

**SUBMISSION TO THE STANDING COMMITTEE ON ECONOMICS
HOME OWNERSHIP INQUIRY JUNE 2015**

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**Submission to the Standing Committee on Economics,
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1. Introduction

Home ownership has always been, and will remain, the tenure of choice for households living in Greater Perth. A recent survey as part of the *Housing We'd Choose: A Study for Perth and Peel* report (Department of Housing, 2013) found that 98% of respondents stated their preferred tenure as owner occupation. Responses to the survey contained a large proportion of low income renters, which indicated that strong aspirations to enter home ownership were being blocked by income constraints - primarily lack of access to the deposits required by major lending institutions.

This submission concentrates largely on evidence from Western Australia as part of research conducted by members of the AHURI Curtin Research Centre and the Bankwest Curtin Economics Centre (BCEC). We feel it is important to present evidence from this State as the housing market typically operates rather differently from the East coast, particularly Sydney and Melbourne, with households holding different aspirations, largely borne out of the lack of dwelling diversity within the market (almost 80% separate dwellings).

This submission covers the following areas relevant to the inquiry's terms of reference:

- Home ownership aspirations;
- Access to home ownership;
- Dwelling demand and supply;
- Investment and home ownership debt;
- Opportunities for reform.

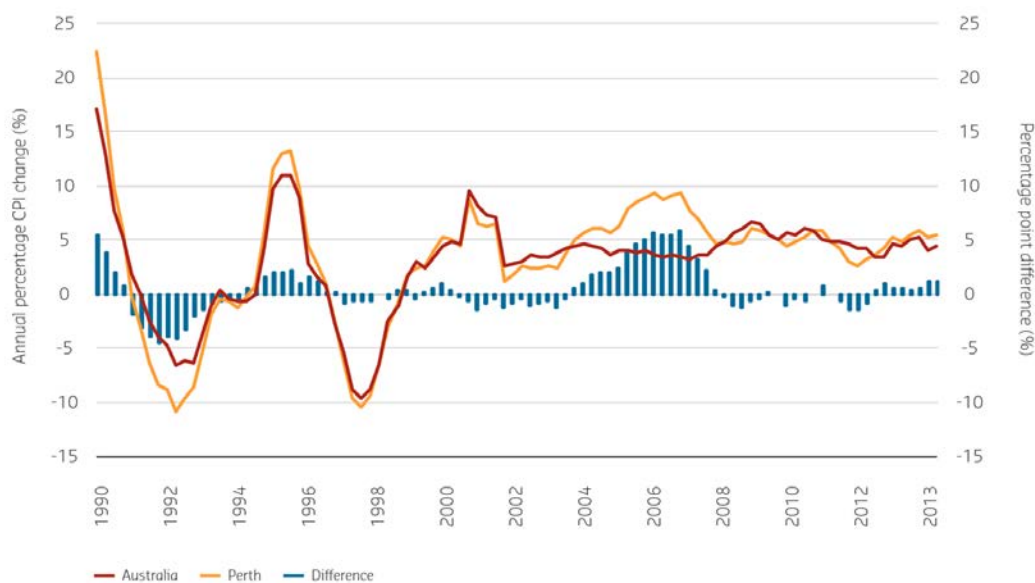
2. House prices in Western Australia

House prices in Western Australia – and housing costs more generally – exceeded the rate of growth for the remainder of the Nation over the course of the resources boom. House price inflation in Perth tracked reasonably closely to the Australian average (Cassells *et al.*, 2014b) up until 2003, however, over the next four years overall housing costs increased at a rate consistently above the national average (Figure 1). As shown in Figure 2, between 2003 and 2007, the rate of change in established house prices in Perth was particularly high, with annual percentage changes exceeding 20% (Cassells *et al.*, 2014a).

As detailed in the BCEC Housing Affordability report (Cassells *et al.*, 2014b), there is great diversity in established housing prices across the Perth Metropolitan region:

- ➔ The median price of an established house was \$545,000;
- ➔ The lowest median price was \$302,500 in Camillo, near Kelmscott in the south east of the metropolitan area;
- ➔ The highest was \$2,840,000 in Peppermint Grove surrounded by both the Swan River and the Coast.
- ➔ Established houses located in the inner city, along the river, and adjacent to the coastline generally attract higher prices.
- ➔ Houses within a 10 kilometre radius from the city centre (as represented by the General Post Office in Forrest Place) are more costly than those outside this ring (Cassells *et al.*, 2014b).

Figure 1: Annual percentage change in housing costs CPI for Perth and Australia, 1990-2013



Note: Housing costs comprise: rents, new dwelling purchases, maintenance and utilities.
Source: BANKWEST CURTIN ECONOMICS CENTRE | AUSTRALIAN BUREAU OF STATISTICS Cat No. 6401.0

(Cassells *et al.*, 2014b:9)

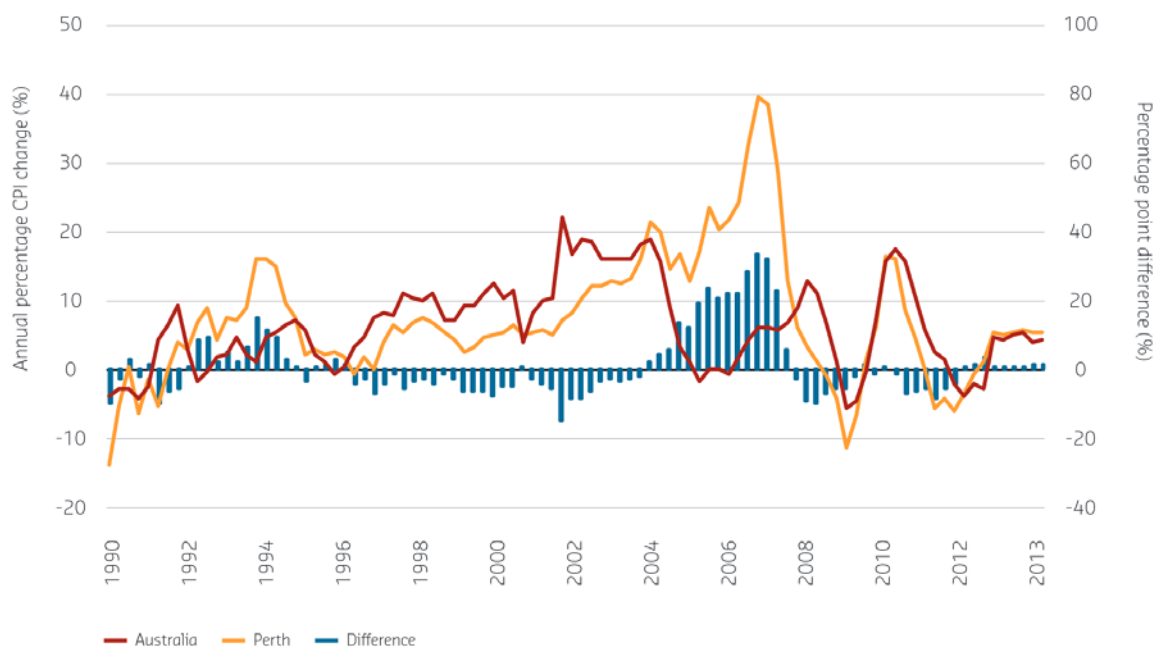
The BCEC household affordability report used data from the Australian Bureau of Statistics (ABS) Survey of Income and Housing to examine median mortgage costs as a proportion of household disposable income, to understand how much Australian households are actually paying in housing costs. In general, those in capital cities pay a higher proportion of their

disposable income to repayments than those living in the balance of each state and territory.

Key findings included:

- ➔ The burden of mortgage costs were the greatest in Sydney during the period 2003–04 to 2011–12, where households committed a median level of 29% of household income to housing costs.
- ➔ The resources boom heavily influenced housing cost shares in regional Western Australia, with the median burden of mortgage costs increasing from 19% in 2003–04 to 25% in 2011–12, an increase of almost six percentage points
- ➔ Median mortgage costs have also increased in Perth. In 2003–04, the median mortgage costs as a proportion of household disposable income were 23% for Perth home owners, this has increased slightly to 26% in 2011–12. This is likely due to income rises across this period offsetting house price increases to a large extent for the West’s capital.

