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Submission to the Senate inquiry into affordable housing

Submission
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TAI

Submission

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Introduction

The Australia Institute is pleased to make a submission to the inquiry into affordable housing.

This submission will address the effect of policies designed to encourage home ownership and residential property investment as set out in the criteria of this inquiry. More broadly this submission will focus on the theme of housing equality and examine the inequality that exists between generations and income groups. In doing so it will consider the impact of not having a long-term, national affordable housing plan.

Why own a home?

Home ownership has always been characterised as the great Australian dream. Many Australians aspire to home ownership and at the 2011 census 67 per cent of households owned a home, either outright or with a mortgage[1]. The purchase of a home is likely to be the largest financial decision of most people's lives with housing accounting for around two-thirds of all private sector wealth in Australia.[2]

Home ownership provides many benefits, both social and economic. In contrast to the rental market where leases may be terminated or not renewed, home ownership provides people with more secure tenure. This security has the associated benefits of creating a stable base for participation in work and education.[3]

Home ownership also has large economic benefits and reduces housing costs in the long term. Unlike renting which has constant ongoing costs, housing costs are very low for home owners once mortgages have been paid off. This is a desirable situation for those who are entering retirement and have less earning potential.[4] Homes are also an investment and provide people with an asset against which they can borrow. Home ownership gives people more purchasing power and many people re-mortgage their homes for upgrades, restorations or other purchases[5]. The Australian Housing and Urban Research Institute found that on average for every $100,000 in housing wealth, consumption increases by $1,000-$1,500 annually.[6]

Given the economic and social advantages of housing it is important that people have the opportunity to enter into home ownership. If housing affordability, however, represents a financial barrier to home ownership there will be wide social and economic consequences. This submission outlines the housing affordability issue before examining the drivers behind high prices in the property and rental market. This evidence forms the basis for suggestions outlined at the end of the submission.

[1] ABS (2011) *Census of population and housing*

[2] Productivity Commission (2004) *First home ownership*

[3] Hulse K et al (2010) *The benefits and risks of home ownership for low-moderate income households*

[4] National Housing Supply Council (2013) *Housing Supply and Affordability Issues 2012-13*

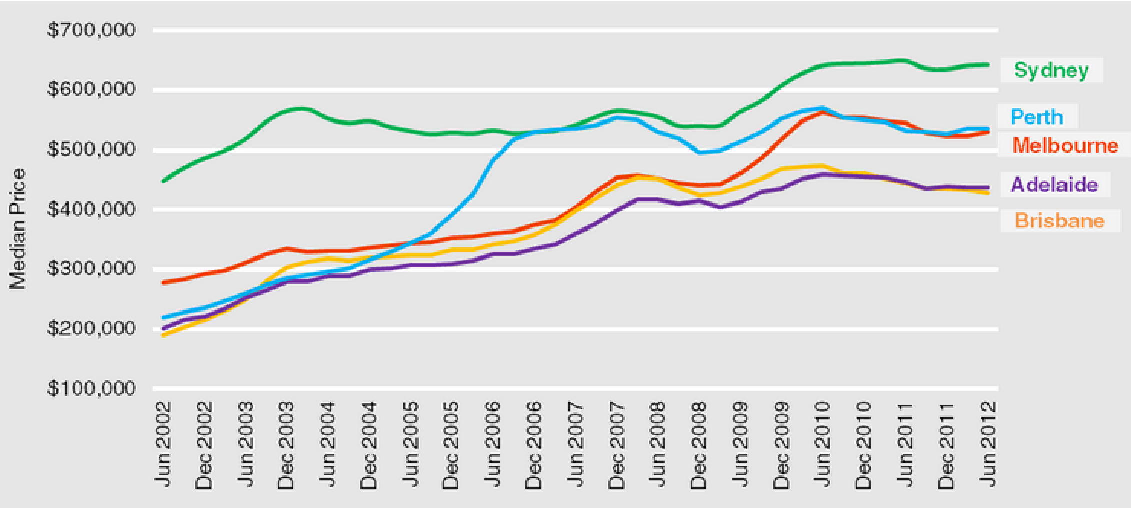
[5] Ong R et al (2013) *Housing equity withdrawals: uses, risks, and barriers to alternative mechanisms in later life*

[6] Yates J and Whelan S (2009) *Housing wealth and consumer spending*

Is housing affordable?

