

Additional comments from the Australian Greens

Senator Rachel Siewert

The best way to deliver appropriate, secure affordable housing is a complex and pressing issue. The cost and opportunity of securing affordable housing in a location that offers reasonable access to workplaces, services and amenities, regardless of whether it is through getting a mortgage or private rental, has been a big issue for a growing number of ordinary Australians for some time now¹. At best this is a timely report, at worst it is one whose time is long overdue.

The Australian Greens support the findings and recommendations of the committee but wish to make some additional comments.

To the extent to which we seek to bestow the social benefits of security, well-being and connection to community that are associated with home ownership², we need to be mindful in developing and pursuing policies that aim to increase housing affordability that we do not forget the equity issues for those who cannot or do not aspire to own their own home. We therefore need to ensure that housing affordability does not come at the expense of rental affordability, and that we take an integrated policy approach to meeting our communities housing needs.

It is important to note that many of the social benefits of home ownership appear to be related to security of tenure rather than home ownership *per se*. The committee heard important evidence of how longer-term and more secure leases were being offered to tenants in Australia by community housing associations – which also actively encouraged a greater degree of participation and control by tenants by offering them "sweat equity" for property improvements. The committee also heard how longer and more secure tenure arrangements play a key role in private rental markets in Europe, and offer a means of improving the social benefits of housing security.

To this end the Australian Greens recommend:

That the Commonwealth press State and Territory Governments to consistently amend their Tenancy Acts to increase security of tenure as part of the funding arrangements for the National Rental Affordability Scheme (NRAS).

¹ For example, United Nations Special Rapporteur on adequate housing, Miloon Kothari, Mission to Australia, Preliminary observations, 2006

² As discussed in Chapter 2 – including financial security, stability of social networks and engagement, connection to community, sense of control over one's environment, enhanced of self esteem, continuity of children's education and friendships ...etc

The Australian Greens consider the evidence presented by not-for-profit community housing organisations of the innovative manner in which they are improving the cost, amenity and social benefits of housing (both through secure and affordable rental and, as discussed below, through alternative models of affordable home ownership) was the shining light of the inquiry.

In addition to the issues of security of tenure, participation and 'sweat equity' mentioned above, we were also impressed by the manner in which they were providing accessible housing for people living with a disability and supporting 'ageing in place' ... by retrofitting existing housing or developing more appropriate housing within the neighbourhood and offering ageing tenants the choice of moving.

We strongly urge Federal, State and Local levels of Government to engage with the not-for-profit community housing sector to tackle barriers to the expansion of affordable housing schemes.

Affordable living

We need to be mindful that to be truly affordable the cost of housing needs to take into account not only the ongoing cost of rental or mortgage repayments but also the cost of living in that particular housing – including the cost of transport to work and to access social services and community life, as well as the cost of utilities such as power, water, heating and cooling.

The issue of affordable living presents a number of key challenges – including the high costs of transport of what may be seen to be affordable housing on the expanding urban fringes of our cities; the increased cost and therefore reduced initial affordability of sustainable or 'green' housing which can dramatically reduce water and energy consumption; and the equity issues involved for those in private rental who bear the increasing costs of inefficient housing while there is no incentive for landlords to retrofit energy and water saving improvements.

The Australian Greens believe that more consideration needs to be given to how we encourage and support developers and housing providers to build more energy and water efficient housing, and housing that is better able to be adapted to the changing needs of its owners or occupiers through its lifespan. There is the potential for governments to identify means by which the up-front cost of building sustainable housing or retrofitting existing housing can be reduced and some of the benefits of reduced utility costs captured over time to make such initiatives cost-neutral. This requires an integrated approach at the local, state and federal levels to the incentives and requirements placed on developers and housing providers.

Similarly there are opportunities for governments to provide incentives to landlords to invest in more efficient and affordable housing by specifying minimum efficiency standards and requiring owners of inefficient rental properties that fail to meet those standards to meet the additional utility costs of their tenants.

'Key' workers and the insecure workforce / risky loans

With the rising cost of housing in Australia the size of the group of those excluded from home ownership and forced into a tightening private rental market is continuing to expand. There are emerging concerns that the inability of key workers (such as police, nurses or teachers) to be able to secure affordable housing within reach of the communities where they are needed is undermining the sustainability of many key social services. The increase in casual and part-time work brought about by changes to our industrial relations system, together with the move in a number of sectors to shorter term contracts, also means that there is a growing section of the working community who lack the long-term financial security required to secure a mortgage with a bank or other mainstream financial institution.

Deregulation and competition within the financial sector has led to increased access to credit that has enabled a larger number of Australian families to obtain a mortgage. While this has extended the social benefits of home ownership to many who may have been previously excluded it has also had some negative consequences both in terms of driving demand in the housing market and in producing a class of more complex, risky and expensive loans targeting those on lower and less secure incomes. One consequence of the proliferation of non-standard, low documentation and reduced equity mortgages is that some of the most complex products are being marketed to those with the least capacity to manage the risk – leading to increasing levels of mortgage stress and defaults.

The Australian Greens believe that we need to give greater consideration to some re-regulation of the credit sector to tighten up on the ability to promote complex and risky products to those who possibly don't understand or afford them. We note the evidence presented to the committee by a number of responsible lending institutions and particularly wish to take note of the early intervention practices and financial counselling services they extend to help customers who get into financial difficulty protect their equity and housing security. We also note the international evidence of greater duty of care requirements being placed on lending institutions.

The Australian Greens believe that the Commonwealth should be looking into measures which place more responsibility onto the lender to ensure they have a duty of care to their clients for the products they promote and sell to them to ensure they do not encourage them to borrow beyond their means.