Figure 2: Percentage change in established house price for Perth and Australia 1990-2013



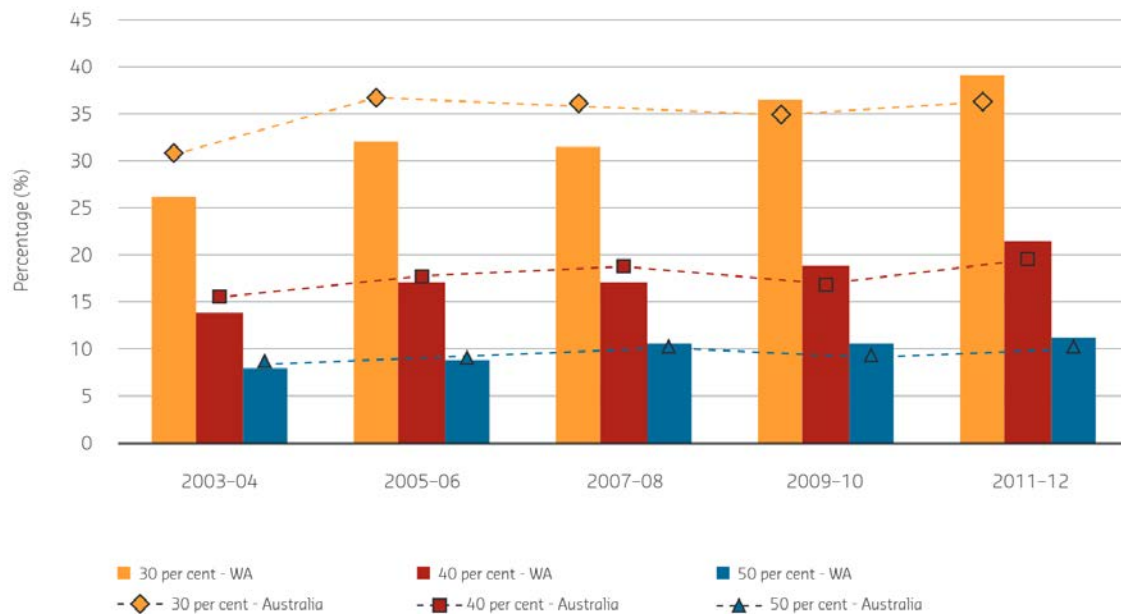
Source: BANKWEST CURTIN ECONOMICS CENTRE | Costello, Fraser and MacDonald (2013).

(Cassells *et al.*, 2014b:9)

West Australian home owners are, on average, spending more on mortgage costs when compared to the rest of Australia. In 2003-04 only one in four WA households were paying

more than 30% towards housing costs, compared to over 30% of households in the rest of Australia. By 2011-12, almost 40% of all owner-occupier households were devoting more than 30% of their incomes towards mortgage repayments (Figure 3). In addition, “the proportion of households paying more than 40% in disposable income has also been increasing for WA, from 13% in 2003–04 to 23% in 2011–12. Those paying more than 50% have also increased significantly, from around 7% to 12%” (Cassells et al., 2014b:25)

Figure 3: Mortgage cost shares for WA and Australia 2003-04 to 2011-12



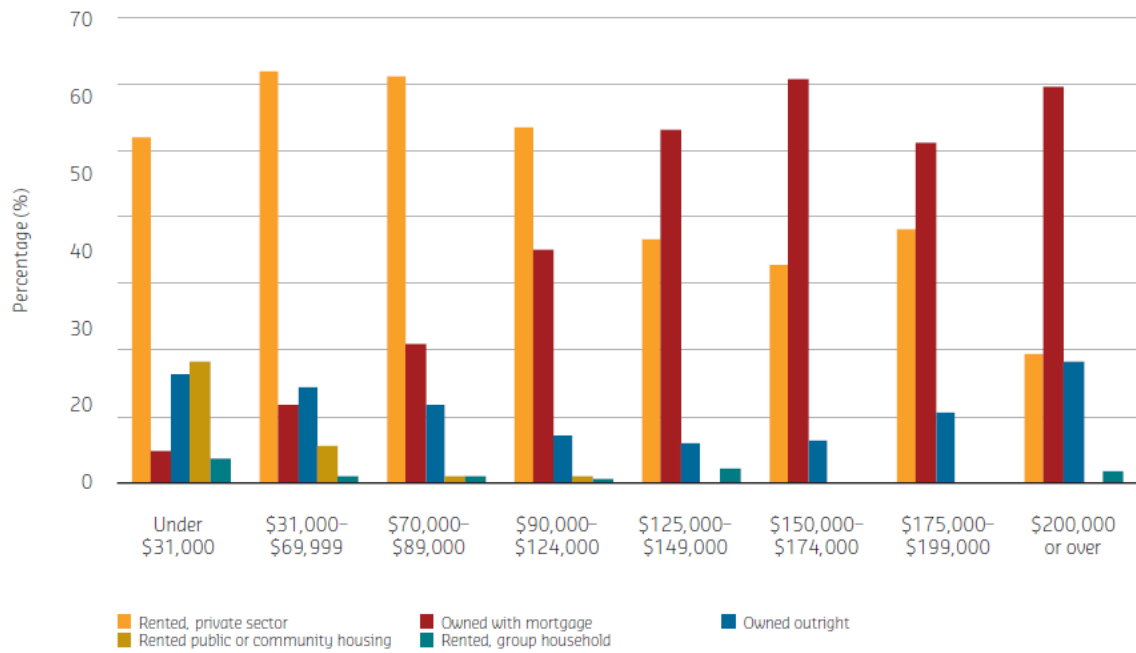
Note: Calculations are for those household who have a mortgage.
Source: BANKWEST CURTIN ECONOMICS CENTRE | Authors' calculations from ABS Survey of Income and Housing, 2003-04 to 2011-12.

(Cassells et al., 2014b:9)

A survey conducted as part of the BCEC housing affordability report showed that very few households earning under \$90,000pa have access to home ownership (Figure 4) and households that did access ownership considered themselves to be financially better off when compared to those in the private rental sector (Table 1 and figure 5). Figure 5 shows only 25% of owner occupiers perceived their housing as unaffordable compared to over 40% of those in the private rental sector.

Additionally when households have entered ownership they have fewer difficulties meeting housing costs (Figure 6). The survey reports on a number of case studies from survey respondents which highlight the different ways housing affordability affects households' location choice and economic decisions (Cassells et al., 2014b).

Figure 4: Household income and housing tenure



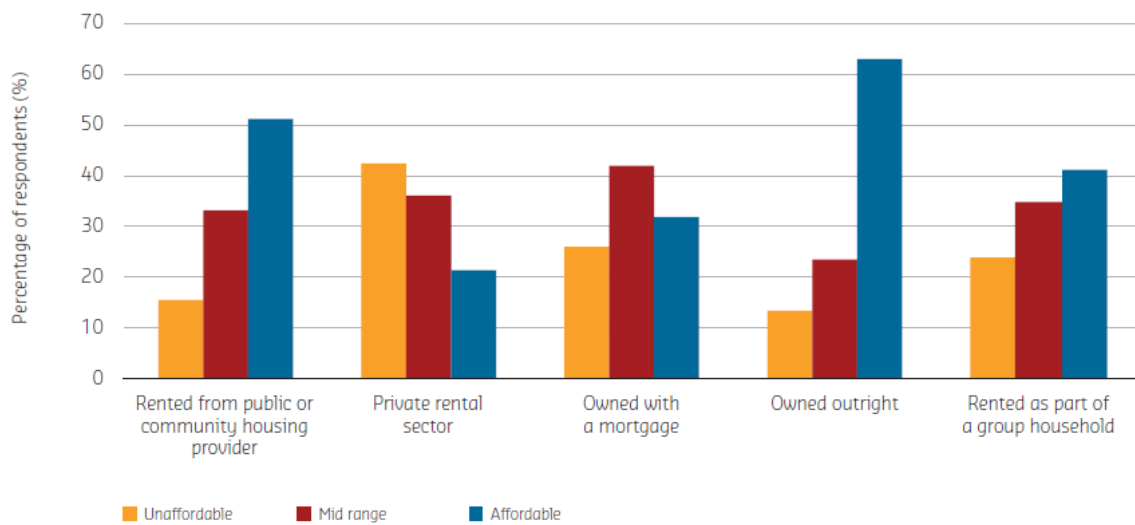
Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

