

Submission to;

## Senate Standing Committees on Economics

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*This submission contains no confidential material and is designed to provide information to the Committee from a resident of Lake Macquarie, who has watched with dismay the changes that have occurred to this state and my community because of the failure of government policies on housing.*

### Summary;

In this submission I will argue that it would be undesirable and probably impossible to solve the present home affordability crises without also tackling the issue of a housing market that is geared to profits derived from rising prices. I will point out that all past government initiatives, ostensibly designed to help home buyers, have been counter productive and have only served to drive up house prices. The causes will be analysed and the obvious impossibility of meeting an exponential growth in housing demand submitted as the key to home affordability as well as the many other growth related problems including infrastructure supply and decline in living standards in our cities .

### Section 1.

A discussion on the methods used to determine the level of housing affordability and how these can give conflicting results.

### Section 2.

How house prices effect different groups within the community how it adversely impacts on the nations economy.

### Section 3

The chief causes of the continuous price increases in housing .

### Section 4.

Recommendations.

## Section 1.

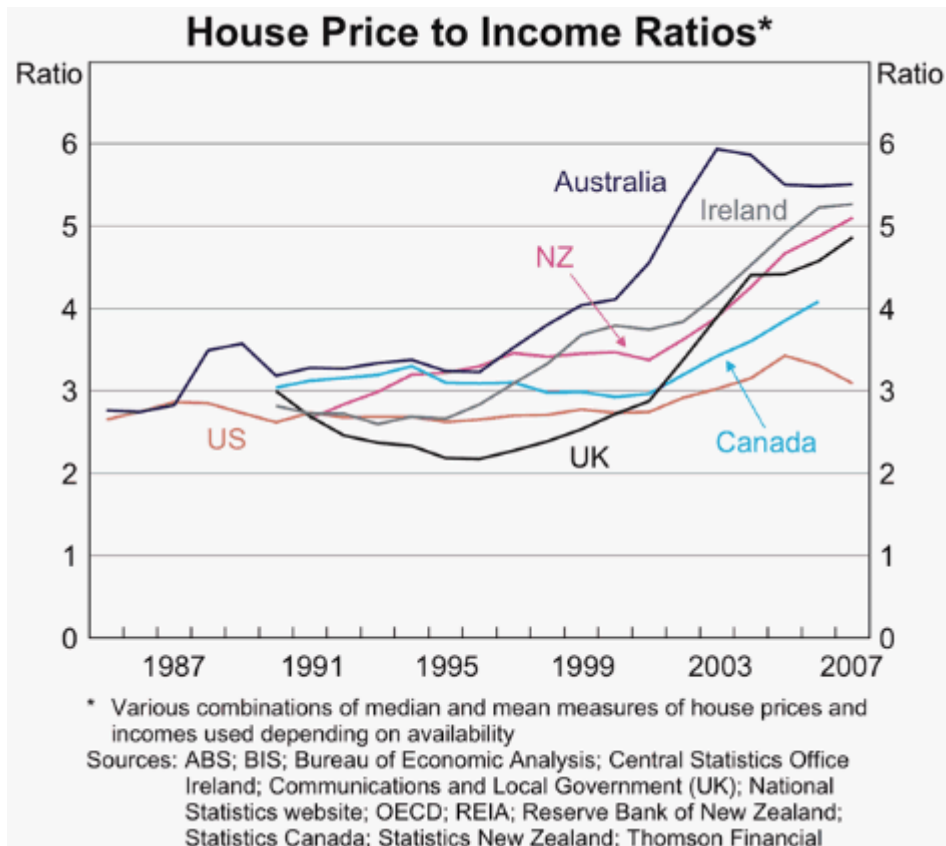
There are several methods of measuring housing affordability. The Housing Institute of Australia - Commercial Bank of Australia (HIA-CBA) index compares the level of monthly mortgage repayments on a median-priced property purchased now with average weekly earnings. The index does so at current interest rates, which are at around record lows and consequently this shows houses at record affordability, at least for Australia. CBA's figures for the median priced home of \$459,000 (based on the bank's valuations of properties on its loan book) and a current interest rate of 5.18 per cent per annum, the monthly repayment is \$2,458 but when the decade-high discount mortgage rate of 8.95 per cent as seen in August 2008, is used the monthly repayment becomes \$3,453 per month and the affordability drops to its worst level since June 2010.

