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# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON HOUSING AFFORDABILITY IN  
AUSTRALIA

**Reference: Barriers to homeownership in Australia**

THURSDAY, 24 APRIL 2008

MELBOURNE

BY AUTHORITY OF THE SENATE



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**SENATE SELECT COMMITTEE ON  
HOUSING AFFORDABILITY IN AUSTRALIA**

**Thursday, 24 April 2008**

**Members:** Senator Payne (*Chair*), Senators Bartlett, Colbeck, Fifield, Lundy and Moore

**Senators in attendance:** Senators Bartlett, Colbeck, Fifield, Moore, Payne and Siewert

**Participating members:** Senators Abetz, Adams, Barnett, Bernardi, Birmingham, Bishop, Boswell, Brandis, Bob Brown, Carol Brown, Bushby, Campbell, Chapman, Coonan, Cormann, Crossin, Eggleston, Ellison, Fielding, Fierravanti-Wells, Fisher, Forshaw, Heffernan, Hogg, Hurley, Hutchins, Johnston, Joyce, Kemp, Kirk, Lightfoot, Ian Macdonald, Sandy Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Minchin, Nash, Nettle, O'Brien, Parry, Patterson, Polley, Ray, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Watson, Webber and Wortley

**Terms of reference for the inquiry:**

To inquire into and report on:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

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**Committee met at 1.34 pm****SUTTON, Mr John David, National Secretary, Construction, Forestry, Mining, Energy Union**

**CHAIR (Senator Payne)**—I declare open this meeting of the Senate Select Committee on Housing Affordability in Australia. The Senate established the select committee on 14 February 2008. The committee is due to report on 16 June 2008. The terms of reference for the inquiry are as follows:

The barriers to home ownership in Australia, including:

- a. the taxes and levies imposed by state and territory governments;
- b. the rate of release of new land by state and territory governments;
- c. proposed assistance for first home owners by state, territory and the Commonwealth governments and their effectiveness in the absence of increased supply;
- d. the role of all levels of government in facilitating affordable home ownership;
- e. the effect on the market of government intervention in the housing sector including planning and industrial relations laws;
- f. the role of financial institutions in home lending; and
- g. the contribution of home ownership to retirement incomes.

The committee has held public hearings in Victoria this week, in Geelong yesterday and in Narre Warren this morning. These are public proceedings, although the committee may agree to a request to have evidence heard in camera or may determine that certain evidence should be heard in camera. I remind all witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of evidence given to a committee, and such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering a question, the witness should state the ground upon which the objection is taken and the committee will determine whether it will insist on an answer, having regard to the ground which is claimed. If the committee determines to insist on an answer, a witness may request that the answer be given in camera. Such a request may, of course, also be made at any other time. A witness called upon to answer a question for the first time should state their full name and the capacity in which they appear, and witnesses should speak clearly and into the microphones to assist Hansard with the recording of proceedings.

I now welcome our first witness. Thank you for both the CFMEU's submission and your time here this afternoon. Would you like to make a brief opening statement before we go to questions?

**Mr Sutton**—Yes, I would like to make an opening statement. Thank you for the opportunity to appear before the committee today. The CFMEU has long been an active player in housing policy issues in Australia. Our members build Australia's accommodation and our members, of course, live in accommodation—they are consumers of the product as well. Housing affordability has never been in a worse state than it is at the moment, and we outline some of the pressures and some of the detail in our submission. We believe there must be proactive measures by government—particularly the federal government, but there must be cooperation at all levels of government—to try to address the housing affordability crisis. Leaving things to the market patently has not worked over the 11 years of the previous Howard federal government. We believe those 11 years were a time of neglect where, apart from leaving everything to the market, the main tools the government sought to use in the housing debate were their approach to negative gearing and treating that as something that should be considered a holy grail and, of course, their halving of the capital gains tax, which happened around the turn of the century. Was it the turn of the century? It seems odd to say that, but it probably was 1999 or thereabouts.

We obviously believe the ALP's approach of being proactive, given that the previous government's one was doing nothing and leaving it to the market, is a refreshing and much-needed change. We largely support the key ALP initiatives that have been outlined in the area of rental: the infrastructure proposal and the first home savings proposal. Some of the detail around those proposals, of course, is not yet fully available. We will keep an open mind and want to look at the detail, but they are certainly steps in the right direction. Labor seems very committed to doing something in this area, which is much-needed. The whole idea of a minister and a ministry is important. The whole idea of trying to elicit cooperation with the states and local government is all heading in the right direction.

Of the key ALP proposals, the one that concerns us the most is the \$500 million infrastructure proposal because we are deeply concerned that the benefits may never flow to consumers. We have seen this very noisy, vested interest lobby. They are very powerful and very noisy. They are into special pleadings. They say they believe in the marketplace, but they really believe in special pleadings. Of course, those in the housing debate

have had the constant refrain, 'It's taxes and charges and land supply, and if those issues are addressed then everything will be sweet.' Our concern with the \$500 million infrastructure proposal is that, from my long experience around building, construction and development, when the bottom line is revealed in terms of housing prices, it is often very hard to disaggregate all the components. I have little doubt that the clever developers will say, 'Yes, we gladly took the assistance that came from the federal government, but other costs came along.' The net result at the end of the day is that I have grave concerns that consumers will never benefit. Interestingly, before lunch I was talking to one of the more ethical developers around. Before I had barely opened my mouth they said that they did not think that those gains would ever be passed on to the consumer. I thought that was a very interesting revelation.

Another element that we draw some attention to is the concern we have about the non-bank lending sector which, in the current economic conditions, is obviously going out backwards. The advent of the non-bank lending sector in providing mortgages and the whole securitisation model introduced a new level of competitiveness into the mortgage industry and consumers were the beneficiaries of that development. In the current environment, where they cannot access debt and cannot get hold of securitised moneys to lend, there is every chance that, when this process plays itself out, there will not be any non-bank lending sector and we will be back to the four big banks. In our union's view, that is a major concern that will lead to a reversion to when the big banks undoubtedly looked after their pricing at the expense of consumers. We point out in our paper that there is a proposal round for an Aussie Mac, styled a bit on what they have in America with Freddie Mac and Fannie Mae. We are quite attracted to the whole idea of the government getting active in trying to ensure that we do have a non-bank lending sector at the end of the day.

I should say that the negotiation of the new national housing affordability agreement replacing the old Commonwealth-State Housing Agreement is a critical element in addressing this whole issue. One of the legacies of the Howard government is that they badly ran down any kind of direct funding of affordable housing. We believe that a component part of this whole area is some real expenditure on affordable accommodation—particularly, emergency accommodation. Something has to be addressed in that area to try to pick it up rather than just running it down as has occurred over a long period of time. That might do me for opening comments.

**CHAIR**—Thanks very much, Mr Sutton. With the special interest lobby you refer to, how many of your members are employed by the developers?

**Mr Sutton**—Developers? That is very hard to answer. You have builders-developers and you have pure developers.

**CHAIR**—Let us go with the builders-developers.

**Mr Sutton**—How many of our members are directly employed? It is very hard for me to answer that. A lot of these companies are big but they subcontract everything out; they do not have a lot of direct employment. There are potentially thousands or tens of thousands. There are 950,000 people in the construction industry and we have a membership of over 100,000. Not too many work as direct employees of developers or builders-developers.

**CHAIR**—But that would work broadly in the areas where builders-developers are doing their work, whether they are subbies or whatever?

**Mr Sutton**—Of course. Accommodation these days covers not just the old single-cottage type dwelling but multistorey apartments and all that sort of stuff. We do not have many members in the housing industry, per se, in cottage style dwellings but we have a large number of members in multistorey apartments.

**CHAIR**—I will come to that question. I have one other question before I do that. The Housing Industry Association, and other representatives from that part of the sector, have raised with us some concerns about the availability of workers in the construction industry in Australia that reflect the skills shortage not just in that area but elsewhere. They have also talked about the fact that the 457 visa arrangement does not necessarily meet the requirements to bring in people skilled in that area, because the reference you make to subcontractors fits neatly within that as a problem—you cannot actually deal with a subcontracting arrangement under 457 visas, according to the HIA. I am paraphrasing, and I stand to be corrected by the record. What is your union's view of the need to have more skilled workers, and probably unskilled workers, in this industry brought in through either 457 arrangements or other visa arrangements even through, for example, the currently floated propositions about a guest worker scheme?



**Mr Sutton**—This is an area where I have a lot of knowledge—and I could talk for hours, but I am sure your committee does not have hours. In short, the reference you made to HIA saying that they want 457 workers to be self-employed is a very interesting proposition.