Table 1 Self assessed financial situation by housing tenure

Financial situation	Rented from public or community housing provider	Rented in the private sector	Owned with a mortgage	Owned outright
Very Prosperous	0%	1%	3%	1%
Prosperous	0%	3%	13%	14%
Comfortable	37%	55%	72%	76%
Poor	53%	36%	11%	8%
Very poor	9%	6%	1%	1%
Total	100%	100%	100%	100%

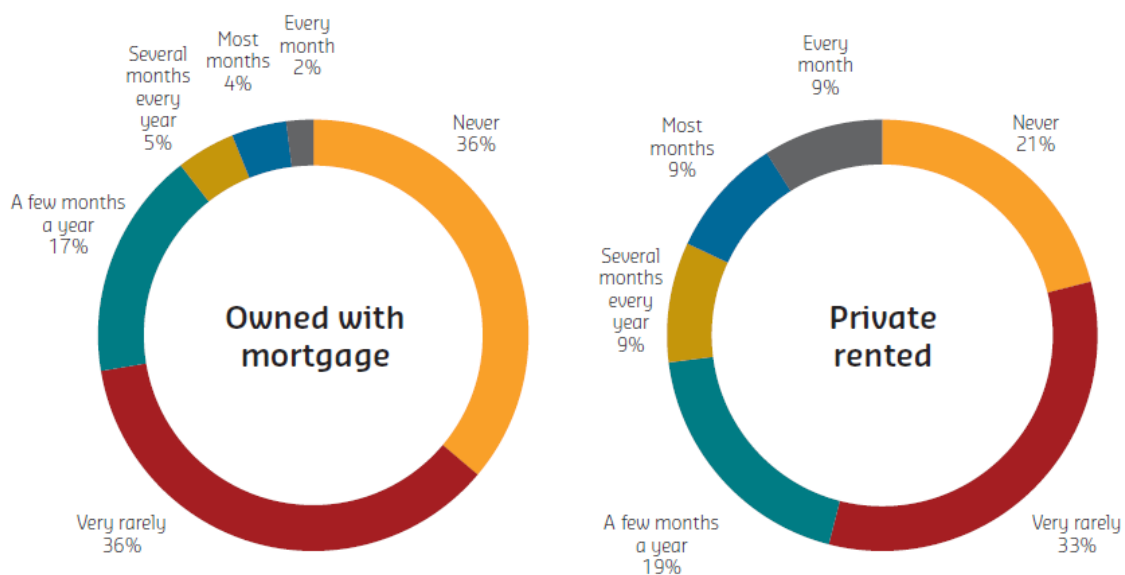
Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

Figure 5 Housing affordability perceptions by housing tenure



Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

Figure 6 Difficulties meeting housing costs by tenure



Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

3. The Housing aspirations of Western Australians

Drawing on two recent large-scale surveys, a number of key demand issues were identified for the Greater Perth housing market. The first study, conducted in late 2012 was known as the “What Matters Most” survey was part of the *Housing We’d Choose* study for the Department of Housing (Department of Housing 2013). This survey of 866 households found that 98% of respondents chose owner occupation as their preferred tenure. Interestingly, of this 98%, 17% preferred ownership through a Shared Equity model (Department of Housing, 2013). With only 2% of survey respondents preferring to rent, the study demonstrates that home ownership continues to be the tenure choice for the vast majority of Western Australian households.

A quarter of all respondents to the same survey indicated that the most likely reason to move was to elicit a change in tenure. This suggests that a significant proportion of future housing demand in Perth will come from renters seeking to become home owners (Department of Housing, 2013). The decision to rent or buy a house was framed by housing affordability, closely followed by location. Dwelling design, except for the highest income group, was only half as important as affordability.

When buying a house, 90% of respondents indicated that a safe neighbourhood was the most important housing attribute. There was also a strong preference to be located within easy access to the main income earner’s place of work and, for lower income groups, close to quality public transport.

The BCEC report (Cassels et al 2014b) asked individuals that aspired to home ownership but were currently living with their parents or in group household why they wanted to own a home. Although the sample was small at 160 the results were interesting in that the motivation was less about investment and more about having a place to call home (table 2).

Table 2: Home purchase motivations of individuals living with parents and in group households

Why do you want to buy a dwelling?	% selecting option
It is an investment / to make money	31%
I want a place to call home	63%
Society expects it of me	7%
So I have somewhere to entertain and socialise	30%
So i have somewhere to bring up a family	25%
It is a better option than renting	47%
It offers a sense of security	39%
I want to be independent	48%
Somewhere to be myself	26%

In summary the “What Matters Most” survey found that home ownership was an aspiration and the tenure preference for almost all of those surveyed. The safety and security of the location and tenure was the most important property specific component in the decision to move house, with the decision framed by affordability. The relative lack of importance attributed to housing features such as the number of bedrooms indicates that Western Australian’s are willing to make trade-offs to achieve home ownership in a desired location.

4. Housing preferences and trade-offs

The “What Matters Most” survey informed a second survey which examined the housing choices made by households when constrained by income. Similar to a survey by the Grattan Institute in Melbourne and Sydney, the “Housing Preferences and Trade-Offs” survey conducted in Perth as part of the *Housing We’d Choose* (Department of Housing 2013) study was based on self-reported income and asset information subsequently used to produce a range of housing choices in nine locations in the metropolitan region. The survey script first asked respondents for their preferred location, dwelling type and number of bedrooms and then, based on their financial information, offered them personalised dwelling options considered affordable to that household.

The study provided respondents with a range of affordable housing options based on location and tenure preferences. Respondents were then asked to select those housing options they would be prepared to purchase and rank them in order of preference. Adding income constraints forced households to make trade-offs from their original preferences if those preferences were not affordable to them. For the 40% of respondents that initially selected the inner area of Perth as their first choice location only a third of those respondents subsequently

selected the inner city location as their preferred housing choice. Significant proportions within each demographic group surveyed were unable to access their preferred location, but were prepared to trade off location to access home ownership (Department of Housing, 2013).

The survey asked respondents to think about the type of dwelling they would be prepared to purchase and select favoured options from a list. More than three quarters (78%) of respondents stated their housing preference to be a separate house. Once subjected to financial constraints only 56% chose that option trading off a separate house for a variety of alternative options (Department of Housing, 2013). The most popular options were the non-traditional forms of housing (in Perth at least) such as the 3-bedroom semi-detached, 3-bedroom townhouse, 2-bedroom apartment, 2-bedroom townhouse and 2-bedroom semi-detached dwelling. The four-by two was still popular but lagged behind the 2 and 3 bedroom options (Cassells *et al.*, 2014b). Respondents were willing to accept semi-detached dwellings as a viable housing choice, and many selected this type as an alternative to a separate house because it allowed them to access a preferred location within their budget (Department of Housing, 2013).

The study demonstrated that potential purchasers were prepared to accept a range of different dwellings if it allowed them to access a preferred location and home ownership (Department of Housing 2013). They were less willing to trade off the number of bedrooms than they were to trade off the house type. Overall, the findings indicate an increase in demand for semi-detached housing when affordability is applied and the need to produce more 3-bedroom options, particularly to allow those in older age categories to downsize. The trade-offs (location, house type and size) that households were prepared to make were dependent on wealth and composition.

Overall, the study found that financially constrained households are prepared to trade-off house type (space) for location. If these housing preferences were matched, the outcome would be a supply of affordable accommodation (semi-detached dwellings, townhouses) within the inner suburbs of Perth, resulting in a more compact city. Tables 3 and 4 from the BCEC survey provide further evidence of the extent to which households trade off location to access affordable housing in Greater Perth.

Table 3 Choices made by households living outside their first choice location

Distance of alternative location	Percentage
Bought/rented very close to my preferred location	18%
5–10 km from preferred location	46%
10–20 km from preferred location	24%
More than 20 km from preferred location	13%

Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

Table 4 Current location choices of households living outside their first choice location

Region	Bought/rented very close to my preferred location	5–10 km	10–20 km	More than 20 km
North West	12%	39%	34%	15%
Coastal	29%	29%	36%	7%
River/Coastal Central	27%	59%	9%	5%
Inner Central	22%	56%	18%	3%
Outer Central	16%	59%	16%	9%
North East	21%	26%	32%	21%
South East	16%	28%	40%	16%
South West	7%	31%	36%	27%

Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

The key finding from both studies reported above is that households change their housing preferences in order to access owner occupation whether that is sacrificing preferred location (tables 3 and 4) or dwelling type. The critical imperative is to deliver a supply of housing that meets this demand. Existing price patterns in Greater Perth have a major impact on the ability of households on low to moderate incomes to access home ownership and meet their housing aspirations. Figure 7 shows the household income required to access a typical dwelling within a Greater Perth suburb and figure 8 the capacity of a household on a lower quartile income to afford a house in the lower quartile price range. These figures clearly show how those on low to moderate incomes are being forced to the outer suburbs of Perth to meet their housing aspirations at an affordable price.

