



Australian Government

Department of Social Services

Dr Kilian Perrem
Inquiry Secretary
House of Representatives Economics Committee
PO Box 6021
Parliament House
Canberra ACT 2600

Dear Dr Perrem

Thank you for providing the Department of Social Services (the Department) with the opportunity to make a submission to the House of Representatives Economics Committee's Inquiry into Home Ownership.

A copy of the Department's submission is attached.

The Department welcomed the opportunity to contribute to this discussion.

I look forward to the recommendations and findings of the Committee.

Yours sincerely

Iain Scott
Acting Deputy Secretary
26 June 2015



Australian Government
Department of Social Services

Submission to the House of Representatives Standing Committee on Economics Inquiry into Home Ownership

June 2015

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Executive Summary

This submission seeks to highlight that:

- Home ownership is important not only to individuals and families but also to the operation of the broader economy.
- Rates of home ownership in Australia remain around 67 per cent but have been declining since the mid-1980s and in 2011 fell to their lowest levels since the 1954 Census.
- Australians are entering home ownership later and are taking on higher levels of debt to do so.
- The proportion of Australians who owned their own home without a mortgage decreased in 2011 to the lowest level since 1976.
- Investors, both domestic and foreign, play a significant role in Australia's housing market and directly impact upon the ability of Australians to access home ownership. An increasing number of first home buyers are also entering the housing market as investors.
- Changes in the rate of home ownership have significant impacts upon consumption, investment and savings trends, and the distribution of wealth throughout the economy.
- Housing is a complex area of public policy with many different dimensions and stakeholders, including different levels of government that have competing priorities.
- Responsibility for policy settings that influence the demand for, and supply of, housing and in turn access to home ownership, are split between different levels of government. The Commonwealth largely influences housing demand while the states and territories largely influence housing supply.
- Given the size of Australia's housing market relative to the economy, and the importance of stable housing to social outcomes, all levels of government have an interest in the level of home ownership across Australia, and more broadly, in managing policy settings to ensure that housing supply is better able to respond to changes in housing demand.

The submission does not seek to make any specific recommendation but notes that:

- To improve housing outcomes, governments will need to improve the way in which the housing market operates, that is, the policy settings governing housing demand and supply, rather than seek to influence current outcomes through direct interventions in the operation of the market.
- The focus of governments at all levels should be on measures to improve the responsiveness of housing supply through increased incentives and better co-ordination.
- Without reforms to existing policy settings, the current issues with housing affordability and home ownership will not recede, and indeed are more likely to intensify given the current low interest rate environment. This will lead to an increase in the number of Australians excluded from owning their own home, which is likely to put further pressure on the private rental market, and in turn, community and public housing and the Commonwealth budget through increasing outlays in Commonwealth Rent Assistance (CRA).

Introduction

Home ownership has¹, and continues to be², a key aspiration for the vast majority of Australians.

The central role housing, and home ownership in particular, plays in Australian society has its origin during the Second World War with the examination of housing by the Joint Committee on Social Security³ and the Commonwealth Housing Commission, which led to the establishment of the first Commonwealth State Housing Agreement in 1945.⁴

The importance of home ownership was articulated at this time by Robert Menzies, in his 'Forgotten People' speech in 1942, where he stated that:

'The material home represents the concrete expression of the habits of frugality and saving "for a home of our own." Your advanced socialist may rave against private property even while he acquires it; but one of the best instincts in us is that which induces us to have one little piece of earth with a house and a garden which is ours; to which we can withdraw, in which we can be among our friends, into which no stranger may come against our will'.⁵

The importance of home ownership was also later articulated by Gough Whitlam in both his 1969⁶ and 1972 election speeches. In his 1972 speech he stated that his government would have two over-riding objectives: "to give Australian families access to land and housing at fair prices, and to preserve and enhance the quality of the national estate, of which land is the very foundation".⁷

In the period following the end of the Second World War, dwelling prices in Australia were around two to three times household income, with dwelling stock increasing more rapidly than population growth.

The gap between the increase in dwelling stock and population growth ensured that demographic changes, namely the reduction in household size and increasing life expectancy, did not result in increased price pressure on housing.

¹ Australian Housing and Urban Research Institute, Merlo R and McDonald P, *Outcomes of home ownership aspirations and their determinants*, February 2002. Available at: <<http://www.ahuri.edu.au/publications/projects/p10016>>.

² The 2014 Mission Australia Youth Survey, around 73 per cent of 13,600 15-19 year olds surveyed ranked owning their own home as a key aspiration i.e. extremely important or very important to them. Only around 3 per cent of participants indicated that home ownership was not important to them. Of those participants that ranked home ownership as a key aspiration, around 71 per cent thought that they would be extremely likely or very likely to be able to achieve home ownership despite the falling rates of home ownership in Australia. Available at: <<https://www.missionaustralia.com.au/what-we-do/research-evaluation/youth-survey>>.

³ Joint Committee on Social Security, First Interim Report, 24 September 1941, Page 10. Available at: <http://www.aph.gov.au/parliamentary_business/committees/house_of_representatives_committees?url=report_register/byparlist.asp?id=16th>.

⁴ *Commonwealth and State Housing Agreement Act 1945*. Available at: <<http://www.comlaw.gov.au/Details/C2004C00438>>.

⁵ Robert Menzies, 'The Forgotten People', 22 May 1942. Available at: <<http://www.liberals.net/theforgottenpeople.htm>>.

⁶ Gough Whitlam, 1 October 1969. Available at: <<http://electionspeches.moadoph.gov.au/speeches/1969-gough-whitlam>>.

⁷ Gough Whitlam, 13 November 1972. Available at: <<http://electionspeches.moadoph.gov.au/speeches/1972-gough-whitlam>>.

However, since the introduction of financial deregulation in the mid-1980s, Australians have had greater access to capital for both consumption and investment.

As has been noted by the Reserve Bank of Australia (RBA) on a number of occasions, this increased access to capital has largely been used by households to increase their consumption of housing.⁸

The additional 'financial' consumption of housing by both owner-occupiers and investors has increased significantly as official interest rates have continued to fall to record lows. It has also been supplemented by an increase in 'actual' demand for housing, driven by increases in Australia's estimated resident population by around 54 per cent from December 1982 to December 2014 and by around 18 per cent from December 2004 to December 2014.⁹

While demand for housing has increased significantly over the last 30 years, the supply of new dwellings has not responded, with average annual completions of new dwellings remaining around 150,000 since the mid-1980s¹⁰ notwithstanding recent increases over the last 18 months. As with any increase in demand that is unaccompanied by a corresponding increase in supply, this has led to a significant increase in both nominal and real dwelling prices across Australia over the last 30 years.¹¹

In 2015, the Organisation for Economic Co-operation and Development (OECD) ranked Australia's housing market as the second most overvalued (in percentage terms) against its long-term average on a price to income ratio (31 per cent); and the fifth most overvalued on a price to rent ratio (49 per cent).¹²

While the changes in 'repayment' and 'purchase' affordability¹³ that have taken place over the last 30 years have arguably benefitted existing home owners and investors given the significant increase in prices and reduction in interest rates, these changes have had the opposite impact on potential first home owners, potential up-graders, renters and those households in public and community housing.

If current and future generations of Australians are to have similar levels of access to a comfortable home, at reasonable cost, as previous generations, all levels of government, as well as industry stakeholders, will need to work together to resolve the current structural imbalances between the demand for, and the supply of, housing.

⁸ Dr Christopher Ken, Assistant Governor (Economic), RBA, *Monetary Policy Transmission – What's Known and What's Changed*. Public Lecture at the Australian National University 15 June 2015. Available at: <<http://www.rba.gov.au/speeches/2015/sp-ag-2015-06-15.html>>.

⁹ Australian Bureau of Statistics (ABS), 3101.0 – Australian Demographic Statistics, September 2014 – Table 1.

¹⁰ ABS 8752.0 - Building Activity, Australia, December 2014 – Table 37. Available at:

<<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8752.0Dec%202014?OpenDocument>>.

¹¹ Dr Nigel Stapledon, *A History of Housing Prices in Australia 1880-2010*, September 2010. Available at: <<https://ideas.repec.org/p/swe/wpaper/2010-18.html>>.

¹² OECD Economic Outlook, Volume 2015, Issue 1. Available at:

<<http://www.oecd.org/eco/outlook/economicoutlook-previous.htm>>

¹³ The Department of Social Services noted in its submission to the 2015 Senate Inquiry into Affordable Housing that 'purchase affordability' is determined by a household's income, its access to credit and the price of the dwelling that the household is seeking to purchase, while 'repayment affordability' is driven by a household's income, the amount of credit that has actually been borrowed and the interest rates repayable on those borrowings.

Importance of Home Ownership

Home ownership is the largest form of tenure in the Australian housing market.¹⁴

Given the interconnectedness of the tenure types within Australia's housing market, including private rental, social housing and homelessness, home ownership is directly or indirectly important to all Australians.

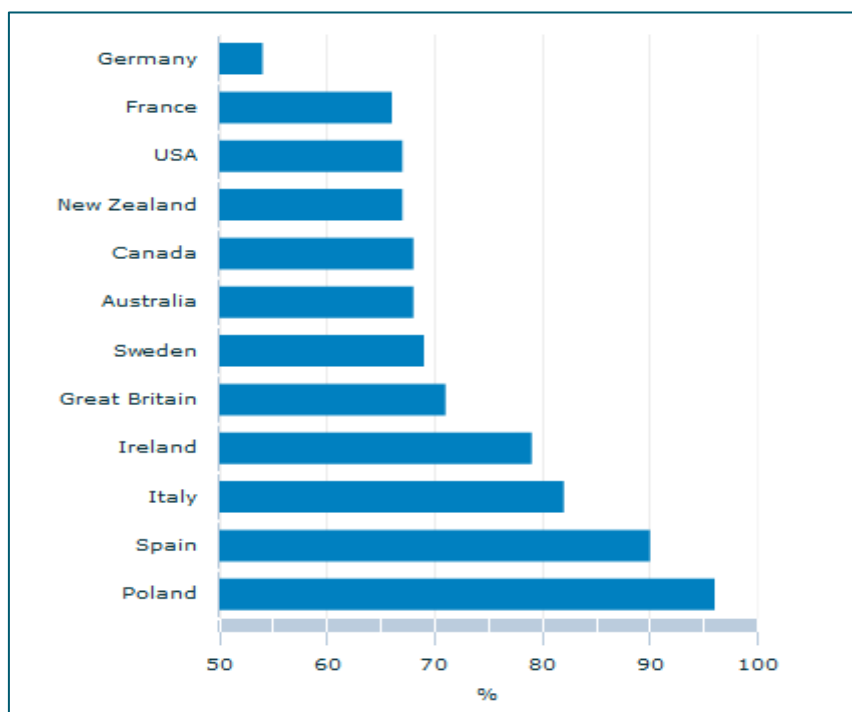
More specifically, home ownership has a number of acknowledged benefits. These benefits can be split roughly into social and financial benefits for individuals, communities and the broader economy.

This submission focuses on the current states of home ownership in Australia and does not seek to examine in any detail alternatives to home ownership, such as long term stable rental accommodation.

However, it is important to note that internationally the level of home ownership varies significantly based upon a number of factors such as the strength of a jurisdiction's social security system and regulation of its home purchase and rental market. In a number of European countries such as Germany, Austria and Switzerland long term rental arrangements represent a plausible alternative to home ownership given the stability provided to tenants under the regulatory frameworks in these jurisdictions.

The variation in the levels of home ownership across selected OECD countries is highlighted in Figure 1.

Figure 1 – Home ownership rates in selected OECD countries 2006



Source: ABS 1370.0 – Measure of Australia's Progress, 2010

¹⁴ Around 67 per of households identified themselves as home owners at the 2011 Census.

Social importance

Home ownership in Australia is consistently associated with positive social outcomes and more cohesive communities.¹⁵

In 2004 the Productivity Commission's First Home Ownership Inquiry identified a number of the social benefits associated with home ownership.¹⁶ Home ownership:

- meets the basic need for shelter;
- provides a stable base from which Australians can participate in society;
- provides a stable base in which Australians can form families;
- provides a stable base for older Australians in their retirement;
- ensures less frequent relocation, which minimises disruption to established social networks and children's education;
- can enhance self-esteem, in turn reducing the incidence of socially disruptive behaviour and promoting physical wellbeing;
- can lead to improved health outcomes through increased stability and sense of control over one's environment; and
- can lead to higher overall life and family satisfaction.

In addition to the benefits families and individuals derive from home ownership, it is important to note that, when aggregated, these benefits also shape the communities in which these households live. Home owners tend to be more committed to the community they live in and are more likely to participate in community activities. There is evidence that good community cohesion leads to increased social supports amongst neighbours, improved educational outcomes for children and decreased crime rates.¹⁷

It is also important to note that while it is clear that home owners do indeed enjoy some unique social benefits, the magnitude of these benefits in excess of other types of housing tenure are very difficult to quantify. Further, it should also be noted that housing affordability is also essential to realising these social benefits as they are reduced where a person is in mortgage stress.

Financial importance

Home ownership is equally important to individuals and communities given its impact on household finances and wealth. For individual households their home:

- is often their biggest asset¹⁸ and store of wealth;
- provides low cost and stable accommodation, especially in retirement; and
- encourages them to undertake regular savings through the repayment of the principal of their mortgage.¹⁹

¹⁵ Stillman, S and Liang, Y, June 2010, *Does Homeownership Improve Personal Wellbeing?* Available at: <<http://flosse.dss.gov.au/fahcsiajspui18/handle/10620/3460>>.

¹⁶ Productivity Commission Inquiry Report No.28, 31 March 2004 First Home Ownership. Available at: <<http://www.pc.gov.au/projects/inquiry/first-home-ownership/docs/finalreport>>.

¹⁷ Rohe, W and Lindblad, M, *Re-examining the Social benefits of Homeownership after the Housing Crisis*, August 2013. Available at: <<https://planning.unc.edu/reexamining-social-benefits>>.

¹⁸ Owner-occupied properties account for around 43 per cent of household assets.

ABS, 6554.0 - Household Wealth and Wealth Distribution, Australia, 2011-12.

Available at: <<http://www.abs.gov.au/ausstats/abs@.nsf/products/E40C458995B5A2B4CA25738D00155600?OpenDocument>>.

Home ownership is also very important to the broader investment, consumption and savings trends within the broader economy. Home ownership has a direct or indirect impact upon productivity, labour force mobility, participation, the stability of Australia's financial system and the distribution of wealth.

Productivity

The inefficient operation of a housing market can have a significant affect upon the allocation of capital and labour within an economy.

In relation to home ownership, potential buyers taking on increasing amounts of debt to enter home ownership both supports asset price appreciation but may also result in a re-allocation of capital within the economy away from other more productive investment opportunities. This arguably results in an artificially-high cost of capital for businesses, which in turn results in less business investment, innovation and job creation within the economy than would otherwise be the case.

The recent Financial System Inquiry highlighted the significant increase in the share of bank lending to mortgages in Australia since 1997.²⁰

At a more local level, it should also be recognised that a number of individuals and families will move to where they can access home ownership. Where artificially-high dwelling prices do not allow employees to live near their places of work, the resulting spatial separation results in increased commuting times, road and transport congestion, and inhibits the development of local and community networks - all of which reduce productivity.

Labour force mobility

In relation to labour mobility, home ownership has two key impacts. First, it is increasingly being recognised that access to affordable home ownership is a significant incentive, especially for younger workers, to move to an area provided they can access employment while living in that area. In contrast, reduced access to home ownership can act as a significant disincentive in attracting skilled workers to areas of high employment. The resulting shortage of skilled labour then impacts upon productivity through increased labour costs or through reduced production.

However, it is widely acknowledged that once home ownership has been achieved it has a negative impact on labour mobility, given the transaction costs and financial risks associated with the sale of a home.²¹

Participation

Home ownership has a positive impact upon an individual's desire to engage with the workforce, largely due to the need to finance a mortgage.²²

¹⁹ Dietz, R. and Haurin, D.R. (2003), *The Private and Social Micro-Level Consequences of Homeownership*. *Journal of Urban Economics*, 54, 401-450. Available at: <[http://dx.doi.org/10.1016/S0094-1190\(03\)00080-9](http://dx.doi.org/10.1016/S0094-1190(03)00080-9)>.

²⁰ Financial System Inquiry, Final Report, November 2012, Page 22. Available at: <<http://fsi.gov.au/publications/final-report/>>.

²¹ Blanchflower, D and Oswald, A, *Does High Home-Ownership Impair the Labor Market?* NBER Working Paper No. 19079, May 2013. Available at: <<http://www.nber.org/papers/w19079>>.

²² RBA Bulletin, June Quarter 2011, Ellis Connolly, Kathryn Davis and Gareth Spence, *Trends in Labour Supply*. Available at: <<http://www.rba.gov.au/publications/bulletin/2011/jun/pdf/bu-0611-1.pdf>>.

Broadly, mortgagees stay in their jobs longer and are unemployed for shorter periods of time than residents in other housing tenures, noting that home owners are also less likely to move to take up employment opportunities.²³

Stability

Given the importance of housing as an asset class, and the level of debt households have accumulated in order to access home ownership, housing is now more important than ever to the financial stability of the broader economy.