**CHAIR**—Do not interpret what I said that way.

**Mr Sutton**—It is correct. I happen to know that they do argue that the current restriction that a 457 visa worker can only be under an employee status—

**CHAIR**—That is the aim.

**Mr Sutton**—They do argue that these people ought to be allowed to be self-employed. In the building industry we have a horrendous problem with bogus self-employed, where workers are told, ‘You will only work in this workplace or for this company if you have an ABN number, and we’re calling you a subcontractor, whether you are or you’re not.’ It is a major problem in this industry. Even our good friend Terry Cole—I say ‘friend’ in inverted commas; he is no friend of our union—happened to think that this was a problem in the construction industry. There are many people who think it is a problem. The HIA want to see 457 workers as self-employed. It is a very interesting and novel idea that you get off the plane and you are self-employed overnight. Obviously, we think all the current rorts and rackets that are going on and that have led the government to set up a review into the 457 arrangements would be greatly exacerbated if the first thing workers were told was: ‘We’ll help you go online to get an ABN number for you. You are a self-employed person and we’ll pay you \$15 or \$10 all up,’ or whatever the market rate is. That would lead to a lot of rackets.

Regarding the other part of your question about skills problems in the industry, of course there are skills problems. They are not uniform. In the bigger metropolitan areas of Australia, such as Sydney, where the building industry has been very quiet, there are building workers who do not have work. They have to either leave their families and go chasing work in parts of the country where there is work or work in a different industry. So the skills problem is not uniform but, in certain parts of the country, there is no doubt there are shortages in trades, largely because of neglect in training over a 10- to 12-year period during which there has been horrendous neglect. A lot of these self-serving outfits who come before your inquiry have big multimillion-dollar companies which train nobody.

**CHAIR**—You do not have to reflect on our witnesses, Mr Sutton; they did not reflect on you.

**Mr Sutton**—I am sorry if that is too sensitive for this committee, but there are large companies—

**CHAIR**—They are very sensitive people, Mr Sutton. I am in the wrong business, I know; I am a politician.

**Mr Sutton**—Some of the politicians are; at least one is. There are big companies in this industry which train nobody. There are other, good companies which do the right thing and train apprentices and they carry the logs who do not train anybody. So we do have training problems in this industry. We do not think the policies of groups like the HIA have helped that in the least. We do not think there should be more liberties taken with the 457 visa or—to quote the latest buzz term I heard on the weekend—‘labour mobility from the Asia-Pacific’. We know what the Chinese, the Indonesians and everybody else want in the free trade agreement. We do not think that will be good for either this industry or this country.

**CHAIR**—To deal with the sensitivities upfront, I ask this next question not by way of reflection but by way of seeking information. Several witnesses have made observations about our discussions on diversity of dwelling stock: developers present some challenges in terms of building multilevel construction, say, four-, five- or six-storey buildings, because they say—and academics have said—the building costs are higher because it invariably involves union labour, which makes the costs higher. The Centre for Population and Urban Research made some observations about that in a recent paper. I am interested in your assessment of the veracity or otherwise of those observations.

**Mr Sutton**—Our view is that bogus material was produced under the previous government. One outfit in particular, Econtech, produced bogus material. If you applied a good, analytical research model to it, they never proved their case. But they put bogus arguments that, somehow, productivity was higher in residential and single-dwelling construction, as opposed to a multistorey construction, trying to lay that at the feet of the union movement. The material was really wanting in terms of good, critical analysis. On reflection, I do not think the Cole commission of inquiry gave much credence to it; certainly the Giles royal commission did not give credence to it. But it is a typical line run by some forces who are opposed to the union movement.

**CHAIR**—I am not sure whether the Centre for Population and Urban Research can be automatically characterised as ‘opposed to the union movement’. It is not an aspect of their work with which I am familiar.

**Mr Sutton**—I am talking particularly about Econtech.

**CHAIR**—I am not. If I asked my secretariat to provide you with this quote from their document about growth in Melbourne, in particular, would you mind commenting on that on notice?

**Mr Sutton**—I will do that.

**Senator BARTLETT**—You mentioned in your opening comments about negative gearing being seen as a holy grail, which I interpreted as meaning untouchable, politically?

**Mr Sutton**—Yes.

**Senator BARTLETT**—Can I take it from that that you think it would be worth while to examine the possibility of making changes to that arrangement from a housing affordability perspective, apart from anything else?

**Mr Sutton**—Certainly, that is our view. We outlined in the submission that unlimited, uncapped negative gearing, in our view, has not proved to be conducive over the life of the Howard government to any kind of fair or rational outcome. It leads to market distortions. We certainly do not argue that it should be done away with overnight or anything like that, but we certainly believe there should be caps. There should not be unlimited access. Millionaires and billionaires should not be able to access it, and you should not be able to access it on your 20th investment property. There should be limits to it.

**Senator BARTLETT**—Regarding your comment about the change to the capital gains tax regime, similarly, you would encourage the new government to change their position on that?

**Mr Sutton**—We are more interested in a means tested kind of approach to these things. We do not want to target people who might have a chance of buying into accommodation or dwellings at the moderate end of the market. However, at the high end of the market, we just do not see any need for middle- or upper-class welfare whereby taxpayers help fund people who patently do not need that kind of assistance.

**Senator BARTLETT**—You have mentioned the proposed national affordable housing agreement both in your submission and, I think, briefly in your opening comments. What would you see that containing? I drew the inference from your comments—which I may have misinterpreted—that, at least in part, you saw that as being government investment in increasing social housing, whether it be public housing or community housing. Is that what you meant? Or do you see other things as being part—

**Mr Sutton**—I think that is a key element. We all know that the Commonwealth-State Housing Agreement has been run into the ground in terms of having no direct expenditure for any new construction. The states are struggling to use what little money they are given for maintenance, and they cannot even keep up with maintenance, let alone with any new construction. Some of them can do some emergency construction but even that is constrained. So we do think there should be a direct injection of moneys back into that area and that it should be built up over time. But the agreement should be a lot more than that: it should be about the various policy areas that Labor is now looking at; it should be about trying to lock in agreed arrangements with the states and trying to get everyone on board and working towards a much better outcome than we have at the moment.

**Senator BARTLETT**—Finally, I would like to get a clearer view about whether the concern is about the 457 visas or just skilled migration in general in this area. I am aware of concerns about health and safety and the concerns you expressed about the HIA position. What is the position of your union about that? Is your concern about those areas? Do you have a problem with the number of people who are coming in? Do you think we should not be looking to increase in that area at all, or should we just be making sure that it works effectively?

**Mr Sutton**—We do not say that there is never a place for temporary labour as a niche program. There are particular sectors where there are skills shortages that cannot be met and where there have been demonstrable efforts by employers and governments to do something off their own bat to address that. We do not reject temporary migrant visas. They have been with us for decades. The thing is that they were quite regulated until about five or six years ago when they suddenly became heavily deregulated, which has led to a lot of abuses.

We are very active in that debate, and I am particularly active in that debate myself. In a nutshell we say that a real nation-building model here is to return to the pretty solid Australian value of training our own people, training our own youth, together with an appropriate permanent migration program. I put the emphasis on 'permanent migration'. Our union, and I think you will find all unions, would prefer a permanent migration model to this temporary contingent worker model in which people are here at the discretion of an employer, in

which they are here under a sponsorship arrangement in which they must maintain the pleasure of that employer. We are seeing abuses day in, day out where the employer will say, 'If you were back in China you would be on \$2 an hour. What are you complaining about? I have got you on \$8 an hour, you ungrateful person. I have got you 400 per cent better off than you would be in China so stop whingeing or you will be tossed out within the month.' If the sponsorship is cancelled, the employee has 28 days to find a new sponsor or they have to go home.

We much prefer permanent migration because if you are a permanent citizen of this country you are not captive to any employer, be that employer good or bad. Clearly there are good employers but, gee, there are some bad employers who are misusing this massive surge in temporary migration. Temporary migration is now where all the action is in the migration program; the emphasis is on temporary migration rather than on permanent migration, and we should be reverting. If we need large numbers in permanent migration at the moment, if that is what the labour market tells us we need, then that is where we should be headed rather than the temporary migration route that the Liberals have taken us down.

**CHAIR**—What happens in a downturn period, then?

**Mr Sutton**—In a downturn period you cut back on your permanent migration model.

**CHAIR**—But you already have a significantly large number in the market if you are responding to the shortage in numbers that we are talking about at the moment.

**Mr Sutton**—Yes. But we still think that that is preferable to having large numbers of contingent workers in Australia and then saying, 'The country has finished with you. Out you go because there is a bit of unemployment now.' We think it builds a sort of second-class citizen, a Mexicanisation of our workforce, and we just do not think that is the direction in which Australia should head.

**Senator COLBECK**—You mention in your submission the role that industry superannuation funds could have in housing. Can you give me an indication of the level of investment that might be there already? I imagine that there would be certain classifications of housing that they may already be investing in, particularly in the sense of affordable housing, which is the subject we are talking about. How do you see that fitting in with the fundamentals of industry superannuation funds?