Figure 7 Gross household income required to afford a median priced house

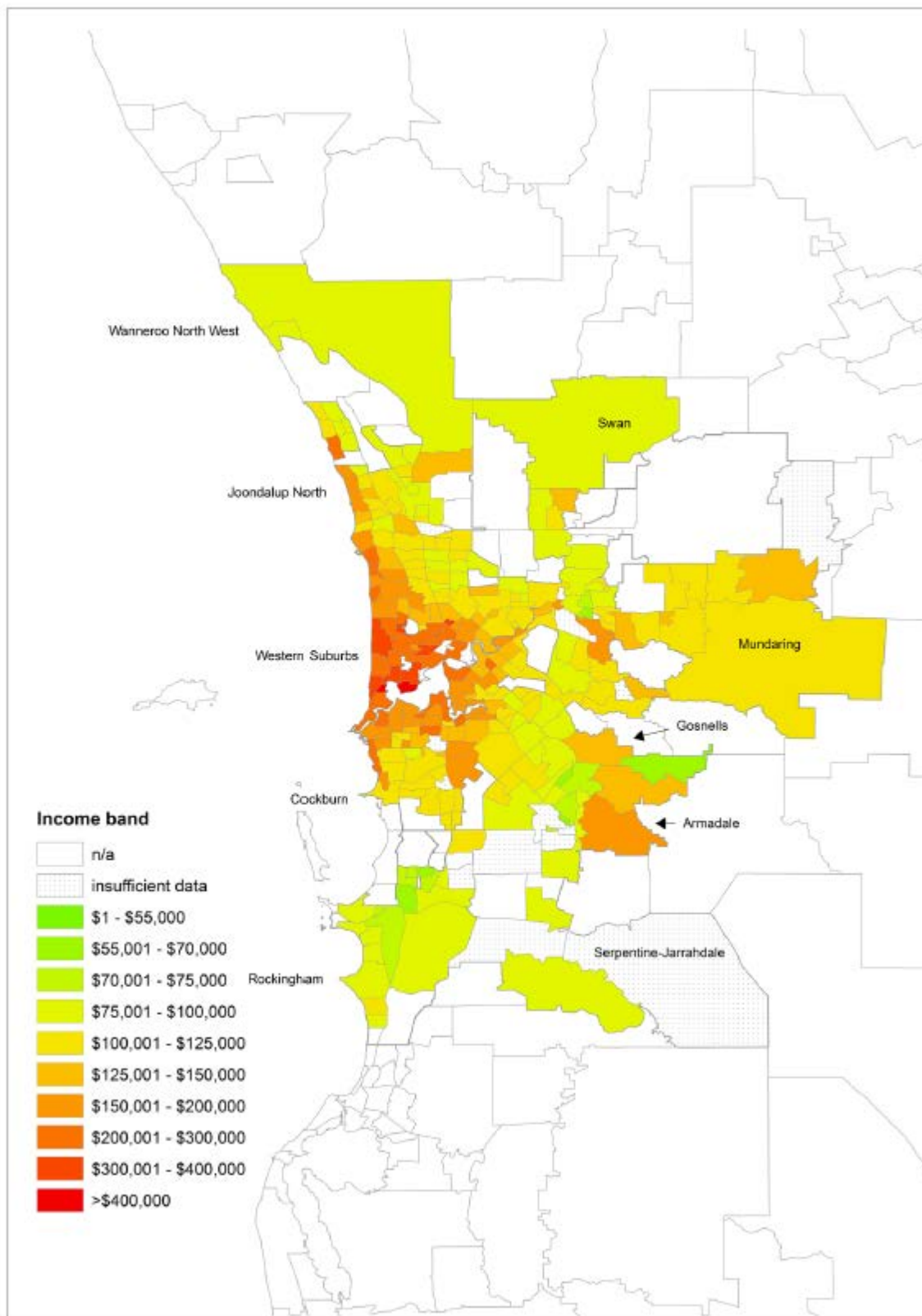
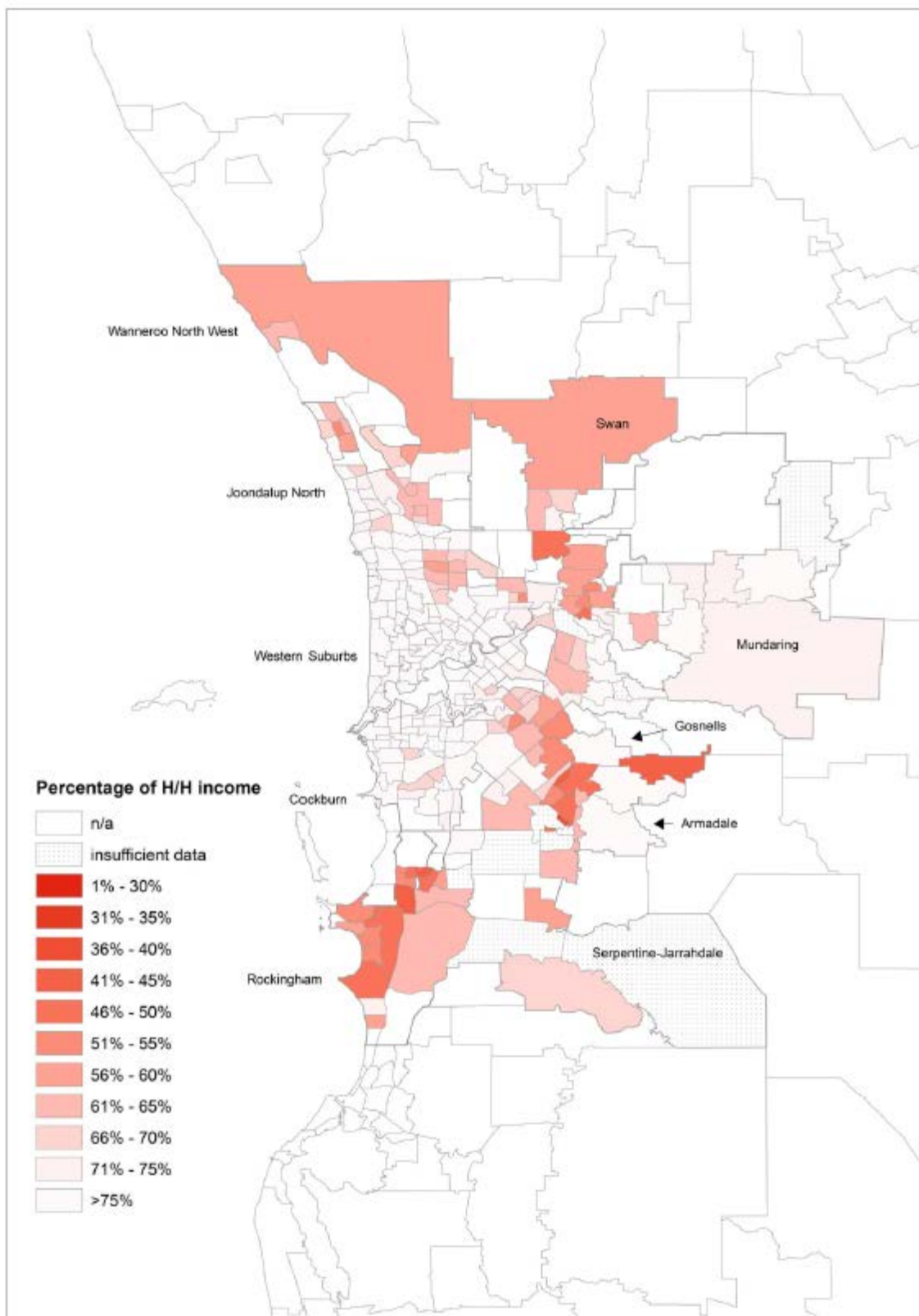


Figure 8 Percentage of LQ household income required to afford a LQ house



Given the strong preference for ownership many households are being forced to trade off location to meet their tenure preferences while other households have traded off tenure to meet location preferences. Hence, policy assessments of home purchase affordability need to be complemented by measures that account for the wider facets of affordability such as the appropriateness of housing, neighbourhood quality, dislocation from an existing community, and access to employment and social infrastructure (Rowley and Ong 2012).