The recent Financial System Inquiry noted that 'given Australia's concentrated financial system, high household leverage and relatively high house prices, the Inquiry was particularly concerned about the banking system's exposure to housing'.²⁴

The Inquiry went on to note that despite housing risks being generally well understood by both regulators, and the financial industry, it had specifically considered this risk in making its recommendations.²⁵

Wealth distribution

From an intergenerational perspective, the significant increases in real dwelling prices experienced over the last 30 years have resulted in significant transfer of wealth from new home-buyers to existing home-owners and investors.

Overwhelmingly, this wealth transfer has been from younger to older Australians as younger Australians have had to take out historically large mortgages to enter the housing market, while older Australians that had already entered home ownership have experienced significant growth in the equity in their existing properties.²⁶

²³ ABS, 1301.0 – Year Book Australia 1996, A profile of Australia's Rental Tenants. Available at: <<http://www.abs.gov.au/ausstats/abs@.nsf/featurearticlesbytitle/86EC0CFA9A6AC956CA2570FF001C18B2?OpenDocument>>.

²⁴ Financial System Inquiry, *Financial System Inquiry Final Report*, November 2014, Page 22. Available at: <<http://fsi.gov.au/publications/final-report/>>.

²⁵ Financial System Inquiry, *Financial System Inquiry Final Report*, November 2014, Page 23. Available at: <<http://fsi.gov.au/publications/final-report/>>.

²⁶ The Grattan Institute, Daley J and Wood D, *The wealth of generations*, December 2014. Available at: <<http://grattan.edu.au/report/the-wealth-of-generations/>>.

Trends in Home Ownership in Australia

In 2015, most Australians own their own home with or without a mortgage. However, specific cohorts, such as first home owners, continue to experience difficulty entering the market. New home buyers are generally taking on higher levels of borrowing to enter home ownership, than has historically been the case, in response to increases in dwelling prices and the current low interest rate environment. However, households with mortgages currently appear to be having little difficulty in managing their liabilities given the historically low levels of interest rates.

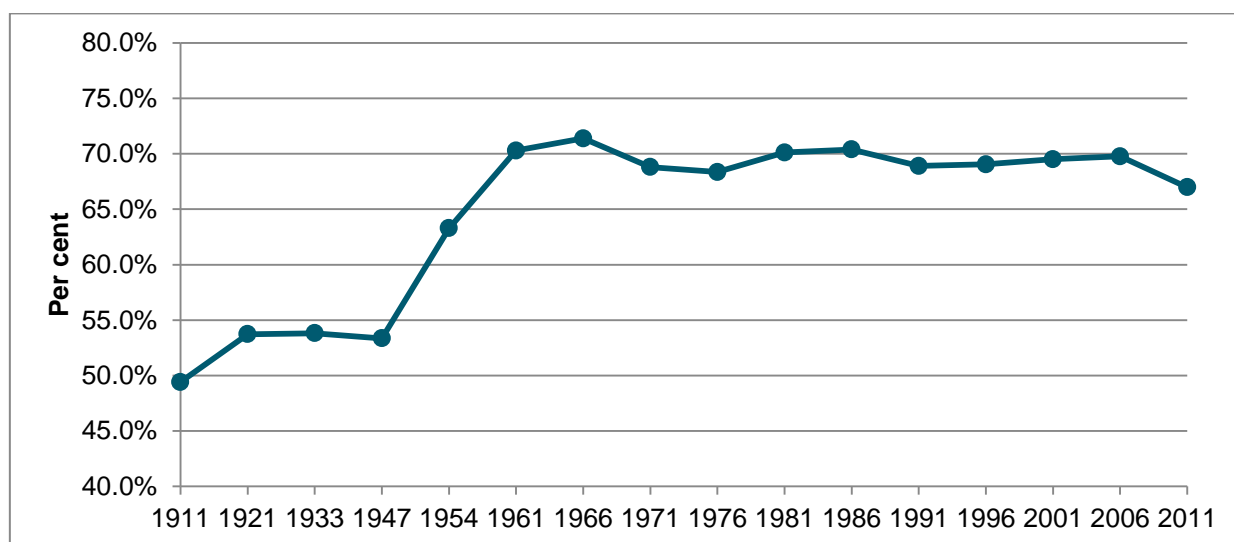
Overall level of home ownership

While home ownership is thought to be a central tenant of Australian life, the current levels of home ownership in Australia were only achieved relatively recently following significant efforts to increase the availability of home ownership following the Second World War.

Figure 2 highlights that before the Second World War, the level of home ownership in Australia was significantly lower than current levels. As a consequence, there was a much larger portion of the population renting than is currently the case.

However, as a result of the significant building programmes instigated by both the States and Commonwealth after the end of the Second World War, home ownership levels increased from around 53.4 per cent²⁷ in 1947 to approximately 71.4 per cent²⁸ in 1966. Levels of home ownership remained around 70 per cent between 1966 and 2006²⁹, before falling to 67.0 per cent³⁰ in 2011. This is the lowest level recorded since the 1954 census.³¹

Figure 2 – Home ownership in Australia 1911-2011



Source: 1911- 2011 Census

²⁷ ABS, 1301.0 - Year Book, 1949. Available at: <<http://www.abs.gov.au>>.

²⁸ ABS, 1301.0 – Year Book Australia, 2012. Available at: <<http://www.abs.gov.au/>>.

²⁹ ABS, 1301.0 – Year Book Australia, 2012. Available at: <<http://www.abs.gov.au/>>.

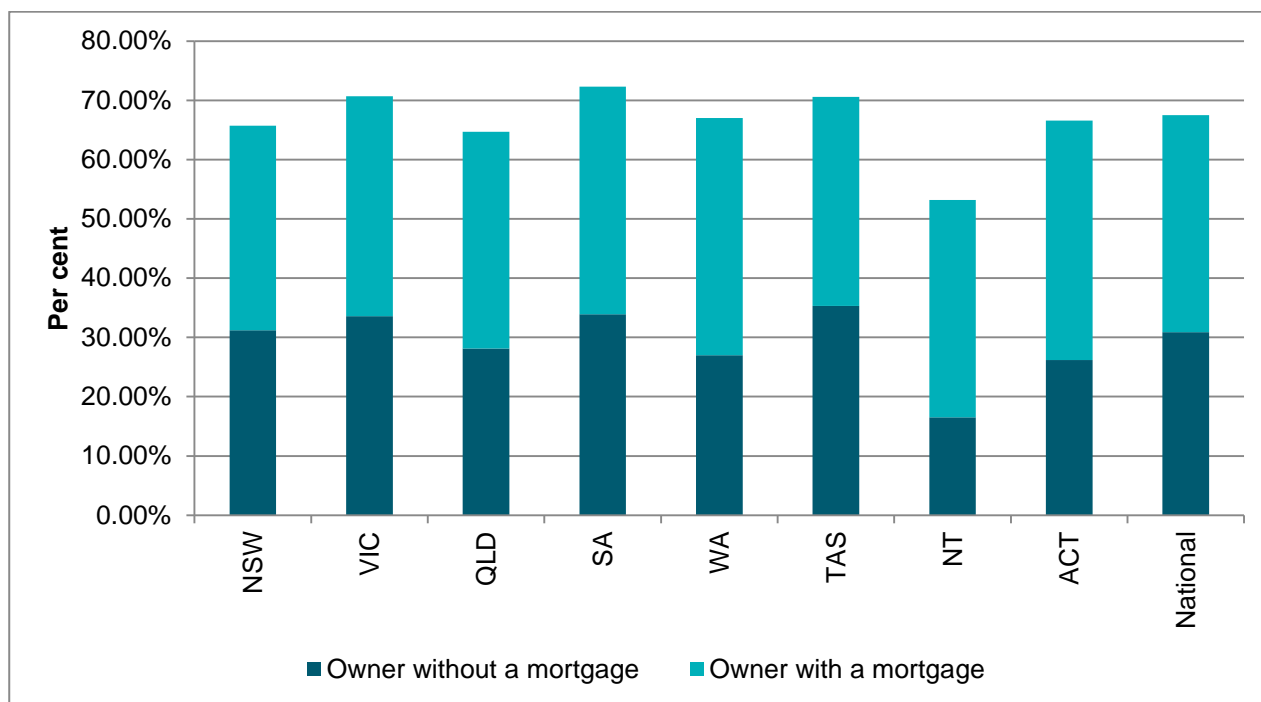
³⁰ ABS, 2011 Census QuickStats. Available at:

<http://www.censusdata.abs.gov.au/census_services/getproduct/census/2011/quickstat/0>.

³¹ ABS, 1301.0 – Year Book Australia, 1961. Available at: <<http://www.abs.gov.au>>.

Figure 3 highlights that the level of home ownership differs across Australia. In 2011-12 the highest level of home ownership was in South Australia (72.3 per cent), with the lowest levels recorded in the Northern Territory (53.2 per cent).

Figure 3 - Home ownership by state and territory in 2011-12



Source: ABS 4130.0 – Housing Occupancy and Costs, State and territory data - Tables 3, 17 - 24

While the overall level of home ownership has remained relatively unchanged since the mid 1960's, due to a number of competing factors³², including the ageing of the population³³, there have been significant changes within the characteristics of home owners over this period.

Home ownership by age

The level of home ownership amongst Australians has, and continues to differ, significantly by age. Broadly, since 1961 the level of home ownership amongst those Australians aged 44 and under has fallen, while it has remained relatively stable for those aged 45 and over.

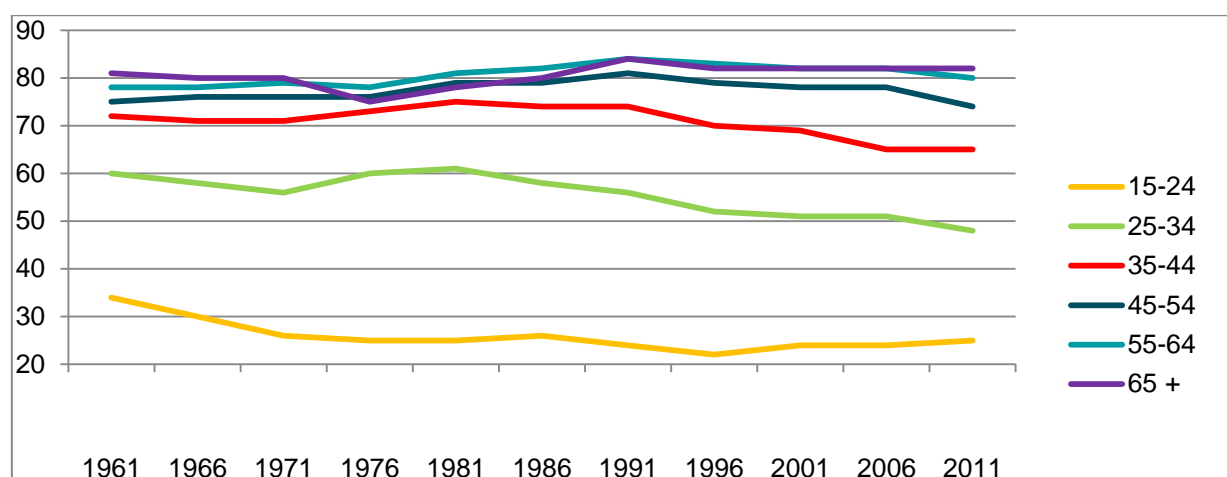
Figure 4 indicates that in 2011 home ownership had been achieved by approximately 48 per cent of 25-34 year olds in contrast to the 82 per cent of over 65 year olds who had entered home ownership. This contrasts with 61 per cent of 25-34 year olds who had achieved home ownership in 1981, while only 78 per cent of over 65 year olds had entered home ownership at this time. The significant variation in home ownership by age reflects the 'life cycle of housing'.³⁴

³² OECD Journal: Economic Studies, 2011. Dan Andrews, Aida Calera Sanchez, *The Evolution of Homeownership Rates in Selected OECD Countries: Demographic and Public Policy Influences*. Available at: <http://www.oecd-ilibrary.org/content/article/eco_studies-2011-5kg0vswqpmg2>.

³³ Parliamentary Library of Australia, Tony Kryer, February 2009, *Home ownership in Australia – data and trends*. Available at: <<http://parlinfo.aph.gov.au/>>.

³⁴ ABS, 1301.0 – Year Book Australia, 2012. Available at: <<http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/1301.0Main+Features1322012>>.

Figure 4 - Home ownership rates Australia (per cent) 1961 - 2011



Source: Census data from Censuses of Population and Housing, 1961-2011; Judith Yates, Hal Kendig and Ben Phillips, with Vivienne Milligan and Rob Tanton, *Sustaining Fair Shares: the Australian Housing System and Intergenerational Sustainability*, AHURI Final Report No. 111 (February 2008).

Broadly, the 'life cycle of housing' refers to the changing housing needs of households as they pass through different stages of their lives and their financial circumstances and housing preferences change.

Typically, the first step in the housing cycle is the period children spend in the family home. Historically, once financially capable, young people would then leave their parental home to rent a small flat by themselves or a room in a group or share house. Upon meeting a partner or increasing their financial capacity they would move on to renting a more suitable apartment or house while saving for a deposit for their first home, before finally entering home ownership with the assistance of a mortgage. For many households the last step in this cycle was driven by the need for stability before starting a family.

The historical trends in home ownership highlighted in this submission suggest that, for current and future generations, the traditional housing cycle may no longer hold to the same extent as it has for previous generations.

Home ownership by income

The level of home ownership amongst Australians differs significantly by income. Table 1 highlights that home ownership by households in the lowest quintile of income was around 60.6 per cent in 2011-12, while the level of home ownership in the highest quintile was around 75.5 per cent.

Table 1 - Home ownership by quintile 2011-12

Ownership type	Lowest	Second	Third	Fourth	Highest	All households
Owner without mortgage	44.3%	35.5%	26.4%	21.4%	22.9%	30.9%
Owner with mortgage	16.3%	29.7%	41.3%	48.1%	52.6%	36.6%
Total level of ownership	60.6%	65.2%	67.7%	69.5%	75.5%	67.5%

Source: ABS, 6523.0 - Household Income and Income Distribution, Australia 2011-12 - Table 6.

Note: overall level of home ownership differs from 67.0 per cent reported in 2011 Census QuickStats.

Households with and without mortgages

Since 1911, as highlighted in Figure 5, there have been four clear trends with respect to the purchase of homes with or without a mortgage.

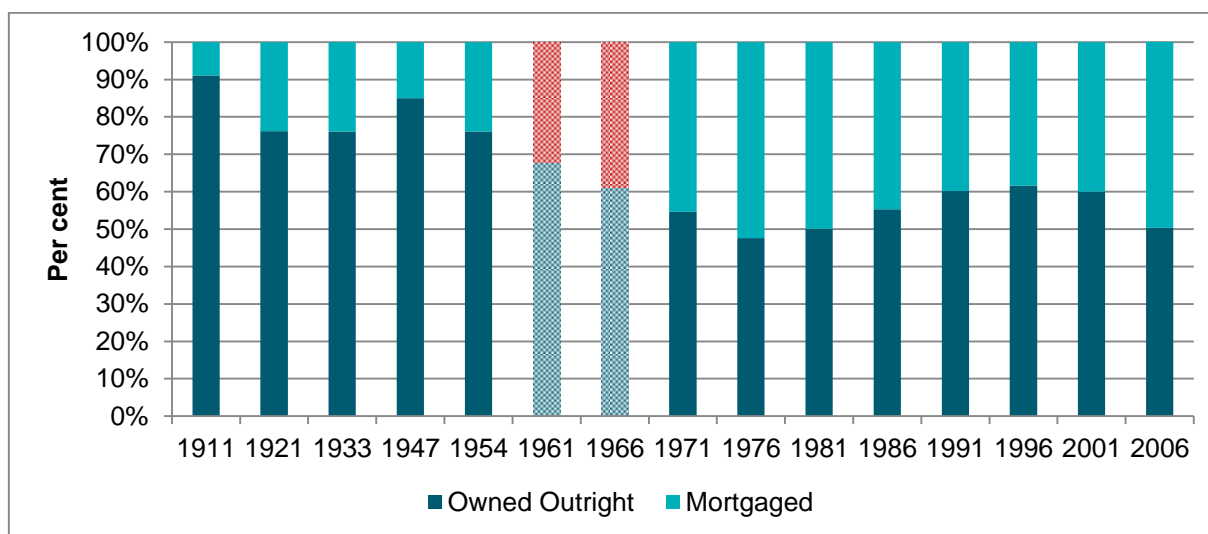
The first is that the overwhelming majority of home owners, around 75 per cent, owned their homes outright until just after the Second World War. The level of home ownership without a mortgage hit a peak of 85 per cent in 1947 with only 15 per cent of home owners reporting that they were ‘purchasing by instalments’.³⁵

However, with increased access to credit, the level of outright home ownership fell by around 44 per cent over the next 30 years with only 48 per cent of home owners reporting that they owned their homes outright in the 1976 Census.³⁶

This trend was reversed over the period between 1976 and 1996 with the level of home ownership without a mortgage increasing by around 30 per cent to approximately 62 per cent of home owners in 1996.³⁷

Over the period between 1996 and 2011, outright home ownership again fell, by around 23 per cent, entirely erasing the gains made between 1976 and 1996. Around 48 per cent of home owners reported that they owned their home outright in 2011, approximately the same level as in 1976.³⁸

Figure 5: Home ownerships owned outright or with a mortgage 1911-2011



Source: ABS year books

Note: ABS data is not available for 1966 and 1971 as collections did not distinguish between household types.