**Mr Sutton**—This is obviously a very important area of policy and it is something we all have to grapple with. I am sure your committee is applying its mind to it. It is talked about a lot. It is talked about as one potential big fix in this area, and if you look at it in global terms there is a very large pool of capital that is now accumulating in the super funds. The challenge, of course, is how to use some of that capital to address the problem your committee is talking about. It is talked about a lot, but the policy challenge is really to go beyond the talking and make it work in terms of practical results. I have to be honest with you—I am active myself in the industry super funds—and say that actually turning it from a concept or an idea into a practical reality has to date proved very difficult.

Clearly Labor, with its rental package proposal, is hoping that institutional players like super funds will come and fill that space. I am not yet convinced, because we have not seen all the detail or the mechanics of how that is going to work, that it will marry the two things together. I am certainly hoping we can. I myself am a superannuation trustee, and of course you have a fiduciary duty when you sit at the super fund. So whether that particular Labor initiative can prove attractive enough at the end of the day is the question, but at least Labor is, in our view, playing in the right paddock. The task for policymakers in this area is to marry up a huge pool of capital with the need, obviously, to get some of that into this affordable accommodation space. There are some things happening with the union super funds through various channels, which I will not labour here, but it is certainly not enough and it is not the real lift-off that you would want.

**Senator COLBECK**—I can imagine the super funds being involved in some of the central city type developments such as multistorey properties that have a higher return, which fits a bit more closely in with their return to subscriber guidelines under their fiduciary rules, as you mentioned—that is quite right.

**Mr Sutton**—Together with high-end housing, I know plenty of examples where super funds are investing in high-end housing but not too many where they are investing in affordable accommodation.

**Senator COLBECK**—I was going to ask you about the Rental Affordability Scheme, because I think that is probably the one area that might be able to match up. At the moment you do not have enough detail of how that scheme might operate to be able, as a director of an industry super fund, to make good decisions in respect of that. Have you had any conversations with, for example, some of the community housing organisations who again are going to be looking at involving themselves in that sort of process? We heard yesterday from one in

particular that had been doing some numbers based on the information that is there at the moment—how that might work and how they might fit in—but obviously they are going to need some other sources of funds to make that happen. So have you had any conversations, or are you aware of any conversations, with those groups that are actively involved in the affordable housing market at the moment and have a good understanding of it so that we might get an outcome?

**Mr Sutton**—I have been to some gatherings convened by Julian Disney. Is he appearing or has he appeared before the committee?

**CHAIR**—He has appeared.

**Mr Sutton**—He is trying to bring together all the various stakeholders in this area. I have had the odd conversation over a cup of coffee and I have participated in forums, but I am not at the sharp end in terms of the financial model. To my knowledge, at the super fund I am active in, we have not in any way talked about the sharp end of returns, yields and all that sort of stuff in relation to affordable accommodation. Obviously I know the Labor model does require us to bring on board the community housing sector to manage this kind of housing. I think all the players are at the table, but a little bit more work has to be done to get the result. But at least we are heading in the right direction.

**Senator SIEWERT**—I want to follow-up on the concept of super investment, because it came up yesterday when we were at Geelong. The issue was around shared equity. Bendigo Bank have come up with two new products. One deals with ageing in place and leasing equity. The other one is equity participation where the bank buys a bit of the house. The Bendigo Bank were saying there was only a relatively small amount of money that they could put into that because it was tied up capital and they were looking at super funds. In relation to the dialogue you have just had, it still seems to me that the best option for shared equity is for the government to encourage super funds to put into shared equity. But I suspect that they may decide it is not going to be making a return quickly enough.

**Mr Sutton**—In my perception it is all too fuzzy. When you are a trustee you have to take a pretty hard-nosed approach to all this, you are looking after your members' money and so a lot of work has to be done. I am not opposed to any of these models, shared equity or whatever, particularly if we can pilot some of them and government can help bring people to the table. We now have a minister who should be trying to connect up all these things and I am sure they are applying their mind to it. Of course, the other problem you have with banks at the moment is their lending facilities are very difficult. Even the super funds are in tough times at the moment, so the environment is a bit different from how it was 12 or 18 months ago in terms of available moneys to plough into some of these areas. Everyone is taking a much tighter attitude towards lending, as you know.

**Senator SIEWERT**—In terms of having a look at shared equity, do you have a good feel for how it is around Australia? I understand that at the moment Victoria does not really have a scheme, Western Australia has just ramped theirs up again. They had one ongoing that was mainly been targeted in the past at buying public housing—what we used to call housing commission houses. Now they are extending it beyond that. Do you have a feel for how it is going around the rest of Australia?

**Mr Sutton**—I really cannot help you in that area.

**Senator MOORE**—You said in your opening statement that your members were consumers as well. Is there any process in the union that actually gives support or help when people get into a situation where they have identified that they are in trouble? One of the things that we have found all the way through in this process, particularly with housing crisis, is that when people begin to fall behind financially it is often a result of a whole lot of pressures on them. The earlier that people can seek assistance, the better. I wonder whether your union or any other large organisation has something that supports people in that process and whether that should be something we should be encouraging?

**Mr Sutton**—I would like to be able to say yes, but I cannot think of a direct service we offer. We have a crisis thing that we are involved with for drug and alcohol abuse. If life is bearing down on you and the mortgage and everything else is looking grim then sometimes that kind of problem emerges. In terms of people walking in our door and saying, 'I'm having trouble paying the mortgage,' I do not know that we are able at this time to take active steps to remedy that. We give them a shoulder to cry on but beyond that we do not have a direct service.

**Senator MOORE**—When we raised another point earlier you said that the market is variable across the board. We went to Karratha and saw the real crisis in housing construction. Is the union involved or is there

any process anywhere in the country such that, where there are identifiable crisis points where construction and getting skilled workers is absolutely crucial, there is some kind of dialogue, consultation or support? Is the union involved with other people to try and encourage people to go and work in a particular place and make sure they are looked after when they get there?

**Mr Sutton**—I cannot answer that directly. Karratha is in the heart of the mining territory, people are going there chasing the big money. Of course I know there is a terrible accommodation problem in that town and there are other social problems growing in that town but I cannot say that directly we are facilitating people going there or—

**Senator MOORE**—Or being asked to.

**Mr Sutton**—We are not being asked to. The market is taking people there because of the big money.

**Senator MOORE**—You have to ask people to build houses there. The problem is people are going there but not to build; they are going there to mine and do not have anywhere to live. All the way through, we keep talking about partnerships and people talking together. There was some good stuff yesterday about how you get people together. I wanted to put something on record about that.

**Senator FIFIELD**—Mr Sutton, a number of witnesses over the past few weeks have recommended that the First Home Owner Grant be abolished or means tested. In your submission, you recommend that it be means tested. When we had Treasury before us, we asked whether this is something the government may look at or whether it is quarantined. They indicated that they could not guarantee that it is quarantined. So we assumed that the government may well be looking at changing the First Home Owner Grant in some way. What mechanism would you see put in place to means test? What would be the threshold above which you would not be entitled?

**Mr Sutton**—I do not want to pin my colours to a mast, pinning it down to a particular number. I will leave that to greater minds. I hope the answer you got from Treasury means that the government or somebody is open to it being means tested because we feel very strongly about that. As to the cut-off point, I do not want our union to pluck out a particular number.

**Senator FIFIELD**—To give the recommendations some meaning and put the strength of your conviction behind it, given the resources of the union to look at a range of social policy issues, the union does not have a figure in mind?

**Mr Sutton**—The resources of the union are not as great as they once were because we have lots of people belting us around the head. But no, I think there are other policy people who can be more specific about where the cut-off should be. As I said in an earlier answer, I have heard the terms ‘middle-class welfare’ or ‘upper-class welfare’. We certainly think all that went way overboard under the previous federal government and some of these programs can be useful if they are targeted to areas of need. I do not see why millionaires or billionaires, or their children, should get the First Home Owner Grant.

**Senator FIFIELD**—A number of witnesses have made similar points about supposed middle-class welfare but it is very difficult to find a witness who will try to define what constitutes middle-class welfare.

**Mr Sutton**—Malcolm Turnbull’s children should not get it, in my opinion.

**Senator FIFIELD**—Or Peter Garrett’s for that matter.

**CHAIR**—Thank you, Mr Sutton, for the submission from the CFMEU and for your time this afternoon.

[2.13 pm]

**BATTELLINO, Mr Ric, Deputy Governor, Reserve Bank of Australia**

**RICHARDS, Dr Anthony John, Head of Economic Analysis Department, Reserve Bank of Australia**

**CHAIR**—Good afternoon, gentlemen. Thank you for appearing before the committee this afternoon. We have a copy of Dr Richards' recent paper to the Melbourne institute conference and various other material. Do you wish to make an opening statement? After that we will go to questions.

**Mr Battellino**—I do have some opening comments. I would like to talk to graphs with those comments. Could I circulate a set of graphs?

**CHAIR**—Certainly.

**Mr Battellino**—The Reserve Bank of Australia is of course very pleased to have been invited to participate in this inquiry into housing affordability. The terms of reference of the committee extend well beyond the areas in which the Reserve Bank has expertise, so we will limit our comments to four areas: house prices; housing affordability; housing loan arrears; and the rental market.