5. Barriers to home ownership

In the current climate of low interest rates, the deposit gap is arguably the greatest barrier first home buyers need to overcome to enter home ownership. Households are able to service mortgages but saving the deposit is much harder. The loss of the first home savers account was disappointing as this gave potential homeowners an attractive savings option.

The deposit gap is the difference between a households' savings and the minimum deposit required to purchase a dwelling. This is a significant and under reported issue which is becoming worse as rents increase at a faster rate than incomes in many locations.

Two groups that are often ignored in housing affordability debates and are most affected by the deposit gap are:

- Individuals living with parents; and
- Individuals sharing in a group household.

In the perceptions of housing affordability survey conducted as part of the BCEC Housing Affordability Report, it was found that these cohorts were largely earning less than \$70,000 a year. The majority of both these groups indicated that they would remain in their current accommodation until such time as they could afford to *purchase* a dwelling suitable for their needs. Again, renting was not considered an option by over 60% of these groups; owner occupation was the only choice.

The survey results found the average deposit gap (that is, the difference between a household's savings and the amount they expected to need for the deposit) to be:

- \$29,000 for those individual living with parents; and
- \$26,300 for individuals in a group household

These significant gaps would require an individual on a gross income of \$70,000 saving 10% of their net income per annum for around 5 years to accumulate just a 10% deposit on a median priced dwelling in Perth. The deposit gap is therefore a major barrier to home purchase and household formation (Cassells *et al.*, 2014b).

It is a common assumption that many young people living with their parents will receive assistance from them to enter the home ownership market. The survey found that “less than one in five respondents currently living with parents expected to receive such help with a further 16% unsure whether such help would be forthcoming. Of those who did expect help, the form of this help would most likely be a cash gift/loan to help with the deposit (57%) or through a mortgage guarantee (21%)”. (Cassells *et al.*, 2014b:82)

The BCEC survey investigated the importance of first home buyer incentives for those cohorts living with their parents or in a group household. As shown in Table 5, the First Home Owners Grant (FHOG) and stamp duty relief are considered *very important* to the prospects of entering the home ownership market. The impediments that stamp duties impose on transitions to home ownership cannot be emphasised enough. They add to financing requirements and therefore tighten borrowing constraints that home buyers face. However, even in the absence of borrowing constraints, stamp duties will adversely impact purchase affordability because they increase the upfront lump sum cost that must be paid upon home purchase (Wood *et al.* 2012).

Table 5 Importance of first home buyer incentives

Indication of importance	FHSA		FHOG		Stamp Duty Relief	
	Living with parents	Group Household	Living with parents	Group Household	Living with parents	Group Household
Not Important	21	20	14	6	5	3
Quite Important	18	14	23	18	18	5
Very Important	30	40	58	73	66	79
Don't Know	31	26	4	4	10	14

Source: BANKWEST CURTIN ECONOMICS CENTRE | BCEC Housing Affordability Survey (2014).

(Cassells *et al.*, 2014b:83)

In order to get critical groups into home ownership some assistance seems to be essential given prevailing price to income ratios and little prospect of change. Additionally the lack of dwelling diversity in Perth limits housing options.

The incentives highlighted in Table 5 are available only to first home buyers (although the FHSA is no longer available). This puts those who fall out of home ownership due to financial hardship, marriage breakup etc at a considerable disadvantage. They need to save a greater deposit because they do not have access to stamp duty relief or first home owner grants making it more difficult to re-enter ownership that to enter in the first place. Consideration should be given to this cohort within housing policy development.

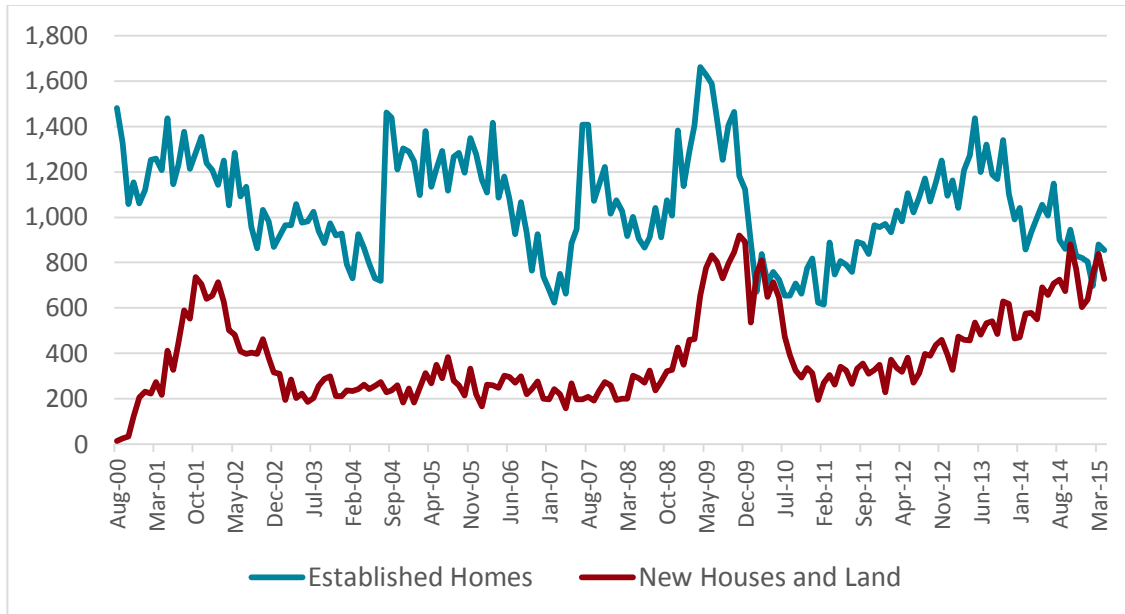
6. Supply and Demand drivers in the Western Australian housing market

There has been much commentary on the link between housing affordability and housing supply with many thinking the solution to affordability is a large scale increase in supply. Research has shown that there is almost no link between land supply and established dwelling price changes in WA (Costello and Rowley 2010). There is also much confusion over what supply actually means. For prices to fall in the established market there needs to be an oversupply of dwellings available for purchase in that established market or more correctly sub-market. This supply is in the form of dwelling listings i.e. dwellings available to purchase. An oversupply will only be caused if there is weak demand from potential purchasers or a flood of existing households looking to sell their dwellings (most likely a combination). This would be due to macroeconomic conditions, consumer confidence, population decline etc. - the traditional drivers of housing demand. Another cause of falling demand for established dwellings is through consumers switching their preferences from established to new dwellings. For example the result of a change to government subsidies and we are seeing this to a certain extent in areas of the Greater Perth market with the reduction in the FHOG on established dwellings to \$3,000 in July 2013 and an increase in the grant available for new dwellings. The incentive gap between established and new dwellings will widen further in WA, with the 2015-16 budget including a measure to abolish the FHOG on established dwellings and an increase on the grant available on new dwellings.

Figure 9 shows how changes to the incentives offered for new build dwellings have shifted consumer behaviour. One explanation for this is the deposit gap with consumers shifting towards the product which will allow them to plug that gap the quickest i.e. offers the highest grant. The reduction in grants for established homes from July 2013 coupled with the \$10,000 FHOG for new build purchases has evidently shifted the balance of consumers' preferences towards new dwellings. This reduces the demand for established homes, with price consequences if demand for established property is already weak.