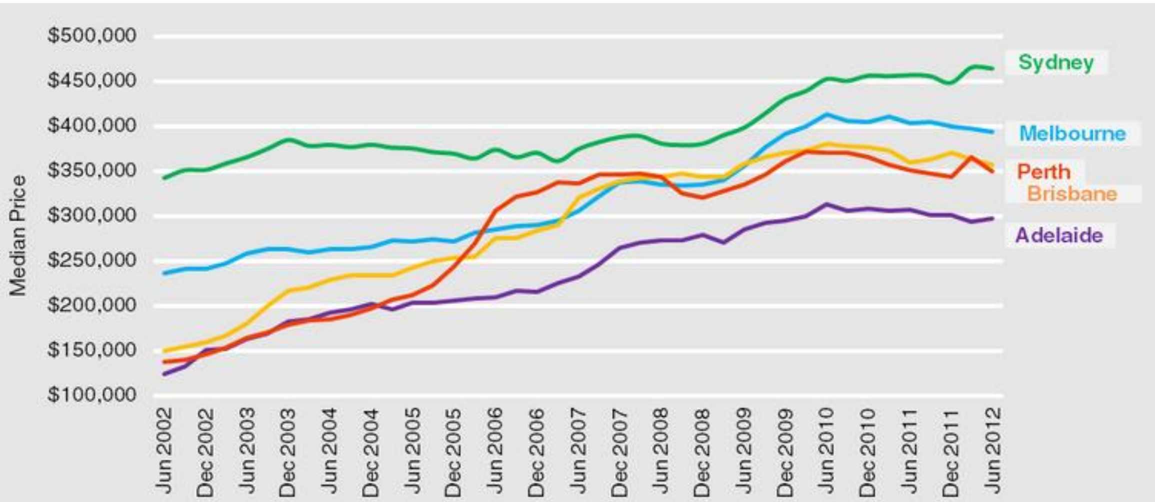
Property prices in Australia, both houses and units, have risen in recent times (see Figure 1 and 2 below).

Figure 1: Median House Prices



Source: Australian Property Monitors

Figure 2: Median Unit Prices



Source: Australian Property Monitors

Affordability is declining as house prices increase at a faster rate than income, as shown in Figure 3 below. Compared to a decade ago incomes have increased by 57 per cent and house prices have risen by 69 per cent.[7] An international survey on housing affordability found that housing was unaffordable across all of Australia in 2013. The survey measured housing that was three times median earnings or less as affordable. Sydney house prices were nine times median earnings and Melbourne prices were 8.4 times median earnings.[8]

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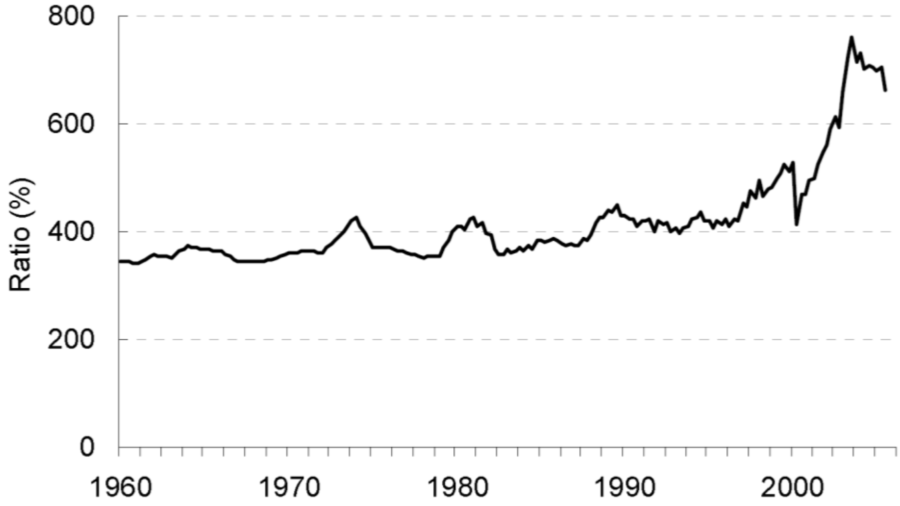
[7] National Housing Supply Council (2013) *Housing Supply and Affordability Issues 2012-13*

[8] Demographia (2014) *10th Annual Demographia International Housing Affordability Survey:2014*

Figure 3: House price to income ratio



Source: Yates J (2007)

Rising house prices reinforce existing social inequality as those who own property benefit from price increases and those who don't own property struggle, through either being priced out of the market or paying high rent. Generally it is older people and those who are wealthier who own houses and younger people or those on low incomes who do not.[9] This means that inequality exists not only between rich and poor but also between generations.