Fortunately there is an international standard that allows us to compare Australian housing affordability with those of overseas nations. This report assesses 337 markets in seven countries: Australia, Canada, Hong Kong, Ireland, New Zealand, the United Kingdom, and the United States. The survey employs the "Median Multiple" (median house price divided by gross annual median household income) to rate housing affordability. This measure is widely used for evaluating urban markets, and has been recommended by, amongst others, the World Bank and the United Nations. The 2013 *Annual Demographia International Housing Affordability Survey* has once again ranked Australia as having one of the most expensive housing markets out of the countries surveyed. Table 5 provides an insight into just how bad the situation is in Australia and given the peculiar conditions of Honk Kong it could well be argued that Australia's housing is the worlds least affordable.

Nation	Affordable (3.0 & Under)	Moderately Unaffordable (3.1-4.0)	Seriously Unaffordable (4.1-5.0)	Severely Unaffordable (5.1 & Over)	Total	Median Multiple
Australia	0	0	9	30	39	5.6
Canada	8	17	4	6	35	3.6
China (Hong Kong)	0	0	0	1	1	13.5
Ireland	1	4	0	0	5	3.2
New Zealand	0	0	3	5	8	5.3
United Kingdom	0	2	14	17	33	5.1
United States	100	87	13	16	216	3.1
<b>TOTAL</b>	<b>109</b>	<b>110</b>	<b>43</b>	<b>75</b>	<b>337</b>	

Of the 337 housing markets surveyed by Demographia, a significant proportion of the unaffordable markets are located in Australia, with 30 ranked as “*Severely Unaffordable*” and nine “*Seriously Unaffordable*”. Australia currently has no housing markets ranked as “*Affordable*” or “*Moderately Unaffordable*”. *Last year the survey contained only 25 markets in the “Severely Unaffordable” category.*

According to the Survey, Median Multiples were historically 3.0 or less in Australia, Canada, Ireland, New Zealand, the United Kingdom and the United States – a notion supported by the below chart from the Reserve Bank of Australia (RBA): What is also interesting is that home affordability was far better even in the years when interest rates reached 19% in the Hawke/Keating years.



## Section 2.

The high cost of housing effects people in different ways depending on their circumstances and these are prone to change because of loss of employment, divorce, increase in family numbers or health problems etc. For simplicity I will restrict the discussion to the following groups;

1. Those people unable to find any home of their own and are forced to reside in accommodation provided by welfare organizations or to sleep rough because there is insufficient welfare accommodation. It is estimated that there are about 100,000 in the later group but this figure could be an underestimation. Some of these have health or other issues that make it difficult or impossible to find work but a significant number have been unable to enter or dropped out of the work force due to skills shortage.

For this group there must be an urgent and broad based approach that along with providing emergency accommodation includes processes that enhance employment opportunities. Figures from the ABS show unemployment levels of young people to

be at dangerously high levels – 27% are not in full time study or employment, a number that increases to 40% for disadvantaged groups. (indigenous, migrants, refugees and those with disabilities) Unless this issue is addressed the housing crises will pale in comparison with the resultant social issues like domestic violence, crime, drug use and self harm. Figures from the ABS show that the number of people entering the work force was 100,000 more than the number of jobs created yet last year we accepted 125,000 skilled migrants and 81,550 entries under the 457 visa scheme. This deluge of skilled people has allowed governments and industry to cut back their own training programs. Funding for TAFE has been slashed and University places are increasing being taken by full fee paying overseas students (22.3% of students in 2012 ) who on completion of an approved course can apply for permanent residency. Ironically this process of “Qualifications for Cash” has seen a decline in education standards \*\* that has resulted in a 19% drop from 2009 levels in the number of O/S applicants for university entry.

If you will pardon a quote from the bible: The man who doesn't teach his son a trade, teaches him to be a thief.