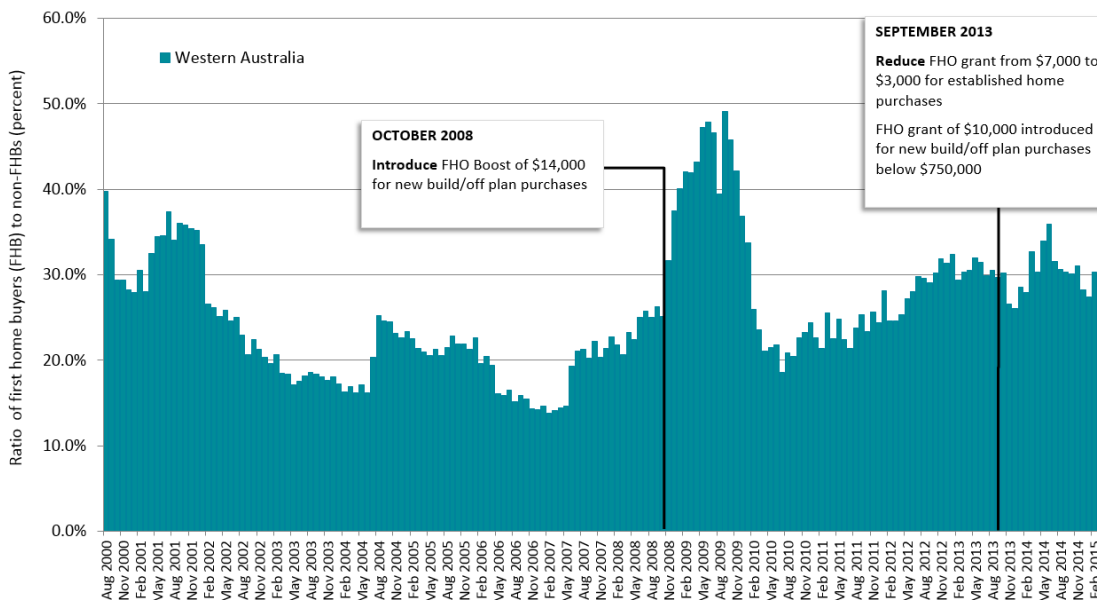
Figure 10 charts the ratio of first-home purchases to non-first home purchases in Western Australia from August 2000 to April 2015. The First Home Owners Boost scheme was introduced in October 2008, and offered first home buyers additional grants of \$7,000 towards the purchase of established homes, and \$14,000 for new dwellings. The reaction was clear and significant, with the ratio of first home buyers to non-first home buyers doubling from one in four to one in two in little over six months. The negative impact of the reduction in FHOG for established homes in July 2013 has been largely offset, with first home buyers substituting to new build property (Figure 9).

Figure 9 First home owner grant payments



Source: Office of State Revenue

Figure 10 Ratio of first home buyers to non-first home buyers



Source: BANKWEST CURTIN ECONOMICS CENTRE | AUSTRALIAN BUREAU OF STATISTICS Cat No. 5609.0.

Such responses demonstrate the sensitivities of housing demand to policy, and emphasise the care with which housing policy interventions should be designed and implemented, not just in WA but nationally.

Supply in the established market is determined by the decision of consumers to sell. It is also determined by the nature of the market and the way new supply interacts with established supply. For example, new apartments brought on to the market will compete directly with established dwellings as one is a substitute for the other. The same is true to a certain extent of a house and land package competing with an established dwelling providing that house and land package is available for immediate occupation. The major difference between established and new supply is in the established and new separate dwelling market. In the new market a consumer purchases a piece of land and then contracts a builder to construct the dwelling. IN the established market a consumer buys a house. These are initially very different products and remain so until the new dwelling is completed and then becomes an established dwelling. It will take time for a dwelling constructed in this way to add to supply in the established market, i.e. when it sold for the first time. When a consumer has made a decision not to purchase an established dwelling but to purchase a piece of land and build a house instead that decision has an impact on the established market through demand rather than the addition of supply.

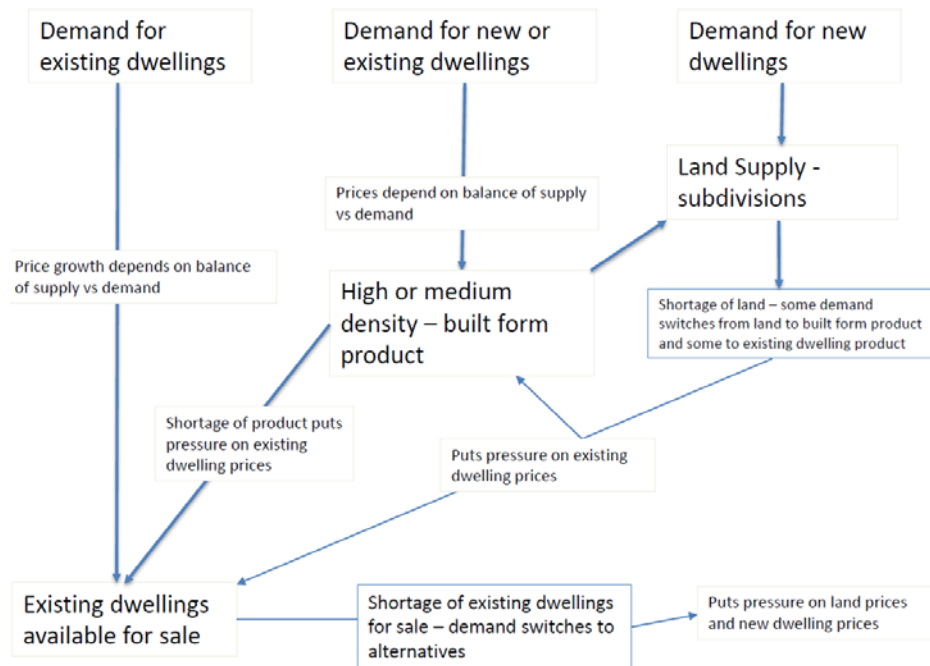
A large scale supply of new land will make no short term difference to prices in the established market, only in the long term when these houses are subsequently traded on the established market. However if sufficient consumers decide to build new instead of purchase existing dwellings this will have an impact on demand in the established market and, if the change in demand is significant enough, will impact on prices.

So the argument that large scale land supply will impact on established dwelling prices is dependent on the dwelling type sub-market. Large scale supply would have a price impact in the apartment market where established and new apartments are substitutes to a large extent, but is dependent on the response from consumers in the established market. If demand is strong in that established market then large scale land release will make no difference in the short term because it is not a direct substitute for established dwellings (not everyone wants to build new), and perhaps even the long term if population growth maintains that demand.

Price shifts are all about demand. If demand drops and supply in the established market grows then prices will fall. In the new build market, if demand drops consumers will not build housing so you do not get the type of oversupply that would be characterised in markets dominated by speculative house building activity. In a market such as Perth, dominated by detached dwellings built by individuals on land they have purchased, any large scale price shifts in the established house market will be caused by demand changes and not through oversupply

caused by overbuilding. Instead it will be through households making the decision to sell through re-location, unemployment etc. and investors disposing of property which will subsequently add to supply (listings) in that established market. Figure 11 provides a summary of the interactions.

Figure 11 Dwelling supply interactions



There is much debate about housing shortages. Upward price movements in the established dwelling market are caused by consumers chasing too few dwellings available for sale within a particular sub-market. Such demand is effective demand where consumers that have the capacity to purchase are executing their demand. Prices will be forced upwards due to this competition. If prices fall there are too few purchasers for the supply of established dwellings and prices must fall to attract buyers. Price movements in a housing sub-market are a reliable way of establishing the balance between effective demand and established supply. However, price falls do not necessarily mean there is an oversupply and certainly do not mean there is no housing shortage.

It is important to understand the concept of underlying demand to determine whether there is a shortage. Underlying demand is linked to housing need and housing aspirations where a household wants to consume a dwelling in a particular location but cannot afford to do so. It is important to differentiate between needs and aspirations with need framing a more realistic assessment of underlying demand. For households on low incomes there is a strong preference for owner occupation, as discussed earlier in this submission. As shown in Figure

7 and Figure 8 there are a very few locations where those households on low to moderate incomes can afford to purchase and such locations may be a long way from an individual's place of employment or indeed employment opportunities. Such a household may want to live close to work in order to minimise commuting costs but cannot afford to do so. They have an underlying demand for housing in that broad location. Some households cannot afford to purchase any dwelling type because their capacity to service a mortgage is limited to say \$300k or they have no deposit. Therefore they have unmet underlying demand. A supply of low cost housing (sub \$350k) anywhere within Greater Perth would be in very strong demand by those households that can only afford such an amount. The underlying demand is there but the product is not. This is where the housing shortage exists; a supply of dwellings that would meet the needs of purchasers on low to moderate incomes who could easily service the mortgage and are instead struggling in the private rental sector.