³⁵ ABS, 1301.0 – Year Book Australia, 1961. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/1301.01961?OpenDocument>.

³⁶ ABS, 1301.0 – Year Book Australia, 2012. Available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Home%20Owners%20and%20Renters~129>.

³⁷ ABS, 1301.0 – Year Book Australia, 2012. Available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Home%20Owners%20and%20Renters~129>.

³⁸ ABS, 1301.0 – Year Book Australia, 2012. Available at: <http://www.abs.gov.au/ausstats/abs@.nsf/Lookup/by%20Subject/1301.0~2012~Main%20Features~Home%20Owners%20and%20Renters~129>.

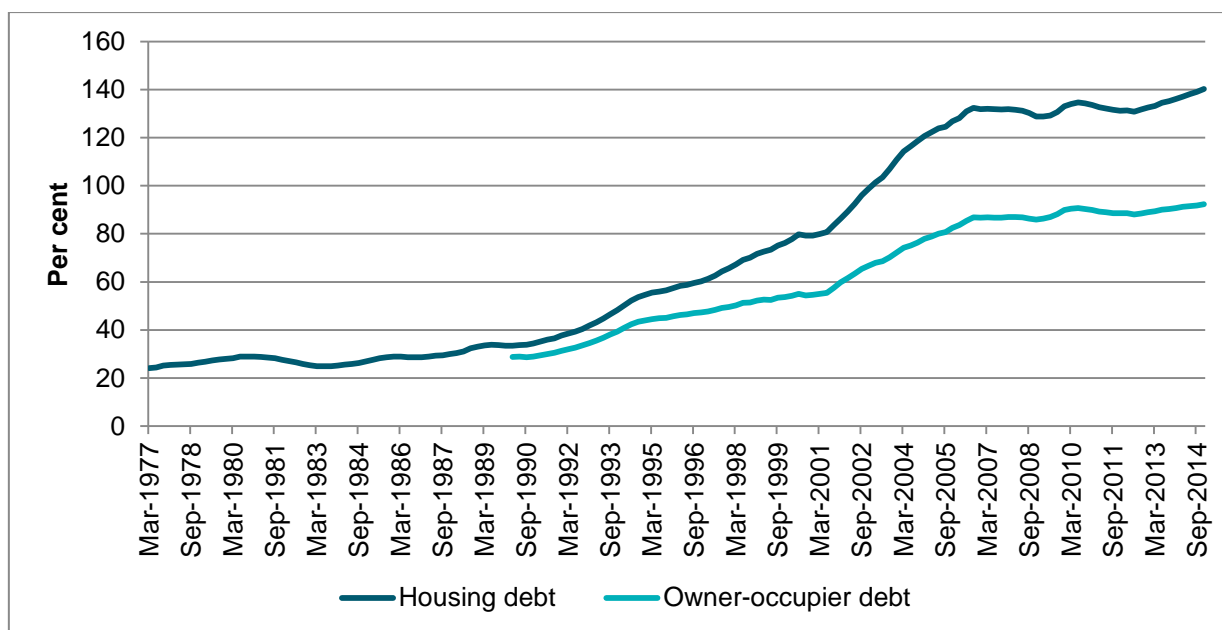
Level of borrowings

The amount of mortgage debt taken on by households to enter home ownership has increased significantly since 1976 in line with the reduction in outright home ownership. In January 1976 the average mortgage was around \$18,800, increasing by around 19 times to approximately \$357,500 in April 2015.³⁹

The increase in the value of mortgages taken on by Australians is apparent in the increase in the ratio of both housing debt to annualised household disposable income and owner-occupier housing debt to annualised household disposable income.

Figure 6 highlights that these ratios increased from around 24.2 per cent in March 1977 and 28.8 per cent in March 1990, respectively, to around 140.3 per cent and 92.2 per cent in December 2014. The ratios recorded in December 2014 are the highest since both series commenced in 1977 and 1990, exceeding the previous levels recorded in September 2006 and June 2010.⁴⁰

Figure 6– Quarterly ratio of owner-occupier and housing debt to annualised household disposable income (original)



Source: RBA Statistical Tables – Household Finance - Selected Ratios - Table E2

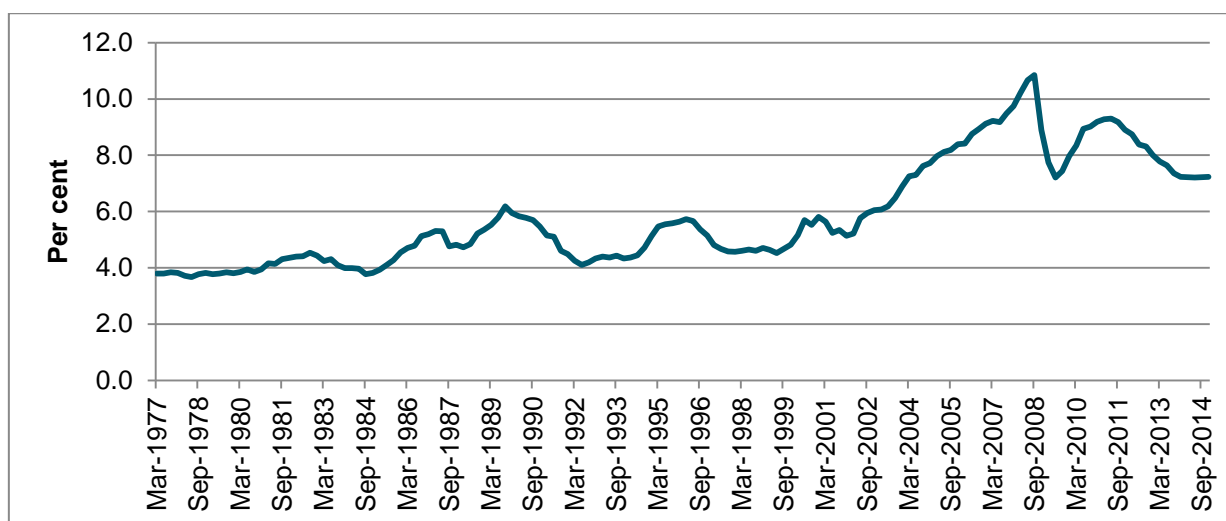
It is important to note that while the ratio of owner-occupier debt to income has increased so too has the ratio of housing interest repayments to income. Figure 7 indicates that while interest rates have fallen to record lows the interest burden on home buyers now exceeds the level reached in the early 1990s due to the significantly larger amounts borrowed by households.⁴¹

³⁹ ABS, 5609.0 – Housing Finance, Australia, April 2015 – Table 9a. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Apr%202015?OpenDocument>.

⁴⁰ RBA, Statistical Tables, Household Finances – Selected Ratios –E2. Available at: <http://www.rba.gov.au/statistics/tables/index.html>.

⁴¹ RBA, Statistical Tables, Household Finances – Selected Ratios –E2. Available at: <http://www.rba.gov.au/statistics/tables/index.html>.

Figure 7 – Ratio of housing interest payments to household income 1977 - 2014



Source: RBA Household Finances, Selected Ratios – Table E2.

Ability to repay borrowings

While it is arguably difficult to enter home ownership, those Australians who manage to make this transition are currently not showing any signs of being unable to manage the financial sacrifices required to do so, given Australia's low interest rate environment.

In its March 2015 Financial Stability Review, the RBA highlighted that the aggregate performance of banks' domestic household loan portfolios has continued to improve with the non-performing share of banks' housing loans falling to about 0.6 per cent as of December 2014, down from a peak of 0.9 per cent in 2011.

The RBA also noted that banks' housing loan performance continues to be aided by low interest rates, which ease the debt-servicing requirements of borrowers and rising housing prices which have also contributed by making it easier for home owners to sell rather than stay in arrears should they run into servicing difficulties, and for banks to dispose of their existing stock of troubled housing assets.⁴²

The Real Estate Institute of Australia's March Quarter 2015 Housing Affordability Report also highlights that 'repayment affordability' increased over the quarter with the proportion of family income required to meet loan repayments decreasing by 0.7 percentage points to 30.8 per cent.

As highlighted in Table 2, New South Wales (NSW) remains the least affordable state notwithstanding the proportion of income required to meet loan repayments falling by 1.2 percentage points to 35.0 per cent over the March quarter.⁴³

⁴² Reserve Bank of Australia, Financial Stability Review, March 2015. Available at: <http://www.rba.gov.au/publications/fsr/>.

⁴³ Real Estate Institute of Australia – Adelaide Bank, Housing Affordability Report, March Quarter 2015.

Table 2 - Repayment affordability March quarter 2015

Jurisdiction	Percentage of income required to meet loan repayments (March Qtr. 2015)	Percentage of income required to meet loan repayment (March Qtr. 2014)
NSW	35.0	34.6
VIC	32.8	32.3
QLD	28.1	28.3
SA	28.4	27.4
WA	25.7	26.4
TAS	25.4	25.2
NT	25.3	26.5
ACT	19.7	19.8
National	30.8	30.6

Source: Real Estate Institute of Australia – Adelaide Bank, Housing Affordability Report, March quarter 2015

Income

Information on home ownership by income is relatively recent. However, Table 3 indicates that over the period 2000-01 to 2011-12, while the overall level of home ownership by quintile has continued to fall, there have been significant variations in the income quintiles that are being affected by this decline.

With respect to the percentage of households that have a mortgage, there have been increases across the income scale, with the second and third income quintiles recording the largest increases of 7.8 percentage points and 6.5 percentage points respectively. Of households that own their homes without a mortgage, significant falls were again recorded amongst the second and third income quintiles with falls of 10.7 and 11.7 percentage points.

Table 3 – Home ownership by income distribution 2000-01 to 2011-12

	Lowest	Second	Third	Fourth	Highest	All households
Owners without a mortgage						
2000-01	45.8%	46.2%	38.1%	29.5%	30.4%	38.2%
2005-06	47.6%	39.9%	28.6%	24.6%	26.7%	34.3%
2011-12	44.3%	35.5%	26.4%	21.4%	22.9%	30.9%
Owners with a mortgage						
2000-01	15.6%	21.9%	34.8%	45.2%	46.4%	32.1%
2005-06	13.8%	27.6%	41.6%	47.3%	50.3%	35%
2011-12	16.3%	29.7%	41.3%	48.1%	52.6%	36.6%

Source: ABS, 6523 - Income Distribution Australia, 2000-01, 2005-06 and 2011-12.

These figures arguably highlight that, while at an aggregate level home owners are becoming more indebted, reflected by the increase in households with mortgages, those households in the second and third quintiles are experiencing the largest changes in their circumstances as a result of this trend.

Changes in household type

As with information on home ownership by income, information on housing tenure by life cycle is relatively recent. Table 4 highlights the changes in the level of home ownership amongst various household types between 2003-04 and 2011-12. Broadly, the table highlights the increasing difficulty in transitioning from the rental market to home ownership for younger couples, as well as the significant increase in debt taken on by 55-64 year olds.

Table 4 – Home ownership levels amongst various household groups

Type of household	2003-04		2011-12	
	Without Mortgage	With Mortgage	Without Mortgage	With Mortgage
Lone person under 35	3.0%	25.4%	2.4%	30.8%
Couple only under 35	2.9%	54.2%	1.1%	43.4%
Couple with dependent children under 5	6.9%	64.8%	3.7%	60.8%
Couple aged 55 to 64	69.1%	21.3%	55.1%	34.2%
Couple only age 65 and over	85.3%	4.0%	82.1%	8.2%
One parent family with dependent children	10.8%	28.6%	7.3%	29.2%

Source: 6554.0 - Household Wealth and Wealth Distribution, Australia, 2003-04 and 2011-12

Change in dwelling type

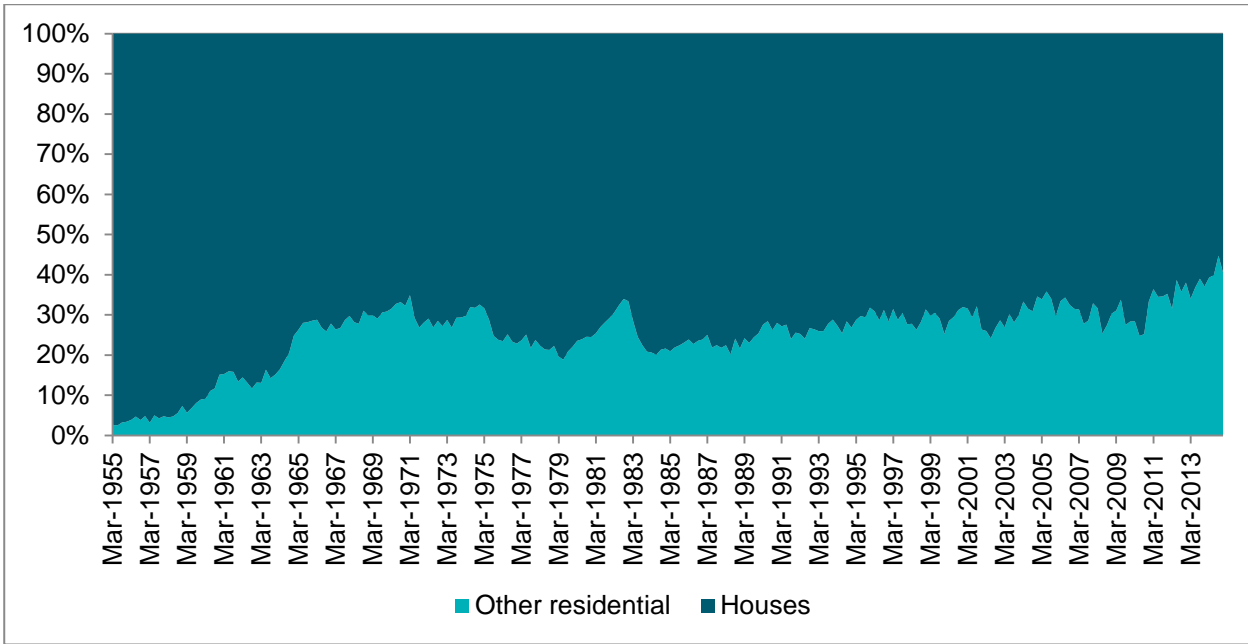
While the level and characteristic of home ownership in Australia has changed so has the type of dwellings being constructed in Australia.

Figure 8 highlights that there has been a significant increase in the percentage of 'other residential' dwellings being constructed in Australia (apartments and townhouses) reflecting both changes in social preferences but also changes in affordability.

In 1955 'other residential' dwelling construction made up around 2.6 per cent of dwelling units completed in Australia. By September 2014 this had increased to around 45 per cent.⁴⁴

⁴⁴ ABS 8752.0 – Building Activity, Australia, December 2014. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8752.0Dec%202014?OpenDocument>.

Figure 8 – Building activity by type 1955-2014

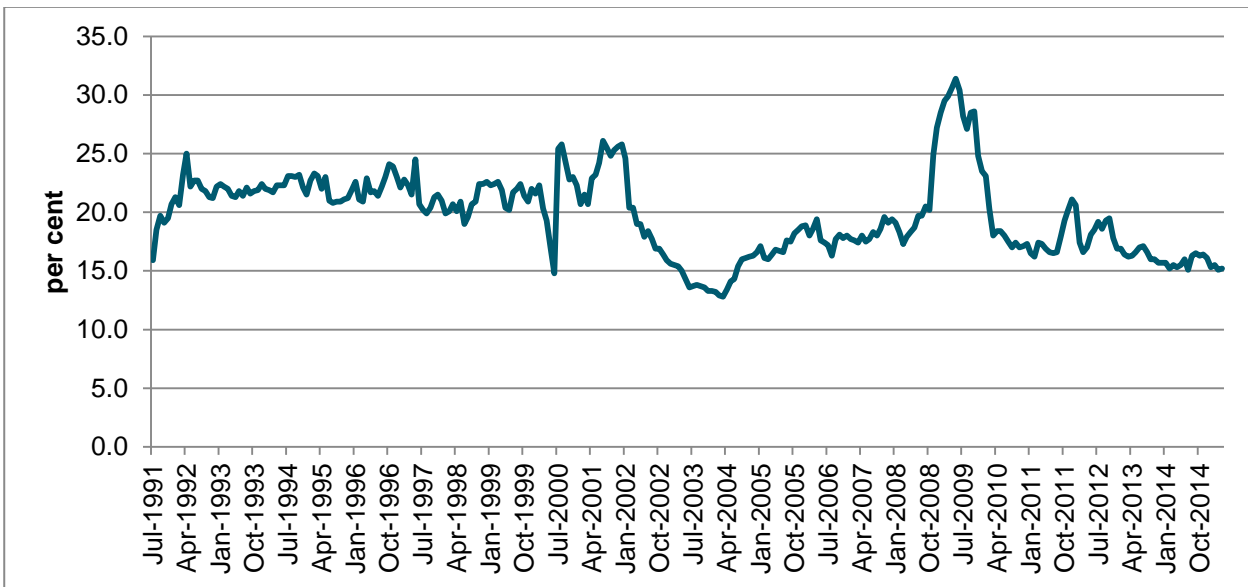


Source: ABS 8752.0 – Building Activity, Australia, December 2014 – Table 37

First home buyers

First home buyers are the future of home ownership in Australia. However, there has been significant variation in the level of first home buyer participation in the housing market over the period from 1991 to 2015, as highlighted in Figure 9.