Who misses out?

The property market is becoming an increasingly popular option for investors with government policies only heightening the attraction, as discussed further on Page 7. The proportion of housing finance going to investors has more than doubled since 2001 and in January 2014 investors accounted for 39 per cent of the value of home loans[10]. This growth in investment housing is being largely driven by the "baby boomer"[11] generation.[12]

Through investing in property "baby boomers" are increasing existing housing inequality between themselves and their children. Not only were "baby boomers" able to buy houses cheaper, relative to income, when they were younger but their investment in housing today has been a significant factor in increasing demand in the market and raising prices. Stories about baby boomers pricing young households out of the market are becoming increasingly common.[13]

The increase in house prices relative to income has resulted in a decline in younger people owning property. First home buyers are being squeezed out of the market with their share of home loan approvals hitting a record low of 12.3 per cent nationally in November 2013[14]. Figure 4 below illustrates this decline.

[9] Kelly J-F (2013) *Renovating housing policy*

[10] ABS (2014) *Housing Finance, Australia, Jan 2014*

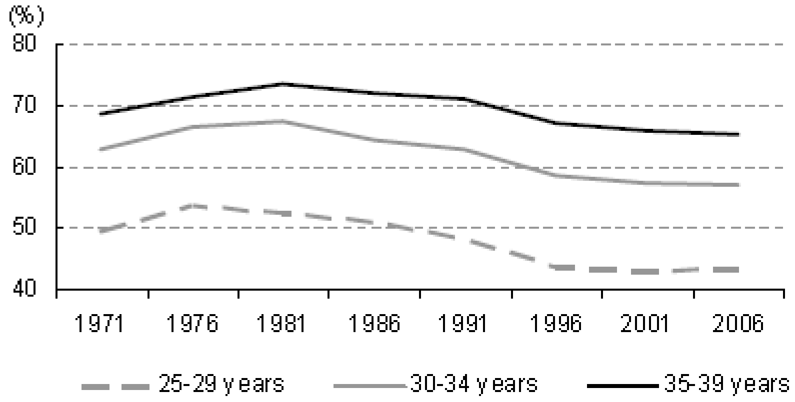
[11] The ABS defines the "baby boomers" as those born between 1946-1966. ABS (2012) *Reflecting a Nation: Stories from the 2011 Census, 2012-2013*

[12] Yates J (2007) *Affordability and access to home ownership: past, present and future?*

[13] For example see Kwek G, Nicholls S and Johnstone T (2014) *Baby boomers continue to squeeze out first-timers* and Janda M (2014) *Australian homes worth $5 trillion as investors hit 10-year high*

[14] Kwek G (2014) *First-home buyers squeezed out further*

Figure 4: Home ownership rates over time for younger households by age cohort



Source: Yates J (2007)

The current deposit gap means that young people may require financial assistance from their parents or grandparents to buy their first home. Income inequality is likely to be transferred from one generation to the next since those parents or grandparents who could not afford their own home are unlikely to be able to help the current generation buy houses. Home ownership therefore transfers existing income inequality through generations and reinforces the gap between those who own houses and those who do not.

Who rents?

Rental prices have risen at a faster rate than house prices. Compared to a decade ago house prices have risen 69 per cent while rent prices increased 76 per cent for houses and 92 per cent for apartments[15]. Rent has increased not only in response to house prices but also because the demand for rental properties has increased.

For those young people who cannot afford to buy a home, renting for longer periods has become the only feasible option. This situation is commonly referred to as 'Generation Rent'[16] and it has placed greater pressure on the rental market.