2. Those who for reasons of finance are now unable to fund mortgage payments and will remain in rented accommodation with the high rents contributing to their financial difficulties. The magnitude of this group can be gauged by the November figures from the ABS which show that first home buyers only made up the smallest proportion of new mortgages on record accounting for just 7.6% of real estate purchases. Between 2006 and 2011 the population of Sydney rose by 6.5 per cent and homelessness increased by more than 31 per cent. In the same period, the number of people living in overcrowded homes, defined as three bedrooms short of what would be required to adequately house people, rose by 56 per cent. These are people considered at risk of becoming homeless.

The Anglicare's *Rental Affordability Snapshot* report found that couples on the minimum wage could afford only 0.02 per cent of rental homes in Sydney. This has provided an opportunity for unscrupulous land lords to provide sub standard accommodation that in some cases fails to meet health and safety standards.

( Packed to the rafters in problems; <http://www.smh.com.au/domain/real-estate-news/apartments-packed-to-the-rafters-in-problems-20140131-31s73.html> SMH February 1<sup>st</sup> )

Increasing rents while causing distress to those renting homes, also creates havoc in commerce and industry. Commercial rentals in Australia are some of the worlds highest and almost four times that of the equivalent in the US. In shopping centers leasing rates are \$1400 per square meter per year for some specialty shops while similar tenants pay about \$400 in the US. Australia has a terrible record of small business failures, ABS figures show that 44% of small companies failed in 4 years, on average 44 per day, a feature certainly exacerbated by the burden of leasing costs. This adversely impacts on our international competitiveness, discourages new investment and for those business that do remain viable the higher operating costs must be passed on to the consumer the resultant being higher prices and lower employment.

3. Those who are paying off a mortgage but find themselves in financial and/or emotional difficulties because their usable income is so reduced after meeting repayments. This is referred to as mortgage stress. This group are most at risk from either a downturn in income or an interest rate increase (a prospect that statistically is very likely) either of which could make it impossible to meet payments and thus suffer the loss of their home. Research (*by the Greens*) has shown that about 30% of home buyers are suffering mortgage stress and according to an October 2013 survey by Mortgage Choice this figure reaches 53% for those who purchased within the last two years.

According to this survey of 1,000 first home buyers 53% of respondents are paying more than 30% of their after tax income to a mortgage. The 30% mark is considered the stress threshold, where repayments may become unmanageable for many households, especially with other costs of living and variable factors such as interest rate rises. The survey found South Australians were struggling the most, with 60% considered to be in mortgage stress, compared to 54% in Western Australia, 52% in both Victoria and Queensland and 50% in New South Wales.

Living on a tight budget means that some essential expenses - education, health or food quality, are likely to be deferred with long term consequences for the family and the nation. One of the spending cut backs that occurs, and not only to those in mortgage stress, is that of investment or in savings - new home buyers will spend about half a million more than their parents did on an equivalent home – money that could have been invested in Australian industry to reduce the high level of foreign ownership – and profits lost. Many home buyers assume that their home will be their superannuation, not always a sound approach given the tendency for housing prices to crash at regular intervals, a very real prospect if interest or unemployment rates rise, both of which seem likely.

There is a fourth group - those financially well-off people who have committed to very large mortgage payments but will be wiped out if/when a housing price collapse occurs. This group is probably smaller than the others but they will contain successful people who may be lured overseas, ie a brain drain, because of the high cost of housing and land for their commercial projects. For others their high financial investment in housing represents a potential loss of investment, either directly or through share purchases, in projects that would be more beneficial to the nation.

## Section 3.

In this submission I will argue that it would be undesirable and probably impossible to solve the present home affordability crises without also tackling the issue of a housing market that is geared to profits derived from rising prices. I would point out that all past government

initiatives, ostensibly designed to help home buyers, have been counter productive and have only served to drive up house prices. The main culprits in this regard have been ;

**Negative Gearing, Foreign Investment** and the recent **legislative changes** that allowed super funds, including SMSF's to invest in property, have all served to drive up house prices.