I will start with house prices. In chart 1 you can see that since the mid-1990s the median house price in Australia has risen by 180 per cent compared with a rise of about 30 per cent in CPI. That real increase in housing prices you can see is in the orange line in chart 1. You can see that it greatly exceeded the increase in construction costs, so by implication this increase in house prices is mainly about land. In chart 2 you can see that virtually all of the capital cities in Australia have experienced a big increase in house prices. In chart 3 you can see that it has affected country towns as well. It has not been to quite the same extent but pretty well so. There has been a big increase in country towns.

In chart 4 you can see that Australia has not been alone in experiencing this rapid rise in house prices. With very few exceptions, most developed countries have experienced a doubling or tripling of house prices since the mid-1990s. In our view, therefore, the widespread nature of the increases in house prices makes it hard to attribute them to factors that have localised effects, such as land usage policies and taxes. These sorts of factors are more likely to have affected prices at the edges of urban development. I think the big increase in the price of established houses, which has happened right across Australia and through most of the developed world, is mainly reflecting factors that relate to demand and capacity to pay. The big factor here is increased household access to finance. These forces, as I say, have been global in nature. They have not been specific to Australia.

If we move to chart 5 and look at the question of housing affordability, the line in the chart shows the proportion of average household disposable income that is needed to cover repayments on a median priced house. You can see that this ratio is much higher now than it was in the mid-1990s and only a little below where it was in the late 1980s. There are three factors that drive changes in this measure. The first is house prices, the second is household incomes and the third is interest rates. Chart 6 tries to show the impact of these three factors. The top panel of the chart shows the ratio of median house prices to average annual income. In the mid-1990s, at the start of the graph, you can see that house prices were around three times average annual income. By the end of the housing boom in late 2003 and early 2004, this ratio had risen to about six. It then declined for a couple of years as house prices stabilised while incomes grew, but more recently house prices have again been rising more or less in line with incomes.

Mortgage interest rates are plotted at the bottom of the panel. Over the period shown in the graph there are a couple of cycles, but there has been a flat trend. Mortgage interest rates today are much the same as they were in 1996-97. That was the period when housing was at its most affordable. We are left with the conclusion that the decline in measures of housing affordability since the mid-1990s is almost entirely due to the rise in house prices relative to income.

I would now like to move to the question of arrears. Housing loan arrears are probably the most tangible indicator of the extent to which households are getting into difficulty on their housing loans. Chart 7 shows the proportion of loans for which repayments are more than 90 days overdue. The chart shows that, while arrears rates rose somewhat between 2002 and 2006, they remain relatively low by historical standards and, in fact, they fell through much of 2007. Currently, we estimate that there are about 15,000 households in Australia whose housing loans are 90 days or more in arrears. This is quite a low number for a country the size of Australia.

From a macroeconomic perspective, there do not appear to be any major problems here. In fact, given the historically low level of unemployment, it would be surprising if we had a widespread problem with housing loan arrears at present. So the question is: how do we square this relatively benign picture on arrears with the apparent sharp decline in housing affordability that we saw in the earlier graph? The explanation, I think, lies mainly in the fact that real incomes of Australian households have risen quite strongly. This has allowed households to devote a larger proportion of their income to housing repayments while still maintaining their living standards more generally. For example, a household that in 1996 was devoting 30 per cent of its disposable income to housing loan repayments would today be able to devote 47 per cent of its disposable income to servicing debt while still maintaining the same standard of living in terms of being able to buy other goods and services. This, broadly speaking, is the outcome that has occurred over the last decade or so. So it is not surprising to us that commentators who use a fixed benchmark for housing stress, such as housing loan repayments exceeding 30 per cent of income, are finding that more and more households are exceeding the benchmark.

While housing loan arrears for the country as a whole are very low, I think it is fair to say there are some regions where the financial positions of households are very tight. These pressures seem to be particularly concentrated in the suburbs of Western Sydney. Chart 8 shows that the arrears rate for housing loans in Western Sydney is significantly higher than those for other parts of Sydney.

Chart 9 is a chart published by the ABS coming out of the 2006 census. It shows the proportion of households in various regions of Sydney that are paying more than 30 per cent of their gross incomes in housing costs including rent. While, as I said, there are some qualifications about the significance of the 30 per cent benchmark, I think it is fair to say that you can see that, of all the suburbs of Sydney, those in south-west Sydney have the highest proportion of households paying more than 30 per cent in housing costs. The next chart provides a bit more detail on this. It shows the 15 regions across the whole of Australia that in 2006 had the highest debt service burdens. Again, if you look down the list of suburbs you can see that suburbs in Western Sydney are very heavily overrepresented in that sample.

In examining why the problems of housing affordability are more severe in Western Sydney than in other parts of Australia, I think a few features stand out to us. The first, which I think you can see in chart 11, is that the rise in house prices and the associated increase in turnover came later in this region than in the rest of Sydney, and the increase in house prices ended up being much larger. An implication of this is that a higher proportion of households in this region bought towards the peak of the market. Second, income growth in this part of Sydney is substantially slower than in other parts of Sydney and Australia. In other words, the rise in house prices in Western Sydney was less well supported by income growth than in other parts of Australia. Third, a disproportionately large share of the housing loans in this region were sourced from non-bank lenders, which I think might imply that a smaller proportion of borrowers in this region were able to meet the lending criteria of the major banks.

I would like to end with some comments on the rental market. As you know, the rental market is very tight at present. Vacancy rates are less than 1½ per cent, on average, across Australia. You can see that in chart 12. Rents are rising quickly. In chart 13 you can see that newly negotiated rents have risen by 13 per cent over the past year, while all rents outstanding, according to the CPI, are seven per cent higher than a year ago. The questions are: why has this happened and why isn't more investment in rental housing taken place?

To answer these questions I think we need to look back to the start of the housing boom in the mid-1990s. At that point a commonly used measure of rental yields was in the order of five or six per cent. Over the subsequent decade, rents rose much less than dwelling prices, so rental yields fell to relatively low levels. You can see that in chart 14. During the period when rental yields were falling, investment continued to flow into rental properties because investors at that stage were anticipating capital gains and thought they would more than compensate for the low yields. However, once it became clear that the housing boom was over, the rental yield itself was not sufficient to continue to attract the rate of investment. So the flow of investment slowed and the vacancy rate started to fall.

Even though rents have been rising very quickly in recent times, over the longer term the cost of renting has risen significantly less than the cost of buying a home. You can see that in chart 15. The price signals are therefore pushing households toward renting. On the other hand, the price signals facing investors are not conducive to increasing the supply of rental properties as yields remain low and the prospect of capital gains are still uncertain.

It is hard to see how equilibrium can be restored to this market until rental yields return to more normal levels. One way for this to be achieved would be for house prices to rise more slowly than incomes and rents for a period. Of course, measures that lower the cost of new housing, particularly low-cost housing, would be helpful in what could be quite a difficult transition process.

That concludes my opening comments. We would be very pleased to answer any questions you have.

**CHAIR**—Thank you, Mr Battellino.

**Senator FIFIELD**—Mr Battellino, I will paraphrase what I think you were saying on housing stress. Please correct me if I am wrong. When people talk about ‘housing stress’ the view in the public mind is that this is a nationwide, significant problem. Is your evidence, specifically in relation to homeowners, saying that it is really a Western Sydney problem and not as extensive in the rest of Australia as the public might think?

**Mr Battellino**—There are two things here. If you asked us all at some point when we were paying off houses we would have said that we felt quite stressed. Most of us have felt we have had to pay too much for a house, more than we wanted to pay. On the other hand, at the end of the day we reshuffled our budgets, made sacrifices and got through. There are parts of Sydney, though, where that is very difficult to do. I think that is what is being picked up in some of those measures. I come back to the fact that arrears rates are probably the most tangible indicator of people who are really in stress. I am sure there are a lot more people who would prefer to be paying much less for their housing if they could, but it is a market with demand and supply.

**Senator FIFIELD**—So if we use arrears as the criteria for determining housing stress, the arrears figures show that Australian homeowners with mortgages are doing pretty well with, as you point out, the exception of Western Sydney.

**Mr Battellino**—It is not just Western Sydney. I think there are parts of Victoria too—and it is emerging that Perth is facing more housing stress. Perth had a tremendous boom very late in the piece and it is pretty clear that that has absorbed a lot of disposable income in Perth. People talk about the two-speed economy but the truth is that retail sales in Perth are the slowest growing of any region in Australia. That is because households have committed a lot of money to pay off houses which they bought during the boom.

Western Sydney had the big problem in 2004 and 2005 because they came into that market very late. Through 2007, the growth in income was starting to fix the problem. You can see that arrears rates in that part of the world were coming down, stabilising. Income growth does fix the problem.

**Senator FIFIELD**—So is the real solution to housing stress for government to do whatever it can to create an environment which is conducive to raising Australians’ real incomes?