Figure 9 - First home buyers as a percentage of owner occupied loans 1991-2015



Source: ABS Housing Finance - Table 9a

While Figure 9 illustrates that first home buyers made up between 15 and 25 per cent of all owner-occupied dwellings financed between 1991 and 2015, the level of first home owners as a percentage of all owner-occupier finance can be split into two distinct periods.

The period from July 1991 to January 2002 is characterised by relatively stable first home owner borrowing making up between 20 and 25 per cent all owner-occupier finance. In contrast, from January 2002 to April 2015 is characterised by lower levels of first home owner participation of between 15 to 20 per cent.⁴⁵

As at April 2015, the number of first home buyer commitments as a percentage of total owner-occupied housing finance commitments remained subdued at 15.2 per cent.⁴⁶

Figure 9 also highlights the obvious responses to the introduction of first home owner grants in July 2000 and their expansion between March and December 2001⁴⁷ and October 2008 and September 2009⁴⁸.

It should be noted that a significant number of Australians now purchase their first home as an investment rather than as an owner-occupier. The National Australia Bank (NAB) estimate that in April 2015 around 10.1 per cent of new dwelling purchases were made by first home buyers as investors, with around 10 per cent of existing dwelling purchases being made by first home buyers as investors.⁴⁹

The future direction of home ownership is likely to be determined by changes in both the macroeconomic environment and changes to current housing settings. However, without any changes to current policy settings, the number of Australians entering home ownership is likely to decline further, given the significant increases in house prices and the size of deposits required to access housing finance, in an environment of slowing wage growth and historically low returns on savings.

Figure 10 illustrates that current generations are starting from lower levels of home ownership than previous generations. The extent to which younger Australians are able to 'catch up' to previous generations through inheritance or increases in affordability, in the same was as previous cohorts, will therefore also play a significant role in determining the level of home ownership in Australia going forward.

⁴⁵ It is important to highlight that the ABS revised its first home buyer loan series in February 2015, given a degree of under-reporting by some lenders of first home buyers who did not received first home buyer grants. Available at: <<http://www.abs.gov.au/ausstats%5Cabs@.nsf/mediareleasesbyCatalogue/029A7A86B9E193E8CA257DE1000B342D?Opendocument>>.

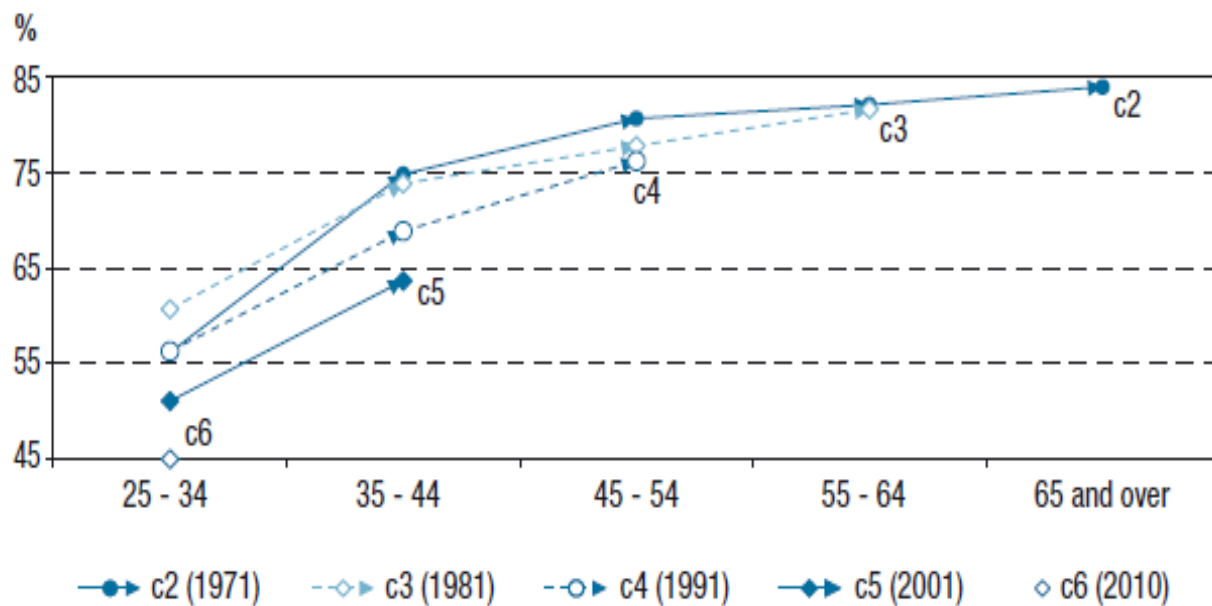
⁴⁶ ABS, 5609.0 – Housing Finance, Australia April 2015 - Table 9a. Available at: <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/5609.0>>.

⁴⁷ The Hon. Peter Costello, Media Release No.17, 2001, *Detail of Additional First home Owners Grant for New Homes*. Available at: <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2001/017.htm&pageID=003&min=phc&Year=2001&DocType=0>>.

⁴⁸ The Hon. Wayne Swan, Media Release No.47, 2009, *First Home Owner's boost Extended*. Available at: <<http://ministers.treasury.gov.au/DisplayDocs.aspx?doc=pressreleases/2009/047.htm&pageID=003&min=wms&Year=&DocType=0>>.

⁴⁹ NAB Residential Property Survey Quarter 1, 2015, Page 3. Available at: <<http://business.nab.com.au/nab-quarterly-australian-residential-property-survey-q1-2015-10479/>>.

Figure 10 - Analysis of home ownership rates by year in which household was 25-34 years



Source: Yates 2011, Explaining Australia's trends in home ownership', *Housing Finance International*, Winter, pp 6-13

Access to and retention of home ownership

The ability of households to access and retain home ownership is largely determined by the income of the household, the ability of the household to access credit and service that credit, and the price of the dwelling the household is seeking to purchase.

Household income

Household income is a key determinant of home ownership as it governs the amount that can be saved by a household for a deposit or borrowed for the purchase of the remainder of a dwelling. It is important to note that the growth in individual's wages and household income is largely determined by the broader employment settings within the economy.

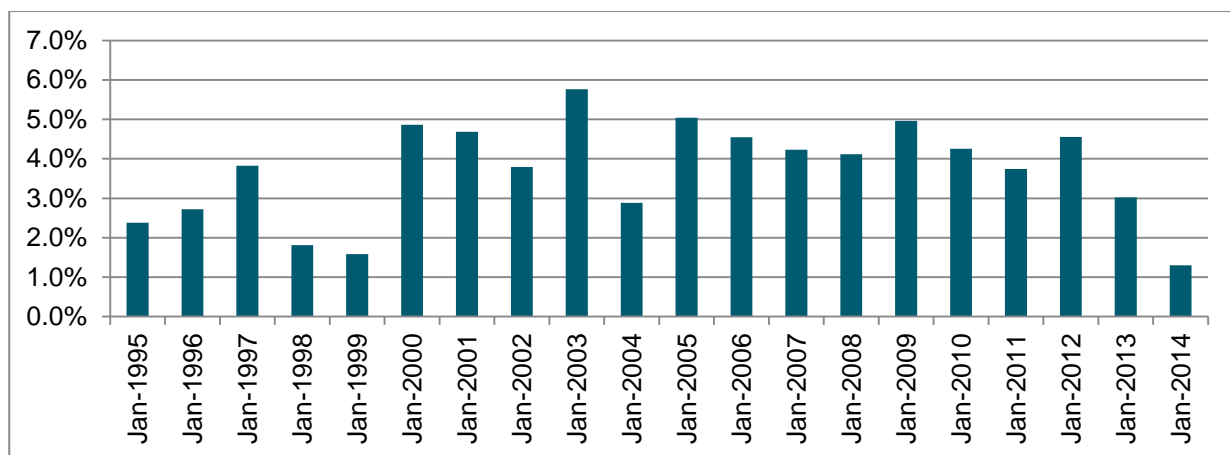
Household, rather than individual income is slightly more difficult to measure given the variation in the different types of Australian households. The ABS' measure of gross household income grew by around 50 per cent over the period 1994-95 to 2011-12, from approximately \$1,229 to \$1,847.⁵⁰

Individual weekly earnings

The trends in household income between 1994-95 and 2011-12 are replicated in the weekly earnings of individuals.

As highlighted in Figure 11, individuals' wages grew strongly from 2000 to 2012, while they experienced relatively slow growth between 1995 and 2000 and post 2012. Following the lowest annual increase in wages since the series commenced in 1995, of 1.3 per cent, the ABS reports that at November 2014 full time adult average weekly total earnings were \$1542.40, and for all employees' average weekly total earnings were \$1128.70.⁵¹

Figure 11 - Percentage changes in all employees average weekly total earnings



Source: ABS 6302.0 – Average Weekly Earnings, November 2014, Table 3

⁵⁰ ABS 6523.0 - Household Income and Income Distribution, Australia – Detailed tables, 2011–12. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6523.0Main%20Features22011-12?opendocument&tabname=Summary&prodno=6523.0&issue=2011-12&num=&view=>>.

⁵¹ ABS, 6302.0 – Average Weekly Earnings, Australia, November 2014 - Table 3 (original). Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6302.0Nov%202014?OpenDocument>.

Credit

Where a household is unable to fully fund the purchase of their home from savings, which is unlikely to be the case for the vast majority of Australians, they will need to access credit from a lending institution to enter home ownership.

Access to credit is determined by a number of factors such as the credit worthiness of the potential applicant, the financial institution's willingness to lend (which is evidenced by the loan to valuation (LTV) ratios they are willing to offer) and the level of interest rates applied to any borrowings.

Lending criteria

The lending criteria applied by financial institutions have a significant impact on potential home buyers through both the size of the deposit they are required to have, and the amount that the institution is willing to lend.

As the Department does not have portfolio responsibility for prudential practice, this submission seeks to highlight that while credit remains readily available to Australian households, as evidenced by Table 5, the Australian Prudential Regulation Authority (APRA)⁵² and the RBA⁵³ have both noted that, in an environment of low interest rates, financial institutions should continue to ensure that lending standards are robust.

Table 5 - Lending commitments – all lenders

Year	Total lending commitments owner-occupied housing \$(million)	Total lending commitments investment housing \$(million)	Total lending commitments all housing \$(million)
2011	158,542	79,155	237,697
2012	163,321	87,119	250,440
2013	183,311	108,905	292,216
2014	203,537	137,022	340,559

Source: Adapted from Reserve Bank of Australia, Lending Commitment – All lenders, Table D6

Deposits

The amount of a deposit required by a potential home purchaser is determined by the LTV ratio that will be accepted by a financial institution.

⁵² On 9 December 2014, APRA released a statement in which it noted that it had written to authorised deposit-taking institutions outlining further steps it plans to take to reinforce sound residential mortgage lending practices, and that these steps have been developed following discussions with other members of the Council of Financial Regulators.

In this statement APRA specifically notes that it will be paying particular attention to higher risk mortgage lending — for example, high loan-to-income loans, high loan-to-valuation (LVR) loans, interest-only loans to owner occupiers, and loans with very long terms and loan affordability tests for new borrowers. APRA is of the view that loan affordability tests should incorporate an interest rate buffer of at least 2 per cent above the loan product rate, and a floor lending rate of at least 7 per cent, when assessing borrowers' ability to service their loans. Available at: <http://www.apra.gov.au/mediareleases/pages/14_30.aspx>.

⁵³ RBA, Financial Stability Review May 2015. Available at: <<http://www.rba.gov.au/publications/fsr/index.html>>.

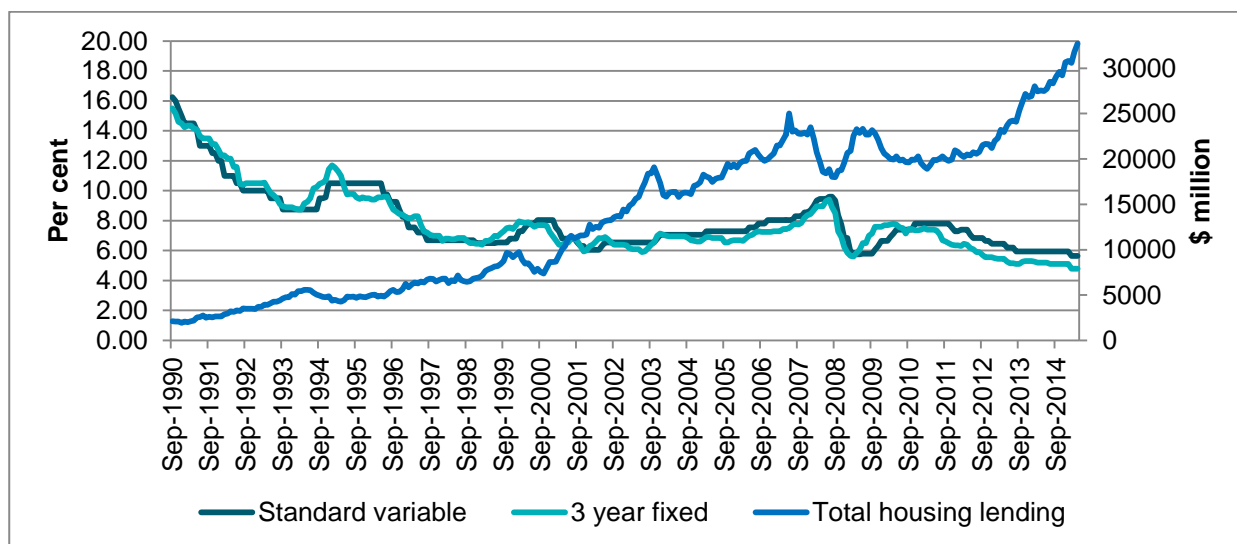
Over the last 30 years, following the deregulation of Australia’s credit markets, LTV ratios have increased. This has resulted in a reduction in the percentage amount of their overall loan a borrower is required to provide as a deposit.⁵⁴ This trend is not limited to Australia.⁵⁵

While higher LTV ratios require a smaller percentage deposit than has historically been the case, it is important to note that due to the significant increases in dwelling prices over the last 30 years, and the accompanying increase in mortgages, the actual amount of a deposit in relation to the capacity of potential purchasers to save this amount, is actually likely to have increased.⁵⁶

Interest rates

Interest rates have fallen significantly since the early 1990s. This reduction has made it possible to both borrow more, and made it easier for those households with existing borrowings to pay off those amounts. As highlighted in Figure 12 Australia’s official cash rate has fallen from around 17.0 per cent in January 1990 to 2.0 per cent in June 2015.⁵⁷

Figure 12 - Interest rates and housing lending commitments (monthly) 1990 to 2015



Source: RBA, Statistical Tables F5 and D6

The RBA’s measure of bank interest rates has also fallen significantly over this period. In September 1990, the interest rates offered by banks were 16.25 per cent for standard variable mortgages and 15.50 per cent for three year fixed rate mortgages. By May 2015, these rates had fallen to 5.45 per cent for standard variable mortgages and 4.8 per cent for three year fixed rate mortgages.⁵⁸

⁵⁴ Berry, M. Dalton, T. Engels, B. and Whiting, K. 1999, *Falling Out of Home Ownership: Mortgage Arrears and Defaults in Australia*, University of Queensland Press, Brisbane.

⁵⁵ Andrews, Dan and Aida Caldera Sánchez (2011), *The Evolution of Homeownership Rates in Selected OECD Countries: Demographic and Public Policy Influences*, OECD Journal: Economic Studies, Vol. 2011/1. Available at: <http://dx.doi.org/10.1787/eco_studies-2011-5kg0vswqpmg2>.

⁵⁶ Yate, J, *Housing in Australia in the 2000s: On the Agenda Too Late?* 2011.

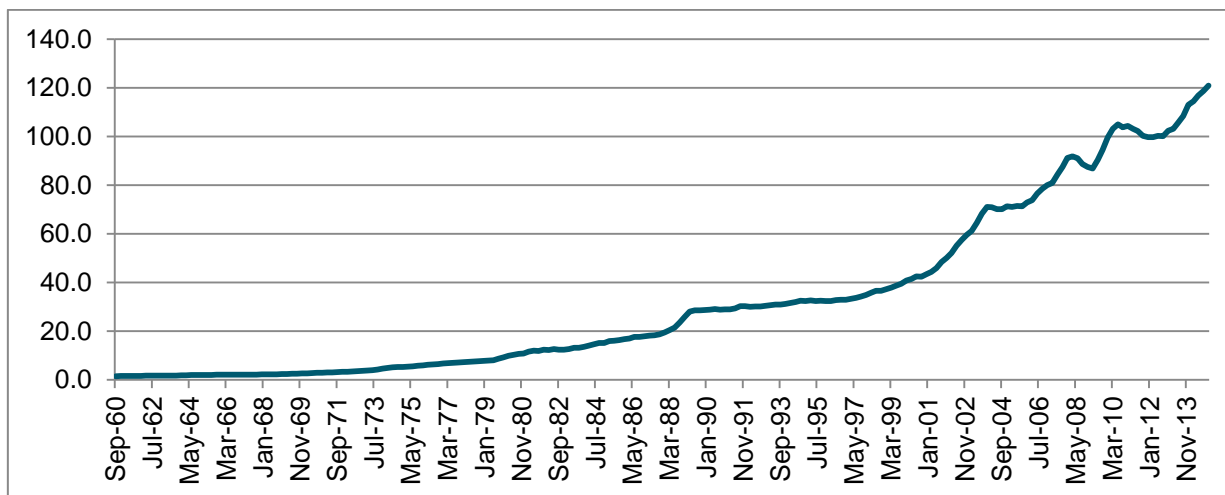
⁵⁷ RBA, Interest Rates and Yields - Money Market – Monthly – Table F1. Available at: <http://www.rba.gov.au/statistics/tables/index.html#interest_rates>.