These aspirational home owners who continue to rent generally earn a higher income and can afford more expensive rental accommodation. Consequently, a change in the distribution of rental accommodation has occurred. For example, between 2001 and 2006 higher income renters were partly responsible for an increase in rental accommodation at the more expensive end and a decrease at the low income end.[17]

This situation is placing financial stress upon low income renters. Low income households face an affordable housing shortage, not only because of an absolute shortage of housing but also because an increasing proportion of available housing is taken up by higher income households.[18] A 2011 study[19] into renting found that 79 per cent of very low income households miss out on affordable housing and 24 per cent of low income households face affordability issues. Similarly, Anglicare Australia found that on a given day in 2013 there was

[15] National Housing Supply Council (2013) *Housing Supply and Affordability Issues 2012-13*

[16] For example see Sheehan P (2013) *Housing crisis locks out Generation Rent*

[17] Wulff M et al. (2011) *Australia's private rental market: the supply of, and demand for, affordable dwellings.*

[18] Wulff M et al. (2011) Australia's private rental market: the supply of, and demand for, affordable dwellings.

[19] Wulff M et al. (2011) *Australia's private rental market: the supply of, and demand for, affordable dwellings.*

virtually no affordable rental accommodation available for households on government assistance or the minimum wage[20].

Why is housing unaffordable?

The rise in house prices cannot be attributed to one single factor. While high prices ultimately suggest a lack of housing supply there are a number of underlying structural issues that mean addressing supply will not necessarily reduce prices. A range of factors increase demand and consequently push up the price of housing.

A number of social and financial factors have increased housing demand and consequently contributed to an increase in prices. General social trends such as population growth have placed demand on the housing market.[21] Additionally, household size has decreased substantially in the past century from 4.52 people per household in 1911 to 2.54 in 2011.[22] At the same time, dwelling size, as indicated by the number of bedrooms, has increased from 2.8 bedrooms in 1976 to 3.1 in 2009-10, contributing further to increased housing costs.[23]

Many commentators have attributed the rise in house prices to the increased availability of mortgaged finance and the drop in interest rates.[24] Access to cheap credit has allowed households to maintain higher levels of debt and encouraged them to purchase property. The majority of this demand is from investors, not first home buyers, suggesting intergenerational inequality is increasing and young people are being priced out of the market.

Government housing policies

There are a range of government policies that affect housing, from tax exemptions for home owners to providing public housing for low income households. Many government policies simply add to housing demand and have been found to contribute to the rise in house prices. Government policies tend to favour those who already own homes and therefore increase the inequity between those who can afford property and those who cannot. Policies that support existing home owners and contribute to price rises, though inequitable, are not surprising in the context of 67 per cent of Australian households owning homes.

The key government policies which affect house prices are outlined below.

Tax concessions

The government provides assistance to home owners, both owner-occupiers and investors, indirectly through the tax system. The family home is exempt from capital gains, making owner-occupied housing one of the most tax advantaged form of assets[25]. This increases demand for housing and greatly benefits those who own their home.

Investors benefit from the government policy of negative gearing. When the interest payments on a loan exceed the rent received a financial loss is incurred. Negative gearing allows investors to deduct this loss from their taxable income. Furthermore, investors who have held property for at least 12 months are entitled to a 50 per cent discount on capital

[20] Anglicare Australia (2013) *Rental Affordability Snapshot*

[21] Select Committee on Housing Affordability in Australia (2008) *A good house is hard to find: Housing affordability in Australia*

[22] Eslake S (2013) *50 years of housing failure*

[23] ABS (2012) *Year Book Australia, 2012*

[24] Select Committee on Housing Affordability in Australia (2008) *A good house is hard to find: Housing affordability in Australia*

[25] Yates J (2007) *Affordability and access to home ownership: past, present and future?*

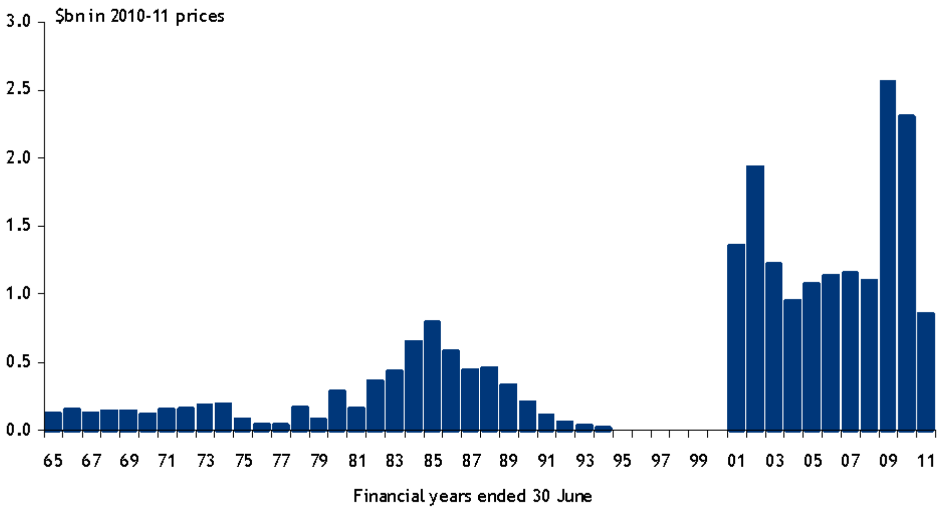
gains when they sell, meaning that only half the capital gain will be added to their assessable income.[26] The combined cost of these policies places significant pressure on the federal budget. Negative gearing costs the budget between $2.6 and $3.6 billion[27] per year while the capital gains discount will cost $4.3 billion in 2013-14.[28]