**Mr Battellino**—I think it is. It is about a rise in real incomes and it is also about finding ways to add to the supply or make it cheap to add to the supply of housing. At the margin, I think that will help. It will not help that much with mainstream houses, but I think it could help with additions to the housing stock that are at the edges of urban development and where a lot of the new homeowners are.

**Senator SIEWERT**—I am interested in your comment about using the arrears as a measure, because a lot of the submissions and oral evidence we have received are from community support agencies who are saying that what they are finding is an exponential increase in the number of people who are accessing their services. For many of them, paying their mortgage is the first thing they do, so then they cannot put food on the table. In fact, we heard evidence this morning on that very issue. Financial counselling services are reporting a significant increase in the number of people accessing their services. So I am wondering if the arrears are a very good measure. Don’t we also need to juxtapose that with the number of people who are trying to access crisis emergency relief? Everybody we have seen has said that there has been a significant increase in access to their services.

**Senator MOORE**—And other forms of debt.

**Senator SIEWERT**—And other debt. So I am asking whether we should just be using the number of arrears as a true measure when there are a lot of people who seem to be significantly increasing their access to support services.

**Mr Battellino**—I have no doubt. The question is one of getting access to that data. Those data are very hard to come by. Even data on house repossessions are not that easy to get. Basically, the court systems are not set up to provide the data. I do not want to trivialise the problem. I think it is a very serious problem. But, on the other hand, I think it would be wrong to go around claiming that there are hundreds of thousands or millions of people in Australia facing housing stress.



**Senator SIEWERT**—A report came out from Fujitsu Consulting the day before yesterday stating that one in five suffering housing stress will potentially have their home repossessed. We did a calculation of 150,000 on the back of an envelope yesterday, which seemed quite high to me. Do you think that is an accurate figure?

**Mr Battellino**—I do not think so. I think it is overstated in the sense that there is such a gap between what we observe and the figures reported. With those figures, I think there is a difference in interpretation of what is going on.

**Senator SIEWERT**—Where would you put that figure at? How many families and homeowners do you think will be in danger of having their homes repossessed?

**Mr Battellino**—Repossessions are running at about 10,000 a year. Not all of those would be due to households themselves getting into trouble. Some are obviously because of business related debts as well. Basically, it is 10,000 a year.

**Senator SIEWERT**—Is 10,000 a year normal?

**Mr Battellino**—That is what it was in the last year.

**Senator SIEWERT**—So for 2007, and is that the same—

**Mr Battellino**—It basically went up. The peak problems came after the increase in house prices around the turn of the century. That happened in 2004-05 after house prices peaked. In the last year, those things have levelled out again.

**Senator SIEWERT**—Then the question becomes: is that a measure of the number of people who are having their homes repossessed? It is not a measure of how many of those continue to be in financial stress. It is also not a measure of those who are trying to enter the market and cannot.

**Mr Battellino**—I agree, yes.

**Senator SIEWERT**—How do we get an indication of that other than by the significantly high number of people who are having trouble getting private rental and paying large rental prices? How do we get a fix on how many people are having trouble actually getting into the market?

**Mr Battellino**—It is hard to judge that. What we see is that the extent of homeownership through that target household group, which is in the mid-twenties to mid-thirties, is diminishing. There might be various social factors as to why that is happening—people are studying longer, they are getting married later and doing all sorts of things later. So part of it is a social thing, but I suspect part of it is also due to the fact that they are having trouble getting the deposit to get into the housing market.

**CHAIR**—Mr Battellino, I am particularly interested in your statistics in relation to greater Western Sydney, which is where I am based and where I work. If you were to do a similar graph of Perth post the peak—their peak came later—would it start to look like the same sort of picture these days?

**Mr Battellino**—In Perth the peak has come much later, as you said. As of now the arrears rates in Perth are still actually very low, because basically people struggle on for a while after houses have peaked. But we see in the very recent figures that Perth, from a very low level, is increasing. I have no doubt that housing stress in Perth is rising. The fact that it has gone from the growth area of Australia to the slowest consumption growth is, I think, a sign.

**CHAIR**—That was your reference to retail spending?

**Mr Battellino**—Yes.

**CHAIR**—You said in some of your remarks that there were three factors as to why greater Western Sydney might be worse—the increase in house prices was higher and more were bought at the peak of the market, there was slower growth in incomes, and I think your third reason was a disproportionately large share of loans sourced from non-bank lenders. You drew from that—and I just made some notes, so correct me if I am wrong—an inference about whether those borrowers could in fact have met the lending criteria of the major banks. Is that an anecdotal observation, or is it something the RBA has more information on?

**Mr Battellino**—It is largely anecdotal. But we are starting from a position where there are plenty of bank branches in Western Sydney—

**CHAIR**—There most certainly are.

**Mr Battellino**—so the question is: why is it that those people have not got access or have less access than other people to bank loans? The banks are very keen to lend; there are no worries about that. The answer is

obviously that when the banks look at the applications they are crossing more people off in that area. Those people are then going to non-bank lenders who, I think in some cases, are using more liberal standards in assessing housing loans.

**CHAIR**—I am not sure whether we have the figures about those which are sourced from ADIs and those which are sourced from non-bank lenders. Are they readily available?

**Mr Battellino**—Yes. We can provide those for you.

**CHAIR**—That would be very helpful. Thank you very much. Dr Richards—it is your paper, so I do not know whether Mr Battellino wants to answer the questions or whether you do—towards the end of your paper you look at supply-side factors in terms of the impact on housing affordability as well. On the second-last page before the references, you talk about a range of government charges including developer levies or infrastructure charges. Does that also therefore include things like state-imposed stamp duties, which can be very high, particularly in my state of New South Wales?

**Dr Richards**—They would be one of the factors you could add to that. I am not aware of evidence that those rates have risen much.

**CHAIR**—No, but they are regarded as relatively high charges and they would be regarded as supply-side factors, I would assume.

**Dr Richards**—They are one of the costs of getting into housing, absolutely.

**CHAIR**—What about the rate of release of land—the rate of supply of land—observations we have had made to us about failure to release land, particularly by state governments?

**Dr Richards**—These areas are not ones that we actually have a lot of expertise in. I think one hears different stories about land release—whether or not there is an adequate amount of land identified for future housing use. You will hear the local governments and state governments say that there are many years of land identified and then you often hear the house builders say that there is not much identified.

We are not in a position to assess the particular nature of any problems in land release, but one thing we did do is look at the cost of vacant land lots—graph 11 in the paper. It is interesting that in Sydney the cost of the cheapest block of vacant land is around \$200,000. I think one needs to reach an assessment as to whether or not that is a reasonable level for an entry-level block of land in Sydney. If there are problems in the supply process that are making it more expensive than it needs to be then it is worth considering.

**Senator BARTLETT**—At the end of your submission you talk about rental yields and vacancy rates. We have certainly had a number of witnesses, including some this morning, say that the core problem with housing affordability—or the biggest at the moment, anyway—is private rental. I think your final observations were that we need to find a way to slow the increase in house prices relative to income. Given that a lot of people invest in housing specifically for that capital gain, and that equals the increase in prices, how do we address that dichotomy?

**Mr Battellino**—There is a very fundamental disequilibrium in the market, and it is going to be very difficult to get out of it. It has come about because rents rose much less than house prices for a long period and now, one way or another, those two have got to come back into equilibrium. I think that is going to be quite a painful process. It has to come about either because house prices fall, and that is going to cause a fair bit of angst, or because of rents going up. The most benign way to do it would be if, somehow or other, house prices could level-peg for a while as rents and incomes rise together.

**Senator BARTLETT**—I accept your fairly gloomy prognosis there but, given that it seems we have a real structural problem built in and even fixing what we have is bad enough, are there things we can do to at least stop those structural factors continuing to exacerbate it further? I think at the end of that paper of yours, Dr Richards, you referred back to the Productivity Commission's report from 2003. It had some recommendations, and the then federal Treasurer, from memory, supported all the recommendations that required action from state governments and opposed all the recommendations that required action from the federal government. Do you think those recommendations are broadly still valid? They included examining those sorts of demand factors, the tax mix and the impact they have on demand.

**Dr Richards**—What the Productivity Commission said was that we should look to address any structural factors that encourage excessive demand for housing or that unnecessarily reduce the responsiveness of supply to increases in demand. So I think we have to make sure that there are not things that are causing us to want to spend more on housing than we should, be they in the tax system or otherwise. But I would also think about

the supply side. We need to make sure that there are no unnecessary or avoidable costs to bringing new supply on stream. If we could reduce the cost of bringing new housing on stream, that would be another way of helping the rental market to reach equilibrium.

**Senator BARTLETT**—I think virtually everybody said that it is not one or the other; it is supply and demand and different things in different areas. But on that demand side—I do not want you to single anything out and say, ‘It’s this,’ ‘It’s that,’ or whatever—is it reasonable to suggest that that aspect of things, whether it is the tax mix or the first home owners grant, which is obviously a demand measure, should be examined?