⁵⁸ RBA, Indicator Lending Rates – Table F5. Available at: <http://www.rba.gov.au/statistics/tables/index.html#interest_rates>.

Dwelling prices

Dwelling prices in Australia have increased significantly since the 1960s as highlighted in Figure 13.

Figure 13 - Australian house price weighted average - September 1960 to December 2014



Source: Commonwealth Treasury unpublished. Note: Index = 100 in 2011-12

As at 31 May 2015, the median dwelling price across Australia's eight capital cities was \$570,000, approximately 9.0 per cent higher than 12 months earlier.⁵⁹ This is a continuation of the high levels of growth recorded in 2014, with the ABS reporting a 6.9 per cent increase from the March quarter of 2014 to the March quarter of 2015.⁶⁰ The ABS estimates that the mean dwelling price across Australia's eight capital cities increased to \$576,100⁶¹ in March 2015.

Corelogic RP Data reports that in the year to 31 May 2015, median house prices increased by 9.6 per cent to \$600,000 across Australia's capital cities driven by strong growth in Sydney and Melbourne. Sydney and Melbourne recorded growth of 16.4 per cent to \$880,000 and 9.8 per cent to \$620,000 respectively, while all other major capital cities recorded growth of less than 3.5 per cent.⁶²

Growth in unit prices was more moderate with the median price increasing by 5.3 per cent to \$504,000 over the year to 31 May 2015. Again Sydney was largely responsible for this growth with unit prices increasing by 8.8 per cent to \$638,000. By contrast, unit prices in Melbourne only increased by around 2.9 per cent.⁶³

⁵⁹ Corelogic RP Data Hedonic Home Value Index Results, June 2015. Available at: <http://www.corelogic.com.au/media-release/capital-city-dwelling-values-rise-9-over-past-12-months-as-capital-gains-take-a-breather-in-may>.

⁶⁰ ABS, 6416.0 Residential Property Price Indexes: Eight Capital cities, March 2015. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Dec%202014?OpenDocument>.

⁶¹ ABS, 6416.0 Residential Property Price Indexes: Eight Capital cities, March 2015. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/6416.0Main+Features1Dec%202014?OpenDocument>.

⁶² Corelogic RP Data Hedonic Home Value Index Results, June 2015. Available at: <http://www.corelogic.com.au/media-release/capital-city-dwelling-values-rise-9-over-past-12-months-as-capital-gains-take-a-breather-in-may>.

⁶³ Corelogic RP Data Hedonic Home Value Index Results, June 2015. Available at: <http://www.corelogic.com.au/media-release/capital-city-dwelling-values-rise-9-over-past-12-months-as-capital-gains-take-a-breather-in-may>.

While dwelling prices have increased, it is important to distinguish between the short-term rates of increase, as opposed to the overall level of dwelling prices. Table 6 highlights that while dwelling prices remain historically high, only Sydney, Melbourne and Darwin have experienced significant dwelling price growth since early 2012.⁶⁴

Table 6 - Annual change in dwelling prices and price growth since previous market trough

City	Price May 2015 (Corelogic)	Percentage Change (Corelogic 12 months to May 2015)	Percentage Change (ABS 12 months to March 2015)	Percentage change since previous market trough (Corelogic)
Sydney	\$752,000	15.0%	13.1%	39.3%
Melbourne	\$596,500	9.0%	4.7%	22.4%
Darwin	\$520,000	-2.0%	-0.4%	18.3%
Canberra	\$549,900	2.4%	3.0%	8.3%
Perth	\$520,000	0.7%	-0.3%	13.2%
Brisbane	\$463,000	3.1%	3.9%	10.6%
Adelaide	\$400,000	3.4%	2.5%	9.9%
Hobart	\$328,000	-1.0%	1.9%	7.7%
National	\$570,000	9.0%	6.9%	24.2%

Source: ABS - 6416.0 and Corelogic RP Data

⁶⁴ Corelogic RP Data Hedonic Home Value Index Results, June 2015. Available at: <http://www.corelogic.com.au/media-release/capital-city-dwelling-values-rise-9-over-past-12-months-as-capital-gains-take-a-breather-in-may>.

Demand and supply drivers in the housing market

The factors that influence the demand and supply for housing are a complex mix of economic, political, social and demographic forces that have previously been the subject of detailed consideration through the Productivity Commission's Inquiry into First Home Ownership⁶⁵, the 2008 Senate Inquiry into Housing Affordability⁶⁶, the Australia's Future Tax System Review⁶⁷, and more recently the Financial System Inquiry⁶⁸ and the 2015 Senate Inquiry into Affordable Housing⁶⁹.

Demand factors influencing the housing market which have already been discussed include household income, access to credit and interest rates. In addition to these factors, taxation, population growth, demographic changes, investor demand and government incentives also have a significant impact on housing demand. These factors are largely the responsibility of the Commonwealth Government.

Supply factors influencing the housing market include planning, land release policies, state taxation and the provision of housing-related infrastructure. These factors are largely the responsibility of state, territory and local governments.

Demand drivers

Taxation

Taxation settings play a significant role in determining demand for residential property.

Given that portfolio responsibility for taxation rests with the Commonwealth Treasury, and the Commonwealth is currently developing a White Paper on Reform of Australia's Tax System, this submission does not undertake an in-depth analysis of Australia's current taxation settings.

The key areas of taxation that influence housing are however identified in more detail on page 42 of this submission.

Population

Population is also a key driver of housing demand, given the need to house both the domestic population as well as new arrivals.

⁶⁵ Productivity Commission Inquiry Report No.28, 31 March 2004 First Home Ownership. Available at: <<http://www.pc.gov.au/projects/inquiry/first-home-ownership/docs/finalreport>>.

⁶⁶ Senate Select Committee on Housing Affordability in Australia Final Report, *A good house is hard to find: Housing affordability in Australia*, June 2008. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/hsaf/report/index>.

⁶⁷ Australia's Future Tax System Final Report, 2010, Chapter E: Enhancing social and market outcomes. Available at: <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/index.htm>.

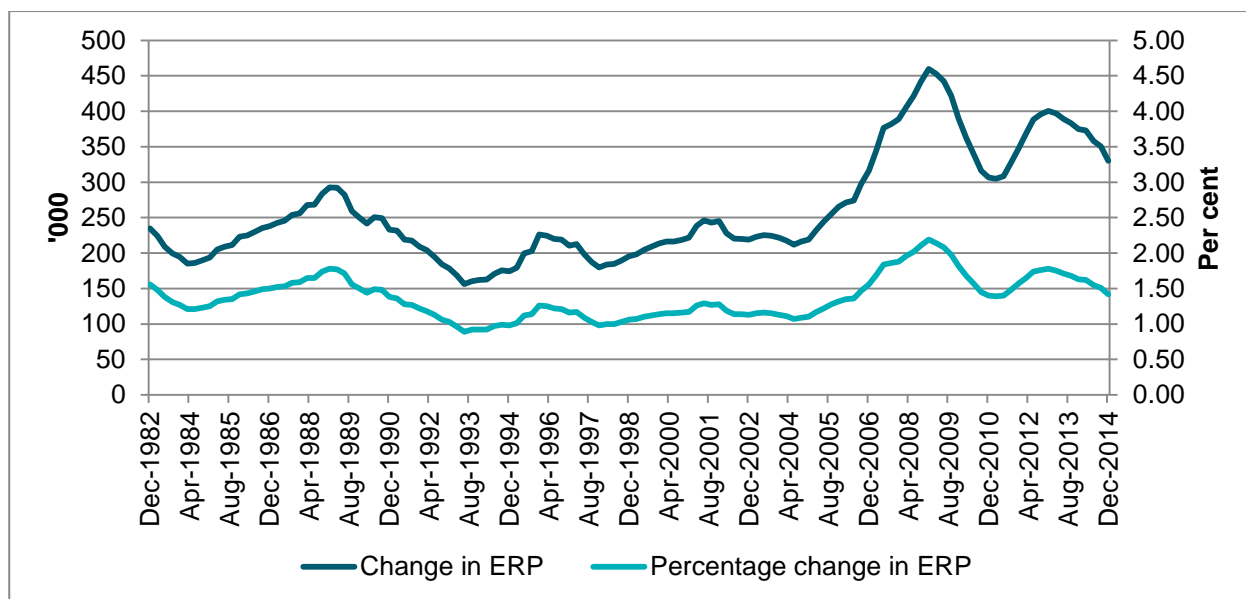
⁶⁸ *Financial System Inquiry Final Report*, November 2014. Available at: <<http://fsi.gov.au/>>.

⁶⁹ Senate Standing Committee on Economics, Inquiry into Affordable Housing Final Report, *Out of Reach? The Australia housing affordability challenge*, May 2015. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Report>.

From December 1982 to December 2014, Australia’s estimated resident population (ERP) increased by around 8.34 million people or around 260,000 people per year.⁷⁰

Figure 14 illustrates that the current growth in Australia’s population is declining, although in total numbers it remains historically high. The most significant increase occurred in 2004-05 driven largely by an increase in net overseas migration. Population growth peaked in the year to December 2008, with an increase in the ERP of 459,500, before falling to a recent low of 305,000 in the year to March 2011.

Figure 14 - Changes in Australia’s estimated resident population December 1982 to December 2014



Source: ABS 3101.0 – Australian Demographic Statistics, December 2014, Table 1

On 26 November 2013, the ABS released revised projections for Australia’s population growth over the period to 2101. These projections indicate that Australia’s population is expected to grow faster than previously estimated, to between 36.8 million and 48.3 million by 2061 and between 42.4 million and 70.1 million by 2101. Previous estimates indicated that Australia’s population would increase to between 30.9 million and 42.5 million by 2056 and 33.7 million to 62.2 million by 2101.⁷¹

Demographics

The size of the average household plays a significant role in determining the need for housing in Australia given that an increase in household size reduces the demand for housing stock, while a reduction in household size increases demand for housing stock.

The ABS reported an increase in the size of the average Australian household for the first time since records started in the period between 2005-06 and 2007-08.

⁷⁰ ABS 3101.0 – Australian Demographic Statistics, December 2014, Table 1. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/3101.0Dec%202014?OpenDocument>.

⁷¹ ABS, 3222.0 – Population Projections, Australia, 2012 to 2101. Available at: <http://www.abs.gov.au/ausstats%5Cabs@.nsf/mediareleasesbyCatalogue/7DB4DD841EA3A2A5CA2574B9001E26F6?OpenDocument>.

Over this period the estimated number of persons per household increased from around 2.51 to 2.56.⁷² While the size of the increase was very small, the significance is that it represented a substantial departure from previous estimates undertaken by the ABS.⁷³

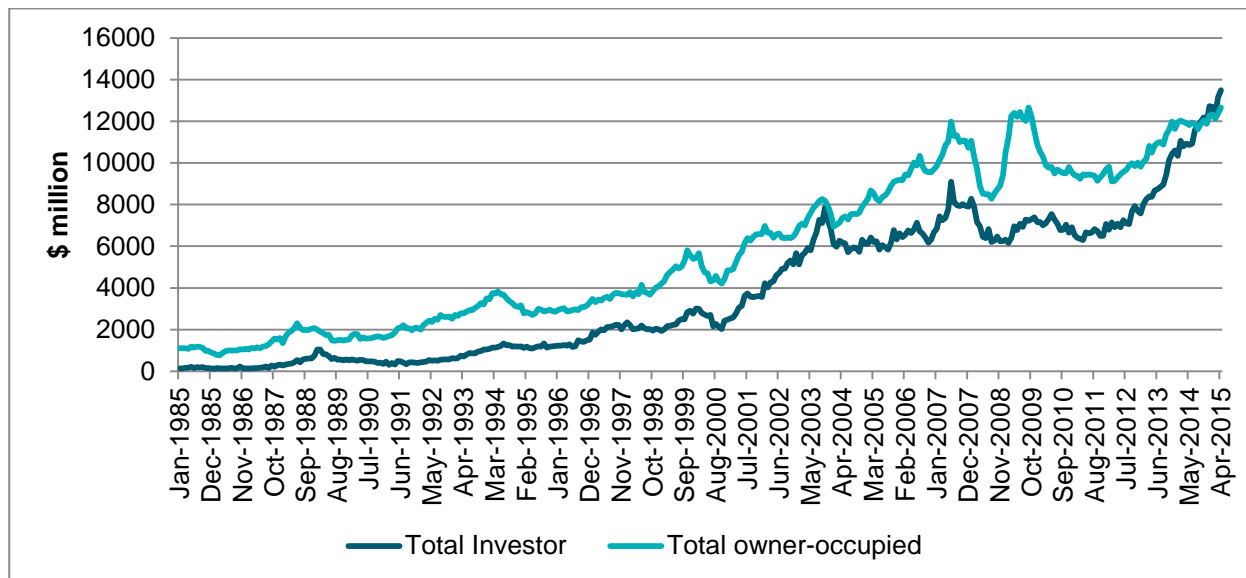
Since 2007-08 the average size of households has increased further, albeit slightly, to 2.57 persons in 2011-12.

There are a number of factors that could be influencing the increase in household size including demographic changes and the household characteristics of migrants. However, it is also likely that the decrease in housing affordability and home ownership levels amongst younger Australians in recent years is having an impact.

Investor demand

Investor demand for residential property has increased significantly since the early 2000s, as highlighted in Figure 15.

Figure 15 – Owner-occupied and investor lending commitments January 1985 to April 2015



Source: RBA – Table D6 Lending Commitments – All lenders

Note: Owner-occupied lending excludes refinancing.

This increase has been driven by a number of factors, including low interest rates, tax settings, the growth in self-managed superannuation funds and investor preferences.

Higher levels of investor activity have increased the level of competition faced by potential home purchasers across Australia’s housing market, with some first home buyers altering their historical behaviour in an attempt to enter the housing market.

⁷² ABS, 4130.0 Housing Occupancy and Costs, 2011-12. Available at:

<<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/4130.02011-12?OpenDocument>>.

⁷³ ABS, Year Book Australia 2012. Available at: <<http://www.abs.gov.au/ausstats/abs@.nsf/mf/1301.0>>.

NAB estimates that in April 2015 around 10.1 per cent of new dwelling purchases were made by first home buyers as investors, with around 10 per cent of existing dwelling purchases also being made by first home buyers as investors.⁷⁴

The trends in investor demand and their impacts on home ownership are discussed in further detail on page 36 of this submission.

Government incentives

Governments at all levels have provided incentives to encourage new entrants into home ownership. The key incentives include first home owner grants, new home grants and stamp duty concessions.

At the Commonwealth level, first home buyer assistance has been provided in various forms since 1964, including through the provision of cash grants, cash grants linked to savings and income tax deductions for mortgages. At the state level, assistance has mainly been provided in the form of cash grants and stamp duty exemptions.

Since 2012, jurisdictions have increasingly recognised that in a supply constrained housing market such grants generally lead to increased demand and hence increased prices. Consequently, Tasmania, NSW, Victoria, Queensland and South Australia have therefore largely moved to limiting cash grants solely to purchases of new homes while retaining stamp duty concessions based on the value of the property purchased by the new home buyer.

Provision of these grants led to significant increases in first home owner activity between July 2000 and December 2001 and October 2008 to December 2009 with first home buyers making up around 31.4 per cent of all owner occupier loans in May 2009. Since this peak, the percentage of first home owners has gradually fallen to reach a low of 15.2 per cent in April 2015.⁷⁵

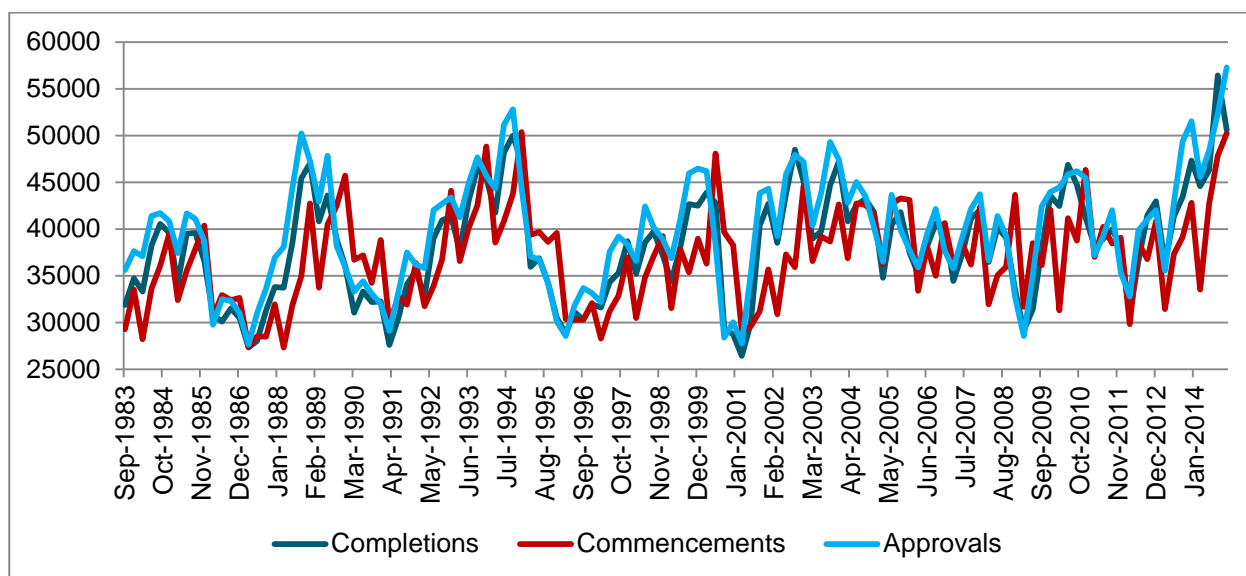
⁷⁴ NAB Residential Property Survey Quarter 1, 2015. Pages 3 and 5. Available at: <http://business.nab.com.au/nab-quarterly-australian-residential-property-survey-q1-2015-10479/>.