**First home buyer grants, Low interest rates for 100% or more of the house cost, and Low Doc loans**, all provided more incentives for buyers to pay more. Low document loans have also been the subject of corruption allegations, they were originally designed for small businesses but banks and other lenders abused the system. It has been alleged that they were sold by the thousands to pensioners, single mums and people on welfare and many investors are still struggling to pay the price of it.

**High immigration rates** and population growth (*at 1.8% growth this is one of the highest in the developed world, higher than Indonesia. It is largely due to our high immigration, a policy strongly supported by those who benefit from the housing industry*) along with Foreign investment and State governments reluctance to allow continued urban sprawl have all combined to ensure that housing demand has always exceeded supply leaving to continued price spirals.

When demand exceeds supply the end result is that land prices increase faster than building costs and this becomes the major factor that drives up housing costs. The ratio of land to housing costs varies but the ratio will be higher for the more affordable homes making it more difficult to achieve a satisfactory outcome for home buyers . A secondary adverse outcome of high demand is that while developers can demand what the market will bear, there will be no constraint exerted by banks, or lenders since they will also benefit from higher prices. State Governments are all suffering from falling revenue and encourage both housing growth and price increases as they benefit from stamp duty. This is an unfortunate response since there has been sufficient evidence\* to indicate that the revenue thus received does not match the expenditure required in infrastructure. Developers will also have less need to provide innovative housing since almost anything will sell and indeed units are often sold off the plan, a process that leaves buyers vulnerable. In these conditions providing affordable housing becomes almost impossible, it would require a developer to either forgo profits, build in remote locations where land is cheap or be subsidized by government or private organizations. However if such a house were provided it would still have a higher value than its cost price and would lose its standing as affordable as soon as it was sold.

There is a very large vested interest in housing, our big four banks are heavily dependent on mortgage loans, the BRW top rich list is heavily occupied by developers and both major political parties are obsessed with an economic policy reliant on growth and measured by Gross Domestic Product. GDP unfortunately is an indiscriminate measure failing to distinguish between processes that provide benefit to the population and those that cause harm. As an example the reliance on housing development as a economic stimulus fails to

take into account our heavy reliance on construction related imports. We import almost all of the white goods, bathroom fittings, plumbing and interior tiles as well as the tools used in construction. About a third of the cement is imported along with \$4.6b in timber about a quarter of which, by government estimates, is poached by criminal organizations. Local manufacturers are not only being driven out of business by this competition but are also faced with their products being counterfeited. The Australian Steel industry is calling for new standards for imported steel claiming that there has been an unacceptable level of non-compliant, unsuitable and often faulty products being used in major development projects.

<http://www.canberratimes.com.au/act-news/faked-goods-risk-lives-20120324-1vrq5.html#ixzz2sE1oIvBb>

In order to house the growing population there has been a huge urban sprawl. Nation wide we have lost five times more farmland to urban sprawl than to foreign buyers, with 89 million hectares vanishing in a generation. Housing subdivisions, hobby farms, national parks, forestry plantations and mining leases have chewed up 18 per cent of Australia's agricultural land since 1984 often in the best agricultural land closest to its market. The Planning Institute of Australia has warned that the conflict over rural land is "one of the most significant issues facing food production". The economic rationale for this destructive process is that the land's development value is greater than its potential productive value. Yet absurdly enough this loss of agricultural land plus our population growth has seen our food imports increase to \$10.6b per year and we have accumulated a huge deficit in infrastructure, \$770b according to the previous finance minister Lindsay Tanner and due he told us to population growth.\*\*

To slow this loss of vital agricultural land and the need for expensive transport systems many cities have adopted urban consolidation, sometimes called "smart growth" with the aim of maximizing existing infrastructure. This has had a devastating impact with cities losing their leafy character, along with heritage buildings and family life turned into something Dick Smith called "Battery Living". This process is very strongly resisted by NGO's like the Better Planning Network and Save Our Suburbs as well as communities deeply suspicious of state and local governments record on developer related corruption - and with good grounds since 13 councils have been sacked and the previous state government shown to be the recipient of many millions in developer donations. In a recent report, *Anti-Corruption Safeguards and the New South Wales Planning System*, the ICAC says that since its inception in 1989, it has produced no fewer than 30 reports exposing likely or actual corrupt conduct relating to the New South Wales planning system, adding that it has also published numerous reports about the potential for corruption in the system.