**Dr Richards**—I think we would say that there are a lot of factors that have caused Australian households to want to spend more on housing than they used to in the past, and one of them is income growth. Wages are rising and households have more income both because the unemployment rate has fallen and because there are more dual-income households. So there are a lot of reasons that have resulted in Australians wanting to spend more on housing, and I think that is the reason why we have seen house prices rising in the sought-after suburbs. You might have seen a chart in the paper that shows that closer to the city centres house prices have risen a lot more. They have risen more in waterside suburbs. We would argue that most of the run-up in prices is endogenous; it is the fact that people have been able to spend more on housing and they have wanted to. But we need to make sure that there are not any sorts of unnecessary factors resulting in prices being too high.

**Mr Battellino**—The rental market is not a uniform market. There are basically three segments to that market. The biggest part is young adults. Kids leave home and they rent with their friends or whatever. That accounts for about 40 per cent of the rental market. Then there are the high-end business executives, particularly the international ones. A lot of those people are renting in high-end suburbs. Then there is the low-income group, which I think are the people that most people have in mind when they are thinking about renters.

In working out how to get out of this problem of the rental market I think you need to think of different solutions for both the young adults and the low-income people. For the low-income people it could be that we have to find ways to provide lower cost housing. So even though the yield might be rising to the investor, because basically the size, the quality or the location is somehow inferior, it keeps the overall cost to the renter down. Similarly, one way to help the young adults is to find ways to get them into buying rather than renting. Some tweaking of the first home owner arrangements might help in that area.

**Senator SIEWERT**—The point that has been made to us is that the low-income sector is now creeping up to be the middle-income sector. That is the point that has been made repeatedly to us.

**Mr Battellino**—I think it was hidden for a long time because rents did not adjust as house prices were going up. So renters were shielded for a long time from what was happening in the housing market. Now it has caught up with a vengeance.

**Senator COLBECK**—I want to further explore the comments you just made on the increase in household incomes. Your graph shows it going up a bit over 30 per cent since 1993. My recollection is that average wages went up about 18 to 20 per cent since about 1996. You made comments there about more dual income households and things of that nature. I thought that might have been reflected a bit more in the numbers. It is household income, not wages, that is reflected in the graph on chart 1, isn’t it?

**Mr Battellino**—That is real household income, so that is after inflation. Typically in any year wages might grow by, say, five per cent and inflation will be 2½ per cent, so real incomes will rise by 2½ per cent per year. This graph is picking up that. That is why it looks like a smaller increase than you might otherwise think.

**Senator COLBECK**—The international comparisons were quite interesting. Ireland, with over 350 per cent, is quite extraordinary, even in the context of 160 per cent in Australia. Do you have any sense of what the drivers were in those particular markets? I think you said capacity to pay and access to finance were two major factors here in Australia, as well as land prices.

**Mr Battellino**—I think Ireland is a special case because it benefited greatly from the European Union and the Euro area. A lot of businesses went there and it basically really moved up. Leaving Ireland aside, the thing that is common across all these countries is financial innovation. Even if you go back just 30 years it was very hard for households to get access to finance. Basically, to get a housing loan you had to save for years at the bank and then you had to plead with the bank to give you some money and then they only gave you some of the money. You had to go to a finance company, a building society or someone else and borrow at much higher rates to get the rest of the money to buy a house.

**CHAIR**—And if you were a woman someone else had to go guarantor.

**Mr Battellino**—And if you were a woman you had no chance; exactly. So what has happened is that, over the past 20 years with deregulation and financial innovation, intermediaries and capital markets more generally have found ways to channel funds into the household sector. By and large the household has used that to trade up to more expensive housing. That is basically what has happened.

**Senator COLBECK**—So a lesser requirement, say for a deposit that has been saved over time, means that, with easier access to finance and greater percentages, it effectively gets channelled into the market.

**Mr Battellino**—Yes. You let in one group at a time, so if you change the rules to make it easier for one group to get in now—you either give them more income or do something else—you help that group and you hinder the ones coming behind, because they immediately push the prices to a new level. This is the problem that has been going on now for basically 15 years around the world. That is why I think any measures that are designed to help people buy houses have to be very tightly focused on helping those most in need. It is important also to try and do what you can to increase the supply of housing.

**Senator COLBECK**—Intervention in the market in one place is likely to provide a distortion somewhere else, in other words.

**Mr Battellino**—It very quickly gets capitalised into house prices.

**Senator MOORE**—I have one question in terms of the wide-ranging debate that is going on about this issue at the moment. I have not heard before the figures that you quoted today about the increase at which the stress level cuts in. In most of the meetings and committees I have attended, they have used that figure of 30 per cent to about 35 per cent. What has been the response to your figures and assessment? Has there been debate about it, or do people just accept it? When you talk with the groups that are actually ‘raging’—I think that is a fair term to describe how the discussion is going in some areas—has there been acceptance that people now have capacity up to about 47 per cent and are still able to maintain their lifestyles?

**Mr Battellino**—It is saying that if you could afford 30 per cent in 1996 basically you can maintain the same lifestyle today and pay 47 per cent on your housing. They are just the numbers. The 30 per cent rule that is quoted is being applied much more loosely than was ever intended. I think the figure was worked out for a government inquiry which looked into that in the early nineties. Having looked at low-income households, which they defined as being in the bottom 40 per cent of the distribution, they looked at how much income those people needed. They felt that really those people could not afford to pay more than 30 per cent of their income on housing. Since then a lot of commentators have started applying the 30 per cent to all incomes. Of course, that does not make sense. People on high incomes are paying much more than 30 per cent of their income on housing and they have still got a lot of money left over.

The more important thing that has happened is that since that calculation was done in the early nineties incomes have grown. I am sure that if they went back and looked at that benchmark again they might have to recalibrate it. The banks are picking that up in their lending. Their formulas are picking up the fact that people have got more income. That is why they feel able to lend more and that is why they have lent more and have not really had any adverse impact on arrears, because by and large their formulas are correct.

**Senator MOORE**—So the banks themselves do not impose the 30 per cent? In the rhetoric it is—

**Mr Battellino**—No, the banks have got a different formula.

**Senator SIEWERT**—Which quintiles is the 47 per cent across?

**Mr Battellino**—That was just an illustration. If you had the average income in 1996 and you were paying 30 per cent of that income on housing and you work out how much was left over, you can work out how much was left over in real terms for what you need today. If you work backwards and ask, ‘How much can I afford on my average income today?’ you can see that you could afford to pay 47 per cent.

**Senator SIEWERT**—That is average income, though.

**Mr Battellino**—Yes, on average incomes.

**CHAIR**—That point of clarification is a very good point on which to conclude, so that it does not get out of hand. Thank you very much, Mr Battellino and Dr Richards. We do very much appreciate your time this afternoon. Thank you very much for joining us and thank you for the information you have provided.

**Mr Battellino**—I have a full set of background notes. Do you want me to leave them for you?

**CHAIR**—Yes, thank you. That would be very helpful. We appreciate your time.

[2.55 pm]

**KAKAS, Ms Caryn, Executive Director, Residential Development Council, Property Council of Australia**

**CHAIR**—Welcome. Thank you very much for joining us this afternoon. I believe we do not have a formal submission from you although you do have one clutched in your hand there for us.

**Ms Kakas**—I have one to table today.

**CHAIR**—Thank you for providing that. We will make that a matter of public record. I invite you to make an opening statement briefly, and we will go to questions after that.

**Ms Kakas**—In our view, the great Australian dream of homeownership is now rapidly becoming out of reach for most Australians. We believe it is going to maintain itself as a dream for more and more people under the current housing crunch. To us, the economic and social reality that is the provision of affordable homeownership and affordable rental housing is essential to actively maintaining the social fabric of our residential communities. It crosses many forums. The provision of housing is the cornerstone of identity, connectivity and society and offers security through a sense of place.

As affordability worsens, the prospects are not healthy for our growing nation. According to research that we have done, there will be a demand for 4.6 million new dwellings to match population between 2001 and 2031. Our question is how people will be able to afford these dwellings or whether or not there is capacity to build those dwellings under the current environment.

In our view, the affordability of housing in Australia is an issue that requires renewed direction and leadership from the Commonwealth government and strongly demonstrated national coordination of strategic policy, planning and implementation between the three levels of government. The primary factors, in our view, on housing affordability are land supply, shifting demographics, taxes and infrastructure charges, metropolitan and regional planning strategies and the development assessment processes currently in place across the states and territories.

**Senator BARTLETT**—A lot of discussion, particularly from people on the development side of things—the housing industry and the like—characterises this as predominantly problems of supply and of taxes, charges and the like, which seems from a quick reading of your submission to be where your focus is. Do you think there are aspects of the current range of policy settings that unhelpfully impact on demand, whether it is population growth or something else? A lot of people have singled out the first home owners grant as stimulating demand in a not particularly focused way. Do you think we need to look at those sorts of measures as well?