⁷⁵ ABS, 5609.0 – Housing Finance, Australia, April 2015 - Table 9a. Available at: <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Jan%202014?OpenDocument>.

Supply

Housing supply in Australia has been relatively stable since the early 1980s. Figure 16 highlights that over the period between 1984 and 2014 residential approvals have averaged around 159,000 per annum (varying between 125,600 in 1986 and 203,000 in 2014), commencements have averaged around 151,000 per annum (varying between 110,000 in 1982 and 198,000 in 2014) and completions have averaged around 146,000 (varying between 111,000 in 1983 and 174,000 in 2014).

Figure 16 – Quarterly dwelling approvals, commencements and completions Australia September 1983- December 2014 (original)



Source: ABS 8752.0 Building Activity - Australia, December 2014 - Table 33 and 37; ABS 8731.0 - Building Approvals, Australia, April 2015 – Table 6.

Over this period, a number of jurisdictions have sought to make changes to their planning, approval and land release processes, with the Council of Australian Governments (COAG) also undertaking detailed work on the issues restricting the supply of new housing. COAG published the findings and recommendations from this work in its August 2012 report, '*Housing Supply and Affordability Reform*' (HSAR).⁷⁶

While a number of initiatives have been progressed, Figure 16 highlights that, notwithstanding recent increases in approvals to 204,000⁷⁷, commencements to 198,000⁷⁸ and completions to 174,000⁷⁹, a significant and sustainable increase in housing supply, to support continued access to affordable home ownership, has not yet been achieved.

⁷⁶ Council of Australian Governments, *Housing Supply and Affordability Report*, August 2012. Available at: <<http://www.coag.gov.au/node/451>>.

⁷⁷ ABS 8731.0 - Building Approvals, April 2015 - Table 6. Available at: <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8731.0Apr%202015?OpenDocument>>.

⁷⁸ ABS 8752.0 - Building Activity, December 2014 - Table 33. Available at: <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8752.0Dec%202014?OpenDocument>>.

⁷⁹ ABS 8752.0 - Building Activity, December 2014 - Table 37. Available at: <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/8752.0Dec%202014?OpenDocument>>.

Planning

Ensuring jurisdictions have efficient and non-restrictive planning regimes that allow for rapid increases in housing supply is one of the key determinants of whether a jurisdiction is able to produce sufficient affordable housing to ensure home ownership remains obtainable for the majority of the community.⁸⁰

In Australia the main issues relate to streamlining approval processes and removing unnecessary or unreasonable planning restrictions, which inhibit new residential development.

The HSAR report examined state and territory planning regimes in detail and recommended that jurisdictions should continue to:

- work to improve the efficiency of referrals;
- improve development assessment and rezoning processes;
- work towards a greater use of code-based assessment of applications; and
- examine the costs and benefits before local councils introduce planning and development requirements that exceed state planning and development requirements.

All jurisdictions continue to progress planning reform, although there is significant variation across jurisdictions.⁸¹

Land release

While there has been recognition of the need to release more land to improve housing affordability, and in turn, increase access to home ownership, decisions on land release, which are largely made by states and territories, are dependent on a number of factors. These include the capacity of the market to absorb any new releases, the impact that any new land release will have on the price of existing property, the cost of infrastructure involved in servicing any new releases, and the ability of the residential construction industry to bring any new land to market.

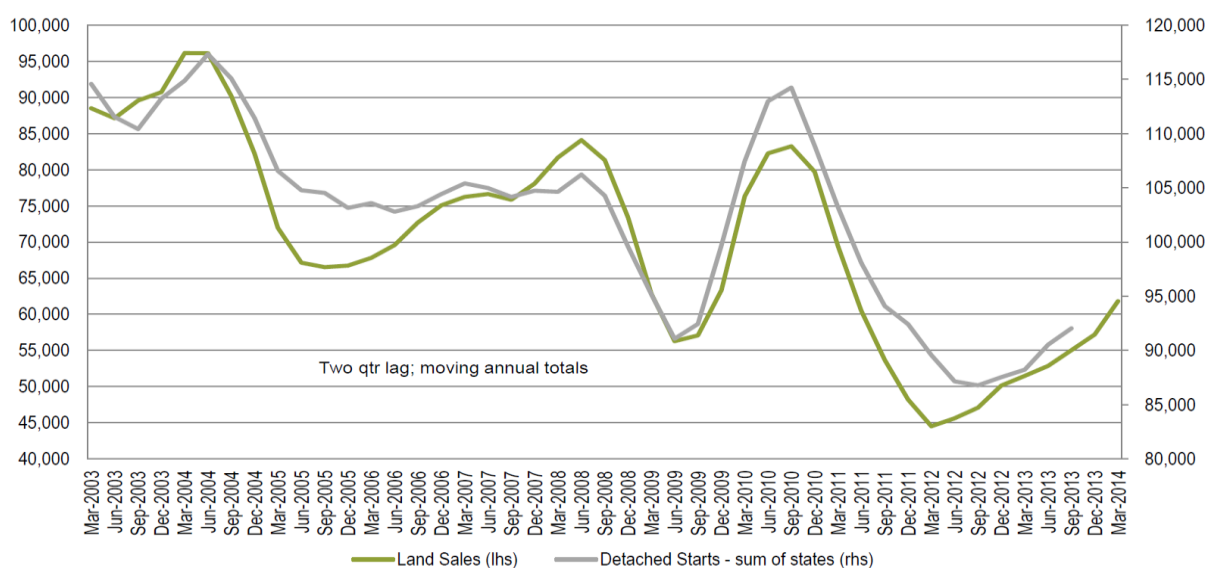
The December 2014 quarter residential land report from the Housing Industry Association (HIA) indicates that state capital city land sales in the December 2014 quarter were 22.8 per cent lower than in June 2013, while regional land sales were down by around 12.1 per cent over this period.⁸² It should be noted that the recent level of land sales across Australia still remain significantly below the levels of the early 2000s, as highlighted in Figure 17.

⁸⁰ Demographia, *10th Annual Demographia International Housing Affordability Survey: 2014*, p 27. Available at: <<http://www.demographia.com/>>.

⁸¹ Property Council of Australia, *2015 Development Assessment Report Card*. Available at: <<http://www.propertyoz.com.au/Article/Resource.aspx?p=21&media=2731>>.

⁸² HIA - Corelogic RP Data, *Residential Land Report December 2014 Quarter*, Page 3. Available at: <http://economics.hia.com.au/publications/land_report.aspx>.

Figure 17 – Land release and dwelling starts



Source: ABS, rpdata.com, HIA Economics

In contrast to the subdued level of land release, the price of residential lots has increased to historic highs.⁸³ Again, the HIA residential land report for the December quarter of 2014 indicates that median land prices increased by 6.5 per cent to \$214,323 over 2014. The increase was largely driven by increases in capital cities, where the median lot price increased to \$248,798 up by around 9 per cent, driven by increases in Sydney (15.4 per cent) and Melbourne (8.7 per cent). In contrast, median lot prices in regional Australia rose by only 1.6 per cent over 2014 to \$163,406.⁸⁴

Table 7 highlights the significant variation in land prices across jurisdictions and that the increase in land prices is magnified when the trend towards smaller average block size is also taken into account.

Table 7 - Median prices of residential lots, December 2014 quarter

City	Price per lot December 2014	Price per m2 December 2014	Price per m2 December 2001	Increase in price per m2 Dec 2001 to Dec 2014
Sydney	\$345,000	\$719	\$315	129%
Melbourne	\$225,000	\$507	\$131	287%
Perth	\$271,000	\$623	\$146	327%
Brisbane	\$215,950	\$450	\$117	287%
Adelaide	\$191,000	\$509	\$125	307%
Hobart	\$115,000	\$169	\$56	202%

Source: HIA-RP Data, Residential Land Report, December Quarters 2008 and 2014

⁸³ HIA - Corelogic RP Data, Residential Land Report, December 2014 Quarter, Page 2. Available at: <http://economics.hia.com.au/publications/land_report.aspx>.

⁸⁴ HIA - Corelogic RP Data Residential Land Report, December 2014 Quarter, Page 2. Available at: <http://economics.hia.com.au/publications/land_report.aspx>.

State taxation

A significant amount of state and territory revenue is derived from land taxes, stamp duty and other property taxes. For example, in 2013-14 NSW collected around \$4.72 billion in residential stamp duty⁸⁵, while Victoria collected around \$1.66 billion in land taxes.⁸⁶

Charges and levies can increase the cost of dwellings and in turn reduce purchase affordability for prospective home owners.

Since 2008, only the Australian Capital Territory (ACT) has undertaken significant reforms to the way in which it taxes property. As part of its 2012-13 Budget, the ACT Government announced that it would abolish conveyance duty and insurance taxes and make Residential General Rates and Land Tax more progressive.⁸⁷ However, the ACT government has recently announced that stamp duty will no longer be abolished within the previously announced timeframes.⁸⁸

While moving away from stamp duty is a significant step in moving to the imposition of more efficient taxes⁸⁹, the revenue foregone in the ACT will be replaced through increases in general commercial and residential rates, as well as an adjustment to utilities tax to reflect land value appreciation.

It is important to note that even after these changes, revenue collection will largely rely on land values. This continues to provide an incentive for State and Territory governments to ensure high land prices, and in turn property prices⁹⁰, are supported through relevant zoning and land release policies.

Infrastructure

A necessary requirement for the development of new housing supply is the provision of related infrastructure. In greenfield sites, this includes provision of new roads, power, water, sewage and public transport. In brownfield sites, this includes the improvements necessary to connect the development to existing infrastructure.

Historically, such infrastructure was funded using a debt base model, with interest and capital paid off by residents through subsequent increases in rates. More recently, governments have adopted 'user pays' models, where infrastructure is funded through 'up-front' development contributions rather than paid off over the effective life of the infrastructure.

⁸⁵ NSW Office of State Revenue, Transfer duty – Residential. Available at: <<http://www.osr.nsw.gov.au/info/statistics>>.

⁸⁶ State Revenue Office of Victoria. Available at: <<http://www.sro.vic.gov.au/>>.

⁸⁷ ACT Government. Available at: <<http://apps.treasury.act.gov.au/taxreform>>.

⁸⁸ Ewan Gilbert, *Scrapping stamp duty in ACT could take longer than 20 years*, Chief Minister Andrew Barr says, 15 June 2015, ABC News. Available at: <<http://www.abc.net.au/news/2015-06-15/scrapping-stamp-duty-in-act-could-take-longer-than-20-years/6547474>>

⁸⁹ Australia's Future Tax System Review, Final Report, Chapter 6 Land and Resource Taxes. Available at: <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/papers/Final_Report_Part_1/chapter_6.htm>.

⁹⁰ Senate Committee on Housing Affordability in Australia 2008 Final Report, *A good house is hard to find: Housing affordability in Australia*, p 73. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/hsaf/index>.

On 13 November 2013, the Commonwealth Government commissioned a Productivity Commission inquiry into ways to encourage private financing and funding for major infrastructure projects, including issues relating to the high cost and the long lead times associated with these projects.⁹¹ The Productivity Commission released its final report on 14 July 2014, in which it canvassed the potential use of betterment levies, tax increment financing, hypothecation of tax increments to an infrastructure fund, and property development, as alternative ways to fund infrastructure.

In relation to infrastructure levies, the report notes that, in-principle, developer contributions should only be made to the extent that infrastructure is attributable to the properties being developed. This is straightforward for infrastructure that is clearly related to a developed property, such as that linking a property to a local network. It is less straightforward for networked infrastructure shared with other developments, such as water mains. Ideally, the incremental cost attributable to each property would be reflected in developer charges. For social infrastructure that provides broad-based benefits to the community, such as a library, government funding from a broad-based revenue source can be more appropriate than developer contributions.⁹²

The report also notes that the principle of apportioning only attributable costs to developers has been embodied in legislative arrangements in NSW, Queensland, Western Australia and Tasmania.

The HSAR report also examined the use of infrastructure charges to fund housing infrastructure and recommended that COAG agree to four principles around efficiency, transparency and accountability, predictability and equity.

It found that the transparency and certainty of infrastructure charging regimes could be increased through:

- local councils publishing information on publicly accessible websites about infrastructure charging frameworks and arrangements in practice; and
- states and territories making readily available information on how infrastructure charging frameworks and arrangements operate in practice through a state/territory based process.

NSW⁹³, Queensland⁹⁴ and Victoria⁹⁵ have undertaken reforms to, or have commenced reviews of, the way in which infrastructure charges are levied.

⁹¹ Joint Press Release, 'Productivity Commission Inquiry into Infrastructure Costs', the Hon Tony Abbott MP, Prime Minister, the Hon. Joe Hockey MP, Treasurer, the Hon. Jamie Briggs MP, Assistant Minister for Infrastructure and Regional Development, 13 November 2013. Available at: <http://www.minister.infrastructure.gov.au/jb/releases/2013/November/jb008_2013.aspx>.

⁹² Productivity Commission, Public Infrastructure – Final Report, Page 171. Available at: <<http://www.pc.gov.au/projects/inquiry/infrastructure/draft>>.

⁹³ The Hon. Mike Baird MP, Premier for NSW, Media Release, 22 June 2015, *Building our future: Record \$400 million boost to improve housing affordability*. Available at: <<http://www.planning.nsw.gov.au/Whatsnewarchive/NewsArticle/TabId/697/ArtMID/1562/ArticleID/403/Building-our-future-Record-400-million-boost-to-improve-housing-affordability.aspx>>.

⁹⁴ Local Government Infrastructure Planning and Charging Framework review. Available at: <<http://www.dilgp.qld.gov.au/infrastructure/local-government-infrastructure-planning-and-charging-framework-review.html>>.

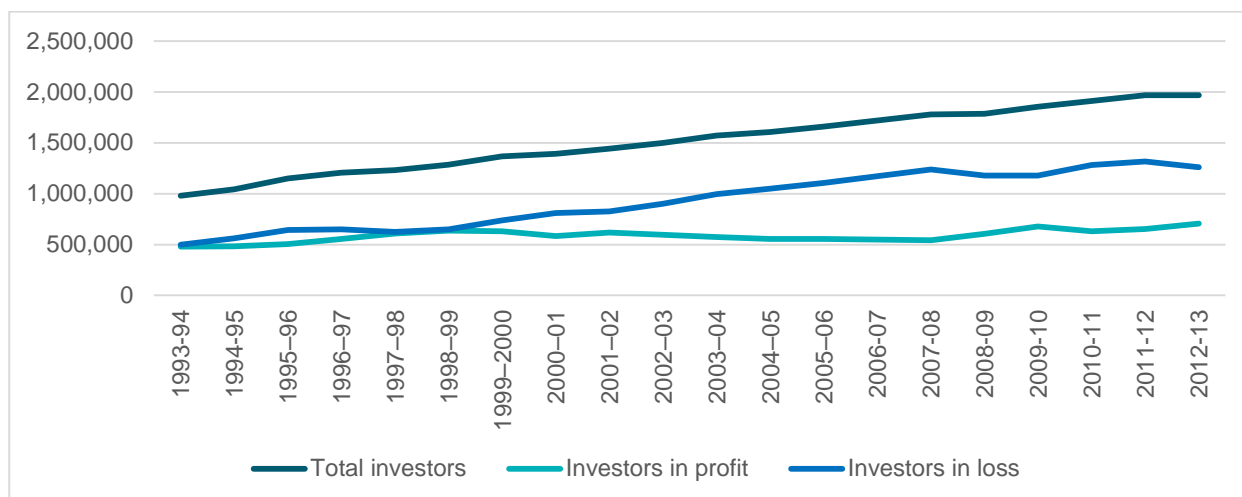
Proportion of investment housing relative to owner-occupied housing

The popularity of residential property investment in Australia has increased significantly over the last 30 years with around 1.967 million taxpayers reporting some form of rental income in 2012-13 compared to around 696,000 in 1989-90.⁹⁶

Even with this growth, it is important to note that residential investors only made up around 15.4 per cent of individual taxpayers in 2012-13, up from around 8.6 per cent of individual taxpayers in 1989-90.⁹⁷

As illustrated in Figure 18, while the number of investors reporting rental income has continued to increase, the increase since 1999-00 has largely been driven by investors reporting net losses. In 1999-00 investors reported \$3.26 billion in profits and \$3.11 billion in losses equalling net rent of \$155.67 million. In 2012-13 investors reported \$6.65 billion in profits and \$12.05 billion in losses, equalling net rental losses of around \$5.4 billion.⁹⁸

Figure 18 - Taxpayers reporting rental income 1993-94 to 2012-13



Source: ATO Tax Statistics 1993-94 to 2012-13, Individuals - Table 1

The significant increase in the popularity of residential property investment is also apparent in the proportion of housing finance dedicated to investor loans.