The report goes on to that the current planning system in the state is 'unwieldy, overly complex and lacking in transparency and that in 2010/11, its development applications and land rezoning work area received the second-highest number of complaints concerning possible and actual corrupt conduct, and that over the last ten years, planning and rezoning has consistently ranked in the Commission's top five areas in which it received complaints.

Higher density housing is also hotter, the NSW governments own paper Urban Heat Island Effect shows that higher densities led not only to higher temperatures but also a reduction in



the normal night time cooling. This creates a feed forward mechanism due to greater use of A/C as well as human metabolism and vehicle use. The paper forecasts a temperature rise of 3.7 degrees by 2050, enough to increase heat related mortality, while heat stress will result in reduced work capacity and increased psychological and social problems. Higher density living also leaves communities at greater risk from disease transmission and accentuates the injuries from natural disasters including climate change. During the recent heat wave the mortality rate jumped up to 203 per week in South Australia, this is almost double the normal rate, a number that could have been far higher if power failures had occurred and something we must take into account in our warming future.

## Section 4.

### Recommendations;

Instead of regarding home ownership as an essential commodity in the same way as food and water successive governments of both persuasions have allowed vested interest groups, including banks and developers, to portray housing with the same economic rational as Pork Belly Futures. A commodity for speculators to manipulate. The importance of home ownership with all its social benefits has been downplayed in favor of a market based item where price increases are hailed as a “Housing boom” or a “Housing led recovery” without any reference to the social, environmental, or even to economic consequences. It is an approach that would not be acceptable for any other commodity, in fact energy price increases have been used as a weapon to unseat governments, food price increases are a cause for great concern and even water prices (especially for irrigation) have been the subject of fierce debate, yet housing costs the individual far more than any of these. This economic absurdity is echoed by a largely uncritical and sometimes highly supportive media that panders to its advertisers.

The answer to the problem of housing affordability, and its associated problems should be obvious. Our current Treasurer Joe Hockey told us that our housing affordability crises was due to our very generous immigration scheme which has seen our population increase by 407,000 in the last year.

1. We must therefore, as a matter of urgency, more towards stabilizing our population as soon as possible.

This can be achieved by reducing total immigration to a maximum of 70,000/year. That would still allow for an increase in refugees numbers which are currently about 15,000/year. Obviously this is a decision that can only be made by the Federal government but the States must be the ones to push for this reform.

2. Remove all incentives for housing investors including foreign investment.

3. Remove all buyer inducements that encouraged buyers to over-extend on credit.

2. Since a large part of housing costs are due to state taxes and duties these must be reduced. The federal government must fund state and local government adequately so that they can supply the necessary infrastructure and services so that they are not forced to apply counter productive measures to fund facilities. A study done by the Australia institute has shown that the tax deductions handed out by the Howard/ Rudd governments led to a decrease in federal revenue of \$169b, enough to maintain, at current spending, a budget surplus of almost \$40b. Since Australia has one of the lowest tax regimes, lower than the US and most OECD nations, it is time we reinstated what was an unaffordable election vote buying bribe.

I trust that this inquiry will lead to genuine reform that recognizes the impossibility of providing for an exponential population growth. Any alternative approach will only give a superficial respite while allowing the problems mentioned above to grow along with the population which will see Sydney's population reach 8.4 million in 40 years. Unfortunately I am not confident that any government has the courage to resist the blandishments of the pro growth lobby.

Don Owers

\* Recently the Curtin university did a study to examine why Australia has such a high infrastructure deficit. .

[http://sustainability.curtin.edu.au/local/docs/Curtin\\_Sustainability\\_Paper\\_0209.pdf](http://sustainability.curtin.edu.au/local/docs/Curtin_Sustainability_Paper_0209.pdf)

This study found that the life cycle infrastructure requirements for a new suburb would on average cost \$684,000 per dwelling far more than will be recovered by the increased revenue.