**Ms Kakas**—I think there are a range of measures and issues that we need to look at, certainly taxes and charges. In the quantum of research that we have seen, the taxes and charges on a standard house are between a quarter and a third of prices, especially in New South Wales, where it is a third of the cost of a home. That outstrips the cost of land, and that is the second largest cost on homes after building construction costs. To us, that is the enormity of the increase in the average cost of a house, which obviously has an impact on housing affordability.

**Senator BARTLETT**—There are also, certainly at the federal level, a range of tax breaks, if you like—negative gearing, capital gains tax discounts and capital gains tax exemptions on the family home. They are not designed to counterbalance that, obviously, but they are also potentially a factor in all the different components that go into the amount of money that is available to put into housing, particularly for investors. Do you think those need to be looked at as well?

**Ms Kakas**—We are on the record as being strongly in support of capital gains tax and negative gearing. Our belief is that this is not just about affordable home purchase but also about the rental market, and one of the only ways to keep investors in the rental market is to allow the sorts of schemes that would support people staying in the rental market and providing that accommodation.

**Senator BARTLETT**—You were here during the evidence of the previous witnesses from the Reserve Bank. We were talking about the need to try and taper off the growth in house prices relative to real income growth. Do you agree that we need to try and do that, particularly with regard to the private rental sector? How does that match with where a lot of people who are investing in housing are at, given that a key part of their reason for investing is wanting capital growth, which means an increase in prices?

**Ms Kakas**—I think there is a balance to be had. Certainly, bringing houses to market is fundamental to this issue. If there are systemic changes that are in place in terms of changes to planning policies or adoption of some of the impacts of the Development Assessment Forum that come under their 10 principles, I think that we can see houses being brought to market at an affordable price. Do I think that that will bring investors out of the market? Not necessarily. It is the way that these schemes are put together and the guaranteed interest stream that we see coming back in the yields that will bring them in. It is actually a question of developing some maturity in that marketplace. We have seen examples in the US of the tax credit system and how it can operate. My belief is that we have the opportunity, if the National Rental Affordability Scheme is properly designed, to bring some maturity and some changes into the marketplace to bring superannuation, developers, trusts and new ways of bringing products to market and to keep investors in place.

**Senator BARTLETT**—So should we be looking at trying to shape some of those measures in a way that directs them more towards providing affordable housing? We have had some evidence this morning—it might have been from AHURI—that there is a problem with supply but the issue is making supply at an affordable level rather than just having supply across the board and hoping it trickles down.

**Ms Kakas**—I think that there is room for both, that there is absolutely a requirement that that part of the housing sector needs to be met and that it has not been successfully managed to date.

**Senator BARTLETT**—So we will need to make sure at least some of those measures are tied to delivering affordable housing?

**Ms Kakas**—Exactly. Things like the National Rental Affordability Scheme have the potential to start to tie that in. Certainly, our view is that we need to be targeting that sector of the marketplace to bring in some affordable homes. But I would very much put a caveat on that with the fact that we certainly do not need to go back to the way social housing was put up. We need different forms of housing to be provided in a mixed environment. We need to have communities that have that range of housing options and hit that range of targets. We certainly do not want just to factor out public housing in a space of its own. I think there is a need to work actively in partnership with developers and with community housing providers to join up those sectors and provide this housing in a way that meets the needs of societies and communities as a whole.

**CHAIR**—Who are the members of the Residential Development Council?

**Ms Kakas**—My members are 10 of the largest developers in Australia. Specifically, they include Rod Fehring from Lend Lease, who is the chair of my board; Denis Hickey from Stockland; Devine Homes; Mirvac; Meriton; and Multiplex. The concept of the Residential Development Council is that we represent the residential industry at a national and strategic level. We bring the best and brightest of our industry together to put some intellectual thought into the issues that we are facing in the housing industry. We then work within the Property Council and its larger membership to try to action those items.

**CHAIR**—In terms of the development of the National Rental Affordability Scheme, what sort of input has the Residential Development Council had with government in that process?

**Ms Kakas**—To date we have met with the FaHCSIA department heads who are handling that issue, with Minister Plibersek's office and her staff, and with various other ministers to start to discuss what they are thinking about and how the industry might be involved. We have set aside a reference panel of members across the banking, superannuation and development areas with expertise in tax credits and other systems overseas to try to provide input as the eligibility requirements and the program are designed. We sit to the side waiting for the technical paper to come out so that we can help.

**CHAIR**—When is that due? It is quite soon, isn't it?

**Mr Kakas**—Quite soon, I believe; pretty much anytime now is our understanding.

**CHAIR**—What is the attitude, generally speaking, of your members? Is it favourable towards participation in the scheme or are they constrained by not having the detailed information?

**Ms Kakas**—I think not having the detail certainly adds a level of constraint and speculation which keeps our development people as a whole putting their toe over the sidelines, saying, 'We'd like to participate and we think this has real potential but we really need to see how it is going to work on the ground and whether or not there is some feasibility and flexibility there to allow for innovation to occur.'

**CHAIR**—What about the plans for the Housing Affordability Fund, the government's initiative in that regard, which I understand to have \$500 million? We have a range of views coming out in submissions. Some people think this is all for infrastructure, some people think it is to do with planning issues and constraints in

that area and some people think it is for both. So by the time we allocate this \$500 million across Australia it is going to be an interesting process to see what sort of depth that achieves. What is your council's perspective on that and have you had any engagement with government in its planning?

**Ms Kakas**—We have certainly met with the government, its representatives and the Public Service as well to discuss it. I think it is an admirable idea that has merit at the core of its principles. The concerns that we obviously raise are to do with how you direct that \$500 million. There are so many areas to which you could direct that money and not achieve very much. In our view, we really want to see things that offer systemic approaches to change. The \$30 million that they have put forward for the EDA process, which will go part of the way—

**CHAIR**—EDA process?

**Ms Kakas**—EDA is a system of electronic development assessment. One of the recent government announcements was to put the first \$30 million out of that \$500 million towards helping implementation across the states and territories. The benefit of that, which came out of the Development Assessment Forum, is that it will help to streamline the process. The idea is not to just put the processes of the development assessment process in a paper form and then to electronic—

**CHAIR**—So you can see how faithful it actually is.

**Ms Kakas**—Yes, exactly. We do not want to see the onslaught of that. We are really hoping to see experiences such as we have seen in Queensland, where some RRIF funding was put aside to develop this, with a real success rate of trying to bring the state governments online and to bring in changes in terms of how the referrals are done and how concurrences are handled, so there is actually transparency in the process, which is something that so rarely exists. EDA is obviously something that we would really like to have on board across the states and territories, and \$30 million will obviously be a good start but it will require much additional funding and work by the states and territories in order to make that happen.

**CHAIR**—I have run out of room in the acronyms corner of my brain. I cannot remember the acronym being applied to the new peak council.

**Ms Kakas**—It is the National Housing Supply Research Council.

**CHAIR**—Thank you so much.

**Ms Kakas**—You are welcome.

**CHAIR**—Is your organisation expecting to be part of that?

**Ms Kakas**—We have certainly put forward several eminent individuals in the industry that we think could offer quite a broad perspective. The chair was announced today.

**CHAIR**—We have happily been otherwise engaged. Can you enlighten us as to who that is?

**Ms Kakas**—Dr Owen Donald has been announced today as the chair. He is previously of AHURI and other such groups. He certainly has a huge level of expertise. We will be pleased to work with him. The indication is that there will be eight members on the council, and that that will be made up of the community sector, the industry, finance and the nonprofits, so there is quite a range. We were hoping that there would be at least one industry member, and that has been announced. I think that person will obviously be quite good for this environment.

**CHAIR**—Thank you very much for clarifying those points.

**Senator BARTLETT**—I suppose the other questions that I would be interested in your response to relate to the fact that affordable housing and accessible housing are quite different in different parts of the country and even within cities they are quite different. Do you think it is possible to finetune policy sufficiently in that regard or do you think that we are really stuck with it at the macro level, whether it is national or state based?

**Ms Kakas**—I think there is some price back for being able to finetune that. I do believe that can only be done if local governments and state governments are being engaged and are working together on the different aspects we are seeing. Certainly the situation in Western Sydney is very different to the situation that is in Footscray or Mandurah. I think we need to understand the levers that are there and adjust our policies to work for them.

Having said that, I do believe that there are fundamental areas that we can do better in that will improve the ability to put stock on the ground. That is absolutely cleaning up the planning processes that we have in place today which cause an unbelievable level of unnecessary delays. The taxes and charges that are being placed on

the development industry are largely based on new homebuyers. I do not believe that infrastructure for a whole community should be based on these new home charges. I think we need to look at new ways of funding and new ways of working through the planning system. Certainly I believe there are opportunities under this new National Housing Supply Research Council to for the first time have the data to know what those are. We do not have national planning processes and they do not filter down to the states and the local governments. We do not have a clear idea of exactly what land supply is available once you put on the environmental overlays and once you put it through the different requirements that are there. We do not have an idea of exactly what is zoned, what is unzoned, what can be made available and how long that will take. That sort of data we are significantly missing in this equation and that needs to be brought to the fore. Certainly industry associations have tried, to the best of our knowledge, to put that forward, but we are limited in our capacity.

