote Indigenous communities throughout Australia there are no other options for housing outside of public housing, particularly in the Northern Territory, Queensland, Western Australia and South Australia.

The lack of a policy for the sale of remote social housing in many jurisdictions is an additional barrier to home ownership outcomes. Other issues that also impact are high construction costs, limited housing markets, and low levels of Indigenous income and employment.

To improve home ownership rates in remote communities, there would need to be further development of mixed housing markets and opportunities for economic development to assist transitioning residents from a reliance on welfare. A functional housing market that comprises a mix of home ownership, private rental and social housing can assist in creating and maintaining affordable housing, sustainable communities and increasing the availability and options for housing in remote communities.

Current social and public housing policies are set by jurisdictions. These policies can have a significant impact on how or if people can access affordable housing. Public housing and land tenure arrangements, particularly those in remote Australia, can discourage people from moving for work, establishing business and aspiring to home ownership. For example, low rents in remote communities and limited portability of entitlements for public housing tenants can discourage mobility.

Current Commonwealth housing and homelessness programmes

Housing

National Rental Affordability Scheme

The National Rental Affordability Scheme (NRAS) is a $6.0 billion Commonwealth and State and Territory government initiative to stimulate the supply of more affordable rental homes across Australia.

It is designed to bring forward additional housing supply by offering annual financial incentives to private investors and community organisations to build and rent homes to low and moderate income households at a rate that is at least 20 per cent below market value.

While the Commonwealth Government understands the role that the Scheme can play in providing more affordable rental housing, particularly for low income earners, it has also identified that there is significant scope to improve the operation and administration of the Scheme, especially in relation to the 'trading of incentives' and the better targeting of the Scheme to low and moderate income Australians.

The Government has therefore tasked the Department with examining options to improve the operation of the Scheme and ensure there are more stringent processes to test compliance.

National Affordable Housing Agreement

The NAHA is a broad-ranging, ongoing housing agreement which commits a significant amount of Commonwealth funding to the States and Territories through a national specific purpose payment.

The Commonwealth Government is interested in examining ways to improve the operation of the NAHA to ensure there is greater transparency, accountability and incentives to promote an increase in the supply of dwellings.

The Commonwealth is committed to working with all State and Territory governments to achieve these outcomes.

Commonwealth Rent Assistance

Commonwealth Rent Assistance (CRA) is the main form of housing assistance in Australia, with over 40 per cent of households in the private rental market receiving CRA payments. In 2012-13, CRA was provided to around 1,268,000[59] individuals and families at a cost of $3.6 billion[60].

The Commonwealth Government recognises the importance of ensuring CRA is achieving its policy outcomes. To ensure this occurs, CRA has been included, like many other Government payments, in the Government's Welfare Review.

[59] Productivity Commission, Report on Government Services 2014, Table GA.16. Available at: <http://www.pc.gov.au/gsp/rogs/housing-homelessness>.
[60] Productivity Commission, Report on Government Services 2014, Table GA.13. Available at: <http://www.pc.gov.au/gsp/rogs/housing-homelessness>.

First Home Saver Accounts

First home saver accounts allow individuals and families saving for their first home to access co-contributions from the Commonwealth and concessional tax treatment on any interest earned to help grow their deposit.

The Australian Prudential Regulation Authority reported that as at September 2013, approximately 45,300 accounts had been opened with funds of approximately $500 million[61].

The initial design of these accounts is complex for providers, and when combined with some of the 'rules' governing access to the funds, this has limited both the number of institutions offering these accounts and more importantly the take up by potential first home owners.

Indigenous Housing

National Partnership Agreement on Remote Indigenous Housing

NPARIH is a subsidiary agreement to the NAHA designed to help address significant overcrowding, homelessness, poor housing and severe housing shortages for Indigenous communities.

Commencing in 2008, the $5.5 billion investment over 10 years includes property and tenancy management arrangements to bring remote housing in line with mainstream public housing standards, including reformed rents and tenancy support programmes. Secure land tenure is a pre-condition of investment to secure government and commercial investment, and to promote economic development opportunities and home ownership possibilities.

As at 31 January 2014, 2316 new houses have been delivered against the 2018 target of 4,200, and the refurbishment target of 4,876 by 2014 was exceeded early with 6,339 refurbishments and rebuilds delivered. Since 2008, the programme has delivered affordable accommodation in over 300 remote Indigenous communities in the Northern Territory, Western Australia, Queensland, South Australia, New South Wales, Tasmania and Victoria.