The WA Keystart program has proved successful because it allows households that would have struggled to meet their housing demand access to owner occupation. The shared equity scheme part of the same program has had the same impact; offering ownership options to those that otherwise would have been forced into the private rental sector.¹

In order to meet underlying demand for home ownership there needs to be a much greater supply of diverse and affordable housing options within areas where households want to live (much easier to say than do with the barriers to such delivery well documented, for example see Rowley and Phibbs 2013, Rowley *et al* 2014). In the longer term this must involve mandating affordable housing delivery as part of all housing developments, similar to the UK Section 106 model, and maximising affordable output on government owned land.

7. Investment property versus own home debt

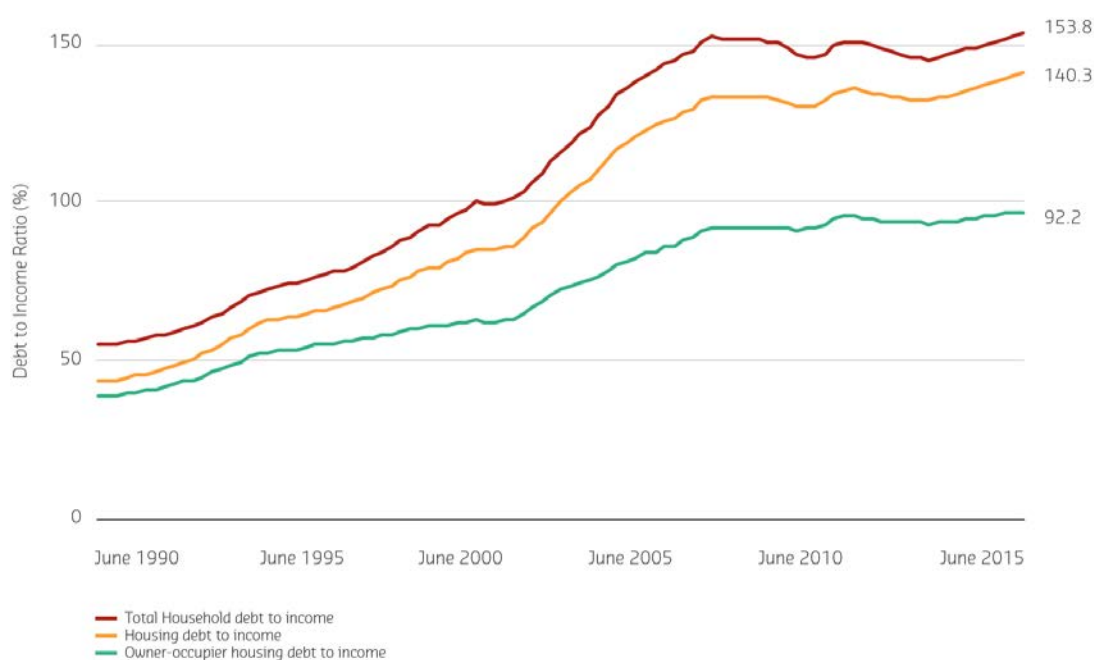
Since the 1990s, Australian households have become more highly leveraged, with average household debt to income ratio tripling from less than half of annual disposable income in 1990 to over 150% by 2006. This ratio has remained stubbornly high at this level over the last decade (Figure 12). Australians have clearly become more accustomed to taking on debt, an appetite fuelled by factors such as a sustained housing market boom, easier access to consumer credit and financial market deregulation since the 1980s (Cassells *et al.* 2015).

Housing debt trends have mirrored the rise in overall household debt, given that housing debt constitutes the highest share of Australians' debt commitments. The housing debt to income ratio is currently 140%, the highest it has been in over two decades (see Figure 12). This dramatic growth in housing debt has been driven more by an increase in investment property

¹ For a review of the WA Shared Equity program, see <http://www.ahuri.edu.au/publications/projects/syn91>

debt than owner occupied housing debt. Over the last 25 years, the share of debt associated with investment property loans has tripled from one-tenth to three-tenths of total household debt. While the ratio of owner-occupied housing debt to disposable income has also climbed during this time, it has risen at a slower rate and has plateaued since the start of the millennium (Cassells *et al.*, 2015).

Figure 12: Household Debt to Income Ratio, June 1990 to December 2014 (%)



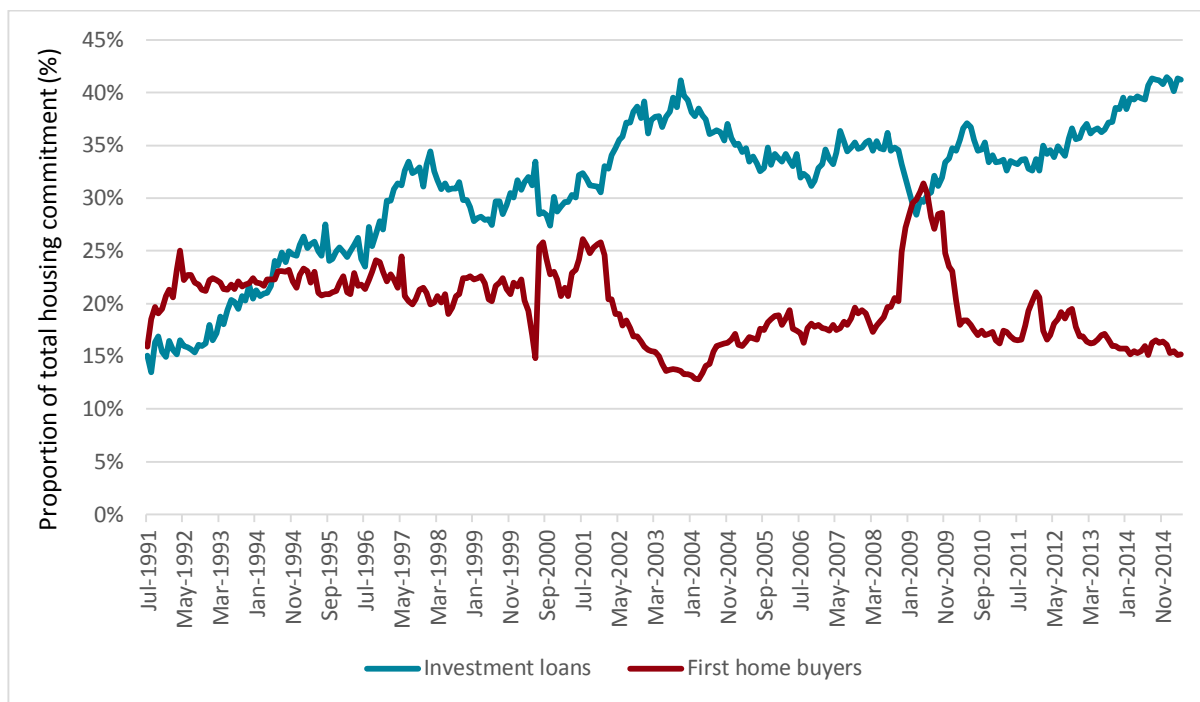
Source: Cassells *et al.* (2015), based on Reserve Bank of Australia, Table E2 Household Finances – Selected Ratios

According to housing finance commitment data from the Australian Bureau of Statistics, investment property loans accounted for 40% of the total value of housing finance commitments made in December 2014 (Figure 13). Back in 1991, this share was just 15%. On the other hand, the share of loans attributable to first home buyers remained relatively flat at 15% over the same timeframe (though it spiked at over 30% in early 2009 in the wake of the introduction of the First Home Owner Boost in October 2008 as part of the Federal government’s GFC stimulus package). Hence, it would appear that property investors are increasingly crowding out first home buyers from the property market.

We turn next to some state comparisons to assess the distribution of West Australians’ housing debt between the owner occupied and investment property sectors relative to other jurisdictions. In Australia overall, investment property debt makes up around 37% of total housing debt while owner occupied housing debt takes up a share of 63%. However, there are some noticeable differences across states and territories. In the territories, investment property debt takes up almost half (48%) of total housing debt. This is followed by a 43% share

in WA. In all other states, the share of investment property debt is less significant, at 40% or less.