Government tax concessions provide support and advantages for home owners and no benefit to renters. High income households are particularly favoured as they have the financial capacity to purchase property and a larger taxable income to deduct losses from. Through providing such generous tax benefits government policy has increased the demand for investment housing. First home owners, who often have less financial capacity, must now compete against investors for properties. These tax concessions are inequitable and further reinforce the intergenerational and income gap between home owners and first home buyers or renters.

Grants

Governments have been giving cash grants to first home buyers with the aim of increasing home ownership for half a century.[29] It has been estimated that between 1964-2011 a total of $22.5 billion was spent on these grants by Commonwealth, State and Territory governments[30]. The size of these grants has increased in recent times, as shown in Figure 5.

Figure 5: Spending on cash assistance to first home buyers, 1964-65 to 2011-12



Source: Eslake S (2013)

Despite the longevity of this policy, home ownership has not increased above 70 per cent since it reached its peak of 72 per cent in 1961.[31] Through increasing demand for housing these grants have simply led to an increase in prices and hence benefited existing home owners more than first home buyers. These grants are therefore counterproductive and tend to reinforce the existing inequality between those who own homes and those who do not.

[26] Australian Taxation Office, *Tax-smart investing: What Australian property investors need to know*

[27] TAI calculations based on ATO, *Taxation statistics 2010-11.*

[28] Commonwealth Government (2014). *Tax Expenditure Statement*

[29] Eslake S (2011) *Door should close on first home owner grant*

[30] Eslake S (2013) *50 years of housing failure*

[31] Eslake S (2011) *Door should close on first home owner grant*

Conclusions

This submission has examined the inequality that exists between those who own a home and those who do not. Owning your own home brings social and financial benefits that are out of reach for many of those in the rental market. Though buying a home can impose an initial financial burden on households, in the long term home ownership can provide the advantage of accumulating asset wealth, better access to finance and lower housing costs.

The issue of housing affordability is complex and there is no silver bullet solution available. With the aim of reducing intergenerational and income inequality in the housing market there are a number of factors that this inquiry needs to consider.

1. Should the aim be to achieve home ownership for all households who seek it? Though this would address the issue of inequality between home owners and renters the inquiry needs to consider whether this is an achievable and necessary goal.
2. If assisting all households into home ownership is not an aim of this inquiry a number of other factors are important for reducing existing inequality. Firstly, the inquiry should examine the cost and efficacy of existing policies such as negative gearing and First Home Owner Grants. Additionally, capital gains policy needs to be examined. Home ownership allows people to earn capital gains that are tax free. This policy benefits home owners greatly and exacerbates existing inequality by reducing the relative position of renters. There are practical and political problems associated with attempts to address the tax advantages of the family home. However, the imbalance can be addressed to some extent with policies that favour renters and especially low income renters. Rent assistance for private renters on government benefits and pensions is inadequate and should be urgently addressed (along with the base pay rates under Newstart and related payments).
3. As long as increasing house prices remain an issue some people are going to be renting for longer periods. It is important, therefore, that the inquiry consider policy changes that assist the housing security concerns of renters and assist them into home ownership. For example, policies that provide renters with more secure tenure or allow public housing tenants to purchase properties they live in through some type of credit scheme would improve the social and financial situation of many renters. Likewise there needs to be a more adequate provision of public housing.

The Australia Institute hopes the inquiry explores these options and that its draft report reflects an understanding of the inequality present in the housing market and the need to address this through housing policy reforms.

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