Recommendation: That the Commonwealth investigate forms of regulation of lending institutions aimed at limiting the targeting of complex or inappropriate products to those who cannot afford or manage them.

Recommendation: That the Commonwealth consider introducing duty of care requirements for lending institutions to make them take some responsibility for assisting and advising mortgagees who cannot keep up with mortgage payments.

Town Hubs and Regional Cities?

Adaptable housing?

Taxation

The Australian Greens remain concerned by the extent to which our current taxation system (in particular capital gains tax and negative gearing) acts as a driver of higher rental costs, and the manner in which those looking to invest in rental properties compete with aspirant home owners. We believe that the Australia's Future Tax System Review Panel provides an opportunity to address the inflationary pressure that competition from the property investment sector puts on housing affordability. We believe this review should look to the means by which changes to our system of taxation might discourage some of this speculation by reducing taxation incentives at the higher end of the market while encouraging investment in affordable rental accommodation. To this end we think that the recommendation in the committee report to the Australia's Future Tax System Review Panel should be stronger and more directive.

Recommendation: That Australia's Future Tax System Review Panel consider the implications for housing affordability, as well as the overall fairness of the tax system, of the:

**tax discount for capital gains on investor housing;
exemption from land taxation of owner-occupied housing; and
current negative gearing provisions.**

...with a view to reducing competition between investors and home owners while encouraging investment in affordable rental housing.

We also believe that the concerns as to whether the application of the Goods and Services Tax to Stamp Duty is an unnecessary and anomalous 'tax on a tax' have not been adequately addressed, and so recommend:

Recommendation: That the Australia's Future Tax System Review Panel also review the application of the Goods and Services Tax to Stamp Duty as a 'tax on a tax' anomaly.

First Home Owners Grant Scheme

The Australian Greens note the evidence presented to the committee of the blunt nature of the FHOG scheme as a measure to improve housing affordability. We believe that this evidence exposed a tension within the FHOG scheme between the intention to address equity issues – by providing support to young families who might not otherwise be able to achieve home ownership within the current market – and the attempt to address supply issues, by encouraging first home owners to buy new houses by providing more money to those who can afford to do so.

The Australian Greens believe the best and most efficient use of this grant scheme is to help young families into housing, not to tackle supply side issues – which can arguably be done more effectively through other, more targeted initiatives.

Offering a greater incentive to first home buyers to buy new houses does two things which we believe introduce unintended consequences for housing affordability. Firstly, it unfairly favours those with a higher income or more family resources who can afford to buy a more expensive new home (that is, it is inequitable). Secondly, it encourages new families to buy cheaper new homes on the fringes of our cities ... where they are away from the services and employment opportunities they need at that stage of life.

Both the Reserve Bank & Ross Gittins credibly argue that as a supply strategy the FHOG is inefficient and inflationary – that it has the effect of pushing up prices rather than effectively increasing supply.

To this end the Australian Greens oppose any moves to introduce a two-tiered system that provides increased funding for the purchase of new homes. We also believe that the FHOG should be better targeted – to more effectively address equity issues for those who would not otherwise be able to secure affordable housing, while at the same time reduce its inflationary impact by not providing more money to those first home buyers who can already afford to enter the market and do not need encouragement to buy a bigger or more expensive house.

Recommendation: That the Commonwealth introduce means testing and a property price limit on the First Home Owners Grant Scheme.

Affordable in perpetuity?

The major challenge for shared equity schemes and other alternative ownership models is how they stand the test of time and whether they are able to deliver affordable housing in perpetuity.

The Australian Greens welcome the consideration by the Commonwealth and some state and territory governments of shared equity schemes (notably West Australia's First Start program and the ACT's shared equity scheme), and note the consideration given to these schemes in Chapter 9 of the committees report. We also note that some financial institutions are also offering shared equity models.

While we welcome these moves as a step in the right direction, we note that there are limits to the amount of money banks can afford to have tied up in longer-term shared equity schemes, and that there are some drawbacks for governments inherent in the manner in which the current model of shared equity requires ongoing top-up subsidies to maintain the number of units of affordable housing their initial investment delivers in perpetuity.

Dr Louise Crabtree from the Urban Research Centre at the University of West Sydney presented some interesting research³ on international alternative tenure models to the committee. Since the inquiry concluded she has released a report on the findings of her subsequent research trip to the United States which analyse the affordable home ownership models which are now being rolled out in the US at a significant scale.

The shared equity systems currently being advanced within Australia rely on a dual mortgage approach in which the state holds a mortgage for a certain percent of the value of the home on the assumption that the homebuyer will eventually buy them out and the funds will be returned to the state to be used to subsidise another home owner. The problem with this type of 'subsidy recapture model' is that the value of the subsidy returned at this point will be lower than what would at that point in the future be required to get a family on a similar level of income into a similar unit of housing.

By comparison, subsidy retention models – such as Community Land Trusts, Limited Equity Cooperatives and Deed Restricted Mortgages are able to prevent this slow subsidy leakage and allow governments and philanthropic organisations to deliver an investment in affordable housing in perpetuity.

The other benefit of these subsidy retention models is that by tying the subsidy to the creation of affordable housing stock they produce a supply side strategy that does not introduce more buyers and more cash into overheated housing markets, and thus do not push up inflationary demand.

For Australia to be able to deliver these models requires greater consideration of the legislative and regulative barriers and requirements. To this end we recommend:

Recommendation: That the Council of Australian Governments examines the application of subsidy retention models to deliver affordable housing in perpetuity within the Australian context.

Recommendation: That COAG examines the legislative and regulative barriers and requirements for implementing subsidy retention models, and recommends appropriate reforms to Commonwealth, State and Territory, and local Governments to enable them as appropriate

³ Models of perpetually affordable homeownership: report and case studies from the United States of America. URC. June 2008.