Figure 19 highlights that the share of new loans (excluding refinancing) to investors has increased from around 9 per cent in January 1985 to around 52 per cent in April 2015.⁹⁹ Housing finance for investor loans exceeded the amount of new loans for owner-occupation for the first time in June 2014.

⁹⁵ Infrastructure contributions reform. Available at: <<http://www.dtpli.vic.gov.au/planning/about-planning/improving-the-system/infrastructure-contributions-reform>>.

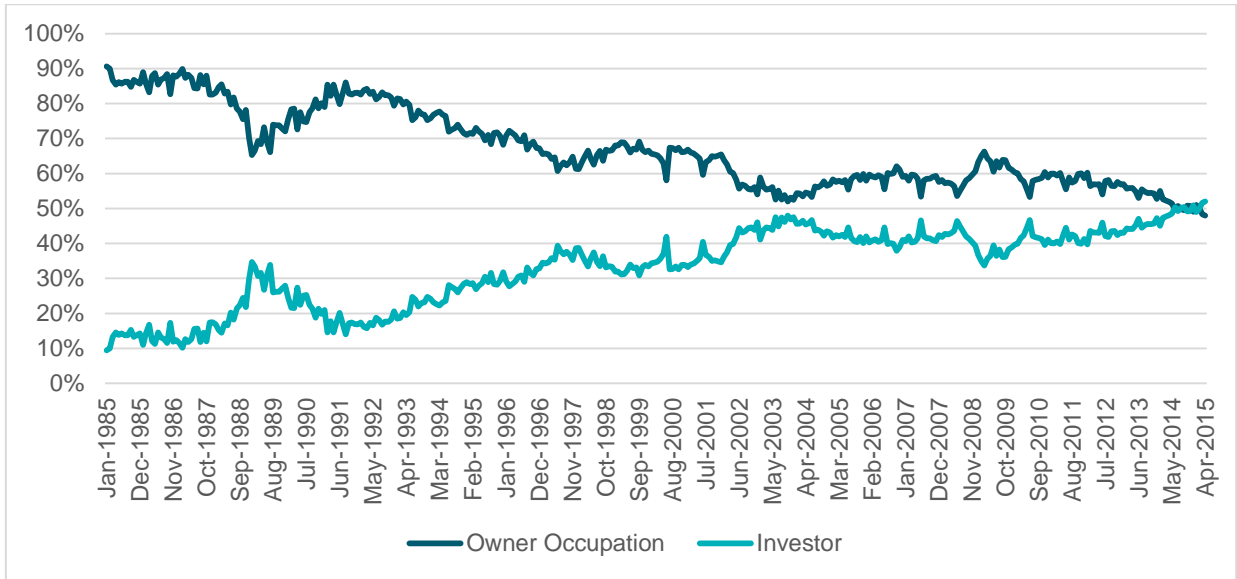
⁹⁶ ATO Tax Statistics 2012-13 Individuals, Table 1. Available at: <<https://data.gov.au/dataset/taxation-statistics-2012-13/resource/233cbf28-6fda-4e53-bbe9-3a37a65fb742>>.

⁹⁷ ATO Tax Statistics 2012-13 Individuals, Table 1. Available at: <<https://data.gov.au/dataset/taxation-statistics-2012-13/resource/233cbf28-6fda-4e53-bbe9-3a37a65fb742>>.

⁹⁸ ATO Tax Statistics 2012-13 Individuals, Table 1. Available at: <<https://data.gov.au/dataset/taxation-statistics-2012-13/resource/233cbf28-6fda-4e53-bbe9-3a37a65fb742>>.

⁹⁹ ABS 5609.0 - Housing Finance, Australia - Table 11. Available at: <<http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/5609.0Apr%202015?OpenDocument>>.

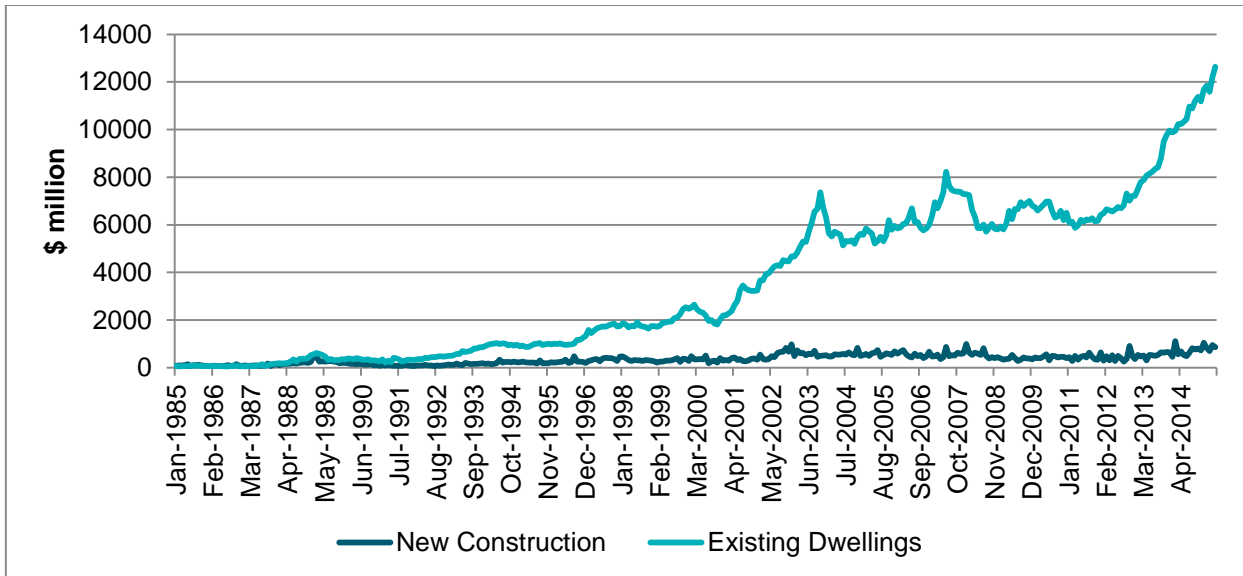
Figure 19 - Share of new housing loans (excluding refinancing) -1985 to 2015



Source: ABS, 5609.0 - Housing Finance, April 2015 – Table 11

A further observation about the increase in residential investment is that it has primarily been directed at existing rather than new housing supply. Figure 20 highlights that property investment is overwhelmingly in existing rather than new housing stock.

Figure 20 - Value of lending commitments in investment housing by category, Australia - January 1985 to April 2015.



Source: RBA, Statistical Table D6 Lending Commitments – All Lenders

Foreign investment

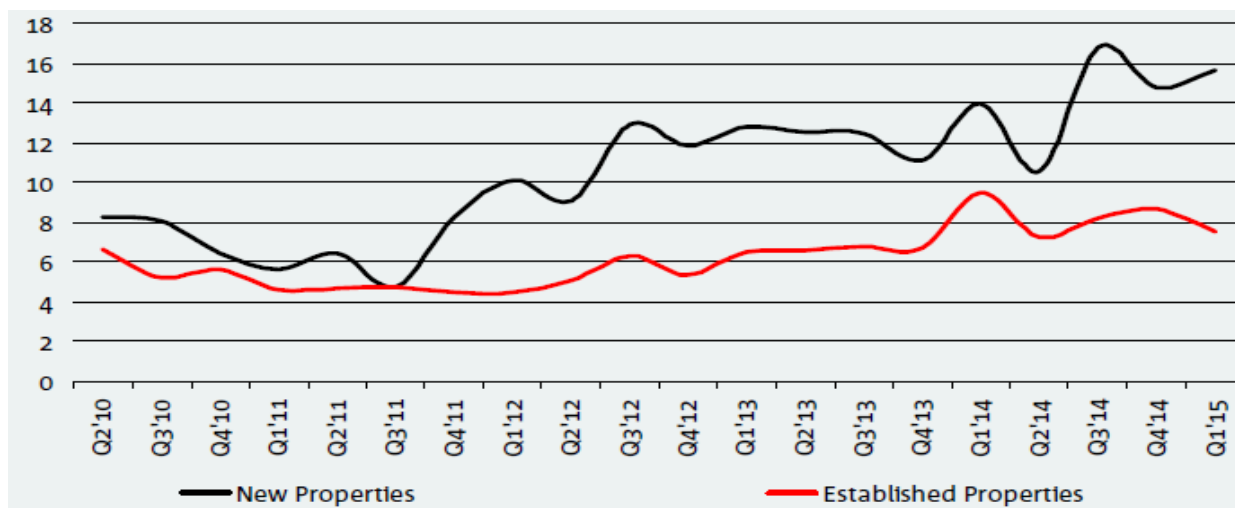
More recently attention around investment in residential housing has focussed on the increasing role of self-managed superannuation funds and foreign investors, especially in the Sydney and Melbourne markets.

Given that portfolio responsibility for foreign investment rests with the Commonwealth Treasury, this submission only seeks to identify current trends and highlight recent Government initiatives rather than undertake a detailed analysis of this issue.

Arguably, there is some uncertainty around the level of foreign investment in residential property.¹⁰⁰ Notwithstanding this, the data that is available indicates that demand from overseas buyers, especially for new properties, has increased significantly since 2011, as highlighted in Figure 21.

The NAB Quarterly Australia Residential Property Survey for the first quarter of 2015 reports that, nationally, foreign buyers accounted for around 15.6 per cent of demand for new housing and 7.5 per cent of demand for existing housing. Of these, 53 per cent of foreign purchases were for apartments, 30 per cent for houses and 17 per cent for redevelopment.¹⁰¹

Figure 21 - Demand for new and existing properties from overseas buyers (per cent)



Source: NAB Quarterly Australia Residential Property Survey: Q1 2015

Similarly, the Foreign Investment Review Board (FIRB) data on investment in residential real estate in Table 8 highlights that, in 2013-14, total foreign investment in residential real estate amounted to around \$34 billion, which was a 100 per cent increase in the \$17 billion approved during 2012-13.

¹⁰⁰ The first key finding of the House of Representatives Inquiry into Foreign Investment in Residential Real Estate was that 'there is no accurate or timely data that tracks foreign investment in residential real estate. No-one really knows how much foreign investment there is in residential real estate, nor where that investment comes from'.

¹⁰¹ NAB Quarterly Australia Residential Property Survey Q1 2015. Available at: <<http://business.nab.com.au/nab-quarterly-australian-residential-property-survey-q1-2015-10479/>>.

Table 8 - Investment in residential real estate by type of approval and number of proposals approved: 2010-11 to 2013-14

	2010-11		2011-12		2012-13		2013-14	
	No.	\$b	No.	\$b	No.	\$b	No.	\$b
Developed								
Existing residential	3,881	3.57	3,952	2.87	5,091	5.42	7,915	7.17
Annual programs	4	0.20	5	1.30	10	0.94	5	0.35
Sub-total 'Developed'	3,885	3.77	3,957	4.18	5,101	6.36	7,920	7.51
For development								
Vacant land	1,514	2.33	1,518	0.68	1,821	1.39	3,150	1.74
New dwellings								
Individual purchases	3,911	2.46	4,022	2.54	4,499	2.91	11,338	7.72
Developer 'off the plan'	65	10.08	70	10.92	50	5.73	103	16.38
Sub-total 'new dwellings'	3,976	12.54	4,092	13.46	4,549	8.64	14,591	25.85
Redevelopment	171	0.45	191	0.50	189	0.36	534	0.79
Annual programs	10	1.83	10	0.89	8	0.41	9	0.57
Sub-total 'For development'	5,671	17.15	5,811	15.52	6,567	10.80	15,134	27.20
Total residential	9,556	20.92	9,768	19.70	11,668	17.16	23,054	34.72

Source: Foreign Investment Review Board (FIRB) 2013-14 Annual Report (page 28)

The issue of foreign investment in residential real estate was extensively examined by the House of Representatives Standing Committee on Economics Inquiry into Foreign Investment. The Committee received over 92 submissions and held six public hearings.

However, after examining these submissions, the Committee could not definitively ascertain the impacts of foreign investment on Australia's housing market largely due to data limitations, with conflicting propositions put around its net impact upon housing supply and demand.¹⁰²

On 2 May 2015, in response to the findings of the Committee, the Government announced a number of measures to strengthen the integrity of Australia's foreign investment framework.¹⁰³

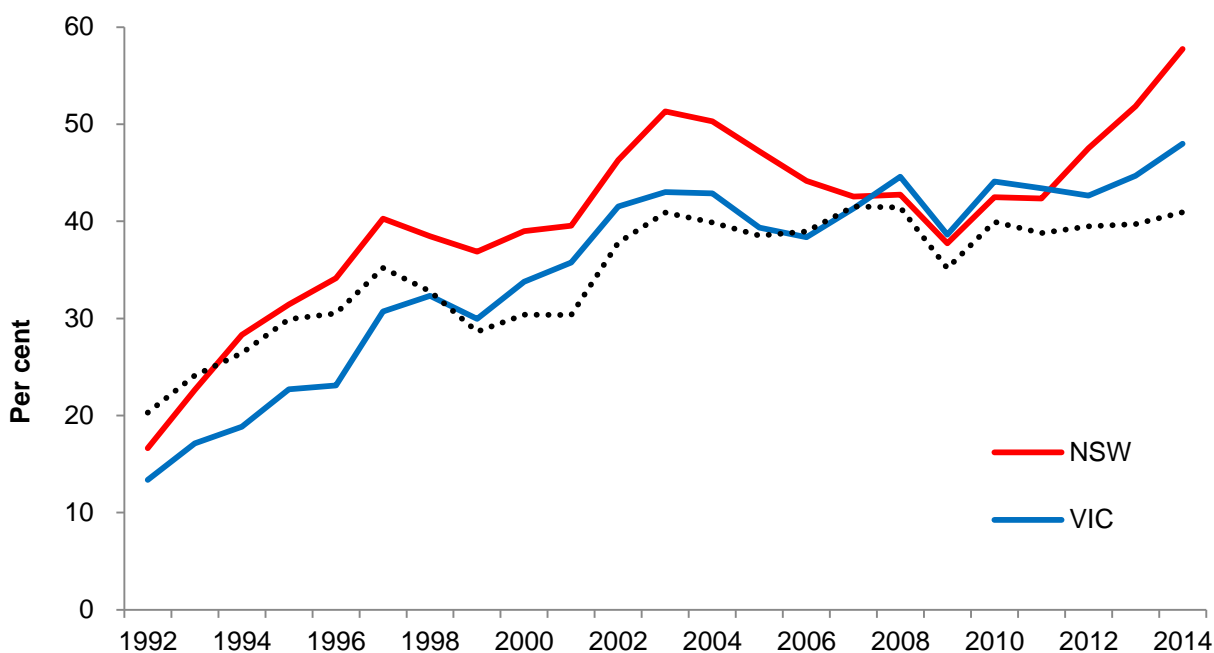
¹⁰² House of Representatives Standing Committee on Economics, *Report on Foreign Investment in Residential Real Estate*, November 2014, Paragraph 3.118. Available at: <http://www.aph.gov.au/Parliamentary_Business/Committees/House/Economics/Foreign_investment_in_real_estate/Tabled_Reports>.

¹⁰³ The Hon. Joe Hockey, Media Release 2 May 2015, *Government strengthens the foreign investment framework*. Available at: <<http://jbh.ministers.treasury.gov.au/media-release/034-2015/>>.

Impact of increased levels of investor activity

The impact of increased investor activity since 2011 has been most prevalent in Sydney and Melbourne, as highlighted in Figure 22. Corelogic notes that in these markets dwelling values have increased by 39.3 per cent and 22.4 per cent respectively since May 2012, driven by lower interest rates and strong investor demand.¹⁰⁴

Figure 22 - Annual investment housing finance value^{(a)(b)} as proportion of total housing finance value^{(b)(c)}—NSW, VIC, Rest of Australia—1992 to 2014



(a) Includes refinancing of investment housing loans for purchase of dwellings for rent/resale by individuals .
(b) Excludes housing loans for alterations and additions. (c) Excludes refinancing of owner occupation housing loans for established dwellings.

Note: Refinancing only includes those loans where the refinancing lender is a different lender and the security is unchanged.

Data source: ABS, *Housing Finance* (cat. no. 5609.0), Time Series Tables 10b and 11, Original series; ABS, *Lending Finance* (cat. no. 5671.0), Time Series Tables 19 to 26, Original series.

While prices have increased significantly, increased investor activity and rental supply has contributed to relatively flat rental growth in these cities. SQM Research reports that asking rents for houses increased in Sydney by 3.2 per cent and by 0.8 per cent for units over the year to 20 June 2015. Over the three years to 16 June 2015, asking rents for houses and units increased by 7.2 per cent and 6.4 per cent respectively.¹⁰⁵

¹⁰⁴ Corelogic RP Data Hedonic Home Value Index Results, June 2015. Available at: <http://www.corelogic.com.au/media-release/capital-city-dwelling-values-rise-9-over-past-12-months-as-capital-gains-take-a-breather-in-may>.