The Employment Related Accommodation (ERA) programme is designed to break the cycle of welfare dependency that often occurs in remote Indigenous communities by providing affordable accommodation in regional and urban areas to support people from remote communities to access training, education, and employment. As at 31 January 2014, ERA has delivered a total of 112 facilities across Australia.

However, despite the overall investment under NPARIH, overcrowding remains a significant issue in many Indigenous communities throughout Australia. Data from the 2011 Census shows some reduction in the proportion of Indigenous households experiencing both overcrowding and severe overcrowding (a component of homelessness) in remote Australia. Jurisdictions have also reported a reduction in severe overcrowding in communities where there has been capital works investment under the NPARIH[62].

[61] Australian Prudential Regulation Authority 2013, available at: <http://www.apra.gov.au/CrossIndustry/FHSA/Pages/default.aspx>.
[62] NPARIH Review of Progress: 2008-2013

The Census indicated that the Northern Territory has the highest incidence of overcrowding (37.5 per cent in 2011), with these rates as high as 60.4 per cent in very remote parts of the Northern Territory.

Homelessness

While the overall rate of homelessness in Australia (as a proportion of the overall population) is relatively low, there are still approximately 105,000 Australians who:

- live in a dwelling that is inadequate; or
- have no tenure, or if they have tenure it is short and not extendable; or
- have living arrangements that do not allow them to have control of, and access to, space for social relations.[63]

The Commonwealth and States and Territories are jointly providing over $320 million in 2013-14 under the National Partnership Agreement Homelessness. This funding supports over 180 homelessness initiatives and a range of capital projects across Australia.
On 30 March 2014, the Minister for Social Services, the Hon Kevin Andrews MP, announced further funding of $115 million to enable these services to continue in 2014-15.

In addition to these funds, the Commonwealth provides a significant amount of funding to the states and territories to provide stable pathways to housing and further training and employment for homeless Australians through the NAHA. Approximately $250 million of the funding provided under the NAHA has its origins in former programmes for homeless Australians.

Other services supported by the Government include:

- Reconnect - which is a community-based early intervention programme for young people aged 12 to 18 years (young people aged 12 to 21 for Reconnect-Newly Arrived Youth Specialist services), who are homeless or at risk of homelessness, and their families. Reconnect services provide counselling, group work, mediation and practical support to the whole family, to help break the cycle of homelessness.

- The Household Organisational Management Expenses (HOME) Advice Programme which assists families who face difficulty in maintaining tenancies or home ownership due to personal or financial circumstances.

[63] ABS, 2049.0 – Census of Population and Housing: Estimating homelessness, 2011

Summary

Although Australia's housing market is broadly able to provide the majority of Australians with suitable accommodation, those Australians who want to purchase a home for the first time, up-grade to a more suitable home, are on low or moderate incomes in the private rental market or are homeless, face real issues around housing affordability.

The primary driver of these affordability issues has been the failure of housing supply to respond to the ongoing increase in demand for housing for owner-occupier, rental and investment purposes.

While the Commonwealth is largely responsible for the policy levers controlling housing demand, state and territory and local governments are almost exclusively responsible for housing supply.

To date, while there has been recognition of the need to increase housing supply there has not been a prolonged or significant increase in new completions that would indicate the commitment of jurisdictions to achieving this goal.

Without reforms to existing policy settings, the current issues with housing affordability will not recede, and indeed are more likely to intensify given the current low interest rate environment. This will lead to an increase in the number of Australians excluded from owning their own home, which is likely to put further pressure on the private rental market and in turn community and public housing.

Given the important role housing plays in redistributing income and wealth within the community, the recent trends impacting upon labour force participation, household formation and consumption, investment and retirement are also likely to intensify.

The long-term ramifications from changes to these historical trends provide a compelling reason for governments to work together to address the current issues with housing supply and affordability.

While any reform would be a welcome first step, reforms to ensure a sustainable increase in housing affordability across the entire market will need to focus on the structural framework within which the housing market operates. A weakness of past measures has been that they have centred almost entirely on social housing, which only represents around five per cent of the broader housing market; or have alternatively sought to intervene in the operation of the market, rather than alter the framework governing the operation of the market.

If governments were to undertake structural reform to both housing supply and housing demand, to support housing affordability, these changes would take time given the need for widespread community support and the length of time required before any change would actually have an effect on the operation of the market.

In the meantime, more targeted reforms could be made to the operation of the NAHA to increase transparency and accountability, as well as to NRAS to ensure it is more flexible and better targeted. Further, measures which facilitate and encourage more private investment into affordable housing could also be examined to determine both their viability and level of community support.