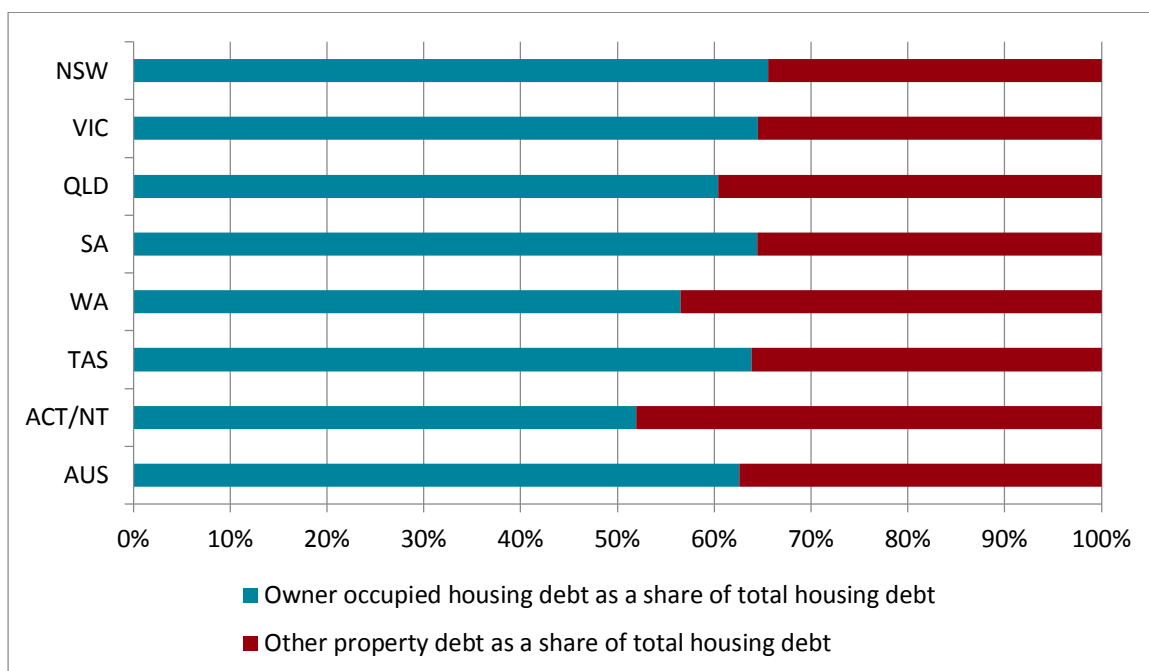
Figure 13 Housing Finance Commitments, by Buyer Type, July 1991 to December 2014 (%)



Note: Due to data limitations, the share of housing finance commitments taken up by investors is calculated on the basis of the value of loans, whereas they are calculated on the basis of number of loans in the case of first home buyers.

Source: ABS Housing Finance Commitments Cat. No. 5609.0 Tables 9a and 11

Figure 14 Type of Housing Debt, by State, 2015 (%)



Source: Authors' own calculations based on Table 2 in Cassells *et al.* (2015)

The increasingly dominating presence of investors in property markets is a source of concern, especially in jurisdictions such as WA and the territories. Property investors are more likely than owner occupiers to sell their investment properties during housing market slumps, especially if they are highly leveraged. Indeed, recent research has found that evidence that negatively geared investors are more likely to churn in and out of rental property investments than equity-oriented investors to preserve tax shelter benefits (Wood and Ong 2010). Hence, the presence investors could lead to instability in housing markets if they are highly leveraged.

8. Opportunities for Reform

The myriad of issues raised in this submission indicate that there is a strong case for government to review not just the home ownership sector, but the entire housing system in WA and Australia. Below we put forward a list of recommendations, most of which are targeted at making home purchase more affordable. In addition, we list some broader recommendations that are aimed at enhancing access to benefits traditionally associated with home ownership by those who cannot afford home purchase.

Phase in the abolition of stamp duty and replace it with a broad-based land tax

Stamp duties are a significant impediment to home purchase because they effectively raise the price of housing that must be paid by the buyer. If stamp duties were gradually phased out (as is the case in the ACT), it would improve the affordability of home purchase. On the other hand, a flat rate land tax, currently levied on property investors only, should be extended to owner occupiers. This will not only put downward pressure on property prices, it will also boost the supply of rental housing for low income persons who cannot afford home purchase. The impacts of the reforms can be cushioned via transitional arrangements which ensure that no existing owner occupier would have to pay land tax if they had already paid stamp duty when purchasing their home (Wood *et al.* 2012).

Reform negative gearing and capital gains tax on investment properties

Current negative gearing provisions and a 50% capital gains tax (CGT) discount encourage property investors to chase after capital gains through debt finance. This encourages churning in and out of rental properties by investors to preserve tax shelter benefits at high gearing ratios, which could be a source of housing market instability (Wood *et al.* 2011). Negative gearing provisions also lead to higher house prices as investors compete with home buyers

in property markets. The affordability benefits of phasing out negative gearing are therefore obvious.

Improving tenure security in the rental sector

Currently, Australia's public housing sector offers tenure security – a key benefit associated with home ownership – to low-income households who are unable to access housing in private markets. However, the public housing sector is very small (5%) and waiting lists are growing. While the Australian private rental market is much larger, it is lightly regulated by international standards and tends to feature short-term leases. Tenure security could be improved through longer-term leases, as in countries like the Netherlands, Sweden and Spain (Haffner *et al.* 2008). Landlords could be incentivised to provide longer term leases at discounted rents as an alternative to negative gearing so a tax incentives deliver a positive social outcome. The review into tenancy legislation recently announced by the Victorian State government including a review of long term tenancies is a positive step forward.

Increasing ownership options for those on low to moderate incomes

The success of the Keystart home loan program in Western Australia and Homestart in South Australia demonstrate how households on low to moderate incomes can enter and sustain home ownership. These schemes have proved low risk for government. They have also helped keep first home buyers activity at healthy levels in WA. Expanding such schemes to other parts of Australia would increase the opportunities for thousands of households to break into home ownership. Shared equity programs have proved successful overseas as well as in the States mentioned above and provide access to low cost home ownership. Local government should consider partnering with the private sector and Community housing providers to deliver a shared equity product on government owned land where local government is well placed to retain an ownership interest. State government partnerships with the private sector, such as those successfully executed in Western Australia, can deliver affordable housing of a variety of tenures leveraging funding from a myriad of sources while at the same time delivering market housing.

Affordable housing provision

It is essential that housing development on government owned land maximises affordable housing deliver to provide housing options for those that cannot enter home ownership via traditional markets and lenders. Affordable housing delivery should encompass a mix of social housing along with alternative tenures such as shared equity and ideally subsidised affordable

rental housing. An alternative to the National Rental Affordability Scheme is critical to deliver affordable housing for those fall into the gap between social housing and market rental housing. In order to maximise affordable housing delivery there should be requirements for all housing developments to deliver an element of affordable housing provided it does not compromise the overall viability of housing delivery on a site.

Help for first home owners and those falling out of home ownership

Demand side subsidies such as the first home owners grant are controversial and arguably inflationary but they do help households to plug the deposit gap (as long as they don't push up the dwelling price by the same amount). They also have a significant impact on household decision making and can be used to encourage supply if restricted to new dwellings. The first home savers account was growing in popularity before being scrapped and a modified scheme should be introduced which encourages savings. Schemes structured to help home buyers overcome the deposit gap are necessary in an environment where dwelling prices are so dislocated from incomes and the ability of households to save. Reforming stamp duty would significantly increase the ability of those households that have fallen out of home ownership re-enter the market by reducing the deposit gap. Without access to the same help as first home owners such households are at a severe disadvantage and should be acknowledged by policy makers.

Planning reform

Ongoing planning reform is designed to increase the efficiency of the development approval process while not compromising the quality of outcomes. Continued reform in consultation with industry is necessary however policy change and innovation is required to deliver housing outcomes for all types of households looking to access the benefits of home ownership. The recent consultation on planning provisions for affordable housing in Western Australia was encouraging even if the final outcome was not. Embedding policy on mandatory affordable housing contributions into planning frameworks could deliver a significant supply of affordable housing maybe 10 years from now if applied at the re-zoning stage. Policy makers need to think for the long term as the housing affordability problem is not going to go away.

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