¹⁰⁵ SQM research, Weekly asking rents, June 20 2015. Available at: http://www.sqmresearch.com.au/graph_median_rent_weeks.php?region=nsw%3A%3ASydney&type=c&t=1.

In Melbourne, asking rents for houses and units have increased by three per cent and two per cent respectively over the last 12 months. While over the last three years rental asking prices for houses and units have increased by 6.4 per cent and 5.6 per cent respectively.¹⁰⁶

At a broader level, the RBA has noted on a number of occasions that the main risk of the ongoing strong level of investor activity is most likely to be macroeconomic, given that heightened investor demand can amplify the housing price cycle, especially when it involves the use of leverage.¹⁰⁷

¹⁰⁶ SQM research, Weekly asking rents, June 20 2015. Available at:

<http://www.sqmresearch.com.au/graph_median_rent_weeks.php?region=vic%3A%3AMelbourne&type=c&t=1>

¹⁰⁷ Reserve Bank of Australia, Financial Stability Review, March 2015 Page 2. Available at:

<<http://www.rba.gov.au/publications/fsr/>>.

Current Tax Policy

Taxes and charges have a significant structural influence on the affordability of housing and in turn the ability of Australians to access home ownership. Taxes and charges are applied by the Commonwealth, State and Territory governments as well as local councils.

Detailed analysis of Australia's current taxation settings including negative gearing, the capital gains tax exemption for main residences and the capital gains tax discount is contained in the final report of the Australia's Future Tax System Review - Chapter A: Personal Taxation¹⁰⁸ and the tax discussion paper 'Rethink'¹⁰⁹ which was recently released as part of the Government's Tax White Paper process.

The 2014 Financial System Inquiry also made a number of observations about the way in which the current taxation settings applying to housing could impact upon the financial system and economy more broadly¹¹⁰ as have the various submissions made by stakeholders to the White Paper on Reform of Australia's Tax System.

The key taxation settings that impact upon housing supply and demand include:

Commonwealth

- Capital Gains Tax (CGT) - is imposed on the nominal increase in the value of capital assets, which is the difference between the asset's cost base and the sale price/market price of the asset. A main residence exemption and 50 per cent CGT discount also apply in specific circumstances.
- Negative gearing – refers to the purchase of an asset with the assistance of borrowed funds where the net income derived from the asset, after deducting expenses, is less than the interest on the borrowings used to purchase the asset. The current operation of tax law allows an individual to claim a deduction for the full amount of any rental expenses against their rental and other income.
- Depreciation (capital works deductions) – owners of residential, both new and established, property can claim a decline in value of the building itself as a deduction as part of their income tax return.
- Foreign investment in Australian residential property – foreign residents receiving rental income from a residential property in Australia need to declare rental income in their income tax, and are subject to payment of capital gains tax (without access to the 50 per cent discount).

¹⁰⁸ Australia's Future Tax System Review, 2010, Chapter A: Personal Taxation. Available at: <http://taxreview.treasury.gov.au/content/FinalReport.aspx?doc=html/publications/Papers/Final_Report_Part_2/chapter_a1-3.htm>.

¹⁰⁹ Australian Government, Re:think tax discussion paper, March 2015. Available at: <<http://bettertax.gov.au/publications/discussion-paper/>>.

¹¹⁰ *Financial System Inquiry Final Report*, November 2014, Pages 17, 22, 23, 34, 278. Available at: <<http://fsi.gov.au/publications/final-report/>>.

States and territories

- Stamp duty – State and territory governments charge stamp duty on transactions involving the transfer of residential property. The rates charged differ across states and territories but generally increase in size as the value of the property increases. States and territories generally provide some form of stamp duty relief for first home buyers.
- Land tax – is the application of a broad-based tax to the owners of 'land'. A number of States and Territories charge land tax duty on vacant land, including: vacant rural land; land where a house, residential unit or flat has been built; a holiday home; an investment property or properties; company title units; residential, commercial or industrial units, including car spaces; commercial properties, including factories, shops and warehouses; and land leased from state or local government.
 - States and territories currently provide a number of exemptions from land tax, generally in the form of thresholds before the tax is payable.
- Developer taxes and charges – infrastructure charges (sometimes called 'developer charges' or 'developer contributions') are fees levied on developers, generally by local governments, to compensate those governments for providing facilities necessary for land development.
 - The charges are often associated with basic infrastructure (such as local roads and water mains), but more recently this has been extended to include major headworks (arterial roads and pumping stations) and social infrastructure (parks and libraries).
- Betterment tax / change of use charges – a tax that applies when land is re-zoned for a different use. The tax attempts to capture some of the increase in land value.
- The Goods and Services Tax (GST) - in Australia is a value added tax of 10 per cent on most goods and services. GST is levied on most transactions in the production process, but is refunded to all parties in the chain of production other than the final consumer. GST is payable on new dwellings but not established dwellings.

Opportunities for reform

Governments play a significant role in the operation of the housing market at two levels. The first is at the structural level, whereby governments determine the policy framework in which the overall market operates. The second is through direct interventions in the market in circumstances where either the market is unable to provide appropriate outcomes for specific groups of people, or where governments are seeking to achieve specific outcomes.

At the structural level, influence over the housing market is split between the Commonwealth, state and territory, and local governments. The Commonwealth Government is largely responsible for the policy levers controlling housing demand, while state, territory and local governments are almost exclusively responsible for the policy levers controlling housing supply.

The Commonwealth primarily affects the housing market on the demand side through its influence over taxation, access to credit and population, through immigration. The states and territories affect the housing market on the supply side through their influence over planning and land approval processes, the provision of housing-related infrastructure, the level of charges applied to new developments and land release policies.

With respect to direct interventions in the market, the Commonwealth intervenes by providing housing assistance, including through its primary mechanism of CRA and the National Affordable Housing Agreement (NAHA). The Commonwealth will provide the states and territories with around \$1.3 billion in 2014-15 under the NAHA which can be used on various housing assistance and homelessness programmes, including those targeted at facilitating increased access to home ownership.¹¹¹

The states and territories directly intervene in the market through the provision of public housing, grants for the purchase / construction of new dwellings and stamp duty concessions. The states and territories also have primary responsibility for the delivery of homelessness services across Australia.

The split in responsibilities around both structural and direct interventions in the housing market has arguably led to the Commonwealth being incentivised to increase housing demand to support economic activity and consumption, while the states and territories are incentivised to constrain supply to increase their tax revenue from stamp duty and land tax, and minimise their spending on new infrastructure.

¹¹¹ National Affordable Housing Agreement. Available at: http://www.federalfinancialrelations.gov.au/content/intergovernmental_agreements.aspx.

Achieving reform

There have been over 25 inquiries and significant reports related to housing policy and planning since the last National Housing Strategy¹¹² was completed in 1991.

The most comprehensive of these reports were the Productivity Commission's Review into First Home Ownership in 2004¹¹³, the 2008 Senate Inquiry on Housing Affordability in Australia¹¹⁴, the Australia's Future Tax System Review in 2010¹¹⁵ and the 2015 Senate Inquiry into Affordable Housing¹¹⁶.

However, housing affordability, and with it the level of home ownership, across Australia, has continued to fall over this period notwithstanding the recommendations and findings of these reviews.

A weakness of past reviews, and the actions coming out of those reviews, has been that they have been centred almost entirely on social housing, which only represents around five per cent of the broader housing market; or have alternatively sought to intervene in the operation of the market, rather than alter the framework governing the operation of the market.

The limited impact of previous reviews underscores the proposition that, without reforms to existing structural policy settings, the current issues with housing affordability will not recede, and indeed are more likely to intensify given the current low interest rate environment. This will likely lead to an increase in the number of Australians being excluded from owning their own home, which is likely to put further pressure on the private rental market and in turn community and public housing and CRA.

Current reforms

The Government has commissioned a number of reviews which have, or will, examine the appropriateness of current housing and homelessness settings.

These include the White Papers on the Reform of the Federation and Tax, the Financial System Inquiry, the McClure Welfare Review and the House of Representatives' Inquiries into Foreign Investment into Residential Real Estate and this review.

¹¹² *National Housing Strategy: agenda for action*, 1992. Available at: [http://catalogue.nla.gov.au/Record/2652596?lookfor=author:"Australia.%20National%20Housing%20Strategy"&offset=1&max=33](http://catalogue.nla.gov.au/Record/2652596?lookfor=author:).

¹¹³ Productivity Commission Inquiry Report No.28, 31 March 2004 First Home Ownership. Available at: <http://www.pc.gov.au/projects/inquiry/first-home-ownership/docs/finalreport>.

¹¹⁴ Senate Economics References Committee, Inquiry into Affordable Housing Final Report, *Out of reach? The Australia housing affordability challenge*, May 2015. Available at: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Economics/Affordable_housing_2013/Report.

¹¹⁵ Australia's Future Tax System Review 2010. Available at: http://taxreview.treasury.gov.au/content/Content.aspx?doc=html/pubs_reports.htm.

¹¹⁶ Senate Select Committee on Housing Affordability in Australia Final Report, *A good house is hard to find: Housing affordability in Australia*, 16 June 2008. Available at: http://www.aph.gov.au/Parliamentary_Business/Committees/Senate/Former_Committees/hsaf/report/index.

These reviews, along with the Government's response Senate Inquiry into Affordable Housing, provide an opportunity to develop, and implement a long-term, sustainable approach to address the current issues Australia faces with respect to access to home ownership and housing affordability. However, such an approach will necessarily require the involvement of all levels of government.

Housing demand

With respect to housing demand, the Government has recently reiterated the need for financial institutions to continue to engage in prudent lending practices given the current low interest rate environment, and has taken steps to ensure greater compliance with Australia's foreign investment rules.

While these reforms are primarily directed at ensuring financial stability, and ensuring compliance with Australia's foreign investment rules, they may result in less housing demand than would otherwise have been the case.

Housing supply

While there have been encouraging signs in relation to housing supply over the last 18 months with approvals, commencements and completions all increasing to record levels, it remains to be seen whether current levels of construction can be maintained. While it is not yet clear, these increases do not appear to have been driven by structural changes but rather are simply a response to increasing prices driven by falling interest rates.

It is also important to note that, a large part of the increases in these measures have been driven by increased construction of multi-unit dwellings rather than detached houses, which may be suitable for investors but less suitable for potential home purchasers seeking to start a family or for existing families looking to 'upgrade' from their current property.

What is required in relation to housing supply is a sustainable increase to meet current levels of demand that is not based on cyclical factors.

To this end, although housing supply is largely the responsibility of state and territory governments, the Treasurer announced on 9 April 2015, his intention to form a working group, led by Victorian Treasurer, the Hon Tim Pallas MP, to examine housing supply issues.

This process will complement the ongoing work undertaken by states and territories, as well as local councils, aimed at increasing the supply of affordable housing available for home purchase.

Reform of the Federation White Paper

The roles and responsibilities of the Commonwealth and states and territories, in respect of housing assistance and homelessness services, are currently being examined as part of the Government's Reform of the Federation White Paper process.¹¹⁷

¹¹⁷ Reform of the Federation White Paper process. Available at: <<https://federation.dpmc.gov.au/>>.

Potential reforms to the current roles and responsibilities of the Commonwealth and the states and territories, around the provision of housing assistance and homelessness services, may improve the alignment of current incentives in relation to housing demand and supply. However, this process is unlikely to materially impact the broader policy responsibilities of either level of government in terms of their impact on housing supply and demand.

Suggested reforms

Given that consideration of any changes to current housing policy settings is a matter for government, this submission does not seek to outline any specific reforms to these settings.

However, the Department does note that any future reforms should include a focus on improving the effectiveness of housing supply and the collaboration of jurisdictions with respect to the broader policy settings influencing the operation of Australia's housing market.

In relation to improving housing supply, there are a number of avenues that could be explored. For example, in the context of the Reform of the Federation White Paper process there may be scope to examine the effectiveness of the NAHA in incentivising the states and territories to ensure housing supply is better able to respond to increases in housing demand.

With respect to better aligning the broader policy settings influencing housing supply and demand, this will require increased, and ongoing, collaboration by all levels of government. Mechanisms to facilitate such collaboration may be looked at as part of the Reform of the Federation White Paper process, although increased informal collaboration may be just as effective as more formal mechanisms.

Finally, before any reforms to current housing settings are undertaken, governments at all levels will need to establish clear objectives with respect to what they are seeking to achieve through the operation of the housing market. Arguably any changes to current housing policy settings should at a minimum seek to:

- Ensure that housing supply is better able to meet housing demand;
- Ensure that dwelling construction better meets the changing social and demographic demands of consumers; and
- Ensure that there is greater mobility across different tenure types within the market.

Appendix A: International approaches

This Appendix seeks to highlight some of the different approaches adopted in the United Kingdom (UK), New Zealand, Canada, United States of America (USA) and Singapore to support home ownership.

UK

The UK has a number of programmes directed at increasing access to home ownership.¹¹⁸ These include:

- Help to buy – equity loans are open to both first-time buyers and home movers on new-build homes in England with a purchase price up to £600,000. Buyers require a 5 per cent deposit and a mortgage for 75 per cent of the property, the government will then contribute a loan for the remaining 20 per cent of the purchase price.
- Help to Buy – mortgage guarantees are open to both first-time buyers and home movers for new-build and older homes in the UK with a purchase price up to £600,000. Buyers have to have a 5 per cent deposit and the Government will then provide a guarantee to the buyer’s mortgage lender.
- Shared Ownership Schemes - are provided through housing associations under which buyers purchase a share of their home (25 per cent to 75 per cent of the home’s value) and pay rent on the remaining share. Buyers need to satisfy a number of conditions to access this scheme.
- Help to Buy – NewBuy lets buyers purchase a newly built home with a deposit of only 5 per cent of the purchase price. There are a number of eligibility criteria that potential home owners need to satisfy to access this scheme.

New Zealand

New Zealand provides assistance for home buyers through KiwiSaver, the Welcome Home Loan Scheme and First Home.¹¹⁹

- New Zealand’s KiwiSaver programme includes the KiwiSaver HomeStart grant and the KiwiSaver first-home withdrawal. The KiwiSaver HomeStart grant can provide first home purchases with a grant of up to \$20,000 while the KiwiSaver first-home withdrawal allows eligible KiwiSaver members to withdraw all, or part, of their saving to put towards buying their first home.
- The Welcome Home Loan Scheme involves Housing NZ underwriting loans from private lenders to ensure that buyers struggling to save a deposit of 20 per cent are able to access finance with a deposit of only 10 per cent. Both loan and income limits apply to this scheme.
- FirstHome is a home ownership initiative which helps eligible buyers to buy selected properties Housing New Zealand is selling across the country. Buyers can receive a grant of up to 10 per cent of the purchase price of the property capped at \$20,000.

¹¹⁸ UK Department for Communities and Local Government. Available at: <<https://www.gov.uk/affordable-home-ownership-schemes>>.

¹¹⁹ Housing New Zealand. Available at: <<http://www.hnzc.co.nz/buying-a-house>>.

Canada

At the Federal level, Canada has two main programmes to assist potential buyers to access home ownership.¹²⁰ These are:

- Tax Free Savings Accounts (TFSA) which provide tax concessions on eligible investments that can then be used to purchase a home; and
- The Home Buyer's Plan, which allows eligible individuals to make tax free withdrawals from their retirement savings plan of up to \$25,000 in a calendar year to purchase or build a qualifying home.

USA

At the Federal level the USA has three programmes to assist potential home buyers access home ownership.¹²¹ These include:

- Federal Housing Administration (FHA) loans under which the FHA insures the loan taken out by the buyer so that the lender can offer the buyer lower deposits and lower closing costs.
- The Good Neighbour Next Door programme under which so long as an eligible law enforcement officer, pre-Kindergarten through 12th grade teacher, firefighter or emergency medical technician commits to live in a housing and urban development property for 36 months, as their sole residence, they will receive a discount of 50 per cent of the list price off the home if they choose to purchase it.
- The Indian Home Loan Guarantee Programme under which the Department of Housing and Urban Development 100 per cent guarantees loans made by private lenders to native borrowers for home purchase, both on and off native lands.

It is important to note that the US Federal Government provides significant funding to individual state governments to fund their own home assistance programmes such as the Home Purchase Assistance Program.

Singapore

Singapore has various schemes to give priority to particular groups buying publically-supplied housing. These include first-timer families with or expecting children, extended families who want to live closer to each other, seniors who want to right-size and age in place, divorced or widowed parents with young children, and public rental tenants who are able to move on to home ownership.

Singapore also provides home ownership grants to first home owners and those seeking to upgrade their property. Grant recipients are subject to a wide range of selection criteria, including income, age, marital status and the nature of the property they wish to purchase. These criteria determine the size of the grant provided.

¹²⁰ Government of Canada. Available at:

<http://www.servicecanada.gc.ca/eng/lifeevents/buying_a_home.shtml>.

¹²¹ US Department of Housing and Urban Development. Available at:

<http://portal.hud.gov/hudportal/HUD?src=/topics/buying_a_home>.

A right-sizing scheme called the Silver Housing Bonus is also available to older Singaporeans who choose to buy a smaller property. They can receive up to \$20,000 from the government if they use sale proceeds to top up their superannuation.

Singaporeans are also able to use a portion of their superannuation funds to finance general housing costs. This process is subject to a wide range of eligibility criteria, including the characteristics of the property to be purchased.