**Senator BARTLETT**—Do you think we need to try to ensure that the growth in the price of buying a house is constrained below the CPI?

**Ms Kakas**—Certainly we need to do something to address the median multiple that we are seeing now, which is seven or 8½ in the case of Brisbane—someone is able to buy a home that is 8½ times their joint income. I do not think that is an acceptable means of dealing with housing affordability. The only way to cap that and slow that down is to streamline the system so that costs are less going through the system. If you can bring the land and the product out at a cheaper price and put that supply on the market then you are meeting demand and that means that house pricing is not going to continue to escalate in the way that we have seen.

**Senator BARTLETT**—It is not just new houses.

**Ms Kakas**—It is not, but new houses have a significant impact on what supply is available, and that supply is the key part that we are missing. If you are not meeting demand with houses then there will continue to be more people with money in hand trying to get in than there are places for them to purchase.

**CHAIR**—Some of your members are accused in absentia of all sorts of heinous offences. One of the ones that have come to the table in the past few hearings is about hoarding of land. So the supply is released by the government or whoever happens to own it at the time and then the developers are accused of hoarding it. We have a range of evidence on this: some saying that it does happen and some saying that God forbid that would never happen. So is there a middle route or a response that you would like to give on that?

**Ms Kakas**—There is. The term for it is ‘land banking’. There is an economic decision that is made. You speculate about where homes might develop. You often buy outside the urban growth boundary with the presumption that at some stage that urban growth boundary may move, so you take an economic punt on where that housing is going to go and whether that land will have value or you have the ability to develop it. It is economic good sense to buy that land before speculators who own that land raise the prices to such a level that you are incapable of purchasing it and it becomes economically unfeasible to get any money back after you have built it. So you do purchase in advance.

Another issue here, though, is that you purchase that land with the concept that you are going to develop it. You do not just purchase it to hold it until such time that it is no longer feasible to develop, so obviously the sooner you can get it out there to market the sooner you will do that and still make the small margin of profit that we are often guilty of. I do believe that it happens, but, if you look at the books of our major developers, they are holding land to develop it. Most of the land on their books is land that they have put development approvals in for and started the planning process on. In some areas, those planning processes can take three, five, seven or 10 years. So it is certainly not from the lack of desire to get it to market and to make a profit.

**CHAIR**—Thank you. I am flicking through your submission, which obviously we have not had a chance to read, but it has some interesting points about the challenge of addressing infill development. Although Dr Birrell assured us very assertively today that it is not mentioned in Melbourne in 2030, the concept of it at least apparently appears to be pursued. So that is interesting for us in Melbourne terms. I have not, though, yet seen in flicking through your document a reference to how you are sustaining your workforce. There have been some observations in submissions about skill shortages: firstly, whether there are a sufficient number of skilled construction workers in the right places in Australia to address the level of development we are looking at, which is anecdotally put at a shortfall of 30,000 dwellings per annum. The second part of that is what the view of your council and your members is to using immigration as a tool to address the shortage, either through the 457 approach or through a different visa approach—or, as Mr Sutton said, the CFMEU would prefer a permanent migration approach in that regard. I do not think you were here for that.



**Ms Kakas**—I did have the luxury of hearing his statements. I believe he was one of the people who were speaking kindly of my members! Immigration is not an area that we have policies on per se. Certainly, if we were to take all the people who are not able to do work in New South Wales right now and shift them to Perth, we might be able to start to fix the process of getting people into work.

**CHAIR**—But there is nowhere for them to live over there!

**Ms Kakas**—But there is nowhere for them to live, which is certainly an issue that we highlight quite vehemently.

**CHAIR**—It is a catch-22 problem.

**Ms Kakas**—We know that there are skill shortages across the industry. That is everyone from skilled trade to planners. There are not enough planners to go around in local councils and there are certainly not enough planners to get the process done. There are not enough engineers. We are seeing in the industry that there is not enough available labour workforce. If that means skilling up internal Australians to get them into that role, if it means bringing people in on immigration visas or if it means permanent workforce—I think any of those activities are options. We just need to have that labour force to skill up. If the supply is to be met in the full numbers that we are looking at, we need to have a full workforce, and we do not currently have that.

**CHAIR**—One of the other issues that we have been discussing with a range of witnesses is the diversity of dwelling stock that is coming through in new developments in particular. The discussion has gone from the mental picture of four-bedroom, two-bathroom, three-car-space houses spread from one end of the western outskirts of a range of capital cities to the other to the question of whether it is possible—for example, through legislation or local government planning arrangements—to mandate a more diverse development in a single estate. So you would have those, you would have duplexes, you would have two-bedroom homes, you would have apartments and so on. Developers would be required—or hopefully they would be naturally inclined; that is the first point, I suppose—to assist in the production of more diverse dwelling stock in Australia, because that is one of the factors that is pricing people out of the market, although the developers' response by and large is, 'That's what they want; that's why we build it.'

**Ms Kakas**—There is certainly a market force in place, which says: 'If someone wants a detached home with a carport and a backyard for their 2.2 children and the family dog, then that is what we're going to build, because it's what they are going to purchase.' Having said that, our members are strongly building across a range of stock types. The issue is that a lot of new home dwelling is going into the fringe. People who are moving to the fringe are not moving to the fringe for any other reason than, firstly, it is the only place they can afford and, secondly, it is the only place which enables them to achieve the Australian dream of a quarter-acre block. So there is a demand factor in that, and I believe the REIA has done some research into consumer demand for that aspect. We are strong supporters of the concept that, where infill is feasible and can happen, it should happen—the town houses, the apartments, the various other forms of dwelling types.

We have just done a recent study on infill—and it is not that we are not trying to build infill—and a concern that we highlight in our paper is that the costs are significantly higher and the processes are significantly more difficult than greenfield building. At the end of the day, we need some of those processes to allow it to take place. We certainly would love to work with both state and local governments to make that happen. Our view is that there is demand for that, but that demand is often closer to the city. People do not move to the fringe or to suburbia in order to live in an apartment. If the option is to rent closer to town or to move to suburbia and live in the same apartment after purchasing, they are not going to purchase because they are still holding out for that house. So there is a consumer demand issue here, although one would not argue that expectations for consumers are significantly shifted upwards.

**CHAIR**—Although, if we are arguing, as you were contending earlier, about the quality of the community in which we wish to live, it is quite clear to us, even after this very brief inquiry process, that there are a number of places in Australia where it is not going to be possible for you to age in your community. If you are either a single older person or an older couple and you no longer need a four-bedroom, two-bathroom, three-garage house, there is not an alternative form of dwelling available to you to age in your community, where your connections are, your extended family and history might be and so on. The proposition has been advanced to us in a range of evidence that, when we are building large new estates, diversity is important to cater for not just—

**Ms Kakas**—Absolutely. If you look at the example near Melbourne of Caroline Springs you will see that range of accommodation.

**CHAIR**—Two times in two days! Someone give me a map!

**Ms Kakas**—I'm happy to take you out there afterwards.

**CHAIR**—That would be very kind of you, thanks.

**Ms Kakas**—It is a perfect example of how to build a suburb. Lend Lease has done a fantastic job, as do many of our members, of actually building communities and working with the community to understand upfront what it is they want. So, if what people want is some units and dwellings, if what they want is the ability to age in place, they will absolutely build it. I know we are quite demonised across the board, but the conferences that we take developers to and our education programs we put them through are very much about building community, working within the environment and understanding all these new social impacts. I do not think that matter was ever on anyone's agenda 30 years ago, but in development today there is very much an awareness of how we can get around building those communities so that they actually incorporate all the groups which are there, be it schools, parks or community care centres. I do think that is an issue and I think a lot of our guys, certainly those in the larger end of town, are taking on a lot of work and taking a lot of that on board to make that happen.

**CHAIR**—I appreciate that It is an area which my colleagues know has been of interest to me. If there is some more material that you want to send us on specific developments, including a personal map for me to get to Caroline Springs sometime very soon, that would be good. I am serious in saying that I personally would be interested in seeing the approach that your members are taking, and some of our colleagues may be also. The bottom line is that you are building the houses that people need to live in.

**Ms Kakas**—I would recommend the Hornery Institute, if your group has not seen it. You may want to approach them because they are doing a lot of work in this area.

**CHAIR**—I think we are running out of time for that. I do not think we have a submission from them, but we may seek some input. Ms Kakas, there are no further questions. Thank you very much for appearing this afternoon on behalf of the Residential Development Council of Australia. We appreciate your time. If you can assist us with the further information we have discussed, I would be very grateful.

**Ms Kakas**—Absolutely. Thank you.

**CHAIR**—I declare this hearing of the Senate Select Committee on Housing Affordability adjourned. Thank you to my colleagues, the secretariat and the Hansard staff.

**Committee adjourned at 3.25 pm**